IDENTIFYING EFFECTIVE STRATA TITLE GOVERNANCE AND MANAGEMENT MODELS FOR THE PROVISION OF TOURISM ACCOMMODATION

Kelly Cassidy, Chris Guilding and Jan Warnken
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# IDENTIFYING EFFECTIVE STRATA TITLE GOVERNANCE AND MANAGEMENT MODELS FOR THE PROVISION OF TOURISM ACCOMMODATION

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ABSTRACT

A multi-titled scheme refers to a ‘subdivision of land and/or buildings into units, which can be owned separately, and common property, which is owned communally’ (Ball 1984). This report provides a classification of the different governance and management models used by tourist oriented strata title complexes. It also draws on field study data and the agency theory model to provide an examination of good governance and management practice in tourism oriented strata title complexes.

Of the three generic governance strata titled tourism accommodation (STTA) models identified (Independent, Branded Hotels and Emerging Strata Title Organisations), it is believed that Branded Hotels represent the most commercially viable form of strata titled tourism accommodation delivery over the long term. Advantages of this form of delivery include: minimisation of inconsistent unit owner motivations as there are no resident owners, consistent levels of refurbishment are maintained and the manager of the hotel does not ‘own’ his job by way of the management rights model.

The study has also provided generic elements of good practice. These include the following:

- Suitable training courses should be developed for managers and prospective managers required to complete the course.
- A continuing relationship between developers and their projects should be promoted to engender a greater sense of developer ownership of problems arising.
- Sinking fund requirements should be established in all Australian states and compliance with required contributions policed.
- Refurbishment rounds should be established for all STTA properties.
- If standardised levels of refurbishment are achieved, a ‘guaranteed return’ method of income distribution for owners should be adopted.
- The roles and responsibilities of each party to a STTA management contract should be more explicitly defined in order to promote greater accountability and transparency.
- Interaction between managers and unit owners should be managed to reduce the potential for conflict and promote more effective use of management time.
- Differential management arrangements in a single STTA complex should be avoided or not allowed to negatively impact on a guest’s experience when staying in a STTA complex.
- STTA complex performance can be improved if the manager is provided with an equity stake in the management enterprise.
IDENTIFYING EFFECTIVE STRATA TITLE GOVERNANCE AND MANAGEMENT MODELS FOR THE PROVISION OF TOURISM ACCOMMODATION

SUMMARY

Objectives of Study

• Provide a typology of governance and management models used by tourist oriented strata title complexes.
• Provide specific recommendations pertaining to good governance and management practice in tourism oriented strata title complexes.

Methodology

In-depth interviews were conducted with subjects from the following stakeholder groups:

• ten strata title unit owners who let their unit into a tourism accommodation letting pool
• ten tourism-based strata title complex managers
• twenty-two officials of key stakeholder groups, considered to be industry experts in their particular field.

Key Findings

• Three generic forms of management were identified in the provision of strata titled tourism accommodation (STTA) in Australia.
• The lowest potential for conflict between managers and owners in STTA complexes appears to be in strata titled hotels. As a result, this appears to be the most commercially viable form of STTA delivery over the long term.
• Nine generic recommendations for good governance and management in the provision of STTA are provided.

Future Action

Further research is warranted in the following areas:

• conducting work designed to appraise satisfaction levels of tourists staying in STTA and also factors affecting these satisfaction levels
• conducting quantitative-based analysis designed to investigate the satisfaction levels of unit owners in different STTA types
• appraising the adequacy of accumulated sinking fund balances and sinking fund levy collection procedures in STTA complexes
• developing a profile of unit owners
• investigating macro sector trends such as mergers, acquisitions, the apparent growth of corporatisation, and a growing tendency for vertical integration (a developer has recently acquired a body corporate management entity which has established a strategic alliance with a bank to act as the banking institution for holding body corporate accounts such as the accumulated sinking fund)
• documentation of particular governance challenges arising in integrated resort developments
• conducting a training needs analysis for managers
• extending the identification of good practice procedures initiated in this study for STTA businesses
• exploring the feasibility of developing a rating system (similar to the hotel star rating system) to promote greater consistency of product within STTA complexes and provide greater confidence to tourists
• developing a blue print for management agreements.
Chapter 1

INTRODUCTION

This report identifies and investigates different management structures used in the delivery of strata titled tourism accommodation (STTA) in Australia. It also provides generic recommendations pertaining to good governance and management practice in the provision of STTA.

Review of Most Pertinent Literature

The Australian and international literature concerned with STTA is notably sparse. The first paper to provide a commentary on the STTA sector was prepared by Warnken, Russell and Faulkner (2003). This study noted the rapid growth of STTA complexes in Australia and compared the large number of stakeholders involved in managing STTA complexes with the number of parties involved in hotel management. The problem of ‘multi-stakeholder’ issues for destination rejuvenation where STTA complexes predominate was discussed together with the need for planning authorities to address the issue of aging STTA complexes. Guilding, Warnken, Ardill and Fredline (2005) provide an examination of resident managers in STTA complexes using an agency theory perspective to look at the different interests of both resident and investor unit owners. More recently, Warnken, Guilding and Cassidy (forthcoming) provide a review of the nature and international growth of multi-titled tourism accommodation complexes.

The most comprehensive and up-to-date literature review concerning STTA is provided in the Sustainable Tourism Cooperative Research Centre (STCRC) technical report ‘Investigation of the strata-titled tourism accommodation sector in Australia: legal context and stakeholder views’ (Guilding, Ardill, Warnken, Cassidy & Everton-Moore 2006). This report provides an overview of strata title legal provisions in each Australian state and territory outlines management issues and describes the nature of the relationships between STTA stakeholders and the tourism industry. There have also been two additional papers published regarding STTA from both marketing and legal perspectives. Cassidy and Guilding (2007) documented price setting practices in STTA complexes in Australia and concluded that pricing strategies are largely intuitive and unsophisticated. They found that location impacts heavily on pricing and that there is a lack of accountability to unit owners by resident managers regarding pricing policy. Ardill, Everton-Moore, Fredline, Guilding and Warnken (2004) provided a commentary on the Queensland community titles legislation with particular focus on amendments to the Body Corporate and Community Management Act 1997, legislated in 2002 and 2003. This paper also promotes the notion of a new regulation module for properties where tourism is the primary use.

Deficiencies in the Existing Literature

The existing literature regarding STTA is clearly limited. Management issues in the sector have received minimal attention and no attention has been directed to the relative merits of different organisational forms used in the sector. Although Guilding et al. (2005) provided an agency theory based examination of the relationship between managers and owners; they only addressed STTA organisations in a generic manner. Similarly, Warnken et al. (2003) spoke of conflicting interests between the diverse range of stakeholder’s involved in STTA, but did not attempt to address any managerial issues, concentrating their discussion on a single organisational form. Guilding et al. (2006) outlined management issues, however did not investigate or explore different management structures or what elements of organisational form are most effective in the provision of STTA.

This report will provide an important building block in developing an appreciation of the STTA sector by developing a typology of governance and management models used by tourist oriented strata title complexes. It will also provide specific recommendations pertaining to good governance and management practice applied in the provision of STTA.
The remainder of this report is structured as follows. Chapter two presents the methodology utilised for the project as well as a discussion concerning the development of a typology of STTA organisational forms. Chapter three provides an analysis of the three generic forms of STTA management considered from an agency theory perspective. Chapter four provides further analysis of the data from a range of perspectives. The report concludes with a summary highlighting the main findings and suggestions regarding potential avenues of further research.
Chapter 2

METHODOLOGY AND TYPOLOGY

Overview
This study has been facilitated by the collection of qualitative empirical data. On-site interviews have been conducted with three groups: 22 industry experts, 10 owners and 10 managers. To protect their anonymity the participants are referred to in this report as IE1, IE2, IE3 etcetera, for the industry experts, O1, O2, O3 etcetera for unit owners and M1, M2, M3 etcetera for the managers.

An overview of the sample of industry experts (IE) interviewed is provided in table one. IE1 through to IE15 provided interviews that were tape recorded and fully transcribed. IE16 through to IE22 provided additional interviews that were recorded by way of detailed notes. In some instances it was not feasible to tape record due to external noise. In other cases pursuit of the interview schedule was not the only focus of the meeting and it would not have been appropriate to tape-record the meeting.
Table 1: Overview of industry experts interviewed

<table>
<thead>
<tr>
<th>Ref</th>
<th>Title/position</th>
<th>Industry</th>
<th>Years in industry</th>
<th>Location</th>
<th>Area of expertise</th>
</tr>
</thead>
<tbody>
<tr>
<td>IE1</td>
<td>General Manager – Operations</td>
<td>Consultant</td>
<td>30+</td>
<td>QLD—GC</td>
<td>Strata title accommodation management</td>
</tr>
<tr>
<td>IE2</td>
<td>Managing Director</td>
<td>Specialist hotel consultant</td>
<td>30+</td>
<td>NSW</td>
<td>Accounting/Finance</td>
</tr>
<tr>
<td>IE3</td>
<td>Managing Director</td>
<td>Strata title / property specialist</td>
<td>20</td>
<td>NSW</td>
<td>Law</td>
</tr>
<tr>
<td>IE4</td>
<td>Vice President</td>
<td>Specialist hotel consultant</td>
<td>15</td>
<td>NSW</td>
<td>Real estate</td>
</tr>
<tr>
<td>IE5</td>
<td>Director</td>
<td>Body Corporate Management</td>
<td>12</td>
<td>QLD—GC</td>
<td>Law and strata title management</td>
</tr>
<tr>
<td>IE6</td>
<td>President</td>
<td>QRAMA</td>
<td>5</td>
<td>QLD—GC</td>
<td>Management</td>
</tr>
<tr>
<td>IE7</td>
<td>President</td>
<td>UOAQ</td>
<td>12</td>
<td>QLD—BNE</td>
<td>Mediator</td>
</tr>
<tr>
<td>IE8</td>
<td>Executive Director</td>
<td>ESTO company</td>
<td>20+</td>
<td>QLD—GC</td>
<td>Management rights</td>
</tr>
<tr>
<td>IE9</td>
<td>Director</td>
<td>ESTO company</td>
<td>5</td>
<td>QLD—BNE</td>
<td>Management rights</td>
</tr>
<tr>
<td>IE10</td>
<td>Director</td>
<td>ESTO company</td>
<td>12</td>
<td>QLD—SC</td>
<td>Management rights</td>
</tr>
<tr>
<td>IE11</td>
<td>Southern Area Manager</td>
<td>State Tourism Department</td>
<td>25</td>
<td>WA</td>
<td>Tourism industry regional development</td>
</tr>
<tr>
<td>IE12</td>
<td>Director</td>
<td>Consultant</td>
<td>25</td>
<td>WA</td>
<td>Hotel management</td>
</tr>
<tr>
<td>IE13</td>
<td>Director</td>
<td>Branded strata title hotel</td>
<td>18</td>
<td>VIC</td>
<td>Hotel management and franchising</td>
</tr>
<tr>
<td>IE14</td>
<td>Chairperson</td>
<td>Tourism taskforce on STTA</td>
<td>3</td>
<td>WA</td>
<td>Government policy advisor on tourism and planning</td>
</tr>
<tr>
<td>IE15</td>
<td>Consultant</td>
<td>Consultant</td>
<td>30+</td>
<td>WA</td>
<td>Accounting/Finance</td>
</tr>
</tbody>
</table>
Table 2: Overview of other industry experts
(non-transcribed discussions documented by way of written notes)

<table>
<thead>
<tr>
<th>Ref</th>
<th>Title / position</th>
<th>Location</th>
<th>Area of expertise</th>
</tr>
</thead>
<tbody>
<tr>
<td>IE16</td>
<td>State tourism organisation</td>
<td>QLD-BNE</td>
<td>Industry liaison/policy</td>
</tr>
<tr>
<td>IE17</td>
<td>Strata title management</td>
<td>NSW</td>
<td>Strata title management</td>
</tr>
<tr>
<td>IE18</td>
<td>Development and management company</td>
<td>WA</td>
<td>Acquisitions</td>
</tr>
<tr>
<td>IE19</td>
<td>Financier</td>
<td>QLD</td>
<td>Management rights finance provider</td>
</tr>
<tr>
<td>IE20</td>
<td>Financier</td>
<td>NSW</td>
<td>Body corporate finance provider</td>
</tr>
<tr>
<td>IE21</td>
<td>Development company</td>
<td>WA</td>
<td>Surveyor/strata development</td>
</tr>
<tr>
<td>IE22</td>
<td>State institute</td>
<td>QLD</td>
<td>Community titles</td>
</tr>
</tbody>
</table>

LEGEND
QLD—SC/GC/BNE: Queensland—Sunshine Coast, Gold Coast or Brisbane
QRAMA: Queensland Resident Accommodation Managers Association
UOAQ: Unit Owners Association of Queensland
Table one records the title or position of the expert, along with the industry that the expert worked in at the time of the interview. The years of experience have been recorded to provide an indication of how long the individual had been working with strata title tourism accommodation. Location is recorded by state and the Queensland representatives have been specified according to Gold Coast, Brisbane or Sunshine Coast regions. The last column specifies the area of expertise of the industry expert. This highlights the degree to which the experts provide a range of perspectives. Table two provides an overview of other industry experts that were interviewed and documented but due to logistics (i.e. unsuitable environment for tape recording) were not transcribed. These interviews were however extremely valuable and utilised along with transcribed data for analysis purposes.

Table three provides an overview of the unit owners interviewed. Unit owners are identified as O1, O2 etcetera. The location of all units was in Queensland, the location referred to in the table relates to place of residence. Regional or CBD locations of units within Queensland are detailed and the '*' displayed for O2, O3 and O6 indicates that these interviewees own more than one unit. Size of the unit refers to the amount of bedrooms. In the ‘total units in complex’ column, O3 has two figures, this results from two units owned in two different buildings (the size of the unit and the total units in the complex are displayed respectively). O2 and O6 have two units, however in each instance these are located in the same complex. The type of management refers to the organisational form operating in the complex where the unit is located, where Type A corresponds to independent operators, Type B corresponds to branded hotels and Type C corresponds to emerging strata title organisations (ESTO’s). It should be noted that these three organisational types have not been defined yet (they are developed later in this chapter). They have been included in this table, however, in order to facilitate a heightened appreciation of the mix of subjects interviewed in the study. Length of current ownership, the final column, details the number of years the owner has held the property. More than one figure is reported for those owners owning two units.

