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DECISION ANALYSIS TO SELECT A CORPORATE GOVERNANCE POLICY FOR FAMILY HOTEL BUSINESS

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Abstract.

This research is aimed to give alternative solutions that can be used to eradicate corporate governance issues in the Grand Ussu Hotel and Convention. Kepner-Tregoe (KT) analysis is a technique that incorporates a rational decision-making process aimed to choose a sound decision in creating a new policy, system, and restructuring program that will create a clear authority and responsibility between owner and management. At the same time, it provides a clear measure to decrease the family feud between the owners. The alternatives chosen are based on the analysis of the cost and benefit attributes for each decision, such as agency cost, transaction cost, decision-making pace, and transparency. The final recommendation is for the company to elect one of the owners as the CEO to operate the company based on the analysis of the cost and benefit attributes for each decision while also choosing one of the owners to be the sole decision-maker representing the shareholders. The company is also advised to further implement the plans in key aspect areas, namely, new CEO appointment, shareholders meeting agreement, human resource management, and internal control.

Keywords: Hotel, family business, corporate governance, decision analysis, SMART, Kepner Tregoe, Puncak hotel

INTRODUCTION

The case for maintaining a sound corporate governance policy in the hotel business has been an interesting case to be discussed, especially for a family-owned and independent hotel. Studies show how a chain and independent hotels have different common strategies taken. Hotels belonging to a branded chain (i.e., horizontally differentiated) typically charge higher prices and provide smaller discounts. Meanwhile, hotels with more stars (i.e., vertically differentiated) offer smaller discounts over listed prices, in addition to charging higher prices.

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Differentiation indeed protects hotels from the pressure to reduce expenses as competition increases, but it seems to be more effective than just being different (Becerra, 2012).

Independent hotels find every possible way to improve their performance to compete with the fierce chain hotel; one of those particular ways is to improve their corporate governance policy. The study shows that its corporate governance policy greatly influences hotel performance. Recent research shows that hotel performance is a proxy for their directors' effort; the director's tenure positively affects the firm's efficiency and performance (Jarboui, 2015). It is also apparent that board size, board diligence, audit committee composition, audit committee diligence, and company age significantly impact EPS (Al-Homaidi, 2019). Another research reveals that corporate governance mechanisms significantly affect six hotel performance measures: financial, social and human, organizational, commercial, and global.

This paper aims to solve problems faced by a family hotel business located in the Puncak area. The company currently faces several issues stemming from the corporate governance aspect, namely collusion, corruption, nepotism, unclear authority and responsibility, and family feud in the company's internal management. Furthermore, the company suffers from ineffective and inefficient operations within the hotel due to the lengthy approval process. The author uses the Kepner-Tregoe (KT) analysis technique to develop a decision-making analysis of the said problem from internal and external data, interviews, and questionnaires with the company. The author starts by conducting a situation analysis to understand which issue needs to be addressed based on its impact, trend, and time urgency. The author then analyses the problem using a fishbone diagram to dissect its root causes. After that, the author decides what action should be taken from several alternative actions in the decision analysis, taking into account each alternative's cost and benefit attributes. Lastly, potential problems that may arise are addressed in the last phase by developing preventive and contingent actions.

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The author finds that the problem that needs to be addressed is the unclear authority and responsibility in the company and family feud issue. The alternative actions for unclear authority and responsibility problems are choosing one of the owners as the CEO operating the company, developing an owner-centric model, or giving the management full authority

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through an appointed CEO. At the same time, the family feud having the alternatives of making one of the owners a representative or hiring a hotel consultant. By weighting each alternative action's cost and benefit attributes, the action chosen is to choose one of the owners as the CEO operating the company. Preventive and contingent measures for the potential problems that may arise from the selected problem are laid out in four key areas: new CEO appointment, shareholders meeting agreement, human resource management, and internal control.

LITERATURE REVIEW

The literature review provides insights into the concepts and findings of the problem faced in this case. Literature reviews also support the research by providing different views from other studies conducted in the past (Snyder, 2019). The author identified six research relating to the general and hotel industry's corporate governance topic from various international journals. The corporate governance topic mostly covers why corporate governance matters to a hotel and improves it. Overall, it can be concluded that the corporate governance mechanism is a detrimental key for hotel's performance, especially financial performance. The table 1 shows the detail about the previous research.

