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**DEFINING AN EMERGING TOURISM INDUSTRY SUB-SECTOR:  
WHO ARE THE STRATA TITLED TOURISM ACCOMMODATION  
STAKEHOLDERS?**

**ABSTRACT**

This study represents the first providing a definition of the strata titled tourism accommodation (STTA) sub-sector of the tourism industry. This definition is achieved by identifying the stakeholders that collectively comprise the sub-sector. There is a paucity of prior research concerned with this increasingly significant form of tourism accommodation (Pizam, 2006). This is despite the significance of accommodation to the tourism economy (Cooper et al, 1998) and STTA's rapid growth (Guilding et al, 2005). Stakeholder theory has been drawn upon to explore, identify and classify the key players involved in the Australian STTA sector. The study also provides a commentary on the different STTA roles played by the stakeholders and the nature and extent of their perceived engagement with the tourism industry.

Key words: stakeholder theory, strata titled tourism accommodation, condominiums.

# **DEFINING AN EMERGING TOURISM INDUSTRY SUB-SECTOR: WHO ARE THE STRATA TITLED TOURISM ACCOMMODATION STAKEHOLDERS?**

## **1.0 Introduction**

A strata titled property 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). These schemes operate under the jurisdiction of legislative provisions such as Queensland, Australia’s *Body Corporation and Community Management Act 1997* (Ardill et al, 2004).

As at March 2005, serviced apartments accounted for 21% of the total tourism accommodation room stock in Australia (Jones Lang LaSalle Hotels, 2005). The vast majority of serviced apartments are owned under strata titled schemes. The growth of the serviced apartment sector is such that it has been estimated that serviced apartments will account for around 60% of all new room stock in Australia in the short term (Jones Lang LaSalle Hotels, 2005). The main reason for the growth of the sector lies with the developers, the ‘strata titling’ vehicle presents an opportunity to spread the risk originally assumed by the developer (and banking institution) amongst many investors (usually unsophisticated) and many institutions, who provide the capital for the development to proceed. A combination of this development financing and to a lesser extent, the social indicators discussed in Warnken, Guilding and Cassidy (2008), have driven this growth. When these facts are recognised in combination with the highly idiosyncratic management issues posed by strata titled tourism accommodation (Cassidy and Guilding, 2007; Guilding et al, 2005), the research attention commanded by this sector (particularly compared to the hotel sector) is startlingly meagre. Put bluntly, we know very little about the workings of the fast growing strata titled tourism accommodation (STTA) sector, despite the fact that accommodation is one of the most fundamental elements of the tourism product (Goss-Turner, 1996; Sharpley, 2000), the largest sub-sector of the tourism economy (Cooper et al, 1998) and STTA represents and increasingly prevalent, and in some areas dominant, form of tourism accommodation ownership (National Tourism Investment Strategy Consultative Group, 2006; Jones Lang LaSalle Hotels, 2005).

Warnken et al (2008) suggest several factors that may account for the growth of strata titled tourism accommodation (STTA). Some of these reasons likely have a close resonance to the impetus for second home ownership, including increased levels of personal disposable wealth, greater mobility in pursuing leisure activities and a greater incidence of short holidays (Johns and Lynch, 2007). From a developer’s perspective, the STTA model carries the advantage of the promise of early cash inflows resulting from selling units “off the plan”. Also, by dividing an accommodation complex into separate units of ownership, a developer can make sales to a much broader market of investors than would be the case for a complex that has a single title. Another factor that appears to be supporting STTA growth is an apparent growth in demand for self-catering holiday accommodation facilities. The provision of such facilities is consistent with the STTA model, but somewhat incongruous with the conventional hotel model of tourism accommodation. Huge growth in Internet

usage also appears to be facilitating STTA growth, as estate agents managing STTA unit lettings can use the Internet platform to publish accommodation availability updates for their letting unit pool. This has greatly equalised the tourism accommodation promotion playing field relative to the large hotel chains. Considered in combination, these factors would appear to suggest that STTA's emergence as a distinct form of tourism accommodation is not likely to be a short-lived phenomenon.

It should be noted that the analysis undertaken in this study is conducted from an Australian perspective; however this should not be taken as a suggestion that STTA is a phenomenon peculiar to Australia. Valuable context for this work is provided by Warnken et al's (2008) study that takes an international perspective in its outline of the nature of the new STTA paradigm and its generic commentary on the growth of STTA in the Western World. Underscoring international differences, Warnken et al. comment:

The landscape of multi-title property complexes is extremely diverse and variable. Practically every country, and even region (state, territory or county), has their own rules, regulations, nomenclature and subdivision schemes pertaining to multi-title developments (2008, pp. 574-575).

As an important early step in rectifying this research void, this paper seeks to provide a keystone building block for subsequent STTA focused research through the provision of a scoping analysis of the players involved in the sector. Stakeholder theory has been drawn upon to facilitate this analysis. This STTA sector player identification is augmented by a segmentation of the parties involved into primary and secondary stakeholders. The study also describes the nature of each stakeholder's engagement, and perceived association, with the tourism industry.

The remainder of the paper is structured as follows. The next section overviews the nature of the stakeholder literature. Following this, the STTA stakeholders are identified and classified as exerting a primary or secondary influence in STTA enterprises. This classification is made in the context of a review of each stakeholders' STTA interests and their perceived engagement in the wider tourism industry. The paper concludes with a discussion of managerial implications arising and suggestions for further research

## **2.0 Literature review**

While most of the tourism accommodation literature has focused on hotels (e.g. Chou, Hsu and Chen, 2008; Lee and Park, 2009; Ye, Law and Gu, 2009; and Vermeulen and Seegars, 2009) or lodging (Rivera and Upchurch, 2008), we have also seen growing academic interest in other forms of tourism accommodation such as backpacking/budget (e.g. Nash, Thyne and Davies, 2006; Loker-Murphy and Pearce, 1995) and cruise ships (e.g. Gibson, 2008; Toh, Rivers and Ling, 2005) and self catering accommodation (Bieger, Beritelli, Weinert, 2007; Johns and Lynch, 2007; Nicod, Mungall and Henwood, 2007). This study's focus on STTA signifies a further broadening of the tourism accommodation literature.

