

## Where Are We Now: A Review of Agency Theory on Finance and Accounting within Tourism, Hospitality, and Hotel Industry

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### Abstract

**Purpose of the study:** The purpose of this study is to investigate attentively works about Agency Theory and financial and accounting management in the Tourism, Hospitality, and Hotel Industry.

**Design/methodology:** This research adopts a literature search utilizing Bibliometric analysis to identify articles on Agency Theory within the tourism and hospitality industries and analyses research journals as the foundation for additional research on the subject at hand.

**Findings:** Data regarding name, date of the journals, certain industry and scope of area that discussed in these journals, focus of the research and data analysis. This study identified previously unexplored topics and suggested further study based on the analysis procedure.

**Research limitations/implications:** Since data are very limited therefore VOS viewer application cannot be used. This research limited only with manual analysis using Microsoft Excel.

**Novelty/Originality of the study:** Agency theory has also has been researched from various point of view. Note only finance and accounting, but also Law, Sociology, Entrepreneurship, Marketing and from the Islamic Shariah point of view. However, there are no studies found analyse Agency Theory on financial and accounting management in fields of Tourism, Hospitality, and Hotel Industry. This research is trying to fill in the gap.

## INTRODUCTION

Adam Smith in his book *The Wealth of Nation* has been stated ideas regarding Agency Theory. (Benedickson et al., 2015). It is later introduced for the first time by Jensen and Meckling in 1976 to provide a theoretical model of the relation between one party (the principal) delegating work to another party (the agent). This theory is developed since there are more common that the company management are separated from company owner. Agency Theory discuss about many problems arises from the dividing of works and responsibilities between agent and principal especially when their interest is different (Benedickson et al., 2010)

Since the Agency Theory is published, it was taken up by researchers in several disciplines, notably in corporate governance (Benedickson et al., 2010). Agency theory has also has been researched from various point of view. From Law (Lan & Heracleous, 2010), Finance (Berger & Bonaccorsi di Patti, 2006; Donaldson & Davis, 1991; Hansen & Crutchley, 1989; Tan & Lee, 2015), Sociology (Shapiro, 2005), Entrepreneurship (Arthurs & Busenitz, 2003; Landström, 1992), Marketing (Tate et al., 2010) to Accounting (Agoglia et al., 2015; Lambert, 2006; Morris, 1987). Agency Theory also researches in related with Islamic Shariah system within Islamic Financial Institution (Aljifri & Khandelwal, 2013; Obid & Naysary, 2014; Safieddine, 2009).

Although Agency Theory has been varied researched by scholars from 1976 until now, there are no studies found analyse Agency Theory on financial and accounting management in fields of Tourism, Hospitality, and Hotel Industry. This study tries to fill in the gap by a bibliometric analysis. This study aims to carefully investigate studies regarding Agency Theory on financial and accounting management in Tourism, Hospitality, and Hotel Industry.

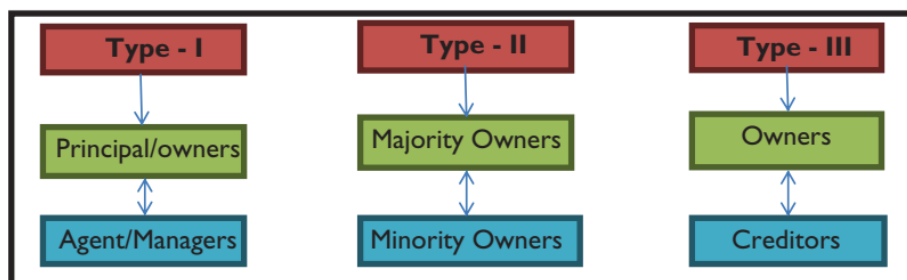
## LITERATURE REVIEW

### Agency Theory

During 1960 and early 1970s, many economists seeking for risk sharing among business. Agency relationships is built by one or more people called principals hire another person called agent to manage the business with their expertise. This feature trying to sharing risk between capital and managing risk. However, 2 Problems arises from the attempt of the risk sharing. First is the desires and goals of principal and agent being conflicting. Second is the different attitudes between principal and agent toward risks. Agency Theory focusing in determine the most efficient relationship between Principal and Agent (Eisenhardt, 1989)