METHODOLOGY

The first step that the author decides the main topic in a general manner, then develops it to be more specific on the KT analysis step. Next, the author identifies the business issue faced by the company and conduct a business situation analysis to collect information about internal and external situations of the company to form a background understanding of the situation and also to develop the basis of the decision that the author will take to solve the problem. The author analyzes internal data using a resource-based view, including the firm's competencies and capabilities (Mahoney & Pandian, 1992). Later on, the author uses SWOT and PESTEL analysis, which has been shown to be able to help companies develop an effective risk management framework (Islam, 2017)

The author uses a mixed method of qualitative and quantitative approach for the methodology in this study. The data itself is divided into primary and secondary data. Primary data will be derived from interviews and surveys from respondents who participate in the company. In contrast, secondary data will be derived from literature reviews and online research. The data will be about the problem used to construct a sound decision to solve the problem. For the decision-making process, the author will use the Kepner Tregoe (KT) approach to help decide on a suitable solution for the hotel's problem and develop the implementation plan for the solution. The first part would be to do a situation appraisal, which is then followed by problem analysis. The Fish-Bone diagram will also be used in the problem analysis phase to help dissect the problem better. The methodology of research is summarized in table 2.

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RESULTS AND DISCUSSION

Situational Appraisal

Situation analysis could progress into a competitive advantage (Blackwell & Eppler, 2014). The findings from the situation analysis of the company are described in Table 3.

The situation within the company may be categorised into three types of processes, which are problem analysis (PA), decision analysis (DA), and potential problem analysis (PPA). H – High, M – Medium, and L – Low are indicators of each issue. Using the situation analysis, the author may prioritize the issues and generate a plan on how to solve the problems best. Figure 1 shows the full Situational Appraisal summary.

Problem Analysis

The problem of corruption, collusion, and nepotism in the company is analysed using the Fishbone diagram with four key aspects of root causes for the said problem from McKinsey 7s, which is very suitable to understand an organizational situation to achieve particular goals (Rasiel & Friga, 2001). The Fishbone diagram has been proven useful in the risk identification stage of a problem (Ilie & Ciocoiu, 2010).

1. Structure. The lack of clear authority and responsibility, especially between owner-management has made the management be incentivized to do nepotism. Moreover, the emptiness of internal audit functions has made frauds conducted by the management be unnoticed.
2. System The main issue, in this case, is the unutilized accounting system that has created many transactions that go unrecorded properly by the company. It is worth noting that the lack of segregation between bookkeeping and authorization in the company makes chances of corruption high.
3. Staff. Subjectivity in human resource management has pushed quality human capital to resign out of the company, leaving the company with human capital lacking integrity and self-discipline.
4. Skill. The main issue here is how there is no staff with good accounting skills to input a proper account journal.

Decision Analysis

There are two decisions to address the problem of unclear authority and responsibility as well as the family feud between owners' family members. These appropriate alternative actions for these decisions are later chosen based on each alternative's cost and benefit attributes.

1. Decision Statement 1: Creating a new policy, system, and restructuring program that will create clear authority and responsibility between owner and management.
2. Decision Statement 2: Choosing the appropriate measures to decrease the family feud between the owners.

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Considering each alternative's cost and benefits using the SMART model, this decision, therefore, involves variables that are very subjective, such as probabilities (Edwards, 1997). The course of action taken for each decision is to appoint one of the owners as the CEO operating the company and choose one of the owners to be the sole decision-makers in the family as majority shareholders. The actions are summarized in table 4.

Potential Problem Analysis

Potential problems that may arise are addressed in the last phase by developing preventive and contingent actions. Several potential problems have to be addressed regarding the decisions mentioned earlier and one problem from a situation analysis.

1. No separation between owner and company asset
2. Appoint one of the owners as the CEO to operate the company.
3. Choose one of the owners to be the sole decision maker in the family as owner representation.

Based on interviews with the owner and management, the author identifies several actions to prevent the consequences of the said potential problems and exit strategies if the consequences eventually happen.

