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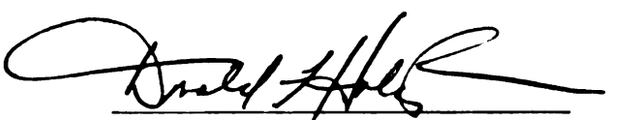

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INTERESTS, INSTITUTIONS, AND ORGANIZATIONS: THE CASE OF TOURISM PROMOTION FINANCING AND DESTINATION MARKETING ORGANIZATIONS IN MICHIGAN, 1896-1996

VOLUME I

By

James A. Myers

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ABSTRACT

INTERESTS, INSTITUTIONS, AND ORGANIZATIONS: THE CASE OF TOURISM PROMOTION FINANCING AND DESTINATION MARKETING ORGANIZATIONS IN MICHIGAN, 1896-1996

By

James A. Myers

The promotion and marketing of a destination to tourists is a form of primary promotion with high exclusion cost and joint impact characteristics. As such, members of a community must decide who among them will share in the cost of providing tourism promotion services and who will be involved in deciding on the content of the promotion program.

Many theories suggest that in such cases, group formation and the funding of these types of goods will be difficult or impossible. These theories suggest that the good will not be provided unless government either provides it or imposes sanctions on free riders. In Michigan, tourism promotion has been provided by the state government, regional tourist associations, and local destination marketing organizations. In the case of the regional programs, voluntary funding arrangements, supplemented by state appropriations, proved viable for a number of years. Over time, this structure became less effective as both the state and local programs grew in importance. However, three regional programs continued operation at the time of this study. Two of these programs are funded by voluntary payments and the sale of selective incentives.

Four of the local programs were also initially funded by voluntary dues payments. Over time, the local organizations appealed to the state government for the right to receive funding from taxes and assessments on the sale of hotel rooms. These cost sharing arrangements generated large increases in the funds available for tourism promotion. In the

process, the right to determine the content of the local destination marketing program has been largely shifted to hotel owners and operators.

The case studies suggest that existing theories of interest group behavior and institutional change can be supplemented by including additional variables. In the case of the regional associations, there was evidence that purposive incentives were important in forming and maintaining the groups. In all of the cases, the groups devised and lobbied for self-restraining institutions as ways of coping with interdependencies between various sub-groups. Although facilitated by both state and local government, the compulsory cost sharing arrangements were not imposed on the organizations by government - they were sought and created by the organizations. Throughout the period studied, existing organizations played a role in creating new organizations and shared in the cost of developing new institutional arrangements. At the time of this study, the system for funding tourism promotion involved a mix of voluntary and compulsory cost sharing.

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CHAPTER ONE

INTRODUCTION TO THE PROBLEM

1.1 Introduction

In the United States, the organizations responsible for sub-national tourism promotion efforts are the local or regional convention and visitor bureaus (CVBs) as well as the travel offices operated at the state level. According to the U.S. Travel Data Center (1994), all fifty states operated travel offices with total budgets exceeding $364 million. The state offices, on average, spent $2.4 million on advertising and promotional efforts with Illinois and Hawaii consistently having the largest advertising budgets, $8,867,500 and $8,027,330 respectively in 1994 (USTDC, 1994).

The International Association of Convention and Visitor Bureaus (IACVB) has a membership of over 400 convention and visitor bureaus (CVBs) spread throughout the world. A 1993 survey of 274 IACVB members reports that the average CVB's budget was $2,135,616. Total budgets ranged from less than $200,000 to over $5 million. Aggregating across all respondents of varying budget sizes, the CVBs allocated approximately 38.8% of total expenditure to direct promotional expenses, 35.1% to personnel, and 26.1% to operating expenses. The largest source of CVB revenue was the local or county room tax. Two hundred and fifteen of the 274 IACVB survey respondents indicated that operating funds came from the room tax. On average, the room tax accounted for approximately 65% of the total budget of the responding CVBs. Other sources of revenue included grants, general tax funds, membership dues, publication sales, and miscellaneous fund raising activities (IACVB, 1993).

Michigan holds a unique place in the history of local, municipal and regional destination marketing as it exists in the United States today. Detroit, Michigan was the first city to establish an organization dedicated to promoting the city to attract conventions and trade association meetings. In 1895, a group of Detroit hotel owners voluntarily pooled funds to employ a full-time salesman. In 1896, this salesman, Milton Carmichael, was given a secretary and an office, thereby creating the first convention bureau in the United States (Trafton, 1994).

The CVB established in Detroit became a model for hotel and business owners in other cities. Cleveland followed in 1904, Atlantic City in 1908, and St. Louis and Denver in 1909. Like Detroit, all these associations were formed by a relatively small group of owners of the major downtown hotels who voluntarily pooled funds to attract conventions to the cities. By 1914, there were enough of these organizations to form a national organization then known as the International Association of Convention Bureaus. Its primary purpose was to provide a forum for exchange of information on the convention industry (Trafton, 1994).

By the late 1960s and early 1970s, the role of the convention bureaus had expanded beyond attracting conventions to include general promotion of regional tourism. It was during this time that tourism began to play a significant role in the development and/or revitalization of many urban centers around the country. According to the IACVB, it was this trend that resulted in the convention bureaus taking on a more explicit public role (Trafton, 1994). Over time, these entities have evolved from organizations funded by the voluntary efforts of the local hotel industry and other businesses into organizations funded predominantly through taxation and transfers from public funds.

In Michigan, the evolution of CVBs, and similar destination marketing organizations, is distinguished by several pieces of legislation with each law providing the institutional foundation for establishing and funding local or regional destination marketing organizations. Since the 1970s, the state legislature has provided for tourism promotion

funding via taxes or assessments levied and collected by counties or private non-profit corporations. Prior to the implementation of the taxes and assessments, local and regional destination marketing organizations were funded primarily through member dues and appropriations from state and county governments. These basic differences in funding arrangements reflect choices between alternative property rights/institutions that determine how communities establish and maintain organizations that supply destination marketing programs.

This study describes the institutional arrangements that have emerged in Michigan to provide tourism promotion at the state, regional, and local levels. It employs a decidedly economic approach to institutional analysis. Due to the open nature of institutional systems and the typically qualitative nature of the data used in institutional analysis, paradigms must be developed or adopted to structure empirical investigation (Paarlberg, 1993). The paradigm employed in this study is Schmid's (1987) situation, structure, performance (SSP) paradigm. The SSP paradigm is similar to the framework employed by others, such as Kiser and Ostrom (1982), in that it begins by considering the interdependencies arising out of the inherent characteristics of goods. From this starting point, authors employing this approach, consider how alternative institutional arrangements might affect outcomes.

The following section defines what institutions are. Subsequent sections describe components of the SSP paradigm in the context of destination marketing and promotion and present the nature of the problem to be studied.

1.2 Institutions Defined

Destination marketing organizations, such as convention and visitors bureaus, represent a form of collective action because they are characterized by the collective effort of individual firms to market and promote the city, county, or region in which they do business. A better understanding of these organizations becomes possible by studying how they originated and evolved. In this section, what is meant by institutions is defined

and a general context for the problem is established. The definitions of institutions differ slightly because each focuses attention on a particular aspect of the concept.

Commons (1950; p. 24) defines institutions as "collective action in control, liberation, and expansion of individual action." Commons' definition underscores the dual nature of institutions: What may be constraint for one individual is liberation for another. By defining the nature and distribution of costs and benefits, institutions direct the flow of resources and the focus of individual effort.

Schmid (1987; p. 6) defines institutions as "sets of ordered relationships among people which define their rights, exposure to the rights of others, privileges and responsibilities." It is not the destination marketing organization as a benign entity that has changed over time; it is the "sets of ordered relationships" that give definition to the organization that have changed. For example, the transition of CVBs from voluntary to compulsory cost sharing is a change in the structure of rights and privileges defining who will be required to share in the cost of local tourism marketing and who won't.

Scott (1995; p. 33) defines institutions as ". . . consist(ing) of cognitive, normative, and regulative structures and activities that provide stability and meaning to social behavior. Institutions are transported by various carriers--cultures, structure and routines-- and they operate at multiple levels of jurisdiction." Scott's definition is comprehensive in that it recognizes the role of institutions at different levels and modalities of human interaction. He continues by saying: ". . . institutions are multifaceted systems incorporating symbolic systems--cognitive constructions and normative rules--and regulative processes carried out through and shaping social behavior (p. 32)." Scott refers to the cognitive, normative, and regulative dimensions of this definition as the "three pillars" of institutional analysis (p.35).

The regulative pillar emphasizes explicit rule-making procedures and the costs and role of monitoring and sanctioning efforts. These rule-making and compliance mechanisms may be formal or informal in nature. In a regulative context, the emphasized elements are

the legislation related to destination marketing and tourism development, the constitution and by-laws of the destination marketing organization, as well as the informal rules emerging from the community and the culture of the organization (Scott, 1995).

The normative pillar places particular emphasis on values and norms as the basis for social rules. For example, the subjective assessments of what constitutes good management of the destination marketing organization or what constitutes appropriate behavior of the staff and director are emphasized elements in a normative context. Perceptions of the marketing program's quality and related perceptions of the program's value are also subject to normative assessment. What constitutes a quality marketing program for some people will in part be a function of whether they perceive it to be appropriate. Norms and values restrict behavior by determining what is allowable and expected of individuals in particular situations and roles (Scott, 1995).

The cognitive pillar emphasizes "the rules that constitute the nature of reality and the frames through which meaning is made (Scott, 1995; p. 40)." The focus of cognitive institutional analysis is the individual's internal representation of the environment and the symbolic cues received in particular environments. Social constructions of roles, and the social context of economic transactions are emphasized. For some people, the destination marketing organization may symbolize an extension of state government that may or may not be trusted to act in their interest. For others, the organization may symbolize community and social opportunities. Individual behavior with respect to the organization and other people in the organization will be partially determined by the social context of the organization and individualized meaning assigned to it.

North (1990; p. 4) defines institutions as "the rules of the game." He also underscores the dynamic nature of institutions by saying:

> Institutions, together with the standard constraints of economic theory, determine the opportunities in a society. Organizations are created to take advantage of those opportunities, and, as the organizations evolve, they alter the institutions. The resultant path of institutional change is shaped by (1) the lock-in that comes from the symbiotic relationship between institutions and the organizations that have evolved as a consequence of the incentive structure provided by those institutions

> and (2) the feedback process by which human beings perceive and react to changes in the opportunity set.

North describes elements of the dynamic that is described, given theoretical structure, and evaluated in this study. Destination marketing organizations in Michigan have been created in the context of an existing set of institutional arrangements. The resulting set of opportunities and constraints have produced a matrix of incentives to which organizational leadership has responded and adapted. In this process, individuals in the organization have acted to alter the existing set of institutions and have in turn created new institutions, new opportunities, and new constraints. The process of institutional and organizational creation, maintenance, and change involves human interaction with respect to a particular objective or object. This interaction or interdependence is the subject of the next section defining interdependence as the starting point of institutional analysis.

1.3 Externalities and Interdependence

Interdependence refers to the potential for one person's choice to affect the choice of others. Interdependence arises in part out of cognition, perception, and preferences; but it is also a function of technology and the physical characteristics of economic goods (Samuels and Schmid, 1992). When people exercise choice with respect to the good, the good as the basis of the fundamental interdependence remains unchanged, but the direction of interdependence is determined. As Schmid (1987; p. 5) has noted:

> Interdependence is the occasion for both cooperation and conflict. The relationships of physics and biology may suggest a production possibility. For example, a beam can only be raised by the joint action of two people. The physical advantage of cooperation, however, does not mean the joint effort will be forthcoming. Often a dispute over the division of the fruits of joint effort keeps the beam from being raised at all. Technology and knowledge affect the character of interdependent effort, but the images of rights that people carry in their heads affect what is realized.

Interdependence implies that an inherent outcome of choice is an impact on the choice (opportunity) set of another. The institutional question is "who's choice will prevail?" and implicitly "how costly, or beneficial, will the exercise of A's choice be on B?". The

creation of costs (or benefits) beyond the individual decision maker is the definition of an externality (Bromley, 1986). Thus, interdependence is the occasion for the creation of externalities as much as it is the occasion for cooperation and conflict.

The direction of the externality is not realized until the rights and duties of the interdependent actors are specified, either formally or informally. In raising the hypothetical beam, the assignment of the right to A to coerce B to lift the beam creates potentially unwanted costs (duties) on B. Thus, it becomes evident that the occurrence and extent of externalities is as ubiquitous as the number of feasible institutional arrangements that give structure to the interdependence (Schmid, 1987).

Those versed in traditional (Paretian) welfare economics may not be comfortable with this conceptualization of externalities. In the Paretian tradition, externalities are a unique occurrence contributing to market failure. Further, the only externalities considered are those that cannot be internalized, costlessly negotiated away through the market. Pecuniary externalities--those externalities arising from, and transmitted through, changes in relative prices--are not treated as externalities because they presumably have been internalized. Typically only technological externalities, or those costs extending beyond the market to effect production opportunities, are considered to be "Pareto relevant." Social versus private costs are necessary distinctions made in the traditional theory of welfare economics. However, neither the subtle distinctions nor the narrow definitions used in this theory help to discern how alternative institutional arrangements may expose people to the actions of others or what opportunities are thereby created (Schmid, 1995 & Samuels, 1992; vol. 1). It is the broader conceptualization of ubiquitous externalities (impacts) that is used throughout this study.

The potential for the choices of one person to affect the choices of another are based in the characteristics (physical and psychological) of the good of interest. Schmid (1987) and Samuels and Schmid (1992) have developed useful taxonomies for classifying interdependencies and impacts.

Schmid's book (1987) is a comprehensive study of interdependencies and the alternative rights arrangements associated with each. He identifies interdependencies arising out of six broad characteristics of goods: 1) goods that have incompatible use characteristics, 2) goods that have varying degrees of excludability and costs of exclusion, 3) goods having characteristics of economies of scale, 4) goods that have joint-impact characteristics, 5) interdependencies associated with the costs of contracting, seeking information and policing (transactions costs) and, 6) interdependencies attributable to surpluses and fluctuations in supply and demand. Schmid's approach enables the analyst to predict what the institutional questions and outcomes might be given that particular goods create different contexts for human interaction.

The explanatory capability of this approach is extended further by Samuels and Schmid (1992; p. 317) in their formulation of impact (externality) situations. Here, the institutions controlling choices with respect to the goods are combined with characteristics of the goods to suggest a taxonomy of externalities or "impact situations." The authors describe three impact situations. Class I impact situations "arise from the aggregation of simultaneous (interdependent) actions" of individual agents. Examples include scale economies, peak loading, congestion and indivisibilities. Class II impact situations "involve unilateral actions by an individual actor and an incompatibility of use or interest vis-à-vis another's." Examples include actions producing negative pecuniary, technological, and political externalities. Class III impact situations "involve unilateral action by an individual actor and compatible use or interest vis-à-vis another's. Examples include actions producing positive externalities, grants voluntarily given or received and (public) goods wherein provision for one person constitutes provision for another or all others, and consumption by one does not reduce the amount available to others."

Because Schmid's (1987) SSP paradigm provides a means of structuring institutional impact analysis it will be used to give structure to the tourism promotion problem. The paradigm is appealing for two reasons: it provides theoretical insight into the origins of

these organizations by linking interdependence with the institutions controlling behavior, and it provides a theoretical link between the institutions and organizational performance. Further, by incorporating Scott's (1995) taxonomy of normative, regulative, and cognitive aspects of institutions, the model yields insight into how different institutions act as potential substitutes and complements. This paradigm also accommodates specific institutional issues identified by Kiser and Ostrom (1982) such as the voting and governance rules, rules of exit and entry, boundaries, as well as rules related to sanctions and payoffs.

