

SNF-REPORT NO. 80/00

**ADMINISTRATIVE PRINCIPLES FOR NATIONAL
TOURISM ORGANIZATIONS**

**A study of the effects of the budgeting principle, funding
source, and organizational control on the organization's
market orientation, operational freedom, and long-term
planning ability**

by

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SNF- project No. 6470 "Market orientation of National
Tourist Organizations"

The project is financed by The Research Council of Norway

FOUNDATION FOR RESEARCH IN ECONOMICS AND BUSINESS ADMINISTRATION
BERGEN, DECEMBER 2000

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SNF Report No. 80/00

ISBN 82-491-0114-6
ISSN 0803-4036

Preface

As of today, we believe that some NTOs have come a long way towards true market orientation, while others face some challenges in that respect. The majority of prior studies in the marketing and organizational sciences suggests that *market oriented organizations* are able to perform better than others in competitive markets do. The international travel and tourism market is a market with an impressive growth, but is also a market with increasing competition among countries and regions. Thus, efficient and effective use of the NTOs resources is of outermost importance for countries that have ambitions to perform well in the international travel and tourism markets, and at the same time, to be able to reach other important goals of the organization and its overall stakeholders.

We hope the reader will study the thesis with an open mind, and keep in mind that even if an organization is performing well today – as we believe is the case with many NTOs– changes may sometimes be needed to adapt to the business environment of tomorrow. We hope this thesis may provide some guidance if rethinking the role and organizational set-up for NTO ever should be on the agenda in any tourism administrations worldwide.

Personally, I would specifically like to thank Professor Sigurd Villads Troye and Associate Professor Einar Breivik. They have both made an outstanding effort with the project, which in turn has helped this thesis become what it is.

We are also very grateful for the financial support of The Royal Norwegian Ministry of Trade and Industry made available through the Norwegian Research Council and for the support to the following countries: Canada, Denmark and Japan. Without the support of these countries much of the data collection would not have been feasible. We are also grateful to the Norwegian School of Economics and Business Administration for enabling us to work on this project when the funding for this project was exhausted.

Last, I would like to thank Mr. Alain Dupeyras of the OECD Tourism Committee and our project contacts in the participating countries for their assistance in setting up project interviews and recruiting respondents, as well as our international respondents who have taken the time and effort to participate in the project. Needless to say, the project could not have been conducted without their assistance.

Bergen, December 2000

Eivind Farstad

Abstract

The purpose of the thesis is to investigate alternative approaches to create incentives for National Tourism Organizations (NTOs) to become more market oriented, to allow such organizations to adapt a long-term planning perspective, and give the organizations operational freedom to work on the tasks they are supposed to do. We believe these aspects will have an importance for the organizations' market performance and the performance of the tourism industry NTOs promote.

Based on the analyses of a survey completed during the summer of 1999, we have attempted to make policy recommendations that will be usable for both NTOs and National Tourist Authorities/Administrations (NTAs). We are confident that these recommendations will be of interest for the formation of tourism policy in most OECD countries and other countries interested in these issues.

Last, we have included some suggestions for further research on performance-based budgeting, and an overview of how the research material of this thesis will be further developed in the near future.

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1.0 Introduction

The following section explains the contextual background of this thesis, outlines the purpose of the thesis, and the research problem to be studied.

1.1 National Tourism Organizations^{1 2}

Almost every nation in the world has a national organization officially responsible for tourism, often operated as a part of the national government or as a special independent body created by a legislative act. These are often referred to as National Tourism Organizations (or Offices) (NTOs). Generally, these organizations play a leadership role for tourism in their respective countries; drawing together fragmented pieces of the industry and the often loosely coordinated national, regional and local government bodies. According to one source (Choi, 1993) there are about 175 NTOs worldwide, employing between 500-700 branch offices abroad.

Many of these organizations have both international and domestic responsibilities in tourism policy, planning, development, and marketing. Often these activities require substantial budgets, several of them surpassing 100 million Euros in budget size in 1999, and have large staffs. (For instance, the Greek NTO maintains a staff of more than 750 full-time employees.) Despite the great responsibility and considerable budgets of these organizations, they have not been subject to much academic research to date, especially with respect to their international operations. As Choy (1993) has pointed out, very few previous studies have attempted to analyze NTOs. Even fewer, if any at all, have studied the consequences of the different administrative control principles of NTOs.

Paradoxically, at the same time when governments' recognition of tourism's importance to national economies is at an all-time high, many governments are questioning the rationale for their continued involvement in tourism. Particularly is this the case in Europe and North America.

Given the increasing constraints on public sector budgets generally, governments are concerned about how they can continue to justify the use of taxpayers money to support and promote tourism when there has generally been a decline in support for such funding in other industries.

A number of countries are also concerned with the effects of governments assuming a promotion and marketing role – one which in other industries has been seen as a private sector responsibility – may be a misallocation of government funds. Moreover, they

¹ Adapted from Morrison, Braunlich, Kamaruddin and Cai (1995).

² Adapted from "Towards New Forms of Public -Private Sector Partnership – The Changing Role, Structure and Activities of National Tourism Administrations". *World Tourism Organization - Special Report*, January 1996

admit that it can also result in a marketing organization (NTO) that is less responsive and entrepreneurial than it should be.

As a result they are looking more and more to the private sector to take on some of the promotion and marketing functions traditionally assumed by the government, usually in some kind of partnerships with the public sector. Consequently, it is quite possible that a larger portion of NTOs' budgets will be funded by the private sector in the future. This generally results in private enterprise having a greater say in the development of the NTA's³ tourism policy and NTO operational strategies, as well as how the budgets are spent. Therefore, how - and from what source - NTO budgets are contributed or allocated, will probably have influence on the organization's focus, planning time-horizon, and operational freedom, as we will discuss in this thesis.

1.2 Purpose of the thesis

NTO are in many regards similar to other non-profit organizations formed to market or promote an industry, business interest, or cause on behalf of an industry or group of businesses. Some other examples of such entities can be national marketing organizations for the export of seafood (Norway), kiwi or wool products (New Zealand); or domestic industry marketing organizations for meat, poultry, or dairy products (Norway, USA etc).

The main purpose of these organizations is to market the products or services of their respective industries or business groups. Hence, NTOs main purposes are to market their country's travel industry's products and services and facilitate the sale of these to incoming tourists. Obviously, it is beneficial for the industry constituents of the organization that it uses its resources in the most efficient and effective way to promote the industry's overall commercial interests. Considering that NTOs are in fact *marketing organizations*, it is in the interest of the tourism industry that the NTO spends most of its resources to *market the country as a tourist destination* in order to attract international tourists⁴. In that way the industry as a whole can benefit through increased business from incoming tourism. In addition, the local and national *government* has an interest in that NTO resources are spent in an optimal way. Because incoming tourism can generate and maintain population employment, tax revenue, and foreign currency for a country, government benefits from the prosperity of the tourism industry as well. Clearly *society* (community) also has an interest in the actions and achievements of the organization. This is because a well-performing organization will help increase the probability that the industry is profitable, and society in general can harvest the spin-off from that. Last, the international tourism market, as current and potential visitors to the country, has an interest in receiving services provided by the organization as well.

³ (National Tourism Administration, the official government body that deals with tourism)

⁴ Some NTO are also marketing the country's tourism industry to domestic tourists to retain this business within the country. These activities are also beneficial for the country's domestic tourism industry, and can be considered "favorable" from a NTO efficiency and effectiveness standpoint.

Clearly, the typical NTO has a number of stakeholders both within and outside the organization. (Those will be discussed in greater detail in section 3 of this thesis). This makes an optimal set-up and government of such organizations quite a complex problem to solve in order to safeguard the interests of all stakeholders. To illustrate this complexity and point out the issues at hand, it is fruitful to compare NTOs to commercial organizations, such as a company with stockholder ownership.

A commercial organization in a competitive environment will have a market-imposed incentive to spend its resources as efficient and effective as possible, because it may go bankrupt unless it does so. Furthermore, a company will have to face a legitimate claim from its shareholders to perform as well as possible given its market conditions. If not, the shareholders (i.e. owners of the company) may demand new management, or sell off shares and terminate their ownership of the company.

Commercial organizations depend on market performance; that is, the ability to market and sell their products and services, for the survival and prosperity of the company. The first challenge in creation of an administrative system for NTOs is a matter of *market incentives*. NTOs and similar marketing organizations are usually not directly dependent on the market performance of the industry it is commissioned to market. From an administrative set-up point of view⁵, this creates several problems. First of all, NTOs have only limited (financial) incentives to spend NTO resources efficiently and effectively on marketing the industry they represent to tourists. Lacking a market-imposed incentive, NTOs might be tempted to spend resources on other than tourism marketing activities. Examples of such “misuse” can be: domestic government or private sector lobbying activities; special interest favoritism; resource consumption by employees for personal, leisurely activities; or other forms of poor cost control (waste). Furthermore, lacking the commercial link between performance, income, and organizational survival, the (often) resource consuming process of 1) justifying its existence and 2) acquiring funds -- might direct NTOs’ focus and resources away from the tourism marketing activities the NTO is supposed to do. (This will be explained in further detail in Sections 2.1- 2.3.). A parallel can be drawn to some ideal/charity organizations, such as refugee aid or health cause organizations. In some instances, they are criticized for spending most of the funds acquired from contributors on advertisements (i.e. justification and funds-acquiring activities) and administration, rather than spending it on the intended beneficiaries.

The second problem is related to the *source of funding* of such organizations. Compared with commercial organizations again, companies are able to acquire their financial resources from sales of products and services or through equity from shareholders. NTOs on the other hand, usually getting little (or no) money from sales or from shareholders, will have to get financial contributions from either the public or private sector. The lack-of-commercial-income-problem leads us to two other important considerations: First, the parties contributing funds to an organization usually get some form of legitimate influence on the organization and its resource usage. This might tempt the NTO to over-focus on favoring special interests of sponsors within the private and/or government sector. NTOs might spend a disproportional amount of resources on catering to

⁵ (i. e. how to create incentives for, fund (finance), and control an NTO.

contributing sponsors. Such resource usage may not be in the interest of the industry as a whole or society in general.

Second, one will have to face the *free-rider problem* – simply that not enough of the businesses in the industry will want (or be able) to contribute their “share” necessary for generic marketing activities benefiting the whole industry. The businesses in the industry may not be collectively willing or capable to contribute enough funds for the NTO to operate professionally. Consequently, taxpayer money may have to be spent to fully or partially finance the operation of the NTO. Apart from the societal benefits derived from tourism marketing mentioned earlier, public funding introduces *society in general* as a stakeholder in NTO matters, because society has an interest in the optimal usage of public funds.

Last, there is the problem with the control-authority of the organization. In a commercial company shareholders obtain legitimate influence through ownership, control that can be used to elect a Board of Directors and a CEO. The BOD and CEO are engaged to plan and execute corporate actions assumed to be in the interest of the shareholders. The shareholders also have the power to dismiss the BOD and the CEO through their voting influence. An NTO on the other hand, usually has no shareholders, and thus lacks a distinct “ownership” structure of the organization. Still the organization needs a BOD and a CEO, or at least a management structure. Such BODs or management is appointed in order to serve the interests of various stakeholders having neither direct ownership nor stockholder voting power. The BOD and management will usually consist of representatives from either government and/or the public sector. Having executive power, the NTO’s BOD or management will obviously have influence on the actions and focus of the organization. The make-up of this management constellation may have influence on whether the organization’s focus and resource usage is primarily directed at catering to industry or government interest (or both). Too much focus on the special interests either group can lead to a form of resource usage, which is not to the benefit of society in general or the overall tourism market. Thus, we believe that which party (industry, government (or possibly shareholders)) that has the main control over the organization will have an impact on the NTO’s operation and focus.

Following the discussion above, there are at least four kinds of NTO-stakeholders in a given country whose group membership and interests only to some extent overlap

1. The travel and tourism industry⁶
2. Local and national government
3. Society (non- t&t industries, taxpayers, the environment etc.)
4. The international tourism market (i. e. users of the NTO’s tourism services, such as travel advice and information, product information (promotion), product bundling/packaging)

⁶ “Tourism industry” as defined by the World Tourism Organization (WTO) 1999; ref. “Tourism satellite account (TSA) - The conceptual framework”, pp. 6-7.

These stakeholder groups may have overlapping interests, as well as conflicting ones. The administrative set-up problem revolves around safeguarding the interests of all stakeholders, which may seem impossible. A “mutual interest” alternative appears to be the most appropriate, as shown in Figure 1.1.

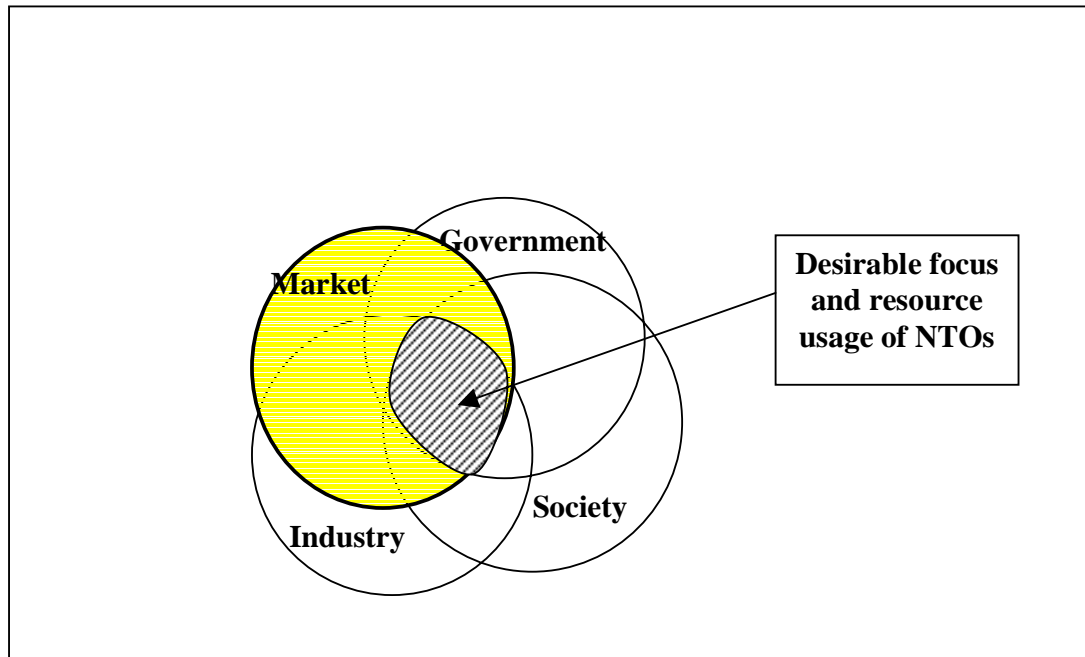


Figure 1.1 A balanced focus for NTOs

Thus, the purpose of this thesis is to determine how NTOs best can be set up and governed in order to serve its *overall* stakeholders’ interests as well as possible. Through a *market focus* of the organization - where the organization spends most of its time, effort and resources working with the market - government, industry and societal interest will also be served, as depicted by the shaded area in Figure 1.1. (See also section 3.1 and 3.2 for a more detailed explanation.)

In the following we outline the research problem and briefly introduce the variables we believe have an impact on the NTOs’ incentives and working conditions. In turn, we believe that optimizing these incentives and working conditions will be important to assure that overall stakeholders’ interests are safeguarded.

1.3 Research problem

Some crucial decisions will have to be made when the industry constituents and/or tourism authorities want to set up or reorganize such an organization:

- One will have to determine *on what grounds* the organization should be allocated its funding. The issue is whether the budgets of the organization should be based on the *performance of certain activities* (i.e. NTO's **behavior**), or whether it should be based on the *performance of the industry* it is promoting (i.e. the indirect **outcome** of NTO's activities).
- One will have to decide whether the organization should be *controlled* by the industry itself, or by the government. A third possible option is to set up the organization as a commercial operation open to both private and public ownership - responsible toward its shareholders only.
- Last, one will have to determine how the operation of the organization should be *funded* - whether it is private (industry) or government funding, or shared funding as a combination of the two.

We propose that these decisions (and the implementation of them) will influence the NTOs focus, its ability to plan and operate on a long-term basis, and its operational freedom to make professionally sound decisions (See Figure 1.2). Consequently, we believe this has an impact on the ability of the organization to solve its marketing tasks efficient and effectively.

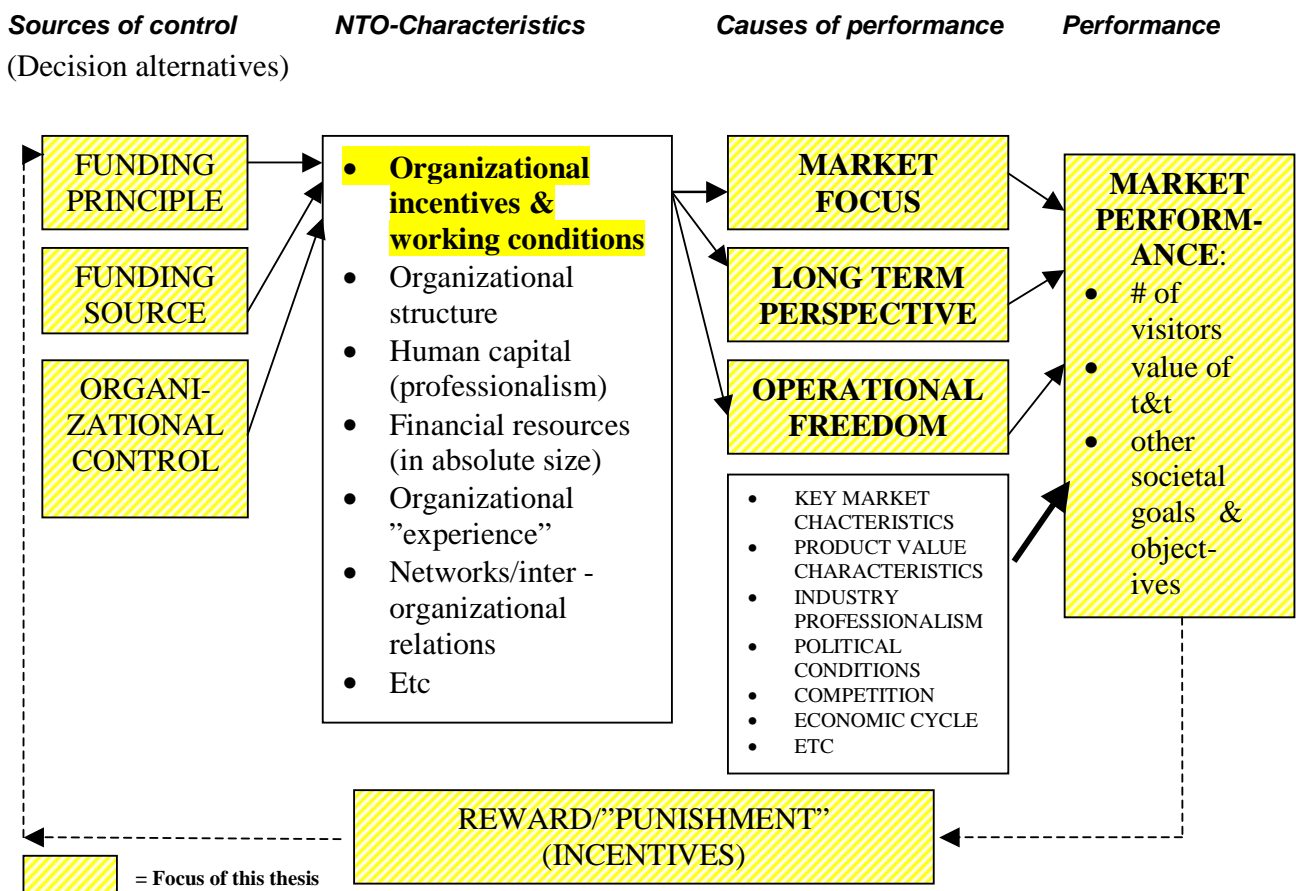


Figure 1.2 Factors that drive market-performance

In turn, the NTO's level and quality of marketing efforts will influence the country's attractiveness to international tourists, which then will have an impact on the performance of the industry (e.g. access to customers, and sales revenue). The performance of the industry will also have importance to the government (demand for public services, tax revenue, foreign currency, trade surplus) and society (employment, economic growth, development of public and private services, infrastructure etc).

The decision alternatives outlined in Figure 1.2 can be formalized in various *principles* for NTO-administration, which in combination will have varying effect on the organization's incentives and working conditions.

Therefore, the research problem of the project, of which this thesis is a part of, is to evaluate how different principles for administrating National Tourism Organizations can affect the market-performance enhancing incentives and working conditions of the NTO.

The principles we assess later in this thesis differ with respect to the following aspects:

- what are the principles for determining the *budget* of the organization, i.e. are the budgets to some extent tied to the NTO's (i.e. industry's) market performance, or based on some other criterion?
- who *owns* the NTO (government vs. private sector)?
- what is the *source* of income (e.g. public vs. private sector)?

The issue we address is to what extent these aspects may influence the NTO's market performance indirectly through their impact on the organization's

- market orientation, i.e. its willingness to take *the market* as a premise for its actions
- operational freedom, i.e. its ability to make decisions based on own judgments
- long term perspective

A more detailed explanation of why we address these specific issues, and why we have chosen this particular research approach, will be provided in section 1.4 below and in Sections 2, 3 and 4 later in this thesis. In this thesis we have chosen to emphasize the importance of a *market focus* of the NTO, because we believe this will safeguard the interests of all stakeholders in the extent it is practically possible. (See also section 3.1 and 3.2 for details.) We admit, however, that market strength may not be the only goal for an NTO, and that market orientation and a strong market performance may in some instances be in conflict with the pursuit of other societal goals such as e.g. sustainable tourism, regional development, etc. However, this thesis takes as a premise that market performance for most NTOs will be a very important criterion for judging the overall performance of the organization.

1.4 The application of theory to address practical issues

As it becomes apparent, we are interested in a few crucial decisions (i.e. with regards to budgeting principle, ownership and funding source), that will have to be made in

connection with the set-up and governance of an NTO. To function properly as a *marketing organization*, we believe that the organization needs to have a *market focus*, it needs to have a *long-term perspective*, and it must have the *operational freedom* to plan and implement professionally sound activities. In order to assess how these decisions should be made, it may be fruitful to investigate whether established theory can provide any recommendations as to how these organizations can be set up and governed. (I.e. whether, and to what extent, the suggested decision alternatives (principles) are expected to lead to the desired consequences or not). These decisions call for a somewhat pragmatic *application of established theory*, rather than the more common approach in academic research, which is applying and *testing theories* (through rigorous falsification procedures).

The set-up of an NTO can be considered as a kind of "intervention" (Calder, Phillips and Tybout, 1981) in which the stakeholders of the NTO apply their "theories" or insight in how organizations work to make decisions. We thus believe that the principles that govern the establishment and operation of an NTO are not arbitrary, but reflect the theories-in-use of the stakeholders, whether these theories are explicit or not, or whether or not they are consistent with scientific theoretical frameworks. The overall research question we will address is whether factors like the ones listed above should be expected to influence the way NTOs are *oriented toward the market*, *the time perspective of its market planning* and *the operational freedom of its decisions*. We will approach this research question in two ways:

First we will analyze the issue by applying a number of alternative, and partly overlapping, theoretical frameworks to examine their relevance and implications for the research question stated above. We will thus ask: From given theoretical perspectives how should we expect the NTOs decision making in terms of its market orientation, time perspective and operational freedom to be affected by how it is funded, by whom it is funded and by whom it is controlled or owned? Do alternative theories suggest that the various aspects of organization control and funding that we stated above will have any bearing whatsoever on the way it operates and approaches its markets? If so - *how* should we expect its behavior be affected by such factors? We will *not* apply the theoretical frameworks by using some kind of falsification procedure (Calder, Tybout and Phillips 1981) to assess their predictive power. We will rather investigate whether theories can be used to derive recommendations as to how an NTO should be set-up to be well functioning as marketing organizations.

Second, we will address the research question above from the stakeholders' perspective, i.e. we will try to describe their "theories" as to how principles for funding and controlling NTO may affect behavior and performance of such organizations. We will then contrast the recommendations derived from the theoretical frameworks with the theories-in-use of our respondents. Are the ways the stakeholders of an NTO think and reason consistent with current theoretical knowledge?

Our approach brings about some challenges: In order to discuss these practical issues in a theoretical context, one will have to discuss some theoretical considerations (e.g. *agent*

and stakeholder risk aversion, programmability of tasks, budget-maximizing behavior etc.) beyond the core, practical issues of this thesis. This is because theory “deserves” to be discussed somewhat comprehensively, and not only conveniently as it relates to practical matters only. On the other hand, there are clearly some practical and political considerations in the NTO context that are not fully discussed in preexisting theory. Furthermore, the issues at hand also call for solutions that are not only theoretically sound, but also practically possible, implementable, and politically acceptable on an international arena as well.

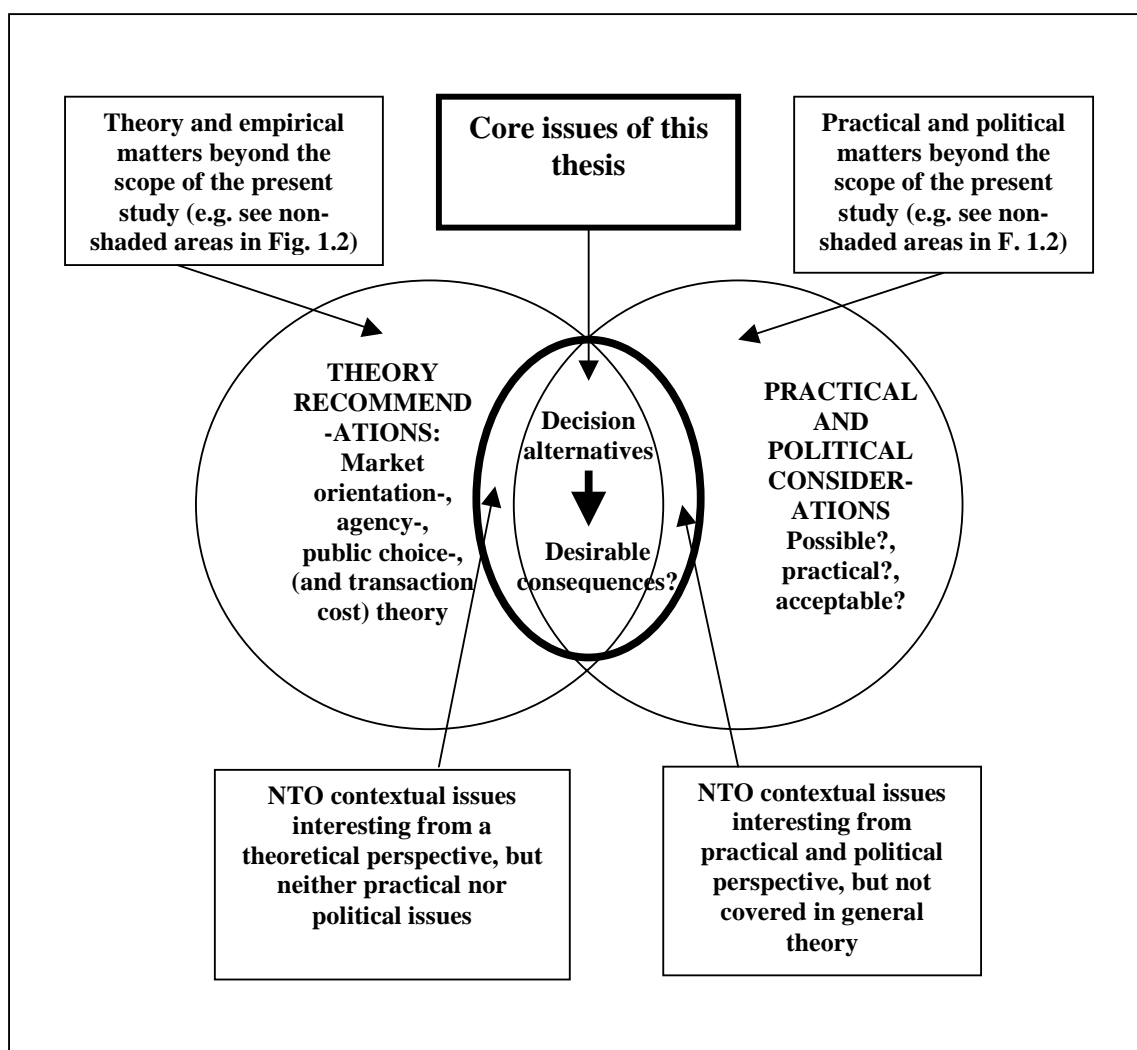


Figure 1.3 Core issues of the thesis as it relates to theory and practical and political considerations in the NTO context

Figure 1.2 above illustrates the approach to the theory discussion and the application of theory in this thesis. As explained, in order to solve the rather practical, administrative

problem of how to set up and govern an NTO, we find it necessary to look into prescriptive theory for recommendations on how this practical problem best can be solved. The theory to be discussed (in Section 2 of this thesis) is in itself richer than the specific practical issues we are interested in. Following the general theory discussion, we will revert to the core issues when the theory is then applied in the NTO-context (in Section 3), and in that process we depart from some of the less relevant theory issues discussed earlier. This “application-of-established-theory approach” will then serve as the basis for the choice of research method and the empirical part of the study; and will eventually support the specification of the practical recommendations we arrive at (in Section 7).