Table four identifies managers as M1, M2 etcetera. Location of the complex the managers are operating is broken down into both state and regional or CBD locations. The next three columns detail the total units in the complex, the number of units in the letting pool and a percentage calculation of the proportion of units in the letting pool. The next two columns detail the time the manager has been at his current and previous complexes, with N/A signifying no previous experience in accommodation management. The personal information column refers to whether the management is a husband and wife team, an employee or a family business. Previous occupation presents the nature of the working position held by the managers prior to STTA management involvement.
**Table 3: Overview of owners**

<table>
<thead>
<tr>
<th>Owner</th>
<th>Type of management</th>
<th>Sex</th>
<th>Location of owner</th>
<th>Location of unit</th>
<th>Regional/CBD location</th>
<th>Size of unit</th>
<th>Total units in complex</th>
<th>Length of current ownership (years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>O1</td>
<td>A</td>
<td>F</td>
<td>NSW</td>
<td>QLD</td>
<td>R</td>
<td>2BR</td>
<td>65</td>
<td>5</td>
</tr>
<tr>
<td>O2*</td>
<td>A</td>
<td>M</td>
<td>QLD</td>
<td>QLD</td>
<td>R</td>
<td>1X1BR, 2X2BR</td>
<td>135</td>
<td>12,20</td>
</tr>
<tr>
<td>O3*</td>
<td>A</td>
<td>M</td>
<td>QLD</td>
<td>QLD</td>
<td>R</td>
<td>1X2BR, 1X3BR</td>
<td>17,70</td>
<td>10,5</td>
</tr>
<tr>
<td>O4</td>
<td>B</td>
<td>M</td>
<td>NSW</td>
<td>QLD</td>
<td>C</td>
<td>1BR</td>
<td>180</td>
<td>5</td>
</tr>
<tr>
<td>O5</td>
<td>B</td>
<td>F</td>
<td>NSW</td>
<td>QLD</td>
<td>C</td>
<td>1BR</td>
<td>128</td>
<td>15</td>
</tr>
<tr>
<td>O6*</td>
<td>B</td>
<td>F</td>
<td>QLD</td>
<td>QLD</td>
<td>R</td>
<td>1X1BR, 1X2BR</td>
<td>18</td>
<td>3,6</td>
</tr>
<tr>
<td>O7</td>
<td>C</td>
<td>M</td>
<td>NSW</td>
<td>QLD</td>
<td>R</td>
<td>1BR</td>
<td>150</td>
<td>3</td>
</tr>
<tr>
<td>O8</td>
<td>C</td>
<td>F</td>
<td>QLD</td>
<td>QLD</td>
<td>R</td>
<td>2X1BR</td>
<td>Unknown</td>
<td>1</td>
</tr>
<tr>
<td>O9</td>
<td>C</td>
<td>F</td>
<td>QLD</td>
<td>QLD</td>
<td>R</td>
<td>2BR</td>
<td>52</td>
<td>7</td>
</tr>
<tr>
<td>O10</td>
<td>C</td>
<td>F</td>
<td>QLD</td>
<td>QLD</td>
<td>R</td>
<td>2BR</td>
<td>98</td>
<td>4</td>
</tr>
</tbody>
</table>

*Multiple unit owner*
Table 4: Overview of managers

<table>
<thead>
<tr>
<th>Complex</th>
<th>Type of management</th>
<th>Location of complex</th>
<th>Total units in complex</th>
<th>Units in letting pool</th>
<th>% in letting pool</th>
<th>Length of management (years at current complex)</th>
<th>Length of management at other complexes</th>
<th>Personal information</th>
<th>Previous occupation</th>
</tr>
</thead>
<tbody>
<tr>
<td>M1</td>
<td>A</td>
<td>QLD R</td>
<td>49</td>
<td>48</td>
<td>98</td>
<td>4</td>
<td>1.5</td>
<td>Family business</td>
<td>Government employee</td>
</tr>
<tr>
<td>M2</td>
<td>A</td>
<td>NSW R</td>
<td>12</td>
<td>11</td>
<td>91</td>
<td>2.5</td>
<td>N/A</td>
<td>HWT</td>
<td>Small business owners</td>
</tr>
<tr>
<td>M3</td>
<td>A</td>
<td>QLD R</td>
<td>41</td>
<td>31</td>
<td>76</td>
<td>2</td>
<td>N/A</td>
<td>HWT</td>
<td>PA and Government employee</td>
</tr>
<tr>
<td>M4</td>
<td>B</td>
<td>VIC C</td>
<td>175</td>
<td>120</td>
<td>69</td>
<td>4</td>
<td>2</td>
<td>Employee</td>
<td>Hotel manager</td>
</tr>
<tr>
<td>M5</td>
<td>B</td>
<td>ACT C</td>
<td>130</td>
<td>40</td>
<td>30</td>
<td>4</td>
<td>2</td>
<td>Employee</td>
<td>Hotel manager</td>
</tr>
<tr>
<td>M6</td>
<td>B</td>
<td>WA R</td>
<td>150</td>
<td>150</td>
<td>100</td>
<td>1.5</td>
<td>5</td>
<td>Employee</td>
<td>Hotel manager</td>
</tr>
<tr>
<td>M7</td>
<td>B</td>
<td>WA C</td>
<td>140</td>
<td>140</td>
<td>100</td>
<td>1.5</td>
<td>7.5</td>
<td>Employee</td>
<td>Hospitality</td>
</tr>
<tr>
<td>M8</td>
<td>C</td>
<td>WA R</td>
<td>220</td>
<td>165</td>
<td>75</td>
<td>1</td>
<td>12</td>
<td>HWT</td>
<td>Both Real Estate</td>
</tr>
<tr>
<td>M9</td>
<td>C</td>
<td>WA R</td>
<td>58</td>
<td>54</td>
<td>93</td>
<td>1</td>
<td>10</td>
<td>Employee</td>
<td>Accountant</td>
</tr>
<tr>
<td>M10</td>
<td>C</td>
<td>NSW C</td>
<td>157</td>
<td>157*</td>
<td>100</td>
<td>1</td>
<td>2.5</td>
<td>Employee</td>
<td>Chef / Real Estate</td>
</tr>
</tbody>
</table>

**LEGEND**

**Location**
- State with R (regional) or C (CBD) location

* Small % tourist letting pool, remainder of units are combination of permanent rentals and owner occupiers—building under same management regardless of use

**HWT**
- Husband and wife team

**Total units in complex**
- If more than one property, an average is given

**Length of management:**
- N/A—no previous accommodation management experience
Data was collected from September through November 2005. This initially involved a pilot project (comprising five interviews) to refine the drafted questions. This allowed for modification in research design and field procedures. Semi-structured recorded interviews were then conducted using the interview questions presented as Appendix A. Follow up interviews were completed in November and December, 2005. Clarification of any ambiguous information gathered was achieved by way of email correspondence with the participants after the initial interview. Confirmation or clarification was also achieved by consulting corporate websites, follow up phone calls and member checking.

To further strengthen the data collection phase, the researcher took notes throughout the interviews and made notes immediately after each interview was completed to minimise loss of data from failed memory recall. A field diary was also kept by the researcher to make notes, diagrams and tables regarding themes or issues arising during the data collection period.

Two main approaches were taken in the analysis of the data collected: explanation building and cross-case synthesis (Yin 2003). Explanation building involves analysing the data by building an explanation about the case (the cases in question for this study are the particular management structures used in the provision of STTA management rights services). This is appropriate for both explanatory and exploratory case studies, however in the case of the latter; the goal is not to conclude a study but to develop ideas for further research. The second technique is specific to the analysis of multiple case studies and is especially relevant if there are more than two cases involved. Yin (2003) advises that multiple cases yield more robust findings.

During the analysis period, the data was organised categorically and chronologically. It was reviewed repeatedly. Identifying and describing patterns and themes from the perspective of the participant(s) and then attempting to understand and explain these patterns and themes was undertaken, as suggested by Agar (1980). A list of ideas, issues or themes was chronicled, as suggested by Merriam (1988), in the researcher’s field diary.

Developing a Typology of STTA Organisational Forms

The most fundamental classification made in this typology concerns a distinction drawn between strata titled hotels and strata titled apartments. Subordinated to this dichotomy is a further tier of classification that has been made according to whether organisations are branded and the extent of service provided. In developing this typology, an attempt has been made to develop a classification system that captures broad generic subgroups that account for the majority of STTA providers in Australia. The distillation of these broad generic sub-groups is an important step, as nine groupings were initially identified. It is easier, however, to focus on the distinct characteristics of three broad generic groups.

Background

The organisational forms of STTA in Australia are diverse and varied; however there does appear to be sufficient commonality between some organisations to facilitate the development of a typology of STTA organisational forms. At the outset of this description of the typology developed, it should be acknowledged that a degree of subjectivity is bound to be exercised when developing this type of classification. The term ESTO (emerging strata title organisation) has been used to refer to one of the types in order to provide the typology with flexibility and robustness to accommodate new structures yet to be developed. The nature of the rapid current growth of the industry suggests that further new structures will evolve. In light of this observation, a limitation that should be noted is that all case organisations documented and discussed below were specific to the time of data collection (i.e. as at December 2005).

Classificational schemata have been described as the primary means for organising phenomena and they are considered extremely important for theory development (Hunt 2002). Logical partitioning starts with the careful specification of the phenomena to be categorized (Hunt 2002) and this was the initial approach taken in preparing the hierarchical typology advanced. As Hunt suggests, the process of delineation of categorical terms (the properties or characteristics on which the classification schema is to be based) took place contemporaneously with the development of labels for the defined categories which have emerged from categorising the phenomena. The hierarchical typology developed is presented as figure one.

Hunt (2002) makes four observations which can be directly applied to figure one. The first is that logical partitioning results in monothetic classifications, that is that all members of the category possess all the characteristics that are used to identify the category. Secondly, the procedure can result in single or multi-level
schemata. Common in multilevel schemata is hierarchical ordering such as that underlying figure one. It should also be noted that hierarchical classifications have greater power to systematically organise the phenomenon under investigation. Thirdly, Hunt notes that there may exist empty classes. Lastly, Hunt (2002) states that logical partitioning ‘presupposes a fairly sophisticated understanding of the phenomena being investigated, otherwise the classification involved may be totally unrealistic, nothing better than an inspired guess’ (p. 227).
Figure 1: STTA hierarchical typology (as at December 2005)

- **Strata Titled Tourism Accommodation**
  - **Strata Titled Apartments**
    - Mum and Dad Owner/operator Single property A
    - ESTO Multiple property management C
  - **Strata Titled Hotels**
    - Branded F
    - Unbranded G
      - Branded chains D
      - Unbranded chains E
    - Serviced H
      - Limited Service J
      - Limited Service K
    - Serviced I
Description of the STTA Hierarchical Typology

STTA can be seen to comprise two main categories, strata titled apartments and strata titled hotels. The primary differential between these two groups concerns the greater living space, and varying degrees of self-catering facilities provided for the apartment sub-category. Strata titled apartments operate under a range of management structures. Factors affecting the choice of management structure include, but are not limited to, the state location of the complex and nature of the ownership of the business. The management rights structure (MRS) has been the most preferred form in Queensland, but only a few MRS cases have been observed in Western Australia.

All independent operators (A) use an MRS. Similarly, the majority of ESTO’s (C) operate under the MRS with the only notable difference being that managers are employees in Type ‘C’ STTA providers and they are owner operators in ‘A’.

The three main generic types identified by letters A, B and C in figure one will now be described in alphabetical sequence.

**Type A: independent operators**
The term ‘Independent Operators’ is being used to refer to those management rights operations that are variously referred to in the industry as: ‘Owner Operators’, ‘Mum and Dad’, ‘Ma and Pa’, or ‘Husband and Wife’ operators. They are usually located in regional tourism destinations catering to the leisure/family holiday market. The size of complexes can vary from 12 units up to 80. The ‘Mum and Dad’ label suggests a couple, where ‘Mum’ generally attends to reservations, check-ins and check-outs, enquiries and accounts; whilst ‘Dad’ focuses on facilities management and maintenance. This type of STTA organisational form appears to pride itself in being able to offer a very personalised service. The majority of these operators purchase a management rights business and frequently see themselves as making a lifestyle decision to settle into semi-retirement. The independent operators may employ casual staff to assist during peak periods. These operators are independent of other management rights operations and are unbranded. The only affiliation they may have is being part of a regional tourism association to assist in marketing and promotion.

**Type B: branded —strata title hotels**
Strata titled hotels typically offer the full service that is characteristic of traditional hotels and are marketed with or without a brand name. These businesses used to be predominantly located in central business districts and catered primarily to the corporate market offering an alternative of more space than a standard hotel room for business travelers. In recent years, the location of strata title hotels has expanded to city fringe locations and regional areas. This migration has seen market share expanding to incorporate holiday, VFR (visiting friends and relatives) and the leisure market. The branded hotel product offers a consistent network of properties that appear to the consumer to be the same as a traditional hotel. The reception area is manned at all times and while the services on offer can vary, they are comparable with standard offerings in conventional hotels.

Some examples of branded serviced strata title hotels (Type H) include the Radisson, Palazzo Versace, Sheraton (all on the Gold Coast), Sebel and Medina. An example of a branded, limited service STTA organisation (Type J) is Pacific International Hotels. No example of an unbranded, serviced hotel (Type I) has been identified in the study. Unbranded, limited service hotels (Type K) are, however, represented by various independent operators.

