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Contents lists available at ScienceDirect

Journal of Destination Marketing & Management

journal homepage: www.elsevier.com/locate/jdmm

Research Paper

Getting the cash-cow directors on board—An alternative view on financing DMOs

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ARTICLE INFO

Article history:

Received 26 December 2012

Accepted 14 October 2013

Available online 6 November 2013

Keywords:

Destination Management

Organization (DMO)

Board of directors

Revenue sources

Board governance

ABSTRACT

Research on the composition of the board of directors of DMOs as well as the governance of DMOs is of particular interest for destination management, because it helps understand the context of community-type tourist destinations. There is an increasing body of research on the composition and roles of DMO boards of directors as well as the duties and tasks of those individuals. However, to date, no study has addressed their influence on the financial revenues of the organization. A DMO's budget is not God-given but evolves along with the development of the organizations and the institutions in the destinations. Thus, we investigate to what extent directors on the boards affect the amount from different revenue sources. Using data from 44 Swiss local and regional DMOs, we perform seven distinct multiple regressions with the following revenue sources as dependent variables: (1) membership fees, (2) partnership platforms/initiatives, (3) commercial revenues, (4) overnight taxes, (5) regional and state subsidies, (6) municipal subsidies, and (7) tourism taxes. Four independent variables (1) stakeholders, (2) public agents, (3) leaders, and (4) networkers, positively and negatively affect the revenue sources. The results reveal two contrasting roles: while leaders and networkers likely increase the revenue sources, stakeholder representatives and public agents negatively affect the revenue sources. Additionally, the latter two functions strongly increase the size of the DMOs' boards. We conclude with a new perspective on how to understand DMO boards, their functions, and finally the organizations themselves.

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1. Introduction

In community-type destinations, the Destination Management Organization (DMO) plays an important role as a focal institution (Ritchie & Crouch, 2003) and deserves a distinct research focus. Today, we know various types of DMOs at different levels (local, regional, and national, with the latter ones typically oriented more towards marketing), with different sizes, and fulfilling various functions (Pearce, 1992; Pike, 2004; WTO, 2004). One research stream has focused on the DMO board of directors, because the multiplicity of stakeholders and actors in the destination and the complexity of the supply system require that particular attention be paid to the corporate governance of the organization. As a matter of fact, DMO boards may consider a multitude of interests, various competencies due to the numerous activities, or a particular system of governance that reflects the implicit governance in the destination. To date, research on DMO boards of directors has focused on board composition and roles and their relation to the

activities of the organization. There is quite a rich research stream that addresses the composition and size as well as the profiles of boards of directors, and particularly the roles of those individuals, as a result of the type of DMO, its tasks, or its functions (Ford, Gresock, & Peeper, 2011; Garnes & Grønhaug, 2011; Lathrop, 2005; Palmer, 1998, 2002). Yet, we still do not know if and how board composition and individual profiles relate to the organization's resources, assets, or even to its performance. The abovementioned extant literature refers to board composition as a result of stakeholder representation, suggesting that the board is a reflection of the multitude of the individuals and institutions in the destination. Actually, the state-of-the-art literature discusses DMO boards as a group of representatives who serve the wider interests of the destination and those of their stakeholder groups.

Yet, management literature clearly points to the fact that shareholders as owners and investors are represented on the companies' board (Baysinger & Butler, 1985; Baysinger & Hoskisson, 1990; Van den Berghe & Levrau, 2004), pointing to the evident link between capital and revenue and the composition of the board. Does this insight hold true for non-profit organizations such as DMOs? With this research paper, we propose an alternative view, a different explanation of DMO board composition and the reason why some personalities are present in those company

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organs. Resource dependence theory (Pfeffer & Salancik, 1978) helps describe the effects of incorporating particular individuals on DMO boards on the sources and mechanisms of revenue in the mid to long-term. In the end, DMO revenues cannot be taken as given, but are the result of economic mechanisms and political bargaining processes, behind which management and especially the board of directors play an important role. Hence, we change and possibly invert the current predominant logic: While the state-of-the-art explains (or at least discusses) the DMO board composition as a consequence of the activities (expenses side), we argue that in order to increase and diversify funding (income side), DMOs, intentionally or not, recruit board members most likely to achieve this goal. In this spirit, those actors fulfill an additional, crucial function, which is to secure and to fortify the financial foundations of the organizations. Thus, the aim of this paper is to investigate the strength and degree of the connection between various DMO board functions and revenue sources.

The figure below illustrates the change in perspective. While there may still be a reason to argue that DMO board composition and roles are a consequence of the activities of the DMO, in addition individual profiles on the board could also serve to generate or increase specific revenue sources. Both sides of the coin could supplement each other.