Although Agency Theory are popular, it cannot be treated as panacea. There are some limitations which required other theory to fill in the gap. Limitation of the theory are as follows. The first is the ambiguity of the future. Second, there are numerous obstacles to overcome while trying to solve agency problems, such as information asymmetry, rationality, fraud, and transaction costs. Therefore, it is difficult for shareholders or the principle to maximize their return due to their limited influence in the company. The theory disregards the managers' skills and views them as opportunistic (Panda & Leepsa, 2017). In Figure1 displays three types of Agency Problems discussed in Agency Theory. Those three types of problems usually come from the separation of ownership from control risk preference, duration of involvement, limited earnings, decision making, information asymmetry, moral hazard, and retention of earnings(Panda & Leepsa, 2017).

**Figure 1:** Agency Theory Problems



Source: (Panda & Leepsa, 2017)

Agency theory has introduced the concept of agency conflict and its associated costs. Agency costs are one of the internal expenses associated with agents that result from the misalignment of agent and principal interests. It includes the cost of examining and selecting an appropriate agent, gathering data to establish performance benchmarks, monitoring to regulate the agent's behaviour, bonding expenses, and the loss caused by the agents' inefficient judgments. To be concise, the agency cost is the sum of monitoring expense, bonding expense, and residual loss (Felix, 2017; Panda & Leepsa, 2017).

There are three categories of Agency Cost, first is monitoring costs incurred by the principal to restrict the agent's opportunistic behaviour, and incentive costs (incentive systems) incurred by the principal to direct the agent's conduct. Second is motivation/ bonding cost which is the obligation or commitment charges the agent may have incurred to earn the principal's confidence (motivation cost). Third, opportunity cost known as "residual loss," which corresponds to the loss of utility suffered by the principal as a result of a divergence of interest with the agent, such as the cost incurred by the principal as a result of the agent's unfavourable management of the principal's interests (Felix, 2017; Panda & Leepsa, 2017).

In measuring the cost, there are several ways including: Asset Utilisation Ratio or Asset Turnover Ratio, Expense Ratio, Tobin's Q – Free Cash Flow Interaction, Dividend Pay-Out Ratio, Board Compensation, ROA and ROE. The used of these measurement will be depended on type of Agency Problem(Panda & Leepsa, 2017). As previously stated, agency theory has been discussed through many perspectives and used as a basis for solving many problems related to agents and principals, but that does not mean that agency theory has no limitations. Limitations occurred since the major determinants of agency theory are the assumptions made when modelling various agency interactions. Agency Theory perceived simplified the problems occurs regarding the nature of acts engaged in subject relationships. Cover only some of the complexity of human behaviour. Simplistic premises are tremendously useful for mathematical modelling, but they are unrealistic for describing human behaviour (Kultys, 2016).

## Tourism and Hotel Industry

Tourism is the temporary migration of people to destinations other than their typical places of work and residence, the activities engaged in during their stay at such sites, and the facilities and services developed to accommodate them. Tourism is the study of people who are not in their natural habitat, of the enterprises that cater to the needs of tourists, and of the economic, environmental, and social effects of tourists on the well-being of their hosts. It involves the motivations and experiences of tourists, the expectations and changes made by residents of welcome zones, and the roles played by the plethora of agencies and institutions that mediate between them (Wall, Geoffrey; Mathieson, 2006).

Tourism can be traced back to 1800s when Thomas Cook conducted tour in 1855 from Leicester to Paris. Since then, tourism become a massive worldwide industry with economic contribution estimated around USD 1.9 trillion in 2021 regardless the Covid-19 Pandemic (World Tourism Organization, 2022). Tourism Industry comprises of 4 main sectors which are transportation, accommodation, ancillary services, sales and distribution (Camilleri, 2018). Along with tourism industry, hospitality industry also a worldwide industry. The simplest definition of hospitality is the providing of the "holy trinity" of food, drink, and lodging (Lynch et al., 2011). Hospitality concept can be viewed as four dimensions which are spatial, behavioural, temporal and physical (Brotherton, 2005). In recent years, the hospitality industry has expanded beyond food, drink, and lodging into a broader and more complicated sector. As we can see in table 1, structure of hospitality industry has been evolved and having intersects with other industry such as healthcare, transportation, and other industry.