1.3.1 The Exclusion Characteristics of Tourism Promotion

The nature of some goods makes it difficult to exclude those individuals not contributing to the cost of producing the good. Therefore, these goods have high exclusion cost characteristics (Schmid, 1987). Common examples include ocean fisheries, breathable air and radio broadcasts. The nature of these goods makes it difficult to exclude people from using these goods whether or not they have contributed to the cost of provision or maintenance.

As Schmid has noted, the costs of exclusion may be directly attributable to the cost of monitoring to insure that only contributing people use the good. In addition, costs may arise from an inability to withdraw supply from the person claiming that the good has no benefit, without also withdrawing supply from others who do benefit. The cost of policing and monitoring is the cost of detecting use, while the second cost is the cost of determining the true willingness to pay. Both costs contribute to the total cost of exclusion.

The interdependence attributable to problems of exclusion is conditioned upon "whether one party is made aware of the effect action has on supply." In situations of low exclusion cost, the conditions of attaining the good are clear and perceptible to both the buyer and seller. With high exclusion costs, "the connection between individual effort (bid or cost bearing) and obtaining the good" is not as clear (Schmid, 1987; p. 47). The

interdependence inherent in high exclusion cost goods is evident, to varying degrees, when the good of interest is tourism promotion.

Destination promotion may be distinguished as being either selective or primary. Schultz and Wittink (1976; p. 71) define primary advertising as "the effort expended by collective firms in an industry, either as an ad hoc attempt or systematically through a trade association for the express purpose of increasing primary demand by means of mass communication." Selective advertising is defined as "the effort expended by individual companies to influence sales for a brand, or for the firm, by means of mass communication." The promotional efforts of state and local tourism offices are examples of primary advertising.

Selective advertising of a business may create spill-over demand. Once provided selectively, it is costly to exclude those who have not contributed to the promotional effort from benefiting. For example, the promotional efforts of a resort attracts tourists not only to the individual resort but also to the region and creates demand for the heterogeneous mix of regional goods and services that are typically purchased by the tourist (including rooms in other hotels). In essence, businesses that benefit from a resort's selective advertising efforts are capable of using the promotional program of the resort without contributing to its production. These businesses are "free riding" on the selective promotional expenditure of the single hotel.

Consider also two communities located close together. Community A develops a primary destination marketing program intended to attract tourists to the businesses located in the community. Community B does not have a primary destination marketing program. Due to the proximity of Community B, some tourists may visit there as well and spend their money. Natural or manmade resources may be shared between the two communities and may be the primary motivation for travel to the area. While tourists may have learned about the attractions through the marketing program supplied by Community A, they do not limit their expenditures only to that community. Once again, businesses in Community B

capture tourist expenditures without sharing in the cost of Community A's marketing program.

The free rider problem may create incentives for primary promotional efforts where the cost is shared by other potential beneficiaries. Interested businesses and communities may voluntarily cooperate to develop and maintain a program. However, voluntary cost sharing is problematic because free riders can conceal their true marginal benefit. In addition, group size and behavior affect the cost of detecting and sanctioning free riders (Schmid, 1987). In the presence of goods with high exclusion cost characteristics, the fundamental institutional question is how the costs of provision will be shared. Without some normative restraint on the part of potential free riders or some similar willingness of providers to allow free riding to continue, an administrative cost sharing rule must be devised.

Assuming some success in establishing an organization under voluntary cost sharing arrangements, and, in the absence of an institutional arrangement that precludes member defection, the voluntary member may realize that he has access to the good regardless of his contribution and decide to free ride. As a result, others valuing the good may act to provide incentives or implement strategies that mitigate free riding and create member identification with the organization.

Once the cost sharing rule has been established, the potential arises for unwilling riders: those who may derive no utility from the good, or who were unknowingly free riding, but who must now pay for its provision. Coercion of the unknowing or strategic free rider to pay for the provision of the good may be a source of organizational conflict. Unwilling riders are a potential source of discontent and, if powerful enough and effectively organized, they are a potential source of institutional change.

1.3.2 The Joint Impact Characteristics of Tourism Promotion

It is possible for some goods to be used by one person or group without necessarily reducing the amount of the good available for others. In essence, these goods have use utility but are not consumed in the traditional sense. Schmid (1987) refers to goods having this characteristic as "joint impact goods." Schmid notes that in terms of the cost function, the marginal cost of an additional user of these goods is zero. For example, once a primary promotional campaign for a destination has been initiated, the addition of another business to the regional or state economy does not significantly affect the cost of supplying the campaign. In fact, it is conceivable that a region could experience significant economic growth, much of it attributable to growth in the number of businesses deriving income from tourism, without increasing the cost of serving the additional member.

A fundamental institutional problem rests in determining a pricing rule. It must be determined who will pay the costs of initially supplying the good (who pays the fixed cost) and who will be considered the marginal user (Schmid, 1987; pp. 75-6). In a situation where the hotel room tax is dedicated to destination promotion, the fixed cost is shared by hotels and their customers. Other businesses, such as restaurants and retail establishments that also benefit from tourist expenditures, are the marginal users of the primary promotional effort. The pricing rule, as outlined by the enabling legislation and in the by-laws of the destination marketing organization, specifies who bears the fixed cost of the primary promotion program.

Although the good may be commonly available without added cost to an additional user, this does not mean that it will in fact be utilized or positively valued. Some users may value and utilize some units of the good while not utilizing others. The degree to which users can adjust quantity or frequency of use determines the avoidance costs associated with the good -- the extent to which the good is optional or nonoptional. In the case of a nonoptional joint impact good, users of the good are exposed to the commonly available level of output, and it is difficult for any one user to adjust either the level or frequency

with which they use the good. In contrast, potential users of optional or avoidable joint impact goods may adjust their level and frequency of use depending on the utility derived from the various units. The avoidance characteristics of a joint impact good are matters of degree. For example, a primary tourism promotion program promotes the destination generally, but within the overall program, there may exist opportunities for mixing selective promotion with the generic destination program. If a business derives most of its income from summer tourists, it may choose to participate in a cooperative advertising effort that combines selective advertising of individual businesses with a broader advertising effort promoting the destination generally during the summer months. Similar opportunities may exist for the winter season, but the business may choose not to participate in this aspect of the program presumably without harm to the summer business. In this case, the primary program is positively valued and to some degree avoidable or optional.

Further, a tourism business may decide not to utilize any aspect of the promotion program and revert primarily to individual effort reflected in their selective campaign. This may be possible if the business has an established reputation for supplying certain experiences or goods that are unique within its area. Consider for example a theme park such as Disney World. The city of Orlando promotes itself as a destination emphasizing conventions, meetings, and general tourism independent to a degree from Disney. Disney may utilize some dimensions of the primary program but reverts primarily to its own selective advertising efforts; again, presumably without much effect on its campaign. The reverse may not true--the city of Orlando is exposed to the Disney advertising efforts and presumably would have difficulty avoiding its reputation as the home of this theme park.

The quantity of any good is at least partially defined by the set of quality characteristics reflected in the good. In some cases, the different quality features of the joint impact good may be utilized simultaneously by different users. In other cases, the qualitative characteristics of the good are incompatible with the features sought by some users. When

qualities cannot be varied without effecting the quality features available for other users the good is called a preemptive good (Schmid, 1987). Again, this is matter of degree.

The interaction of the avoidance and preemptive characteristics of joint impact goods determine the extent to which an individual user is exposed to the choices made by others with respect to the good. These features further complicate the interdependence and the possible actions taken to cope with it. In the case of tourism promotion, the extent to which the good is preemptive and nonoptional is dependent on the nature of the destination. In some destinations the stock of tourism resources and businesses may be so diverse that it is possible to develop multiple themes and seasonal programs that do not preempt each other or confuse the tourist about the identity of the destination. For example, in large cities it may be possible to jointly promote museums and sporting events without consequence to museum curators or team owners. In other cases, the size of the community and the stock of resources and businesses that potentially attract tourists may be so small as to preclude multiple themes and the promotion of potentially incompatible images.

The discussion of the preemptive and avoidance characteristics of joint impact goods foreshadows the nature of an additional decision or rule that must be devised to control for these interdependencies. When a joint impact good--such as a primary promotional campaign--is supplied, the quality and level of the good are available to all businesses in the region. This requires an additional decision as to who determines the nature of the good. As Schmid (1987; p. 88) has noted, "Joint impact goods require a right to determine who gets to choose the commonly available units." The question arises as to who will determine the quality of the good and what the characteristics of the good will be. For example, if A prefers a primary destination promotion campaign that emphasizes gambling opportunities in the region, while B prefers a campaign focusing on the natural resources of the region, it must be determined which preference will prevail. If A's preferences prevail (the right is assigned to A), then B must either live with the campaign, develop a selective campaign

that emphasizes his preferences, or attempt to change the institutional arrangement through bargaining.

If B positively values the good and would like more of it, then he can bargain with A to produce more or he can supply more of the good himself. In the case of tourism promotion, some businesses may value the primary promotion program but would like to emphasize specific seasons within the overall program. For example, in any given community a majority of businesses may derive most of their income from summer tourism activity. The primary promotional campaign may emphasize the local beach or other summer attractions. Within the majority, there may exist a smaller group that also derives income from a winter tourism activity such as skiing. This group values the existing campaign but would like to also emphasize winter tourism. It can appeal to the larger group to provide more tourism promotion from existing resources, or it may decide to contribute more to the overall program with the understanding that some of the additional resources will be spent on promoting winter tourism. In this case, the issue is related to cost sharing. The effectiveness of bargaining may depend on A's perception of the value of additional supply of the good and B's willingness to contribute more and vice versa. There is no guarantee that this process will be without friction.

Communities consist of diverse groups of businesses each deriving different levels of income from tourism activity. The amount of income each business derives depends in part on the type of tourist attracted. Hotels derive income only if the tourist stays the night. Restaurants may derive income from tourists whether or not they stay the night. The same could be said for local retailers and amusement operators. While all may benefit if the tourist stays longer in the destination, restaurants, retailers, and amusement operators may not care if the tourist stays in a hotel, a campground, or a family residence. In addition, local residents may purchase the services of retailers and restaurants with some degree of regularity and infrequently purchase the services of hotels. Resident acceptance of a cost sharing arrangement that requires them to share in the cost of the destination marketing

program depends on their perception of how tourism affects them and their community. For example, local residents may prefer a tax on hotels over a restaurant tax because the perception is that outsiders bear most of the burden of the tax.

Among other things, tourists differ in terms of spending power, preferred recreational activities, amount of free time, mode of travel, age, and distance from a given destination. The nature of the promotion campaign will determine, in part, the characteristics of the tourist attracted. The amount of income a business derives from tourism depends on the characteristics of the tourist responding to the promotion campaign. The matter of who will have the right to determine the nature of the campaign's message becomes then a matter of income distribution and a potential source of organizational conflict

1.3.3 Interdependencies Arising Out of Fluctuations in Demand and Supply, Related to Price Elasticity

Implicit in the definition of primary promotional program is the goal of increasing demand for the generic product or destination. Demand may be affected through a shift in the demand curve for the product or by making demand more inelastic. Since the promotional program is collectively provided, the question arises as to which members of the collective have the right to capture the new-found demand. This question is complicated by seasonal fluctuations in the demand for certain destinations and, by the fact that the supply of transportation infrastructure and the capacity of businesses catering to tourists are fixed in the short run.

In the short run, tourism businesses cannot adjust the supply of hotel rooms or the number of parking spots to accommodate fluctuations in the timing of demand. If the number of hotel rooms are increased in the market to accommodate peak demand, then there will likely be unused capacity during other times of the year. Some hotels have devised peak load pricing schemes (yield management) which allow them to capture a greater share of consumer surplus. Their right to engage in such practices provides a

valuable source of income. Other businesses, including other hotels and publicly provided services, may be restrained from adopting such practices by notions of fairness or by law.

Destination marketing organizations, such as convention and visitor bureaus, are in a position to influence which businesses will capture the benefits of the organization's efforts. These organizations frequently serve as a clearinghouse of information, directing tourists to patronize one business over another. In some cases, the basis of this rationing system may be directly linked to the physical capacity of the business, the preferences of the tourist, or the preferences of whoever is doing the rationing. The rules that govern which tourists are directed to which businesses determine who will capture the demand generated by the cooperative marketing effort.

The marketing program also serves as a vehicle for sorting demand between hotels and other businesses. For example, a program promoting the destination as a convention destination may favor large hotels with enough meeting space. Depending on the effectiveness of the program, the larger hotels will receive the benefits of the higher occupancy rates and room prices that may come from attracting conventions. Hotels lacking sufficient space may attempt to attract guests displaced from the convention hotels, but their occupancy and room rates will not be guaranteed in the form of a contract negotiated by the destination marketing organization. A marketing program that emphasizes bus tours or general tourism, markets that may be more sensitive to price and less sensitive to size requirements, could reverse the situation forcing the convention hotels to compete for the displaced demand from smaller properties. Of course, both types of hotels would certainly like to have 100% occupancy while charging their highest price. The structure of rights in the destination marketing organization partly determines who comes closest to that goal.

Schmid captures the importance of the interdependence arising out of surpluses and fluctuations in supply and demand:

> The existence of differences in intensity of taste for the same product (consumer surplus) and the differences in productivity of factors (producer and employer

> surplus) create a context of human interdependence where the particular property right chosen influences who gets what. Without an understanding of these people and resource characteristics and how they interact with property rights, we often regard present performance as the inevitable result of natural and somewhat mysterious forces that benefit one person over another but that do not seem under human control (Schmid, 1987; p. 138).

1.4 Clarifying The Role of Private Property Rights and Selective Promotion

The distinction between selective and primary promotional programs reflects a choice between alternative institutions. In the case of selective programs, the institutional issue of who gets to determine the nature of promotional campaign is clear: the business paying for the program determines what services and products will be emphasized.

Assigning ownership of the program to the individual business controls for the interdependence that arises between competitive businesses attempting to attract the same tourist. However, this does not control for the interdependence created by spill-over demand or the interdependence created by the nature of the demand. Primary promotional programs may arise in an effort to control for these interdependencies.

The important point to emphasize is that the creation of private property rights in the form of a selective program does not control for all the interdependencies associated with the promotion of a destination to tourists. It is an institutional alternative that controls for the interdependency that arises when the information supplied to affect tourism demand by business A is incompatible with the information supplied to affect tourism demand by business B. Interdependencies arising out of high exclusion costs and joint impact characteristics will persist.

1.5 Comments on Performance Measures

The performance measures in Schmid's SSP paradigm are substantive measures reflecting how alternative institutions affect whose preferences prevail, whose money income is affected, and who has new opportunities. These are pragmatic measures of the social, environmental, and economic conditions of individuals (or groups) under alternative

institutions. This is in contrast with non-substantive measures, such as efficiency and freedom, that are aggregate abstractions (Schmid, 1987). For example, under the Pareto efficiency criterion, it is possible to achieve efficient outcomes when the welfare of a small number of rich improves greatly while the welfare of a large number of poor remains unchanged because distinguishing who is getting richer and by how much is not considered. The relative income positions of people or information about their absolute incomes are not required to determine efficiency. When working out institutional arrangements, it would seem that the level of income, the nature of opportunities, and the scope of opportunities afforded matter to people.