**Type C: emerging strata title organisations (ESTO’s)**
This is a new and rapidly evolving STTA grouping. There can be huge differences in the organisational structures, management and strategies of STTA entities in this group; however these organisations have been categorised together due to the fact that they exhibit some significant similarities. Despite this, it should be acknowledged that the ESTO classification represents a broader grouping than those classifications already discussed. Because of this, it is difficult to conceive of an archetypal ESTO. Most ESTOs are trying to ‘brand’ themselves in the marketplace by expanding their property portfolio, centralising their operations and aiming to present a chain of properties in a variety of destinations. Through centralising, the benefit of cost cutting is realised and also the economies of scale with regard to purchasing and buying power can be used to the organisations’ advantage. ESTO’s generally originate from regional tourism areas (frequently as “Independent Operators”) and then expansion has occurred in other regional areas and/or CBD locations, depending upon the individual strategy of the organisation. The marketing costs are funded by the individual unit owners by way of a levy through management, and the properties are then either marketed as a brand or alternatively, some ESTOs are continuing with the standard practice of marketing individual properties.
The organisational model of ESTO’s is basically an independent owner-operator management structure at an individual property level that has been replicated to produce a chain of properties forming a brand that can be used to facilitate marketing. Some industry experts have referred to the evolution of ESTOs as the ‘commercialisation of management rights’.

The directors of the umbrella companies or marketing arms of these organisations have usually come from a Type A complex where they have personally been an owner-operator and have established a successful track record. As a result of this success, they have continued to purchase additional multiple management rights businesses and replicated what has been done well in their initial business. There are some ESTO’s that have developed highly centralised operations and have sought a public listing as companies in order to gain additional capital from shareholders to facilitate further expansion.

ESTO’s encompass publicly listed companies which can be branded (D) or unbranded chains (E). An example of a branded ESTO is Stella Resorts and an example of an unbranded ESTO is S8. There are also consortiums of multiple businesses that form either branded or unbranded chains. Examples of these include Oaks Hotels and Resorts (D) and Dreamtime Resorts (E). All of the above examples are managed utilising the MRS. The non-MRS chains identified were branded, serviced apartments (D) and examples of this classification are Broadwater Resorts and Hotels and Quest Apartments. No unbranded chain of apartments (E) operating under a non-MRS structure has been identified in this study. There was a hybrid classification formed by an ESTO that was operating branded chains. The operation was using a non-MRS structure for its properties with the exception of one property in the portfolio that operated under the MRS. It was therefore considered an anomaly, as all other ESTO’s use MRS or non-MRS exclusively for management operations. As this was an individual case it was not identified as a grouping in the hierarchical typology.

**Differences Between Generic Types**

A comparison is now made across the three generic STTA organisational forms: types A, B and C. Given the absence of any prior work providing a consideration of different STTA organisational forms, this relatively aggregated level of abstraction appears appropriate for this study. Table five provides an overview of the distinguishing facets of these three generic STTA organisational forms.

Not surprisingly, the majority of Type A and Type C organisational forms are located in Queensland. Type B has fairly extensive representation throughout Australia (see table five). Size is a distinguishing facet of these three types. Type A complexes are at the smaller end of the STTA property scale and typically fall within the range of between 12 and 80 units. Type C, although a replication of Type A, is at the larger end of the scale (a recent trend amongst ESTO’s appears to be targeting buildings with at least 60–80 units) with total complex size ranging from 80 to 140 units. Type B’s size varies depending upon location. In regional areas, Type Bs average 50–80 units, and in CBDs they range between 80 and 150 units.

The majority of Type A complexes are located in regional areas and this also applies to Type C, however, there is a noticeable trend of Type C organisations buying management rights businesses in CBDs. Type Bs, which have traditionally been located in CBDs (catering to the corporate market), are now acquiring properties in regional areas. This diversification of locations is affecting the market served, with Type C increasingly entering the corporate market. Similarly, as a result of their acquisition strategy, Type B are combining their traditional corporate market with a mix of family and leisure.
Table 5: Differences between main types of organisational forms

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Organisational Forms</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Type A (Independent operator)</td>
</tr>
<tr>
<td></td>
<td>Type B (Strata Titled Hotels)</td>
</tr>
<tr>
<td></td>
<td>Type C (ESTO)</td>
</tr>
<tr>
<td>Location</td>
<td>Predominantly found in Queensland and increasingly in regional areas of NSW</td>
</tr>
<tr>
<td></td>
<td>Have Australia wide representation</td>
</tr>
<tr>
<td></td>
<td>Predominantly found in Queensland however experienced Queensland operators are expanding into other parts of Australia and the Pacific</td>
</tr>
<tr>
<td>Size</td>
<td>Generally ranging from 12 to 80 units</td>
</tr>
<tr>
<td></td>
<td>Affected by location. Regional areas average 50–80 units while CBD locations range from 80 to 150 units</td>
</tr>
<tr>
<td></td>
<td>Targeting the larger complexes in the ‘independent’ sector i.e. 80–140 unit complexes.</td>
</tr>
<tr>
<td>Type of location</td>
<td>Predominantly located in regional areas</td>
</tr>
<tr>
<td></td>
<td>Mainly located in CBD areas, however some brands are diversifying into the regional areas</td>
</tr>
<tr>
<td></td>
<td>Mostly located in regional areas although some operators are diversifying their market by buying management rights in Brisbane</td>
</tr>
<tr>
<td>Market</td>
<td>Mainly family/leisure</td>
</tr>
<tr>
<td></td>
<td>Mainly corporate</td>
</tr>
<tr>
<td></td>
<td>Mainly family/leisure</td>
</tr>
<tr>
<td>Level of personalised service</td>
<td>High due to owner operators</td>
</tr>
<tr>
<td></td>
<td>Medium due to employee managers, although quality of service is generally good due to most hotels being branded</td>
</tr>
<tr>
<td></td>
<td>Medium due to employee managers</td>
</tr>
<tr>
<td>Level of return visitation</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>High within the branded sector</td>
</tr>
<tr>
<td></td>
<td>Medium</td>
</tr>
<tr>
<td>Level of additional services offered e.g. food and beverage, room service, valet, etcetera</td>
<td>Minimal</td>
</tr>
<tr>
<td></td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Low</td>
</tr>
<tr>
<td>Manager</td>
<td>Owner operators</td>
</tr>
<tr>
<td></td>
<td>Employees</td>
</tr>
<tr>
<td></td>
<td>Employees</td>
</tr>
<tr>
<td>Managers prior experience and occupation</td>
<td>Frequently no prior experience and many ex-government employees</td>
</tr>
<tr>
<td></td>
<td>Prior experience in hospitality industry and mainly ex-hotel (traditional) managers</td>
</tr>
<tr>
<td></td>
<td>Limited prior experience and variety of previous backgrounds</td>
</tr>
<tr>
<td>Centralised administration</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Centralised reservations</td>
<td>No—direct</td>
</tr>
<tr>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>No—direct</td>
</tr>
<tr>
<td>Distribution of income to unit owners</td>
<td>Direct return</td>
</tr>
<tr>
<td></td>
<td>Usually guaranteed return (i.e. lease arrangement)</td>
</tr>
<tr>
<td></td>
<td>Combination of pooled, direct and guaranteed return</td>
</tr>
<tr>
<td>Standard</td>
<td>3 star</td>
</tr>
<tr>
<td></td>
<td>4–5 star</td>
</tr>
<tr>
<td></td>
<td>4–5 star</td>
</tr>
<tr>
<td>Sale of unit</td>
<td>Real estate agent</td>
</tr>
<tr>
<td></td>
<td>Investment advisor/planner registered with Australian Security Investment Commission (ASIC)</td>
</tr>
<tr>
<td></td>
<td>Real estate agent</td>
</tr>
<tr>
<td><strong>Sold as</strong></td>
<td><strong>Predominantly lifestyle and afterthought of investment</strong></td>
</tr>
<tr>
<td>------------</td>
<td>----------------------------------------------------------</td>
</tr>
<tr>
<td>Can unit owner live in unit?</td>
<td>Yes</td>
</tr>
<tr>
<td>Provision for unit Furniture Fittings and Equipment replacement</td>
<td>No, usually not</td>
</tr>
<tr>
<td>Is refurbishment regular and consistent across the complex?</td>
<td>No</td>
</tr>
<tr>
<td>Do all units look the same internally?</td>
<td>No</td>
</tr>
<tr>
<td>Age of building</td>
<td>Majority are old</td>
</tr>
<tr>
<td>Ample contribution or levels in existing sinking funds?</td>
<td>Contributions are frequently non-existent, although complexes in Queensland are now required to have a quantity surveyor determined sinking fund levy. Complexes in New South Wales must also raise a sinking fund</td>
</tr>
</tbody>
</table>
The level of personalised service is definitely the highest in the Type A, due to the owner-operators’ close contact with guests. Types B and C are similar to one another as both have employee managers that do not possess the personal commitment of the independent owner operators found in Type A. Due to this personalised service, repeat visitation appears to be high in Type A operations. Type B complexes also have high levels of repeat visitation, possibly due to their branding loyalty.

The levels of services offered are highest in Type B operations as they are the closest model to the traditional hotel structure. Types A and C are limited in the additional services offered, which is indicative of their product (self contained accommodation), however it appears that these two types (Type C in particular) are increasing these services in an effort to compete with Type B properties and meet consumer demand and expectations.

The managers in Types B and C are employees, whereas Type A managers have made a substantial personal investment in purchasing the management rights business in their complex. Most independent operators (Type A) have had no prior experience in managing accommodation and there appears to be a significant proportion of ex-government employees in these complexes. Similarly, Type C operations have managers with limited experience and a variety of prior occupational backgrounds. Type B operations clearly have the highest levels of prior experience in hospitality management, with the majority of managers recruited as ex (traditional) hotel managers.

The administration of the complex is centralised in Type B and C operations; however, as Type A managers are ‘stand-alone’ independent properties, the administration is conducted in-house along with the majority of other operations. Reservations in Type A and C are direct to the complex, whereas Type B operations tend to have centralised reservations to cater for Australia-wide representation.

Type A complexes can be viewed as having an average 3 star rating, Type B and C range from 4 to 5 stars, with Type B complexes generally holding the higher star ratings.

An interesting distinguishing characteristic of the three generic types is how and why units in the complex are sold. Type A and C are sold by real estate agents primarily as lifestyle products, with lower emphasis placed on the investment return. Type C can be more sophisticated, so the scope for a focus on returns is higher than for Type A. Type B is significantly different in respect to sale of the property. Type B operations sell their units as investment products under the auspices of the Managed Investments Act (1998). These units are generally not sold by real estate agents but instead financial planners/advisors (authorised representatives of an Australian financial services license) that are registered with the Australian Security Investment Commission (ASIC). This is not the case for Type A and Type C (refer characteristic 14 in Table 5). As Type B complexes are investment only, the purchasers are not able to live in their unit. Type A and C allow the owner to live in the unit that they have purchased (exceptions occur where zoning prohibits this use for residential purposes).

As Type B is an investment product, there is usually a Furniture, Fittings and Equipment (FF&E) required levy, the refurbishment is regular and consistent across the complex with the result that the units all look the same internally and contribution to a sinking fund is a requirement of unit ownership. In contrast, Types A and C usually have no provision for a FF&E levy with the result that refurbishment is not achieved on a regular and consistent basis across the complexes. After a few years into the life of a building, the units do not have the same internal appearance. In many cases, sinking funds are not established or they are not considered sufficient.

The majority of Type A and C complexes are fairly old, however Type B properties tend to be more recently built, and if they are older, constant refurbishment upgrades result in the properties appearing newer.

**Commentary on the Typology’s Merit**

Initially in this section, Hunt’s (2002) five classificational criteria will be used as a checklist for reviewing the quality of the typology advanced. These criteria comprise:

i) The schema adequately specifies the phenomena to be classified within the bounds of this particular research project.

ii) The schema adequately specifies the properties that provide the basis for classification. Refer to table five for differences between the main types of organisational forms. The properties providing the basis for the classification are the characteristics listed and described in the first column of the table.

iii) The schema comprises categories that are mutually exclusive e.g. none of the categories identified could be substituted by another. Similarly, the accommodation complexes (or properties) that have been used as examples to illustrate the classification could not fit into another category in the hierarchy.
iv) The schema has categories that are collectively exhaustive i.e. every STTA apartment complex can be classified and has a ‘home’ in the hierarchy.

v) The schema is useful, as the concepts embodied in the schema have been used to develop an understanding of the STTA phenomena. The merit of the hierarchical typology is discussed further in the latter part of this section.

It is nevertheless important that the limitations of the typology are acknowledged. Criteria i) concerns the specification of the phenomena to be classified within the bounds of the project. This project focuses on STTA complexes (both apartment and hotel complexes). If the classification schema was to encompass all forms of STTA in Australia, then this would necessitate the inclusion and classification of an increasing number of tourism accommodation properties that are now using strata title. This includes accommodation forms such as caravan parks, youth hostels and even golf course resorts, all of which could be legitimately viewed as forms of STTA.

The typology could be strengthened by providing a classification that could cater for the growing number of ‘integrated’ resorts. Integrated resorts usually involve a branded operator that has the traditional hotel management structure; however they introduce other dimensions such as a strata title wing, a timeshare tower and a golf course development. Newly developed and built properties are supporting this trend. In the existing hierarchical typology, these properties would be classified as either H or J. The typology could be strengthened by adding another classification which more specifically caters for these integrated developments.

Further limitations of the typology are also apparent when the evolving nature of the industry is considered. For this reason, the typology and supporting discussion should be viewed as somewhat time specific. Data that has informed the development of the typology was collected in December 2005. While the typology does represent an original perspective of the organisational forms involved in delivering STTA in Australia, it is only a first step and classification will become more difficult as the defining characteristics and lines of separation between the types continue to merge. Finally, although the above discussion relates to the whole hierarchical typology, the main focus of the commentary concerns the three generic groups (A, B and C) as they arguably provide the most useful lines of demarcation when conceiving of STTA organisational forms.