1.5 Overview of the thesis

The thesis is divided into eight sections: Section 2 deals with the general theoretical framework. Three main bodies of theory are discussed in section two: *Market orientation theory*, which deals with the effectiveness and efficiency of organizations in competitive markets; *Agency theory*, which deals with the control of contract relationship between principal and agent; and *Public choice theory*, which deals with design of political organizational control in political institutions. In addition, *Transaction cost theory*, which deals with contract-related costs, is discussed briefly as it relates to Agency theory and the cost of monitoring structures for NTOs.

Section 3 applies the theoretical framework from Section 2 in the particular and quite complex NTO-context. Here we seek to synthesize prescriptive theory of the suitability of administrative principles with what that can be made practically possible and politically acceptable in terms of NTO administration worldwide (i.e. within the OECD-area). The discussion in this section also explains our standpoint in terms of which administrative principles should be chosen and applied - considering the practical and political implications. This section also outlines the general research model for the empirical part of the study, the variables studied and the rationale for the choice of those.

Section 4 outlines the choice of research method, and discusses some problems related to the traditional testing-of-theory-approach in the NTO context. The data collection procedure and data analysis method is also presented in Section 4.

Section 5 and 6 contain the presentation and discussion of the empirical data. Section 5 has two empirical parts. The first part is descriptive, and identifies the administrative principles in use for NTOs today. In the second part, we discuss how both the proposed existing and the not-yet-applied principles for NTO administration were evaluated by expert respondents in our OECD-sample (i.e. measurement of expected effects), and then the conclusions about the suitability of principles that can be drawn from the evaluations (i.e. application of effects).

In section 6 we have specifically and empirically addressed the impact of the NTO’s *source of funding* on the organization’s *focus*. The section contains a discussion in

particular about the funding source's impact on the NTO's *market orientation*, which we find to be the organization's most important parameter for a desirable organizational focus that serves overall stakeholder interests the best.

Section 7 contains a practical simulation including an illustrative specific NTO-case (Canadian Tourism Commission). It illustrates the simulated impact of performance-based budgeting on the NTO's budgets. This is a section applying some of the proposed principles in simulations using actual market performance data to show how these kinds of principles can be applied in actual budget determination for NTOs.

Finally, Section 8 provides an overview of the main findings and our conclusions based on these findings. It also offers some practical recommendations for NTO administration. Last, there are some suggestions for further research on performance-based budgeting, and an overview of how the research material of this thesis will be further developed in the near future.

2.0 Literature review and theoretical framework

The purpose of this section is to provide a theoretical framework for the discussion of the applicability of various alternative administrative principles for the NTOs, as well as to provide a basis for the empirical part of this study. The set-up of an administrative system for an NTO deals with the process of identifying and implementing a system which will give the organization freedom and incentives to work on the tasks its supposed to do, which is a matter of effectiveness. An equally important concern is to assure that scarce resources are not wasted, which is a matter of efficiency. Three bodies of theory appear to be particularly applicable for the NTO context – *market orientation theory*, *agency theory* and *public choice theory* – which will be discussed in this section.

2.1 Market orientation theory

Several studies provide evidence of the positive effect of market orientation on the market performance of organizations (A partial summary of prior research on the effects of market orientation is included in Appendix 2). Market orientation theory (as a theory of the firm, and a part of marketing theory) has a more microeconomic perspective compared to the elements of organizational theory we will discuss later. There are two main contributions from the 1990s to the definition of the market orientation concept: Kohli and Jaworski (1990) and Narver and Slater (1990)⁷.

2.1.1 Market orientation as conceptualized by Kohli and Jaworski

Kohli and Jaworski developed the following definition of market orientation:

“Market orientation is the organizationwide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organizationwide responsiveness to it”. (Kohli and Jaworski, 1990)

The first dimension of market orientation is *information generation*, which can be obtained through systematic gathering of unbiased and rich information from multiple sources. Market information is the essence of the organization’s marketing activities. “Without such information the organization will not be able to adapt its strategy and behavior to the various stakeholders in the market. Consequently, information should capture the current situation and the future anticipated situation of (current and potential) customers”. (Sandvik, 1998)⁸.

⁷ A number of other researchers have also contributed to the market orientation literature, but we will in this thesis generally limit the discussion to the contributions of Kohli and Jaworski (1990) and Narver and Slater (1990).

⁸ (We also subscribe to Sandvik’s (1998) construct of Market Orientation Domainwidth (e.g. information generation regarding *new* markets and *new* competitors)).

The second dimension of market orientation is *intelligence dissemination*. Kohli and Jaworski argue that

“...it is clear that responding efficiently to a market need requires the participation of virtually all departments in the organization – R & D to design and develop a new product, manufacturing to gear up and produce it, purchasing to develop vendors for new parts and materials, finance to fund activities, and so on”. Kohli and Jaworski (1990)

Before we go on to discuss *intelligence dissemination*, a contextual comment is in order: A problem with the market orientation literature in general is that it assumes that the unit of analysis, the organization or firm, both produces, owns, and markets its own products or services. Often the organization is assumed to have and control all functional departments e.g. as is common in a manufacturing company. Usually, NTOs neither produce nor own the products and services they market. Of course, NTOs seldom (or never) have manufacturing departments, R& D laboratories, or departments for purchasing of parts etc either. The NTOs have in fact only the direct control of the Promotion-parameter out of the four P's (Promotion, Product, Price and Place/distribution) commonly referred to in marketing literature. However, the NTO can influence the application of the other parameters through advice to the industry, which controls these other parameters. Therefore, for NTOs, which are not themselves in direct control of the tourism industry's products and services, *intelligence dissemination* then deals with passing the gathered information on to the producing tourism industry as a part of the organization's advisory role. (We will discuss the NTO's activities and roles in detail later, in Section 3.1.)

Since NTOs are international *marketing* organizations, and are closer to the international market than most of their national industry constituents, NTOs should gather international market information and disseminate it both internally in the organization and externally to the industry. It is important that the information about the target market's needs and preferences is passed along to the tourism industry, because the industry is the entity that has the physical control of the tourism products and services. In that way the industry can use this information as an input to new product and service development. (E.g. so that investment in new travel and tourism capacity (supply) is based on the actual needs and preferences of the market (demand)). This is also the case in the process of modifying or repositioning of existing travel and tourism products and services. Systematic *market research* (information generation) is needed to uncover these needs and preferences. *Communication* (information dissemination) is necessary to make the market information available to the industry, so it can adapt its tourism products and services to the customers' current and future needs and preferences.

This leads this discussion into the third dimension of market orientation, namely *responsiveness*: “...which is the action and behavior taken in response to generated and disseminated market intelligence.” (Sandvik, 1998) More specifically, this entails the use of market information when:

..selecting target markets, designing and offering products/services that cater to the customer's current and anticipated needs, and producing, distributing, and promoting the products in a way that elicits favorable end-customer response. Virtually all departments – not just marketing – participate in responding to market trends in a market-oriented company. (Kohli and Jaworski, 1990)

According to Kohli and Jaworski “...virtually all of the organization's activities, including planning and strategy development, should take market information into account in advance.” Thus, an NTO should base strategic actions (such as selecting target markets, developing its country's destination image, providing advice to the industry with regards to capacity increases/decreases and on product and services development etc.) on market information. Likewise, use of market information is crucial when coordinating destination promotions (e.g. securing message consistency across target markets, choosing differentiating strategy, and selecting media channel and media magnitude appropriate for each target market).

2.1.2 Market orientation as conceptualized by Narver and Slater

Narver and Slater (1990) provide the second main contribution to the market orientation concept. They focus on the ability to create superior business performance through SCA [Sustainable Competitive Advantage]:

“...a market oriented business continuously examines these alternative sources of SCA to see how it can be most efficient in creating sustainable competitive superior value for its present and future target buyers” (Narver and Slater, 1990)

Narver and Slater's (1990) definition of market orientation entails five dimensions. (We will discuss only three of them here as they pertain to NTOs.⁹) The first relevant dimension is *customer orientation*, which is argued to be “sufficient understanding of the firms target buyers to create superior value for them continuously – not only today but also as it will change over time”. In order to understand the customer, the organization needs a constant acquisition of information about the buyer. This notion is really the core of the marketing concept, according to Houston (1986) (Sandvik, 1998).

The term “superior customer value” in Naver and Slater's (1990) first dimension of market orientation is interconnected with the second dimension, *competitor orientation*. In order to create “superior value”, this “value” must be superior *relative* to some “other value”. Assuming a situation other than perpetual monopoly - and that the customers will choose the product and service best suited to their needs and preferences, this “other value” is the value of the products and services offered by competitors in the target market. This competition may consist of other NTOs promoting products/services of

⁹ The two other dimensions not discussed here are *Interfunctional coordination* and *Profitability*, which are both somewhat less relevant in this particular discussion (i.e. the NTO context).

other countries, foreign private tourism businesses, or any substitute tourism products and services available in the international tourism market.

According to Narver and Slater (1990) "...competitor orientation is the seller's understanding of the strengths and weaknesses of both the current and the potential key competitors". Furthermore, they argue that "...the analysis of principal and potential competitors must include the entire set of technologies [or resources; - man made¹⁰ or natural] capable of satisfying the expected needs of the sellers' target buyers". This analysis should include both close and more remote competitors. However, Narver and Slater clearly emphasize that it is necessary for a market-oriented organization to balance the market- and competitor orientation, and avoid selective attention on either dimension. This is also consistent with Day and Wensley (1988) (Sandvik, 1998).

Finally, Narver and Slater include *long-term perspective* as related to market orientation. To overcome the problem that market activities can be costly, a market-oriented firm should consider the impact of market activities on profitability [or market performance - in the NTO-context] in the long run as well as in the short run.

"For long-term survival in the presence of competition, a business cannot avoid a long-run perspective. To prevent its competitors from overcoming whatever buyer-value superiority it has created, a business must constantly discover and implement additional value to its customers, which necessitates a range of appropriate tactics and investments." (Narver and Slater, 1990)

According to Sandvik (1998), Narver and Slater have in recent studies treated long-term focus as a *consequence* of market orientation, rather than a part of the market orientation concept. One can argue that the opposite is the case as well, that a long-term focus is a *prerequisite* for market orientation. We will not get into a further discussion on that issue here. We chose to treat long-term focus as separate (although important) factor¹¹.

2.1.3 Market orientation in the NTO context

Most of the previous research of the effects of market orientation has been conducted on commercial organizations. Although important knowledge can be gained from the study of profit organizations, the results of these studies may not be generalizable to NTOs.

One reason why findings with respect to market orientation may not be valid for NTOs is that whereas most commercial organizations have one market arena, NTOs have several, as illustrated in Figure 2.1. Unlike commercial organizations, NTOs are not dependent on

¹⁰ This also includes any current or potential travel and tourism infrastructure (such as transport vehicles and facilities; roads, railways, airports, seaports, tourist tracks; accommodation facilities; food and beverage service; and other man developed natural based resources (ski lifts, scenic roads, beach facilities, camping grounds etc))

¹¹ *Long-term focus* is treated as a separate variable because of the following: In our research model the factors thought to influence the construct are exogenously given by stakeholders external to the organization (e.g. budgeting principle, funding source etc), and not solely a matter of NTO management discretion, as is more common in a commercial context.

the direct income from the tourism market as shown in Table 2.1 below. One can therefore not take for granted that the market will be the most important focal point for an NTO, since other arenas may be more important for its survival and growth.

Market orientation of NTOs is apt to be a long-lasting, continuous process. True NTO market orientation requires investment of considerable resources, planning, and industry coordination efforts. When an organization, like an NTO, is not made dependent on the market for revenue, it has few real incentives to spend (invest) its resources on activities directed at the market.

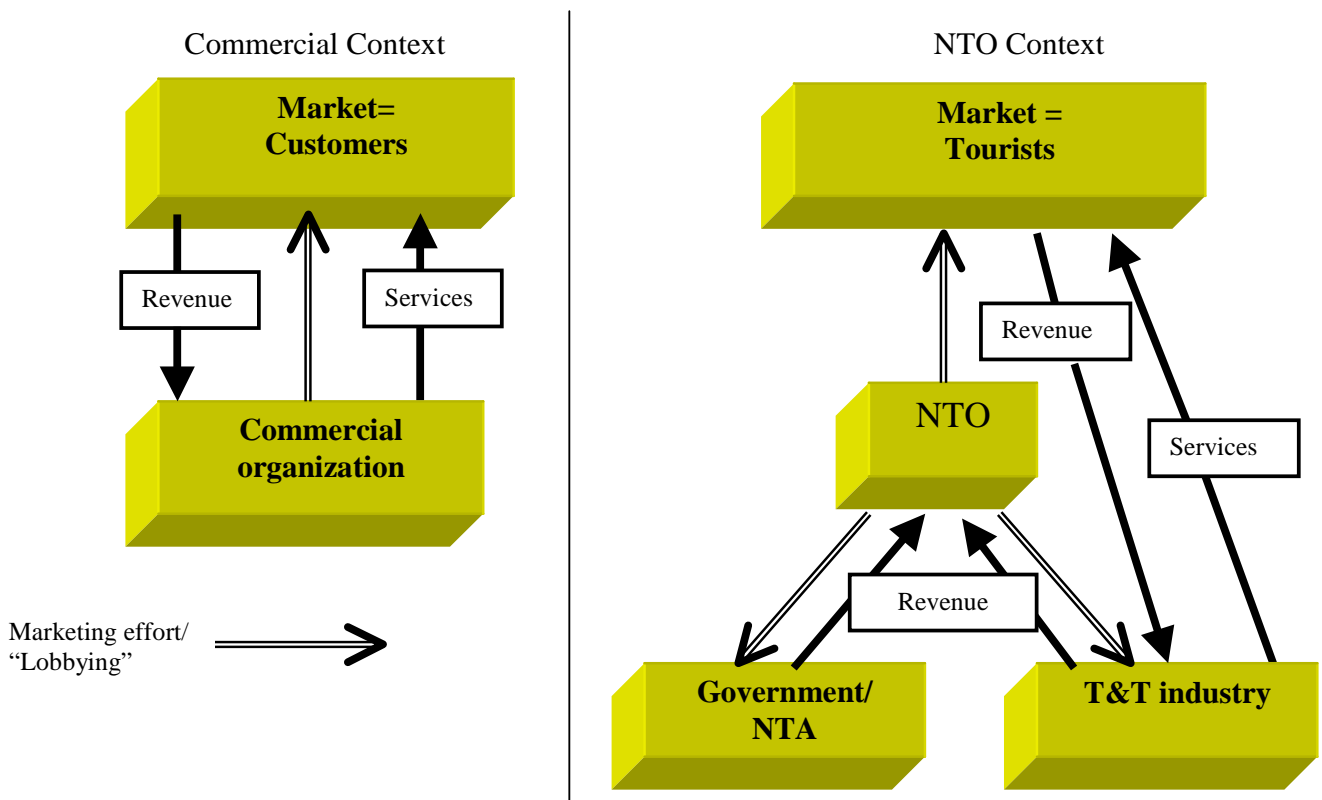


Figure 2.1 A comparison of NTOs and commercial organizations

It stands to reason that the more a rational organization is dependent on a given source of revenue, the more attention will be devoted to the source. Its organizational focus and its orientation toward its market should thus reflect the degree to which the NTO is dependent on e.g. the government for its economic resources. This is illustrated in Figure 2.2 below.

The double arrows in the figure illustrate that the relationships between source of revenue on one hand, and organizational focus and market orientation on the other, may be two-way. A NTO that deliberately pays attention to a given stakeholder may also as a

consequence receive more resources from the same stakeholder. On the other hand, a given stakeholder that provides an important part of the NTO's resources will also *require* more attention and influence on the organization. Later, in Section 6, we will also provide some empirical support for this notion.

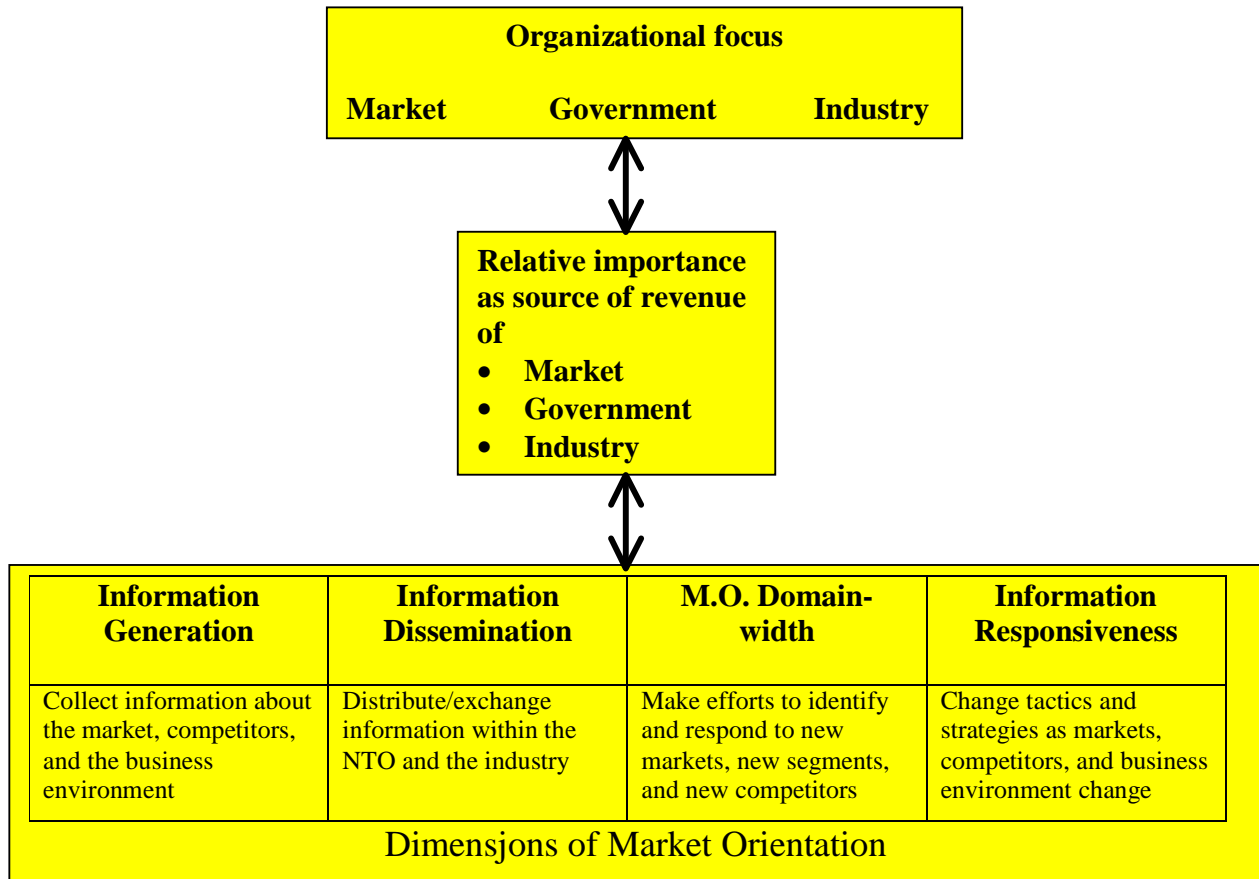


Figure 2.2 The relationship between organizational focus and market orientation and the importance of different sources of revenue

In Figure 2.2, *organizational focus* and *market orientation* are treated as separate factors. This illustrates that although *organizational focus* and *market orientation* probably are related; a focus on e.g. government or industry does not preclude a strong market orientation. It is not impossible that e.g. government or industry *requires* a strong market orientation of the NTO as a condition for financial support.

2.1.4 Conclusions from Market Orientation theory

Market orientation research generally suggests that organizations should assign more resources to conduct market oriented activities and adapt the organization to facilitate market orientation. This will lead to better performance for the organization, and thus should, be adapted (Sandvik, 1998). Narver and Slater (1990) also emphasize the

importance of a long-term focus as related to market orientation, and therefore beneficial for the organization's performance. The majority of empirical studies conducted on the effects of market orientation support the notion that market orientation has positive effect on organizational performance.

Unlike commercial companies NTOs have no direct (financial) incentive to invest resources in market oriented activities, because it is not directly dependent on market performance for survival and prosperity of the organization. From an administrative perspective, it may be necessary to introduce an incentive for market orientation by making the organization somewhat dependent on the industry's market performance. This may encourage the NTO to reduce its focus on the sponsors of the organization, and turn its main attention towards the market. It may also encourage the NTO to try to influence the industry to become more market oriented, and induce the NTO to provide the industry with market-oriented advice on the application of the four P's of marketing. The NTO would then benefit from a market-oriented industry as well, because the NTO would be dependent on the industry's market-performance. All of these aspects call for the use of outcome (or performance) -based budgeting principles (i.e. budget resource-rewards based on market performance), as shown in Table 2.1.

Table 2.1 Conclusions from application of Market Orientation theory

Theory	Consideration	Present in the NTO context	Attractive to use behavior-based control	Attractive to use outcome-based control	Prediction of admin. control principles in use	Comments/ references to theory area
Market Orientation	Incentive for market orientation	NO	NO	YES	Outcome-based	NTO Market Orientation is thought to be beneficial for both NTO and industry performance
	Incentive for positively influencing the market orientation of the industry	NO	NO	YES	Outcome-based	Industry Market Orientation is thought to be beneficial for both NTO and industry performance
	Incentive for sponsor orientation	YES	NO	YES	Outcome-based	Sponsor Orientation (over-emphasis) is thought not to be beneficial for neither NTO nor industry performance

As shown in the table, a behavior based budgeting principle (e.g. allocation of a fixed budget sum each year) may not in isolation provide the desired incentive for market orientation of the NTO.

2.2 Organizational theory

For the sake of this theory discussion, we will now leave the more microeconomic perspective of market orientation theory, and attempt to add some inter-organizational

perspectives derived from parts of organizational theory. The parts of organizational theory we will discuss, namely *agency theory* and *public choice theory*, deals with the control of organizations. Two bodies of agency theory will be discussed here as it relates to the NTO context. Those are *common agency* and “*traditional*” *agency theory*.

2.2.1 Common agency

A special form of agency is analyzed in this thesis, namely *common agency*, which is the case when one agent relates to several principals, or what Meyer (1979) denoted as a situation when public officials [or organizations] serve dual masters. NTOs responsible for international marketing on behalf of a country’s tourism industry can be classified as an agent subject to multiple stakeholders¹². Stakeholders in the NTO context range from national to local level government, public and private national and local trade organizations, and public and private businesses within or with interests in the tourism industry. This is a different situation other than (often) assumed in traditional agency theory (e.g. Conlon and Parks, 1988; Anderson, 1985; Eccles, 1985; Eisenhart, 1985, 1988, 1989; Kosnik, 1987), where the typical unit of analysis is the (hierarchical) relationship between one principal and one or more agents, and where the relationship is formalized in some sort of contract between the parties.

In the NTO context, the inter-organizational relationship between several stakeholders (who may consist of both sponsors and non-paying beneficiaries/clients/constituents) and a national generic marketing organization, can be considered a common agency. NTOs can be organized as a public agency/bureau, a private (industry led) organization, or some combination or hybrid of the two. Not all relationships between the organization and its various stakeholders are governed by formalized contracts, not all stakeholders compensate the organization directly for the benefit of its services, and not all of the stakeholders are readily identifiable. Neither are stakeholders not necessarily *above* the agent in a hierarchical position typically assumed in traditional agency theory. Thus, these stakeholder-agent relationships can be quite blurred. This makes comparison with the typical common agency situation somewhat difficult.

Furthermore, the agent (NTO) may not know exactly who the ruling coalition of stakeholders is, its preferences or resources, or the “true” price of the NTO’s operation and existence (cf. Jensen and Meckling, 1976). In addition, there might even be conflict of interests *among stakeholders*. (These agent –stakeholder relationships will be discussed this in more detail later.) This can be make both the NTO and its stakeholders question whom the NTO should relate to in terms of authority, what this “authority” really wants, and how much resources the NTO really needs. All of these particular NTO-related circumstances make the situation far more complicated than in single contract relationships between one agent and one principal as assumed in traditional agency theory.

¹² In this context we have chosen to use the term *stakeholders* instead of *principals*, since not all parties with interest in the organization actually compensate the organization for its services, and thus are not *principals* in the exact meaning of the term as used in traditional principal-agent theory. (See Figure 3.1 for a stakeholder-overview).

2.2.2 “Traditional” agency theory

Despite these challenges, agency theory has traits that can be applicable, at least to some extent, in the NTO context. *Agency theory* (ref. Baiman 1982, 1990; Eisenhart 1985, 1988, 1989; Levinthal, 1988; Moore 1981; Scapens 1985, for reviews) is about organizational control under uncertainty in general, and deals with the efficient organization of information and risk bearing cost in contract relationship between the agent and principal. Common problems addressed in agency theory, is the existence of asymmetric information, adverse selection and opportunism. *Asymmetric information* is the situation where some actors in the transaction process have access to more information than others. *Opportunism* may be defined as self-interested behavior unconstrained by morality (Milgrom and Roberts, 1992). Agency theory directs attention to the possibility that some agents could behave opportunistically and utilize asymmetric information, but not that every agent will do so.

Even though not all relationships between the stakeholders and the NTO are formally controlled by explicit contracts, (at least some of) the stakeholders have licensed activities to the organization in return for funds allocated/contributed to finance these activities and the operation of the organization. These contributions may exist in the form of direct contributions, or indirectly through public funds (i.e. “public goods”). The agreement, that the organization will perform marketing activities in return for budget allocations/contributions from the stakeholders, can then be considered an *agency relationship*, regardless of whether this agreement is formally stated or implicitly made. Formally, an *agency relationship* is defined as a contract under which one or more persons/entities (the principal(s), engage another person/entity (the agent), to perform some service on their behalf, which involves leaving some decision-making authority to the agent (Jensen and Meckling, 1976). These agency relationships between the principals (stakeholders) and agent may be applicable both for-profit organizations, and for government, and non-for-profit organizations, since important decision agents do not necessarily bear a close share of the outcome of their decisions (Farma and Jensen, 1983).

Agency theory can therefore be helpful to understand how the relationships between the NTO and its stakeholders best can be governed, because these “contract” relationships are subject to the same problems as outlined in agency theory: 1) goal conflict between stakeholders and agent, 2) the difficulty and expenses of the stakeholders associated with monitoring the activities of the agent, and 3) the problem with risk sharing and differences in attitudes toward risk (e.g. compensation, regulation, leadership, impression management etc.) as outlined by Eisenhart (1989). In addition, *transaction cost theory* (Williamson 1985, *et al*) can be applied to identify some of the costs related to the different alternative administrative systems set up to govern these relationships.

2.2.2.1 Goal conflict

Most organizations exist for a purpose - and inherently have some goals for their existence. In general terms these goals are mainly of two kinds: *external* and internal. *External* goals reflect the needs and interest of the organization’s external constituency and are tied to the achievements of the organization that result from interaction with its

business environment. Such goals may be in terms of profitability, welfare of the various stakeholders, or the promotion or advocacy of some cause or interest of groups of people or organizations. External goals are often explicitly expressed in mission statements of organizations.

The *internal* goals on their side may be quite different from the external goals, and sometimes even be in *conflict* with the latter. Internal goals may e.g. be to ascertain the survival, prosperity and growth of the organization; to ascertain job security (and career paths) of employees; to secure the welfare of the employees (including management) or even to take advantage of resource slack for consumption in leisurely activities (shirking). In agency theory, these goals are included in the term *self-interest* of the agent.