**Table 1: Structure of Hospitality Industry**

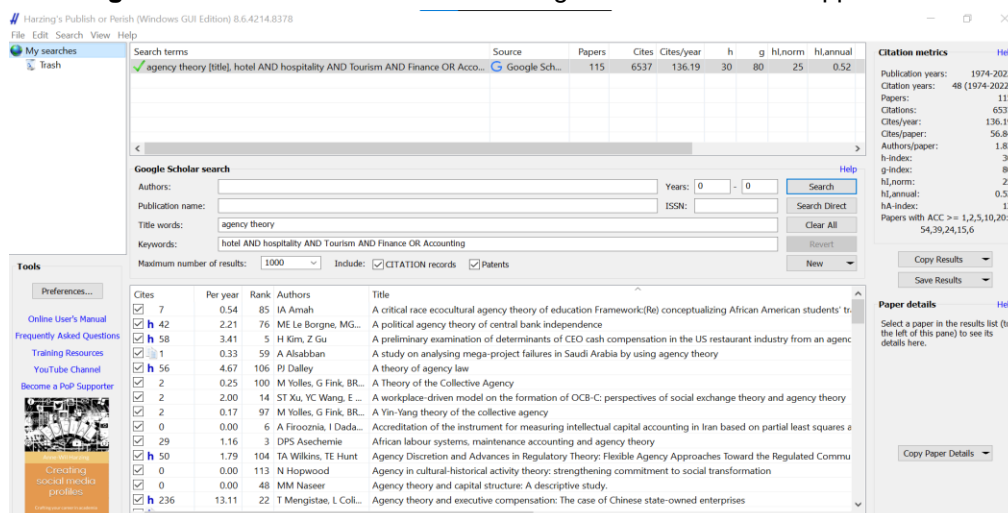
Free-Standing Hospitality Business	Hospitality in Leisure Venues	Hospitality in Travel Venues	Subsidised Hospitality
Hotels	Casinos	Airports	Workplaces
Holiday canters	Bingo Clubs	Rail stations	Health care
Quasi Hotels	Night Clubs	Bus Stations	Education
Cruise ships	Cinemas	Ferry terminals	Military
Time-share	Theatres	Aeroplanes	Custodial
Bars	Spors Stadia	Trains	Retailers
Restaurants	Theme Parks	Ferries	
	Attractions		
	Health Clubs		

Source: Slattery, 2002

## METHODOLOGY

This research adopting a literature search using Bibliometric analysis, to find articles on Agency Theory within the tourism and hospitality industry and evaluates research journals as the basic of others further research regarding the agency theory topic., Harzing's Publish or Perish was used to find relevant articles (see Figure 2).

**Figure 2: Result of Search from Harzing's Publish or Perish Application**



Source: Harzing's Publish or Perish, (2022)