Despite its limited robustness, the classification does carry some particular meritorious aspects:

• it enhances our understanding of the nature and mix of organisations currently providing the STTA product in Australia. For this reason it will act as a point of reference in the subsequent discussion in this report.
• the ESTO classification provides the typology with some flexibility to accommodate STTA organisational forms that have not yet been formulated.
• by specifically addressing the nature of STTA organisational forms, the hierarchical typology may stimulate debate regarding the relative advantages and shortcoming of each type identified.
Chapter 3

AGENCY THEORY

Introduction

This chapter presents an analysis of the empirical data collected when the observations are considered through the lens of Lambert’s (2001) four factor agency conflict model. When the agency model is applied to the STTA context, owners represent the principals and managers represent the agents.

The chapter is structured as follows. Initially, a background to the application of agency theory in the STTA owner/manager context is provided. Next, a brief discussion regarding the inherent conflict of interest between the STTA manager and unit owners is presented. Lambert’s (2001) four underlying factors for principal/agent conflict are then drawn upon to structure observations arising from the field data collected. Other agency perspectives comprising: i) exploiting power differentials and ii) reduced potential for conflict in Western Australia have also been highlighted. The chapter concludes with a summary that highlights the chapter’s significance and a discussion regarding the relative merit of using Lambert’s (2001) theory to examine the data collected.

Background

It is generally held that principals bear the greater risk in agency relationships. The worst case scenario for an agent is that they may lose their job, however a principal can have considerable capital at stake. The dynamics of the owner/manager relationship in STTA provision do not appear to conform to this norm, however. The STTA manager bears substantially higher risk than a typical unit owner, as the initial outlay to purchase management rights is substantially greater than the outlay of a unit owner. In addition, the unit owner’s purchase price is based on market value that encompasses historical and recent real estate market sales. While the manager also owns a unit, in addition he has a much greater investment in the business.

IE10 is the managing director of an ESTO and comments on the relative levels of risk born by the owner and manager:

It is probably fairly important that you align your risk profile with your individual owners and then you don’t have a conflict. The manager’s risk will be much higher than the individual unit owner’s risk. If I take an apartment in Queensland, an average price in a good location might be $450 000. If it is in a building of 50 or 60 apartments, the management rights of that complex is probably worth $2.5 million, so you have one individual making a $450 000 investment which is backed up by the local property market and the next guy has his investment propped up by his own performance. So there are two factors in it. One, the initial entry price is substantially different and therefore the risk is substantially higher. The second is that when you are buying properties it is underpinned by sales, when you are buying management rights, it is underpinned by performance.

Inherent Divergence of Interest

The cornerstone of agency theory is the assumption that the interests of principals and agents diverge. The principal can attempt to minimise this divergence by establishing appropriate incentives for the agent, and by incurring monitoring costs to limit opportunistic actions taken by the agent (Hill & Jones 1992). In the STTA setting, it appears there is considerable principal/agent divergence of interest. IE5 explains why he believes that the interests of the two agency parties will never be aligned:

I am getting paid a certain amount of money and my sole perspective is to keep as much money in my pocket as I can. Which means that I need to be driving down service levels or costs in general. You as the owner are paying me a certain amount of money but you want me to be driving up service levels from day one so that you can get the best value for money you possibly can. So between manager and owner we immediately have this conflict. You want one thing, I want another. Here we have this conflict of management rights. I own it and it’s my business and I operate it the way I like and if you don’t like it then you can just opt out. I think that is a problem.

IE2 notes that the potential for conflict can vary over time:

Of course there is a potential conflict and it is fine when the market is performing well. When the market turns sour however, all the tensions come through.
 IDENTIFYING EFFECTIVE STRATA TITLE GOVERNANCE AND MANAGEMENT MODELS FOR THE PROVISION OF TOURISM ACCOMMODATION

A very simple and concise explanation regarding inherent conflicting interests is offered by O1:  
*They have one goal and that is to make as much money as they can from the owners. The owner’s goal is to make as much return as they can.*

Lambert’s (2001) Four Dimensions of Conflict Model

Lambert identifies four dimensions of agency conflict:

- effort aversion by the agent
- the agent can divert resources for his private consumption or use
- differential time horizons e.g. the agent is less concerned about the future period effects of his current period actions because he does not expect to be with the firm or the agent is concerned about how his actions will affect others’ assessment of his skill, which will affect compensation in the future
- differential risk aversion between principal and agent (Lambert 2001; pp. 5–6).

All of these potential factors for conflict are magnified when information asymmetry is present, i.e. where one party (typically the agent) has more information than the other party (typically the principal). Consistent with the approach taken by Guilding et al. (2005), Lambert’s model will now be drawn upon to consider the owner/manager relationship in STTA complexes.

**Effort aversion**

Effort aversion on the part of the agent can be best explained as either simply ‘slacking off’ or as Guilding et al (2005) explain ‘a desire to not apply optimal effort when completing his/her work’ (p. 411). A specialist hotel consultant (with expertise in accounting), IE2, believes that all three generic management right types are subject to mid to high range levels of effort aversion by the agent:

*I think in a strata title structured arrangement the potential is high in all three cases. The biggest potential, probably the Mum and Dad, that would be a seven. The branded a six and the corporate a five. It is a huge problem, I think. The cause of the problem is a lack of scrutiny because of the multiple principal relationship. There is no coordination of vision like there would be in a solo building. With 400 people like you would have in a strata titled hotel, there is just no one to monitor them and they are only monitored partially as to their own particular interest for wins. So they will monitor the revenues, they might monitor the condition of the building casually, but that is it. They aren’t concerned about what is going on inside, so I think there is a huge potential because there is no one watching. The only things that make it different for branded and publicly listed ones is that external groups will motivate a brand recognition and market position, so there is a self-discipline imposed to make sure that the consumers are taken care of because they give a valuation with every visit and the groups will presumably have internal systems to have control over the quality. There are also no real benchmarks to measure against. So there is no real way to say that is a poor standard.*

M2 elaborates on how many managers feel in regard to the effort initially exerted and the aversion that can creep in after a series of setbacks:

*You lose the desire at times. We were taking anything we could grab and now we are just saying ‘No, we won’t do it overnight or that’. You just slow down. We still do the essential, but as for the letting, you slow it off, you do it at your own rate … there is heaps of room for it. If you knock the stuffing out of a manager, he just stops performing because he is so tied up worrying about the little issues that he has to stop doing the job that he should be doing. If you kick the dog for too long, the dog won’t get up anymore, and that is happening everywhere.*

As the owners in the STTA agency relationship have different sets of interests, effort aversion on the part of the manager may be viewed differentially by owners according to their different perspectives. From an investor’s perspective, the effort of the manager should be focused on maximising the income or returns from units and the focus of assessment should be based on this dimension of performance. From a resident owner’s perspective, maintaining a clean and functioning property in an efficient manner is more important. A managing director of a law firm specialising in strata title property law, IE2, draws from his experience:

*I am not aware of any dispute where the investor or the owner is not happy about the standard of maintenance of their building. They have always been about the revenue not being as strong as expected … No, but the extent of investor-owner unhappiness with the managers is always simply about money. The happiness with owner-occupiers in the same building has been about standard of maintenance and performance.*
When discussing the issue of effort aversion across the three generic types, Types A and B appeared to have the highest scope for managerial effort aversion. A number of interviewees felt that the additional infrastructure, accountability and reporting procedures evident in Type C would lessen management effort aversion. IE11, however, felt that owners accessing unit information is a problem for all types:

*Mum and Dad and all the others are high risk. It is hard to get any information about how your asset is performing in the marketplace.*

### Type A: effort aversion issues

IE7 specifically spoke of Type A having particular problems:

*In my experience, the Mums and Dads get very defensive as soon as anyone questions them about anything.*

From the agent’s perspective, M2 explains the distrust of owners in regard to the manager’s effort:

*They don’t tend to trust you. Probably half of my owners, I don’t get any queries from, they have their own businesses and they understand, but the others ... they think I charge them too much.*

### Type B: effort aversion issues

IE2 saw greater scope for Type B managers to hide effort aversion:

*Accountability isn’t a problem for the brands because they can shift a lot of cost and underperformance and dress it up pretty.*

M5 notes that organisational specific factors can affect management accountability to owners:

*Well, we don’t have any accountability to them as long as we pay the rent. The issue comes when rent is not paid on time. If an operator is unable to meet the rental payment and there is a delay, then obviously that is a concern to the owners. There is nothing that the owners can do about that unless there is fraudulent activity or an ongoing difficulty with paying rent.*

### Type C: effort aversion issues

The ESTO classification appeared to have controls in place to minimise the potential for agent effort aversion, IE1 explains:

*In your ‘corporates’ you have a lot of managers and you’ve also got a corporate surveillance structure. If he is an employed manager, then he is responsible to his corporate employer as well as to those that are the committee of the owners, so he is under greater surveillance.*

M8 agreed with this view and offered a distinct perspective:

*That is a big issue. I guess the only way they could question this is if the returns weren’t there.*

### Diversion of resources

The unit owner interviewees appeared to have most to say in regard to this issue. It was clear that the issue was not restricted to one type of organisational form. IE3 best explains:

*They can all do it if they want to. There is almost no possibility for people to do much about it.*

It is notable that the observations made in this study support Guiling et al. (2005) who identified three moral hazard issues. The first concerns the possibility of a resident manager accepting a payment or ‘back-hander’ in return for granting a particular building service sub-contract. The interviewees in this study made comments suggesting this type of activity is widespread. IE7 described the findings of a 2004 survey and commented:

*I have little faith in unit managers’ generally. I know the manager at the X (complex name) takes 10% of tradesmen’s costs—kickbacks, dodgy quotes etcetera, and ensures that the chairman of the body corps unit is number one for booking ... Y (ESTO) adds an ‘administration fee’ of $20 plus GST to every tradespersons’ invoice for work done in our unit—plumbing, electrical, repairs etcetera.*

The second moral hazard example noted by Guiling et al. (2005) concerns the possibility of a resident manager not recording a short term rental of a unit and failing to make the appropriate reimbursement to the unit owner. Comments made by this study’s interviewees suggest that this practice may be more prevalent in Type A’s than types B and C as accountability is greater in the two latter organisational forms.

The third moral hazard example cited by Guiling et al. (2005) concerns the possibility of a resident manager overstating the cost of maintenance or housekeeping, and keeping the difference between the costs reported to the owner and the payment made to the tradesperson. Several interviewee comments lend support to the suggested existence of this practice.
Type A: diversion of resources issues
The independent operators were cited as having the highest potential for diverting resources. The following observations are pertinent. IE4 commented:

*If you have central reservation networks, it has got to be a much lower degree. So Mum and Dads would be the highest rating.*

O1 provided income return examples:
*With the previous managers we had an income of about $1500 per month and under X (new management) that has dropped to between $400 and $500. That is a third of the amount because the managers are taking a great deal more out ... When we bought the unit in Noosa in 2000, on the figures of the previous five years, the management were taking about 25 per cent but we were getting about 75 per cent. It is now known that we get under 60 per cent. Every month there are broken glasses and I wouldn't break the amount of glasses in a year that get broken in these units. They replace something at four times the cost that I could buy them at Woolworths and they are buying at wholesale prices. The mark-ups are just ridiculous.*

O3 offers a perspective following dealings with several managers:
*I can tell you from experience, the managers can be very selective in what they do, and if the people who have the merit to speak up against the actions that they believe are not quite good, they will often find, for one reason or another, which are never ever provable, they don't get many lettings.*

Types B and C: diversion of resources issues
The majority of managers from the branded hotels and the ESTO’s felt that the increased levels of accountability, transparency and corporate governance associated with larger organisational structures than that evident for Type A, reduced the possibility for management diverting resources in a self interested manner. M9 commented:

*There is little scope in our organisation for error. All of our schemes are independently audited and we do that at least once a year, sometimes more. So I think in our form of enterprise it isn’t really an issue.*

O10 provided a different perspective on the operational aspects of a Type C organisation, however. She cited the example of a resort group double dipping with regard to commission’s payable by charging a commission through their wholesale arm and a second commission that was charged by the manager for the same booking. She commented:
*Since it is in X’s (ESTO ‘Resort Company’) interests to rent out units through X’s travel agency (same ESTO’s reservation office) for an extra 30% commission, there seems to be a straightforward conflict of interest and our letting agent is not actually looking after our interests.*

IE7, an owner of three units in three different complexes, commented on problems observed in Type B and C operations:
*At least 50% of the monthly statements show over-charging of either the manager’s commission or maintenance. We have had to point it out to management before we receive a refund. X (ESTO company) have been the worst offenders.*

Differentials in time horizons
A time horizon differential arises when an agent has a long term perspective regarding the management agreement, and a principal sees the unit as a short to medium term investment (or vice versa). Overall, it appears that managers in types B and C have longer term time horizons than Type A. The principals displayed a range of time horizons. This is to be expected, given the range of motivations evident amongst a sample of unit owners.

Several industry experts provided insights in relation to the existence of a time horizon differential. IE3 commented:
*I would say that managers have, in general, longer time horizons ... Lot owners will ensure that they can sell it again so their view will be shorter than that of the managers in most cases.*
IE2 had a similar perspective:

You try to optimise profits. Every time the operator spends the owner’s money he is making a decision where you can ask, is he doing it for the owner’s good? If he spends $100 000 on a new technology system where the benefits might be derived in three years, and the owner is only under a one year ownership arrangement, is the operator acting in the owner’s interest? The operator takes a long-term management view.

The time horizon differential issue in now considered from the particular perspectives of Types A, B and C STTA operations.

Type A: time horizon differential issues

IE1 noted that managers in Type A’s tend to be shorter focused than Types B and C:

Mum and Dad usually don’t understand the benefits of a longer management contract where the corporates do ... The corporates are going to be so driven towards a long-term contract because they are businessmen. With Mum and Dads, there can sometimes be an arrangement that is not in their best interest. They mostly have short-term contracts.

From an owner’s perspective, IE7 expressed a degree of frustration over a short term time horizon for Type As:

Mum and Dads are a great concern; we have had five managers in 10 years.

Several comments concerning Type A organisations, suggest short-termism on the part of owners. M3 commented:

I think some of our owners just want to own their units just for a short time, like make a killing and then leave.