A problem arises when these internal and external goals are not aligned, i.e. that there is an implicit incentive for the agent to maximize self-interest at the expense of the stakeholders' interests. Given the problem of self-interest of the agent and differences in goals, the stakeholders are faced with a monitoring problem if the stakeholders cannot determine if the agent has behaved according to the interest of the stakeholders. In other words, the problem is that the stakeholders do not know the activities, efforts, output or slack in the agent organization.

2.2.2.2 Unobservable behavior

Organizations responsible for international generic tourism marketing face a complex marketing task. The organization will have to identify, gain consensus on internally, and get endorsement from stakeholders with regards to a few common, communicable tourism product characteristics. This can be difficult considering the many heterogeneous tourism products/services made available from a number of domestic suppliers. Furthermore, these product characteristics will ideally have to be made somehow differentiable in relation to competitors' products. Multi-market international marketing is a demanding task because of the distance (both geographically and culturally) between the businesses in the industry, the NTO, and the customers. It may not be readily identifiable what the customers' preferred bundles of product characteristics are - preferences that may be different from one key market to the other. Nor may it be obvious what the best marketing-mix application strategy would be in order to attract the customers from the various heterogeneous markets. In addition, the NTOs do not have the direct control of the products themselves nor the sales closure process related to the exchange of these products, which increases the uncertainty of the NTO's market performance outcome. Therefore, it may not be trivial for the various stakeholders to determine what exact organizational actions that would be the most effective to generate increase in the demand for the various types of tourism products/services in question. The marketing task can be so complex that it is not easily assessable for the stakeholders what would be the best courses of action, especially when the agent has more special competence than the stakeholders related to this particular marketing task. It can then be hard for the stakeholders to detect whether the agent puts forth the assumed/agreed upon

effort or not. This control problem is referred to as *moral hazard* in agency theory (Eisenhart 1989, p.61).

Considering this task complexity, it can also be difficult for the stakeholders to judge the competency of the NTO and its human resources, and thus whether any alternative marketing channels would be more effective. In the NTO context, the stakeholders have licensed marketing and other operational activities to the organization (agent), which is itself in a superior position to evaluate the activities delegated to it. This situation can cause *adverse selection* of the marketing agent (ref. Eisenhart 1989, p.61) in favor of alternative marketing activities or organizations, or the industry stakeholders' own marketing efforts. In a situation, where the behavior of the agent is uncertain (i.e. unobservable), an outcome-based contract attractive to the stakeholders. It will make the agent more likely to behave in the interest of the stakeholders (i.e. limit its expenses), since rewards for all parties depend on the same outcomes.

Ouchi (1979) asserted that the principal monitors behavior if outcome is uncertain, or monitors output if behavior is uncertain. Viewed from a simple (positivist) model standpoint (e.g. Jensen and Meckling 1976), in an agency relationship under uncertainty and asymmetric information, it could be rational both for the stakeholders to monitor the agent, and for the agent to bond its expenditures, in order to minimize the residual (welfare) loss. The NTOs' stakeholders are faced with the problem of unobservable behavior on the part of the NTO (due to possible moral hazard and adverse selection), and have in general two different options:

- 1) *Investment in information systems* that reveals agent behavior (behavior monitoring), such as budgeting systems, board of directors, reporting procedures, and additional layers of management.
- 2) *Transfer of risk* (outcome monitoring) through outcome-based contracts (i.e. performance-based budgets).

2.2.3 Stakeholder control through investment in information systems (Behavioral monitoring structures)

Information systems in the NTO context can be categorized in three types of *monitoring structures* available for the stakeholder coalition. These are monitoring through *behavior-based budgeting-principles*, through direct *organizational control*, or through indirect influence by way of being the *funding source*.

2.2.3.1 Monitoring structure #1: Behavior-based budgeting principles

The stakeholders can monitor the actions of the organization by investing in several forms of information systems. For instance, this is possible by using behavior-based NTO budgeting principles. One way is to use a procedure where the stakeholders participate¹³

¹³ By the term "participate" is meant that the stakeholders will have an active role in determining the organization's plans and activities, or goals and operational objectives. The more control/discretion in this

in the establishment process of the organization's marketing plans and activities for a given time period, and then determine the organization's budget on the basis of the expected cost related to the activities to be performed. Another way can be to base the budgets of the organization on the purchase of contract-specific projects, where stakeholders specify the content and activities to be performed in the project. A third way can be for the stakeholders to outline some broad and general goals and activities and allocate (through negotiations with the NTO) a fixed sum to the organization's budget each period. This is analogous to salary-pay on the individual person level. Common for these three behavior-based principles is that the stakeholders can (after the fact) evaluate whether the NTO has carried out the actions as agreed upon and reward/"punish" the NTO according to that.

These principles represent the more traditional budgeting negotiation process of input control. Wildavsky (1986) argued that this form of budgeting continued as the dominant form despite the availability of more "advanced" management controls such as planning, programming and budgeting systems (PPBS), and performance measurement. NTOs can be large, complex organizations (including domestic and foreign branch units) with numerous tasks, sizable budgets with many line items; several outputs; and many stakeholders (see also section 3.1). As the traditional budgeting process does not score the highest judged by the criteria a manager could put forward for a management control model, for instance simplicity and information about output, the traditional process still matches these criteria best in total. A large budget (in a large and complex organization) may therefore call for the use of the traditional (input control) processes rather than control through performance measurement (Johnsen, 2000). All this three budgeting systems (plan and activity-based, project-based or negotiated fixed sum) are in principle *behavior-based*. They are designed to gain some control on the behavior of the organization through information systems that reveal agent behavior.

2.2.3.2 Monitoring structure #2: Organizational control

A second form of investment in information systems is to assure that important stakeholders hold the organizational control of the organization. *Organizational control* is defined as the theory which specifies the difference between executive choice in an organization and the decisions actually implemented (Cyert and March, 1963/1992). Control has also been defined as any process in which a person, a group of persons, or organizations determines or intentionally affects the behavior of another person, or group, or organization (Tannenbaum, 1968). Organizational control comes from the knowledge that someone who matters to somebody in an organization pays close attention to what is going on and tells the latter if the behavior is appropriate or inappropriate (Pfeffer, 1997). This kind of control allows stakeholders to closely monitor the actions of the NTO, and functions as an information system that reveals agent behavior. Organizational control processes encompass recruitment and selection, training and socialization, organizational design as decentralization, leadership, planning and implementation, accounting and auditing, use of incentives, and monitoring and evaluations. The ruling coalition of

procedure the stakeholders possess, the more the budgeting principle will take on the characteristics of a behavior-based contract.

stakeholders can gain representation the organization's board, so that the stakeholders can influence the actions and decisions of the organization. According to Eisenhart (1998) "the richness of information can be measured in terms of board characteristics such as frequency of board meetings, number of board subcommittees, numbers of board members with industry experience, and number of board members representing specific (interest- or) ownership groups". Thus, the access to this kind of information system through organizational control is likely to reduce the control possessing stakeholders' desire for outcome-based contracts. However, the important question is whether all stakeholders' interests (ref. Figure 1.1) in reality are well represented through means of organizational control let alone.

2.2.3.3 Monitoring structure #3: Influence through funding

Agency theory views information systems as a *purchasable commodity* (Eisenhart, 1989 p.59). Information systems often represent limitations on the organization's decision autonomy. The organization would probably require some form of compensation in exchange for giving up this potential autonomy. In the NTO context the stakeholders can to some extent "purchase" information systems by contributing funds or financing the organization, in exchange for influence on planning of activities or goal establishment. Furthermore, the sponsor stakeholders can control the organization's behavior by introducing reporting procedures, so that the organization will have to report on its activities to the stakeholders on a frequent basis. Such investment systems also reveal the agent's behavior to the stakeholders, and the organization is more likely to behave in the interest of the stakeholders. Even if provision of funds does not necessarily give the sponsor access to formal control (e.g. through board representation) it is likely that the organization would either be required or feel obligated to inform the sponsor on its activities and its operation. Thus, the sponsor will have some legitimate influence on the organization's behavior. The funding party will require to be held informed on the actions of the organization, or the organization will keep the sponsor informed voluntarily. Roles as sponsor and organizational controlling entity often overlap, but it is not necessarily always so. To possess the role of a sponsor may therefore be a way to influence the organization without formally controlling it.

2.2.3.4 The cost of information systems

Transaction cost theory (Williamson, 1975, 1985) identifies the cost associated with this kind of behavioral control through alignment-of-interests-processes. While determining the budgets for the organization based on behavior-based budgeting principles, bargaining is necessary to safeguard the interests of both stakeholders and the agent. The amount of goal conflict among stakeholders, between stakeholders and agent and the frequency of bargaining are all factors likely to increase the transaction cost of behavioral-based budgeting control.

In transaction cost theory the investments in information systems are termed *control and monitor cost*. These are the resources spent to monitor whether transactions are consistent with the principal-agent contract. In the NTO-context, these are the costs incurred by the

stakeholders to monitor that the organization performs activities and behaves in the interest of the stakeholders. On the agent's (NTO) side, costs are incurred by the organization itself to promote its interests, including both justifiable transaction-efficient bargaining activities, as well as resource inefficient behavior related to lobbying, justification-for-existence and impression-management efforts.

Even if the stakeholders may invest considerable resources in information systems, these systems will still produce some information that is invalid and imperfect as input in the decision process. In transaction cost theory this is referred to as *maladaptation* cost. This maladaptation cost represents the communication and coordination failures between the stakeholders and the organization. These costs reflect resources used to produce information that is not absorbed by the other part of the transaction (Williamson, 1985).

2.2.4 Stakeholder control of the agent through transfer of risk

An alternative to behavioral agent control through information systems is *the transfer of risk from stakeholders to the agent*. In practice, in the NTO context, this means to introduce performance-based budgeting systems. In agency theory this is referred to as outcome-based contracts.

2.2.4.1 Benefits of risk transfer to the agent

Risk can be considered by way possible losses and gains can be derived from an action (Clark and Montgomery, 1986). Agency theory suggests that an outcome-based contract motivates alignment of preferences, because rewards for both stakeholder and agent depend on the same actions, which will curb agent opportunism. This will shift the risk of outcome from the stakeholders to the agent. It entails to "reward or punish" the organization on the basis of the outcome of its actions, and not on its behavior. The purpose of risk transfer through performance-based budgeting is to align stakeholder and agent goals through common dependence on the same outcome. A major advantage is that it reduces the stakeholders' need to monitor the agent. Thus, it reduces the stakeholders need to control the organization through information systems, including the stakeholder and agent cost of such systems. For instance, it reduces the importance of maintaining monitoring structures # 1, 2 (and 3).

By the same token, acceptance of higher risk by the NTO may also be traded for increased operational freedom, which means a relaxation of the stakeholders' control through information systems. It gives the agent increased decision autonomy, which will increase the organization's control of its own operation, and thereby decrease its perceived uncertainty of outcome. This may reduce propensity for the NTO to demand for a risk premium (i.e. higher budgets). Furthermore, it may reduce the potential efficiency losses due to constraints imposed on the NTO by the ruling coalition of stakeholders.

2.2.4.2 Risk-transfer devices

In practice, risk-transfer can be done by basing the budgets of the organization on what the country achieves in terms of international tourism (e.g. the stakeholders' outcome). Such a principles assume that increase/decrease in tourism measures can be somewhat attributed to the NTO's actions. For instance, the sponsor coalition can base the "reward" (budget amount) of the NTO on the absolute increase in number of tourists/tourism receipts or as a portion of government tourism-related tax receipts. This is analogous to commission pay in sales on the individual person level. A second way, which also serves a purpose to reduce the perceived risk of the agent, is to base the agent's compensation relative to the performance of other NTOs (in the NTO context this would be other "comparable" NTOs or countries). The performance-measurement determining the reward (budget) can be made relative to the market performance of other comparable countries (see Table 5.3 for a more detailed explanation).

In this way the role of chance events can be reduced, since the both the agent in question and other agents all are exposed to roughly the same chance events. This is a performance scheme sometimes referred to as *tournaments* (Nilakant and Rao 1994).

(A hybrid solution between behavior-based and performance-based principles is also possible. This can be done by letting the stakeholders participate in the establishment of specific goals and operational objectives (behavioral component), and then base the budget of the organization on the achievement of these goals and objectives (outcome component). This procedure is similar to the human resource management technique known as Management By Objectives (MBO).)

2.2.4.3 Cost of transfer of risk

Transfer of risk through performance-based budgeting may be valuable as an incentive for the NTO's market orientation and a catalyst for resource efficiency. But this transfer of risk may also create some problems: An NTO is faced with a number of business environment conditions that are likely to influence on the outcome of the organization's actions. Factors like government policies or other stakeholders' actions, economic climate, competitor actions, and tourism product characteristics will generate more or less uncontrollable (for the agent) variations in outcome. In addition, a NTO has only limited (to none) direct control of the product/service, price, and distribution parameters of the marketing task. Furthermore, since most NTOs are not actually selling the product/service to the end-user, it is difficult for the NTO to ensure appropriate sale closure by the industry actors. Since the commercial or industry operator is left with that direct product and sales control, it decreases the controllability of the NTO's business environment. Therefore, it may be hard to determine if the outcome (i.e. market performance) can be attributed to the actions of the NTO or by any of these uncontrollable conditions, because cause-and-effect relationships are ambiguous (see also section 3.1). Thus, neither the organization nor the stakeholders will not know for sure that a given activity or behavior will lead to the desired effects. This has at least two consequences 1) Developing valid measurements and measuring the effects of the behavior may be difficult or costly. 2) It introduces outcome uncertainty, and consequently limits the organization's ability to preplan.

From research in individuals' decision-making under risk (prospect theory) Kahneman and Tversky (1979) found that what they term "the certainty effect" causes individuals to become risk averse in choices involving sure gains. This knowledge can be applied to organizational behavior as well, since organizations (i.e. the organizations' management team) are made up by individuals who are faced with decisions under uncertainty. Transposed to the stakeholder-agent context, this should predict that the agent would favor behavior-based contracts (i.e. behavior-based budget principles) when uncertainty is high because these contracts will yield sure gains. Such sure gains can be in the form of predetermined income, such as budgets based on a fixed sum each period or any other behavior-based budgeting-principles. It will also predict that organizations will resist acceptance of risk as uncertainty increases, and it will become increasingly expensive to shift risk to the agent despite the motivational benefits (i.e. to behave in the interest of the stakeholders). In other words, the agent would probably demand some kind of compensation in order to accept higher risk, for instance in the form of higher budgets. Agency theory predicts a risk premium to the agent, because the principal will have to increase the agent's overall total compensation in order to protect the agent from risk (Stroh, Brett, Baumann and Reilly 1996).

A third kind of costs related to shifting the risk of outcomes to the agent is that it is likely to decrease the agent's willingness to take on additional *operational risk*. By operational risk is meant that a risk averse agent will seek to minimize activities that are perceived to increase risk, while attempting to engage in activities that are less risk-laden. Within models of business competitiveness (Day, 1994), there is a recognition that constructive risk taking is an important factor in stimulating entrepreneurship (Miller, 1987) implicit in market opportunity-seeking behavior (Baird and Thomas, 1990). As risk-aversion increases, the organization is likely to resort to activities known to have been beneficial in the past, while restricting activities associated with greater uncertainty of outcome, such as new product development, entrance into new markets, investments in brand building etc. The danger of shifting risk to the agent is that the agent will restrict its marketing attention to existing customers and competitors and become subject to the "tyranny of the served market" (Hamel and Prahalad, 1991, p.83). Focusing on existing markets and competitors can be perceived by the agent to be more "safe" behavior, at least in the short run. For the agent, market-oriented behavior represents investments of resources in activities with an uncertain outcome, and thus has an element of risk attached. "Despite the fact that businesses' [organizations'/agents'] gains and losses may be high from new product introductions serving new and existing customers, market orientation requires that firms [organizations/agents] be tolerant to risk and accept possible failures (Jaworski and Kohli, 1993). Consequently, transfer of risk to the agent may reduce the agent's willingness to engage in entrepreneurial activities and the more risk-laden activities of market oriented behavior. We will revert to the issue of market orientation later in this text (in Section 6).

2.2.5 Moderators to the attractiveness of outcome-based contracts

Thus, there is a clearly trade-off between a) the cost of measuring behavior (i.e. investing in information systems) and b) the cost of measuring outcomes and transferring risk the agent.

2.2.5.1 Risk aversion of stakeholders and agent

To get a better understanding of different situational contexts it may be fruitful to relax the assumption of a risk-averse agent (e.g. Harris and Raviv, 1979). For instance in the case where the agent is wealthy enough to easily absorb any negative consequences of an undesirable outcome, the agent is likely to become less risk-averse. Likewise, the agent may be less risk-averse if it perceives to be able to control its business environment and possess resources (human capital, organizational experience, networks, technology etc), which enables the agent to better control the outcome of its activities. Thus, outcome uncertainty will be reduced, and so will the agent-perceived risk.

As the agent becomes increasingly less risk-averse, it becomes more attractive to pass on the risk to the agent using outcome-based contracts. Conversely, as the agent becomes more risk-averse, it is increasingly expensive to pass risk to the agent (Eisenhart, 1989 p. 62). Thus, behavior-based contracts become more attractive. Similarly, it becomes increasingly attractive to pass on the risk to the agent if the stakeholders are risk-averse.

Unfortunately, in the NTO-context the situation seems to be the opposite. NTOs are, with a few exceptions, not particularly wealthy organizations (i.e. have large *discretionary* budgets). Likewise, they face a business environment that is highly uncontrollable, while cause and effect relationships are ambiguous, and uncertainty of the outcome from their actions is fairly high. Generally, this would cause these organizations to become quite risk-averse. Furthermore, the collective risk of the stakeholders is distributed across a large number of individual stakeholders, so that no single stakeholder (or group) will have to bear the negative consequences of a potential negative outcome (e.g. a poorly performed major marketing campaign by the NTO). In addition, stakeholders often invest resources in other channels of marketing e. g. marketing through own activities, local-level tourist organizations, trade associations, private marketing firms, etc. Under these circumstances, the NTO will represent only one agent in a portfolio of agents (or risk objects). This will reduce the stakeholder perceived risk attached to the one agent the NTO represents. Furthermore, in cases where the government is a major stakeholder (e.g. in force of being a major funding source, which is often the case), funds contributed in the form of subsidies/allocations will not have the same strict requirements for return on investment attached as privately contributed funds do. This will in sum generate a stakeholder coalition with fairly *low* risk-aversion.

Therefore, one can assume that stakeholders in the NTO context are only moderately (to neutrally) risk-averse. Assuming high agent risk-aversion and moderate-to-neutral stakeholder collective risk-aversion, behavior based-type contracts become attractive as opposed to outcome-based contracts in the relationship between the stakeholders and the NTOs.

2.2.5.2 Moderations to the assumption of goal conflict

By the same token, it can be fruitful to relax the assumption of goal conflict between the stakeholders and the agent. This might occur in situations where self-interest gives way to selfless behavior (Perrow, 1986). Agency theory has been criticized for exaggerating the degree to which individuals [and organizations] are work-averse. For instance, when the agent employs highly professional human resources genuinely interested in their work; or when these employees are strongly motivated by non-monetary rewards such as recognition from stakeholders groups - the agent might act according to the interests of the stakeholders, even though the agent could have “gotten away with” less than the assumed/agreed upon marketing effort. In other words, even if there is a potential *moral hazard* in the relationship between the marketing agent and the stakeholders, the agent may very well refrain from adversely exploiting its position to evaluate the activities delegated to it, because of employees’ professional “pride” and motivation from non-shirking rewards. It seems safe to assume that, particularly since most of the NTOs are non-profit organizations -and therefore are not necessarily dependent on maximizing own monetary utility, such underlying motivations may have a positive impact on the typically “selfless” actions of the agent. According to Eisenhart (1998, p. 62), as goal conflict decreases, there is a decreasing motivational imperative for outcome-based contracts. Under such circumstances behavior-based contracts become attractive.

2.2.5.3 Goal conflict among principals

In agency relationships where there are several principals/stakeholders, goal conflict among principals can result in outcome uncertainty. Complex organizations such as government agencies (e. g. NTOs), hospitals and educational institutions are characterized by multiple demands from both inside and outside the organization (Tusi, 1990). In such settings, variations in outcome may reflect multiple goals rather than effort-aversion. Only under high levels of agreement about efforts and outcomes among principals and/or between principals and agent it is possible to define precise standards for performance evaluation (Nilakant and Rao 1994). In the NTO context, such agreement is less likely, which is reducing the attractiveness of performance-based contracts. (On the other hand, potential disagreement among principals and/or between principals and agent on prescribed optimal agent behavior makes precise behavior-based contracts difficult to design as well, as explained in section 3.1)

2.2.5.4 Measurability of outcome

Another task characteristic is the measurability of outcome (Anderson, 1985; Eisenhart 1985). Some tasks require a long time to complete, involve stakeholder and agent joint effort, or produces soft outcomes - outcomes that may be difficult to measure within a practical amount of time. Such task may involve brand or product/service image building, repositioning of products/services, new market venture, new distribution channel development, and new product/service development etc. When outcomes are measured by difficulty, behavior-based contracts are more attractive (Eisenhart, 1989, p. 62). Because of the lack of direct measurability of behavior - supported by the fact, as mentioned earlier, that NTOs often face a number of uncontrollable factors that will

influence the outcome of its activities, measurability difficulty will make behavior-based contracts attractive in the NTO context.

2.2.5.5 Length of contract relationship

The length of the relationship between the stakeholders and the agent should also have an impact on the contract form chosen, according to Eisenhart (1989 p.63). In long term-relations the stakeholders will learn about the agent (e.g. Lambert, 1983) and will be able to assess the behavior of the agent more readily. Conversely, the information asymmetry is likely to be greater in short-term relationships, making outcome-based contracts more attractive. In the NTO context, these relationships are often of a long-term character. The relationship with the government, which often is a dominant stakeholder, is usually long-term to indefinitely in time. Thus, it increases the attractiveness of behavior-based contacts in relationships between the government and the NTO. The same can be true with dominant, wealthy industry-stakeholders involved in long-term relations with the NTO. Conversely, relationships with other, less dominant industry partners are often of a more short-term character, such as in cooperation in specific time-definite projects.

2.2.5.6 Programmability of tasks

Another consideration made by Eisenhart (1998) is the programmability of tasks to be performed by the agent. As defined by her, *programmability* is the degree to which appropriate behavior by the agent can be specified in advance. According to agency theory, task programmability will be positively related to the use of behavior-based contracts (e.g. fixed sum budgeting) and negatively related to the use of outcome-based contract (variable compensation). In the NTO context, some of the operational tasks are highly programmable, while others are not (see also section 3.2). Some administrative and non-marketing tasks are to a large extent programmable, along with simpler kind of marketing efforts, for instance public information and PR, distribution of promotional material, information services, representation/seminars/presentations, education services, and simple marketing research tasks such as travel statistics collection, and collection of trade information. Other tasks are substantially less programmable, for instance acquisition and use of new technology, new product development, development of new markets, tactical and technical innovation, advanced market- and competitor research, strategic planning etc. According to Eisenhart (1989) the more programmed the task, the more attractive are behavior-based contracts. Very programmable tasks reveal agent behavior, and the situation reverts to the complete information case. In cases where NTOs are assigned typically programmable tasks only, one can expect presence of behavior-based contracts. Many NTOs are in fact¹⁴ not typically formally assigned the non-programmable tasks mentioned, which is in many cases considered to be the responsibility of the industry the NTO is promoting products/services for. To the extent it occurs, the less programmable tasks are often undertaken on the NTO's own initiative,

¹⁴ We found some evidence for this in the empirical part of project in connection with this thesis (e. g. in focus group sessions including both stakeholders and NTO, as well as in written NTO activity-documentation).

and thus not formally tied to a behavior-based contract. In some cases, NTOs may assume those tasks in connection with specific projects. Such projects often have a stronger than usual outcome focus and agent-stakeholder shared risk.

Considering the discussion above, the “programmability issue” leaves us with no clear recommendations from a theory standpoint. Another unresolved issue is whether the NTO is to be *assigned (non-)programmable tasks*, or left autonomous enough to “*program*” its activities itself and be held responsible for the consequences.

2.2.6 Conclusions to be drawn from Agency theory

In conclusion, the following aspects will influence the choice of contract relationship between stakeholders and NTO:

From a simple model perspective the NTO context would call for an outcome-based type of contract due to the potential problems associated with goal conflict and unobservable behavior (due to moral hazard and adverse selection). In addition, the agent-motivational benefit of this kind of contract would favor an outcome-based contract (i.e. a performance-based budgeting-principle). This is also supported by transaction cost theory, since outcome-based contracts would reduce monitor and control cost, bargaining cost, and maladaptation cost. However, several factors particularly important in the NTO context reduce the attractiveness of outcome based-contracts, namely stakeholders’ accessibility to information systems, high agent/low stakeholder risk-aversion, the relatively high cost of risk transfer, low outcome measurability, and the long-term nature of relationships, etc, as shown in Table 2.2.

(The latter may also partially explain the strong presence of behavior-based type of principles in the existing NTO-stakeholder relationships, as shown in the empirical part of the thesis in Section 5, Table 5.1.)

When viewing the problem from an agency theory angle, and taking the above considerations into account in the NTO context, theory implications of what controlling device to use, e.g. behavior-based contracts (i.e. behavior-based budgeting and other monitoring structures) as opposed to outcome-based contracts, appear to be somewhat conflicting.

Table 2.2 Conclusions from application of Agency & TC theory

Theory	Consideration	Present in the NTO context	Attractive to use behavior-based control	Attractive to use outcome-based control	Prediction of admin. control principles in use	Comments/ references to theory area
Agency theory	Unobservable behavior	YES	NO	YES	Outcome-based	Moral hazard, adverse selection
	Accessibility to information systems (monitoring struct.)	YES	YES	NO	Behavior-based	Behavior-based budgeting, purchasable info./control
	High cost of risk transfer to agent	YES	YES	NO	Behavior-based	Risk premium, reduced m.o. innovative behavior
	Outcome uncertainty	YES	YES	NO	Behavior-based	Many uncontrollable factors, inability to preplan long-term act.
	Risk-averse agent	YES	YES	NO	Behavior-based	Outcome uncertainty, cause-effect relation ambiguity
	Risk neutral stakeholders	YES	YES	NO	Behavior-based	Risk dispersed, government funded, non-profit organization
	Goal conflict between stakeholders and agent	Depends on both the NTO and its principals	YES and NO	YES and NO	Both types of principles	Professionalism, non-monetary rewards, exaggerated work-aversion assumption
	Goals and means conflict among stakeholders	Likely conflict	YES and NO	YES and NO	Both types of principles	Hard to agree on perform. measures, but also on appropriate beh.
	Task programmability	Both, but more progr. t. than not	YES	NO	Both types of principles	Traditional tasks are programmable, innovative efforts are not
	Outcome measurability	NO (Yes, indirectly)	YES (and NO)	NO (and YES)	Both types of principles (hybrid)	Hard outcomes can be easily measured, soft, cooper. , or long-term not
	Long-lasting relationships	YES	YES	NO	Behavior-based	Predominately long-term relationships
Transaction cost	High monitoring /transaction cost for both principal and agent	YES	NO	YES	Outcome-based	Negotiation, monitoring, and maladaptation cost

A problem with agency theory in general is that it assumes the principal's perspective, and thus the principals' legitimate right to achieve its ambitions through the behavior and achievements of the agent. It also assumes rational principals with clear, undisputed, and legitimate goals, and that corresponding clear goals and undisputed compensations can be specified for the agent. In the NTO context, however, one may have a ruling coalition of stakeholders (i.e. government and/or industry) that are not exactly sure what they want the organization to do. In addition, some important stakeholders (e.g. *society* and *the market*, cf. Figure 1.1) may not have the type of legitimate influence on the organization as the principal is assumed to have in agency theory. Contract forms taking only the interests of principals with legitimate powers (i.e. funding/compensating/controlling principals) into account is probably not sufficient to safeguard the interests of all the important stakeholders in the NTO-context. For instance, it is probably possible to construct control devices that favor the principals with legitimate powers, without

securing that other important concerns such as *market orientation* and *long-term planning and operation* are taken into account.

A second problem with agency theory is that, as a theory of performance, it attributes variations in outcome or performance solely to variations in the agent's effort. Less than optimal output is solely attributed to "shirking" by the agent (i.e. lack of appropriate effort by the agent) (Nilakant and Rao 1994). (We will revert to the issue of shirking in the following section.)