1.6 Summary of the Paradigm

The SSP paradigm is used to guide the literature review and analysis that follows. (The basic elements of the paradigm are summarized in Figure 1.0). In this paradigm the situation component is the nature of the interdependency or the inherent characteristics of goods that create the potential for the action of one person to affect the opportunity set of another. The structure component is a description of the bundles of property rights that comprise the institutional framework in which individuals and groups work. These bundles of rights are embodied in the organization and the larger environment in which the organization interacts with other organizations and individuals. In this model, the institutional framework is subject to public choice and is inextricably linked to performance. The performance component is a substantive measure of how the chosen institutional framework impacts the income and opportunity sets of individuals and groups. The links between situation, structure, and performance give the paradigm its explanatory power.

Situation (Interdependence)	Structure (Rights and Institutions)	Performance
High Exclusion Costs -----> The cost of excluding potential users (beneficiaries) is high due to the nature of the good.	Cost Sharing Rule: A. Tax or other compulsory cost sharing arrangements 1. Administrative Structure B. Voluntary Cost Sharing 1. Administrative Structure	Under rule A, free riders may be "unhorsed," which may result in unwilling riders. Under rule B, the unwilling riding problem may be resolved, but the stability and long term viability of the structure may be problematic, especially for large heterogeneous groups where free riding is difficult to observe and sanction.
Joint Impact Goods ------> The level and nature of the good exists for all regardless of whether they contribute to the fixed costs of providing it. The marginal cost of additional users is zero.	Pricing Rule: A. Person/Group A pays fixed cost while Person/Group B pays marginal cost which is equal to zero (or vice versa). Preference Rule (when the good is non-optional and pre-emptive). B. The desired quality and provision level of person A prevails, or the desired quality and provision level of B prevails.	A. The income of the person/group paying fixed cost is affected. B. If A prevails B incurs avoidance costs and vice versa. If A is assigned the right to chose the commonly available units then the quality and level consistent with A's preferences prevail.
Nature of Supply and Demand------>	Allocation rule: Involves devising rules for who has the right to income when the timing of demand is variable and supply/capacity is fixed.	Depending on the rules, A may be able to secure a level of certainty about the flow of both future and current income while B may have no such certainty.

Figure 1. Summary of SSP paradigm applied to tourism promotion problem

The creation and evolution of local and regional destination marketing organizations in Michigan reflect a series of institutional choices to control for interdependencies associated with the exclusion cost and joint impact characteristics of promoting destinations to tourists. A subsequent interdependency associated with the supply and demand characteristics of tourism businesses and consumers has also been described. Cost sharing rules must be devised to control for the interdependency arising out of high exclusion

costs. Compulsory cost sharing may result in unwilling riders. Attempts at voluntary cost sharing, may result in free riding and difficulty in providing the good at any level.

Rules to determine control over the quality or nature of the tourism promotion program are devised to control for the interdependency arising out of the joint impact characteristics of tourism promotion. The consequence (performance) is that the preferences of those assigned the right to chose the commonly available units of the good will prevail. Those who are unwillingly exposed to these preferences face few alternatives in the case of non-optional joint impact goods. Given certain conditions, they may attempt to have more of the good supplied or they may act to change the institutional structure. The interdependency arising out of joint impact goods necessitates an additional rule for determining who will bear the fixed costs and who will pay the marginal costs where the marginal costs of additional users is zero.

The coordination and information dissemination functions of destination marketing organizations arise to control for interdependencies associated with fluctuations in and the characteristics of supply and demand for tourism services and destinations. The performance outcome is that some individuals (or groups) capture a greater share of income than others.

At first glance the SSP paradigm may appear linear and static in nature. However, by allowing for feedback between performance and structure, it accommodates the dynamic processes in the specification of rights and duties, interest group formation and action, and the creation and dissolution of organizations arising out of collective action.

1.7 Problem Statement

Destination marketing campaigns have high exclusion cost and joint impact (public good) characteristics, and institutions must be devised by individuals and communities wanting these services. Destination marketing organizations are the result of collective action directed to providing primary tourism promotion programs. These organizations are

the result of state legislators and local business and community leaders working out the institutional arrangements to provide tourism promotion. Very little is known about the institutions devised to facilitate the provision of tourism promotion, how these institutions were created, how they affect individual behavior and group performance, and how individuals (and groups) affect institutional change.

In the case of destination promotion, individuals may desire a destination marketing organization but, because of the high exclusion cost and joint impact characteristics of the good, they may not be able to coordinate investment in the organization. Fostering and funding an organization at the regional or local level requires working out a set of strategies and rules that will work in the community. Groups may organize and then lobby the government for certain rights--the right to have government sanction their interests, the right to direct and control tax revenues, and the right to form exclusive business associations--but this requires coordinating investment in the lobbying effort. The new set of institutions arising out of successful lobbying efforts also have high exclusion cost and joint impact characteristics, because once provided it is costly to exclude non-contributing beneficiaries and the nature of the rules potentially effect all interested parties. Thus, additional cost sharing and preference rules must be established for these goods.

Assuming that people have some success in coordinating investment in the organization and its lobbying efforts, the collective outcome may serve the interests of some community members and business owners more than others. Very little is known about these aspects of destination marketing organizations: 1) how these organizations are formed and maintained, 2) whose interests have been served by their formation and maintenance.

An institutional analysis of primary destination promotion programs and local and regional destination marketing organizations in Michigan will provide insight into these processes. These issues are of importance to community leaders, legislators, and tourism professionals in Michigan and other states who either interact with existing organizations, or want to establish such organizations.

1.8 Study Objectives

The purpose of this study is to contribute to the understanding of destination marketing organizations in Michigan by studying the institutional origins, adaptations, current structure, and performance of these groups. Specific objectives are to:

1. Describe the institutional origins of regional and local destination marketing organizations in Michigan
2. Describe how destination marketing organizations in Michigan are maintained
3. Describe the processes and strategies used to affect change in the institutional structure providing destination marketing programs in Michigan
4. Describe characteristics of destination marketing organizations in Michigan
5. Identify relationships between destination marketing organizations, institutional structure, and performance.

This study begins with a review of a wide range of literature (Chapter 2) from the fields of economics, political science, and sociology. The literature review focuses on theories of cooperation, collective action, and organization, the link between law and economics, the economic role of government, and theories of institutional change. The data used to describe the evolution and status of tourism marketing organization comes from three sources:

1. Historical documents and reports
2. Semi-structured interviews with convention and visitor bureau directors, business owners, attractions managers, museum curators, and government officials
3. Questionnaires sent to convention and visitor bureau directors.

The method and techniques used to collect the data and analyze the problem are described in Chapter 3. The evolution of regional destination marketing organizations and state tourism promotion institutions are described in Chapter 4. The evolution and structure of the county accommodations tax, and how it has been used to fund tourism promotion at the county level, are described in Chapter 5. The evolution and structure of tourism assessment districts are described in Chapter 6. A summary of the findings, conclusions, implications, and research recommendations are discussed in Chapter 7.

1.9 Definitions and Terminology

The organizations that work to supply the destination marketing and promotion program will be referred to throughout this study as destination marketing organizations. To avoid confusion, the generic set of promotion and marketing activities undertaken by these organizations will be referred to as tourism promotion. The use of this term is not intended to imply a focus on a particular segment of the travel market--for example, leisure versus business travel markets--rather, it is intended as substitute for the destination promotion and marketing terminology, solely to avoid redundancy in wording and phrases.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The literature contributing to understanding the problem and attaining the research objectives is reviewed in this chapter. The chapter is divided into three sections. The purpose of the first section (Section 2.2) is to explain the various approaches and methods used to study collective action, institutional change, and institutional economics generally. The content of this section clarifies how theorists and applied researchers, who seem to be studying the same phenomena, come to different (or similar) conclusions and policy recommendations. Section 2.3 and Section 2.4 respectively, are reviews of empirical and theoretical literature related to the study of voluntary member organizations and collective action and the study of institutional change.

2.2 Approaches, Assumptions and Orientations in Institutional Analysis

While theories and applied studies of collective action and institutional change share many features, they also differ in several respects. Some of these differences relate directly to the assumptions employed regarding human behavior, and other differences can be explained by the level of analysis undertaken by the author. Still other differences are related to alternative views on the role of markets and private property as institutional ideals and differing emphasis on efficiency or efficient institutions. Some of these differences have been partially developed in Chapter 1, using Scott's (1995) three pillars typology of normative, regulative, and cognitive approaches to institutional analysis. However, a more

thorough treatment is necessary to develop the methodological stance used in Chapter 3. The following sub-sections describe some fundamental differences in the study of institutions, institutional change, and collective action.

2.2.1 Differing Behavioral Assumptions

The traditional behavioral assumption employed in neo-classical economics is that humans are rational, self-interested egoists. Langlois (1986; p.6) defined the extreme form of rational behavior as "the conscious maximization of an explicit objective . . .within the constraints of well-defined alternatives." Technology, the initial endowments of individual actors, and risk perceptions and preferences can be completely specified up front when the extreme form of rationality is employed as the behavioral starting point. The use of this assumption in institutional economics is rare because it suggests that actors possess complete models of the world and know what action is best. As a result, there is no uncertainty, information is complete, and there is no need to consider what rules might be devised to regularize behavior between interdependent actors (Williamson, 1985; North, 1990).

Simon (1961) proposes a behavioral postulate of "bounded rationality." According to Simon (p.xxiv), when this behavioral assumption is employed, humans are "intendedly rational, but only limitedly so." Given a limited capacity to consider, order, and evaluate all the possible alternatives, humans attempt to maximize or economize. Because cognitive abilities are limited, humans revert to sets of working rules, or heuristics, which help to conserve cognitive resources and reduce uncertainty about the course of action in certain situations. When applied to broader sets of transactions in complex economic systems, this rule making behavior becomes a social construct, affecting the choice of governance structures (Williamson, 1985).

Williamson (p.46) identifies a third form of rationality, "organic rationality." This is the weakest form of rationality and is associated with evolutionary approaches in institutional

economics. In this model, the human is intendedly rational but is confronted with a complex evolving system and fundamental uncertainty. Thus, the concept of organic rationality may allow for more human complexity beyond self interest by giving consideration to altruism, belief systems, and other normative elements.

Sjostrand (1995) suggests that the model of economic man (Homo oeconomicus), characterized by assumptions of rationality of any type, has a counterpart, Homo complexicus. Homo complexicus is both intendedly rational and complex. Human complexity arises out of the intersubjective interpretation of experiences with other people and settings, as well as the subjective sets of values, morals, and beliefs that people have. These beliefs, values, morals, and experiences are constructed in a social context through the interaction with other individuals that serves to condition rational self-interested behavior.

Differing behavioral assumptions affect how the analyst approaches the institutional problem being studied. Scott (1995) provides a useful synthesis of the way different behavioral assumptions produce divergent perspectives among institutional scholars. According to Scott, there are two positions that can be taken when studying institutions. The social constructionist position emphasizes the broadest most all encompassing version of institutions. The social realist position places more emphasis on the individual actors, the nature of their interests and preferences, and their rational responses to uncertainty in transacting. The distinction between these two perspectives are clarified by the following:

> Social constructionists embrace the most far-reaching and all-encompassing version of institutions: Institutions are seen as constituting the rules, defining the players, and framing the situations. The interests and identities of the principal actors are socially defined and expected to vary across place and time . . . At the opposite extreme, a social realist assumes that actors have interests and capabilities by virtue of their innate nature, that human nature is stable across situations and through time. Because actors pursue their private interests in the company of others, whose interests maybe in conflict with their own, they come to realize the necessity of constructing at least a minimal frame of rules as the basis for supporting transactions (Scott, 1995; p. 137).

2.2.2 Different Levels of Analysis

North (1990) makes an explicit distinction between institutions, "the rules of the game", and organizations, "the players of the game". The distinction between organizations (as institutions), and the macro institutions of society--such as, markets, governments, laws, and conventions--implies that there is an institutional hierarchy. North and Thomas (1973) make this distinction by defining institutions as the "institutional arrangements" between economic units. Following North's game metaphor, the institutional arrangements are the rules of game that exist between the organizations as players of the game. While the units may be individuals, North and Thomas restrict their characterization of these units to organizations that reflect the aggregated interests of society. This abstraction from the individual level to the organizational level allows North and Thomas to focus on the process of macro-institutional change.

Bromley (1989) suggests a policy and institutional hierarchy consisting of three levels: the policy level, the organizational level, and the operational level. The policy level is at the top of the hierarchy followed by the organizational and operational levels. Institutional arrangements exist between each level. These arrangements define the choice sets and establish the context for interaction between the basic units of society (individuals and organizations). The following quotation clarifies the basic elements of this hierarchy:

> In a democracy the policy level is represented by the legislative and judicial branches, while the organizational level is represented by the executive branch. It is at the policy level that the general statements about the sort of world we want to live in are debated and ultimately formulated. The implementation of these aspirations is accomplished by the development of organizations and of the rules and laws that define how those organizations will operate, but also what they will do in a programmatic sense . . . [At the operational level] one finds the operating units in society--the firms and households whose daily actions result in certain observed outcomes. The range of choice open to these actors . . . is defined by institutional arrangements at both the policy level and the organizational level (Bromley, 1979; p. 32-3).

In Bromley's hierarchy, the interaction of the operating units (patterns of interaction) produce outcomes which are evaluated as being either good or bad by the individual

members of society. The assessment of these outcomes and any desired changes are conveyed back to the policy and organizational levels via collective action.

Ostrom (1990) develops a hierarchy that has features similar to Bromley's. Ostrom defines three types of rules that are linked by the effect each has on the other. Constitutional rules, are rules that determine who may participate in the decision making process, affect collective choice rules, which are the rules that direct the policy making and management efforts of the collective. The collective choice rules, in turn, affect the operational rules which are the rules that direct day-to-day decisions and interactions of individual members of the collective. Feedback on institutional performance is provided in collective choice arenas that allow people to convey their satisfaction or dissatisfaction with the outcomes of the operational rules. It is in these arenas that proposed changes in the rules are argued and worked out.

Zucker (1987) and Sjostrand (1995) make a distinction between micro and macro level institutions. At the micro level, individuals develop sets of working concepts that help to describe and interpret their experiences and thoughts. These concepts are shared by the process of communication (interaction). In the course of communication, the shared concepts become socially constructed reality to which the individual can refer when confronted with particular situations. Sjostrand proposes five mechanisms (processes) through which individuals make micro level institutional adjustments: 1) perception, which is a source of variation in understanding and interpretation; 2 & 3) imagination and mobility, which consist of both the physical and mental movement of the individual through a continuous stream of ideas, experiences and creative communication; 4) limitations, which arise in the process of selecting what to do, and what can be done, in particular situations; and 5) commitment, which is an internal, subjective, concept that may be reinforced through the communication process.

Sjostrand defines the macro level as the socially constructed level. These are the institutions that relate to the larger sectors of society. These institutions overlap and interact

with the micro institutional level. It is the incongruence between the macro and micro level institutions that sets the stage for institutional change through collective action.

Scott (1995) proposes six levels of analysis that distinguish the type of institutions being studied: 1) the world system level, 2) the societal level, 3) the organizational field, 4) organizational population, 5) the organization level, and 6) the organizational subsystem level.

Institutionalists focusing on the world system level attempt to explain the role and impact of institutions at the global level and the way this changes over time. The world system level is the most macro level of analysis. Examples of studies at this level include North and Thomas's (1970, 1973) studies of the economic growth of the western world and Cox's (1987) study of the structure of the global economy.

At the societal level, the interest is in the system of norms and values that give structure to society. Authors conducting analysis at this level include Parsons (1953) who studied how value systems serve to legitimize organizational structures and objectives, and Dobbin (1994) who studied of the effect cultural belief systems on railroad policy.

The organizational field refers to the study of the structure of the whole community of organizations that comprise an industry, including not only the organizations that directly produce a particular product or service but also the suppliers, government agencies, and non-profit organizations constituting the industry. The focus at the organizational field level is on how the industry is organized, and the relationships that exist across it. Examples of institutional studies done at this level include Samuels' (1974) work on the public utility sector and Schmitter's (1990) study of industrial sector governance.