O1 stated:

Generally, as an owner you don’t really buy for long term.

M2 said:

A good manager will look for long-term; certainly owners are there to make money. They want a cheque in the mail every month and they want the return whether it is twelve months or twelve years.

Types B and C: time horizon differential issues

It was clear that interviewees considered Types B and C operators as being less short-termist than Type A operators. M5 observed:

I have not known of any company that operated on a short term.

M9 agreed:

I think most professional managers are into it long-term. Most owners would be medium term or longer. In X (CBD location) and the X (region), most of our owners have their units for ten years or more.

IE10, represented a dissenting voice:

You do get individual operators who want to be out within a two year period and they probably have a bit of a shorter vision on where they are going. Generally this is a pretty tough industry, so I find a lot of unit owners hold their units longer than the managers last.

Risk aversion

The main risk aversion issue noted by Guilding et al (2005) was the fact that agents are generally viewed as more averse to risk than principals, as agents cannot diversify their employment. A principal (shareholder), however, can achieve diversification through a portfolio of investments. Guilding et al (2005) explain that similar to a company manager situation, for small resident managers, job diversification cannot be achieved. However, a resident manager can be seen to have more at stake than an employee in a conventional principal/agent relationship. In light of this, a Type A manager is likely to be particularly risk averse. In Types B and C operations, however, managers are generally employees whose attitude to risk is likely to resemble that of a conventional employed manager.

In this study, the question was posed as to which of the contracting parties’ interviewees perceived to have taken on the most risk, and consequently, who is likely to be most risk averse? The responses provided were largely dependent on the interviewees’ perspective (owner or manager oriented). The unit owners felt that their investment was controlled by the manager and that this exposed them to risk. Conversely, the managers claimed
that as their initial investment in the business and the unit complex was more substantial, they bore the greatest risk.

M2 responded to the question ‘who takes on the most risk between the parties?’ in the following way:

*I think the manager. The manager has got the biggest investment in the complex. What affects the price of my management rights is how well I am getting people into these units at a good price, so the owner makes good money.*

M3 agreed:

*I would definitely say us. We have invested in the base and it was our decision and that could backfire if it went the wrong way.*

Conversely, O8’s comment is representative of the unit owners’ view on this matter:

*I would say that we as the owners are more at risk. We rely on their honesty and their ability to manage the complex properly in getting filled in units. So that is why I don’t use them anymore.*

While the perspective taken by Guilding et al (2005) appears to carry theoretical merit, an extension to their position appears warranted. It should be noted that Guilding et al were only focused on Type A operations. However, as already noted, the Types B and C would appear to have a different risk attitude profile.

Themes Emerging from Agency Theory Analysis

*Exploiting power differentials*

The interviewees provided extensive discussion concerning a perceived power imbalance in the manager/owner agency relationship. The greatest power differentials appeared to arise in Type Cs. The unit owners spoke of the strategies used by particular Type Cs and the negative implications arising for owners in Type C STTA complexes.

Substantial ill-feeling was reported from Type C unit owners. This appeared to be greater where management rights ‘corporatisation’ had occurred. The owner of two 1 bedroom units (O8) in Type C managed complexes comments:

*I think the management style is very much a style of how much money they can make out of every owner and unit and I think that breeds a real lack of trust and makes it impossible to develop any sort of long-term relationship between the manager and the owner. It is impossible to ever have a good relationship under those circumstances when the owners are always wondering what the managers will be trying to do next. How are they trying to rip me off this week? Ultimately, I think it is doomed for failure.*

O10, an owner in a Type C complex for four years commented:

*It really seems that X (ESTO company) considers the unit theirs, and that we are just providing the capital at wonderfully low rates for them to make money at wonderfully high rates while they flog our unit to death.*

O5 who had owned a one bedroom unit for 15 years commented:

*There used to be a ‘work together’ mentality where people owned units and managers managed them. Now it is a ‘let’s rip off the owners to the greatest possible extent we can’ philosophy.*

The agency literature discusses the horizontal merging of companies and acquisitions to increase concentration within an industry. This strategy is apparent in the STTA sector as Type C’s have bought up management rights to increase market share. Interviewees claimed that, reacting to competition, management companies have resorted to poaching unit owners in opposition run complexes, enticing them with offers ‘too good to be true’ in an effort to gain a majority of owners under their management within targeted buildings.

Hill and Jones (1992) talk of turbulence that can unbalance power differentials. Turbulence can occur either through external environmental factors beyond a firm’s control or through a firm’s in-house efforts. Management may try to take advantage of this turbulence and uncertainty by engineering a system to render stakeholders more dependent on management, than management is upon them. This involves taking strategic actions that reduce the concentration of stakeholder power and increase the concentration of management power. Strategies that increase the amount of resources under management’s control include actions such as horizontal mergers and acquisitions to increase concentration within an industry, vertical integration to gain power over suppliers and cooperative agreements between managers of different firms including joint ventures, purchasing alliances and price leadership agreements (Pfeffer & Salancik 1978).
It is difficult for stakeholders to establish a credible threat when power is diffused among many individuals and collective action is difficult to achieve. Monitoring is more difficult with diffuse ownership of units, as owners are less able to demand that management makes itself accountable. A unit owner who had experienced management rights ‘corporatisation’ within their complex felt particularly vulnerable and at the mercy of the agents (in this case, the management company).

IE7, referring to owners who had been targeted by Type Cs implementing the strategies discussed above commented:

*The management of X (ESTO company) is very close to manipulation and stand over of owner’s in the way they do business ... With a public company answerable to investors, customers and internal management, the unit owner is very much down the list of considerations ... Demands to upgrade or else, extra costs, and huge maintenance charges are not acceptable as a bullying tactic.*

**Reduced potential for conflict in Western Australia**

It should be noted that a distinctly different STTA approach is taken in Western Australia (WA). In WA, no management rights are established, owned or sold (with the exception of a few cases). Instead the use of management contracts/agreements appears to be the norm. This distinction signifies that unit owners have much greater power to change the party providing onsite management services. This difference is depicted in figures two and three.
Figure 3: Nature of STTA unit owner relationship to STTA complex manager when management is provided by way of a conventional contract arrangement (predominant approach in Western Australia)

Figure two shows that unit owners collectively elect a committee (and may appoint a body corporate manager), but at no point do they participate in the engagement of a resident manager. The resident manager is engaged for them as a result of the management rights being sold by the building developer (and potentially on-sold by the original management rights purchaser). A divergence of interest arises, as there are two purchasers involved and the purchasing parties have distinct motivations. The first is the lifestyle/investment purchase of the unit owner and the second is the same lifestyle/investment purchase of the management rights business. A stronger chain of command is depicted in figure three. Continuity in the chain is evident from the unit owner through to the onsite manager.

From an agency theory perspective, the potential for conflict appears significantly greater in figure two than in figure three. In figure three, the investors (principal) acting collectively, engage a management company and can choose to end the arrangement. This choice and right to end the relationship is not evident in figure two.

In the figure two scenario, it is evident that the management rights owner has invested in their job. Having made an investment, it could be argued that they might be viewed as less of an agent, having assumed a ‘principal’ quality. This departs from how the STTA owner manager relationship was viewed by Guilding et al (2005), and also how it has been viewed here. This possibility of seeing a manager in the figure two scenario as having assumed a ‘principal’ quality underscores the manner in which the manager in a conventional management rights scenario (i.e. outside WA) is more empowered than an agent in a conventional principal/agent relationship.
Conclusion

This chapter has used the Lambert (2001) agency conflict model to structure an examination of the divergence of interest between managers and unit owners in Australian STTA complexes outside WA. The chapter can be seen to provide a more in-depth analysis than that provided by Guilding et al (2005). The principle extension concerns differentiation of types A, B and C management rights. Guilding et al (2005) presumed Type A.

It appears that tension between agent (manager) and principal (unit owner) is greatest in types A and C. Lambert’s (2001) agency model appears useful as a structuring framework for investigating the nature of the STTA owner/manager relationship as it has facilitated the identification of potential conflict issues. Nevertheless, the model can be seen as limiting, as the interviews highlighted other issues that do not lend themselves to examination through the ‘Lambert lens’. For this reason, the next chapter provides ancillary analysis of the interview data collected and also an overview of factors consistent with good practice.
Chapter 4

ANALYSIS USING OTHER PERSPECTIVES

Introduction

Several themes emerged from the interviews that do not relate to the Lambert (2001) agency model. In light of this, this chapter focuses on describing the unanticipated themes and issues observed. It should be acknowledged that no extant theoretical framework has been drawn upon to structure these findings.

The major themes concern problems associated with the way that management rights are structured and also the way that unit owners and resident managers make their decision to invest in a STTA complex. Industry trends including diversity of product, reduced differentiation between Types B and C operations, ‘corporatisation’ and ESTO strategies, balancing stakeholders’ interests, training issues and mixed use developments are discussed. The benefits and shortcomings of the three organisational forms are synthesised and an outline of good practise is presented. Ten generic elements of good practise in the provision of STTA are identified, addressed and discussed. The chapter concludes with recommendations for management and a summary of the main findings presented.

The Way Management Rights Have Been Structured

In the process of collecting the qualitative data, it became evident that at the root of much conflict was the way that the sector has been structured. M9 comments:

There are a lot of very bad relationships because they were never set up properly in the first place. In terms of structure and contracting and the exit price and expected returns and it is very difficult to run a living and breathing tourism business when you have a multitude of owners that you need to report to, a lot of which do not want to know about the uniform system of accounting.

Significant criticism was expressed by industry experts who had the advantage of viewing the STTA sector as a whole. The evolution of management rights’ businesses, which has been prolific in Queensland, has been driven predominantly by the real estate industry. This has resulted in the real estate industry taking a strong government lobbying stance with regard to the legislation and regulatory bodies that govern the STTA sector. IE15 commented:

Then you had this peculiarity in the Queensland market of management rights, which is a bit of a limited thing that came out of the Real Estate Agents Act. And that is fundamentally for Mums and Dads buying themselves a business, buying themselves an income. That is how that has started.

A case can be made that the real estate industry’s interests may have been too much to the fore in government policy making. It should be noted that the motivations of real estate agents are not well aligned with the interests of the tourism industry. Real estate agents are primarily motivated by commissions earned from sales. A lack of tourism stakeholder involvement in the initial establishment of the management rights sector appears to have had a detrimental effect on the way that STTA serves the tourism sector.

The following comments illustrate problems with the establishment of management rights and the possible chain of events predicated by a system that was not well conceived in the first place. O3 comments:

The cause of this is where the developer is the sole member of the body corporate and he sets the parameters for selling the management rights. This can achieve such extortionate prices that the incoming buyers are locked into a situation over which they have no control. If the management rights are sold for over $1 000 000 or thereabouts, then it is true to say that the annual management fee is $100 000 that the unit owner’s have to pay. They do have an idea of what they buy or even before they do because you have to hear that from the sales people about what expectation you might have to make from your investment. It doesn’t show the full extent of the costs that one pays as an owner and the way in which it is or isn’t managed very well, and I am not talking about a specific one, but just in general. I have seen them all and I believe the whole thing can go terribly wrong. But the state governments allow it to exist in this fashion.
Also, IE5 comments:
The model was totally flawed and fundamentally wrong and we really inhibit it, despite people really having a
good product and I think we have a really great industry but it could be much better than what it is. It just needs
the right corporate governance. But I don’t think that the government really wants to listen to that. I think they
have been wrongly convinced by a very small minority of people who might not have any particular expertise on
this. So we have this arcaic decision making model. This has real potential problems.

The Purchase Decision: Unit Owners and Resident Managers

The way management rights are structured obviously carries a ‘flow-on’ effect to the purchasers of management
rights and also unit purchasers. IE4 speaks for both parties when he says:

When you invest in holiday apartments it is not only an investment decision, it is also a lifestyle decision.

The decision making process for both purchasing parties appears to be driven by emotional factors affecting
lifestyle as much as rational investment choices. It was noted by several interviewees that a lack of research prior
to purchase was prevalent. Many purchasers appear to be relatively naive compared to astute property investors.
These purchasers have minimal knowledge about the investment product they are purchasing or the network of
relationships that ownership signifies.

IE3 talked about the internal conflict of this type of investor who has clear expectations regarding return but
also has the additional (emotional component) concern of owning real estate that they may potentially live in one
day:

I think the major disconnect is that consumers have a different attitude. The investors have a somewhat
schizophrenic view of what they own. On the one hand, they put a few hundred thousand dollars into something
they want to get a seven and a half per cent return after tax, whatever model it may be. So what they care about is
making money and a certain return. So they get upset when they have to spend money. On the other hand, they own
this real estate. They have these sort of emotional aspirations of real estate ownership. They get involved
emotionally in the theme. They might even have aspirations of living there one day. So they cannot say: ‘I don’t
care about what colours the curtains are because it is an investment unit, I am worried about maximising my
return on the investment’. In a sense you have to say that you are either interested in it being an investment, or you
really do care about the apartment because one day you want to live in it.

Similarly, another industry expert offered a different perspective on the general lack of research unit owners
conduct prior to purchase. IE15, a hospitality consultant now based in Perth, shared his experience of developing
a STTA property in regional Queensland, selling the apartments off plan and managing the complex himself:

A lot of our buyers were very educated people and the thing that I found absolutely fascinating was the lack of real
enquiry that people make. They just basically signed their lives away. These letting agreements were signed
without any questions, any asking about who I was, what my background was, what my experience was, if I was a
fit and proper person to be running it.

The purchase decision made by unit owners

It appears that the type of individual who purchases a STTA unit is a factor that contributes to a potential for
conflict due to their lack of sophistication in regard to investment products. This type of purchaser does not fit
the mould of typical investors due to the involvement of emotion in the purchase decision. M9 explains:

With a strata item, they have a different financial idea about the return on their money. That is much more a
market issue. So quite often they spend three hours talking about the colour of the chairs and on the little things ...
The large owners, like institutions, will do thorough research and look at the market and find out about the
circumstances but an owner because of that lack of budget and resources will use his emotions or a non-
professional source.