1. No separation between owner and company asset
    a) Reactivate company's accounting system.
    b) Develop accounting training.
    c) Utilize an Enterprise Resource Planning (ERP) system.
    d) If the potential problem happens, hire a skilled accountant.
2. Appoint one of the owners as the CEO to operate the company.
    a) Develop fair human resource management.
    b) Develop internal control policy.
3. Choose one of the owners to be the sole decision maker in the family as owner representation.
    a) Create shareholders meeting (RUPS) agreement.
    b) Create a fixed owner meeting and decision-making schedule.
    c) If the potential problem happens, the said owner shall attend a consultancy project with an experienced consultant.

CONCLUSIONS

The study reveals that the main problem that the hotel needs to address is the collusion, corruption, and nepotism in the company. With SMART decision analysis, the course of actions the company must take is to choose one of the owners as the CEO operating the company and choose one of the owners to be the sole decision-maker in the family representing majority shareholders. The company also has to address several potential

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problems that may arise by implementing preventive and contingency actions in three action areas: the separation of owner and company asset, the appointment of the new CEO, and appointment of one of the owners as sole decision-makers.

The result of this study reveals that a family-owned business problem, especially a hotel business, may stem from the principal-agent relationship between owner and management. It is understandable due to the lack of responsibility and authority separation in a family-owned business. To solve this particular issue, a family-owned business may have to develop its corporate government policy with appropriate tools, such as the Kepner-Tregoe (KT) decision analysis. The family-owned business may also have to implement preventive and contingency action regarding their corporate government policy, namely internal control or human resource management.

Implementation Plan

To roll out the decisions and actions to address the potential problems that the company may face, the author constructed an implementation plan in four key areas. Moreover, the author then develops a Gantt Chart to schedule the implementation plan in one fiscal year starting 2021. The Implementation plan can be viewed in table 5.

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Table 1. Literature Review

No.	Title	Journal and Author	Findings
1.	Evaluation of hotels performance and corporate governance mechanism: Empirical evidence from the Tunisian context.	Journal of Hospitality and Tourism Management written by Jaboui, Guetat, and Boujelbene (2015).	The research found a positive relation between hotel performance and corporate governance, particularity in terms of independent director's proportion.
2.	Corporate governance, tourism growth, and firm performance: evidence from publicly listed tourism firms in five Middle-Eastern countries.	Tourism Management written by Al-Najjar (2014).	The research discovered that the Board's independence is positively correlated to firm performance. Meanwhile, larger board size induce a more efficient profitability.
3.	Evaluation of hotel industry performance and corporate governance: A stochastic frontier analysis.	Tourism Management Perspectives written by Guetat, Jarboui, and Boujelbene (2015).	The research revealed that corporate governance mechanisms significantly affect 6 hotel performance measures (financial, social and human, organizational, commercial, and global performance).
4.	The analysis of corporate governance policy and corporate financial performance.	Journal of Economics and Finance written by Ueng (2016).	The study suggested that firms with better board rating, compensation policy, takeover defense strategy, accounting practice, and a formal governance policy have better financial performance.

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5.	A study of the relationship between corporate governance structures and the extent of voluntary disclosure.	Journal of International Accounting, Auditing, and Taxation written by Ho and Wong (2001).	The results indicate that the existence of a corporate governance mechanism in the form of an audit committee significantly affects information disclosure of a company.
6.	The level of voluntary disclosure practices among public listed companies in Saudi Arabia and the UAE: Using a modified voluntary index	International Journal of Disclosure and Governance written by Al-Janadi and Normah (2012).	Most corporate governance mechanisms, especially non-executives directors, board size, CEO duality, audit quality, and government ownership, have a significant contribution in providing quality disclosure.