The organizational population refers to the collection of organizations that are alike in some respect. Institutional analysis at this level often consists of comparing structures and attempts to explain structural similarities or differences that exist across organizations with like purposes or goals. Examples of institutional studies conducted at this level include Moe's (1980) study of how various incentive structures work to affect the lobbying efforts

of different interest groups, Barnett and Carol's (1993) study of the effect of state regulation on telephone company organizational structures, and Sobel's (1994) comparative study of the regulatory environment and performance of U.S., Japanese, and European financial markets.

The organizational level and the organizational subsystem level are the most micro levels of analysis identified by Scott. The organizational level of analysis focuses on explaining the internal structure of organizations. Classic institutional studies at this level include March and Simon's (1958) theoretical work on how cognitive limitations affect the organizational structure and Williamson's (1985) theory of how transaction costs affect choice of organizational governance. The organizational subsystem level emphasizes divisions or tasks within the organization. The analysis at the subsystem level may attempt to explain how different roles emerge in the organization or how different work processes are structured.

2.2.3 Different Orientations and Methods of Analysis

The literature reviewed in the subsequent sections can be further distinguished by the method of analysis employed and the ideological orientation of the authors. From a methods standpoint, the studies range from static models utilizing cross sectional data, such as those developed by Olson (1965) and Cell (1980), to longitudinal studies spanning several decades, such as the studies by Ostrom (1990) and Schmid and Soroko (1997).

The applied studies can be further distinguished by their use of variance (statistical) approaches versus the use of process approaches (Scott, 1995). Process approaches, such as those employed by Ostrom (1990) and Schmid and Soroko (1997), are characterized by the use of case studies and evolutionary historical methods. Moe (1980), Cell (1980), and Oliver and Marwell (1988) use variance approaches to explore the role of various types of incentives and the impact of group size on the voluntary provision of high exclusion cost and joint impact goods.

Authors, such as Axelrod (1984) and Taylor (1976, 1982 & 1987), employing game theoretic models, typically begin with static models and explore the implications for cooperation through simulated iterations of the game or through alterations of the game structure. In moving from theory to application, these authors use the game as a metaphor for some applied setting that has both static and dynamic characteristics (Ostrom, 1990).

The ideological orientations of the various authors helps to further explain the differences among them. Theorists employing the behavioral postulate of pure rational self interest tend to focus attention on the effect of institutions on efficiency. Institutions are conceptualized as constraints on the utility functions of maximizing individuals and organizations. The market is often presented as an institutional ideal and any divergence from the outcome attained via market exchange is considered to be inefficient and less than ideal. In these approaches, externalities are narrowly defined and market failure is due to poorly specified property rights. Any government mediation or regulation of exchange is perceived to be coercive and intervening (Sjostrand, 1995) [1].

Other theorists, often assuming a more complex set of human motivations, conceptualize efficiency as an abstraction of limited use in determining the impact of alternative property rights and institutions on economic performance. Actors possess interdependent opportunity sets which are either constrained or expanded by the choice of institutional arrangements. From this perspective, the market is one of many possible institutional alternatives; externalities are ubiquitous, and government is a third party to every transaction. Therefore, its role is no more or less coercive than the market (Sjostrand, 1995; Bromley, 1989)

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[1] The limited utility of efficiency criteria (Pareto optimality) in the study of property rights and institutions was discussed briefly in Chapter 1. These arguments are further developed in the literature under section 2.4.

2.3 The Problem of Cooperation and Voluntary Organization

One of the objectives of this study is to describe the origins of destination marketing organizations in Michigan. It has been established in Chapter 1 that these organizations are a result of collective action directed towards the provision of high exclusion cost and joint impact goods. As described in Chapter 1, the free rider problem may complicate or impede the process of voluntary organization and the formulation of voluntary cost sharing arrangements in the presence of goods with high exclusion cost characteristics. Thus, explaining the origins of destination marketing organizations requires a theory that considers both the reason and potential for voluntary provision of goods with these characteristics.

The organizations that embody voluntary cost sharing arrangements include voluntary business associations, political parties, and other collective action directed toward furthering the interest of the group and its members. The following sections review the literature related to individual and group behavior with a specific focus on the problem of voluntary cooperation and cost sharing.

2.3.1 Homeostasis and Proliferation Theory

Why people join groups or voluntary associations, and contribute to organizational output, may seem obvious: People join a group because they agree with the group's goals. The belief that people join groups because they find the goals of the group consistent with their own values and goals is the foundation of the pluralist theories of collective action (Moe, 1980; Salisbury, 1984). In the pluralist tradition, groups and interests are essentially synonymous. Bentley (1908), Commons (1950) and Truman (1951) developed theories of collective action and interest group behavior that assumed group formation once the interest was understood and articulated.

Salisbury (1992) offers a classification of two pluralistic theories of group formation that can largely be linked to the work of Truman (1951). Salisbury refers to these theories as: 1) the proliferation hypothesis and 2) the homeostatic mechanism hypothesis.

The proliferation theory of group formation argues that forces of technological and social change induce processes of social differentiation which result in increasing specialization among members of society. As a result of this specialization, individual interests also tend to become more specialized. The theory suggests that a natural outcome of induced specialization is the formation of groups that seek representation in government to establish or protect competing claims on scarce government resources, or in markets.

Truman (1951) uses the increasing commodity specialization of American farmers as an example. Truman claims that the evolution of specialized commodity groups can be linked to commodity specific technological innovations and the emergence of differentiated commodity markets. This dynamic resulted in the formation of sub-groups of farmers that had very specific interests in protecting government subsidies and tariffs related to the primary commodity they produced. Commodity specific interest groups, such as the National Beet Growers Association and the National Cooperative Milk Producers' Federation, were formed in an effort to better articulate the specialized interests of the individual producers. Thus, over time general interest groups, such as the Grange, have struggled to maintain a membership with an increasing diversity of interests. The theory suggests that it becomes more difficult for the general interest group to maintain a coherent and consistent stance on policy issues when the general interests of the group may conflict with the specialized interests. This dynamic leads to defection of members from the general interest group and the proliferation of groups with specialized interests.

According to Salibury (1992), the homeostatic mechanism hypothesis places emphasis on the disruption of the social and economic environment in which interest groups function. This theory suggests that events such as war, population shifts, extreme fluctuations in the business cycle, and technological changes, among others, disrupt the

equilibrium of existing interests. Sets of individuals with shared interests and who are negatively impacted by the disruption respond by forming groups. Truman (1951) suggests that the formation of these groups results from individual recognition that bargaining power is enhanced through collective action. The improved bargaining power of the group serves to positively affect member solidarity and the attractiveness of the group to potential new members. Truman observes that extensive proliferation of interest groups has occurred at distinct points in history. Often these eras are proceeded by an event such as economic depression, government regulation, or a technological innovation that changes the position of one set of individuals relative to another. The formation of voluntary member organizations is a natural response to the threat posed by this disruption.

The foundations of the pluralist tradition were challenged by Olson's (1965), Logic of Collective Action and Hardin's (1968), Tragedy of the Commons. In both works, the notion that rational self interested individuals will work cooperatively towards a common interest is undermined by the free rider problem. Olson's and Hardin's theories, and the contemporary game theoretic articulation of these theories, the prisoner's dilemma, have become dominant paradigms in political science and institutional economics (Ostrom, 1990). Other authors (Salisbury, 1957, 1992; Wilson & Clark, 1961; Wilson, 1974; & Moe, 1980) have maintained a social constructionist stance but have focused greater attention on the internal processes of interest groups and voluntary member organizations. The following sections are distinguished by an emphasis on, and clarification of, specific incentives and institutions that contribute to understanding the problem of voluntary provision of high exclusion cost and joint impact goods.

2.3.2 Theoretical Contributions of March and Simon

March and Simon (1958) develop a comprehensive theory of organizations. Their general framework is mostly applied to organizations other than voluntary member associations. However, there are components of the theory that provide insight into the functioning of groups generally. Of particular interest for this study are those components

of their theory related to group cohesiveness, the decision to participate in a group, and group conflict.

According March and Simon, individual identification with a group is conditioned by a set of preferences established prior to entering the group or organization. Members are not a given. They are selected either through a recruitment and hiring process or through their own cognitive process that links their preferences in some way with the organization. In the case of voluntary member organizations, both the recruitment process and the individual's identification with the group will determine who joins.

The organization can attempt to cultivate certain conditions that enhance the member's identification with the group. March and Simon (p. 85; emphasis in original) present the following conditions as sets of hypotheses:

1. The greater the perceived prestige of the group, the stronger the propensity of an individual to identify with it and vice versa.
2. The greater the extent to which goals are perceived as shared among members of a group, the stronger the propensity of the individual to identify with the group and vice versa.
3. The more frequent the interaction between an individual and the members of a group, the stronger the propensity of the individual to identify with the group and vice versa.
4. The greater the number of individual needs satisfied in the group, the stronger the propensity of the individual to identify with the group and vice versa.
5. The less the amount of competition between the members of a group and an individual, the stronger the propensity of the individual to identify with the group and vice versa.

March and Simon suggest that both community size and group homogeneity affect interaction among community members. Homogeneity enters the relationship through cultural pressure to participate. The greater the cultural pressure to participate, the greater

the frequency of interaction and, in turn, the greater the individual propensity to identify with the group. A larger community size affects interaction among members by reducing the frequency with which members interact, thereby reducing the individual propensity to identify with the group.

Perceived goal sharing is a function of how similar individuals are in their present position. March and Simon use doctors to describe how perceptions of similarity in present positions affects the perception of shared goals:

> Doctors tend to band together not only because they share a distinctive training, but also because their activities as doctors place them in positions similar to one another. As a result, they tend to assume that this similarity leads to attitudinal similarity. The greater the similarity of present positions, the greater the extent to which goals are viewed as shared (March & Simon, 1958; p. 89, emphasis in original).

Competition within the group is reduced the greater the independence of individual rewards. When group members must compete for limited resources or when the competitive conditions approach a zero-sum game, individual rewards are reduced, and identification with the group decreases.

According to March and Simon (p. 127), the decision to participate in an organization will be affected by: 1) the visibility of alternatives, 2) the propensity to search for alternatives, 3) the level of satisfaction with the existing alternative, 4) the availability of acceptable alternatives to leaving the organization. The existence of few visible and acceptable alternatives increases the probability that the individual will choose to remain and participate. If the individual is a current dissatisfied member of a group, he may initiate the search for alternatives, depending on his propensity to search, and leave for the enhanced alternative. When no acceptable alternative can be identified, the member may pursue alternative courses of action similar to the voice option described by Hirschman (1970).

The strength and direction of group pressures determine, in part, how the individual perceives consequences of various alternatives. The strength of group pressure is a function of the individual's identification with the group. The greater the individual's

identification with the group, the greater is the strength of group pressures. In addition, the strength of group pressure increases both as group opinions become more uniform and as the group attains a broader range of control over the environment. Uniformity of opinion increases as there is more interaction within the group and as the group becomes more cohesive.

March and Simon develop a similar set of relationships describing the potential for conflict both within an organization and between organizations. Within an organization, or community, one of the conditions necessary for the emergence of conflict is the positive felt need for joint decision making. The positive felt need for joint decision making is a source of conflict because it requires an aggregation of individual decisions and preferences into the decisions that affect the whole of the community.

The felt need for joint decision making may arise from a number of sources, but March and Simon identify two that are fundamental: mutual dependence on a limited resource and the interdependence of timing of activities. The greater the mutual dependence on a limited resource, the greater the felt need for joint decision making, and, as a consequence, the greater the probability of conflict. Similarly, the greater the interdependence of scheduling activities around a shared resource, the greater the felt need for joint decision making.

What emerges from the March and Simon theory is a complex set of interactions and relationships among the individual, the environment, cultural groups, and formal organizations. In the context of collective action, individual participation and inter-group interaction are conditioned by this network of relationships and the individual's perception of them.

2.3.3 Prisoner's Dilemma and Extensions

Situations involving goods with high exclusion costs and joint impact characteristics present an intriguing context for the study of collective action and institutional choice. Because exclusion is costly and the level and quality of the good is commonly available to

all regardless of their contribution to its provision, an individual who is both rational and self interested faces no incentive to contribute to or maintain the good and no barrier to deriving benefits from its existence. If all individuals wanting the good behave rationally, the good may not be provided, or it may decline in quality and usefulness. This situation has been formalized in the form of the prisoner's dilemma game (Dixit and Nalebuff, 1991; pp. 11-14).

The prisoner's dilemma is a non-cooperative game where the players have complete information about their respective payoffs and penalties. It is commonly told in the form of a story in which two known criminals that have been involved in the same crime are captured and placed in separate interrogation cells [2].

The two criminals (players) are not allowed to communicate with each other. The police offer the two players a series of deals that can be represented in a 2x2 matrix such as Figure 2. The payoffs to player one are represented in the upper right corner of each cell, and the payoffs to player two are in the lower left.

		Player One	
		C	D
Player Two	C	3 3	1 25
	D	25 1	10 10

Figure 2. Prisoner's dilemma matrix.

If both players withstand the interrogation of the police and cooperate with each other they each receive three years in prison (C,C in the matrix). Each player is offered a deal where if he confesses and implicates his partner, he will receive one year in prison while his partner will receive 25 years. Individually, each player is faced with the incentive to

[2] This particular version of the prisoner's dilemma is from Dixit and Nalebuff (1991), but numerous other authors have contributed to the early development and application of the prisoner's dilemma, see, Schelling (1960) and Shubik (1964).

defect (D) because his individual payoff of one year in prison is better than any of the other individual alternatives. However, this leads to a situation where both will presumably defect (D,D in the matrix) and each receives ten years in prison. This equilibrium is inferior to the situation where the two prisoners cooperate with each other by neither of them confessing to the police.

The paradox of the one-shot prisoner's dilemma raises questions about the potential for rational individuals to achieve cooperative outcomes. The game has been used as a metaphor for a variety of problems involving the provision of goods with high exclusion cost and joint impact characteristics. Jervis (1986) uses the game to frame his analysis of security cooperation problems in pre-World War I Europe. Downs, Rocke and Siverson (1986) use the game to explain arms races throughout history. Martin (1992) uses the game as a metaphor for problems in maintaining economic sanctions, and Wilson (1985) uses the game as a framework for the study of acid rain problems and other social dilemmas.

Taylor (1982, 1987) argues that many problems in providing high exclusion cost and joint impact goods are not characterized by a prisoner's dilemma game structure. According to Taylor, problems of voluntary provision of these goods are better characterized by models of conditional cooperation, such as the assurance game or chicken game structures.

Taylor describes the chicken game as a situation where each of the players would be willing to provide some of the good unilaterally, but not if the other player will provide it. The game is structured such that the cost of defection is so severe that each player has some incentive to cooperate even if the other player defects. In other words, it is possible to have a situation where one player defects (free rides) and the other player acts to provide the good. This type of game describes a situation similar to the one posed by Hirschman (1970). The nature of the good creates a situation such that the group member must weigh the effect his departure from the group will have on the quality of group output. The group

member may prefer to defect and shift the cost of provision to other members, but he conditions that decision on the effect his leaving has on the good.

Taylor describes the assurance game as a situation where a single individual's contribution has little or no effect on the provision of the good, so he is faced with the incentive to defect. However, if the individual can be assured that his contribution will be matched by other players, thereby producing the good, he will contribute. Once again, the potential for cooperation and voluntary provision of the good is feasible, but it depends on devising institutions that provide assurance to the players.