The study is straightforward. First, we discuss the current literature with respect to (1) revenue sources of DMOs and (2) DMO board composition and function. For the empirical study with 44 DMOs in Switzerland, seven distinct revenue sources and four functions possibly affecting the existence and the strength of the revenue source are identified. Consequently, the analysis presents seven separate multiple regression models with the revenue source as the dependent variable and four functions as independent variables. A cross-case comparison of the models supports the discussion of the importance of the single functions and a critical appraisal of the current notions of DMO boards of directors. We have focused the research on non-profit DMOs which aim to market a destination (product development and service coordination, promotion, etc.). The selected DMOs work at a 'meso' level, that is for an area that comprises one or more municipalities or regions. Not included in the sample are the national tourist office and small local visitor boards with limited budgets.

2. Literature review

2.1. Revenue sources of DMOs

Financial management of DMOs is a crucial issue for DMO and destination success (Bornhorst, Ritchie, & Sheehan, 2010). Early contributions point to a picture with diversified revenue sources for DMOs that go beyond the traditional governmental subsidies (Sheehan & Ritchie, 1997). Pearce (1992), for example, suggests that destination management and promotion through DMOs needs a pooling of efforts to achieve economies of scale. Partnership marketing in DMOs, e.g. advertising campaigns, product development or distribution and sales platforms, is a rather old principle (Bieger, 1998; Getz, Anderson, & Sheehan, 1998) but has recently gained importance as the traditional revenue sources such as overnight taxes and public subsidies have decreased. Partnership marketing or other partnership initiatives must be clearly separated from non-product development (or marketing) tasks. The latter ones could be financed by membership fees, overnight taxes or public subsidies and comprise for example running an information desk or maintaining tourist infrastructure in the place (e.g. hiking trails, ice rink). Public subsidies could also be used to finance public goods or services (Bonham & Mak, 1996)

such as public relations or destination promotion. In contrast, partnership initiatives are voluntarily and often collectively funded platforms and involve specific activities with a limited number of beneficiaries and therefore – in order to avoid competition with their own members – separately funded. Thus, they are collected by one or more members mandating the DMO beyond the common tasks for its members (Getz et al., 1998). Over the last twenty years or so, DMOs have constantly experimented with additional services and products that can generate value beyond public subsidies or tourist taxes. They have also added commercial sources to the 'revenue cocktail,' such as events, commissions on reservations, package tours, merchandising, special counseling services to local businesses, and research studies (Bieger, 1996; Getz et al., 1998).

Fig. 1 Today, we distinguish seven basic revenue sources for DMOs according to their private or public character and the level at which they are collected (local or regional): (1) membership fees, (2) partnership platforms/initiatives, (3) commercial revenues, (4) overnight taxes, (5) regional and state subsidies, (6) municipal subsidies, and (7) tourism taxes. As illustrated in Fig. 2, the revenue sources can be arranged in a circle that distinguishes the

extant research

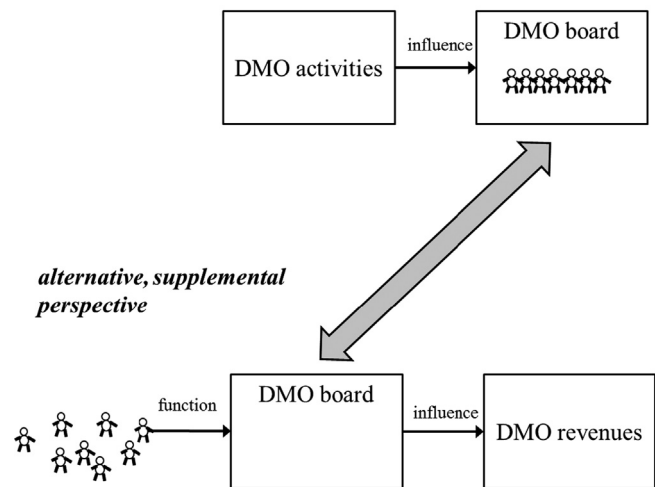


Fig. 1. Proposing an alternative, supplemental perspective.

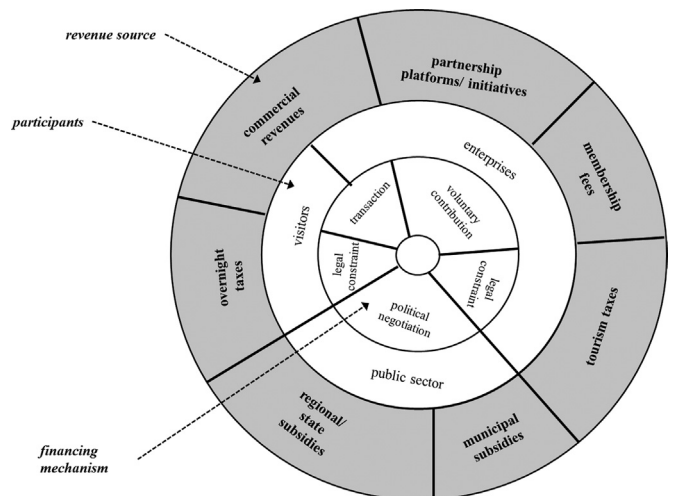


Fig. 2. The revenue wheel of DMOs.

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