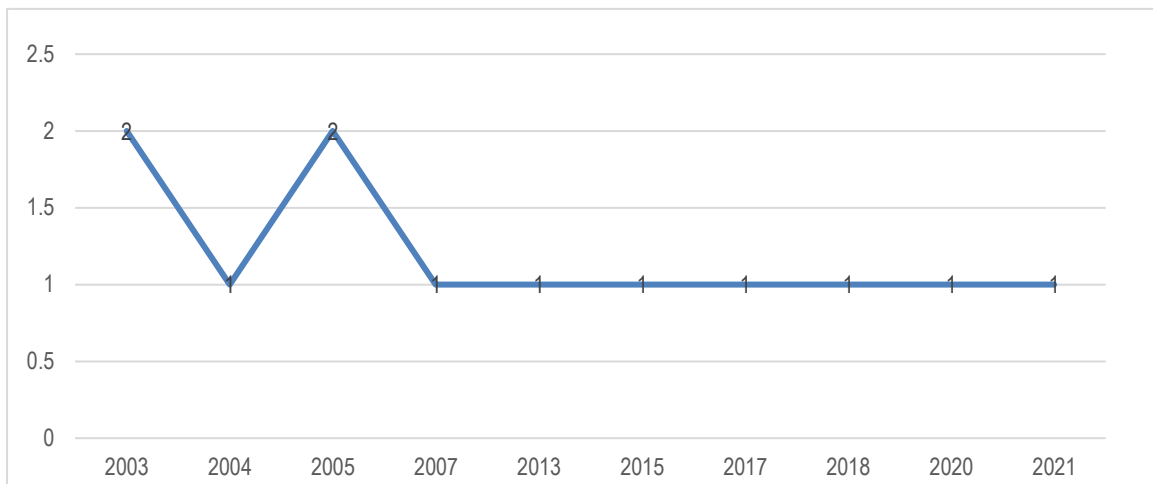
The key words included in the search were 'agency theory' which had to appear in the title or abstract, and the key word 'hotel AND hospitality AND tourism AND finance OR accounting had to appear somewhere within the text of the articles. Articles to which access could not be gained, not relevant with finance or accounting, available only in foreign languages, which appear to be research notes were excluded. The results identified a total of 12 relevant articles that were used for the purpose of the analysis. To analyse the result, Microsoft Excel is used for frequency analysis. Discussion will be made in order to find pattern of researches on Agency Theory in Tourism, Hospitality, and Hotel Industry. The analysis will answer 3 questions, how the researches is published, what is the scope of the research, and how the data will be analyzed.

## RESULTS

### Articles Data

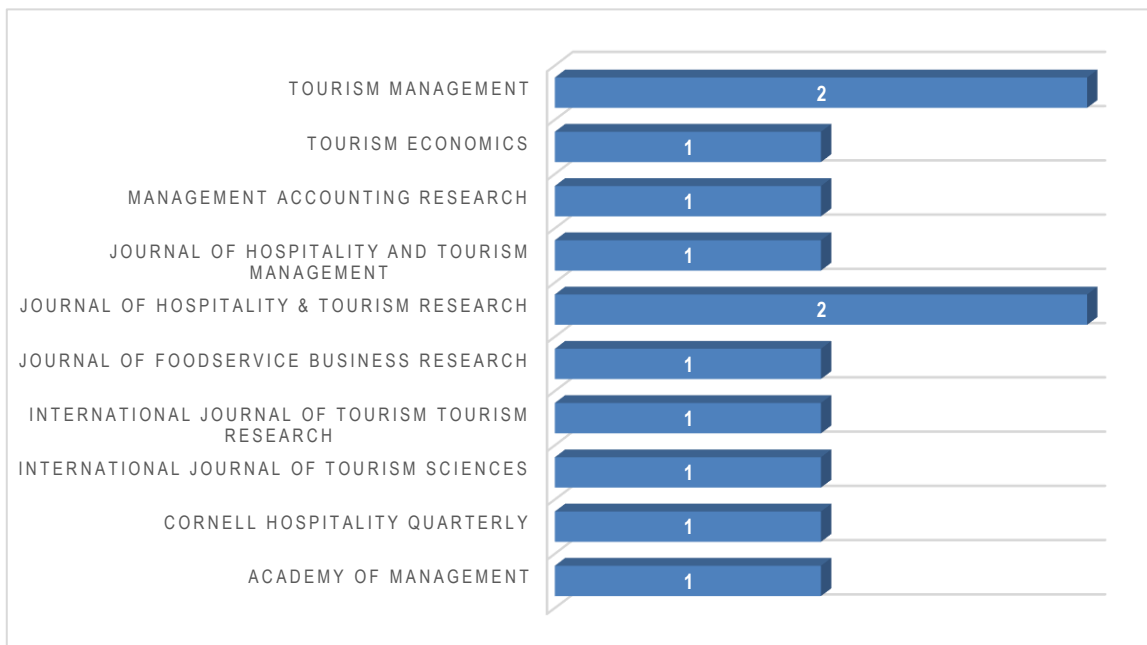
This sub chapter will be discussed about the articles of journals has been harnesses from Harzing's Publish or Perish, including the number of articles per year (figure 3) to see the trend of researches regarding Agency Theory in Finance and Accounting within Tourism, Hospitality, and Hotel Industry and also name of journal (figure 4) to see the point of view of these journals.