According to Taylor there, are two general types of solutions to the prisoner's dilemma, chicken game, and assurance game: internal solutions and external solutions. Internal solutions are decentralized solutions that may emerge out of repeated interactions on the part of the players. Internal solutions mean that the group is able to work out arrangements for self-governance or voluntary provision of the good. The potential for internal solutions is much greater if the problem of provision is characterized by the chicken or assurance game. External solutions are centralized solutions that rely on government or some other supra-ordinate power to coerce the players towards the cooperative outcome.

Taylor argues that decentralized solutions to the problem of providing a high exclusion cost and joint impact good depend on the emergence of community. Further, community is reinforced when the decentralized solution is possible. Community exists when a group of people share common values and beliefs, when they have relations that are direct and multi-faceted, and when they sanction in the event of defection and reward for cooperation (reciprocity). However, if the group, for whatever reason, decides to appeal to the external solution (government) for provision of the good, community may be eroded. The more involved the state becomes in solving the provision problem, the less likely decentralized (voluntary) solutions and the creation of community.

In The Evolution of Cooperation, Axelrod (1984) uses an iterated prisoner's dilemma game to explore the potential for cooperation when alternative game playing strategies are

employed. Axelrod devised a tournament in which game theorists submitted strategies in the form of computer programs. By allowing for iterations of the game, Axelrod found that the cooperative outcome can be achieved and maintained. The iteration of the game allows each player to learn from the strategies employed by the other players. This feedback is provided by the reduced total payoff to players who repeatedly defect. Defecting players may be punished in subsequent rounds by other players recognizing the benefits of cooperation.

Axelrod called attention to the superiority of the tit-for-tat (reciprocity) strategy, which is a strategy of conditional cooperation. Based on the superiority of reciprocity, Axelrod proposes several institutional solutions for real world cooperation problems. He suggests that social structures should be designed to: 1) make interactions between players more frequent and durable, 2) restructure payoffs by effectively punishing defections and rewarding cooperation, 3) teach people to care about each other, 4) teach reciprocity, and 5) allow players to recognize each other and make evaluations of each other's past behavior.

In Passions Within Reason, Frank (1988) challenges the notion that free riding behavior dominates when groups are trying to provide high exclusion cost goods. Frank argues that emotions play an important role in economic interactions. He outlines the basic structure of the commitment problem (the problem embodied in the prisoner's dilemma). He then proceeds to demonstrate, in a framework assuming rational self-interested behavior, how the human capacity to express and feel emotions can lead to improved welfare for those who are consistently fair, trustworthy, and morally decent.

In Frank's model, the physical cues associated with emotions make it possible for others to detect when people are lying, fearful, or guilty. Over time, these cues are used to select who is trustworthy, fair, and decent. These fair and trustworthy people benefit by the repeated willingness of others seeking these traits to enter into exchange. In essence, emotions allow for identification of free riders and cooperators, and in situations where free

riding is possible emotional cues allow people to consistently identify cooperators and avoid free riders.

Frank's contentions are supported to varying degrees in the literature from experimental economics and social psychology. These experiments typically present subjects with a dilemma similar in form and structure to an n-person prisoner's dilemma. Conditions are varied to allow for communication between the players, moralizing on the part of the experimenters, and varying degrees of anonymity and disclosure of the choices the players make.

Messick and McClintock (1968) and McClintock, et al., (1973) found evidence of altruistic behavior when players were made aware of extreme differences in payoffs. Dawes, McTavish, and Shaklee (1977) note the extreme affect level (emotional response) exhibited when people learned who free riders were. These researchers also interjected moralizing into the game structure by reading subjects sermons on cooperation. Groups exposed to moralizing exhibited higher rates of cooperation than the control group. This suggests a role for rhetoric with moral content in conditioning defection from the group. Jerdee and Rosen (1974) and Fox and Guyer (1978) found higher levels of cooperation when the choice between defecting or cooperating was made public, thereby suggesting that exposing free riders may mitigate their behavior.

Communication has been found to mitigate free riding and increase rates of cooperation in a number of experimental settings. Edney and Harper (1978, 1979), Dawes, McTavish, and Shaklee (1977) found higher rates of cooperation when the players were allowed to communicate face to face and make commitments with respect to their choices. Dawes (1980) describes a hierarchy of communication that consists of: 1) humanization, the process of getting to know each other as human beings; 2) discussion, the process of presenting ideas and conferring about the dilemma they face; 3) commitment, the opportunity to elicit face to face commitments from other players and make corresponding commitments. The implication of this line of research is that organizations can mitigate free

riding by creating opportunities for members to socialize, communicate, and make commitments.

2.3.4 Olson's Theory of Groups

Although he does not use the prisoner's dilemma framework explicitly in The Logic of Collective Action, Olson (1965) develops a theory that has many of the same features. According to Olson, the principle problem in collective action is that when membership in a group is voluntary, the incentive for the individual member is not to belong but instead to free ride on the efforts and/or expenditures of other members in the group. Olson argues that this problem is particularly evident in large or latent groups. He distinguishes a latent group by the inability of group members to detect the effect that their actions and the actions of other members, have on the provision of the collective (high exclusion cost) good. Since the good will be available to both the member and the non-member, individuals will logically defect and avoid paying for their share of the costs of providing the good.

Olson expanded the traditional definition of public or collective goods, goods having both joint impact and high exclusion cost characteristics, to include common group goals. The essential elements of this aspect of his argument are captured in the following quotation:

> Students of public finance have, however, neglected the fact that the achievement of any common goal or the satisfaction of any common interest means that a public or collective good has been provided for that group. The very fact that a goal or purpose is common to a group means that no one in the group is excluded from the benefit or satisfaction brought about by its achievement (Olson, 1965; p. 15, emphasis in original).

For example, a group with a common interest in a lower tax rate cannot exclude other potential non-contributing beneficiaries from benefiting from the lower tax. The rational self-interested group member will realize that he can benefit from the reduced tax rate whether he contributes to the common goal or not and will, therefore, not contribute.

According to Olson, large or latent, groups must develop individual incentives for group members to contribute to the provision of high exclusion cost and joint impact goods. The incentives must be of a selective nature so that the benefits associated with them accrue to the individual member, not to the group as a whole. In large groups, these selective incentives must be used to insure that the good is provided. Olson defines selective incentives as being either positive or negative inducements to act in the group interest. Positive inducements reward the individual member for contributing to the group, and negative inducements coerce by punishing or threatening to punish the individual member who fails to bear a portion of the cost of providing the good. The essence of Olson's message is captured in the following excerpt:

> But, it is not in fact true that the idea that groups will act in their self-interest follows logically from the premise of rational and self interested behavior. It does not follow, because all of the individuals in a group would gain if they achieved their group objective, that they would act to achieve that objective, even if they were rational and self-interested. Indeed, unless the number of individuals in a group is small, or unless there is coercion or some other special device to make individuals act in their common interest, rational, self-interested individuals will not act to achieve their common or group interests (Olson, 1965; pp. 1-2, emphasis in original).

Selective incentives may take many forms. Taxes or assessments are a form of coercive selective incentive because failure to pay them results in government implemented sanctions. Selective incentives may also take the form of selling low exclusion cost goods, such as selective advertising and promotion programs, to individual members. The camaraderie and social dimensions of group membership or their withdrawal also constitute forms of selective incentives.

The latent group (large heterogeneous group) will not be able to provide the joint impact and high exclusion cost good because the individual member's share of the total group benefit is less than his share of the total cost of providing the good. Since membership in the group is voluntary and group size makes detection of use costly, the members of latent groups can appropriate the good without contributing to its provision. In addition, the

large size of the group makes it difficult for the individual member to perceive the effect of his contribution on provision of the good. The potential member of a latent group will join the group and contribute to the provision of the good only if the group offers selective incentives of either a positive or coercive nature.

Olson is less pessimistic about the potential for privileged and intermediate groups to voluntarily obtain high exclusion cost goods. He defines a privileged group as being sufficiently small so that at least one of its members receives a large enough share of the total group benefits to have incentive to provide the good. This may make it possible for smaller group members to take advantage of the larger group member in what Olson refers to as "exploitation of the great by the small." Once the good is provided by the larger group member, the smaller member can free ride on the expenditures (or effort) of his large neighbor. As long as the large and small member have mutual interests, the large member will presumably continue to provide the good for himself and, by default, for the smaller members. The presumption is that privileged groups will be more successful in supplying the good. However in a foot note, Olson recognizes the potential for bargaining failures to prevent even privileged groups from acting collectively. He maintains that this failure is certain to be only temporary since at least one of the members has it in his own interest to provide the good, regardless of the efforts extended by the others.

Olson defines an intermediate group as one where the share of total group benefits to any one member are not sufficient to have that member unilaterally supply the good. Neither is the group of sufficient size to limit the members from perceiving whether any other member is or is not contributing to the good's provision. In this case, the potential for group provision of the good is indeterminate. The group may or may not achieve provision of the good and may never provide it without some coordinated action or organization.

Olson also recognizes the potential for the emergence of federated groups. A federated group is a group that is divided into smaller groups, which have a shared interest in the

goals of the larger group. In these smaller groups, the individual member can detect the effect his individual efforts and contributions have on the group's efforts. Social incentives can be used effectively in federated groups because, due to their size, the individual actions of members can be observed and rewarded by social inclusion, or punished by ostracism. Olson uses the union local as an example of a federated group and argues that the efforts of the national union are effective because members take advantage of social ties and other selective incentives existing at the local union level.

Olson's theory provides insight into two reasons why people will not act cooperatively to achieve a set of group goals. The first reason is essentially the free rider problem. The second, has been referred to by Wilson (1995) as the trivial contribution problem. The trivial contribution problem is associated with the notion that whenever a person's contribution to an organization is only a small fraction of the total resource needs of the organization, the person faces no incentive to contribute because the absence of the small contribution can go undetected and may not improve the organization's ability to achieve its objectives. According to Olson, the solutions to these problems rest largely with developing incentives that are primarily material in nature and limiting groups to smaller sizes. Large or latent groups simply will not be formed unless selective incentives of value to the members are developed.

2.3.5 Incentives & Entrepreneurs: Exchange Theory

Olson's model assumes that each potential member of a voluntary association has complete information with respect to his/her share of providing the total resource needs of the organization. By relaxing this assumption, several authors (Clark & Wilson, 1961; Salisbury, 1969; Frohlich and Oppenheimer, 1970; Frohlich, Oppenheimer and Young, 1971; Wilson, 1974; Moe, 1980) have been able to accommodate a role for a political or organizational entrepreneur.

Salisbury's (1969) exchange theory of interest groups integrates Clark and Wilson's (1961) theory of incentives with the concept of an organizational entrepreneur. According Salisbury, the entrepreneur initiates the formation of an enterprise by coordinating the supply of capital. Entrepreneurs initiating the formation of voluntary organizations frequently supply both traditional forms of capital--money, technology, and expertise--and social capital. The entrepreneur's role in coordinating the supply of social capital involves coordinating relationships between people (Salisbury, 1969)

According to Moe (1980; p. 36), the political entrepreneur is "a hypothetical individual who exploits profitable opportunities by providing, or promising to provide, services that are designed to attract support from individuals who might find them of value." The entrepreneur is capable of varying individual perception of the costs and benefits of membership through effective bargaining, manipulating the amount and type of information supplied about the high exclusion cost/joint impact (collective) good, and manipulating information supplied about organizational incentives.

Salisbury (1969) provides evidence of the role of the entrepreneur in the formation of several agricultural interest groups. He notes that the formation of the Grange, the Farmers Union, and the National Farmers Organization, among others, was initiated by a person who often at great personal sacrifice supplied the necessary initial capital. Salisbury also suggests that other organizations can act as entrepreneurs to form new organizations. Existing organizations supply capital to new organizations in several ways; they provide a training ground for new entrepreneurs to develop the requisite skills and expertise; they also supply social capital by coordinating relationships between people with like interests. In addition, existing organizations supply traditional forms of capital often with the expectation that the new group will cooperate on issues of policy and in the sharing of resources.

In exchange theory, the capital supplied by the entrepreneur is used to produce incentives or benefits which are offered in exchange for membership. These incentives are

the primary impetus for member participation and contribution to organizational output. As a result, members select the association they will join based on a comparison of costs relative to the value of the benefits received. The cost to the member typically are in the form of dues and contributions of time and effort. The benefits of membership may be highly tangible and purely material or they be intangible and subjective (Salisbury, 1969). Wilson's description of the exchange process is insightful in this regard:

> These incentives may be tangible or intangible and include any valued benefit, service, or opportunity in exchange for which an individual is willing to contribute, time, effort, or resources to an organization. Persuasion will be treated here as a kind of incentive: motivating a person, by exhortation or example, to share the goals of the organization and instilling in him a sense of duty or feeling of guilt that impels him to work toward these goals (Wilson, 1974; p. 31)."

Thus, authors utilizing the exchange theory framework typically assume that the organization produces a variety of incentives. These incentives typically follow Clark and Wilson's (1961) typology that includes material incentives, solidary incentives, and purposive incentives.

Material incentives are essentially equivalent to Olson's (1965) concept of selective incentives. Wilson (1974) distinguishes material incentives as being either individual or exclusive in nature. Exclusive benefits are benefits "to which all organization members, but only organization members, are equally entitled (Wilson, 1974; p. 36)." An individual benefit is a benefit "that varies in value and is given to specific individuals, usually as compensation for contributions to the organization (Wilson, 1974; p. 36)." The member responding primarily to material incentives is not interested in the stated goals of the organization. This member is responding only to the tangible benefits associated with belonging to the organization (Moe, 1980).

Solidary incentives are defined as, "intangible values of a social nature, including such rewards as friendship, conviviality and status (Moe, 1980, p.117)." These rewards are created out of the social interaction of the members. As a result, they are rewards that the members themselves create. The member responding to these types of incentives is capable

of producing them himself by the interaction he undertakes with other members. Solidary incentives are selective or exclusive incentives because obtaining them is conditioned on being a member. According to Moe (1980), the member who responds primarily to solidary incentives will care little about group goals since his incentive for being a member is rooted in the selective incentive structure of the organization.

Purposive incentives are rewards that accrue to the member out his own value and belief system and are derived from the very act of contributing to the organization (Clark & Wilson, 1961; Wilson, 1974; Moe, 1980). These incentives are especially effective when the member believes that the group goals are consistent with his own ideology and belief system. The high exclusion cost and joint impact goods (collective goods) provided by the organization then serve to produce their own selective incentives in the form of purposive incentives. The implication, however, is that members may have some internalized incentive to contribute to the organization. The contributions may be forthcoming even in the absence of material incentives (Olson's selective incentives) and without coercion by government.

Wilson (1974) extended the basic elements of exchange theory to propose a typology of voluntary associations. The nature of the incentives supplied by the organization to the member is the basis of differentiation between the various groups in the typology. Thus, purposive organizations are organizations that rely predominantly on purposive incentives to attract members, material organizations rely primarily on selective and/or exclusive material incentives, and solidary organizations rely on providing solidary benefits. Wilson argues that the character and structure of incentive systems can be used to explain the strategies and tactics that groups will use to maintain themselves. Although groups will at various times rely on a combination of incentives, the nature of the incentive that persists or dominates will determine the behavior of the organization and its ability to substitute one type of incentive for another.