Table 2. Methodology of Research instrument

Approach	Method	Source of instrument	Respondent
Qualitative	Interview	Interview using structured interview framework (Sekaran and Bougie, 2016)	1. Director of Finance
			2. EAM
			3. HRD Manager
			4. Executive Housekeeper
			5. Food and Beverage Manager
			6. Head of Chef Kitchen
			7. Chief Engineering
			8. Front Office manager
			9. Sales and Marketing Manager
			10. Chief Security
			11. Legal
Quantitative	Questionnare	Administered questionnare method.	1. Customers.
			2. Staffs
			3. Owners

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Table 3. Situation Appraisal Findings

Main Issue	Issues	Priority Determinant			Priority	Process
		Timing	Trend	Impact		
Communication	No good communication between each level of hierarchy and department	M	H	H	7	PA
	Fear to communicate	L	M	M	12	PA
Human Resource Management	Transactional leadership	H	M	H	6	PA
	No succession plan	M	M	M	9	PPA
	Subjectivity in recruitment	H	H	H	4	DA
	KPI	L	M	M	14	PA
Corporate Governance	**Corruption, Collusion, and Nepotism**	H	H	H	**2**	**PA**
	Family feud	H	H	H	**3**	**DA**
	Lack of clear authority and responsibility	H	H	H	**1**	**DA**
	No separation between owner's asset and company's asset	H	M	H	**5**	**PPA**
Finance	lack access of debt funding	L	L	M	15	PA
	lack access of equity funding	L	L	M	16	PA
	Lack of Financial Planning and Budgeting	H	M	M	8	PA
Sales and Marketing	Covid 19 Pandemic	M	M	L	10	DA
	New customer expansion	M	L	M	13	PPA
	Digital marketing optimisation	M	M	M	11	PA

Figure 1. Situational Appraisal Summary

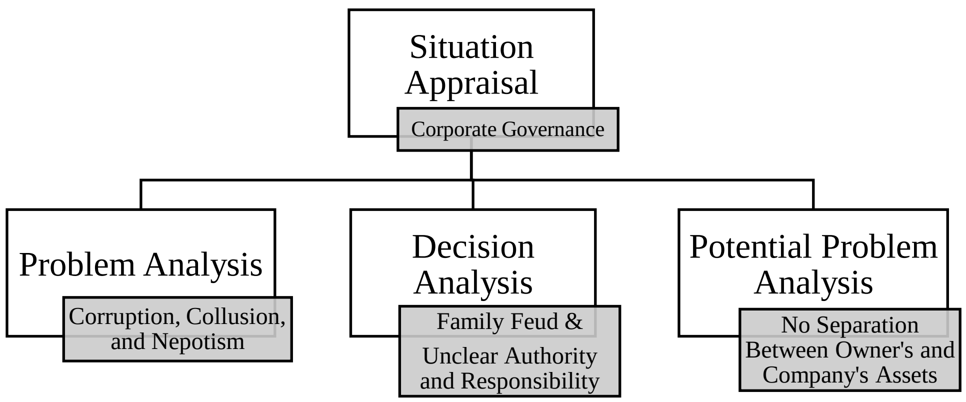

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Table 4. Decision Analysis Actions

	Total Cost	**Weighted Aggregate**	**Action**
Decision 1: Creating a new policy, system, and restructuring program that will create clear authority and responsibility between owner and management.			
Appoint one of the owners as the CEO to operate the company.	Rp 1,775,123,922.80	89,4	APPROVE
Create an owner-centric-approach as strategic decision maker.	Rp 2,580,000,000.00	89,0	REJECT
Give management full authority to make decisions through an appointed CEO.	Rp 2,640,000,000.00	87,4	REJECT
Decision 2: Choosing the appropriate measures to decrease the family feud between the owners.			
Choose one of the owners to be sole decision maker in the family as the majority shareholders	Rp 30.000.000	90,8	APPROVE
Choose a professional hotel consultant to become owner representative	RP 50.000.000	88,7	REJECT

The Seybold Report
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Table 5. Implementation Plant for 2021

	2021											
Implementation Plan	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
New CEO Appointment												
Develop a responsibility and authority statement.												
Reconstruct company structure.												
Practice training and job rotation for the new CEO.												
Appoint the new CEO.												
Officiate the new CEO.												
Shareholders Meeting (RUPS) Policy												
Conduct a Shareholders Meeting.												
Formulate shareholders regulation.												
Legal												
Human Resource Management												
Develop evaluation policy.												
Develop new human resource SOP.												
Construct human resource planning.												
Conduct human resource training.												
Internal Control												
Reactivate accounting system.												
Hire skilful accountant.												
Develop an internal control system and model.												
Utilize an Enterprise Resource Planning (ERP) software.												