**Figure 3: Number of Articles Per Year**



Source: authors analysis

**Figure 4: Journals Name**

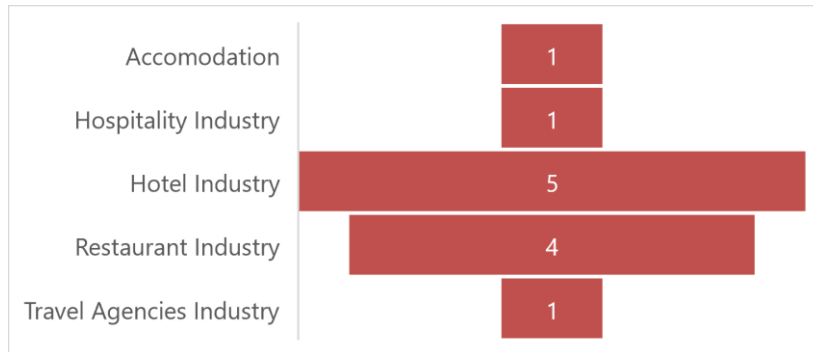


Source: authors analysis

### Research Scope

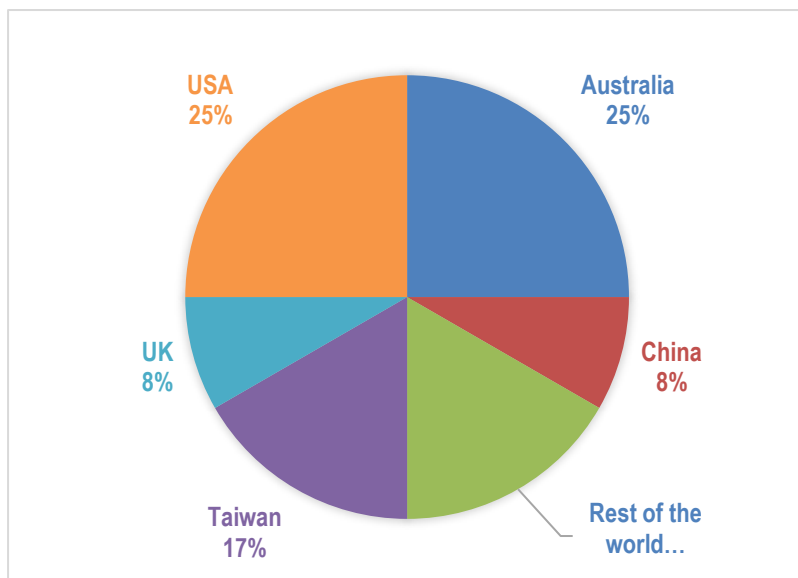
Within this subchapter, data about the scope of industry and area researches will be stated in order to see which industry did Agency Theory most researched (figure 5) and the scope of the studies (figure 6). Data comes from manual content analysis using Microsoft Excel.