Stakeholder concepts can be traced back as far as Barnard (1938) and are evident in the thinking of systems theorists (March and Simon, 1958) and corporate planners (Mason & Mitroff, 1981). The stakeholder theory has been used in a small number of

tourism applications including planning, regional tourism and destination management. Most recent, are the works of D'Angella and Go (2009) who applied stakeholder theory as a framework for performance assessment concerning the capability of a destination management organization (DMO) to gain support for decision making to optimize stakeholder rewards whilst minimizing risk. Ryan (1994) discussed what he called the issues of 'new tourism' (equity, management, power sharing and sustainability). Sautter and Leisen (1999) discuss stakeholder theory and its application as a normative planning model to managing stakeholders in sustainable development efforts. Jamal and Getz drew up some guidelines in 1995 using stakeholder theory for tourism destination whilst Nilsson (2007) uses a case study of Billund (home to Legoland) to discuss the question of how to manage a destination dominated by a flagship attraction.

Since the stakeholder theoretical perspective can be taken on all organizations, it is unsurprising that many organizational researchers have drawn on and applied its concepts. It was not until Freeman (1984) integrated stakeholder concepts into a coherent construct, however, that "stakeholderism" moved more to the forefront of academic attention. Freeman (1984) defined a stakeholder as 'any group or individual who can affect or is affected by the achievement of an organisation's objectives' (p.46).

Freeman (1984) also represented stakeholder theory as a diagrammatic model in which the firm is depicted as the hub of a wheel and stakeholders are identified as spoke ends around the wheel. Phillips (2003) provided an extension to this model by identifying the following specific generic stakeholder groupings as spokes in the wheel: competitors, natural environment, customers, financiers, employees, media, activists, communities and suppliers.

Many other researchers have also drawn upon and extended Freeman's work. Carroll (1989) was one of the first to use the stakeholder approach explicitly as a framework for organizing business and society topics. Brenner and Cochran (1991) and Hill and Jones (1992) offered stakeholder models as alternative approaches to conceiving of the corporate social performance framework (Wood, 1991). These efforts have given rise to a growing realization that the stakeholder model can 'explain and guide the structure and operations of the established corporation' (Donaldson and Preston, 1995, p. 70). Brenner and Cochran (1991), Donaldson and Preston (1995), Hill and Jones (1992), and Jones (1995) have treated the stakeholder construct as the foundation for a theory of the firm and as a framework for considering business and society. Thus stakeholder thinking has matured from being perceived as a framework that can be used to support other theories, to attain the standing of a master theory in its own right. Efforts to create a testable stakeholder theory (e.g., Jones, 1995; Brenner and Cochran, 1991) signify a growing recognition that the theory has the capacity to contribute much in terms of organizational research. It is notable that the term 'stakeholder' has transformed from being used in the context of an appealing description of under-represented corporate constituencies to now being applied in the context of management and a well-elaborated method of organisational decision making (Phillips, 2003).

It could be argued that the traditional stakeholder model with hub and spoke conceptualisation has limited validity. This is because it depicts the relationships as

dyadic and independent of one another. The model is configured largely from the focal entity's vantage point and the defined in terms of actor attributes. A model that overcomes this problem of depicting relationships as dyadic and independent was developed by Rowley (1997). This model, which is based on social network analysis, attempts to examine the characteristics of entire stakeholder structures and their impact on an organisation's behaviour as a network of influences rather than individual stakeholder relationships. Rowley's model also recognises that a firm's stakeholders are likely to have direct relationships with one another.

Substantial effort has been directed towards the development of stakeholder classification schemes. A common factor in these classification schemes is a focus on the influence of each stakeholder group (due to the significance of power as a critical issue in stakeholder theory) and the dyadic ties existing between an organisation and its stakeholders. A classification system that is particularly worthy of note, and that has been drawn upon in this study, is the primary and secondary stakeholder nomenclature advanced by Clarkson (1995). A primary stakeholder is:

One without whose continuing participation the corporation can not survive as a going concern. Primary stakeholder groups typically are comprised of shareholders and investors, employees, customers and suppliers, together with what is defined as the public stakeholder group: the governments and communities that provide infrastructures and markets, whose laws and regulations must be obeyed, and to whom taxes and other obligations may be due. There is a high level of interdependence between the corporation and its primary stakeholder groups (Clarkson, 1995: 106).

Clarkson sees secondary stakeholders as:

Those who influence or affect, or are influenced or affected by, the corporation, but they are not in transactions with the corporation and are not essential for its survival. The media and a wide range of special interest groups are considered ... They have the capacity to mobilize public opinion in favour of or in opposition to, a corporation's performance, as demonstrated in the recall of Tylenol by Johnson & Johnson (favourable) and the Exxon Valdez oil spill (unfavourable)." (1995: 107).

Secondary stakeholder groups are not essential for a corporation's survival. They can, however, cause significant damage and may be opposed to the programs and policies that the corporation has adopted to fulfill its responsibilities or to satisfy the expectations and needs of its primary stakeholder groups. As Freeman comments:

Some groups may have as an objective simply to interfere with the smooth operations of our business. For instance, some corporations must count "terrorist groups" as stakeholders. As unsavoury as it is to admit that such "illegitimate" groups have a stake in our business, from the standpoint of strategic management, it must be done. (1984, p.53)

Widely acknowledged shortcomings of stakeholder theory include lack of practical application to business (Petersen, 2002; Jensen, 2001), businesses having more important decisions to make before considering stakeholders (Snell, 2004), and the balancing of stakeholder benefits as an unworkable objective due to the infinite number of people whose benefits need to be taken into account (Sternberg, 1997). These shortcomings need to be born in mind when interpreting this study's findings.