Although important considerations can be derived from application of agency theory, it is not, in isolation, a theory sufficient enough to comprehensively address all the issues we are interested in. A more applicable body of theory can be found in *public choice theory*, which is to be discussed next.

2.3 Public choice theory

Public choice theory is strictly speaking a "subspecies" of agency theory, which focuses on political institutions in particular. However, for the sake of this thesis we chose to discuss Public choice theory apart from traditional Agency theory. Public choice theory adds an important non-commercial and societal perspective when considering the NTO as a public agency (which it often is) created to serve the interests of the public rather than sponsoring principals. This is as opposed to the perspective of traditional agency theory's (often) implicit assumption of a commercial principal and agent. Public choice theory is defined as "the economic study of non-market decision-making", or simply the application of economics to political science, and also as the economic analysis of political institutions (Mueller, 1989).

2.3.1 NTO as a public institution

NTOs are typically non-profit (semi-) political institutions, (at least partially) funded and controlled by and responsible toward the government. The government connection and public institution character are revealed through the commonly used names of these organizations, with the nation's name, "Tourism", and "Council", "Authority", "Committee", "Board", etc. The control problem connected with such political institutions, *where market competition is unavailable as additional organizational control*, is that the agent can do more or other tasks than desired from a societal viewpoint. Effectiveness and equity is then reduced, and agents can shirk such that inefficiency emerges and hence effectiveness and [overall stakeholder] equity are also reduced (Johnsen, 2000).

In agency theory effective organization is dealt with in hierarchical control through two issues simultaneously. The first issue is to let the agency work on the tasks it is supposed to do, which is the issue of effectiveness (Johnsen, 2000). In the NTO-context this means to allow the NTO to turn its attention toward working with the market, and at the same

time to give the agent some degree of operational freedom and decision autonomy to do so on a professionally sound basis. The second issue is to ensure that the agency is doing the tasks as efficiently as possible (Johnsen, 2000). In practice, this means to assure that the organization has an incentive to do only the activities required to solve its marketing tasks, and de-emphasize efforts on non-marketing tasks.

2.3.2 Budget-maximizing behavior

Niskanen (1971) proposed the hypothesis that bureaucrats (i.e. employees in political institutions) were budget-maximizers, and Migué and Bélanger (1974) amended this to the assertion that bureaucrats were maximizers of *discretionary* budgets. (In public choice theory the terms *bureau* and *sponsor* are often used instead of *agent* and *principal* respectively.) Due to the bureaucrats' asymmetric information on production, the bureaucrats (agent) could profit from their information advantage relative to the representatives and demand a larger budget and a bigger output than socially desirable. Niskanen modeled bureaus (the agent) as expense centers where the budget was negotiated between the bureau and the sponsors (funding stakeholders). The bureau provides most of its output to clients (the industry) many of who do not have to pay for the services directly. The clients then may have no incentive to compare the cost of services with the value provided. Furthermore, the bureau may obtain support from the clients if the sponsor were to cut down on the budget. The bureau may also threaten to cut down on the most valued services rather than reducing services of more marginal value during budget negotiations (Johnsen, 2000). Actually, this can put the government sponsors under pressure from *two sides* in the budget negotiating process: One from the NTO itself being the sole agent officially designated to perform the international tourism marketing task; and another from the industry (clients) who would benefit from a larger budget without actually paying for it directly. Even if the industry contributes to parts of the budget, such as in a matching principle, the industry would benefit from increased budgets available for matching purposes because their marketing effort would be subsidized by a matched part from the government.

Not only the bureaus may shirk in the budget negotiations due to asymmetric information, but also the sponsors may shirk and cooperate with the budget maximizing bureaus. The representatives in the sponsoring committee (NTA or other stakeholders) may get increased support from their voters and constituents by an increased or constant bureau output than what might be desirable from the society's point of view.

2.3.3 Lack of a financial residual

Agency theory usually employs the term *residual* when organizational control in firms is analyzed. Residual is the difference between the stochastic inflow of resources (income) and the payments promised to the agents (Farma and Jensen, 1993). Organizational control can be enhanced by letting the agents share some of the residual in payment, which means that the agent will also have a stake in the same outcome as the

principals pursue. Political institutions, on the other hand, usually have no financial residual. The budget is to be balanced against the expenses, and the residual, the net benefit, is often directed at constituents who do not pay marginal prices. Bringing this consideration into the NTO context, the NTO may feel tempted to direct its residual resources towards gaining increased support from the government or special interest groups (e.g. powerful stakeholders) instead of investing it in increased market effort, which it is supposed to do from a socially desirable standpoint. The consequence may be that the NTO will over-prioritize promotion of products (or interests) of sponsors who have contributed significant funds to the NTO's budget; or will spend too much resources on lobbying activities directed at special powerful interest groups in the industry; or it will spend too much resources on lobbying government sponsors, as shown in Table 2.3.

Table 2.3 Some examples on how NTOs can spend excess resources:

Condition	NTO-incentive (if unchecked)	What to do with excess resources?	Possible consequences
1A) <i>Non-profit NTO</i> : Market performance is not generating income for the NTO. Unused portions of budgets will be reclaimed, or budgets will be cut the following period.	Make as little marketing effort as possible and/or as inexpensively as possible to maximize level of excess resources.	Use it to compensate coalition members (powerful stakeholders) for budget support. Overspend resources within the NTO.	Low market effort, <i>overall</i> industry will suffer in competition with other countries. Powerful industry stakeholders may be over-prioritized.
	Do as much "visible" market effort as possible to spend budgets. (I.e. minimize residual).	Spend excess resources on expensive, inefficient marketing campaigns to show visibility and achieve justification.	Inefficient market effort, <i>overall</i> industry will suffer in competition with other countries. Powerful industry stakeholders may be over-prioritized.
2) <i>Non-profit NTO</i> : Market performance is not generating income for the NTO. Unused portions of budgets can be transferred for use in the future.	Do as little as possible and/or as inexpensively as possible to maximize "savings" for the future.	Save resources for the future (somewhat) regardless of current need.	Low current market effort, <i>overall</i> industry may suffer in competition with other countries.
3) <i>Non-profit NTO</i> : Market performance is generating income for the NTO. Unused portions of budgets can be transferred for use in the future.	Use resources as efficiently and effectively as possible to achieve current and future market performance.	Balance resource usage between current and future needs. Curb spending on non-market activities and compensations.	Efficient market effort, <i>overall</i> industry will benefit in competition with other countries both short-term and long-term.
4) <i>Commercial NTO</i> : Market performance is generating income for the NTO. Unused portions of budgets are paid to stockholders as compensation.	Use resources as efficiently and effectively as possible to achieve current (and future) market performance.	Pay dividends to stakeholders, or possibly reinvest resources for use in the future.	Efficient market effort, but (in some cases) the stockholders' interests may be over-prioritized. NTO's long-term focus depends on stockholders and their representatives' willingness to reinvest profits in the NTO.

Note: These are only examples on potential distribution of excess resources. Other conditions and combinations are conceivable and may occur.

“The presence of slack is similar both in firms and in public institutions, but firms have financial claims as additional organizational control while political institutions have not. Performance measurement may on this reason be relatively more important in political institutions than in firms, because interest groups [e.g. powerful stakeholders] may compete for the residual claims on the net benefits.” (Lapsley and Mitchell, 1996).

The absence of financial residual claims may increase *slack* in political institutions. Slack may be explained as the difference between the minimum costs for providing some amount of service and the amount the agents/bureaus actually use in providing the service. Slack consists of payments to coalition members in excess of what is required to maintain the organization (Cyert and March, 1962/1992). This may be used to compensate stakeholders for policy support, subordinates for compliance, extended quality and new equipment, or as personal consumption or “on the job consumption”. “Slack is only possible where inefficiency exists” (Niskanen, 1971). NTOs may use slack to take on tasks that are not really their responsibility, hire or maintain more staff than necessary, employing consultants in excess of what is required to solve its marketing tasks (i.e. use consultants when in-house personnel could have done the job sufficiently), spend resources on extensive “business” travel, or participate in fairs or trade shows with only marginal value to solving the supposed tasks of the organization. In addition, slack may be used to finance activities used, symbolically rather than instrumentally, as proof of quantifiable activity and to show visibility (e.g. distribution of vast amounts of printed promotional material/brochures, holding seminars directed at gaining support from stakeholders etc.), and thus to sustain legitimacy and resources.

One possible solution to the problem associated with lack of financial residual claims, as an organizational control-mechanism in the NTO context, is to organize the NTO as a commercial organization/limited company with shareholders. The NTO could then be held responsible for its actions by its shareholders. The shareholders would then have such financial claims on the residual, which may reduce the potential for slack shirking in NTOs. A problem with this solution is that the stakeholders may force the NTO to resort to over-focus on short-term activities and/or activities benefiting the shareholders disproportionately more than the overall industry.

2.3.4 Resistance to performance measurement

According to Markus and Pfeffer (1983) and Argyris (1990) it is likely that actively involved stakeholders in political organizations will resist implementation and use of performance measurement that may cause embarrassment, unless such systems are used for external legitimization only, or there is so much ambiguity that embarrassing information from the performance-measurement does not affect the ruling coalition (Baier, March and Sætren, 1986). In fact, this potential embarrassment can cause implementation and use of performance measurement to be resisted both by the political institution/bureau itself and the sponsor (e.g. government). It may reveal inefficiency, which obviously can be embarrassing for the institution itself, but also for the public sponsor (principal) which is supposed to be (at least partially) responsible towards its

constituents for the agency's (mis)behavior. Thus, when performance-based principles of organizational control are evaluated by stakeholders that may be subject to embarrassment from such performance measurement, one may speculate that these principles are evaluated less positive than from an objective standpoint.

Due to asymmetric use of information, politicians may want to monitor a bureau in order to avoid strategic behavior. Even imperfect monitoring (e.g. imperfect performance measures such as market performance) may reduce the bureau's ability to deceive the legislature (Bendor, Taylor and Gaalen, 1985). However, monitoring of the agent/bureau could be costly, as explained earlier. Another means in organizational control is to let constituency groups, such as interest groups, monitor the agencies. The interest groups can then communicate the results directly to the politicians rather than through a formal organizational control system (Banks and Weingast, 1992). This can be in the form of access to board representation for interest groups or formalized reporting procedures in accessible to such groups (e. g. periodic mandatory presentation of the bureau's activities and achievements). This seems to be quite common form of indirect control in the NTO context. The interest groups then bear some of the monitoring cost but they also have more information (and industry expertise necessary to evaluate the information) than the politicians and, furthermore, receive benefits from the output directly. This means that performance measurement may have substitutes and compliments in interest group behavior and in media.

2.3.5 Conclusions to be drawn from Public choice theory

In conclusion, public choice theory suggests that political institutions are more susceptible to slack than profit-maximizing firms are because both the agent (NTO) and the principals (stakeholders, e.g. clients and sponsors) may have an incentive to shirk due to absence of financial residual claims. Furthermore, budget maximizing-behavior and selective attention to special interest group or other powerful stakeholders is more likely. This makes performance measurement relatively more important in political institutions than in firms. However, due to the potential embarrassment from information from performance measurement, one can expect resistance use of such measurement both from sponsors and the NTO itself, which may explain why performance measurement is not commonly used to control NTOs. Furthermore, stakeholders (both government and private sponsors and industry clients) may perceive that they can control the organization and reveal the agent's behavior through interest group and media monitoring, which reduces the perceived stakeholder need for performance measurement.

Public choice theory is quite applicable in our discussion of NTOs, because it introduces the public or *society* as an important stakeholder. The theory also considers the lack of financial residual, which is often the case in the NTO context. This body of theory supports the notion that market-related performance measurement may be necessary to avoid shirking and to create incentives for a market focus of the organization. This is particularly important when the NTO is funded and responsible toward the government.

The conclusions to be drawn from public choice theory are summarized in Table 2.4 below.

Table 2.4 Conclusions from application of Public Choice theory

Theory	Consideration	Present in the NTO context	Attractive to use behavior-based control	Attractive to use outcome-based control	Prediction of admin. control principle in use	Comments/ references to theory area
Public Choice theory	Lack of market competition	YES	NO	YES	Outcome-based	No financial residual claim =lack of incentive
	Agent incentive for budget maximization	YES	NO	YES	Outcome-based	Bureau's asymmetric information advantage
	Stakeholder joint incentive for budget maxim.	Moderately YES	NO	YES	Outcome-based	Non-paying clients, pressure on reps. from constit., public funds
	Favoring of special interest/lobbying efforts	Likely	NO	YES	Outcome-based	No budget residual, slack distributed on powerful st.h. to win support
	Resistance to performance measurement	YES	YES	NO (risk premium must be paid)	Behavior-based	Potential embarrassment for both bureau and legislature/sponsors
	Media and interest-group monitoring	YES	YES	NO	Behavior-based	Media and interest groups will reveal behavior and bear some monitoring costs

2.4 Summary of the theoretical framework

The theoretical framework is summarized in Tables 2.1-2.4 (on the preceding pages). As these tables show, there is no definite theoretical conclusion of what type of administrative system (i.e. behavior-based or outcome-based type of principles or arrangements) which is best suited for the NTO context. *Market orientation theory* asserts that organizations need to be market oriented - rather than how to make them market oriented. However, a non-profit organization like most NTOs probably needs an incentive to be market-oriented, which best can be achieved through an outcome-based system. *Agency theory* in its simple form viewed from the principals' angle tends to prescribe an outcome-based system as well, while at the same time, some aspects in the NTO context call for an activity-based system. *Public Choice* and *Transaction Cost* theory both lead toward a performance-based system. Consequently, the theory reviewed does not provide us with distinct, clear-cut recommendations with regards to which type of NTO administrative system that would be the most beneficial for the all stakeholders in question. However, most of the theory reviewed points to performance based-systems.

NTOs are not usually commercial organizations; stakeholders are many and may have conflicting interests; many clients do not pay for the services directly; and one can expect resistance to performance-measurement from both the agent and some (e. g. government) stakeholders. In addition, there are the considerations regarding the cost of transfer of risk

to the agent, outcome measurability etc. as commented on earlier. All these aspects increase the attractiveness of behavior-based systems to both the controlling principals and the NTO. Given these particularities of the NTO context, one can expect a dominance of behavior-based systems in practice. We will see later that is also the case (see Table 5.1)

However, what is attractive to the NTO itself and its industry and government stakeholders may not necessarily be what will ultimately be desirable from a societal standpoint. Some of the considerations related to this problem have been discussed in the public choice theory discussion in this section.

Appendix 3 shows various conceivable control-principles applicable for NTOs and how these principles relate to the theory discussed in this section, including some potential benefits and negative consequences. These principles also constitute the core of the independent variables presented later in this thesis. How these independent variables are operationalized in detail is shown in Table 5.1, and the dependent variables in Appendix 4.

3.0 A Framework for understanding market performance of NTOs

As discussed earlier, there are no clear-cut recommendations for NTO administration to be derived from a purely theoretical standpoint. In this section we will consider the multi-sided implications derived from general theory, and apply them in the particular NTO - context, in order to develop the theory framework further. This can be done by the inclusion of some *practical and political considerations* in the theoretical framework. The purpose is to arrive at solutions that are both practically implementable and politically acceptable to the various stakeholders.

Three issues will be discussed in this section:

1. What goals exist for organizations like NTOs?
2. In a practical manner, how can organizations like NTOs be controlled, so that NTOs fulfill the stakeholders' objectives?
3. What conditions may promote market goals and facilitate market performance of NTOs?

3.1 Goals and activities of the NTO

As outlined in the preceding section an organization will have some external and internal goals. To achieve these external and internal goals the organization will engage in activities assumed to lead to the fulfillment of the objectives related to these goals. A rational organization will retrospectively evaluate if these activities and strategies in fact had the desired effects (see Figure 3.1a). Based on the appraisal the organization will engage in new activities and continue activities assessed to be successful. The simple model depicted in Figure 3.1a assumes that goals are clear, that relevant decision alternatives are known with close to certainty, and decision-outcomes are unambiguous. It also assumes that organizations have the freedom to make decisions quite independently of other organizations and that they have jurisdiction and authority over their resources and actions. Prescriptive theory prompts managers to identify goals and craft strategies to attain these goals and that they have accumulated resources and acquired the necessary support to do so.

For some organizations, and particularly for NTOs, the simple model does not provide a good description. Due to ownership and funding arrangements there are constraints in many organizations autonomy and ability to exercise discretion. Powerful stakeholders may matter more than the potential success of a given action.

For many reasons the way in which goals are related to activities and effects can be quite problematic for NTOs. First of all,

- the NTO has *several stakeholders*

- that may have *partly conflicting* goals and aspirations for the organization (see Figure 3.1b)

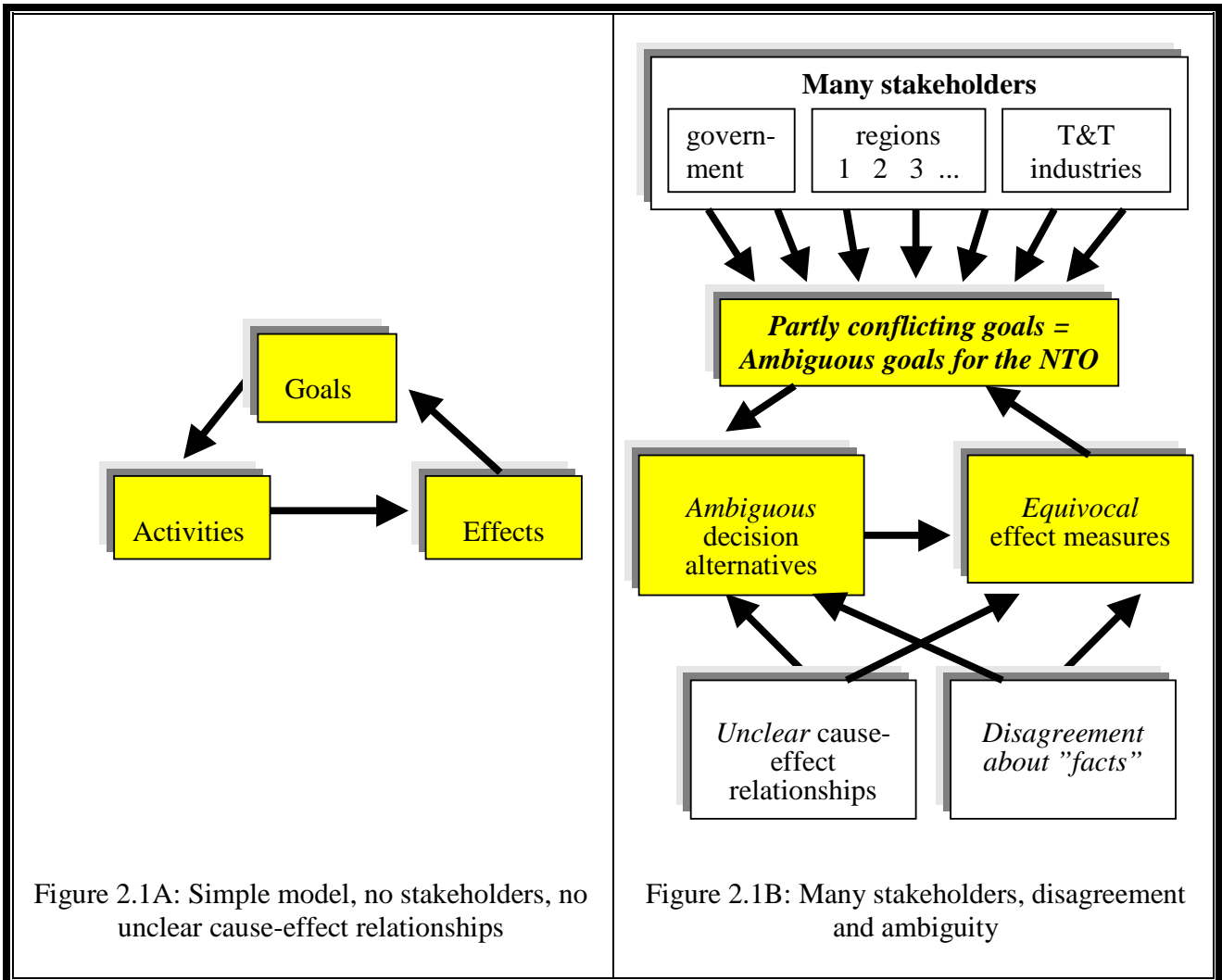


Figure 3.1 A simple and a complex decision context

Different political institutions at the national level, e.g. ministries of finance, industries, and ministry of labor (see first column in Table 3.1), may perceive different goals for the organization such as the ones listed in the second column in Table 3.1. Different regions and local destinations may have different ideas as to how the advertising budget and alternative destinations should be prioritized to attract tourists. Furthermore, since the tourism sector comprises several industries (transportation, lodging, restaurants, etc) many potential and partly conflicting goals may exist among the stakeholders and result in goals for the NTO that are difficult to re-conciliate.

Table 3.1 Examples of areas of ambiguity and conflict among stakeholders

Stakeholders that may disagree	Areas of disagreement/ambiguity		
	Goals and objectives	“Facts”	Cause-effect chains
<ul style="list-style-type: none"> • <i>Government</i> <ul style="list-style-type: none"> • Ministry of labor • Ministry of finance • Ministry of regional development • <i>Regions</i> • <i>Destinations</i> • <i>Tourist industries</i> • <i>Trade unions</i> • <i>Etc.</i> 	<ul style="list-style-type: none"> • <i>contribution to</i> <ul style="list-style-type: none"> • <i>balance of payment</i> • <i>employment</i> • <i>tax revenue</i> • <i>“green tourism”</i> • <i>economic value of tourism and regional development</i> <ul style="list-style-type: none"> • <i>region A</i> • <i>region B</i> • <i>city A</i> • <i>city B</i> • <i>industry A</i> • <i>industry B</i> 	<ul style="list-style-type: none"> • <i>attractiveness of</i> <ul style="list-style-type: none"> • <i>destination A</i> • <i>destination B</i> • <i>type of accommodation</i> • <i>market potential for given products</i> • <i>attractiveness of given markets and segments</i> 	<ul style="list-style-type: none"> • <i>the impact on number of tourists of</i> <ul style="list-style-type: none"> • <i>price level</i> • <i>various types of campaigns and promotional tools</i> • <i>economic trends</i> • <i>climatic conditions</i> • <i>taxation</i> • <i>travel distance and accessibility</i> • <i>product quality</i>

The ambiguity with respect to goals and decision alternatives is not only a result of antagonistic goals and values among the shareholders, but may also be a consequence of

- disagreement about “facts” and
- unclear cause-effect relationships.

In a tourism setting, different regions or various types of accommodation-providers may have conflicting views on “facts”, such as e.g. the quality, attractiveness and the value for money of their offering. Furthermore, conceptual models of *cause-effect* chains may differ or may be unclear. It will always be difficult to assess whether changes in the influx of tourists are due to

- economic trends
- changes in the nature or quality of the tourism product that is provided
- changes in the relative prices
- climatic conditions
- changes in the domestic NTO’s activities or
- actions brought about by foreign NTOs (competitors).

In addition to the ambiguity imposed on the organization by its external stakeholders, the internal stakeholders, the employees and various departments of the NTO, may perceive cause-effect relationships differently and may have objectives for the organization that may not entirely coincide with those perceived as important by the principals.

Conflict among stakeholders and ambiguities with respect to goals, “facts” and cause-effect relationships raise many organizational challenges. It is difficult to imagine “correct” solutions, as the “rules of the game” may change as a function of changes in the

NTO's constituencies. Consequently, political processes may often to some extent determine the organization's goals and actions.

3.2 Principles for controlling NTOs

How can stakeholders assure that the organization acts according to their interests? As explained earlier, two fundamentally different administrative principles can be applied that may have different consequences for the organization.

- One can either decide on (or try to influence) *the activities* of the organization,
- or *govern the organization by monitoring the effects of its activities*.

A number of activities of NTOs can be decided on or influenced by external stakeholders (see upper part of Figure 3.2). (E.g. the nature of and/or amount spent on activities ranging from market intelligence and information dissemination to market development and various types of services.)

Another alternative is – as stated above – to govern the organization by measuring its performance against the specified goals and objectives and by allowing the NTO the freedom to decide how to accomplish these goals. In Figure 3.2 we have listed goals or performance measures at two levels. At level one we have listed activities that are directly tied to tourism. (E.g. number of tourists and their expenditures.) Level two encompasses secondary or indirect effects: Contribution to GDP, employment, profitability, etc. Level-two effects also encompass the direct impact on variables of vital concern to the NTO as an organizational entity.

In the ideal and unlikely situation where goals are non-conflicting and cause-effect relationships are known and clear it does not matter at all what kind of administrative principle is chosen. Uncertainty of outcomes often tends to make organizations (and people) risk-averse particularly when stakes are high (e.g. when there is a chance for substantial negative consequences). In theory, this will make the stakeholders want to govern the organization on the basis of achieved effects (results) and thereby push the "risk of failure" upon the organization ("It's your fault, you didn't get the job done"). The organization on its side would want to be administered on the basis of activities, and thereby push the "risk of failure" upon the external stakeholders ("It's not our fault, we just followed directions").

It seems reasonable that performance-based control is preferable to activity-based control of the NTO – however difficult it might be to find adequate performance measures that also will be satisfactory to the various stakeholders. Performance-based control mechanisms have several advantages (and also some disadvantages) compared to activity-based mechanisms:

- Performance-based control will make the NTO responsible for its decisions and their outcome

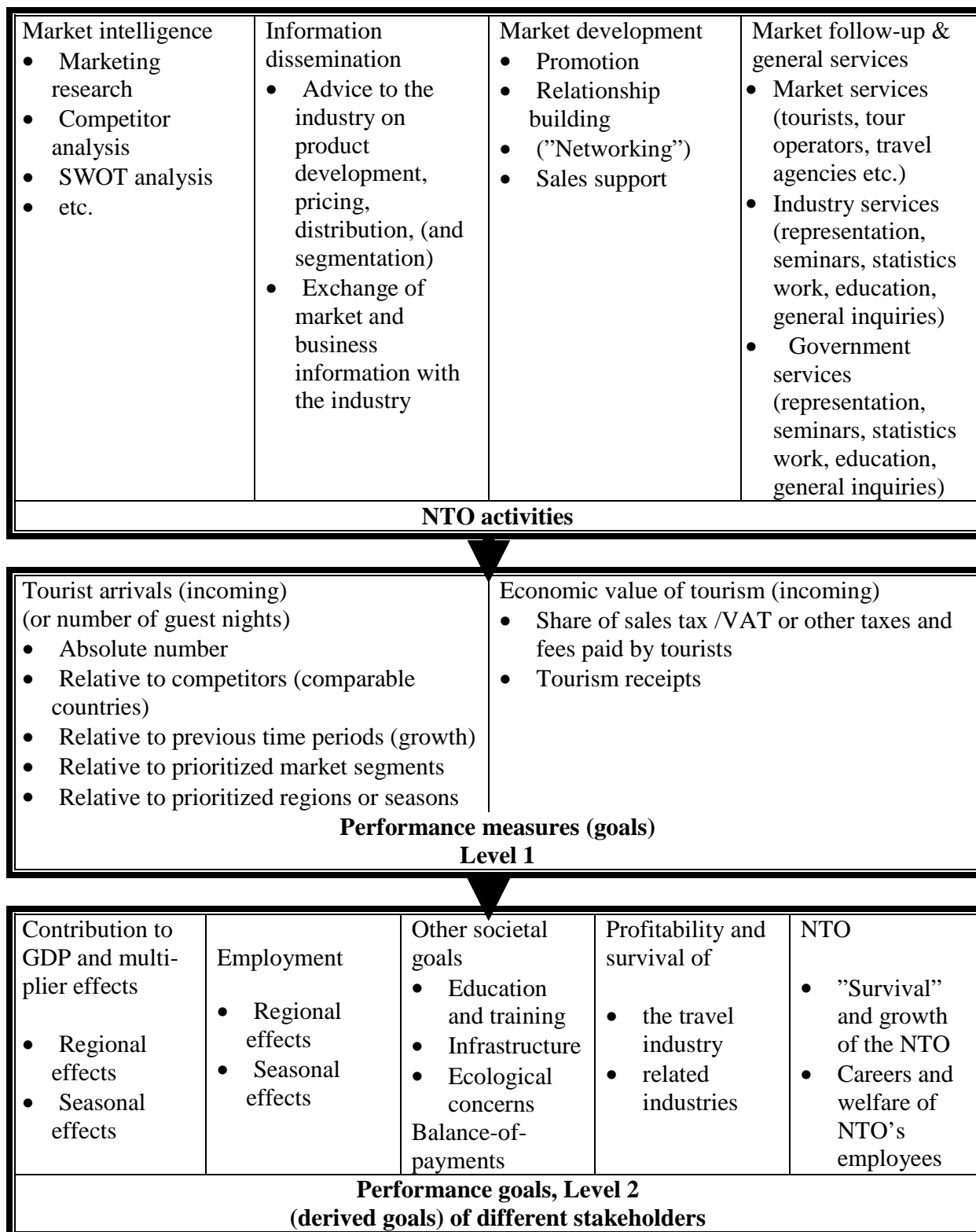


Figure 3.2 Activities and goals of the NTO

Since the NTO should possess the most adequate expertise in international tourism marketing, it seems natural that the NTO should be the most competent organizational entity in translating goals to actions. Performance-based control should motivate the NTO to seek success and avoid failure because

- Performance-based control will make it simpler for the stakeholders to monitor the NTO (and reduce the need for the NTO to engage in existence justification efforts).