**Figure 5: Scope of Industry**



Source: authors analysis

**Figure 6: The scope of the studies**

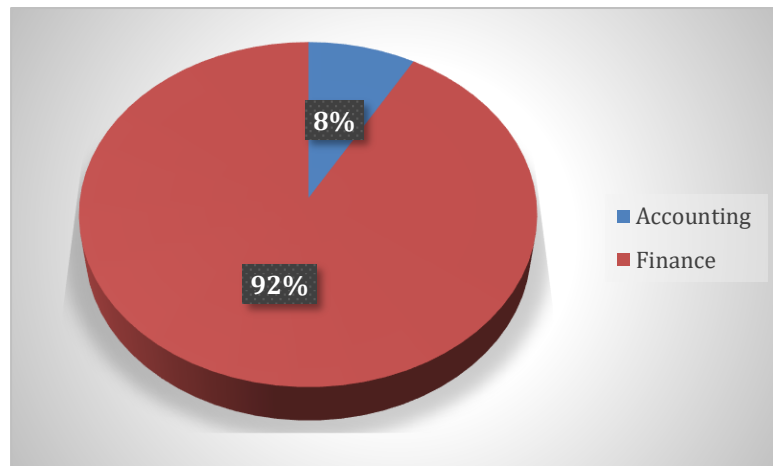


Source: authors analysis

### Data Analysis

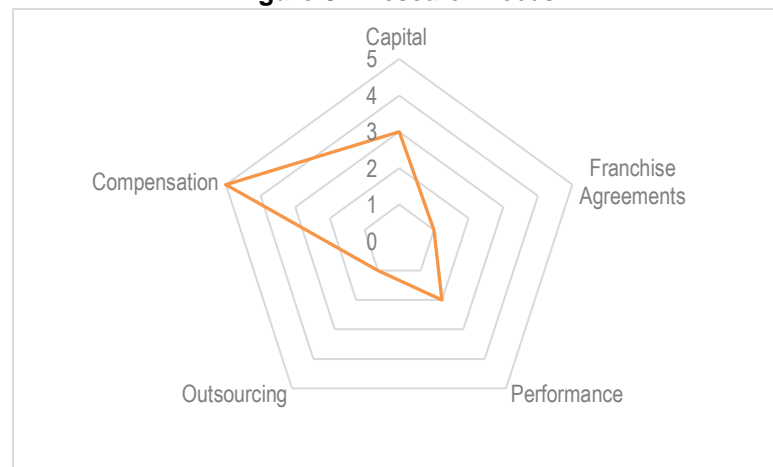
Most of the articles presented in search of Agency Theory interpret in finance and accounting topic within Tourism, Hospitality, and Hotel Industry. With more than 92% focused in financial topics, and another 8% focused on accounting topics (figure 7). Most of articles focusing on compensation, follow by capital, financial performances, franchise agreements, and outsourcing (figure 8). For the methodology and data collection, in most articles is used quantitative approach (Bianchi & Chen, 2015; Combs et al., 2017; Huang et al., 2004; Demirer & Yuan, 2013; Kim & Gu, 2005; Lamminmaki, 2007; Liang et al., 2021a; Lin et al., 2020; Wang et al., 2018). However, it is found that those topics can use qualitative methods (Guilding, 2003; Guilding et al., 2005) and mixed methods (Dimou et al., 2003) as we can see on the figure 9. Most of the articles are using secondary data from COMPUSTAT (Demirer & Yuan, 2013; Kim & Gu, 2005), EXECUCOMP (Bianchi & Chen, 2015), World Bank Database (Lin et al., 2020) other journal, articles, company annual reports, and press releases (Dimou et al., 2003; Wang et al., 2018). Data obtained from primary resources are gathered by holding an interview and discussion (Guilding, 2003; Guilding et al., 2005; Lamminmaki, 2007), questionnaire (Huang et al., 2004) or using both method (Lamminmaki, 2007).

**Figure 7: Main Topic Discussed**



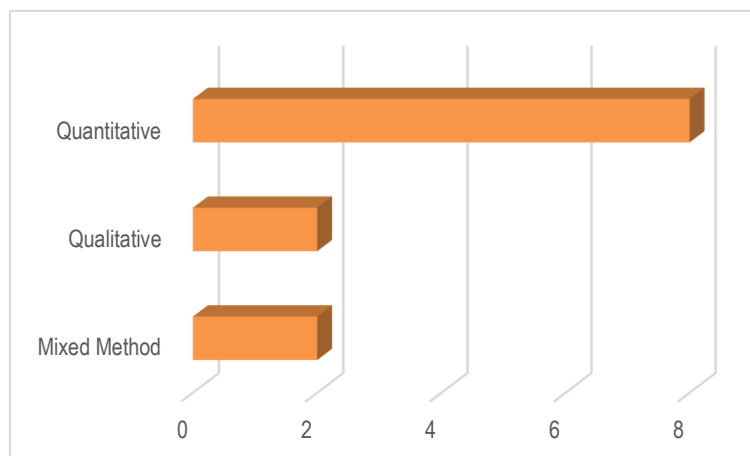
Source: authors analysis

**Figure 8: Research Focus**



Source: authors analysis

**Figure 9: Research Methodology**



Source: authors analysis

## DISCUSSION / ANALYSIS

The results of bibliometric analysis, show trend of Agency Theory in accounting and financial management in Tourism, Hospitality, and Hotel Industry started on 2003 with two articles (Dimou et al., 2003; Guilding, 2003).