IE6, a representative from an industry association commented that there were six factors that influenced
purchase of a STTA unit. These include the benefits of income from letting, subsidised holidays, potential of off-
setting expenses, tax benefits and the potential of capital gain. The final factor, which was by far the most
important, concerned ostentation, i.e. the purchaser being able to pull out a brochure at a weekend BBQ and
show off ‘their’ unit. He saw this as the ‘x’ factor for which no price could be attached. Essentially he surmised
‘bragging rights’ are more influential in the investor rationale, at the expense of compromised levels of return
and economic viability.
The purchase decision made by resident managers
It appears that many independent management rights’ owner operators lack the skill set required to perform the
diverse multitude of tasks arising in the business. IE1 comments on the impact of this to the unit owners:
Mum and Dads haven’t really had the experience or the training and that has an effect on how they perform.

There is also a strong suggestion that lifestyle choice has dominated the decision to purchase rather than a
thorough investigation of what the role entails. Many purchasers of management rights businesses consider it a
semi-retirement choice in a warmer climate. They envisage themselves walking on the beach every morning and
playing golf daily with the benefit of a steady income stream. The reality is that the majority of management
rights purchasers discover that they have ‘never worked harder in their life’ and they cannot sustain the pressure
of the role. Sales of management rights within 18 months of purchase are common. IE10 comments:
I have seen some abysmal Mum and Dad operators and it is very difficult to find good ones because a lot of these
guys have been rounding up sheep for themselves. They see it as a lifestyle choice.

Benefits and Shortcomings of Each Organisational Form.
A synthesis of the industry experts’ views is provided in tables 6, 7 and 8. The industry expert interviewees were
asked to respond to what they considered to be the relative benefits and relative shortcomings of each
organisational form in delivering STTA. The responses covered a broad spectrum of issues as the perspective of
the operators, the guests and the unit owners were outlined.

Type A
The personalised service offered by an independent operator was clearly the most significant benefit identified
by the interviewees for this generic organisational form. The longer list of shortcomings highlights the increased
potential for conflict and tension between the parties involved.

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Shortcomings</th>
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<tbody>
<tr>
<td>Personal relationship with guests</td>
<td>Lack of management experience</td>
</tr>
<tr>
<td>Personal relationship with unit owners</td>
<td>Lack of training</td>
</tr>
<tr>
<td>Commitment of managers due to investment</td>
<td>Lack of expertise</td>
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<tr>
<td>Low cost accommodation option</td>
<td>Variety of single operator risks</td>
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<td></td>
<td>High operating costs</td>
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<td></td>
<td>No buying power</td>
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<td></td>
<td>Lack of management/marketing approach</td>
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<td>Frequent absence of booking systems resulting in accounting problems</td>
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</tbody>
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**Type B**

The benefits of a branded hotel operation clearly outweigh the few shortcomings identified for this type of generic organisational form. These issues are discussed further below.

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Shortcomings</th>
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<tbody>
<tr>
<td>Corporate company structure</td>
<td>Higher cost structure for unit owner</td>
</tr>
<tr>
<td>Manager has more experience, skills and resources</td>
<td>Higher room rates</td>
</tr>
<tr>
<td>Marketing and sales resources</td>
<td></td>
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<tr>
<td>More effective marketing</td>
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<tr>
<td>Provision of additional services required by guests</td>
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<tr>
<td>Branding infrastructure and efficiency within the group</td>
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<td>Consistency of product</td>
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<tr>
<td>Consistency of service</td>
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<td>Higher occupancies</td>
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<td>Decreased costs to unit owners through buying power</td>
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<tr>
<td>Reputation, known product</td>
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<tr>
<td>Comparable national network of similar products</td>
<td></td>
</tr>
</tbody>
</table>

**Type C**

Although the benefits of Type C are similar to those identified for Type B, and the shortcomings in relation to the organisational form are minimal, it was evident that a greater level of unit owner dissatisfaction existed for Type C. This issue is discussed further below.

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Shortcomings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate company structure</td>
<td>Uncertainty of building due to possible succession of managers</td>
</tr>
<tr>
<td>Manager has skills and resources</td>
<td>Questionable equality in regard to reservation distribution</td>
</tr>
<tr>
<td>Focused on resort segment</td>
<td>Higher costs to owners</td>
</tr>
<tr>
<td>Critical mass</td>
<td></td>
</tr>
<tr>
<td>Higher levels of expertise in operations</td>
<td></td>
</tr>
<tr>
<td>Greater marketing/advertising budgets</td>
<td></td>
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<tr>
<td>More effective marketing</td>
<td></td>
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<tr>
<td>More consistent standards</td>
<td></td>
</tr>
<tr>
<td>Greater infrastructure</td>
<td></td>
</tr>
<tr>
<td>Higher occupancy, greater returns to owners</td>
<td></td>
</tr>
<tr>
<td>Greater purchasing power, lower costs to owners</td>
<td></td>
</tr>
<tr>
<td>Higher volume of guests, lower costs to guests</td>
<td></td>
</tr>
</tbody>
</table>

**Generic Good Practice**

When conceiving of the notion of good practice in a sector with such a diverse and broad range of stakeholders, we need to consider from whose perspective a good practice call should be made. A somewhat generic view has been taken with respect to this issue. Good practice will be seen as evident where efficiency (cost minimisation) and effectiveness (delivery of a sustainable quality tourism product) are achieved. ‘Sustainable’ is used in the sense of the capacity to maintain delivery of the tourism accommodation product over the long term and quality relates to delivering, or exceeding, consumer expectations. It is believed this somewhat generic approach (which signifies a bias towards the consumer's [tourism accommodation purchaser] perspective), signifies that the ten
elements of good practice identified below could be implemented by individual operators and promoted by the industry or government, for the long-term benefit of STTA operations.

**Manager qualities**
Desirable manager qualities were discussed extensively by many of the interviewees. A manager’s qualities can be seen to impact good practice with respect to achieving efficiency and effectiveness, sustainability and delivering a quality tourism product. Several industry experts echoed the body of the hospitality management literature in saying that hotel managers’ quality is a major factor in determining whether a property is a success. IE2 commented:

*Guest satisfaction ultimately, it all comes down to the individual management teams and their professionalism. The general manager is the make or break in every single case. The brand gives him a background but he needs to be good himself.*

IE10 commented:

*I believe it comes down to the quality of the management, whether it’s Mum and Dad, a brand or a multinational. Either on-site or within the management company.*

IE12, a private hospitality consultant (with a hotel management background) displayed a degree of frustration in regard to the WA legislation that requires the holding of a full real estate license to manage a hotel or other tourism accommodation complex:

*It comes back to whether it is a qualified person operating it or a real estate person operating it.*

Surprisingly, several industry experts believed that the type of management delivered at an STTA complex was not particularly significant. IE8 says: ‘I don’t think there is that much difference’ and IE3 thought that location is more important:

*On average you probably get more consistency at X (Type B) than at a Mum and Dad (Type A) and at Y (Type C). So I think that is just marginal and ultimately it is of lesser value who operates it than the location. The location is still going to be the decider about why people stay in buildings.*

In a similar vein, IE6 commented:

*My personal opinion is that 80 per cent and plus must be simply because of where the building is located and it won’t matter who manages it and most of the time it wouldn’t matter whether the standard is excellent or average, they would stay there anyway because of the location.*

To summarise, while some interviewees noted the importance of location, most felt that an accommodation property’s success or failure is dependent upon the individual capabilities of the manager or the management team.

**Developers’ involvement**
The nature of a developer’s involvement in a STTA complex is critical. Many decisions made at the outset of a complex’s construction will lay the foundations for the functioning of the complex for the remainder of its life. The developer’s involvement impacts on all four dimensions of generic good practice. M8, the director of an ESTO, commented:

*We started to develop ourselves. That is what we do now. We develop it and do our own things. That way you are actually creating the product you want and have the fixtures and fittings and the infrastructure which is so important for the operation and how it is managed.*

---

1 The governance issue in the WA legislation has been established to protect consumers from inappropriate use of a trust fund by the manager; however real estate agency accreditation does not seem a valid measure of competence when hotel management skills stretch far beyond the operation of a trust account.
Critical decisions with long term effects include:

- development of the management rights’ contractual terms of business
- contracting of services i.e. a lift company may offer free installation to the developer in return for a guaranteed servicing and maintenance contract with the building for the life of the lift. A developer might purchase a lift installation at a discounted price in return for the provision of a maintenance contract for the life of the lift that might well be at a price that is above the market rate
- the zoning of the building—that this has implications for owners who wish to on-sell their property or alter the use of the unit as their own life style needs change, whereas the developer may only be concerned with the zoning that is the most cost effective and strong in terms of meeting planning departments’ regulations
- establishing adequate sinking fund levies
- quality of building products or materials used
- provision of a plan for future maintenance work.

Developers are typically not concerned with issues such as the sustainability of the tourism industry. Their motivation tends to be more focused on building a complex than selling units as quickly as possible for a price that provides a satisfactory return. The only factor tying the developer to the on-going affairs of a completed complex is the mandatory builder’s guarantee (fixing building defects) which varies across Australia. There are no incentives or inducements for a developer to be involved in the affairs of a complex for a protracted period. The problems regarding building governance between the stakeholder groups usually occur subsequent to the builder having any active involvement in a complex.

Ongoing problems appear to be reduced in those buildings where the developer has an ongoing interest, maybe through an associated entity of the development company, or by providing services to the complex at various stages in the building’s life. M6 commented:

Where we are part of a larger organisation that tends to build them and strata them, we do research on the product and normally stay on and manage the hotel afterwards. We decide if a business is viable and if it is going to work and then get people in to help and do it. So we look at everyone who buys these products as an investor in the organisation and a lot of our investors are ones that invest in 20 other hotels. They trust us in delivering a return for them. I guess that is the difference between the three segments.

IE11 provided a perspective on how the market place provides an incentive for builders to provide a quality product. He commented:

We sell real estate I suppose, and if we damage our reputation, then we damage our real estate sales so that is a very important thing for us so we cannot afford to have projects that do not work.

Provision of sinking funds

Sinking fund levies were discussed by interviewees extensively and the consensus of opinion by those in positions of management was that in most buildings the levies are insufficient to fund long term building repair and maintenance costs. A range of generic good practice issues arise (most notably sustainability) if there is insufficient provision for sinking funds.

Provision of a sinking fund schedule is now starting to be recognised and some states (Queensland and New South Wales) have initiated legislation requiring schedules to be provided by all new developments. The solution to this problem lies in the planning and is starting to gain momentum as an issue to be addressed by government bodies.

In the past, there have been no requirements or regulations concerning the amount and adequacy of the amount contributed to a sinking fund. As a result, complexes around Australia have found themselves in desperate need of maintenance and repair, but insufficient sinking funds to enable requisite work to be undertaken. This can result in unit owners having to contribute significant lump sums or borrow funds to complete the work. The fact that an entrepreneurial banker in NSW has successfully established an expanding business that finances body corporate loans is evidence of the alarming deficiency of sinking fund contributions.

Refurbishing

Refurbishing has a flow-on effect to the next dimension of good practice identified i.e. consistency. It does however warrant a separate discussion, as it is a compelling issue that all STTA complexes face regardless of size, organisational form or location. It appears fair to say that the single most important factor affecting refurbishment is building age. The older the building, the more money needs to be spent, especially if regular
refurbishment has not taken place, or if there is no plan or schedule for provision of refurbishment to be maintained. M9 states:

So one of the biggest downsides of the MIA or management rights or any type of strata investment is the lack of refurbishment capital. That is why they typically die off. Once a strata gets to seven or nine years, it typically runs out of capital and it is very hard to fix it.

Traditional hotels eliminate this problem, as they have plans and budgets for regular refurbishment of furniture, fittings and equipment. As noted in the next section, Type B operations have followed the lead of the traditional hoteliers by writing refurbishment policies into their management agreements, thereby circumventing this problem.

Type A and C STTA entities appear in greatest threat with respect to maintaining a refurbishment capacity. New managers who wish to improve the overall quality of the complex and increase owner returns confront owners with a range of attitudes with respect to undertaking refurbishment work. As there are no clearly defined policies and procedures established for these buildings, there is no consistency of product. This problem is accentuated by the personal tastes of unit owners with respect to décor. M6 (Type B operation) comments:

I tell you that one of the shortcomings is obviously the cost of funds available for refurbishment. If it is a big company, they can normally find the funds but if you go to Mr. and Mrs. Johnson and ask for $1000 it is harder. I think the other thing is that sometimes you have 150 billers and have 150 different opinions within a hotel to run. Where I have one owner, then there is only my opinion and the hotel’s opinion, so they are the big shortcomings to do with this setup.

Refurbishing presents challenges to the good practice factors of sustainability and delivering a quality tourism product. As accommodation is a key factor in overall visitor satisfaction, an outdated unit in a STTA complex will not produce a satisfied guest resulting in no repeat visitation. Similarly, the long term implications for destination management are challenged when the accommodation stock is 20 plus years old. Tourists will not find a destination appealing if there is limited ‘in-vogue’ or up to date accommodation available.

It appears highly desirable for mandatory refurbishment policies and procedures to be established at a STTA complex’s planning stage. These policies should be adhered to as a requirement of a unit’s inclusion in the rental letting pool. Where a unit has been utilised for residential purposes for a period of time (and has not kept up with a refurbishment policy), provision needs to be made for refurbishing procedures to be implemented and completed prior to the unit entering the letting pool.

Consistency of product
Consistency of product is a major problem for Type A and Type C STTA complexes. As just noted, this is due to the fact that the individual unit owners choose the timing and extent of unit refurbishment. This creates a problem in regard to the standard/star rating attached to the complex as an accommodation product. Operationally, a manager may find it difficult to explain to two families travelling together (but staying in different units) why one unit has an eight year old TV and another unit has a plasma screen with DVD player. IE3 explains this well known scenario as follows:

In older complexes, places that are run down, people won’t stay there. Managers cannot find people to get into those rooms. You can imagine, in a hotel, if you don’t like the room you are in, you can complain and they will move you. In a serviced apartment complex, suddenly that owner whose room you didn’t like isn’t going to get any revenue. That is where the problems arise.