In the conversion of theory to practical application in tourism and hospitality, the majority of business-related stakeholder literature refers to the firm or corporation as the focal point. It is only the applied research usually from the social science discipline i.e. social network theory and actor/network theory, that does not refer to the firm or corporation and uses the framework to map a network of inter relationships between stakeholders. Hence, Rowley's model (1997) is possibly the most appropriate to assist in establishing and analyzing the relationships that exist from the perspective of these two industries.

### **3.0 Research Method**

This study was initially informed by a series of meetings held with a strata title sector reference group. This reference group comprised mainly of Queensland (a state in Australia) representatives of the STTA sector. It included representatives drawn from the *Queensland Resident Accommodation Managers Association*, the *Unit Owners Association of Queensland*, *Gold Coast City Council*, *Pacific International Hotels*, the office of the *Commissioner of Body Corporate Queensland*, *Queensland Department of Tourism*, *Fair Trading and Wine Industry Development*, *Tourism Queensland*, and the *Western Australia Tourism Commission*. This group met on three occasions and subsequent contact has been on-going on an ad hoc basis by way of email and telephone communication.

This reference group provided key contacts enabling the development of a sample of subjects targeted for exploratory interviews. This initial sampling was supplemented as a result of further contacts secured in the course of conducting interviews. This approach was considered to be the most appropriate, as industry experts were informing the researchers of additional contacts with many years of experience (without these recommendations, the researchers would not otherwise have had access to these participants). The researchers believed that this approach enhanced the research design, overcoming the challenge of limited interviewees (resulting from key contacts provided by the reference group). Thirty four exploratory interviews were conducted, of which eighteen were tape recorded and transcribed (see Table 1).<sup>1</sup>

The interviewees selected were individuals representing a cross-section of interests in STTA operations. These "industry experts" represent well informed STTA stakeholders, a quality that was viewed as qualifying them to act as an interviewee subject in the study. No particular challenges were encountered in terms of generating the sample of interviewees. It appeared that the lack of prior academic investigation of STTA resulted in the interviewees welcoming, and exhibiting considerable goodwill towards, the conduct of the study. A number of informal discussions have also taken place with other parties who have been interested in the subject of the research and keen to relate their experiences, whether as unit owners, resident managers (RMs) or tourists who have stayed in STTA properties.

No closely related research has been found in the literature. This factor underscored the importance of applying a relatively unstructured data collection approach that

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<sup>1</sup> As some meeting venues were not conducive to tape-recording, not all interviews were transcribed, however notes were taken during and after each interview.

enabled the probing of issues at the time that the research team became aware of particular matters of interest. Given the nature of the stakeholder information sought, and the status of academic understanding of the phenomenon under examination prior to the conduct of this study, it appeared that an interactive data collection approach that enabled clarification of ideas and opinions expressed by the interviewees was most appropriate. Accordingly, a reflexive and relatively non-directive (Fontana and Frey, 1994) qualitative data collection technique was employed. This provided scope for the researcher to seek clarification of ideas and opinions expressed by the interviewees. This data collection approach was also employed because of variability in the ways that STTAs can operate and also because of anticipated variability in attitudes towards the relative importance of roles undertaken by the players comprising the STTA stakeholder network.

A range of STTA property issues were discussed with the interviewees. These issues included management rights (see Guilding et al, 2005), unit refurbishment consistency, reservation booking procedures, resident manager involvement in local tourism policy setting, legislation adequacy, and resident manager licensing and training. From the interview data collected, a vivid picture emerged concerning the distinct perspectives of the range of stakeholders involved in STTA. The interviews had a typical duration of one to two hours. They were tape-recorded and took place at the participants' places of work. Confirmation of any ambiguous information and other data was secured by follow up phone calls lodged with the interviewees subsequent to the initial meeting.

#### **Insert Table 1 about here**

Thematic data analysis was undertaken by the same researcher who collected the interview data. This analysis involved attaching meaning and significance to the data, explaining descriptive patterns and looking for relationships and linkages among descriptive dimensions; an approach recommended by Miles and Huberman (1994). While considerable care was taken to approach the data analysis in an objective manner, it should be acknowledged that, like any research based on qualitative data, the researcher's background is bound to introduce some biases in the way that themes in the collected data are determined and interpreted (Mertens 2004).

#### **4.0 Stakeholder networks**

In this section, initially the STTA stakeholders are identified and depicted in a diagrammatic representation of a generic STTA stakeholder network. Following this, the stakeholders are hierarchically classified as primary or secondary STTA stakeholders and the STTA role played by each stakeholder is described. Next, a review of the STTA stakeholders and their perceived engagement with the broader tourism industry is provided.

##### ***4.1 Identifying a generic STTA stakeholder network***

It should be noted that the stage in the life of a STTA complex will have a fundamental impact on what stakeholders are involved. For example, during the physical design and construction phases, developers, architects, building engineers and strata title governance design specialists would be heavily involved in a complex.

Other parties such as letting pool agents will not be involved at this embryonic stage of the STTA complex's life.<sup>2</sup> The STTA stakeholder context that is assumed in this study is the enduring operational phase in a STTA complex's life, i.e., subsequent to the complex developer having sold the units and while the complex is being used, whether partially or predominantly, for tourism accommodation purposes. Abstracting a set of stakeholders at this stage in the life of a STTA complex does not signify the complete negation of a developer's influence, however. Physical design and a building's strata title governance contract established by the developer will have enduring implications that will frequently resonate for the duration of the complex's life (Blandy et al, 2006). Steps taken by a developer can even carry implications beyond a complex's physical life due to the nature of the original planning permission procured.

The view has been taken here that application of the traditional stakeholder model with the hub and spoke representation (Freeman, 1984) to the STTA context would provide limited insight. This is because it somewhat misleadingly depicts stakeholder relationships as dyadic and independent of one another. A model that overcomes this problem was developed by Rowley (1997). This model, which is based on social network analysis, attempts to examine the characteristics of entire stakeholder structures and their impact on the subject entity's behaviour by conceiving of a network of influences, rather than individual stakeholder relationships. Rowley's model explicitly recognises that some of a subject entity's stakeholders are likely to have direct relationships with one another.