Activity-based control mechanisms require considerable effort – particularly if the various stakeholders are involved in the planning processes.

- Performance-based control allows considerable autonomy to the NTO

This may be particularly important when conditions change that call for quick adjustments. Autonomy will reduce the need for the organization to justify its actions and to seek acceptance and approval of its decisions.

- Performance based control will motivate and require the NTO to acquire necessary expertise

In an activity- based system, the NTA¹⁵ or other dominant stakeholder entity, will have to build sufficient competence to define sensible activities and goals. This is in fact paradoxical to the establishment of an NTO in the first place, since the main reason for establishing an NTO is that the organization has unique competence to market the nation as a tourist destination. In a performance based control regime it is the NTO's responsibility *and motivation* to acquire the human resources needed for goal fulfillment.

3.2.1 Criteria for choosing performance-based control

Assuming that e.g. increased employment or economic growth is the ultimate purpose for establishing an NTO, does not imply that such goals also should be the goals by which the NTO's performance is judged. A number of criteria for evaluating the adequacy of a given performance measure can be listed:

- To what extent is the performance measure the outcome of the NTOs actions?

Ideally it should be possible to identify the direct impact of the NTO's actions. Effects can, however, at best be estimated – and rarely measured directly. The reason for this is that only a limited amount of changes in the various performance variables listed in Figure 3.2 are attributable to the NTO. Changes in employment, for instance, do not only reflect the success of the NTO in attracting more tourists, but can be attributed to employment procedures as well as to various demand and economic factors beyond the

¹⁵ NTA= National Tourist Authority, the government body responsible for tourism matters. Can often, for instance, be an integral part of the Ministry of Transport, Trade, Culture etc, in a given country.

control of the organization. This situation is not unique for the tourism sector. The success of most companies in the tourism sector as well as in other industries is not solely attributable to the company itself, but is the outcome of a number of circumstances and exogenous factors. A minimum requirement is, however, that the performance measure (at least partially) reflects the "true" performance of the NTO. We believe this particularly will be the case for the level-one performance measures listed in Figure 3.2. By choosing the most attractive market segments, making professional decisions with respect to marketing and promotional activities and disseminate market relevant information to decision makers in the tourism sector, the NTO should at least partly influence performance variables like tourist arrivals and measures of the economic value of tourism. Performance variables at level two will be more indirectly related to the NTO's decisions than the ones at level one.

- To what extent are the performance measures related to ultimate goals?

If we assume that the various economic goals listed at level two are legitimate goals and reasons for marketing the country as a tourist destination the question is how closely these goals are related to the level one measures. It seems plausible to assume that although other factors (such as prices, exchange rates and managerial practices in the tourism sector) will obscure the relationship between level-one and level-two variables, the relationship will be pretty strong.

More problematic are the relationships between e.g. tourism arrivals and variables that are relevant from an ecological perspective.

- To what extent can performance measures be directly tied to "success criteria" and internal goals of the NTO?

It is desirable that performance measures are strongly related to internal goals and success criteria for the NTO. This can be obtained through some incentive mechanism that ties e.g. influx of tourists or tourism derived income to the budget of the NTO so that the resources available for the NTO will be correlated with the performance variable the organization is assumed to influence. Through this incentive mechanism the NTO will to some extent be "self-monitoring" and thereby make it less required for external stakeholders to monitor and control the organization. Market related performance measures should in a sense promote markets and customers to become the NTO's most important stakeholder.

3.3 What determines market performance?

Exogenous factors

It is rarely possible to isolate market performance as a pure organizational achievement. The market performance of an NTO has to be estimated rather than measured as stated

above. The reason for this is that market performance, e.g. in terms of increase in number of tourists or value of tourism never will be the accomplishment of the NTO alone, but most likely will depend on a number of exogenous factors. Such factors include political, economic and climatic conditions in addition to a host of other variables as illustrated in Figure 3.3. These factors are of course important, but are not within the main scope of this study. The factors we are interested in for this particular study are the ones shaded/highlighted in Figure 3.3, because they are the ones one can control from an administrative set-up perspective.

Characteristics of the NTO's decision making

We assume that three characteristics of NTOs' decision making will affect their ability to influence the market:

- *market focus* – i.e. the degree to which the market gives the premises for NTO's decisions and activities, e.g. the design of promotional material and campaigns, choice of market segments and positioning of products and travel destinations.
- *long term perspective* – i.e. the NTO's ability to make decisions that are optimal in the *long run*, and
- *operational freedom* – i.e. the degree to which the NTO has the freedom to make decisions without interference from other organizations

Neither of these characteristics are sufficient conditions for good market performance, but we believe that a sustainable strategy will require a combination of the three, i.e. market success requires not only a market focus, but long-term perspective and operational freedom as well.

Organizational make-up and resources

The three aspects above will reflect the organizational make-up with respect to a number of factors as illustrated in the figure:

- human capital
- professional attitudes
- financial resources
- organizational culture

Based on our research we strongly believe that the NTOs vary considerably in terms of the characteristics listed. Human capital varies obviously both quantitatively and qualitatively and economic resources vary from less than a million US\$ per year to far more than 100 million. In some NTOs the government receives considerable attention, while others appear much more oriented toward their markets.

To the extent such organizational traits determine the market performance of the NTO through their impact on the way the NTO makes its decisions, an important issue is *how* the stakeholders can influence these traits. This influence can obviously be achieved

directly by taking part in e.g. hiring decisions. However, influence can also be attained through other sources of control.

Sources of control

There are reasons to believe that the nature of organizations and the way they act are partly determined by the following factors:

- on *what basis* are the financial sources provided, i.e. what budgeting principles are in use?
- *who* provides the financial sources?
- *who owns* the organization or in some way exerts *control*

Budgeting principle

The amount of resources devoted to the NTO can be based on the acceptance of activity plans or be tied to organizational performance (i.e. the performance of the tourism industry in term of influx of tourist or economic value of tourism). Furthermore, they can be allocated as a more or less fixed sum from year to year.

In the empirical part of this thesis we have included eight budgeting principles, some of which can be termed mainly performance-based, and some that are mainly activity-based. Some of these principles are currently in use in NTO administrations, while some are potential principles not in use today.

Funding source

It is reasonable that contribution of resources is an important source of power. Organizational control will be exchanged for monetary resources. The character of organizations like NTOs will thus partly reflect who provides its economic resources. To the extent the stakeholders differ with respect to how they perceive goals should be prioritized, and perception of reality and cause-effect chains, funding source should be an important issue.

We have included three alternatives in the empirical part: public funding, the travel and tourism industry, and a combination of the two.

Organizational “ownership”

Who “owns” or controls the organization (i.e. what entity the organization is responsible towards or what entity is above the organization in line of command) will most likely influence the organization as well. Control of the organization can also be attained through power over appointment of key staff or by board representation, which in turn will influence the decisions made by the organization and the priorities of the NTO. Organizational control is often interconnected with the funding source, but it is

conceivable that no direct relationship exist between the two. For instance, some NTO's are completely government funded, but at the same time have strong industry board representation.

A simplified research model

The model depicted in Figure 3.3 is quite unwieldy and does not lend itself easily to empirical investigation. The simplified version shown in Figure 3.4 contains the shaded parts of the more complete model and gives the conceptual framework for the empirical part of this thesis.

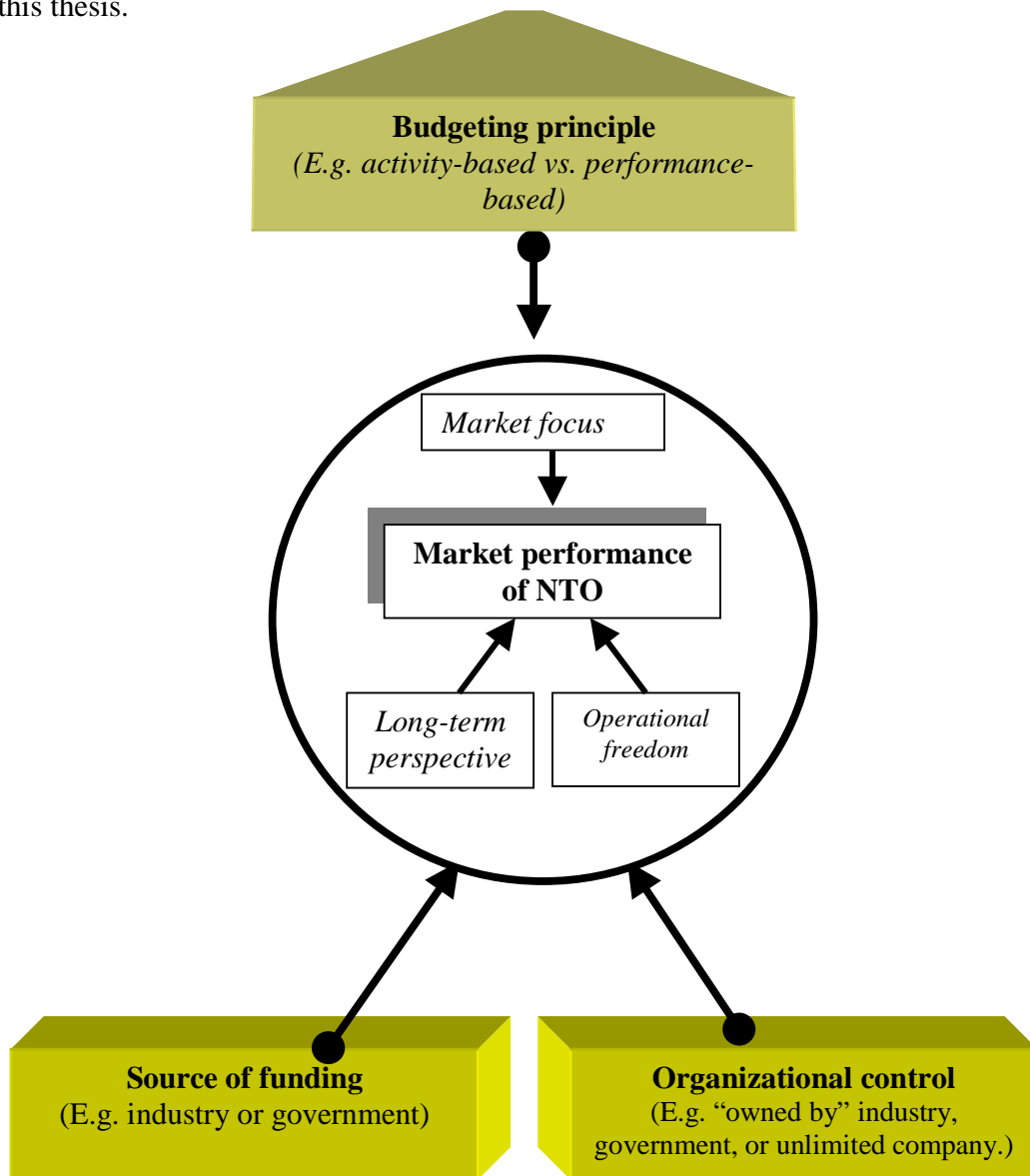


Figure 3.3 A simplified research model

4.0 Methodology

The following section explains the choice of research method of this thesis and how the empirical part was carried out.

4.1 The application-of-established-theory approach

Without any clear-cut normative, prescriptive theory and no opportunity to do a strictly controlled experimental causal study, we chose to use an experimental “laboratory” (i.e. focus group) approach, using a scenario technique in a correlation design. The technique uses descriptions of the NTOs in terms of the 3 categories of principles (*budget-principle*, *funding source*, and *organizational control* as independent variables) systematically combined into scenarios. The experiment involves having all the proposed scenarios evaluated in terms of the expected consequences by expert respondents from different cultural and professional backgrounds within the OECD community. These consequences were operationalized in terms of the organization’s *market orientation*, *long term operation* and *operational freedom*, comprising the dependent variables. Thus the correlational design entails a measurement and analysis of the correlation between the principles (independent variables) and the expected effects (dependent variables). The principles’ applicability for NTO-administrations were evaluated by international key-informants with backgrounds from both NTOs and involved stakeholder groups (i. e. government and industry) along with some independent informants representing the society-stakeholders. Because many of the respondents had prior experience with several of the principles, and generally possessed a thorough understanding of the workings of “real world” NTO contexts, we found these respondents capable of making qualified judgements of the expected consequences of the scenarios. This was done for both the already implemented and principles and the suggested ones not yet in use. As mentioned above, pre-existing theory is not, in isolation, sufficient to provide us with such qualified judgements. This was the rationale for the chosen approach to the empirical part of this study, as shown in Table 4.1.

The main goal of the present study was to assess the perceived consequences of different potential arrangements for financing and controlling NTO's. Consequently, we were not searching for one optimal arrangement, but were more interested in the perceived consequences of different arrangements from the perspectives of the NTA, NTO and the travel industry, (and in a few cases, the society). A heterogeneous make-up of the respondent groups, representing various stakeholder interests, was necessary to safeguard that the interest of *overall* stakeholders were reflected in the evaluation of the principles (ref. Figure 1.1). Furthermore, we were not only concerned with arrangements currently in use, but also with several potential arrangements that are not in use today. These arrangements were included to provide a more complete assessment of potential alternative financing and control arrangements, instead of confining the evaluation to existing arrangements with the danger of leaving out promising candidates.

4.2 The theoretical-empirical dilemma in the NTO-context

The theoretical framework presented in Section 2 leaves us with no absolute directions as to which principles would be most beneficial for a NTO administrative set-up. This kind of “conflicting theoretical implications” makes it virtually impossible to formulate distinct hypothesis that can be used to *test the theory empirically to see if it is true* using a true experimental causal research design. In case the implications of applicable theory had been less conflicting, we could (in theory) have formulated proposals assessing which principles that would have been optimal from a theoretical perspective. As an “empirical reality test” we could have compared these theory-derived proposals to the empirical data, which represent expert evaluations based on the experts’ real world experience and their cultural frame of reference. Then we could have tested for discrepancies between the two. Unfortunately, without a clear theoretical agreement, such an exercise will at this stage will become quite meaningless. However, a further development of the theory framework and additional empirical data could make such an approach feasible in the future.

Furthermore, the theory review and contextual framework offers several possible interesting principles that are not in use in NTO administrations today. Theoretically, it would have been interesting to test all the principles’ effect on the market performance of NTOs. For instance, one could then have tested whether performance-based systems would have had a positive impact on the organizations market orientation, and whether this in turn would have had a positive impact on NTO market performance through some form of a *quasi-experiment*.

The empirical test-problem is that the population of existing NTOs do not apply many of the applicable principles derived from the theory that we are interested in. This leaves out several of the principles as treatment variables, because they cannot be empirically manipulated. Furthermore, there seems to be little variation in the population of NTOs in terms of the already existing principles (see Table 5.1). If one were to only test existing principles’ impact on market performance, one would end up with too little variation in the independent variables (principles) to give them any real explanatory power. This leaves out the possibility to do a quasi-experiment.

Assuming then, that we would have had the desired variation in principles in the population, we would probably have had to do a time-series analysis over several years. This is because changes in the NTO administrations in terms of the principles would have probably taken several years to show effects in market performance, due to the time lag of effects inherent in the NTO-market system. Obviously, this is beyond the resource pool and time frame of this thesis and the parallel project. This leaves out the possibility to do a *natural experiment*, as shown in Table 4.1 below.

Table 4.1 Considerations for choice of research design and empirical testing

Empirical Option	Possible?	Practical?	Comments
Compare theory with practitioners' evaluation of principles' consequences for NTO's incentives and working conditions. Apply practical and political considerations to arrive at recommendations.	YES	YES	IS DONE in first empirical part of study (Section 5)
Correlate independent variables with "dependent" variables to suggest effects.	YES, possible for independent variables "Funding source" and "Organizational control", but not for all applicable "Budget Principles". YES, for all dependent variables.	YES, for the independent variable "Funding Source", where quantitative data were readily available. Descriptions of "Org. Control" are "fuzzy" and a matter of opinion. YES, for dependent variable "Market Orientation". YES, for "Operational Freedom" and "Long-term Focus", but no established measurement instrument has been developed at present time. (The two other dependent variables (OF and LTF) are also partially discussed in the ECT study referred to later in this text, in Section 5.2.3 p. 74)	IS PARTIALLY DONE in second empirical part of study (Section 6, "Funding Source" vs. "Market Orientation") (Further work building on this thesis will address the other variables).
Formulate hypothesis and test them in a traditional causal design	NO Cannot formulate testable hypothesis due to conflicting implications of theory	YES	Can't be done at this stage.
Correlate existence of any given principle with corresponding NTO's market performance	NO Not all relevant principles present in population	YES	
Time series analysis for detection of principles' effect on changes in market performance	YES, assuming all relevant principles could be introduced	NO It would have been beyond the time frame and available resources for the project.	
Test through causal, controlled "laboratory" experiment	YES, assuming testable hypothesis and all relevant principles present in population	NO Cannot control treatment variables	
Test "dependent" (intermediate) variables effect on market performance	YES	YES, but this is already done in other studies in commercial contexts. Many uncontrollable, intervening macro-variables will obscure data.	Can be done, but is meaningless
Compare theoretical experts' evaluation with practitioners' evaluation of principles' consequences (NTO's incentives & working conditions)	YES, but at present stage likelihood of theoretical agreement will obscure theoretical evaluation	YES	Can be done, but is meaningless at present stage. (Further work will address this issue)

Another conceivable approach could have been to test if any of the dependent variables (e.g. market orientation) would have had any effect on the NTOs' market performance. However, similar studies have already been done with commercial organizations as the unit of analysis (see Appendix 2). Replicating such studies in the NTO-context we find will not contribute much to our understanding. Furthermore, the NTO-contexts contain intervening macro-variables (e.g. currency exchange rate, climate etc.) beyond the control of the NTO itself. The studies cited are of commercial organizations within the same country exposed to roughly the same macro variables. In the case of a international sample of NTOs, these uncontrollable factors would expectedly have generated a great amount of cross sample unexplained variance in the data. Thus, such an approach would have been very difficult and probably a waste of time. In addition, it would have been very hard to obtain a sufficient sample size of NTOs.

4.3 Sample

The effect of different arrangements with regard to budgeting principles, financial source and organizational control was assessed through a set of group interviews conducted in a number of different OECD-countries. In this section we will briefly present the sample and the data collection procedures.

The study is based on a convenience sample including OECD-countries that agreed to participate. Agreement and assistance from the involved tourism administrations were necessary to recruit the desired group make-up representing stakeholders and NTOs. However, despite the use of a convenience sample, we have reason to believe that the respondents are representative of individuals in the real world setting of interest. We have purposely sampled individuals who vary on important dimensions (i.e. stakeholder type and cultural background) that characterize the members of the target population, as suggested by Calder, Phillips and Tybout (1981). The group interviews and data collection procedures were conducted in the following countries in the order as shown:

1. Norway
2. Sweden
3. Denmark
4. UK (British Tourist Authority)
5. The Czech Republic
6. Slovakia
7. Austria
8. Luxembourg
9. Spain
10. Portugal
11. South Korea
12. Japan
13. Canada
14. Finland

Three to eight persons representing the government (NTA), the NTO, and in some instances, the travel industry¹⁶ and took part in the interviews. The interviews were conducted between June and September of 1999. With the exception of the UK and South Korea, where only one person was responsible for the interviews, a team of two researchers was conducting the interviews.

The research design was pre-tested on 1) Ph.D. students at The Norwegian School of Economics and Business Administration, and 2) a group of executives from two local Norwegian tourism organizations.

4.4 Data collection

The following procedure was used for the interviews:

1. A brief introduction to the project was presented to the participants
2. The second stage included a presentation of the various principles for budgeting, funding sources, and ownership/control arrangements. The participants were then asked to compare these principles with the current practice for their own country. The group collectively participated in this process.
3. Then the group was introduced to 3-4 scenarios containing combinations of budgeting principles, funding source and ownership arrangements to familiarize the group with the procedure
4. Finally, group members individually evaluated the likely consequences of 3-7 scenarios each so that the group in total evaluated a set of 22 scenarios.

The purpose of stages 1 through 3 was to familiarize the group members with the research design and data collection procedure. Furthermore, stage 2 provided useful information for comparison of the different arrangements found in the participating countries. Stage 1 through 3 was videotaped for further analysis of any verbal statements and contextual information that surfaced during the presentation and the group discussion. Stage 4 was important to obtain a systematic comparison of different potential arrangements, including principles not currently in use in any participating countries.

Each of the 22 scenarios consisted of

- a) one budgeting principle (out of 8 principles in total)
- b) one form of organizational control (out of 3 possible forms)
- c) and one source of funding (out of 3 possible sources)

(See Table 5.1 for a list of the independent variables (principles))

¹⁶ In a few countries people from research institutes participated as well, presumably representing neutral stakeholders.

The scenarios were developed according to a factorial design similar to that used in Conjoint-analysis. Conjoint-analysis is a method used to estimate how preferences (or *utility*) for alternative unique *combinations of attributes* (here “scenarios”) is determined by the partial preference of the different *attributes* (here “principles”). By presenting the respondents various alternatives that systematically vary on the attributes thought to have an impact on the preferences, it is possible to get an estimate of how each attribute contributes to the overall preference (or utility) of the alternative. In our case, the respondents are asked to evaluate alternatives in the form of so called “scenarios” that systematically varied with respect to budgeting principle, funding source, and ownership/control of the NTO. Each of the 22 scenarios that the groups evaluated were evaluated on the basis of 18 different evaluation criteria, of which 14 were used for the analysis (see Appendix 3). In a traditional conjoint-analysis design each individual would have had to evaluate all 22 scenarios. In our research design, the different scenarios were allocated evenly across the respondents in the groups, because the evaluation task otherwise would have been too demanding. This will, of course, reduce the method’s predictive value somewhat. Most of the quantitative analyses presented in this thesis are carried out using ANOVA.

Each one of these scenarios was evaluated for its perceived impact on NTO’s market orientation, long-term operation ability, and operational freedom. (See Appendix 4 for operationalizations of the dependent variables, and a sample of the scenarios in Appendix 5)

Following the session, a “debriefing” was conducted where the group members were asked to express their views on the research design and procedure.

5.0 Results of the scenario evaluations

In the following sections we will present the results of the study of the sample group consisting of all 14 countries combined.

5.1 Outline of results-section

1. First, the combined results originating from the group assessments of the current practice will be presented and discussed. These results will be discussed as to the degree of
 - activity-based budgeting
 - performance-based budgeting
 - government vs. industry funding
 - government vs. industry control
2. Second, we will discuss how each of the three main groups of principles
 - 1) budgeting principle,
 - 2) funding source, and
 - 3) ownership/organizational controlare estimated by the respondents to have an impact on
 - 1) market focus
 - 2) long-term perspective
 - 3) operational freedom/decision autonomy
3. Third, we present the NTO representatives' self-assessment of the NTO's degree of market orientation

5.2 Existing practices described in terms of the principles

Table 5.1 depicts how the proposed 14 principles are assessed to be descriptive for the practices currently implemented across our sample of OECD countries. Based on Table 1, the principles can be split into three categories:

- 1) Principles that describe the current practices well
- 2) Principles that in some instances are descriptive for the current practice
- 3) Principles that have little resemblance with the current practice.

5.2.1 Principles that describe the current practices well

The four principles that most often describe the current practices are listed below. In most countries in the sample the budgets are based on a fixed amount that is decided each year, but the amount is usually in line with the amount allocated last year. In Denmark, the government portion of the budget is allocated for a period of three years at a time.

1. NTO's budget is based on a fixed sum decided each year (5.10)¹⁷
2. Central (national) government is the source of the funding (5.32)
3. NTO is funded jointly by the government and the tourism industry (3.92)
4. NTO "owned" or responsible towards the government (5.92)

In most instances the central (national) government is the main source of the funding for the NTO. One cannot always equate the amount obtained from the industry with private sector funding, since some of the non-central government funding may originate from other public funds. Usually, there are two parts of the budget: one central government (core)-part, and one part provided by the private sector. In most countries, the government-part of the budget is decided each year, but does not vary considerably from one year to another.

In addition, the NTO is in most cases perceived to be "owned" or responsible towards the government, while (in some countries) industry representation in NTO boards contributes to the score on principle 12 ("owned" or responsible towards the industry).

5.2.2 Principles that in some instances are descriptive of the current practice

The principles listed below are in some instances descriptive of current practice in the sample countries. The tourism industry contributes with funding of specific projects quite frequently. These co-operative projects are in some instances initiated by the NTO itself, while in other instances, the projects are initiated by the industry. In other cases, the funding contributed by the industry originates from public funds - first channelled to the industry and later (partially) redistributed to the NTO.

1. The budget is based on sale and participation in specific projects (2.79)
2. The budget is negotiable and based on an evaluation of NTO's marketing plans each year (2.39)
3. NTO is funded by the industry (3.00)

¹⁷ The item representing fixed sum was changed after interviews were conducted in Norway, Denmark and Sweden so that "the three year period" was changed to "one year".

Some groups reported that prior to funds-allocation to the NTO from government funds, there were some form of “negotiations” with the government on the size of the budget based on NTOs plans for next year’s activities. However, in most such cases, the final

Table 5.1 The degree to which the principles are descriptive of current practices
(1=Does NOT describe the situation, 7=Describes the situation)

Type of Principle	Principle	World sample (Average score)	Most frequent score (# of countries)
Budget principle (8 principles)	1. NTO’s budget one year is based on last available estimates of the amount of money spent by incoming visitors and/or estimated number of incoming visitors the previous year	1.18	1(12)
	2. NTO’s budget one year is tied to the increase/decrease in the amount of money spent by incoming visitors (or the number of visitors in NTO’s country) relative to” comparable” countries the previous year	1.07	1(13)
	3. NTO’s budget is based on sale and participation in specific projects	2.79	2(4)
	4. NTO’s budget is negotiable and funded based on overall evaluation of the NTO’s marketing plans each year	2.39	1(5)
	5. NTO’s budget is based on a fixed sum decided each year	5.10	7(5)
	6. NTO’s budget is tied to the achievement of a number of goals that are agreed upon each year	1.43	1(10)
	7. NTO’s budget is based on the revenue generated from taxation on visitors and the travelling public	1.07	1(13)
	8. NTO’s budget is based on the revenue generated from fees and taxes paid by the travel and tourism industry	1.00	1(14)
Funding source (3 principles)	9. NTO is funded by the government	5.32	7(5)
	10. NTO is funded by the travel and tourism industry	3.00	2(4)
	11. NTO is funded jointly by the travel and tourism industry and the government	3.92	1 and 7(6)
Ownership/control (3 principles)	12. NTO is a non-profit organization owned by and responsible toward the travel and tourism industry	1.93	1(9)
	13. NTO is a non-profit org. owned by and responsible toward the government	5.92	7(9)
	14. NTO is a limited corporation owned by shareholders within and outside the travel and tourism industry	1.43	1(13)

size of the budget is rarely a direct result of these “negotiations”. More often, the size of the budget is a consequence of the government’s overall budget situation, resulting quite often in a situation where prior years’ precedence determined the final NTO budget the following year.

In theory, both project-based financing and funding based on activities and plans are behavior- or activity-based budgeting principles. In practice, the degree of activity-based budgeting practice depends on the NTO’s freedom and ability to set goals and to decide the project activities. It also depends on the NTO’s freedom and financial ability to decline certain projects (or goals) that are not found to be compatible with a professionally based overall market strategy.

Why industry funding has a relatively high “score” (3.0), can be explained by the fact that the industry quite often contributes to NTO’s budget through (partial) financing of projects. The industry contributes usually in one of two ways: In some cases the industry contributes financially to specific projects without this practice being a formal requirement from the NTA (government) – as opposed to cases where there is a formal matching-requirement. In other cases, there is such a matching requirement, designed so that the government will match the amount contributed by the industry. Consequently, the NTO budget in such countries contains both a government and industry portion.