Wilson's (1974) book, Political Organizations, presents a comprehensive review of studies of voluntary organizations and interest groups, and a further clarification of his theory. This work synthesizes evidence from studies of unions, farmer organizations, the suffrage movement, civil rights organizations, political parties, business associations, professional associations, and the YMCA, among others. Based on this synthesis, Wilson argues that members of material organizations, such as business associations, will generally care little about the stated goals of the organization. Although the stated goals of the material organization may include lofty ideals, these ideals are of little consequence to the member and cannot be relied on for long term maintenance of the association. Neither is it necessary for the organization to maintain focus on a singular stated purpose. As a result, the material organization has greater flexibility than a purposive organization in how it articulates its goals. For example, a business association can easily shift from a stated goal of revitalizing a city to other goals with little affect on membership participation and dues payments. Conversely, a purposive organization, such as a civil rights organization or a religious group, must maintain member focus on its goals and ideology since these are the primary reasons for member participation. For example, it may be very difficult for the NAACP to shift from its stated goals of advancing the social, political, and economic well being of black Americans to a similar goal that included other ethnic groups, or a goal that narrowed its focus only to economic issues, without losing members.

Wilson notes that even in material organizations, the organizational entrepreneur will at various times rely on purposive incentives to maintain membership. He notes that purposive incentives are extensively used in the formative years of many business associations; suggesting that goals and ideology are especially important in coordinating the supply of formative capital. He also suggests that at various times in the history of these associations the entrepreneur will use the presence of external threats to create a sense of purpose. In material associations, the nature of the threat, real or created, will typically be in the form of a threat to the material well being of the group. Instilling a sense of purpose

during economic recession, in the face of government regulation, or intense competition from competing groups can be strategically employed to bolster membership. However, it is difficult to maintain this focus if the members respond primarily to material incentives.

Moe (1980) used the exchange theory framework to explain the evolution of internal structure and governance of voluntary member organizations. In Moe's model, the administration of the flow of information to existing and potential members helps to explain the emergence of internal organization; as a result, communication about the value of selective incentives becomes an important function. This function, combined with the function of managing selective incentives, means that a staff, specialized in these functions, will be required. The staff plays an important role in the administration of selective incentives and the communication of organizational benefits to current and potential members.

In addition to the development of internal structures, Moe's entrepreneur seeks to enhance the organization's position as the dominant representative of the economic sector reflected in the organization's membership. The entrepreneur pursues this objective by developing relationships with government representatives which increases the probability of his success in political matters. The entrepreneur can use these relationships not only to enhance the surplus of the organization but also to selectively confer benefits to particularly powerful or supportive members.

According to Moe, the relationship with government officials and the strengthened relationships with members receiving special attention from the entrepreneur serve to create barriers to entry for potential rival organizations or entrepreneurs. In the fight to maintain his organization's dominance relative to potential rivals, the entrepreneur uses his control of information to his advantage. An established entrepreneur will have more information on the preferences and values of current members and will have developed channels of communication with members through which he can affect their perception of his political and economic effectiveness.

As the organization's central coordinating authority, Moe's entrepreneur seeks to coordinate the perception of members with respect to each other and to enhance the members' perception of the benefits of cooperation and their mutual dependence. Since the individual member is more likely to perceive these benefits in smaller groups, the entrepreneur will establish sub-groups that allow for this type of interaction. The structure of the organization evolves further as committees and working groups are formed to manage issues related to the goals of the organization.

According to Moe, the astute political entrepreneur will value the participation of both large and small members who have different, although equally important, motivations for participation in both the internal and external politics of the organization. However, while he may value the participation of both types of members, the entrepreneur, in his efforts to maximize the organization's surplus, will concentrate on members producing the largest contributions to the organization, generally the larger members. The goal of stimulating active participation by the large members will be reflected in both the organizational structure and the direction of resources controlled by the entrepreneur.

One of Moe's objectives is to establish a role for both the political and economic forces that lead to the creation of organizational structure and provide incentive for members to join and actively participate. In doing this, Moe refutes a derivative of Olson's theory known as the "by-product theory of large pressure groups." According to by-product theory, the structure and political agenda of the organization is immaterial. Moe describes the essential elements of the theory:

> Very simply, the essence of the theory is as follows: (a) members of latent groups can only be induced to join through the operation of selective incentives, yet (b) the sale of selective incentives yields a surplus (in successful groups) that can be used by group leaders for lobbying and other expenditures on collective goods; it follows that (c) the political activities are by-products of the operation of selective incentives -- they have nothing to do with why members join, but are made possible because members join; therefore (d) the leaders of latent groups may pursue any collective goods they wish without fear of losing member "support", since contributions are independent of political considerations (Moe, 1980; p. 74).

Moe obtains an alternative outcome by recognizing that when a large member or a group of small members organize, they must do so because they value the high exclusion cost/joint impact (collective) good. The essential elements of his argument follow:

> . . . when there is at least one Large Member, or when bargaining is successful, the model implies that (a) one or more Large Members, or a set of cooperating individuals, have joined wholly or partially because of collective goods; (b) their membership in the group, and, thus, their support in the form of contributions depend upon whether those collective goods are provided; and therefore (c) group leaders must take action to see that these goods are supplied or risk losing these members and their contributions; assuming that leaders want to avoid these consequences, it follows that (d) in the pursuit of at least some collective goods, leaders will have an incentive to represent the interests of these people, especially when they make substantial contributions (Moe, 1980; p.75).

The by-product theory of latent groups disengages individual goals from group goals. The group's provision of the HEC/JIG good is inconsequential to the individual member. However in Moe's supplemented version, the decision to join by a large member or a small group of small members means that they must be willing to contribute to the production of selective incentives in exchange for some benefit derived from the good. The entrepreneur seeking to retain these members will work to provide goods that are consistent with their goals. Since their contributions to the organization are contingent on the provision of the good, these individuals will have the greatest influence on the formulation of organizational goals and the direction of resources to their benefit. The member who joins solely for selective incentives is in the weakest position with respect to group goal formation. His contribution to the group is contingent only on the provision of selective incentives; the political goals of the group do not matter to this member.

2.3.6 Hirschman's Theory

In Exit, Voice and Loyalty, Hirschman (1970) seeks to identify how institutions allowing for exit and voice emerge and interact with each other to affect organizational performance. He begins by assuming that the organization is in a state of decline, which is manifested in the form of a decline in the quality of the organization's output. In the context of voluntary member organizations, the decline in quality is equivalent to member

disagreement with the policies of the organization. Members of the organization can respond to the decrease in quality by leaving the organization (exiting) or by directly expressing their dissatisfaction to the management of the organization (voice). When members of an organization choose the exit option, the resultant decline in membership, dues, or revenue, serves to indirectly inform management of potential problems in the organization. Similarly, when the voice option is available, members of the organization can express their dissatisfaction directly to management, providing feedback on the state of the organization.

Hirschman draws parallels between the exit option and the purely competitive model in economics. In both cases it is the indirect feedback provided by the departure of consumers (members) that either spurs the marginal firm to respond to output quality problems or forces it to cease functioning. Conversely, the voice option is an inherently political option, as explained in the following:

> In all these respects voice is just the opposite of exit. It is a far more 'messy' concept because it can be graduated, all the way from faint grumbling to violent protest; it implies articulation of one's critical opinions rather than a private, 'secret' vote in the anonymity of a supermarket; and finally, it is direct and straightforward rather than roundabout. Voice is political action par excellence (Hirschman, 1970; p. 16).

In the absence of political institutions allowing for voice and in the presence of market-like institutions allowing for exit, the member of the organization who is most concerned about the quality of organizational output will be the first to leave. Hirschman argues that this deprives the organization of valuable feedback from the group members who may have the greatest interest in the organization's performance. In some cases, it may be in the best interest of the organization and society to restrict the exit option by allowing for monopolies or coerced participation. This directs the efforts of the most quality conscious members to the voice option and restricts further decline of the organization.

Generally, exit and voice are substitutes for each other. When exit options are clear, voice will lose out. When exit is restrained, either by institutional design or social norms,

the member of the organization will revert to voice to express his displeasure with the direction of the group. However, Hirschman also considers loyalist behavior, which is present in organizations where the exit and voice options play equally important roles. His examples of these types of organizations include political parties and voluntary associations.

The readiness to revert to the voice option when the exit option is available is determined by 1) the willingness of the member to trade off the certainty of exit with the uncertainties of improvement in the organization's policies and 2) the estimate that members have of their ability to influence the organization. The decision to forego the certainties of exit in favor of the uncertainties of improvement, when both exit and voice are possible, is a manifestation of loyalist behavior. Hirschman argues that this decision and the estimate of influence complement each other to produce loyalty to the organization. This conclusion is based on the assumption that a member with strong attachment to the organization will seek ways to become more influential. Similarly, the member who already has influence in the organization will believe ever more strongly in his ability to affect the organization's direction and will in turn develop a deeper attachment to the organization.

Hirschman suggests that in the presence of goods with high exclusion cost and joint impact characteristics (public goods), some individuals will remain loyal to the organization despite their discontent and unhappiness with the organization's output. The incentive to remain arises out of the nature of the interdependence created by goods with joint impact characteristics:

> Public goods are defined as goods which are consumed by all those who are members of a given community, country or geographical area in such a manner that consumption or use by one member does not detract from consumption or use by another. . . . The distinguishing characteristic of these goods is not only that they <u>can</u> be consumed by everyone, but that there is <u>no escape</u> from consuming them unless one were to leave the community by which they were provided. Thus he who says public goods says public evils (Hirschman, 1970;p. 101, emphasis in original).

In the face of declining output quality, a group or community member will compare the disadvantages of group loyalty against the potential advantages of exit. In a normal (low exclusion cost and incompatible use) goods situation, as the quality of the group's output declines, there is increasing incentive to defect. However in the presence of joint impact, high exclusion cost goods, the individual may remain loyal since, regardless of his status in the group, the public evil (negative utility) cannot be avoided. As Hirschman explains:

> In the case of public goods, the member will compare, at any one point in the process of deterioration, the disutility, discomfort, and shame of remaining a member to the prospective damage which would be inflicted on him as a prospective non-member and on society at large by the additional deterioration that would occur if he were to get out. The avoidance of this hypothetical damage is now the benefit of loyalist behavior, and if this benefit increases along with the cost of remaining a member, the motivation to exit need not become stronger as deterioration proceeds although our member will become increasingly unhappy (Hirschman, 1970; p.103).

Hirschman's theory of loyalty underscores the importance of institutional design in achieving a balance between exit and voice and seeks to explain how each should be accounted for in the structure of organizations and economic systems. Unlike Olson, Hirschman does not consider the effect group size has on organizational loyalty and the potential for voluntary provision of high exclusion cost and joint impact goods. Contrary to Olson, he suggests that organizations attempting to produce such goods may in fact have members who remain loyal, and who will work on the organization's behalf. For Olson, the ability of voluntary associations to maintain dues paying members, and in turn provide the good, is determined by the size of the group, and the ability of the group to develop effective selective incentives. For Hirschman, loyalty to the organization is determined by its ability to devise institutions that allow for a balance of exit and voice options. The institutional design of the organization will impact the personal assessments of individual members to influence the policies of the organization and their willingness to forego the certainty of exit in favor of voice.

In Olson's model, there is no feedback process allowing the members of the organization to adapt strategies to affect organizational loyalty; thus, the model is essentially

static in nature. Hirschman makes explicit the role of feedback, either in the form of voice or exit, that allow for learning and adjustments in the institutional framework.

2.3.7 Extensions and Applications

The theories outlined in previous sections provide a foundation for the study of how voluntary associations maintain membership and advance their interests through collective action. The purpose of this section is to review the empirical and theoretical literature that applies or extends the basic elements of these theories. Particular emphasis is placed on identifying the role and nature of incentives and the institutional framework in which incentives are produced. In addition, literature related to political implications of organizational maintenance and government provision of high exclusion cost and joint impact goods is also reviewed.

In his study of the Farm Bureau, Farm Union, and National Farmer Organization, Cell (1980) finds evidence for the role of selective incentives in maintaining organizational commitment. According to Cell's findings, both the Farm Union and Farm Bureau provide more effective selective incentives to their members than does the National Farmer Organization. As a result, they are better able to maintain the number of members in their organizations. Cell also finds that the size of the farm operation affects the decision to join these organizations. Larger farmers were more likely to join and remain members of all three organizations. The decision to remain a member of the National Farmer Organization (NFO) was also strongly correlated with the level of satisfaction with NFO policies. No similar correlation was found for the Farm Bureau (FB) or Farm Union (FU) members.

According to Cell, the commitment exhibited by NFO members on the basis of policy satisfaction supports Wilson's (1978) contention that ideology affects both the decision to join an organization and to maintain loyalty. Cell believes that this finding is somewhat muted by the overwhelming evidence supporting the role of selective incentives. In his

conclusion, he also makes an additional allowance for the role of history in explaining why there are regional differences in organizational participation and allegiance.

Schmid (1987) and Schmid and Soroko (1997) argue that Olson's emphasis on the individual calculations of costs relative to total group benefits is misplaced. The more significant issue, according to these authors, is that the market fails to aggregate bids for goods with high exclusion cost characteristics. When the market fails to do this, other institutions must be developed to provide the good. Further, Olson's analysis is cross sectional in nature and fails to recognize other factors, in addition to group size, that effect collective outcomes.

Using historical evolutionary methods, Schmid and Soroko describe how the American Soybean Association (ASA) emerged as a relatively powerful agricultural interest group. In the case of the ASA, Schmid and Soroko found that a core group of individuals was willing to bear the organizational costs of establishing the organization. Even in the face of persistent free riding, evidenced by declining revenues from membership, this group continued to actively promote American grown soybeans. The organization grew in part by offering selective incentives in the form of advertising. However, the ability of the group to develop markets for soybean derivatives, such as oleo-margarine, and to secure government support in the form of promotional money was a function of political entrepreneurship and the strategies employed by the group founders.

Schmid and Soroko also make explicit the role of history in the evolution of the ASA. Klandermans (1992; p. 72) in describing approaches to institutional design, defines history as: "the impact of events other than the one the researcher [is] interested in." In the case of the ASA, Schmid and Soroko identify a series of historical events that allowed the organization to expand its promotional and lobbying activities. Some include the sponsorship of agricultural legislation by self-interested congressional legislators, changes in state level policies regarding the coloration and labeling of margarine, changes in American agricultural export policy, and the emergence of environmental conditions which

allowed the organizational leadership to take advantage of the emotional responses of members. Some of these events were capitalized on by clever organizational leadership but the emergence and timing of the opportunity was a happenstance of history.

According to Schmid and Soroko, the effectiveness of an interest group is not solely a function of group size or its ability to develop selective incentives. A whole series of variables--including history, emotion, and the cleverness of organizational leadership--come together to determine the fate of collective action. The effectiveness of those bearing the initial organizational costs can be leveraged across time to sustain what is eventually a large interest group. However, the appeal to selective incentives can be initiated by a small group that is effective in organizing and representing the interest in government and markets. The authors' arguments on these points are summarized:

> An interest group can get leverage from even a small membership base if it can get government help to sanction monetary contributions from all "beneficiaries" after a majority vote. Check-off legislation can provide a high exclusion costs good if government collects a charge at the point of commodity sale. But, it takes collective action to get that far. . . . History, negotiation, political entrepreneurship and cleverness, the state of countervailing power, political-representative institutions, dedication, and emotion count in determining interest group success, as well as selective incentives. The success in overcoming the free rider problem is a complex, interactive, non-linear, path-dependent, and somewhat indeterminate phenomenon (Schmid and Soroko,1997; p. 285).

Oliver and Marwell (1988) challenge the relevance of Olson's group size hypothesis on two grounds. First, the authors argue that Olson neglects the joint impact dimensions of many public goods while emphasizing only the exclusion characteristics of such goods. Second, they argue that Olson ignores the potential effect that social processes have on the probability that people with like interests and resources will be able to coordinate their efforts to obtain the good. The authors use the term "jointness in supply" to capture the joint impact features of public goods [3]. Oliver and Marwell define jointness in supply:

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[3] The term "joint supply" has been used by Marshall to capture the notion that some goods supply multiple outputs. The classic case is the joint production of meat and wool by sheep. Schmid (1987) is careful to make this distinction between Marshall's terminology and the concept of joint impact goods. As used by Oliver and Marwell the term is consistent with the concept of joint impact.