Figure 1 represents an application of Rowley's stakeholder networking conception to the Australian STTA context. It depicts the STTA complex as the focal organisation at the centre of a network of stakeholders that are simultaneously involved in their own networks and interlinked to other stakeholders that have an interest and can affect the STTA complex. The positioning of each stakeholder within Figure 1 is significant in depicting a pattern of grouped influences on STTA entities. The lines linking the stakeholders in Figure 1 highlight the more established relationships that exist in a typically configured STTA stakeholder network.

### **Insert Figure 1 about here**

As is evident from this figure, the stakeholders that we see as warranting recognition as STTA stakeholders comprise: unit owners, unit owners' associations, tourists, resident managers, body corporate committees, real estate agents, management rights' brokers, body corporate service providers, competitors, financiers, state government tourist organisations, and developers. We have taken the view that activists and media are not as applicable to organisations comprising this sector as they are to larger organisations represented in the conventional corporate sector.

Several of the stakeholders can be seen to be 'marginal' on the grounds that their involvement levels are minimal. Low involvement levels may be due to the fact that a

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<sup>2</sup> This is not an idiosyncrasy of the STTA context as the temporarily specific nature of stakeholder identification is common to most organisational contexts.

particular stakeholder has a relatively short term or infrequent engagement relative to the length of the strata title complex's life. An example to illustrate is a building engineer required to certify a building prior to its occupation. He clearly can 'affect or be affected by' according to Clarkson's (1995) definition, however this stakeholder has limited engagement over the course of a STTA's operational life. The time taken for the engineer to carry out inspections and report on them is negligible compared to the time quantum that a resident manager is involved at the same complex.

Similarly, service providers to the strata complex can be viewed as having low involvement levels compared to other stakeholders, and consequently be regarded as 'marginal'. The involvement of a telecommunications company when compared to the involvement of a unit owner is minimal. The telecommunications company may send a technician to install a phone system, an activity taking a few hours. Once this task has been conducted, the only involvement / communication is a quarterly account sent to the unit owner. The nature of a unit owner's engagement is best considered from a different dimension. The unit owner has made a significant investment, possibly the biggest investment in their lives. This financial engagement dimension is distinct from the time dimension, but nevertheless is significant in highlighting high involvement.

Other groups worthy of acknowledgement when considering stakeholders that have a marginal STTA involvement, are regulatory bodies, government departments and professional associations. The nature of the involvement of these parties is low, however all complexes must conform to regulations established at local, state and federal legislative levels. On a local level, the developers of strata complexes must conform to planning regulations specified by a local council. The state determines licensing requirements for STTA resident managers and the federal government imposes taxation laws which affect the unit owners who have purchased their property as an investment. Another way of viewing these marginal regulatory stakeholders is to recognise that the nature of their engagement occurs at a whole of industry level of abstraction, not at the individual STTA complex level.

#### ***4.2 Classifying primary and secondary stakeholders***

In an egalitarian world, stakeholder priority would not exist, as all stakeholders would have equal rights. The reality of STTA stakeholder relationships departs greatly from such an egalitarian view, however. Consistent with relativities noted above, an investor owner would have more of an effect on, and be more affected by, a STTA complex than would a swimming pool contractor who might visit a complex every second week to service the pool. The investor will have made a substantial financial investment, whereas for the contractor, the STTA complex might represent little more than just one of many accounts. Similarly, if there were low occupancy at the complex, the investors would be greatly affected by low or even negative returns, whereas the pool cleaner's visitation may be reduced to once a month. The effect is negative for both stakeholders, however the quantum of the effect is very different for the two parties.

A classification of STTA stakeholders into primary and secondary has been pursued by drawing on Clarkson's (1995) model noted earlier. Following Clarkson's view of a primary stakeholder as 'one without whose continuing participation the corporation cannot survive as a going concern' (Clarkson, 1995, p.106), it appears that the

primary STTA stakeholder groups are: unit owners, resident managers (RMs) and tourists who purchase the STTA service.

Relative to Clarkson's (1995) representation of primary stakeholders, a less inclusive perspective has been taken here. In this first investigation of STTA stakeholders, it was felt important that significant discrimination between primary and secondary stakeholders be achieved by focusing on a significant threshold in terms of the degree of influence exerted by the stakeholders. It appears that such a quantum difference exists between the STTA influence of owners, managers and tourists relative to the influence exerted by the other identified STTA stakeholders. It is nigh on impossible to conceive of a STTA complex remaining operational as a provider of tourism accommodation in the absence of owners and tourists. Further, the resident manager is very closely associated with the building. He or she typically owns a unit in the complex and works full time providing a letting pool booking function as well as building caretaking services (see discussion below).

The following parties have been identified as STTA secondary stakeholders: real estate agents, body corporate committees, body corporate service providers, competitors, financiers, state government tourist offices, developers, and management rights brokers. At different stages in the life of a STTA complex, all of these groups have varying degrees of influence on a STTA complex, but their level of influence and engagement falls significantly below that of the three primary stakeholders identified.

In the interests of parsimony and clarity of focus, having identified the STTA stakeholders, the remainder of the paper's focus is restricted to the supply side of the STTA sector. For this reason, the tourists' perspective will not be expounded upon further. To have included this stakeholder group would have detracted from an attempt to develop an appreciation of the key stakeholder networks involved in STTA provision. This underscores the paper's STTA management orientation.

#### ***4.3 The nature of the stakeholders' interests in STTA and the tourism industry***

This section examines the nature of each stakeholder's perspective on STTA provision and also the nature of their perceived involvement in the broader tourism industry. The interests of the primary stakeholders will be initially outlined followed by an overview of the secondary stakeholders' interests.

##### ***Unit Owners***

Most strata titled complexes located in tourist destinations house a mixture of resident owners and short term renters. Unit owners can thus be seen to comprise two distinct sub groups: resident owners and investor owners sub-letting to tourists. The interests of these two groups are sufficiently different to warrant their separate consideration.