Income distribution
There appears to be three common income distribution methods utilised in the management of STTA complexes: i) direct return, ii) pooled return or iii) guaranteed return. This range of approaches can create considerable conflict due to misunderstandings, differing expectations and accountability challenges for a manager. The ‘direct return’ approach is most common in Type A and C STTA complexes. Under this approach, the return earned by a unit owner is in direct proportion to the amount his unit is rented out (revenue less management fees and expenses incurred by the particular unit). It should be noted that a significant pricing differential can exist for two units in the same complex; a penthouse suite can earn much more than a unit on the ground floor. Unit owner interviewees expressed confusion over inconsistencies in their monthly statements, unexplained fees and a lack of accountability of the manager or the management company in regard to the direct return method.

The pooled income return approach appears to be more manageable and a source of much less conflict between the contracting parties. Under this method, an average occupancy rate is calculated and all expenses are deducted so that each unit owner receives an equal weighted return that is in line with the standing of their unit. Weightings vary in accordance with size, view etcetera of the units. Problems can arise if implementing a pooled
system once other systems have been in place, as it is difficult to get owners to agree on unit weighting, especially when the owners have purchased their unit in different time periods and have different return expectations.

Guaranteed return is most commonly used in Type B operations and appears to have few application drawbacks. This may be due to the fact that the contracting parties sign a management agreement specifying details of the amount, terms and time frame of the guaranteed return. This approach involves the management company assuming the risk of unknown returns. It appears that the majority of Type A and C operators would be unable to assume this level of risk.

As an ESTO, M8 is in the minority utilising the pooled income scheme, however recognises the obvious benefits:

In X (location) we provide the owners with a budget over the year so they know what to expect and it is pooled so that it is all taken care of and we never have to go and ask for extra money. Not one owner has ever caused problems in terms of asking us because they are not happy with something. We create our own refurbishment budgets and we tell them about the budget and nobody has ever questioned that in the five years we have been running under that scheme. The profit is fantastic.

The choice of income distribution affects sustainability (by keeping owners happy). Sustainability is impacted as unit owner satisfaction with financial return will consequently be affected by either negative or positive experiences associated with investing in a STTA complex. Income distribution provides the vehicle for this assessment to be made and efficiency and effectiveness in this operation will have significant short and long term effects on operations, future investment and the industry in general.

**Clearly defined roles and responsibilities**

It appears that when all contracting parties involved in STTA operations have clearly defined roles and responsibilities, the opportunity for conflict is significantly decreased. Unrealistic expectations are eliminated as knowledge gained prior to purchase will facilitate a more educated purchase. This factor is also applicable to an individual or entity purchasing management rights. It is important that all contracting parties are aware of their obligations and responsibilities prior to becoming a STTA complex stakeholder.

This factor should be given consideration by developers and also local council planning officers. Examples of complexes that have been designated as restricted to tourism use, thereby prohibiting unit owners taking up residence appear to run more smoothly than those where the intended use is under-defined. It appears that Type B are the only STTA complexes that benefit from a narrow dedicated tourism use interpretation. Type A and Type C operations tend to suffer due to the uninformed or poorly informed (incorrect information given by the real estate agent at time of sale) unit purchaser’s aspirations. Also, it appears many managers are under-informed with respect to what is expected of them when they assume their role. As there appears to be little incentive for a developer to attach high importance to the sustainability of their building as an element of tourism infrastructure, they can be expected to continue writing loosely worded management rights agreements which command higher prices.

M9 provides pertinent comments with respect to the importance of education and communication:

All styles are leaving room for improvement but the biggest issue with the strata industry is communication and education of the owners as well as ourselves. A business in service-related delivery is not going to be easy. The biggest improvement going forward would be encouraging more managers to focus on education and communication so we can create an expectation that is valid and realistic.

Through clearly defining roles and responsibilities, efficiency and effectiveness can be increased, quality of tourism product can be maintained and sustainability will be supported. This dimension of good practice is considered to be a significant factor in improving positive outcomes for all stakeholders.
**Achieving the right degree of manager/owner involvement**

There are a variety of potential reasons for manager/owner conflict. Independent operators (Type A) spoke of the need to achieve a balance between being honest with owners and not giving them too much information. They felt that the more information given, the more queries tend to be received. Such query management can consume large amounts of manager time while adding little value. Such querying can also result in increase tensions and conflict. M3 commented:

> Sometimes communication can be a bit of a bad thing. We have made a bit of a burden around that in saying that we keep in touch with them but there were a few owners who wanted to move into their units once the lease had run out and we discovered that just way down the track. Because of that, we do check in with the owners when the leases run out. It would be a lot easier if we could just do what we wanted. Communication is good but sometimes it can be bad as well. So (names Management Company) has no involvement with an owner and that is where we are trying to educate the owner to say, ‘you are dealing with a real estate company’.

In connection with the challenge of managing owner liaison, a high profile ESTO has set up a dedicated department to deal with owner’s queries. IE8 explains:

> The other benefit is that we take a lot of the tasks and responsibilities that a normal Mum and Dad would do. So the managers have more time to deal with just the guests, and for 90 per cent of the time we have a specialist division that just talks to the owners. We have got an intermediary department between owner and manager. So we have one person per every 300 owners that is a contact, and that is all they do. So you have a dedicated contact. That takes a lot of bias and personality out of the manager-owner relationship.

One STTA Type B had a policy of referring owner queries to the developer. This stemmed from the developer acting as the contracting party on the lease with the unit owner. The management company also had a lease with the developer to provide management services. It appears that in this scenario, the developer recognised the importance of separating the manager and unit owner.

It appears conflict is minimised when manager/unit owner interaction is reduced. By saving manager time, greater efficiency and effectiveness can be promoted.

**Consumer perspective of the management organisation**

Transparency and streamlined services can represent an important factor affecting the tourist/consumer experience. Dissatisfied consumers are plentiful when there is an accommodation problem and this can be exacerbated if a resident manager cannot be located. Dissatisfaction can arise when a late plane arrival signifies that tourists arrive to a closed reception desk and unit keys placed in a box for a new STTA complex guest. IE12 explained:

> That is where the guest comes into problems in a hotel. You have people who don’t understand that no matter at what time they arrive; they must be taken care of. And that sort of mentality is often lacking [from Type A and Type C operations].

Similarly, problems have been encountered in buildings that are managed by one ESTO on site, and there is a second competitor ESTO managing other units in the same complex. This introduces a whole new set of dynamics for the consumer/tourist. The following account was provided during one interview: a tourist had been out to dinner and returned to the property to discover his swipe card had allowed entry and use of the lift but not entry into his unit. He then went to the reception but found it to be closed. He then activated an emergency button to contact the manager. A manager arrived but indicated that he did not manage the unit in question. The guests were informed that they would need to contact the booking office of the company managing his particular unit. This was at 11pm on a Saturday night and the booking office didn’t open until 8.30am Monday morning.

Type B operations appear better equipped to meet customer expectations than types A and C. Type B operations tend to mirror the services offered by traditional hotels. To the consumer, the operations are streamlined and transparent and the issue of ownership would never be a factor for the guest to consider. As far as the guest is concerned, they are staying at a hotel with self contained facilities. Conversely, the scenario described above highlights how Types A and C can present tourists with the issue of unit ownership, a factor that should not be of concern to a tourist.

**Manager’s interest**

The extent of a manager’s commitment is quite often determined by the financial interest the individual has in the property. For an independent operator, it is often their life’s savings that have been invested in the management rights operation. They therefore have a strong interest in keeping tourists happy to promote satisfaction and re-visititation. For a Type B operation, the manager is simply another employee. In a Type C
operation, the employment terms vary. Some are employed in a manner similar to Type B operations while others have salary packages with performance incentives. One ESTO group identified in the data collection process employs managers who also purchase an equity share in the management right’s business. The reason for this, as the director of the ESTO explained, is that it enhances the commitment of the manager/management couple. The other benefit of this arrangement is that the management team are left to operate the property and the ESTO handles and greatly assists in the administration, accounting, marketing etcetera, which are frequently the skill set that managers lack. IE8 confirms this, commenting:

*I think it’s fair to say that if you’ve got a vested interest in your work, you do a little bit better job. The equity role in the management set up is definitely a positive.*

It appears that investment of the manager’s own funds into the business (at whatever level) can significantly improve manager motivation and service delivery. Commitment of the management team carries obvious implications for improved delivery of a quality tourism product and sustainability of the sector.

**Conclusion**

This chapter has provided valuable insights into STTA sector issues, facilitating greater understanding, providing background and highlighting challenges for all key stakeholder groups.

An important contribution of the chapter is the consideration of key factors that contribute to STTA good practice. It is believed no prior attempt has been made to document factors associated with promoting STTA good practice. Many of these factors highlighted warrant the conduct of more exploratory research. This will be returned to for further discussion in the next chapter.
Chapter 5

CONCLUSION

This report has provided a typology that enhances our understanding of the nature and mix of organisations currently providing the STTA product in Australia. This typology can represent a valuable point of reference in subsequent research concerned with STTA. The ESTO classification provides the typology with some flexibility to accommodate yet to be conceived STTA organisational forms. By specifically addressing the nature of STTA organisational forms, the hierarchical typology may stimulate debate regarding the relative advantages and shortcomings of each type that has been developed.

In regard to the second objective of the report: to provide specific recommendations pertaining to good governance and management in tourism oriented strata title complexes, the findings relating to the pursuit of this objective will now be summarised under three headings. Firstly a sustainable organisational form is proposed. Following this, the lowest ‘potential for conflict’ organisational model is identified, and then some generic elements of good practice are presented.

Sustainable Organisational Form

It is believed that the view that Type B STTA complexes represent the most commercially viable form of STTA service delivery over the long term represents one of the study’s more significant contributions. Unlike the case for many Type A and C complexes, the financial return earned by unit owners in most Type B complexes appears to be satisfactory, as the majority of operators agree to a guaranteed return for a specified time. There is no owner of management rights in Type B STTA complexes, instead the management company is contracted to provide a management service and fulfils the responsibilities outlined in the contract. Unit owners have limited or no contact with the management of Type B properties. If a manager is not fulfilling their role and obligations documented in the contract, the management company representing owners can fire them.

The following factors can be seen as characterising Type B STTA complexes:

- contracts clearly define roles and responsibilities of each party
- investors are more ‘sophisticated’
- more professional managers
- streamlined management and administration systems
- reduced contact between owners and managers
- less of an emotional component involved in the purchase
- property management is streamlined and conducted collectively rather than on a unit by unit basis.

In combination, it is believed that these factors signify that the Type B complex is the most commercially viable organisational form over the long term for delivering STTA management services.

Lowest Potential for Conflict Model

Employing Lambert’s (2001) model it has been shown that tension between the agent (manager) and the principal (unit owner) appears greatest in Types A and C organisational forms. Based on this observation, it was concluded that Type B generates the lowest potential for conflict between the two parties as the interests of management and unit owners appear most closely aligned in this STTA organisational form.

Although the Lambert agency model represented a useful framework for identifying issues, it should not be purported that the reported observations constitute the ‘whole story’. Further research concerning the relative merits of the different STTA organisational forms is to be welcomed. Pursuit of this objective should be considered as ‘a work in progress’ (particularly as this is the first study of its kind) due to obvious scope for additional problems to develop, existing problematical issues to escalate and new challenges to arise for all stakeholders in the STTA sector.
Identifying Generic Elements of Good Practice

Table nine provides an overview of this report’s recommendations with respect to good practice delivery and also identifies which STTA stakeholder group can be expected to derive the most material benefit from each recommendation provided. Nine generic elements of good practice have been identified:

1. To enable the delivery of an efficient and effective professional service, hospitality management competencies are required. A suitable training package tailored to the particular needs of STTA managers should be developed and completion of the training should be a prerequisite for STTA manager licensing. Ideally, this should be linked to a continuing professional development program.

2. Developers need to be more accountable for decisions made in establishing STTA complexes. Promoting a continuing relationship between developers and their projects should be pursued in an effort to engender a greater sense of an ongoing vested interest held by developers in the STTA complexes that they have developed.

3. Sinking fund contribution programs that are sufficient to fund STTA complex infrastructure needs should be required. Whilst sinking fund legislative provisions are in place in New South Wales and Queensland (but no other Australian states), steps need to be taken to ensure STTA complexes are adhering to these provisions.

4. Refurbishment policies should be documented in STTA unit ownership agreements. If this cannot be achieved, alternative approaches need to be established to avoid refurbishment issues being ignored by management and unit owners. It is notable that destination development is based on real estate cycles that influence décor and style trends. A downside of this cyclic development is that the design and furnishings of a majority of complex developments will reflect the point in time when the complex was constructed. If the destination fails to upgrade, the uniformity of that design era will be perceived as the face of the destination. This factor can greatly tarnish a destination’s image. Refurbishment policies and procedures can also promote consistency of product. Most complexes within the STTA sector currently lack this consistency. This is a significant disadvantage for STTA complexes seeking to compete with hotels.

5. The ‘guaranteed return’ method of income distribution appears to be the most successful for the parties involved in a STTA unit sub-letting arrangement. An adaptation of this concept could be applied to smaller operations by stipulating amounts in management agreements.

6. The roles and responsibilities of each party to a STTA management contract should be more explicitly defined in order to promote greater accountability and transparency. It is believed there is considerable scope for greater accountability and transparency laying the basis for increased professionalism and satisfaction levels for all stakeholder groups.

7. Managed interaction between managers and unit owners can reduce the potential for conflict and promote more effective use of management time. Some complexes are successfully utilising a third party to achieve this objective.

8. Fractured unit ownership in a STTA complex should not negatively impact on a guest’s experience when staying in a STTA complex. STTA complex managers should ensure the complex is managed in a coordinated and seamless manner from a guest’s perspective.