As noted, industry funding has a relatively high “score”, which may contribute positively to the organization’s professionalism and market orientation, particularly *if the tourism industry in the country is highly market oriented*. Substantial levels of industry contributions may increase the industry’s commitment to the organization. Furthermore, in some countries industry contributions appear to increase the NTO budgets to levels that are more competitive in the tourism market to levels that would have been hard to reach with government funding only.

However, as the scenario evaluations show, industry funding may put serious constraints on the organization’s freedom to act and long-term planning perspective. Industry funding can also give legitimacy to the NTO and be considered as evidence that the organization is professional and also deserves financial support by the government. On the other hand it is possible that marketing efforts directed at the industry (“industry lobbying”) could absorb resources that could be better spent elsewhere.

5.2.3 Principles that are not descriptive of the current practice

The principles listed below are rarely or never descriptive of the current practice:

1. NTO's budget one year is based on last available estimates of the amount of money spent by incoming visitors and/or estimated number of incoming visitors the previous year (1.18)
2. NTO's budget one year is tied to the increase/decrease in the amount of money spent by incoming visitors (or the number of visitors in NTO's country) relative to "comparable" countries the previous year (1.07)
3. NTO's budget is based on the revenue generated from taxation on visitors and the travelling public (1.07)
4. NTO's budget is based on the revenue generated from fees and taxes paid by the travel and tourism industry (1.00)
5. NTO's budget is tied to the achievement of a number of goals that are agreed upon each year (1.43)
6. NTO is a limited corporation owned by shareholders within and outside the travel and tourism industry (1.43)
7. NTO is a non-profit organization owned by and responsible toward the travel and tourism industry (1.93)

As shown in Table 5.1, performance- or outcome-based financing is not practiced. In several countries, law or established practice does not allow tax revenue to be earmarked for any particular purpose. Thus, tax revenue on tourists or the industry, which in principle reflects the amount of revenue generated from tourism business (and could in theory be viewed as an indirect performance measure), will not be earmarked for funding of the NTO. However, on the local/regional level in some countries, such tax links are in effect: Local tax revenues (e.g. "kurtax") are used for financing local/regional tourism marketing organizations (e.g. Austria and Spain). Principles # 1,2, 7, and 8 are not common in international practice. Principle 7 and 8 are performance-based to the extent that the budgets of the NTO do not reflect changes in tax rates, but only reflect changes in the bases on which the taxes are levied. However, it is probably incorrect to claim that the NTOs are entirely free of performance-based budgeting practice. The reason why most of the principles linked to performance (1,2, (6,) 7, and 8) do not have a score of 1.00 (lowest = non existent), is because it (in a few instances) was expressed that good market performance one year could provide a basis for determining the size of the next year's budget - without this being established in a formal way. It was pointed out that a lack of measurable results or no results of NTO-projects most likely could cause private sector and government to curb their spending on the NTO- at least in the long run.

Why the limited company principle does not have a score of 1.00 (lowest) either, is because that in some countries the NTO itself has control of/owns commercial companies. In instances where the industry has significant board representation, the NTO is sometimes perceived as being partially owned/controlled by the industry. Generally, the “typical” NTO holds the following characteristics:

- Project financing is quite common
- Budgets based on evaluations and plans is also common
- Fixed sum (core) budgets are decided upon each year
- Budgets are not performance-based in the sense of being tied to quantifiable effects in the *tourism market*
- The NTO is predominately funded by the government, and in some instances jointly by the government and the industry

Through board representation in the NTO by the industry (in several countries), the NTO is perceived to be “owned/controlled” to some degree by the industry.

5.3 Scenario evaluations: The importance of the principles for NTO’s decision making

In this section we will address how the participants assessed each of the various scenario they were exposed to in terms of their impact on

- market focus
- long term perspective
- operational freedom

ANOVA (Analysis of variance) is used to test whether evaluations vary systematically with the type of principle. The presentation is organized as shown in Table 5.2. An overview of results and operationalizations of the various constructs are shown in Table 5.3 and 5.4. We only discuss principles that receive scores that are substantially higher or lower than the scores obtained for other principles. When interpreting the results, a caveat is in order: A “low” score does not imply a negative score on the scale used. It only implies that the principle in question on the average gets a score that is considerably lower than the other principles with which it is compared.

Table 5.2 Structure of presentation of scenario evaluations
(numbers in the cells refer to paragraphs)

Dependent variable	Principle		
	Budgeting principle	Funding source	Ownership
5.3.2 Market focus	5.3.2.1	5.3.2.2	5.3.2.3
5.3.3 Long term perspective	5.3.3.1	5.3.3.2	5.3.3.3
5.3.4 Operational freedom	5.3.4.1	5.3.4.2	5.3.4.3
5.3.5 Conclusion			

5.3.1 The relative impact of the principles

Table 5.3 below shows the relative impact of the three main groupings of the principles (i.e. budget principle (P1-8), funding source (P9-11), and ownership/control of the organization (P12-14)) on the aspects we are interested in, which are *market orientation*, *long term focus*, and *operational freedom*.

From the information in the exhibit, it becomes apparent that:

- 1) The budgeting principles have less importance for *market orientation* than for the ability to plan and operate on a *long-term* basis and *the freedom to operate* (decision autonomy).
- 2) The *budgeting principles* are clearly more important than both the *funding source* and the *ownership/control* of the NTO with respect to all the three evaluative aspects.

Table 5.3 The relative impact of the three factors on *market orientation*, *long-term operation* and *the operational freedom* of the NTO

Factor	Market orientation	Long-term operation	Operational freedom
Budgeting principle	47%	60%	52%
Funding source	33%	18%	27%
Ownership/control	20%	22%	21%

The groups were instructed to “free themselves” from their country specific context as much as possible when they were to evaluate the scenarios. Despite this instruction, our experience based on the interview sessions is that the importance group members attribute to the various principles will be somewhat influenced by the economic, cultural and political context prevailing in the respondents’ countries. (E.g. respondents from countries that have experienced a decrease in government spending on tourism aspects, will perceive government involvement in financing and political control of NTO differently from those who have witnessed an increase in government spending.)

One condition that reduces the cross-sample comparability, is that the wording of one of the principles (P5), was changed slightly after the interviews in Norway, Sweden and Denmark were completed. In these countries, the principle was formulated so that the respondents were asked to evaluate the effect of *a fixed sum negotiated for a period of 3-5 years*, while the respondents in the other countries were asked to evaluate the effect of a *fixed sum decided each year*.

5.3.2 Effects on market focus

A scale of *market focus* was measured¹⁸ as the mean (on a scale from 1-7) of the following items:

- *Collection of information on customer needs and preferences*
- *Communicate information about the market to the tourism industry*
- *Influence the tourism industry to improve their products*
- *Collect and analyze information about competitors*
- *Use of market information when designing communication with the market*

These items overlap to some extent with the concept of "market orientation" which will be discussed in more detail later. In the next paragraphs we will discuss how market focus relates to budgeting, funding source and ownership.

5.3.2.1 Effects of budgeting principle on market focus

High scores

Market orientation reflects the organization's ability or tendency to collect, analyze, distribute and act upon market information about demand and supply. The *budgeting principle* that the respondents most often assumed would facilitate this orientation is a budgeting principle based on relative market performance. The respondent group perceives the following NTO budgeting principles to have a positive effect on market focus of the organization (numbers show mean score):

- P2: Budget based on the increase/decrease in the amount of money spent by incoming tourists (international tourism receipts) relative to "comparable" countries **(5.24)**
- P4: Budget based on evaluation of the NTO's marketing plans each year **(5.00)**
- P1: Budget based on the last available estimates of the amount of money spent by incoming visitors (international tourism receipts) the previous year **(4.89)**

It is notable that, while the principles ranked number one and second (P2 and P1) in terms of their impact on market focus are performance-based principles, this is not the case for the third most important principle P4, *Budgets based on evaluation of the NTO's marketing plans each year*.

Low scores

The budgeting principle that received the lowest evaluation (mean 3.72) in terms of its impact on market focus, was P7: *Budgets based on the revenue generated from taxation on visitors and the travelling public*. It is interesting to note that this principle in fact can

¹⁸ the items were factor analyzed and were found to correlate highly with one factor

Table 5.4 World sample scenario evaluations

Focus	Best principles*	Worst principles*
<p>Market focus</p> <p>Scores (1-7 scale) based on the following measures:</p> <ul style="list-style-type: none"> • <i>Collection of information based customer needs and preferences</i> • <i>Communicate information about the market to the tourism industry</i> • <i>Influence the tourism industry to improve their products</i> • <i>Collect and analyze information about competitors</i> • <i>Use of market information when designing communication with the market</i> 	<p>Budgeting principle</p> <ul style="list-style-type: none"> • P2: Budget based on the increase/decrease in the amount of money spent by incoming tourists relative to “comparable” countries (5.24) • P4: Budget based on evaluation of the NTO’s marketing plans each year (5.00) • P1: Budget based on estimates of the amount of money spent by incoming visitors the previous year (4.89) <p>Source</p> <ul style="list-style-type: none"> • P11: Joint funding by the travel and tourism industry and government (5.13) • P10: Funding by the travel and tourism industry (5.11) <p>Ownership/Control</p> <ul style="list-style-type: none"> • P12: NTO is a non-profit organization owned by and responsible towards the travel and tourism industry (5.07) • P14: NTO is an unlimited corporation owned by shareholders (4.92) 	<p>Budgeting principle</p> <ul style="list-style-type: none"> • P7: Budget based on the revenue generated form taxation on visitors and the travelling public (3.72) <p>Source</p> <ul style="list-style-type: none"> • P9: Funding by the government (4.11) <p>Ownership/Control</p> <ul style="list-style-type: none"> • P13: NTO is a non-profit organization owned by and responsible towards the government (4.30)
<p>Long-term operation</p> <p>Scores (1-7 scale) based on the following measures:</p> <ul style="list-style-type: none"> • <i>Long-term focus in plans and activities</i> • <i>Problems with planning due to too much fluctuations in budget</i> • <i>Difficulties to pursue long-term goals</i> 	<p>Budgeting principle</p> <ul style="list-style-type: none"> • P5: Budget based on a fixed sum decided each year (4.76) • P7: Budgets based on the revenue generated form taxation on visitors and the travelling public (4.17) • P4: Budget based on evaluation of the NTO’s marketing plans each year (4.00) <p>Source</p> <ul style="list-style-type: none"> • P9: Funding by the government (3.96) <p>Ownership/Control</p> <ul style="list-style-type: none"> • (P14: Governm. funding scores highest (4.02, not significant)) 	<p>Budgeting principle</p> <ul style="list-style-type: none"> • P3: Budget based on sale and participation in specific projects (3.08) • P1: Budget based on the amount of money spent by incoming visitors the previous year (3.37) • P2: Budget based on the increase/decrease in the amount of money spent by incoming tourists relative to “comparable” ctr. (3.38) <p>Source</p> <ul style="list-style-type: none"> • P10: Funding by the industry (3.28) <p>Ownership/Control</p> <ul style="list-style-type: none"> • (P10: Limited Corp. scores lowest (3.51, not significant))
<p>Operational freedom</p> <p>Scores (1-7 scale) based on the following measures:</p> <ul style="list-style-type: none"> • <i>Will allow the NTO to be selective</i> • <i>Will (not) make the NTO over-prioritize special interest</i> • <i>Will (not) make the NTO spend too much resources on sale to the industry</i> • <i>Will (not) lead to too much” lobbying”</i> • <i>Will give the NTO freedom to act</i> 	<p>Budgeting principle</p> <ul style="list-style-type: none"> • P7: Budgets based on taxation on visitors (4.29) • P5: Budget based on a fixed sum decided each year (4.23) • P2: Budgets based on the increase/decrease in the amount of money spent by incoming tourists relative to “comparable” countr. (4.17) <p>Source</p> <ul style="list-style-type: none"> • (P9: Funding by industry scores highest (4.04)) <p>Ownership/Control</p> <ul style="list-style-type: none"> • (P12: Industry ownership/control scores highest (4.22 not significant)) 	<p>Budgeting principle</p> <ul style="list-style-type: none"> • P3: Budget based on sale and participation in specific projects (3.50) • P1: Budget based on the amount of money spent by incoming visitors the previous year (3.86) • P6: Budgets tied to achievement of a number goals (3.91) <p>Source</p> <ul style="list-style-type: none"> • (P14: Funding by the government scores lowest (3.96)) <p>Ownership/Control</p> <ul style="list-style-type: none"> • (P13: Limited Corp. scores lowest (3.78 not significant))

* Principles in **boldface** are significantly better/worse than the others on the $p > 0.05$ level

be perceived of as a performance-based principle since the revenue generated for the NTO would co-vary with the value of tourism. Also, a large portion of tax revenues is obtained indirectly (i.e. income taxes of industry employees). To the extent this tax is levied in addition to other taxes (and not made a part of e.g. the existing value added tax) it may be considered an extra burden that would harm tourism. Despite its character as a performance-based principle, we believe the general negative attitude toward extra taxation is the primary reason for the low score.

5.3.2.2 Effects of source on market focus

High scores

It was not possible to identify a funding source principle that could be labeled "best" in terms of its impact on Market Orientation.

Low scores

However, one principle appears to be considered *worse* than others *Government funding* (P9) as a sole funding source is the one that has the highest negative impact on Market Orientation. This finding is consistent with our analyses of best and worst scenarios: Scenarios that contain government funding get rather consistently the lowest score in terms of market orientation.

5.3.2.3 Effects of ownership on market focus

High scores

P12, *NTO is a non-profit organization owned by and responsible towards the travel and tourism industry* and P14, *NTO is an unlimited corporation owned by shareholders* received positive scores in terms of their impact on market focus. Thus, respondents believe that an industry led or commercial organization will be more able to focus on the market than a government controlled NTO.

Low scores

Respondents are somewhat more negative with respect to how NTO as a *non-profit organization owned by and responsible towards the government* (P13) may influence the market focus of the NTO.

Differences in evaluations between NTO, NTA and industry respondents were not significant with regards to the eight *budgeting principles*. Further analyses show that there are significant differences in the way industry representatives, representatives from NTO and NTA view ownership. Not surprisingly, industry representatives give systematically higher Market Orientation ratings to the limited corporation alternative

than do the two other groups of respondents. (See figure 5.1 below). This indicates that business people has greater faith a commercial organization to be market oriented than a non-profit one even if it is industry led.

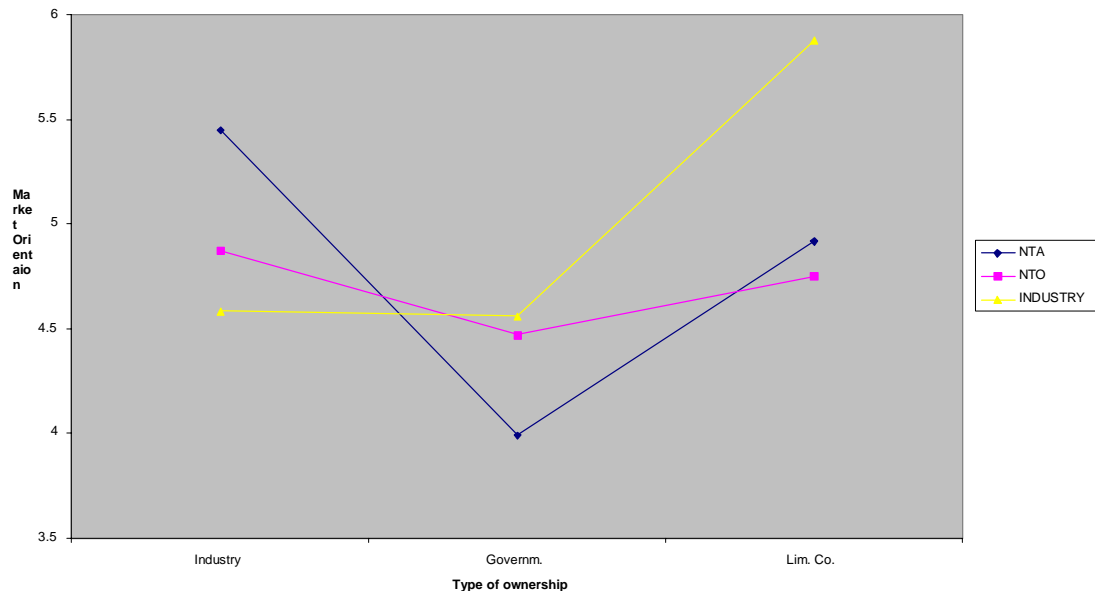


Figure 5.1 Differences between NTA, NTO, and Industry in evaluations of the effect of Ownership on Market Orientation

NTA respondents (government), surprisingly, appear to be more convinced that industry ownership would benefit Market Orientation than the two other groups. This may indicate that NTAs consider that NTOs (usually government controlled as of today) need stronger industry representation/control in order to become more market oriented. It may also indicate that NTAs' in general are not entirely satisfied with the NTOs' current focus.

5.3.3 Effects on long term perspective

A scale of *long term perspective* was measured¹⁹ as the mean (on a scale from 1-7) of the following measures:

- *Long-term focus in plans and activities*
- *Problems with planning due to too much fluctuations in budget*
- *Difficulties to pursue long-term goals*

¹⁹ the items were factor analyzed and were found to correlate highly with one factor

The two last measures were re-scaled. In the following paragraphs we will discuss how long term perspective relates to budgeting, funding source and ownership.

5.3.3.1 Effects of budgeting principles on long term perspective

High scores

None of the budgeting principles that were positively related to market focus were found to have the same impact on long term perspective. In the world sample, the three budgeting principles that were found to have the most positive impact on long term perspective, were the following (numbers in parentheses are the mean ratings):

- P5: Budgets based on a fixed sum decided each year **(4.76)**
- P7: Budgets based on the revenue generated from taxation on visitors and the travelling public **(4.17)**
- P4: Budgets based on evaluation of the NTO's marketing plans each year **(4.00)**

Long Term Orientation implies that plans and activities are carried out with long term objectives in mind. It also implies that there should not be too much short term fluctuations and that long term objectives should not be too difficult to pursue. Long Term Orientation thus both reflect the attitude toward and the ability to plan ahead. We can identify two principles that contribute to Long Term Orientation according to our respondents: One is fixed sum negotiated each year. The other principle that also has a high positive impact is taxation of tourists. The fact that the "fixed-sum-negotiated-each-year"-principle affects Long Term Orientation positively probably reflects the fact that many of our respondents underscored that the yearly negotiations were of a formal nature, and that the amount fixed tended to be quite invariant from year to year. Consequently, the budgets are not subject to considerable fluctuations, which might make planning relatively easy. The fact that taxation on tourists also contributes positively probably reflects the assumption that taxes, once they are introduced, rarely disappear - and thus may remain a stable source of income.

Low scores

Budgets based on sale of specific projects are considered an unstable source of funding; and this is the principle that gets the most negative estimated effect on Long Term Orientation:

- P3: Budget based on sale and participation in specific projects **(3.08)**
- P1: Budget based on the amount of money spent by incoming visitors the previous year **(3.37)**
- P2: Budgets based on the increase/decrease in the amount of money spent by incoming tourists relative to "comparable" countries **(3.38)**

Thus budgeting principles that are subject to changes from year to year as a consequence of changes in number of tourists and their willingness to spend their money, are believed to be an obstacle to long term planning.

5.3.3.2 Effects of source on long term perspective

High and low scores

In our world sample none of the source principles differed significantly with respect to its relationship to long term planning. Only small effects of funding principle on Long Term Orientation were observed. However, industry funding had the least positive impact.

5.3.3.3 Effects of ownership on long term orientation

High and low scores

The respondents as an overall sample seem to believe that ownership or organizational control has little bearing on the NTO's willingness or ability to plan ahead. The different respondents groups, however, differ in their view on the effect of *ownership* on Long Term Orientation as shown in Figure 5.1: Participants from the industry view industry ownership as much more positive (and in fact *the* most positive) for Long Term Orientation than the two other groups. One may speculate that, for instance NTOs, have had experiences with industry engagements that have been of a more short-term character than desired. This is in line with the findings of a 1999 European Tourism Committee (European joint organization of NTOs) study we will discuss later in this section (4.3.5).

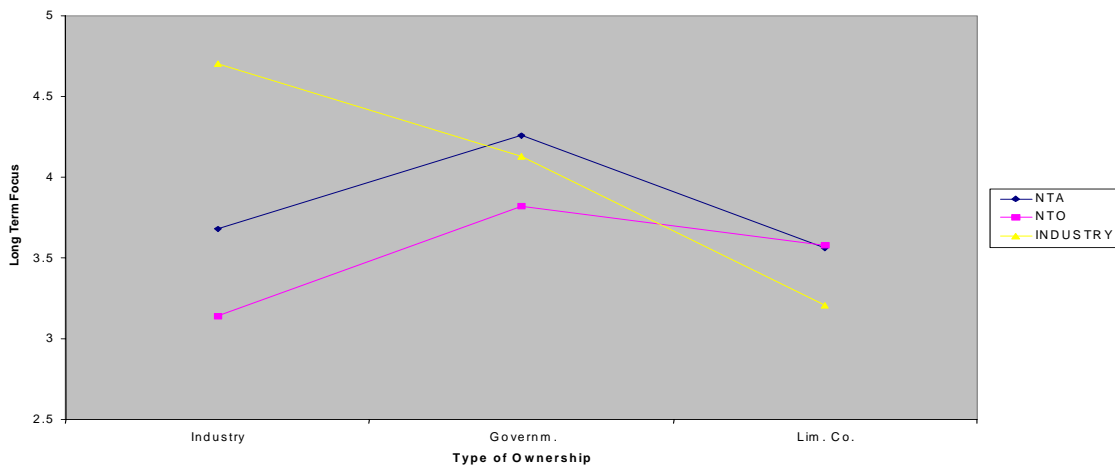


Figure 5.2 Differences between NTA, NTO and Industry in evaluation of the effect of Ownership on Long Term Orientation

5.3.4 Effects on operational freedom

Operational Freedom refers to the degree to which the NTO can make independent decisions without consideration of political issues and special interests. A scale of *operational freedom* was constructed²⁰ as the mean (on a scale from 1-7) of the following items:

- *Will allow the NTO to be selective*
- *Will (not) make the NTO over-prioritize special interest*
- *Will (not) make the NTO spend too much resources on sale to the industry*
- *Will (not) lead to too much” lobbying”*
- *Will give the freedom to act*

The scale is thus intended to reflect the degree to which the respondents believe that a certain principle will reduce the interference from groups and considerations external to the organization. According to our analyses, there is no budgeting principle (that can be clearly identified) to have a strong positive impact on Operational Freedom. The most positive is, however, taxation of tourists. The negative impact of sale of specific projects is more pronounced.

The *budgeting principles* are the only determinants of Operational Freedom. We found virtually no effects of *funding source* and *ownership*.

5.3.5 Conclusions from scenario evaluations

Results for the national groups are mostly more clear-cut than the ones obtained for all groups combined. This finding reflects the fact that although we instructed our respondents to free themselves as much as possible from the context of their own NTO; the setting and experience with the national NTOs provide a frame for responding to the various scenarios. This leads to considerably heterogeneity in the way a given principle is perceived by respondents from different countries. The perceptual differences between members of different national samples probably imply that the pursuit of one system that is optimal for all countries may be futile. However, some of the findings appear to be generalizable, and we will in the following discuss the conclusions that seem to be generally valid.

The value of performance-based budgeting principles

Two of the performance-based principles get positive evaluations both in terms of their impact on *market focus* and their effect on *operational freedom*. The two positively evaluated performance-based principles imply that NTO-budgets should be linked to the direct economic value of incoming tourism. The two principles differ with respect to whether they emphasize relative performance (P2) or absolute performance (P1).

²⁰ the items were factor analyzed and were found to load highly on one factor

Generally, taxes go into a general revenue fund that does not come back to the industry, nor is it directly identified with the industry at the time of collection. This may be one of the reasons why the respondents, are less convinced of the virtue of performance-based principles linked to tax revenues. We interpret these findings as evidence that an increased tax burden is considered an evil, regardless of the potential incentive effect on the NTO.

It is also interesting that the positive impact ascribed to performance-based principles (more specifically P1 and P2) as far as their impact on market focus and operational freedom is concerned, does not apply to *long term perspective*. In fact, both P1 (absolute) and P1 (relative) receive low scores from both samples in terms of their impact on long term planning.

We believe there are several reasons for this skepticism: One concern may be that the budgetary mechanism is believed to result in fluctuating budgets. As will be demonstrated later this may very well be the outcome of applying a principle that links revenues to market performance. However, to the extent that such fluctuations are considered undesirable, a performance-based mechanism should motivate the organization to counteract these fluctuations. This motivating effect is the very reason why this type of principle is suggested as an alternative to existing practice.

If the NTO were allowed to transfer some of the economic resources attained in prosperous years to funds for use when market conditions are more difficult, it would probably promote long term thinking on the part of the NTO. A potential practical problem is that, should the NTO be funded by a government sponsor, it is not sure this would be agreed to, as it may be contrary to general public funding policy.

Another objection expressed by some of our respondents against performance-based principles was that it would be difficult to accurately estimate the value of tourism. The Tourism Satellite Account used in many of our respondent countries should allow reliable estimates to be used for this purpose.

A third concern expressed by some of our respondents was that revenues tied to market fluctuations would be "unfair" since the NTO only can be made responsible for a limited part of the changes, and the NTO is not usually directly involved in the commercial "sale". We agree that increases in NTO revenues that follow from market changes may not necessarily be "fair" in the sense that they will accurately reflect the dexterity (or lack thereof) of the NTO. However, fairness is not what characterizes the market place for most commercial organizations either. Service operations as well as manufacturing companies will in general be rewarded or punished by events for which they may not be entirely responsible. The best a company can do is to exploit favorable events and to counter harmful ones and to maximize the value of benign conditions while limiting negative consequences.

One argument in favor of using some kind of performance-based principle is that the entire budget may not necessarily be made contingent on performance. The application of

a performance-based budgeting principle does not preclude that some part of the budget amount is held fixed.

The consequences of revenues based on sale of projects

We encountered very different reactions to the idea that part of the NTO-revenues can be based on the sale of projects to the private industry. Some of the respondents were opposed to the idea that government funding should be made provisional on income generated from sale of projects. A matching principle that makes it mandatory for the NTO to generate sales revenues can easily lead to sub-optimal solutions if the projects are initiated for pecuniary reasons and not as an implementation of a general market strategy. It requires a strong professional organization and a proactive role to ascertain that projects sold to partners in the industry in fact satisfy the requirements posed by the NTO's long term strategies.

This type of funding may have both advantages and disadvantages: In a recent ETC (European Travel Commission) study the respondents expressed that funding from the private industry may affect the NTO's operational freedom.²¹ 50% of member NTOs surveyed agreed (41% disagreed) that they were under pressure from the private sector to do as the private sector wishes as a result of private sector-contribution to the NTO's funding. 59% agree (27% disagree) that a reduction in public funding will weaken the strategic freedom to act.

At the same time: 55% of member countries surveyed in the ETC study agreed that closer cooperation with the private sector has resulted in a substantial increase in their NTO budgets. Only 45% agree that the cost of efforts to obtain greater funding from the private sector is in a sensible relationship to income produced (32% disagree).

It is also possible that our NTO respondents may have experienced the same as most of the ETC respondents: 90% (!) agree (5% disagree) that greater cooperation with the private sector has resulted in greater independence in the relationship with the government. Thus, combined funding seems to be the best alternative.

Arbitrarily determined budgets

In many countries it appears that the NTO-budgets are neither performance-based nor formally tied to the execution of marketing plans that have been approved in advance. In most countries the budgets are formally determined each year but are not subject to considerable variations from one year to another. In one country, Denmark, the budget period is three years. A system in which budgets do not vary considerably and are not based on activity control mechanisms, allows long term perspective and operational freedom, but inherently provides no incentives to promote market orientation.

²¹ ETC Member Survey, spring 1999 (22 of 29 European member NTOs participated).