A resident owner derives no financial advantage from a STTA complex's letting pool being run effectively. In fact, many resident owners may well desire that a STTA complex has a low occupancy level, particularly as some short-term tourists may exhibit limited consideration for the interests of long-term residents (Guilding et al, 2005). As resident owners are in closer physical contact with a STTA complex than investor owners, the former can be expected to take a greater interest in the aesthetic

appearance of the complex than the latter. The distinct interests of the resident owners relative to the investor owners can result in a power struggle with respect to representation on body corporate committees (Guilding et al, 2005). Resident owners do not see themselves as involved in the tourism industry.

Investor owners are motivated by a quest for maximising the economic return deriving from their real estate investment. This is achieved by maximising the unit's rental revenue, minimising costs associated with maintaining a unit, minimising the cost of servicing any loan raised to finance the investment and seeking the maximum capital gain upon sale of the unit. A short-termist philosophy was found to predominate amongst investor owners. This is manifested by a reluctance to invest in their unit's refurbishment and building's infrastructure. Referring to investor owners, interviewee D commented:

The problem is they buy them, then don't want to spend any money to maintain them. That's the biggest dilemma in our industry, getting them to upgrade their apartments.

There appears to be a widely-held perception that investor owners' propensity to make emotional, rather than rational, investment decisions represents a fundamental shortcoming in the STTA sector. Investor owners received significant criticism from a broad cross-section of other stakeholders interviewed. The following comments made by Interviewee G typify the type of misgivings expressed:

[Developers] are selling a product to Mums and Dads, who to their credit are probably a little naïve and they are probably thinking they are buying a residential product or a very sexy, fantastic part of the tourism industry and how fantastically strongly that's growing and they are going to make a lot of money. But, the reality is that the unit they purchased is a risk they are taking on.

Relative to the other Australian states, Queensland has the most developed strata titled unit owners' association (the Queensland Unit Owners' Association).<sup>3</sup> This factor can be attributed to the relatively high number of STTA complexes located in Queensland. Membership of this association is dominated by investor owners. Despite the existence of this association, investor owners have failed to develop any lobbying influence directed towards tourism planning or policy formulation. This is despite the fact that owners represent a stakeholder grouping with interests closely aligned to those of the tourism industry. It should be recognised that most investor owners are not large corporations and therefore any incentive for them to become involved in the promotion of tourism is bound to be muted.

### ***Resident managers***

STTA complexes need to have a caretaking manager who oversees the maintenance and upkeep of the complex and its associated grounds. Tourism complexes with a

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<sup>3</sup> The only other Australian unit owners association noted is the Owners Corporation Network (OCN), which is based in New South Wales (NSW). This group has a distinctly different profile. It has a much smaller membership than its Queensland counterpart and represents unit owners in large city central business district complexes. Interviewee I advised that the NSW Institute of Strata Title Management is attempting to develop a more broadly based unit owners association. A unit owners association was registered in Western Australia in 1986, however it ceased operations due to a lack of financial support.

significant proportion of units in the short-term letting pool also require a unit letting manager who has a registered limited letting agent's license. In most Australian states, these two functions are consolidated under a single management rights contract. The purchaser of this contract usually secures ownership of a designated resident manager unit that is generally located on the ground floor of high rise STTA complexes. Management rights contracts are generally drawn up by the building's first owner (the developer) on behalf of the body corporate (see Guilding et al, 2005).

A resident manager (RM) can earn a return on his investment in the management rights from three main sources:

- a) from commissions earned through renting units (Cassidy and Guilding, 2007);
- b) from remuneration earned in connection with general building service and maintenance functions performed;
- c) from any capital gain earned upon sale of the management rights.

In light of the first of these three sources of return, management rights sell for more in STTA complexes where a high proportion of units are placed in the letting pool.

Interviewee A provided the following insight into the motivation for purchasing management rights:

A lot of our managers come from New Zealand; seems to be a very popular way of immigrating to Australia. Once you are here, you buy some management rights and instantly have made an investment into a business in Australia. You have income from day one and you have a place to live and something to do. You have fulfilled your requirements for immigration and you get to live on the Gold Coast and have a good lifestyle ... and it doesn't take ... any difficult skills to run a management rights business.

Interviewee H highlighted some of the challenges associated with purchasing management rights:

There's not much in the way of security of tenure for management rights and that's one of the concerns for the people forking the money out. The other one is real estate agents that are continually undermining and competing to take on the rent roll to the developer selling them out. ... Look, its difficult enough for people to borrow the funds anyway and it's a case where you are taking multi-million dollar businesses or fairly solid businesses. So they've got to either have access to the funds or be able to borrow, and if you've only got a 10 year term, there's not a great deal that excites the banks to be able to finance them.

In light of the letting agent's role, the resident manager's interests are closely aligned with the tourism role of a complex. Despite this, the field study observations suggest that the majority of resident managers do not perceive themselves as players within the tourism industry, and both their training and skill sets reflect this. The curriculum covered in the training required to secure a letting agent's license is concerned with basic real estate agency operations and administration competencies, with no attention directed to broader tourism management issues. Their focus does not appear to reach the level of a destination's tourism management strategy, but is limited to the scale of the building that they manage.

### ***Real Estate Agents***

Real estate agents' STTA sector involvement occurs at several levels:

- a) Acting as agent in the sale of units and apartments in STTA complexes.
- b) Acting as agent in the sale of STTA management rights businesses.
- c) In Queensland, developing and delivering training packages to STTA resident managers via on site managers' courses required to gain accreditation (a prerequisite to securing a licence from the Queensland Government Office of Fair Trading to operate a management rights business).
- d) Acting as an industry advisory body on RM issues.
- e) Providing property management services to strata title complexes: holiday, short term and residential letting.

Two conflict of interest dimensions arising in connection with real estate agents' STTA sector involvement are apparent from the interview data collected.