> A good with jointness in supply costs the same no matter how many people enjoy it. The classic jointly supplied good is a bridge which has a fixed cost regardless of how many people use it. . . A special interest tax loophole may involve the same lobbying costs whether it benefits one company or a thousand. Jointness in supply can be a matter of degree. A classic private good has zero jointness in supply and a cost proportional to the number who enjoy it. A good with pure jointness in supply has all fixed costs and no proportional costs (Oliver and Marwell, 1988; p.2).

The authors argue that by ignoring the joint impact dimensions of public goods, Olson fails to consider how this might affect his group size argument. According to Oliver and Marwell, the individual decision to contribute to the provision of a joint impact good is independent of how many others might make use of the good. They suggest that individuals will contribute to the good so long as their own benefit from the good is greater than the share of the total fixed cost. As a result, what is needed is a critical mass (core group) that is willing to incur the fixed cost of providing the good. Once the initial investment decision is made, the joint impact features of the good, in conjunction with its exclusion characteristics, determine the extent to which others will benefit. However, at this point, the size of the group of other potential beneficiaries is irrelevant because the marginal costs of additional users beyond the core group is zero. What are relevant are the relationships among the possible contributors to the fixed costs of providing the good. These relationships may be strengthened by pre-existing organizations or social networks that allow for the interaction of a sufficient number of people with sufficient resources and similar interests.

Oliver and Marwell cite lobbying for a tax loophole as an example. The cost of the loophole is proportional to the number of people who avail themselves of it. However, the cost of lobbying government to provide the loophole is the relevant cost which may be incurred by the core group. The core group will incur this cost, regardless of the number of other potential beneficiaries, as long as their expected benefits are greater than the cost of the lobbying effort. Because government policy generally has joint impact and high exclusion cost characteristics, the interest group is lobbying for its own benefit, but the

marginal cost of additional beneficiaries is zero and non-contributing beneficiaries will still enjoy the benefits.

Oliver and Marwell suggest that, when there is pure jointness of supply, the existence of a large group has a positive effect on the probability that someone in the group will provide the good. The authors note that an exception to this is the case where the cost of the good is so high that it precludes even groups with substantial and diverse resources and interests from obtaining the good.

The central point is that the larger and more heterogeneous the group the greater the probability of finding a group of individuals willing to incur the fixed costs of providing the good. Oliver and Marwell demonstrate this by assuming that resource distributions and heterogeneity (varying degrees of interest in the good) follow normal and log-normal probability distributions. Larger populations with a greater degree of variance in resources and interest in the good have a higher probability of finding a core group with the resources and level of interest sufficient to supply the good.

According to Oliver and Marwell, the capability and probability of individuals with like interests to identify each other and coordinate effective collective action is further reinforced by the presence of existing social networks. It is through these networks that wealthy people come to know and communicate like interests to other wealthy people, that environmental activists come to know and communicate like interest to other environmental activists, and that the CEO of a large corporation comes to know and communicate like interests to other CEOs of other large corporations.

Ostrom (1990) classifies both the prisoner's dilemma and Olson's theory, as metaphors for collective action. She focuses her critique both on the fundamentals of the models and the policy prescriptions that have emerged from them. As metaphors, these models quickly convey pertinent information about complex situations. However, according to Ostrom, their usefulness in deriving policy prescriptions is limited. Too often, intervention by

government or privatization are the only policy prescriptions that emerge from these models.

Ostrom demonstrates the fragility of the prisoner's dilemma outcome by introducing a central agency that can impose penalties and by devising a game in which multiple players can make binding commitments to one another. She further demonstrates, through a series of case studies, that voluntary collective action and self-governance is common and frequently successful.

Ostrom is not concerned with determining whether the institutions described in the case studies are optimal solutions to the problems each group faces. Instead, she focuses on what can be learned by studying self-governing groups and the details of the institutions they devise to control free riding and to regulate use of goods with high exclusion cost and joint impact characteristics. She identifies eight principles of institutional design that must be in place for successful self governance: 1) clearly defined boundaries, 2) congruence between appropriation and provision rules and local conditions, 3) collective-choice arrangements, 4) monitoring, 5) graduated sanctions, 6) conflict resolution mechanisms, 7) minimal recognition of rights to organize, 8) nested enterprises.

Clearly defined boundaries help to specify who can use the good and for whom the good is being managed. According to Ostrom, clearly defining boundaries is often the first step in organizing for collective action. Without boundaries, uncertainty over who may access the good and who is responsible for contributing to its provision may preclude the group from further organizing.

Congruence among appropriation rules, provision rules, and local conditions means that the group has considered the unique features of the good, and the unique characteristics of the group in devising rules of access and provision. Appropriation and provision rules restrict such things as the time, place, and technology of appropriation and specify the expected labor and material inputs required for provision. Congruence between these

institutions and local conditions insures that the group will be able to sustain provision of the good over an extended period of time.

By allowing people who are affected by the operational rules to participate in the process of modifying the rules, groups can insure that the rules can be adapted to local situations. However, devising rules does not insure that those benefiting from the provision of the good will necessarily follow them. As a result, this principle must be combined with the monitoring design principle (the fourth principle) to insure that the rules are adhered to by the appropriators.

Graduated sanctions serve to punish those who violate the operational rules. The system for implementing sanctions may involve the appropriators or officials who are accountable to them. The implementation of sanctions implies a system for monitoring and detecting defectors from the operational rules. Ostrom provides evidence that self-governing groups invest in such monitoring activities to insure quasi-voluntary participation by other appropriators. In the absence of sanctions and monitoring arrangements, the quasi-voluntary contributor has no assurance that his adherence to the rules is matched by strategic free riders. The compliance of the quasi-voluntary contributor is conditioned on the coerced compliance of the strategic free rider who looks for opportunities to defect in the absence of effective sanctions and monitoring arrangements. In the absence of such sanctions, the system of provision and appropriation rules unravels as strategic free riding goes unpunished, and quasi-voluntary contributors, wishing to avoid being suckers, cease to adhere to the rules.

Low cost methods to effectively resolve conflicts among appropriators allow the group to clarify the nature of the operational rules and make adjustments in the structure of the rules. Clarifying what constitutes free riding behavior and providing a forum for the communication of mistakes or misunderstandings are central features in the cases described by Ostrom.

Successful institutional design will allow for "minimal recognition of the rights of appropriators to devise their own institutions (without interference from) governmental authorities (p. 101)." Ostrom argues that not all enforcement of the operational rules or the process of devising new institutional arrangements needs to involve the government. Immediate appeal to government may preclude the appropriators from working out a set of rules that work for them.

Ostrom refers to the organizations supplying the provision, appropriation, monitoring, enforcement, conflict resolution, and governance activities as "nested enterprises". These activities and the associated rules for each are nested in the sense that they comprise the larger, interdependent system that allows for the provision of goods with high exclusion cost and joint impact characteristics.

The scope of Ostrom's analysis ranges from problems at the individual village level to problems involving multiple villages and counties. In her case study of institutional changes in water basin governance in California, she found evidence of privileged group behavior that is consistent with Olson's hypothesis. However, she also found that the groups in the California case were able to overcome both first order and second order dilemmas in forming voluntary associations and supplying new institutional arrangements to guarantee protection of the resource.

Ostrom characterizes the initial formation of voluntary associations as first order dilemmas, typified by Olson's model. Second order dilemmas involve problems in coordinating new investments and supplying new institutional arrangements. New rules and governance structures are themselves high exclusion cost and joint impact goods. Groups seeking to provide these goods will potentially be faced with the challenge of having any one member or group of members voluntarily act to make investments in the supply of these goods. In the California case, Ostrom found that voluntary associations successfully overcame the first order dilemma and made significant investments in the supply of information about the water basins. Subsequently, holders of private water

pumping rights were successful in overcoming the second order dilemmas and made significant investments in lobbying, establishing new voluntary organizations, and financing litigation.

In the tourism literature, Mak and Miklius (1990) and Bonham and Mak (1996) used Olson's model as a framework to study the problems of the Hawaii Visitors Bureau, which had historically been funded by contributions from both the private and public sectors. The authors found that private voluntary contributions to the bureau had declined in real terms. As a result, the state had to increase tax money (diverted from the general fund) to supplement the bureau's budget. They further argued that the bureau had failed to develop effective selective incentives. Given the absence of selective incentives, the authors argued for the implementation of a broad-based travel industry promotion tax (a coercive selective incentive) to fund the Hawaii Visitors Bureau.

2.3.8 Conclusion to Section 2.3

The various conditions under which individuals will voluntarily organize to provide high exclusion cost and joint impact goods were considered in this section. Although the free rider problem may complicate the group effort to organize, it may be overcome by the institutional design of the organization; the development of purposive and solidary and material incentives; the effectiveness of a political entrepreneur in securing government and member support; the ideology, values, belief systems and moral character of the individual member; the effective organization of a core group willing to bear the fixed costs of formation and; the ability of the group to recognize and learn from feedback processes.

Depending on the working rules of the organization, the size of the individual member may determine what costs he will bear and what benefits he will enjoy. In some cases, the large member will be taken advantage of by smaller members who will free ride on his provision of the good. However, the large member, as a significant source of contributions to the organization, may be in a position to secure more benefits from the

provision of the good. The large member may have more influence on the political agenda of the group and the nature of the selective incentives provided.

Assuming some level of success in organizing a core group and at least minimal success in establishing membership, the organization begins to interact with the larger institutional environment. This interaction between the larger institutional environment and the organization is the subject of the next section of the literature review.

2.4 Institutional Change

Describing changes in Michigan's tourism promotion institutions is one of the objectives of this study. Theories of institutional change provide insight into the forces that converge to induce new property rights and institutions. This section of the literature review examines a theory of institutional change proposed by North and Thomas (1970 & 1973) and North (1990). The subsequent sections review critiques of the North and Thomas theory and present an alternative approach to the study of institutional change.

2.4.1 Institutional Efficiency and Transaction Costs Arguments: North and Thomas

According to North (1990), the interaction between organizations and institutions is the source of institutional change. This interaction was introduced briefly in Chapter 1, in a quotation from North, which is worth restating to establish the context for this section of the literature review:

> Institutions, together with the standard constraints of economic theory, determine the opportunities in a society. Organizations are created to take advantage of those opportunities, and, as the organizations evolve, they alter the institutions. The resultant path of institutional change is shaped by (1) the lock-in that comes from the symbiotic relationship between institutions and the organizations that have evolved as a consequence of the incentive structure provided by those institutions and (2) the feedback process by which human beings perceive and react to changes in the opportunity set (North, 1990; p. 7).

North and Thomas (1970) and North (1990) develop a theory of institutional change that incorporates transaction costs, changes in population, and changes in relative factor

prices. In the 1970 article, North and Thomas attempt to explain why certain efficient institutions emerged in Western Europe but are missing in other areas of the world. The analysis in this article is decidedly macro level. This work and the other work by North and Thomas (1973) differs fairly substantially from North's later work. While the basic emphasis on transaction costs and changes in relative prices is retained, in North's later work he is more explicit about the affect that individual decision makers have on institutional change.

North (1990; p. 27) defines transaction costs as the costs associated with measuring the valuable dimensions of what is being exchanged and the costs of enforcing, protecting, and monitoring agreements. Eggertsson (1990) notes that transaction costs arise out of the cost of obtaining information thereby complicating the exchange of property rights between individuals. Eggertsson (p. 15) lists six activities associated with the exchange of property rights that result in transaction costs:

1. The search for information about the distribution of price and quality of labor inputs, and the search for potential buyers and sellers and for relevant information about their behavior and circumstances
2. The bargaining that is needed to find the true position of buyers and sellers when prices are endogenous
3. The making of contracts
4. The monitoring and enforcement of a contractual partners to see whether they abide by the terms of the contract
5. The enforcement and the collection of damages when partners fail to observe their contractual obligations
6. The protection of property rights against third-party encroachment.

When transacting is costless, as is assumed in traditional economic theories, property rights (institutions) do not matter. In the neo-classical economic model, economic agents possess complete information and perfect models of their situation. As a result, they are

always able to make the efficient decision. Even when they stray from the efficient decision, the costlessly supplied feedback of competition forces them to realize their mistake and make adjustments. However, if individuals possess less than perfect models of their situation, and less than perfect information with respect to their choices, they then must expend resources to secure information about the nature of the good being transacted, and the ex ante and ex post behavior of other parties to the exchange. In this model, when transacting is costly, property rights (institutions) serve to reduce the uncertainty associated with human interaction and exchange and, consequently, serve to reduce (or increase) the resources expended by a society in the form of transaction costs (North, 1990).

In the North and Thomas (1970) and North (1990) theories, changes in the institutional framework are initiated when members of the society expect that discounted gains of the change will exceed the discounted costs. Changes in relative factor prices--brought about by changes in the size of markets, changes in population, or technical innovation--affect the cost-benefit calculus of the various groups.

North and Thomas make a distinction between institutional innovations that improve the efficiency of society and those changes that redistribute income. Changes that are brought about to realize economies of scale and to reduce transaction costs serve to improve the efficiency of society. Transaction costs are a form of externality that can be internalized through these types of institutional change. There are other types of institutional change that may be potentially profitable for a particular group to initiate; however, this profit comes at the expense of others. These types of change result in a redistribution of income and do not serve to increase the efficiency of society. Both changes, those that improve efficiency, and those that redistribute income, can happen through voluntary organization or through the state. In general, the cost of change through government is higher and more often serves to redistribute income rather than improve efficiency.

For North and Thomas (1973), the realization of efficient economic organization (efficient institutional arrangements) is the key to economic growth. Institutional efficiency

is achieved when the prevailing set of property rights allow the individual members of society to realize private rates of return that approach the social rate of return. In other words, the inability to devise efficient institutional arrangements is a type of market failure. The following quotation from their book, The Rise of the Western World, clarifies this point:

> Growth will simply not occur unless the existing economic organization is efficient. Individuals must be lured by incentives to undertake the socially desirable activities. Some mechanism must be devised to bring social and private rates of return into closer parity. Private benefits or costs are the gains or losses to an individual participant in any economic transaction. Social costs or benefits are those affecting the whole of society. A discrepancy between private and social benefits or costs means that some third party or parties, without their consent, will receive some of the benefits or incur some of the costs. Such a difference occurs whenever property rights are poorly defined, or are not enforced. If the private costs exceed the private benefits, individuals ordinarily will not be willing to undertake the activity even though it is socially profitable (North and Thomas, 1973; p.2-3).

In North's book (1990), Institutions, Institutional Change and Economic Performance, he develops a more complete theory of institutional change that incorporates changes in preferences, ideology, organizational entrepreneurs, and informal and cognitive conceptualizations of institutions. His focus remains on trying to identify efficient institutions, and it remains a decidedly macro level of analysis. However, in this book, he expands his definition of efficiency to include both allocative efficiency and adaptive efficiency. Allocative efficiency is consistent with conditions of Pareto optimality. North's definition of adaptive efficiency is derived in part from Pelikan's (1987) work on institutions and incentives. Adaptive efficiency relates directly to the incentives that exist in society for organizations and individuals to pursue knowledge and learning, to innovate and seek creative solutions to problems, and to experiment with alternative techniques and processes.