The trend is not significantly increasing, it is only one or two researches per years. These data indicate that Agency Theory is infrequently employed to analyze financial and accounting issues in the tourism, hospitality, and hotel industries. However, other agency theory applications in other fields must be sought. According to the data, researches have been published mostly in Tourism, Hospitality, and Hotel related journal (Bianchi & Chen, 2015; Dimou et al., 2003; Guilding et al., 2005; Huang et al., 2004; Demirer & Yuan, 2013; Kim & Gu, 2005; Lamminmaki, 2007; Liang et al., 2021a; Lin et al., 2020; Wang et al., 2018). However, there are two journals published in non-tourism, hospitality, and hotel related. One journal published in Management Accounting research (Guilding, 2003), the other in Academy of Management. This bolsters the evidence that studies on Agency Theory from a financial and accounting perspective in the Tourism, Hospitality, and Hotel Industry are scarce and limited, so that no other articles have published debates on the topic.

Study regarding Agency Theory found most in USA (Bianchi & Chen, 2015; Demirer & Yuan, 2013; Kim & Gu, 2005) and Australia (Guilding, 2003; Guilding et al., 2005; Lamminmaki, 2007). In Taiwan, there are two researches from two different sector of industry, Hotel Industry (Wang et al., 2018) and Travel Agencies Industry (Huang et al., 2004). There are one journal found in UK (Dimou et al., 2003) and China (Liang et al., 2021a). Two Journal taking a wider perspective by analysing International Industry with data from various countries (Combs, James G., Ketchen Jr., 2017; Lin et al., 2020).

Although Hospitality Industry including also restaurant, accommodation, and hotel industry, however this research tries to specify each industry to see how Agency Theory are widely used as reference. Researches regarding Agency Theory most are found in hotel industry (Dimou et al., 2003; Guilding, 2003; Lamminmaki, 2007; Liang et al., 2021a; Wang et al., 2018) followed by restaurant industry (Combs et al., 2017; Demirer & Yuan, 2013; Kim & Gu, 2005; Lin et al., 2020). Accommodation such as serviced apartment (Guilding et al., 2005), and Travel Industry (Huang et al., 2004) are researched also. There is one journal which discussed Hospitality Industry widely (Bianchi & Chen, 2015).

Data showed that Agency Theory within Tourism, Hospitality, and Hotel Industry are mostly used to justify compensation for CEO, executives, manager, and employee (Bianchi & Chen, 2015; Guilding et al., 2005; Huang et al., 2004; Demirer & Yuan, 2013; Kim & Gu, 2005). There are three journals discussed regarding capital structure (Dimou et al., 2003; Guilding, 2003; Lin et al., 2020). Other are discussing decision of franchising (Combs, James G., Ketchen Jr., 2017; Dimou et al., 2003), firm performance (Liang et al., 2021b; Wang et al., 2018). This demonstrates that Agency Theory in the tourism, hospitality, and hotel industries aids in understanding a fair compensation structure, particularly for CEOs, Managers, and Executives of organizations where the owner/principal has the right to determine this. At the employee level, agency theory is increasingly utilized with the strategy of offering additional incentives based on job performance.

As stated in methodology, journals were compiled using keywords finance and Accounting. According data, most of journals are related with financial studies (Bianchi & Chen, 2015; Combs, James G., Ketchen Jr., 2017; Dimou et al., 2003; Guilding, 2003; Huang et al., 2004; Demirer & Yuan, 2013; Kim & Gu, 2005; Lamminmaki, 2007; Liang et al., 2021a; Lin et al., 2020; Wang et al., 2018) with only one article concentrating in accounting (Guilding et al., 2005).

The extensive use of secondary data in Agency Theory-related research provides for a broader reach, including data on multinational corporations with global operations (Combs, et al., 2017; Lin et al., 2020). Quantitative data are analysed using may types of regression analysis. Mostly using multiple regression (Combs, James G., Ketchen Jr., 2017; Dimou et al., 2003; Huang et al., 2004; Demirer & Yuan, 2013; Lamminmaki, 2007; Liang et al., 2021a), other using backward regression method (Kim & Gu, 2005), panel regression method (Wang et al., 2018), quantitative and qualitative OLS regression (Bianchi & Chen, 2015), multinomial logistic regression (Lin et al., 2020).