- a) At the training course required to secure a licence to operate in Queensland, all new RMs are encouraged to join the Real Estate Institute. Once a license has been secured, if an RM experiences any problems with a real estate agent, the only professional body that the RM can approach with his grievance is the state Real Estate Institute office. Resistance to supporting the RM's case can be expected as the institute is established to serve and protect the interests of its members (i.e., real estate agents), not resident managers.
- b) Conflict arises between a real estate agent and an RM in connection with the propensity of real estate agents to exaggerate expected rental returns when discussing a unit with a prospective investor. It appears that it is often left to the RM to deal with an investor owner's frustration borne from a failure to earn unrealistically optimistic returns. It unfortunately appears that agents sometimes fail to adequately ensure potential purchasers are adequately briefed in connection with fees associated with unit ownership (e.g., management fee levied for letting, cleaning, maintenance and unit caretaking).

In those Australian states where management rights are relatively under-developed, considerable resistance to their possible development was expressed by estate agents. This resistance appears attributable to a number of factors. Firstly, sale of management rights would take new business away from the real estate agency profession, as specialists from other states would likely be brought in to sell these very lucrative businesses. Secondly, once the management rights are sold, the manager of the complex will assume responsibility for overseeing letting operations. This signifies that RMs would be acquiring the letting agency commissions that used to be earned by real estate agents. Further, acting as an on site manager, the service provided can be expected to be superior to that provided by the current letting agent who is not based on site.

From a real estate agent's perspective, it is irrelevant whether the purchaser of a unit in a STTA complex intends to be a resident or investor owner. This highlights the negligible concern of estate agents for the tourism industry. Other than highlighting the potential rental return possibilities associated with purchasing a unit in a STTA complex, there appears minimal incentive for real estate agents to be concerned with tourism issues.

### ***Body Corporate Committee***

The body corporate committee is closely related to the two primary stakeholders involved in STTA provision: it is elected by the unit owners to represent their interests, and the RM is accountable to the body corporate. Although the body corporate represents owners' interests, it is a distinct stakeholder as it can sue or be sued by an individual owner. As investor owners' interests can conflict with resident owners' interests, a power struggle can arise with respect to which type of owner group holds the balance of power in a body corporate committee.

Most of the work of a body corporate committee member is voluntary, involving input on matters that the Queensland Body Corporate and Community Management Act (BCCM) refer to as 'restricted issues' (Ardill et al, 2004). Under this arrangement there is little incentive for a member of the body corporate committee to take on a more active role. This can detract from the extent to which body corporate committee members expend effort attending to the affairs of a STTA complex, e.g., actively overseeing an RM's performance. This problem has been recognized by s.119 of the BCCM, which allows a body corporate to authorize a body corporate service provider to exercise some or all of the powers of an executive member of the body corporate committee. The minimal incentive for body corporate members to become personally involved in STTA affairs that lie beyond their duties as a body corporate committee member, is also manifested by negligible body corporate management involvement in tourism destination management issues.

### ***Body Corporate Service Providers***

Body corporate and community management has become a sufficiently complex legal and administrative undertaking to have given rise to body corporate specialist service providers. Body corporate service providers are also known as body corporate management companies or strata title management companies. The growth of this specialist field is such that in Australia, state based associations and a national institute (the *National Community Titles Institute*) representing members' interests have evolved. These national and state based representative bodies hold well-attended annual national conventions.

Body corporate service providers have strong relationships with developers and body corporate committees. At the beginning of the life of a STTA complex, they provide consulting advice relating to the development of the complex's community management scheme. Once the STTA complex moves under the control of the individual unit owners, they provide legal and secretarial services (e.g., compiling required documentation for body corporate AGMs, collecting sinking funds and administrative levies from owners), under contract to the body corporate committee. Interviewee E expanded on the cash management role of body corporate service providers in the following manner:

It's purely administrative. We put together a budget, we have the budget passed and then we set the levies, the levy notices are sent out, they in turn pay the levies and at the same time send us a copy of the bills that they have paid on behalf of the Owners Corporation for reimbursement; so you've got that constant cash in, cash out.

Body corporate service providers exhibit no tourism industry engagement. Their agenda appears restricted to the confines of the services they are contracted to

provide, i.e., they see themselves as in the property management industry and not the tourism industry.

### ***Competitors***

Competitors to the STTA sector comprise other providers of tourism accommodation. Hotels are generally viewed as the primary competitors to the STTA sector, as they focus on similar tourism markets. Although hotels have traditionally not provided the type of self catering facilities that are prevalent in STTA, the demarcation line between the two sectors is 'blurring' (Gibson, 2005). Increasingly, traditional hotels are offering more living area and a 'kitchenette' self catering facility. Similarly, some elements of the STTA sector are moving closer to the traditional hotel model offering a range of conventional hotel services. Examples of these services include choice of food and beverage outlets within the complex, daily servicing of rooms and 24 hour attended reception and room service. This 'hybrid' of STTA and traditional hotel accommodation can be found in well known brands of serviced apartments across Australia, such as Medina, Quest and Pacific International Hotels.

Hotel managers move between brands and network extensively within the tourism and hospitality industries. Hotel operators clearly see themselves as key and active players engaged with the tourism industry and this is particularly apparent when they are compared to STTA sector operators.

### ***Financiers***

Australian financial institutions such as banks and credit unions have considerable interest in stimulating STTA complex building activity. This is because financiers have a working relationship with STTA complex developers (as providers of loan capital required to facilitate construction) and unit owners (as providers of mortgage financing).

The interest rate and loan covenants determined by banks when negotiating loans with property developers can determine whether a STTA complex plan can be financed and therefore proceed to the building consent submission stage and also the speed with which a building can be built (due to prescribed "off the plan" selling requirements). Banks can also determine the physical configuration of STTA complexes by seeking dual key planning to facilitate greater flexibility of use (thereby reducing financing risk by broadening the profile of prospective unit owners). Interviewee L commented:

Banks are imposing on the developer the same conditions that they want you to do in a strata apartment block: 25 to 40% presales. Feasibility must have 25 to 30% profit on cost, and the developer must be strong enough to stand behind any potential loss on the development.