Table 5.5 Summary of scenario evaluation results

Principles	Effects	Best	Worst	Differences between NTA, NTO and Industry
Budgeting Principle	Market Orientation	Money spent by tourists relative to comparable countries (Significantly better than 3 out of 8 principles.)	Taxation on tourists (Significantly worse than 7 out of 8 principles.) (Fixed sum)	No significant differences
	Long Term Orientation	Fixed Sum (Significantly better than 7 out of 8 principles.)	Specific Projects (Significantly worse than 6 out of 8 principles.)	No significant differences
	Operational Freedom	Taxation on tourists (Significantly better than 1 out of 8 principles.) (no clear "winner")	Specific Projects (Significantly worse than 6 out of 8 principles.)	No significant differences
Funding Source	Market Orientation	(no clear "winner")	Government funding (Significantly worse than both others)	No significant differences
	Long Term Orientation	(no clear "winner")	Industry funding (Significantly worse than both others)	No significant differences
	Operational Freedom	No effects		No significant differences
Ownership	Market Orientation	(no clear "winner")	Government (Significantly worse than both others)	Industry representatives give systematically higher scores to unlimited corporation
	Long Term Orientation	Government (Significantly better than both others)	(no clear "loser")	Differences in perceptions with respect to long term orientation of the industry as owner
	Operational Freedom	No effects		No significant differences

Do source of revenue and ownership matter?

The respondents in general appear to be somewhat skeptical to the government both as sole source of income and as only "owner". The combination of industry and government both as "owners" and source of income appear to be more acceptable. As one of the Canadian group members expressed it: *"As long as the client is professional it does not matter whether it is a private firm or a state agency."*

6.0 What determines organizational focus and market orientation of the NTO?

In this section we will empirically address two issues:

- How do the NTOs perceive their own orientation to the market?
- To what extent does the organizational focus of the NTO reflect the importance of government as source of income?

6.1 Results: NTOs' self-evaluation

6.1.1 Procedure

To assess the *organizational focus* and *market orientation* of the NTOs in the sample, we developed a questionnaire for NTO key personnel consisting of two parts:

1. a section addressing *organizational focus* (i.e. prioritization of various stakeholders) of the NTO in the preparation of its strategic plans (see Appendix 1, part A)
2. a section intended to tap NTO's degree of *market orientation* (see Appendix 1, part B)

We asked a representative(s) from NTO staff (e.g. general manager or others with thorough knowledge of the organization) to complete a three page questionnaire dealing with organizational focus and market orientation of the NTO. The questionnaires and scales are developed in earlier published studies and were modified to fit the NTO context. The questionnaire was handed out to selected NTO representatives in each country at the end of the interview session and then submitted to us by fax after the NTO representatives had completed the questionnaire. 13 of the 14 participating countries completed and returned the questionnaire. Many of the aspects covered in the organizational focus and the market orientation questionnaire correspond to (but are not identical with) the items used to tap *market focus* in the scenario evaluation earlier in this report.

The construct, *Organizational focus*, reflects the NTO's attention to and prioritization of

- the market
 - Needs and preferences of end users
 - Increase the long-term potential of T&T products/services
 - Priorities and strategies of competitors
- the government,
 - Interests and opinions of national and local governments
- the industry
 - Interests and opinions of biggest T&T companies
 - Interests and opinions of small- and medium sized T&T companies

Market orientation covers the following dimensions:

- **Information Generation**
Collect information about the market, competitors, and the business environment
- **Information Dissemination**
Distribute/exchange information within the NTO and the industry
- **Market Orientation Domain-width**
Make efforts to identify and respond to new markets, new segments, and new competitors
- **Information Responsiveness**
Change tactics and strategies as markets, competitors, and business environment change

6.1.2 NTOs' self-assessment of Organizational Focus and Market Orientation

Figure 6.3 shows the self-assessment of organizational focus and market orientation for Canada and the other 12 countries in the study. We have picked Canada as an illustrative case because of the Canadian NTO's apparently high degree of market orientation compared to other countries in our sample. Canada has the lowest portion of government funding 50%, while the average cross-sample portion is 72%. As we see, the Canadian respondent perceives the Canadian NTO to have a stronger focus on the market than the 12 other respondents perceive their respective NTOs to have.

By *focus* we refer to *market-*, *industry*²²-, or *government*-orientation as the dominating strategic focus of the NTO in question. While other NTO representatives in the world sample rate the interests of government and the market as about equally important and more important than industry interests in strategic planning, the Canadian respondent clearly reports emphasis on the market as the dominant focus. Figure 6.3 shows that the Canadian respondent reports stronger focus on the *market* than the other respondents do, and *relatively* less focus than the others with respect to both industry and government interests. We believe that this is a quite positive pattern with respect to a proper focus of a NTO (i.e. that the main-focus should be on the market). This is because both the government and the industry would eventually benefit from a market-focused NTO.

Compared to the other respondents, the Canadian respondent also perceived the NTO as more market oriented in terms of all four market-orientation dimensions. Since these scores are based on one observation per country, we should not exaggerate the significance of this finding. Intuitively, however, the findings seem to have face validity.

²² By the term *industry* we refer to non-government business stakeholders with interests in the tourism sector (i. e. tourism (as a demand-based phenomenon) cuts across many traditional industries)).

6.1.3 The relationship between importance of government as source of revenue and organizational focus and market orientation

Is it so that NTOs that receive a larger percentage of their total budget from the government also have a stronger focus on government and lower scores in terms of market focus and market orientation? This issue was addressed by correlating the percentage of government funding with the scores on each of the various dimensions of organizational focus and market orientation. The results are shown in Table 6.1a and b.



Figure 6.1 Organizational focus and market orientation of Canada and other countries

Table 6.1a Correlation between percentage of NTO's budget from government and different foci of the NTO

	Percentage of budget from government
Market focus	(0.02)
Industry focus	(-0.11)
Government focus	+0.58

()= non- significant at $p < 0.15$ level

Table 6.1b Correlation between percentage of NTO's budget from government dimensions of market orientation of the NTO

	Percentage of budget from government
Information generation	(-0.01)
Information dissemination	-0.48
Information responsiveness	-0.32
Domain Width	(-0.13)
Total index	-0.35

()= non- significant at $p < 0.15$ level

As we see, the amount of government funding appears to be positively related to the organizations' tendency to have a government focus. There is, however, no systematic tendency that the magnitude of government funding is negatively related to market and industry focus.

Unfortunately, it appears that government funding is negatively related to important facets of market orientation. A negative correlation was observed between the percentage of funding from government and the self-assessed tendency to

- disseminate information to the industry ($r = -0.48$, $p < 0.10$)
- respond to information ($r = -0.32$, $p < 0.15$)

It is also interesting to note that government funding apparently is not related to *information generation*. While both information dissemination and responsiveness are more involving activities and probably require a strong motivational basis in the organization, it might be easier for an external stakeholder to instruct the NTO to carry out certain information generation activities (e.g. collection of census data, surveys, etc).

The correlation with the overall market orientation index (based on all items across sub-dimensions combined) was fairly high (-0.35) and negative, suggesting that high government involvement may not promote market orientation.

6.1.4 Conclusion: Does source of revenue matter?

Again, a caveat is in order: We must bear in mind that

- the findings are only based on 13 observations,
- and the measures of organizational focus and marketing orientation are only based on one observation per country.

There are, however, at least three reasons why we should have some confidence in the results:

- One reason is methodological: The two sets of measures, budget on one side and evaluations on the other, are collected independently of each other²³. We can have more trust in the correlations between the two sets of variables than what is warranted if both sets had been based on the same data source.
- A second reason is that some of the correlations are fairly high
- A third reason is that the findings corroborate our initial hypothesis and also the results of our scenario evaluations.

We therefore interpret the findings to imply that the source of income may influence the NTOs approach to the market and their stakeholders. This finding does not imply that the government should not provide the necessary means for the NTO's existence. What the results do imply, is that an important consideration for the government is to avoid that the NTO diverts its attention from the most important stakeholder: The tourist market.

²³ Consequently the correlations are not artificially inflated due to common method variance

7.0 What if NTOs budgets were performance-based? Performance-based budgets simulations

As the scenario evaluation results discussed earlier in this report indicate, the respondents generally viewed some of the performance-based budgeting principles to encourage *market orientation* of NTOs. Notwithstanding, the respondents expressed more skepticism when they evaluated the effect of the performance-based principles on *long-term perspective*.

One reason for this skepticism could be a concern for *timing*: Decisions are made for the present or future, incentives are tied to achievements in the past. Another concern that was expressed by some of the respondents is that the impact of the NTO is small or negligible compared to the effects of a host of other factors over which the NTO has little or no control. Consequently, wise decisions in difficult times may harvest little or no rewards, while unwise decisions when conditions are favorable may lead to few or no negative consequences for the organization.

In this section we will address one objection against performance based budgets. It can be argued that fluctuations in the market demand would lead to unwanted fluctuations in NTO's resources, making long-term planning difficult. Based on data on tourism receipts for Canada and some other countries for the years 1995 to 1998 (see also Appendix 6), we have applied two different performance principles in combination with a fixed sum component to calculate the impact on the budget of the CTC²⁴. This is done only for illustration and the calculated revenue for the NTO would only correspond to the actual revenue if the budgeting principle itself had no effect on market demand. The potential incentive effect of the performance-based principle is therefore ignored.

7.1 Factors that affect performance-based budgets

It is obvious that the size of performance based budgets is affected by at least the following three factors:

- the kind of performance on which the budgets are based
- the type of procedure used for linking budget to performance, and
- the degree to which the budget is based on performance alone or in addition contains e.g. a fixed amount

²⁴ The actual amount of the Canadian Tourism Commission's (CTC, Canada's NTO) budget for the budget year 1998-1999 is "moved back" to the budget year 1995-1996, which is the base year in our simulations. This is done to see what would have happened if the various models had been implemented with the current budget amount in effect from the base year. The calculations are not adjusted for inflation and currency fluctuations. The principles are conceptually explained in Table 5.1.

Kind of performance

One reason for choosing one performance measure over another is obviously that the preferred measure is closely related to the goals we might have for the NTO. Thus a measure of value creation (e.g. tourism receipts) may be preferable to a performance measure that only reflects number of tourists. However, the more alternative performance variables correlate, the less it matters which is chosen as basis for determining budgets.

Table 7.1 Correlation between various performance-measures, Canada

	Tourism receipts	Tourist arrivals	Guest nights
Tourism receipts	1		
Tourist arrivals	0.87	1	
Guest nights	0.99	0.79	1

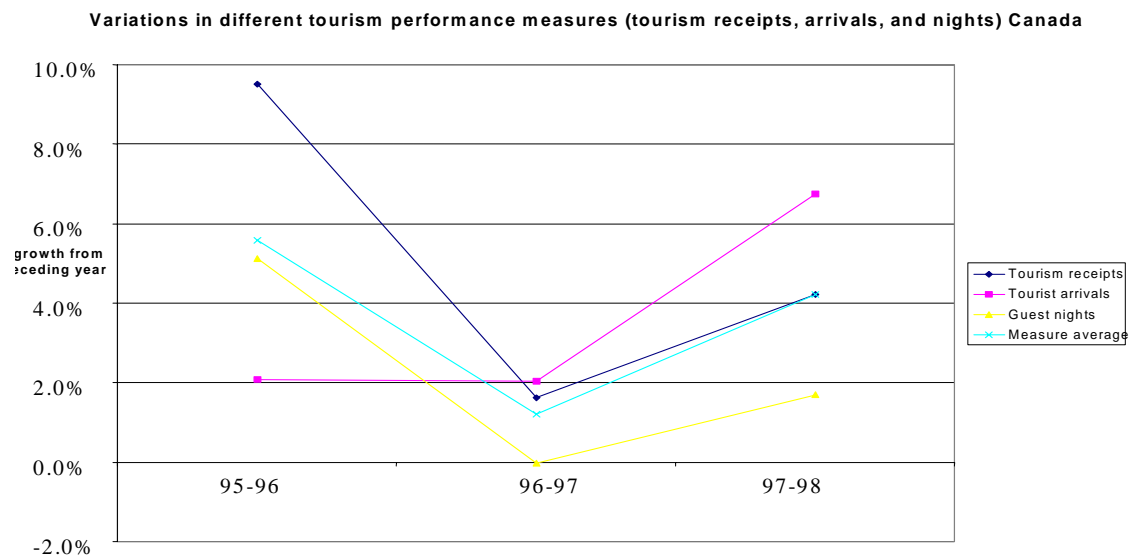


Figure 7.1 Pattern of various performance-measures. Canada

As Figure 7.1 and Table 7.1 show, the pattern of various performance variables is fairly similar. As we see the correlation between *number of guest nights* and *tourist receipts* is as high as 0.99 and the lowest (between guest nights and arrivals) is still as high as 0.79. It is therefore not very important which performance measure is chosen.

Some of the principles reflect relative performance of country X in the sense that the market performance of country X (in this case Canada) is weighted by the market performance of "comparable" countries. To the extent the pattern of performance differs between country X and the other countries in the pool, the performance-based budget can deviate considerably from what would be the case if the performance of these countries

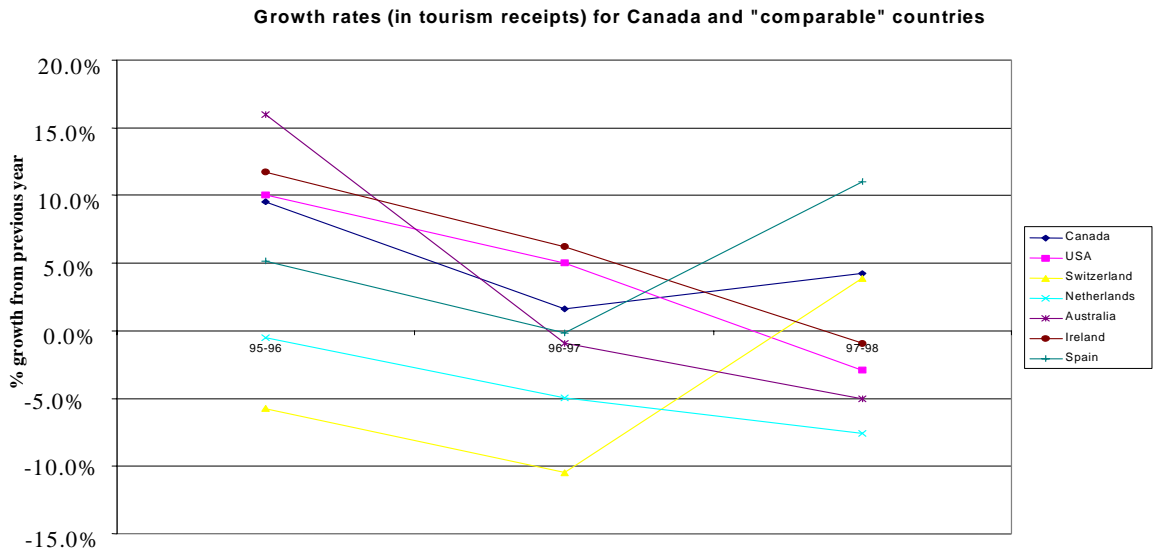


Figure 7.2a Growth rate in tourism receipts for various countries

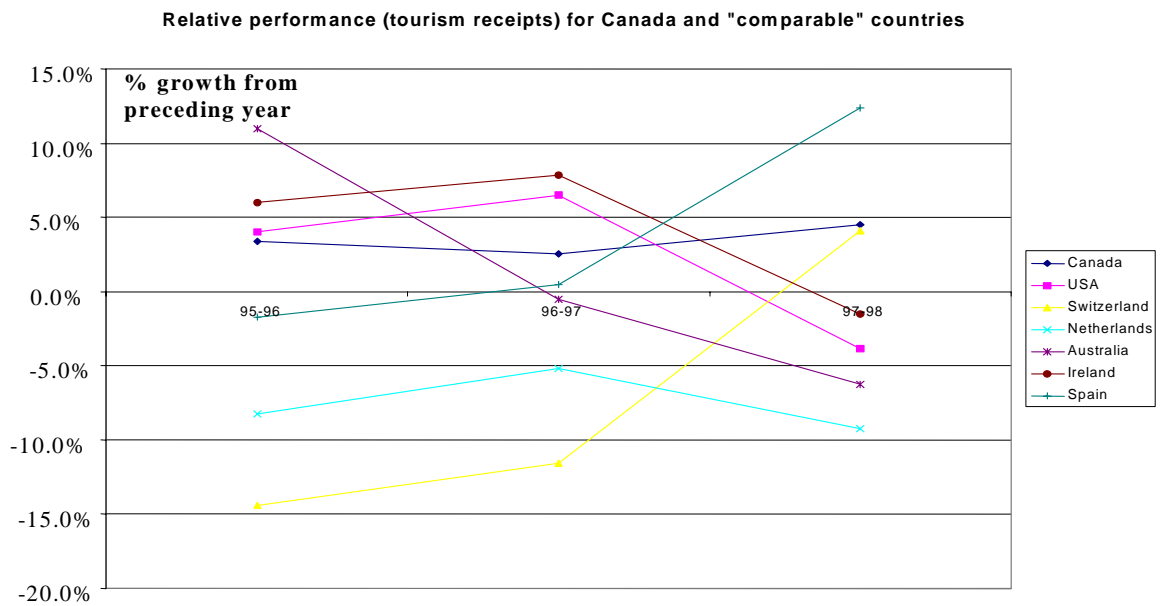


Figure 7.2b Relative growth rate in tourism receipts for various countries²⁵

²⁵ "Relative performance" is calculated as the growth rate (% change in the performance measure from the previous year) for the country less the average performance (average growth rate) of the other countries in the reference group. For countries with stronger growth than the average growth of the reference group, relative performance will be positive, while weaker growth will yield negative relative performance.

Table 7.2 Overview of the different principles that are applied to calculate consequences for the Canadian Tourism Commission (CTC)'s budget

TYPE OF PERFORMANCE - BASED PRINCIPLE	VARIABLE COMPONENT	+	Fixed component as percentage of CTC's budget in 1995
ABSOLUTE P1 : Variable part of budget based only on NTO's performance the previous year	P1a:		20%
			30%
	Variable part of budget based on absolute <i>growth in tourism receipts</i> the previous year		.
			70%
			80%
RELATIVE/BENCH-MARKING P2: Variable part based on performance the previous year relative to performance of six "comparable" countries	P1b:		20%
			30%
	Variable part of budget based on 1.25% of sales tax/VAT paid ⁸ by incoming tourists the previous year (here a proxy for <i>sales taxes paid</i> is used ⁹).		.
			70%
			80%
RELATIVE/BENCH-MARKING P2: Variable part based on performance the previous year relative to performance of six "comparable" countries	P2a:		20%
			30%
	Variable part of budget based on <i>growth in tourism receipts</i> relative to average growth obtained in comparable countries the previous year		.
			70%
			80%
RELATIVE/BENCH-MARKING P2: Variable part based on performance the previous year relative to performance of six "comparable" countries	P2b:		20%
			30%
	Variable part of budget based on <i>growth in tourism receipts</i> relative to a <i>weighted average (to reflect relative similarity) of growth</i> obtained in comparable countries the previous year		.
			70%
			80%

were not considered. Figure 7.2a and b show that the growth rate in tourism receipts varies considerably from one country to another. Canada has the most stable growth of the countries listed and is the only country that has sustained positive growth rates over the entire period.

⁸ Countries that have established a tourism economic impact system (e.g. TSA), usually have sufficient statistical tools to estimate the amount of sales taxes/VAT paid by foreign tourists.

⁹ For Norway, the amount of sales tax paid by international tourists is about 15% of incoming tourism receipts. Sale tax rates is somewhat lower in Canada. In this hypothetical example, let's say this figure would be 12.5% for Canada. Then, for instance, 10% (the fraction which would equal 142 million in the 1995-1996 budget with a 50/50% f/v alternative) of 12.5% (=1.25%) would be multiplied by the portion of the budget made variable (80-20%) to calculate the amount of the variable portion. This amount, plus the fixed portion (20- 80%), could be transferred to the NTO budgets each year.

The type of procedure used for linking budget to performance

Table 7.2 provides an (non-exhaustive) overview of various conceivable performance-based principles that were applied. As we see two of the principles are "absolute" in the sense that the performance component is only based on the specific country in question (in this case Canada) and is not made relative to performance in other countries. The first of the absolute procedures (P1a) rewards the NTO for yearly change in the performance variable. The second principle ties the budget directly to a certain percentage of the sales tax revenue of tourism.

Two of the procedures are based on relative performance and thus reflect a benchmark principle. The performance is related to the performance of "comparable countries". P2a differs from P2a in that the performance of the countries in the pool is weighted to reflect relative similarity to the country in question. The justification for using relative measures is that the procedure helps control for the effects of exogenous factors that influence all countries in the reference.

The degree to which the budget is based on performance alone or in addition contains e.g. a fixed amount

Performance based budgeting does not imply that the entire revenue for the NTO must be tied to some performance measure. Adding a fixed amount to the performance-based revenue can mitigate the effects of a performance-based principle. In the simulations we used a constant component that varied from 20 to 80 % as shown in the third column of Table 6.2.

7.2 Simulated budgets

The results from applying three of the four principles listed in Table 7.2 are shown in Figure 7.3a-c for the Canada illustrative case. The following conclusions can be drawn:

1. *Different performance principles have very different consequences for NTO's revenue.* It is therefore important to evaluate potentially negative consequences of a given principle before implementing it.
2. *A performance based principle can result in considerable variations from one year to another unless*
 - the NTO is able to counter such variation or
 - a large portion (e.g. using 80% percent of the base year revenue) is fixed
3. If the performance-based principle is tied to growth in market performance, the revenues for the NTO may be particularly volatile. This is demonstrated in Figure 7.3a, which illustrates the consequences of principle 1a. This principle ties the

Figure 7.3a: Budgets based on Principle 1a (tourism receipts) Canada

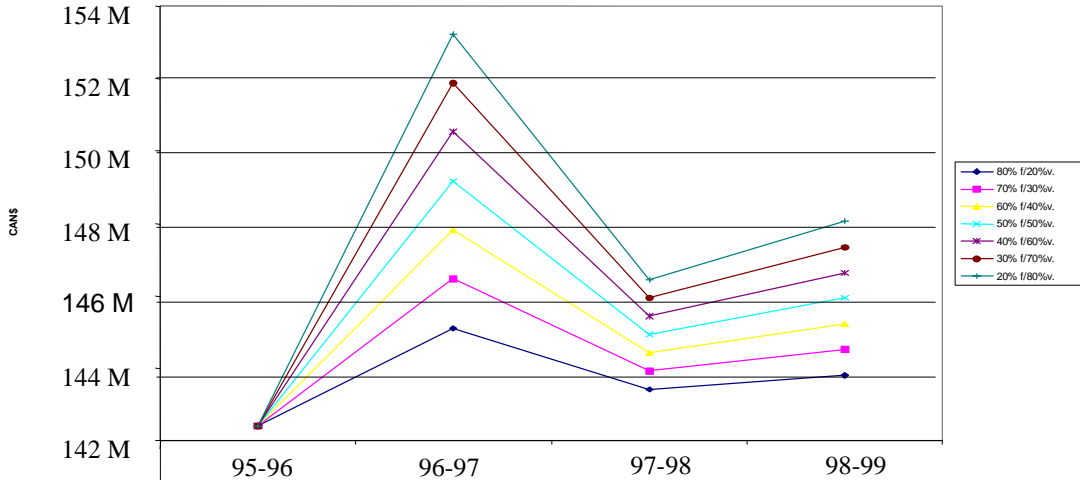


Figure 7.3b: Budgets based on Principle 1b (% of sales tax paid by visitors) Canada

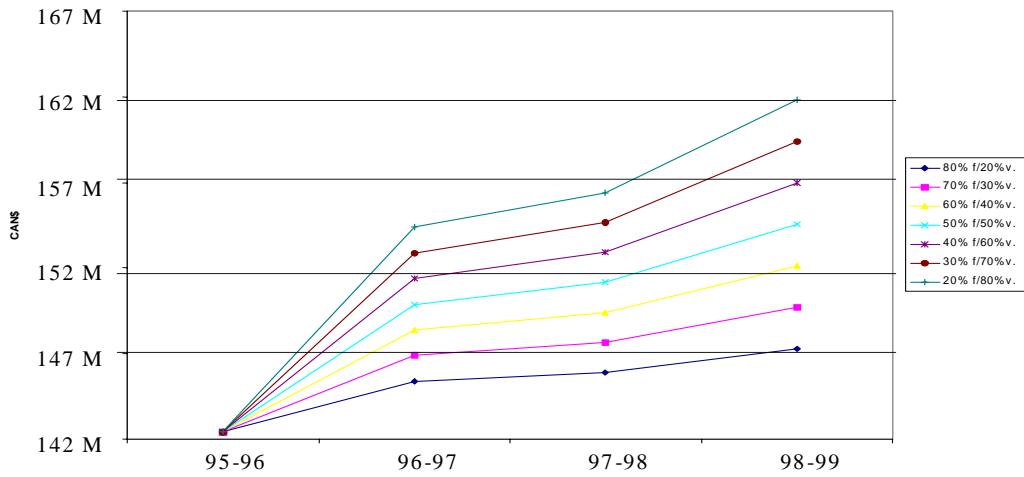
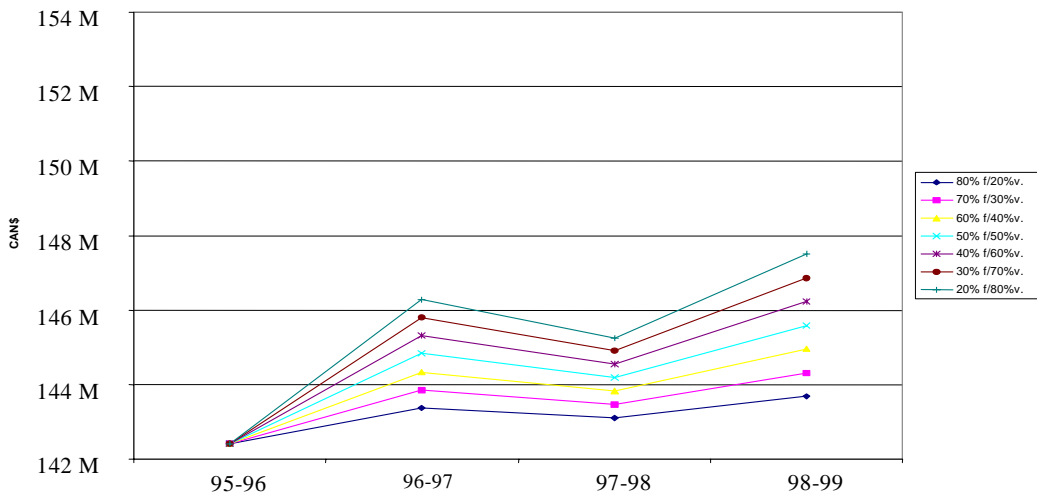


Figure 7.3c: Budgets based on Principle 2a (tourism receipts) Canada



revenues for the NTO to the increase in the performance measure (in this case change in tourist receipts) the previous year. The example shows a base year budget for 1995-1996 of CAN \$142.4 million. The increase in tourism receipts from 1995 to 1996 was 9.5%, giving a corresponding increase in budgets for the 1996-1997 budget. If an 80% variable + 20% fixed alternative (dark green line) had been chosen the budget gains (about 11 million CAN \$) would of course have been the greatest, while a 20/80 alternative (dark blue line) would have yielded only minor changes (about 3 million). From 1996-1997 the increase in receipts was 1.6%, resulting in a drop in budgets from the year before, but still above the 1995-1996 level, since there is continued positive growth. The budgets would only fall below the base year budget if the growth in receipts were negative. The following year, there is a growth of 4.2% from the year before, which is more than the growth from 1996-1997, resulting in an increase again in the budget. Since Canadian tourism has had positive growth in for all years in the simulation period, the CTC would have increased their budgets with such a system, and the highest gains would have resulted from a high relative variable portion (that also has the greater budget “risk”). This kind of system will work best when funds can be transferred from one year to the next. For instance, some of the extra funds gained the 1996-97 budgets could have wisely been put to use for increased marketing effort to counter the drop in growth level the following year in this simulation example.

4. *Using relative performance as a base for determining NTO's revenues may have some desirable and some unwanted consequences.* A possible outcome of this model is that a country can actually get an increase in its budget even if the absolute change in the performance measure in a given year is negative, given that the average corresponding change for the reference group is relatively more negative. Likewise, the NTO may experience a cut in the budget even with a positive growth in the performance measure if the reference group's performance is relatively better. The simulation shows that countries that deviate much from the reference group in terms of performance will be relatively higher “rewarded” or harder “punished” than in the models with Principle 1. Countries that generally only deviate a little from the average of the reference group will only experience minor changes in the budget from year to year. This is not unlike the situation for Canada for the simulation period. Still P2(a) is less “riskier” (less likelihood of substantial variance in budgets than for P1(a) and b).