The indices utilized while discussing Formal and Informal SME Financing are financial infrastructure, tax regulation, and institutional development (Lin et al., 2020). Discussing compensations for CEO and executive, it is found that salaries, bonuses, stocks option are mostly discussed as indicators (Bianchi & Chen, 2015; Demirer & Yuan, 2013; Kim & Gu, 2005). As for employee compensation discussing about proportion of performance-based salary resulted from calculating principal factors (monitoring job difficulty and cost) and agent's capability, skills, and effort (Huang et al., 2004). This shows that in higher management, compensation is related with business value while in lower level, compensation related only with the job to do.

Regarding financial calculations, Return on Asset (ROA) and Return on Equity (ROE) are typically used to determine corporate performance (Bianchi & Chen, 2015) and Tobin's Q (Bianchi & Chen, 2015; Demirer & Yuan, 2013). Studies related about board size and hotel performance in Taiwan are using both ROA dan ROE (Wang et al., 2018). ROA, (ROE), and Return on Sales (ROS) are accounting ratios that indicate how effectively and

efficiently management utilizes the company's assets and equity to increase inventory turnover and sales in order to generate profit (Raza et al., 2012).

Tobin's q is the ratio between the market value and replacement value of an organization's assets (Suaia & Castro Jr, 2002). It has been utilized by manufacturing companies to explain a variety of corporate phenomena. These include (a) cross-sectional differences in investment and diversification decisions, (b) the relationship between managerial equity ownership and firm value, (c) the relationship between managerial performance and tender offer gains, investment opportunities and tender offer responses, and (d) financing, dividend, and compensation policies (Wolfe & Aidar Suaia, 2005).

When we discuss about franchising, the debate will be arouse whether director own resources and experience which can be sold in franchising (Combs, James G., Ketchen Jr., 2017). Using a concept of agency theory, the decision whether a job should be outsourced within Hotel Industry will need a model of calculation so the decision are carefully decide based on reliable data (Lamminmaki, 2007).

## CONCLUSION

Based on the results of the above research, the author can conclude that from the keyword "hotel AND hospitality AND Tourism AND Finance OR Accounting" articles are very limited. This may be due to (a) the tourist, hospitality, and hotel industry sectors using agency theory for research topic other than finance and accounting, or (b) the use of theories other than agency theory in studies on finance and accounting topics. Data mostly using Quantitative research methods with various regression technic to analyse the data. While Qualitative approach are used mostly to develop further research indicators with quantitative approach. In Tourism, Hospitality, and Hotel Industry, Agency Theory within Finance and Accounting topic mostly applied in search of relationship within Compensation and Business Performance using ROA, ROE and Tobin's Q to measure Business Performance. Thus, it is also found that Agency Theory is used in deciding Capital Structure and also Franchising. In general, research utilizing Agency Theory in relation to Finance and Accounting topics within the Tourism, Hospitality, and Hotel Industry has the potential to be expanded either by broadening the topic's scope or by increasing the industrial sector.

Data are limited to 12 journals discussing Agency Theory on Financial and Accounting topic in Tourism, Hospitality, and Hotel Industry, thus, expanding the topic to all application of Agency Theory other than financial and accounting will give more perspectives. Comparing Agency Theory with other theories in Tourism, Hospitality, and the Hotel Industry will provide a critical viewpoint in discussion about compensation dan business performance. Utilizing the VOS viewer program can aid in the development of a more comprehensive Bibliometric Analysis strategy, hence providing additional study directions. Due to the limited number of journals, however, the VOS viewer application cannot be used in this instance. Contributions to future research gained from this study will be, expanding the topic to all applications of Agency Theory other than financial and accounting, comparing Agency Theory with other theories in discussions about compensation and business performance within the Tourism, Hospitality, and Hotel Industry along with the usage of VOS viewer application will provide more extensive research.

## CONFLICT OF INTEREST AND ETHICAL STANDARDS

This research is funded by independent sources, so there are no potential conflicts of interest. Using a public data repository that can be accessed through a published journal, ethical standards will adhere to each publisher's standards.

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