Loan covenants vary according to perceived levels of risk, and it appears investing in tourism infrastructure is perceived as relatively high risk. Interviewee L commented:

From a financier's point of view, tourism has always been a dirty word, especially after the financial losses in the 80s. Hotels have still never recovered; the only reason hotels are being built today is because they've been 'strataered'; that's the only reason.

In a similar vein, Interviewee F commented:

The more component of tourism related operation you are going to have, it's always hard on finance.

These comments highlight financiers' lack of alignment with the tourism industry. In fact, there appears to be a widely held view that developments intended solely for tourism purposes are considered of lower value per square metre of floor space than flexible use purpose developments (i.e., a combination of tourism and residential). In light of this, more restrictive loan covenants apply when the potential use of a building is restricted. Interviewee A commented:

90% of our market in Queensland is investment sales and it's all financed so the banks are much more stringent when it comes to investment selling because ... investment sales aren't as solid as owner/occupier sales.

Despite these issues, a particular benefit of acting as the main lender for a new development is the opportunity provided to negotiate a position of privileged access to first purchasers of units. Further, financial institutions also extend loans to the purchasers of management rights, using the resident manager's unit as security.

### ***State government tourist offices***

State government tourist offices have a primary focus on marketing the tourism appeal of their respective states. Operationally, their attention tends to be directed to new products and up-coming campaigns. It was expected that the growth of the STTA sector represents a significant development warranting careful state government tourist office consideration of ramifications arising. The field study observations failed to provide support for this expectation, however. Indicative of this, Interviewee C (located in Victoria) commented:

Strata titling as long as I have been here is not an issue. Management contracts have not been an issue as they have been in Queensland.

Of the state based tourism commissions, the Western Australian Tourism Commission exhibited the greatest awareness of STTA growth issues arising. At the time of interviewing, a Ministerial Taskforce executive had been established by the Western Australian state government to address STTA issues and the implications of combining tourist and permanent residential accommodation on tourist zoned land. This taskforce is endeavouring to integrate the interests of all stakeholders and provide strategic policy to guide future planning and development proposals. A key proposal emanating from this group concerns the zoning of land for tourism only purposes (Ministerial Taskforce, 2006)

### ***Developers***

A developer is the initial owner of a STTA complex and, as a result, is responsible for setting up the first community management scheme, sinking fund and operating fund contribution levels, and contractual arrangements for management rights. As the first owner of a building, the developer collaborates extensively with real estate agents when selling units, retail space (if provided) and management rights. A special working relationship develops between these two parties when managing the sale of units in large, multi-storey condominium complexes. As already noted, financing the construction of large complexes, necessitates the sale of a certain proportion of the units 'off-the-plan', i.e., before they are built. This highlights the early involvement of real estate agents at the pre-construction phase. Gibson (2005) comments:

Through strata titling, developers are able to minimise their risk by selling apartments (usually off the plan) to investors that are willing to accept an expected income return in the vicinity of 4% before construction commences. The units are primarily sold as capital growth investments which offer a lifestyle component (sometimes with guaranteed returns) or where the income is pooled and distributed equally or even leased. (p.6).

Interviewees exhibited a widely-held perception that developers have a tendency to set initial sinking fund contribution fees at unsustainably low levels in order to aid the marketing of units. This marketing effort is also frequently supplemented by developer guarantees of a certain minimum percentage rental return in the first three years of unit ownership. This appears to represent a relatively successful marketing ploy, despite the fact that it actually provides the unit owner with little over the long term. By guaranteeing a rental income for the first few years of ownership, the developer stands to gain all of a potentially inflated sale price resulting from the provision of the guarantee. The new owner will only benefit from the guaranteed income for a small portion of the unit's life, however. This highlights that purchasers are ill-informed if they believe the initially guaranteed rate of return will be maintained over the life of the complex.

Developers with different specialisations were interviewed, some specialising in tourist accommodation, and some focused on a mix of residential and tourism accommodation. For those developers specialising in mixed use buildings, if a project presents a tourism opportunity, then this aspect is viewed as an additional facet, but not a core factor in guiding the building's design or marketing. Some managers in development companies referred to the tourism dimension in buildings as a necessary 'loss leader'. Interviewee L explains:

X (hotel brand) is the most recent example. ... There's an office component and the developer made a fortune out of the commercial. The hotel probably just broke even, but because he got this, this is where he made his money. ... So the hotel is the loss leader in this development.

It appeared that several developers had a significant aversity to pursuing tourism specific developments, due to the low returns provided. Interviewee F commented:

Look it's probably fair to say development of tourism assets is something most risk averse developers will want to keep away from.

These comments appear to underscore developers not seeing themselves as aligned to the tourism industry.

Despite this view, the opportunity to sell management rights appears to represent an acknowledged compensating factor when considering STTA complex development. Interviewee A commented:

[Referring to management rights] ... the last 10 years in Queensland it has been our bread and butter. It's been very lucrative. When I say that – it's been the cream on top of the development cut. ... In Queensland we normally sell management rights prior to the completion of the project, sometimes we have a waiting list. At the commencement of a project, we'll get enquiries almost immediately.

Similarly, Interviewee K said:

Well that's often because the sale of management rights off the plan is like icing on the cake.

### ***Management Rights Brokers***

Management rights brokers are real estate agents that exclusively sell management rights businesses. Their position in the STTA network is fairly obviously most closely connected to their existing and potential clients, i.e., resident managers. Management rights brokers have been an integral part of the Queensland STTA sector for many years. They also operate, albeit less extensively, in New South Wales and have recently started to establish operations in other Australian states and territories.

In a manner paralleling the interests of real estate agents, there appears to be little incentive for management rights brokers to be concerned whether a purchasing resident manager will be a strong performer for the tourism industry. Interview findings yielded little suggestion that management rights brokers see themselves as engaging in any proactive manner with the tourism industry.

## **5.0 Conclusion and discussion**

This study has provided an overview and classification of the stakeholders comprising the STTA sector. It has also commented on relationships between these stakeholders and their levels of engagement with the tourism industry.