The selection of countries to be included in the reference group will obviously have to be done carefully, because it is necessary to include only countries that *are in fact really comparable* by some measure (see Appendix 5). The simulations generally show that the more countries included in the reference group, the smaller the group's average changes in the performance measure. This is analogous to a balanced stock portfolio; some stocks will decrease in value, while others will increase accordingly. The average change of the portfolio will approach zero (i.e. that the “risk” will be reduced). A “large number” of countries included in the reference group (7-8 or more countries) will approach a situation much similar to the case for Principle 1(a).

8.0 Conclusions and Recommendations

8.1 Conclusions

Our findings and conclusions can be summarized as follows:

We believe that it is advantageous for the NTO to have

- a *market focus*
- a *long-term perspective*, and
- *operational freedom* to determine and implement marketing strategies

We furthermore believe that the degree to which NTOs have a market focus, a long term perspective and enjoys freedom to determine and implement its marketing strategies, at least to some degree is influenced by

- the procedures used for determining the budgets/revenues for the NTO
- its source of revenue, and
- who “owns” or controls the organization

Our respondents from the international sample appear in general to concur with the conclusions above - although this conclusion should be modified somewhat:

The respondents revealed, both in focus group discussion and in the scenario evaluations, that

- performance based principles promote *market focus* and *operational freedom*, but
- that they may discourage a *long term perspective*

They also expressed concern that a performance-based principle may produce revenues that would be very volatile.

Our respondents furthermore distinguished fairly strongly between alternative performance measures and were quite skeptical to the idea of tying the budgets to tax revenues. Our analyses – on the other hand – suggest that it may be unimportant whether performance based budgets are linked to tax revenues, tourist receipts or some other measure of value creation, since

- the correlation between alternative performance measures correlate quite strongly.

We believe that the skepticism to tax-based budget procedure to some extent reflects legal constraints on earmarking tax revenues for designated purposes. We will return to this issue later.

Although some of our respondents questioned whether the source of income (e.g. the government) had any impact whatsoever on market focus, the scenario evaluations reveal some skepticism to funding by the government. Furthermore, we found a relatively strong correlation between the amount of the NTOs' budget accounted for by the government on one side and the organization's market focus and market orientation on the other. This finding suggests that

- in fact the importance of government funding may affect the NTO's relationship to its stakeholders.

8.2 Recommendations

Our recommendations are the outcome of a synthesis of the theoretical framework and the conclusions that can be drawn based on our empirical findings. The recommendations are listed in below and we will in the following give a short justification for each:

Recommendations

- *The NTO's budget – or some part of it, should be performance based*
- *The NTO's budget should have a fixed component with a time horizon of more than one year (e.g. three years)*
- *The NTO should be allowed to transfer funds from one year to another*
- *The NTO should be allowed to, but not required to, sell projects to the tourism industry*

- **The NTO's budget – or some part of it, should be performance based**

We believe this recommendation can be justified on several grounds:

1. It will make the NTO share the destiny of the industry it is commissioned to promote in the sense that it will realize that what is good for the overall tourism industry, will also be in its own interest. We believe this will promote *market focus* and *market orientation* of the organization. Hence, we believe it will be in the NTO's own interest to engage in marketing activities like
 - information generation
 - information dissemination to the industry
 - positioning of tourist products that are market oriented, etc.

2. It will reduce the need for the stakeholders to monitor and approve NTO's plans and activities. Thus the NTO may put less emphasis on legitimizing its activities and put more emphasis on market effects of its actions. At the same time the NTO will most likely get more *operational freedom* to base their decisions on their own professional judgment.
 3. A performance-based principle will reward the NTO and the industry for its value creation. . In many countries the tourism industry is the only export industry that has to pay sales or value added tax. Whether a performance based principle somehow is linked to e.g. value added tax or tourism receipts, performance-based revenues will allow the tourism industry to get a "fair share" of its contributions to the country's tax revenue.
 4. Performance-based procedure can be designed so that the disposable revenues for the NTO will reflect fluctuations in the size of the market it serves and its customer base. This may be desirable since it is more costly to sustain a large customer base than a small due to the costs associated with retaining "old customers".
 5. Our respondents appear in general to be favorably disposed to the idea of performance-based budgets (see Tables 5.3 and 5.4).
- **The NTO's budget should have a fixed component with a time horizon of more than one year (e.g. three years)**
 1. A fixed portion will reduce fluctuations due to a market-based principle, which may be particularly important in a transition period. The fixed amount could then gradually be reduced.
 2. A time horizon of more than one year (e.g. three years as in Denmark) will promote long term planning and may reduce the need for the NTO to engage in political processes every year in order to acquire economic resources. Note: CTC's budget is multi year (the government planning process forecasts fixed appropriation).
 3. A fixed portion with a time horizon of more than one year will alleviate the concern expressed by some of our respondents that performance based principles alone may demote a long term perspective (see Table 5.3 and 5.4)
 4. The fixed portion of the budget should be included to cover the more programmable, routine kind of tasks (see Section 2.1.5.6 for an explanation of which tasks these are). These programmable tasks are also somewhat easier to price or cost assess, and can be cost-assessed for a longer time period than the less programmable tasks, since they change less from year to year.

- **The NTO should be allowed to transfer funds from one year to another**
 1. Such a principle would encourage long-term planning and reduce the need to spend all available resources within one budget year. Excess funds accruing in prosperous years could then be saved to counter adverse conditions other years (see Table 2.3). The issue here is when to set aside and why.
 2. Such a procedure would also alleviate the concern expressed by some of our respondents that performance based principles alone may demote a long-term perspective (see Tables 5.3 and 5.4).
- **The NTO should be *allowed* to, but *not* required to, sell projects to the tourism industry**
 1. A matching principle may force the NTO to sell projects that may not necessarily be compatible with its long-term strategies. Many countries (e.g. Denmark and Canada) experience that projects initiated by the NTO may serve their partners' interests and help the NTO pursue its long-term goals.
 2. The sale of projects on a *voluntary basis* and not as an implementation of a matching principle, we believe alleviate the concern expressed by our international respondents that sale and participation may discourage a long-term perspective and reduce operational freedom (see Table 5.3 and 5.4)

We do not offer recommendations with respect to the *source of funding*. The reason why we do not, is that we believe procedures such as the following will reduce the importance of the source: A fixed sum granted for more than one year will allow the NTO to fully turn its attention to the market. A system that allows transfer of funds from one year to another may have the same effect as will the abolition of a matching principle.

We do not offer any recommendation with respect to *ownership* either. To the extent that implementation of our recommendations above will encourage more market focus and stronger market orientation, it may imply a transfer of "ownership" from some of an NTO's current controlling stakeholders *to the market*.

8.3 Further work on performance-based principles

A number of issues remain to be investigated in more detail

- What basic principle of performance-based revenues should be chosen?
- What kind of performance measures should be used?
- What kind of multipliers²⁶ should be used?
- What relative size of the fixed portion versus variable portion in a fixed/variable amount model should be used?
- If a relative performance principle is chosen, what should be the exact criteria for selection of countries to be included in the reference group for P2 –type models?
- What should be the source of the performance based portion of the budget, i.e. what should be the “logistics” of payment to the NTO? (e. g. how should the funds be collected/transferred from the funding source(s))?
- What are the legal and administrative obstacles to an implementation of performance based principles?

Of course, some of these issues should be a matter of discussion internally in the NTO or between the NTO and the government or industry partners if such budgeting principles were to be considered. We do not have sufficient insight in internal conditions to be able to offer specific recommendations on these issues. In any event, these questions will have to be looked closer at before any country is advised to implement any of the principles as described and suggested above.

8.4 Further development of this thesis

We must remind the reader that although we consider this thesis complete in its present form, it is still a work under progress. This work will continue in the near future, and will (hopefully) be concluded as a comprehensive doctoral thesis. Further work will, in addition to the practical measures mentioned in section 8.1, concentrate on the following:

1. Further development of theory framework. Expectedly, a more comprehensive theory framework can be constructed by including existing theoretic and empirical research on *public administration* and *organizational incentives*.
2. Development of the empirical part. Hopefully we can increase the sample of cases (respondent groups) with more countries, possibly also outside the OECD area.

²⁶ In the preceding simulations we have used absolute or relative growth of the performance-measure as the input-variable for calculation of the variable portion of the budget. To increase (or decrease) the magnitude in fluctuations of budgets, a multiplier could be used for the *% of growth statistic* to be used for input (e.g. relative growth x. 2 (or 0.5)), that would increase (decrease) the effect of the performance measure on NTO budgets.

3. Evaluation of principles by theoretical expert panel(s). With a more complete and decisive theory framework, it will hopefully be possible to arrive at some undisputed theoretical recommendations for NTO administration. To accomplish this, it may be necessary to summon an international group of academic experts to have the principles evaluated as to their applicability.
4. Evaluation of the proposed scenario by theory experts and practitioners. By the same token, we plan to have the recommended scenario proposed by both a sample of theory-experts and relevant practitioners, to see if our recommended scenario needs to be developed further.
5. Investigate the impact of the Funding Source and Organizational Control on Operational Freedom and Long-term Focus. Among other issues we have studied some empirical findings of the relationship between the Funding Source and the organization's Market Orientation (and Organizational Focus) in this thesis. To strengthen the statistical validity of these findings we may need to increase the sample size somewhat. In addition, we would like to look closer at the effect of both Funding Source and Organizational Control on the NTO's Operational Freedom and Long-term Focus. This means that measures for probing and somehow quantifying Organizational Control (independent variable), and Operational Freedom and Long-term Focus (dependent variables), will have to be developed if good measures cannot be found in current literature. The measurement of these variables can probably be carried out through a mail or fax study. The reason for this suggested empirical extension is twofold: 1) The scenario evaluations offered no clear directions on these issues. 2) This will empirically complement the data on Market Orientation, and possibly empirically support our theory of the relationship between our dependent and independent variables.

We realize that it is probably not possible to develop universal recommendations on NTO administration (and for similar organizations) that are both practically implementable and politically acceptable in *every* single country. However, the project "Market Orientation of National Tourism Organizations" of which this thesis is a part, has sparked some international interest for the issues at hand, which until now has been an area of limited discussion in most tourism administrations. With further development of theory and empirical results, we hope to develop an instrument for NTO administrations that will be accepted and implemented by administrations open to (and willing to) change to a modern, efficient and effective NTO administrative system.

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**APPENDIX 1: Organizational Focus and Market Orientation Assessment
Questionnaire. 1A: Organizational Focus**

*Statement	<i>Please indicate to which degree you agree to the claims</i>					
In the preparation of our market/strategic plans, to make sure that none of our owners or sponsors would feel unfairly treated or set aside is among our most important considerations.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
In this organization, we consider the needs and preferences of the end-users of our country's travel and tourism products and services (e.g. visitors/tourists) to be among our most important considerations in the preparation of our market/strategic plans.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
We consider the interests and opinions of the biggest companies of our country's travel and tourism industry to be among our most important considerations in the preparation of our market/strategic plans.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
We consider the interests and opinions of the small or medium sized companies of our country's travel and tourism industry to be among our most important considerations in the preparation of our market/strategic plans.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
To increase the long-term market potential of our country's t & t products and services in general is among our most important considerations in the preparation of our market/strategic plans.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
The interests and opinions of the national and local governments are among our most important considerations in the preparation of our market/strategic plans.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
How we can maximize our financial support from national and local governments is among our most important considerations in the preparation of our market/strategic plans	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
The priorities and strategies of competitors from other countries are among our most important considerations in the preparation of our market/strategic plans.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
Whatever we can do that will generate the greatest amount of visitor/tourism receipts (i. e. sales/traffic) for our country in general will be among our most important considerations in the preparation of our market/strategic plans.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6

Adopted from Jacobsen, Erik W. (1998), "Finansiering og styring av fellesgodeprodusenter: områdeorganisasjoner i reiselivsnæringen som empirisk arena", Doctoral dissertation, Norwegian School of Economics and Business Administration, Norway.

***NOTE:**

"End-users" is in this questionnaire referring to tourists/visitors (i.e. individuals, groups or organizations) that have traveled, or will (actually or potentially) travel, to your country.

"The industry" or "t & t industry" is in this questionnaire referring to the travel and tourism industry in your country (including companies owned both by the private and public sector).

"Competitors" or "competitor countries" is in this questionnaire referring to organizations or companies from other countries, which promote (or sell) travel and tourism products and services in competition with your organization - or any other organizations and companies from your country.

Please proceed to answer the questions on the following two pages.

APPENDIX 1B: Market orientation

*Statement	<i>Please indicate to which degree you agree to the claims</i>					
In this organization we meet with the (most important) end-users of our country's travel and tourism products and services at least once a year to find out what they will need in the future.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
We arrange for representatives from the travel and tourism industry in our country to meet with end-users to find out how we can serve the end-users better.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
In this organization we plan and conduct market research ourselves.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
We are fast to detect changes in the end-users' product preferences regarding the travel & tourism (t & t) products and services of our country.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
We poll end-users of our country's travel and tourism products and services at least once a year to assess the quality of these products and services.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
We often talk with those that can influence our end-users' purchases (e.g. travel agencies, travel secretaries)	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
We collect industry information through informal means (lunch with t & t industry friends, hotel managers, tour-operators, government officials etc.)	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
We are slow to detect fundamental shifts in the travel and tourism industry (e.g. new competitors, new technology, regulation)	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
We periodically review the likely effect of changes in our business environment (e.g. VAT/taxes, new alliances new patterns of travel) on end-users.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
A lot of informal "hall talk " in our organization concerns competitor countries' tactics or strategies.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
We have meetings with representatives from our country's travel and tourism industry and our government at least once a year to discuss market trends and developments.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
Marketing personnel in our organization spend time discussing end-users' future needs with representatives from our country's travel and tourism industry.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
Our organization regularly exchanges documents (e.g. reports, analyses) that provide information on end-users with the t & t industry.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6

*Statement	<i>Please indicate to which degree you agree to the claims</i>					
When we find out that something important happens to a major group of end-users or market, we will tell our contacts in the t & t industry about it right away.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
We make sure that data on end-user satisfaction are disseminated in the t & t industry at all levels on a regular basis.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
There is minimal communication between our organization and the t & t industry.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
There is minimal communication between our organization and the government.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
When we find out something important about the end-users, we are slow to alert the t & t industry.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
When the t & t industry finds out something important about the end-users, the t & t industry is slow to alert us.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
It takes us forever to decide how to respond when our competitors from other countries' change their prices.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
Principles of market segmentation are always taken into consideration when we discuss new product development with the t & t industry.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
For some reason or another, we tend to ignore changes in our end-users' product and service needs.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
We periodically review product and service development efforts with the t & t industry to ensure that they are in line with what the end-users want.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
Our business plans are more driven by resource advances than by market research.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
We periodically get together with representatives from the t & t industry and the government to plan a response to changes taking place in our business environment.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
The products and services we promote depend more on politics or special interests than on real market needs.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
The activities of our organization are well coordinated with the activities of the government and the t & t industry.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6

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*Statement	<i>Please indicate to which degree you agree to the claims</i>					
We have no formal routine to alert the t & t industry when we learn about dissatisfaction among end-users concerning the t & t products and services of our country.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
Even if we came up with a great marketing plan, we would probably not be able to implement it in a timely fashion.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
We are quick to respond to changes in our competitor countries' products and services offerings.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
When we find out that end-users are unhappy with the quality of our products or services, we take corrective action immediately.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
When we find out that the end-users would like a modified product or service, the t & t industry would make concerned efforts to make the required modifications.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
The people in this organization frequently discuss how we can discover the end-users' needs.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
We collect information about potential end-user groups/segments not currently being served by the t & t industry of our country.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6
We concentrate all marketing attention toward current end-users and current competitor countries.	Strongly disagree 1	2	3	4	Strongly agree 5	Don't know 6

Thank you for your effort!

APPENDIX 2: Studies on the effects of market orientationSome selected empirical studies on the effects of market orientation²⁷

Authors (year)	Theoretical prediction	Empirical support	Sample
Narver and Slater (1990)	Market Orientation has positive effect on Return On Assets	Partial support	84 SBUs * of a forest corporation
Narver, Jacobson and Slater (1993)	Market Orientation has positive effect on Relative Sales Growth	Significant	35 SBUs of a forest corporation
Jaworski and Kholi (1993)	Market Orientation has positive effect on Business Performance	Significant	452 companies and SBUs
Desphandè, Farley and Webster (1993)	Customer Orientation (as reported by customers) has positive effect on Business Performance	Significant	82 Japanese firms
Ruekert (1992)	Market Orientation has positive effect on Long Run Financial Performance	Significant	5 SBUs of a large U.S. firm
Pelham (1993)	Market Orientation has positive effect on Marketing/Sales Effectiveness	Significant	160 industrial (business-to-business) firms
Wood and Bhulan (1993)	Market Orientation has positive effect on Performance	Significant	24 not-for-profit hospitals
Pleshko (1993)	Market Orientation has positive effect on Business Performance	Significant	141 public and private firms
Balakrishnan (1992)	Degree of Market, Research and Manufacturing Orientation has positive effect on Bus Performance	Significant	139 manuf. co. of machine tools /manufacturing machinery
Selnes, Jaworski and Kholi (1998)	Market Orientation has positive effect on Performance	Significant	237 SBUs of Scandinavian companies
Sandvik (1998)	Market Orientation has positive effect on Performance	Significant	372 Norwegian hotels

* SBUs= Strategic Business Units

²⁷ Adapted from "The effects of market orientation", doctoral dissertation by Kåre Sandvik, Norwegian School of Economics and Business Administration (1998)

APPENDIX 3: Conceivable control principles for NTOs derived from application of theory

Appendix 3 (a)

Control principle	Type of control	Requirements	Purpose/benefits	Potential negative consequences
Behavior-based budget control				
Stakeholders decide on plans and activities and budget accordingly each period (Monitoring structure #1)	Behavioral –based control	-Competent stakeholders -Agreement among stakeholders and between stakeholders and agent on plans and activities -Monitoring of activities	-Assures that agent acts in the interests of stakeholders -Low agent risk	-Curbs agent’s operational freedom. - Negotiation, monitoring and maladaptation cost -No outcome focus incentive for agent -Possible budget maximizing efforts
Fixed sum (“salary”) is allocated each period (Monitoring structure #1)	Behavioral –based control	-Competent agent -Reporting procedures (auditing by stakeholders)	-Moderate to high agent operational freedom -Efficient in large complex organizations with many line items, several outputs and stakeholders -Predictability of budget amount = long term planning facilitated -Low agent risk	-No financial residual claim = possible shirking -No outcome focus incentive for agent -Negotiation, monitoring and maladaptation cost -No outcome-focus incentive for agent -Legitimizing efforts -Incentive for budget maximizing
Specific project budgeting according to activities/services to be performed in a given project (Monitoring structure #1)	Behavioral –based control (Long run: Somewhat outcome-based)	-Competent stakeholders -Agreement between stakeholders and agent (and possibly among several project stakeholders) on project content and resources -Monitoring of project activities and outcome	-Stakeholder commitment (legitimacy) -Increases availability of additional financial resources -Moderate agent risk	-Project selling effort (i.e. budget maximizing) -Low agent operational freedom -Client lobbying -Possibly focus on special interests -Often short-term project span = long term planning may suffer -Low predictability of budget amount = long term planning hampered

Appendix 3 (b) (continued)

Control principle	Type of control	Requirements	Purpose/benefits	Potential negative consequences
Outcome-based budget control				
<p>Absolute market performance (“straight commission” pay) compensation paid in terms of budgets each period.</p> <p>Indirect market performance (% of tourism taxes received) compensation paid in terms of budgets each period.</p>	Outcome-based control	<ul style="list-style-type: none"> -Measurability of outcome (relevant statistics) -Competent agent -Agreement among stakeholders and agent on measurement criteria -Some ability of agent to influence outcome 	<ul style="list-style-type: none"> -Agent and stakeholders have stake in the same outcome -Curbs opportunistic behavior -Agent focus is concentrated on outcome mediating activities -Low negotiation, monitoring and mal-adaptation cost -No incentive for budget maximizing efforts -No incentive for lobbying or focus on special interests 	<ul style="list-style-type: none"> -High agent risk -Low predictability of budget amount = long term planning hampered (unless budget transfer to next period is allowed) -Possible resistance from both stakeholders and agent (potential embarrassment) -Exposure to agent-uncontrollable elements affecting outcome -Non-market related tasks may be ignored (e. g. sustainable tourism, environment, public services)
<p>Relative market performance (“tournament commission” pay) compensation paid each period</p>	Outcome-based control	<ul style="list-style-type: none"> -Measurability of outcome (relevant statistics) -Competent agent -Agreement among stakeholders and agent on measurement criteria -Some ability of agent to influence outcome -“Comparable” reference group members (i.e. reference group members have the same/similar working conditions) 	<ul style="list-style-type: none"> -Agent and stakeholders have stake in the same outcome -Curbs opportunistic behavior -Agent focus is concentrated on outcome mediating activities -Low negotiation, monitoring and mal-adaptation cost -No incentive for budget maximizing efforts -No incentive for lobbying or focus on special interests -Reduces the impact of chance events on budget 	<ul style="list-style-type: none"> -High agent risk -Low/moderate predictability of budget amount = long term planning hampered (unless budget transfer to next period is allowed) -Possible resistance from both stakeholders and agent (potential embarrassment) -Exposure to agent uncontrollable elements affecting outcome -Non-market related tasks may be ignored -No incentive to cooperate with members of reference group
<p>Stakeholders decide on objectives and goals and budgets on the achievement of these goals each period (i.e. MBO)</p>	Hybrid	<ul style="list-style-type: none"> -Competent stakeholders -Agreement among stakeholders and agent on objectives and goals and then whether o & g are achieved -Monitoring of goal achievement 	<ul style="list-style-type: none"> -Assures that agent’s and stakeholders’ goals are aligned -Moderate/low agent risk -Focus (goal orientation) 	<ul style="list-style-type: none"> -Curbs agent’s operational freedom. -Negotiation, monitoring and maladaptation cost -Stakeholder disagreement = goal ambiguity = possible inefficiency -Possible budget maximizing efforts

Appendix 3 (c) (continued)

Control principle	Type of control	Requirements	Purpose/benefits	Potential negative consequences
Organizational control (through operational control)				
Organizational control by the industry (Monitoring structure #2)	Behavioral –based control	-Competent industry stakeholders -Agreement among industry stakeholders on policy and actions	- Monitoring by interest groups -Increased professionalism -Industry stakeholder commitment (legitimacy) -Direct information feedback to the industry	-Non-market related tasks may be ignored -Potential for industry lobbying -Possible focus on special interests -May curb agent’s operational freedom
Organizational control by the government (Monitoring structure #2)	Behavioral –based control	-Competent government stakeholders -Agreement among various government stakeholders on policy and actions	-Public agency legitimacy -Low special interest focus -Organizational stability /survival (this can also be a negative aspect) -Monitoring by media	-Bureaucratic decision process -Potential lack of professionalism -Lack of industry stakeholder commitment (legitimacy problem) -Potential for gvt. lobbying
Organizational control by shareholders	Outcome –based control (Behavioral –based control traits if monitoring structure # 1,2 &3 is applied)	-Competent board of directors -Procedures for reporting to shareholders -(Sellable) income producing services	-Financial residual claim (curbs shirking) -Decision flexibility/speed -Agent operational freedom -Agent focus is concentrated on outcome-mediating activ. -Low negotiation, monitoring and mal-adaptation cost -Little incentive for budget maximizing efforts, lobbying, or focus on special interests	-Likely that non-market related tasks will be ignored -Financial risk (the organization may go bankrupt) -Moderate/low predictability of budget amount (i.e. income)
Funding source (indirect control through legitimate influence)				
Funding by the industry (Monitoring structure #3)	Indirect behavioral control (through financial auditing)	-Auditing of agent -Cooperation among industry stakeholders	-Increased access to resources - -Stakeholder commitment (legitimacy) -Only moderate predictability of budget amount (possibly not sufficient funding due to “free riding” by some industry stakeholders)	-Non-market related tasks may be ignored - Potential for industry lobbying -Lack of stakeholder consensus may hamper decision making, long term planning and thus increase uncertainty and agent risk
Funding by the government (Monitoring structure #3)	Indirect behavioral control (through financial auditing)	-Agent monitoring -Budget negotiations and approval by gov. -Procedures for reporting to ministry etc.	-Non-market related tasks may be receive attention -Moderate to high predictability of budget amount -Reduces special interest focus	- Potential for government lobbying -Possible budget maximizing efforts - Bureaucratic financial auditing (time and resource consuming)

APPENDIX 4: LIST OF ITEMS

USED FOR DATA COLLECTION (SCENARIO EVALUATIONS, (dependent variables))

This scenario (# 1-22)...

Market Orientation

1. will motivate the NTO to systematically collect and analyze information about the market's current and future needs and preferences
2. will motivate the NTO to communicate information about the market's current and future needs and preferences to the travel and tourism industry
3. will encourage the NTO to influence the travel and tourism industry to develop or improve their products and services based on information about the market's current and future needs and preferences
4. will motivate the NTO to systematically collect and respond to information about key competitors in the market (e.g. their products/services, strengths and weaknesses and strategies)
5. will motivate the NTO to use information about the market's current and future needs and preferences and about competitors in the market in the NTO's communication with the market (e.g. promotion & PR)

Long Term Perspective

6. will motivate the NTO to adopt a long run perspective in their marketing plans and activities
7. will cause the NTO's budget to fluctuate too much and make long term planning difficult for the NTO
8. will make it difficult for the NTO to pursue its long term goals
9. will not provide sufficient funds for NTO's budget

Operational Freedom

10. will cause the NTO to be selective (e. g. about the quality) as to what tourism products and destinations they will market
11. will cause the NTO to over-prioritize on activities endorsed and sponsored by special interests (e.g. not for the good of the overall travel and tourism industry)
12. will cause the NTO to spend too much resources on selling its services to the travel and tourism industry to secure NTO's funding
13. will cause the NTO to spend too much resources on "lobbying" the government to secure NTO's funding
14. will give the NTO freedom to make its own decisions

APPENDIX 5: Sample of scenarios

Scenario 1

- *NTO's budget is negotiable and funded based on overall evaluation of the NTO's marketing plans each year*
- *NTO is funded by the **travel and tourism industry***
- *NTO is an **unlimited corporation** owned by shareholders **within or outside the t & t industry***

8/10/00

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1

Scenario 2

- *NTO's budget one year is tied to the **increase/decrease** in the amount of money spent by incoming visitors (or the number of visitors in NTO's country) **relative** to "comparable" countries the previous year*
- *NTO is funded jointly by the **industry and the government***
- *NTO is a non-profit organization owned by and responsible toward the **travel and tourism industry***

8/10/00

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2

Scenario 8

- *NTO's budget is based on the revenue generated from **taxation on visitors and the travelling public***
- *NTO is funded by the **government***
- *NTO is a non-profit organization owned by and responsible toward **the government***

8/10/00

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3

Scenario 10

- *NTO's budget is based on a **fixed sum** decided each year*
- *NTO is funded jointly by the **industry and the government***
- *NTO is a non-profit organization owned by and responsible toward the **travel and tourism industry***

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APPENDIX 6: International arrivals 1998: Canada illustrative case*(Tourist arrival data used for Principle 1 & 2 illustrative budget simulations for Canada)***Number of international arrivals 1998 for Canada
and some other comparable countries**

“Comparable ²⁸ ” countries		Number of international arrivals 1998 (in thousands)					
Common markets	(Canada)	US	Switzerland	Netherlands	Australia	Ireland	Spain
(Canada)▼	-	13421	157	90	70	79	79
US	14880	-	1904	850	374	759	1207
UK	749	3975	1633	1530	467	3668	4460
Japan	486	4885	868	200	750	379	713
France	403	1013	1130	460	43	301	1932
Germany	379	1902	6431	2680	148	390	4457
Italy	102	610	953	310	48	137	1335
Sub total (incl. Canada)	16999	25806	13076	6120	1900	5714	14183
Total	18825	46395	18712	9080	4160	6073	20217
% of market	90%	56%	70%	67%	46%	94%	70%
Sub total (excl. Canada)	16999	12385	12919	6030	1830	5634	14104
Total	18825	32974	18555	8990	4090	5994	20138
% of market	90%	38%	70%	67%	45%	94%	70%

²⁸ “Comparable” in the sense that these countries to a large extent share the same geographical markets. Other definitions of comparability may be possible.