9. STTA complex performance can be improved if the manager is provided with an equity stake in the management enterprise. This is one of the standard arguments provided in support of the ‘Independent Operator’ STTA management model. Employers of STTA managers should consider performance based incentives to reward managers, including the possibility of extending equity ownership options.
**Table 9: STTA management recommendations**

<table>
<thead>
<tr>
<th>Stakeholder beneficiary</th>
<th>Number</th>
<th>Recommendation</th>
<th>Unit owners</th>
<th>Managers</th>
<th>Tourist</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>Manager training and education</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<td></td>
<td>2</td>
<td>Developer’s commitment to the complex</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>Sinking fund schedules</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>Refurbishing policies written into management agreements</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>Guaranteed return method of income distribution</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>Clear defined roles and responsibilities in management contracts</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>7</td>
<td>Managed interaction between managers and owners</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>8</td>
<td>Coordinated management</td>
<td></td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td></td>
<td>9</td>
<td>Improved manager performance through use of incentive payments</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

**Further Research**

This report has provided a background on the status of the STTA sector in terms of its importance as a rapidly growing element of the tourism industry. The hierarchical typology of STTA organisational forms presented provides a platform for initiating discussion and debate, and further research regarding the management models that currently exist within this sector.

Many factors associated with good practice in the provision of STTA have been highlighted and warrant further research examination. More specific areas for further research include:

- conducting work designed to appraise satisfaction levels of tourists staying in STTA and also factors affecting these satisfaction levels
- conducting quantitative-based work designed to investigate the satisfaction levels of unit owners in different STTA types
- appraising the adequacy of accumulated sinking fund balances and sinking fund levy collection procedures in STTA complexes
- developing a profile of unit owners
- investigating macro sector trends such as mergers, acquisitions, the apparent growth of corporatisation, and a growing tendency for vertical integration (a developer has recently acquired a body corporate management entity which has established a strategic alliance with a bank to act as the banking institution for holding body corporate accounts such as the accumulated sinking fund)
- documentation of particular governance challenges arising in integrated resort developments
- conducting a training needs analysis for managers
- extending the identification of good practice procedures initiated in this study for STTA businesses
- exploring the feasibility of developing a rating system (similar to the hotel star rating system) to promote greater consistency of product within STTA complexes and provide greater confidence to tourists
- developing a blueprint for management agreements.
REFERENCES


APPENDIX A

Interview Questions Posed

Schedule of interview questions posed to managers

Manager’s Name:
Complex:
Date of interview:

<table>
<thead>
<tr>
<th>Total units in complex</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Units in letting pool</td>
<td></td>
</tr>
<tr>
<td>Length of management (at this complex)</td>
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<td>Other complexes</td>
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<td>Personal info</td>
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<td>Previous occupation</td>
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<tr>
<td>Location</td>
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1. In your type of organisation, what problems can arise surrounding accountability to the owners for occupancy rates, prices charged, and maintenance expenses incurred (e.g. light bulb replacement)?

Does your management agreement contract specify performance indicators for the manager?

In your type of organisation, how aware would the average owner be with respect to the duties of the managers?

Do you report your sub-letting activities, achievements and performance to owners, if so on what basis and how often?

Do you report your caretaking activities, achievements and performance to owners, if so on what basis and how often?

In your type of organisation, if an owner questions a manager’s performance with respect to subletting or caretaking, to what extent might this impact on the subsequent subletting performance of their investment?

To what extent were the terms of the management rights contract taken into consideration when you purchased the management rights?

To what extent did the relative tightness of the contract have an impact on the purchase price paid?

To what extent is there scope for managers in your type of organisation to provide a sub-standard performance?

How well can owners gauge the quality of a manager’s performance?

How well can owners sanction managers if they believe them to be performing in a sub-standard way?

What factors constrain owners’ ability to sanction managers?

How does an owner appraise how well you do your caretaking job?

How does an owner appraise how well you do your subletting job?

2. In your type of organisation, to what extent is there a problem for RMs building up the confidence of owners that all monies received are appropriately accounted for and all payments made are warranted?

Is there a problem for managers developing trust from owners that the RM acts in their best interests?

What is the mark up on maintenance and housekeeping costs passed on to the owners? Can you provide examples?

Is this mark up disclosed and generally well understood by owners in your type of complex?

Do the owners of units get a full report on the total occupancy levels at the complex as well as their own unit’s individual performance? If not, why not?

To what extent do you have autonomy for decisions relating to contractors?

Is it more favorable for you personally to use particular trades people?
In this type of organisation, to what extent is there an opportunity for the management to divert resources towards their own personal benefit? How much do you feel this type of activity is occurring in your industry?

3. In this type of organisation, to what extent is there a tendency for a manager (Management Company) to be more short or long termist than the owners?

To what extent can this difference in time horizons be a problem?
Are you more focused on subletting or caretaking?
What proportion of your time is allocated to each?
How many years worth of capital expenditure is currently sitting in your sinking fund?
Do you believe this amount is sufficient for both long and short-term maintenance requirements of the building and property?
How important to you is it to increase this amount?
How often is the sinking fund levy increased?

To what extent do you have an influence on the sinking fund levy set?
How long did you sign the management agreement for?
How long has your management agreement got left to run?

In this type of organisation, to what extent does it become a problem for the owner/manager relationship once a manager (Management Company) is seeking to terminate their relationship with the complex?

In this type of organisation, to what extent does it become a problem for the owner/manager relationship once an owner is seeking to sell their apartment in the complex?

4. How much risk are you willing to take in an attempt to increase unit letting returns e.g. an aggressive advertising campaign, business promotion, marketing decisions, or engaging a cheap sub-contractor with a limited track record?

In this type of organisation, to what extent do problems arise as a result of a manager’s attitude to risk being different to the average owner’s attitude to risk? (e.g. the manager might be too willing, or insufficiently willing, to embark on an unusual and risky ad campaign, engage a cheap sub-contractor with a limited track record, etcetera). Who do you believe is more exposed to risk—you or the unit owners?
What do you believe you could do to improve the ROI to unit owners?
Is there a difference in the owners perception of the required level of sinking fund compared to that of the resident manager?

Are you willing to take on more or less risk relative to the other two types of managers?

Wrap up questions:

1. What do you believe are the shortcomings of the management style you are operating under?
2. What changes could be implemented to improve the current management style?
3. Overall comment on the relative merit of your type of organisation to provide a quality experience relative to the other two types of operations.
Schedule of interview questions posed to owners

Owners
Name of owner
Name of complex
Date of interview

<table>
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<tr>
<th>Sex</th>
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<tbody>
<tr>
<td>State or region of owner</td>
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<tr>
<td>State or region of unit</td>
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<tr>
<td>Size of unit</td>
<td></td>
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<tr>
<td>Total units in complex</td>
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<tr>
<td>Type of management</td>
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<tr>
<td>Length of current ownership</td>
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<tr>
<td>Length of previous ownerships</td>
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</table>

1. Does your manager report his subletting activities, achievements and performance to you? If so, on what basis and how often? To what extent does this report provide a good basis for RM performance appraisal?
   Does your manager report his caretaking activities, achievements and performance to you? If so, on what basis and how often? To what extent does this report provide a good basis for RM performance appraisal?
   To what extent is your involvement with the setting of rates and occupancy levels?
   To what extent is there scope for managers to provide a sub-standard performance?
   Do you have any input in determining who manages your unit complex?
   Do you/have you ever questioned the manager's performance in regard to caretaking, subletting or maintenance duties?
   If so, were there any repercussions?
   How well can you gauge the quality of a manager's performance?
   How do you appraise how well your manager is performing his caretaking job?
   How do you appraise how well your manager is performing his sub-letting job?

2. In your type of organisation, to what extent is there a problem for RMs building up the confidence of owners that all monies received are appropriately accounted for and all payments made are warranted?
   Is there a problem for managers developing trust from owners that the RM acts in their best interests?
   Do you have any input into the selection of subcontractors to perform works at your complex?
   Do you know the costs of unit general maintenance prior to the manager’s mark up?
   Are these disclosed and/or well understood by you?
   Do you think these costs incurred are reasonable or overstated i.e. light bulbs, cleaning, and repairs? Please provide examples.
   Do you get a full occupancy report for the complex, as well as your unit's individual performance?
   Do you have any mechanism for monitoring the occupancy of your own unit?
   In this type of organisation, to what extent is there an opportunity for the management to divert resources towards their own personal benefit?
   How much do you feel this type of activity is occurring in your industry?

3. In this type of organisation, to what extent is there a tendency for a manager (Management Company) to be more short or long termist than the owners?
   To what extent can this difference in time horizons be a problem?
   What do you believe is your manager’s focus—subletting or caretaking?
   Do you believe the manager is acting in your best interests with regard to the timeframe of your investment?
   How many years worth of capital expenditure is currently sitting in your sinking fund?
   Do you believe this amount is sufficient for long and short-term requirements of the building and property?
   To what extent do you have an influence on the sinking fund levy set?
   In this type of organisation, to what extent does it become a problem for the owner/manager relationship once a manager (Management Company) is seeking to terminate their relationship with the complex?
   In this type of organisation, to what extent does it become a problem for the owner/manager relationship once an owner is seeking to sell their apartment in the complex?
4. Who do you believe is more exposed to risk—you or the manager?
In this type of organisation, to what extent do problems arise as a result of a manager’s attitude to risk being different from the average owner’s attitude to risk? (E.g. the manager might be too willing, or insufficiently willing, to embark on an unusual and risky advertising campaign, or to engage a cheap subcontractor with a limited track record, etcetera.)
Is there a difference in your perception of the required level of a sinking fund compared to that of the resident manager?

Wrap up questions:

- What do you believe are the shortcomings of the management style you are operating under?
- What changes could be implemented to improve the current management style?
- Overall comment on the relative merit of your type of organisation to provide a quality experience relative to the other two types of operations.
Schedule of interview questions posed to industry experts

Industry experts

- Potential for effort aversion (moral hazard)
- Agent diversion of resources in self interested manner
- Differential owner/resident manager time horizons
- Differential owner/resident manager attitude to risk

Score the interviewee’s views on a 1–7 scale where 1 signifies a ‘low problem’, 4 signifies a ‘medium problem’, and 7 signifies a ‘high problem’.

<table>
<thead>
<tr>
<th>Question</th>
<th>Independents</th>
<th>Branded</th>
<th>ESTOs</th>
<th>Comments</th>
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<tbody>
<tr>
<td>1 Potential for effort aversion</td>
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<td>The degree to which the manager has the scope to get away with providing a sub-standard performance</td>
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<td>The degree to which the owner is aware of the manager’s duties</td>
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<td>If an owner questions a manager’s performance, the degree to which this may impact on the subletting performance of the owner’s unit</td>
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<td>The degree to which an owner can appraise the managers subletting performance</td>
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<tr>
<td>The degree to which an owner can appraise the manager’s caretaking performance</td>
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<td>2 Agent diversion of resources in a self interested manner</td>
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<td>To what extent is there a problem for managers building up the confidence of owners that all monies received are appropriately accounted for and all payments made are warranted?</td>
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<td>Is there a problem for managers developing trust from owners that the manager acts in their best interests?</td>
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<tr>
<td>The degree to which a manager can get away with diverting resources towards their own benefit</td>
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<tr>
<td>The level at which this is going on</td>
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<td>3 Difference in time horizons</td>
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<td>To what extent is there a tendency for a manager (management company) to be more short or long termist than the owners i.e. have different time horizons?</td>
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<tr>
<td>To what extent can this difference in time horizons be a problem?</td>
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<tr>
<td>To what extent does it become a problem for the owner / manager relationship once a manager (management company) is seeking to terminate their relationship with the complex?</td>
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<tr>
<td>To what extent does it become a problem for the owner / manager relationship once an owner is seeking to sell their apartment in the complex?</td>
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<tr>
<td>4 Attitudes to risk</td>
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</table>
To what extent do problems arise as a result of a manager’s attitude to risk being different to the average owner’s attitude to risk (e.g. the manager might be too willing, or insufficiently willing, to embark on an unusual and risky ad campaign, engage a cheap sub-contractor with a limited track record, etcetera)?

Wrap up questions:

- What do you believe are the relative benefits of each of these three approaches to managing tourist based strata titled properties?
- What do you believe are the relative shortcomings of these three approaches to managing tourist based strata titled properties?
- Any other comments you have on the overall relative merit of all three types of management style in delivering customer satisfaction for the short-term tourist guest.
- What do you believe to be the best model of management in providing customer satisfaction for the short-term tourist guest?
AUTHORS

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EC3, a wholly-owned commercialisation company, takes the outcomes from the relevant STCRC research; develops them for market; and delivers them to industry as products and services. EC3 delivers significant benefits to the STCRC through the provision of a wide range of business services both nationally and internationally.

KEY EC3 PRODUCTS

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The Sustainable Tourism Cooperative Research Centre (STCRC) is established under the Australian Government’s Cooperative Research Centres Program. STCRC is the world’s leading scientific institution delivering research to support the sustainability of travel and tourism – one of the world’s largest and fastest growing industries.

**Introduction**

The STCRC has grown to be the largest, dedicated tourism research organisation in the world, with $187 million invested in tourism research programs, commercialisation and education since 1997.

The STCRC was established in July 2003 under the Commonwealth Government’s CRC program and is an extension of the previous Tourism CRC, which operated from 1997 to 2003.

**Role and responsibilities**

The Commonwealth CRC program aims to turn research outcomes into successful new products, services and technologies. This enables Australian industries to be more efficient, productive and competitive.

The program emphasises collaboration between businesses and researchers to maximise the benefits of research through utilisation, commercialisation and technology transfer. An education component focuses on producing graduates with skills relevant to industry needs.

**STCRC’s objectives are to enhance:**

- the contribution of long-term scientific and technological research and innovation to Australia’s sustainable economic and social development;
- the transfer of research outputs into outcomes of economic, environmental or social benefit to Australia;
- the value of graduate researchers to Australia;
- collaboration among researchers, between researchers and industry or other users; and efficiency in the use of intellectual and other research outcomes.