The classification scheme adopted for grouping stakeholders is the primary and secondary hierarchical ordering described by Clarkson (1995). This scheme focuses on the relative levels of influence exerted by each stakeholder on a STTA entity. In the dichotomous classification undertaken herein, the factor influencing the selected point of demarcation between primary and secondary STTA stakeholders concerned the identification of a distinct threshold of influence. The resulting classification can be criticized, however, for being insufficiently discriminatory, as it has resulted in a large proportion of the stakeholders grouped within the secondary stakeholder pool.

This raises the notion of seeking a more refined classification by introducing a tertiary stakeholder grouping comprising the 'marginal' stakeholders discussed earlier (in section 4.1 of this paper). It is surprising that the stakeholder literature has not extended Clarkson's (1995) concept of primary and secondary stakeholders to include a consideration of identifying further tiers of influence. No reference to classifying stakeholders according to three degrees of influence has been found in the literature. As this is an exploratory work concerned with a fairly novel empirical context, it was felt inappropriate to attempt such an advance to stakeholder theory. Nevertheless, such an attempt could be helpful in further research. In developing a tertiary STTA stakeholder grouping, the currently advanced secondary stakeholders could be subdivided into two groups according to different levels of STTA enterprise influence. Alternatively, a distinctly different approach could be taken by using a different criterion for identifying "tertiary STTA stakeholders". For instance a tertiary classification could be defined as a stakeholder that has no direct on-going association with any particular STTA complex, but has a relationship with the sector in its entirety or with STTA entities intermittently. Following this line of thought, a STTA tertiary stakeholder classification would include (but not be limited to), regulatory bodies i.e. government at federal (legislation, taxation office) state (legislation, titles,

dispute resolution, tourism), or local levels (planning, rates, infrastructure, tourism). Also, the media, local residents, insurance industry, energy and telecommunications providers could be considered as candidates for a tertiary stakeholder grouping.

The issue of power has been discussed extensively in the stakeholder literature (Freeman, 1984; Mitchell, Agle and Wood, 1997 and Frooman, 1999). Although the relativity of different STTA stakeholders' influence is a theme running through the findings reported above, power of each stakeholder group can also be viewed from the perspective of capacity to influence legislation via a capacity to influence government. One might expect that unit owners would hold the upper hand in this regard, due to their ownership of STTA assets. This does not appear to be the case, however, because owner representative groups do not tend to be well resourced. Unit owners tend not to be well-integrated when it comes to government lobbying and many can be viewed as poorly informed. When compared to the well-resourced and well-organized lobbying power of developers (and to a lesser extent resident managers and body corporate service providers) we quickly recognize that owners tend to be very fractured and compromised with respect to government lobbying power. Guiding (2007: 5) comments:

If there is validity in my view that the lobbying power of unit owners is relatively weak, it follows that their “consumer sovereignty” is undermined by their compromised power to influence strata title policy. This misalignment between consumer sovereignty and power to influence can be viewed as a dysfunctional aspect of strata title legislation formulation, an enduring factor promoting long term atrophy.

The study's identification of STTA stakeholders has highlighted the sector's somewhat fragmented nature. This fragmentation suggests that the sector does not have the capacity to act as a strong ambassador for the tourism industry. It appears that none of the STTA stakeholders is extensively engaged in destination tourism management. An obvious exception to this is the state government tourism offices, however a dislocation between most of these offices and the STTA sector has been noted. This dislocation may result from the fragmented nature of the STTA sector. This fragmentation is not only apparent with respect to the number of parties involved in the STTA sector, it is also evident when we consider the nature of most owners and resident managers. STTA owner and resident manager fragmentation is particularly highlighted when we compare a state's STTA sector with its hotel sector. A state government tourism office would have little difficulty identifying some of the main owners and operators in its hotel sector. Many of the operators are internationally recognized brand chains and hotel owners tend to be large corporations. Identification of the top 15 hotel operators and owners would account for a substantial component of the sector. The tourism office would be very challenged, however, if seeking to identify the state's top 15 STTA sector operators (resident managers) or owners (individuals). In short, the STTA sector is characterised by much smaller owners and operators than the hotel sector.

The small size of STTA owners and resident managers militates against them becoming a strong voice in the tourism industry. The size of many hotel owners and operators (especially the internationally branded chains) signifies that it is economically rational for them to become actively involved in tourism destination management. The dislocation apparent between the strata titled form of tourism

accommodation and the tourism industry (especially when compared to the alignment present between the industry and traditional hotels) outlined in this paper can be seen to augment other STTA growth tourism management concerns (destination management focused) discussed by Warnken et al (2003). Further concerns relating to the STTA sector include the problem of managing the conflicting interests of resident owners and investor owners. Resident owners are frequently residing next door to units that are repeatedly rented out to short term guests on holiday. This can result in strained relations between short-term tourists and long-term residents (Guilding et al, 2005). There is also the body corporate problem of administering for a multitude of owners having a stake over common property. Such an arrangement gives rise to the need to manage sinking fund levy contributions and also disputes that can be expected to arise given the number of owners involved.

We believe that this paper constitutes a significant contribution to the literature in a number of ways:

1. It has shed important light on the STTA sector that has received a level of research attention that is disproportionately low relative to STTA's significance to the tourism industry (compare the research attention directed to STTA management relative to hotel management).
2. It has advanced our appreciation of the nature of the key players involved in the STTA sector. It is difficult to understand the dynamics and the synergies of the sector without first establishing the parties involved.

In light of these contributions, the paper would appear to have the potential to act as a catalyst and serve as a significant reference point in further STTA sector related research. The study can aid researchers in their determination of which stakeholder group represents an appropriate focus of analysis in pursuing further STTA research. For example, if a research quest is concerned with the long term sustainability of different STTA governance models, it would appear appropriate to focus on the satisfaction of unit owners and STTA holiday renters. If seeking to determine issues regarding building management procedures, it would be appropriate to survey resident managers. If focusing on governance in a single complex, it would appear appropriate to consider the workings of the body corporate committee.

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