The concept of adaptive efficiency is central to understanding the role that organizations play in North's model of institutional change. According to North, organizations and their entrepreneurs are the agents of institutional change. The organization engages in purposive activity that will maximize wealth, income, and other objectives. The opportunities for

wealth and income maximization, and the attainment of other objectives, are defined by the existing institutional arrangements. In the course of attaining these objectives, the organization adapts its structure and its objectives to take advantage of any new opportunities created. This adaptive process is largely incremental and relies on the acquisition of tacit knowledge, the knowledge that is acquired through practice within the institutional set up. The existing institutional arrangement directs the focus of the organization towards those activities and towards the acquisition of the type of knowledge that will maximize its objectives. Depending on the institutional arrangements that exist in society, the organization will either invest in the acquisition of knowledge that improves the efficiency of society or in knowledge that redistributes income.

North's fundamental hypothesis is that some economies have devised institutional arrangements that create incentives for improvement in efficiency while others have created institutions that direct resources towards the redistribution of income. The long run growth of an economy depends on its creation of efficient institutions. The attainment of efficient institutions is complicated, however, by a variety of factors including ideology, perceptual and cognitive limitations of the members of society, and the bargaining power of various groups. In a positive transaction costs world, the relative bargaining strength (power) of individuals and interest groups becomes an important consideration in the direction of institutional change and potential for devising efficient institutions. The role of bargaining power, in an environment of positive transaction costs, is recognized by North:

> Individuals act on incomplete information and with subjectively derived models that are frequently erroneous; the information feedback is typically insufficient to correct these subjective models. Institutions are not necessarily or even usually created to be socially efficient; rather they, or at least the formal rules, are created to serve the interests of those with the bargaining power to devise new rules. In a zero-transaction-cost world, bargaining does not affect the efficiency of outcomes, but in a world of positive transaction costs it does and given the lumpy indivisibilities that characterize institutions, it shapes the direction of long-run economic change (North, 1990; p. 16, emphasis added).

Beyond this statement, North (1990) and North and Thomas (1970, 1973) give very little consideration to the effect power has on the process of institutional change.

In North's (1990) theory, changes in relative prices and the subsequent cost benefit calculus on the part of individuals and organizational entrepreneurs are the impetus for change in the institutional arrangements. Changes in preferences are given only brief consideration. North recognizes that changes in preferences are important in explaining institutional change. However, he argues that so little is known about how and why preferences change that this aspect of a theory of institutional change remains undeveloped. The following provides insight into the role of preferences and relative price changes in North's theory:

> The agent of change is the individual entrepreneur responding to the incentives embodied in the institutional framework. The sources of change are changing relative prices or preferences. The process of change is overwhelmingly an incremental one. . . We know very little about the sources of changing preferences or tastes. It is clear that changing relative prices play some role in changes in taste. That is fundamental changes in relative prices over time will alter the behavioral pattern of people and their rationalization of what constitutes standards of behavior. . . . Changing relative prices are filtered through preexisting mental constructs that shape our understanding of those price changes. Clearly ideas, and the way they take hold, play a role here. The exact mix of the two--price changes and ideas--is still far from clear (North, 1990; pp. 83-85).

According to North, the long run path of institutional change is shaped by two forces: "increasing returns and imperfect markets characterized by significant transaction costs (1990, p.95)." Drawing on work by Arthur (1988) and David (1985), North suggests that the path of institutional change is shaped by the increasing returns to one type of institutional arrangement over another. Small adjustments or innovations in the institutional set-up may allow one institutional arrangement to persist even if it is less efficient than alternatives.

The existing institutional arrangement is reinforced by the high cost of change, the process of learning and adaptation, the emergence of cooperation and coordination given the institutional arrangement, and the expectations that emerge from it. These reinforcing mechanisms mean that some societies have become locked in to certain institutional arrangements that are difficult or costly to change. Once established, the existing set of institutional arrangements produce incentives for beneficiaries to defend, perpetuate, and

reinforce the arrangements. Even small adjustments in the institutional arrangements may serve to reinforce a particular path. This path dependence means that history plays an important role in determining the long run path of growth and development.

In North's theory, transaction costs are important in shaping the long run path of change for reasons already stated: The innovation of institutions that internalize transaction costs increase efficiency while institutions that direct incentives toward the redistribution of income provide no real gains to society. The type of institutional arrangement that dominates at any given point in time may persist given the effects of the reinforcing mechanisms and historical developments.

2.4.2 Critiques of North and Thomas

North's emphasis on efficiency and the benefit-cost calculus that induces institutional change is an argument with circular reasoning. Institutions define the costs and benefits that must be considered in the individual benefit-cost calculus. The prevailing set of institutional arrangements determine who must consider what costs and the nature of those costs. The prevailing set of institutional arrangements also determine the nature of opportunities and who is afforded them. To say that new institutional arrangements arise out of changes in relative prices and the distribution of costs and benefits is to say that the new institutions are created by the old institutions; it is tautological. This argument is developed by Bromley (1989):

> By making institutional change endogenous, North has failed to recognize that the prevailing institutional structure gives rise to a constellation of costs and benefits that only obtain meaning and magnitude from that very institutional structure. Externalities only have meaning against the status quo constellation of entitlements. People are exposed to risk because of the prevailing institutional arrangements; change that structure, and the level and incidence of risk will change. Market failure as a source of institutional change can only have meaning within an institutional environment that defines the market. Likewise with scale economies; the cost curves that depict increasing (or decreasing) returns to scale only obtain their meaning from the prevailing institutional set-up that defines what is a cost - and who must bear that cost (Bromley, 1989; p. 30).

Sjostrand develops a critique of North that has many of the same features as Bromley's. Sjostrand believes that the centrality of efficiency in North's theory, and ultimately its fundamental weakness, is due to his use of the market as an institutional ideal.

> North generally uses the 'market' as the (sometimes implicit) reference point in his analysis. Thus, the market in not regarded as one institution among others. It is pre-eminent, as it is defined as a 'mixed bag of institutions'. . . North explains the existence of inefficient institutions on the grounds that the market (!) is imperfect; in other words it is not an ideal type but is like 'a mixed bag of institutions'. But these 'mixed institutions' could not select or reproduce constructions other than those which are identical or similar to themselves. Thus his reasoning here goes in a circle. Or is there a meta-market somewhere (the ideal type?), which decides which actual markets (institutions, perhaps mixed?) will survive (Sjostrand, 1995; p. 33)?

North's theory is limited, according to Bromley and Sjostrand, because it relies on efficiency as a criterion for evaluating the nature and direction of institutional change; it fails to sufficiently consider the role of changing preferences, and it neglects a whole series of institutional changes beyond those that redistribute income and those that increase economic efficiency. According to Bromley, these limitations diminish the role of collective action and the active participation of government in the economy to unjustified (unrealistic) insignificance.

2.4.3 A Typology of Institutional Transactions

In North's model, there are only two types of institutional change--those that increase economic efficiency and those that redistribute income. This section considers alternatives to this typology and expands the scope of the type of institutional change taking place.

Bromley (1989) makes a distinction between commodity transactions and institutional transactions. Commodity transactions, which dominate the transaction cost theory of institutional change, involve the exchange of goods and services. Institutional transactions refer to "transactions over the rules of the game." By making this distinction, it becomes possible to separate the analysis of commodity exchange and its attendant concern with efficiency from exchanges that determine the institutional arrangements. This distinction serves three purposes. First, it places concern for efficiency in the context of the

institutional arrangements from which it is derived. Second, it expands the scope of economic analysis beyond commodity transactions to the study of the whole economy. Finally, it allows for consideration of the specific policy objectives of individuals undertaking collective action and the nature of the institutional arrangements (policy instruments) that they might wish to see. The following clarifies Bromley's point on this issue:

> By recognizing both commodity transactions and institutional transactions, the economist will be able to see markets as manifestations of the legal foundations of the economy, and economics will then be seen not only as the study of the exchange processes that are defined by those foundations, but also as the study of those very foundations. The failure to understand the domain of institutional transactions can give rise to misleading conclusions about the domain of commodity transactions--particularly with reference to conclusions about the existence and normative significance of economic efficiency (Bromley, 1989; p. 49).

Bromley proposes a typology of four institutional transactions: 1) institutional transactions that increase productive efficiency, 2) institutional transactions that redistribute income, 3) institutional transactions that reallocate economic opportunity, 4) institutional transactions that redistribute economic advantage.

Institutional transactions that increase productive efficiency, result in an increase in the net social product. Under situations of anarchy, or when the prevailing property rights arrangement is uncertain, the working out of a property rights arrangement that reduces uncertainty associated with production or exchange of commodities may increase productive efficiency.

Institutional transactions that redistribute income involve the exchange of rights that increase or decrease income for a particular group of individuals. Bromley uses changes in the tax law as an example: Collective action can be directed to change the tax laws such that the marginal tax rate of the poor is reduced while the marginal tax rate of the rich is increased. The resulting change in the institutional arrangement, of which the tax code (policy instrument) is a component, changes the distribution of income between rich and poor. An important dimension of this type of institutional change is that individuals and

groups in society care about the relative income position of their poor neighbors. In other words, they derive utility from the improved position of the poor. The articulation of social objectives in the political process serves to change the distribution of income without necessarily affecting the net social product.

Institutional transactions that reallocate economic opportunity determine who will have the right to a particular line of action. For example, the existing institutional arrangement may allow for the recreational hunting of sea mammals. As social preferences change, as reflected in a distaste for the hunting of sea mammals and a taste for viewing sea mammals, collective action could result in a hunting moratorium that denies the hunters the right to harvest the animals. According to Bromley, institutional transactions that reallocate economic opportunity arise out of changes in social preferences. In the sea mammal example, the social utility function that once included recreational benefits from sea mammal hunting is restructured to include preferences for viewing living sea mammals. Similarly, on the production side, society must decide whether to produce hunting opportunities or viewing opportunities. The institutional question of whose preferences get counted and considered in the social welfare function--the aggregation of individual utility functions-- is worked out in the political process.

In Bromley's typology, institutional transactions that redistribute economic advantage are a type of dysfunctional institutional change. This type of institutional change is dysfunctional because it does not serve to improve productive efficiency, nor does it reflect any newly articulated social preference for a change in whose interests get counted in the social welfare function. In fact, collective action to redistribute economic advantage may be at odds with the expressed preference for whose interests should count.

According to Bromley, an example of an institutional transaction that redistributes economic advantage occurs when a group seeks to have tariffs or import quotas imposed on lower cost imports. In this scenario, social preferences for the availability of lower cost imports are not reflected in the outcome of these transactions. Further, any improvement in

efficiency that might result from the reallocation of domestic resources to more productive sectors is lost or diminished. This reallocation does not completely take place because some of these resources are directed towards securing further protection on the part of domestic producers or towards securing import licenses on the part of importers. The benefits of these transactions alter the economic advantage possessed by the importers in favor of the domestic producers. The essential distinction between the three other institutional transactions and those that redistribute economic advantage is that the later do not reflect broader social preferences, nor do they improve economic efficiency.

Bromley's typology of institutional change helps to clarify the nature of institutional change and it gives some insight into how these changes affect economic performance. What is presented is a description of the types of institutional change that take place. Although collective action is identified as the vehicle for institutional change, no consideration has been given to exactly what triggers institutional change via collective action. To understand this process requires an understanding of how property rights determine the distribution and nature of costs and benefits. The issue of who holds the right to a particular line of action or who may create costs for others is determined by property rights. To understand how property rights affect the choice and direction of institutional change requires a more micro level analysis. This is the focus of the next section.

2.4.4 Property Rights and Institutional Change

Schmid (1987; p. 5) defines property rights by saying, "Property rights describe the relationship of one person to another with respect to a resource or any line of action." This is similar to Bromley's (1989; p.206) definition of property as; ". . .the legal ability to impose costs on others." Property is established through the legal relations or rights and duties which define relationships between people and that are legitimized by the collective (Bromley, 1989).

Bromley (1991, 1989), extending work done by Hohfeld (1913), develops a conceptual framework of legal relationships that helps to clarify the dual and dynamic nature of rights. Bromley's analysis begins with two persons or groups of people, Alpha and Beta. Alpha, as holder of a right, has assurance (expectation) that Beta will behave in a particular way with respect to Alpha. Stated another way, "[a right is defined as] the capacity to call upon the collective to stand behind one's claim to a benefit stream (Bromley, 1991; p. 62)." The holder of a right has an expectation that others will behave in a particular way with respect to his claim to an income stream (property). Granting a right to Alpha imposes a duty on Beta to behave in a certain way in his relations with Alpha. If Alpha has the right, then Beta has the duty to respect that right and behave accordingly.

The freedom of Alpha to behave in a certain way with respect to Beta is defined as a privilege. Alpha's privilege allows him to act without Beta's consent; therefore, Beta has no right. The existence of rights or privileges for Alpha (Alpha's legal standing) is simultaneously Beta's legal standing, one of duty or no right.

Bromley refers to these right/duty and privilege/no right relationships as static correlates in legal relations. These relations are static in that they describe the current set of legal relations at a given period of time. These static correlates are dynamic in the form of power and liability:

> . . . power means that Alpha may voluntarily create a new legal relation affecting Beta. That is, if Beta makes an offer, Alpha can close the contract and force Beta to comply. Liability means that Beta is subject to a new legal relation voluntarily created by Alpha . . . Finally, immunity means that Alpha is not subject to Beta's attempt to voluntarily create a new legal relation affecting Alpha . . . No power means that Beta may not voluntarily create a new legal relation affecting Alpha (Bromley, 1989; p. 45, emphasis in original).

Alpha's power is at once Beta's liability. Similarly, Alpha's position of immunity is Beta's position of no power. The privilege/no right relation and the immunity/no power relation define relationships that are beyond the interest of the collective (the state). Conversely, the power/liability and right/duty relations are subject to the authority of the collective (the state) as enforcer and conduit of the relations. These legal relations become

codified in the form of law and institutionalized as property rights regimes (Bromley, 1989).

The ubiquity of externalities becomes evident in the definition of property and in the structure of the Bromley/Hohfeld correlates. In the specification of property rights, some people will be given the legal ability to create costs for others. When interests conflict, some legal determination must be made as to who must bear these costs and who will have the right to create them. In other words, society must make a choice between the preferences of Alpha versus the preferences of Beta. Beta, as the unwilling cost bearer, may attempt to organize collective action to enter into an institutional transaction. This transaction may be a bargained transaction, directly between Alpha and Beta, or it may take the form of an appeal to the collective. Beta's goal is to have his preferences given more weight in the social welfare function. If he is successful, Beta may secure property and begin to have the right to create costs for Alpha. The following example helps to clarify this process:

> In the early days of the Industrial Revolution workers had very limited property in their labor power, and so it was cheap for early capitalists to ignore the costs of those workers suffering injury in the workplace; it was, of course, not unnoticed as an inconvenience to the families of the injured workers, but the workers had no rights, and the capitalists had privilege. . . . Once it became more expensive for owners to ignore [mine] safety - that is, once workers had some property in their future income stream - then it became more costly for owners to be so cavalier about safety. It was then that a benefit-cost calculation by the owner would reveal that it suddenly would "pay" to invest in [mine] safety. The workers were able to convert their no rights situation to one of rights and the mine owners moved from a position of privilege to one of duty. Not only did institutional arrangements change, but economic opportunity was redefined (Bromley, 1989; p.211, emphasis in original).

All institutional change involves the government either as the direct vehicle for change or as enforcer of the prevailing set of property rights. The state, as intermediary of the legal relations, is the third party to all transactions. It stands behind Alpha's claim to a benefit stream and enforces Alpha's right to create costs for Beta. Government action to create property for Beta--who has duties, no right, no power, and liability--is often vilified as government intervention. However, what is Alpha's government intervention is

simultaneously Beta's protection and vice versa. When interests conflict, government inaction is equivalent to government support for the status quo distribution of costs and benefits (Bromley 1989, 1991; Samuels, 1971,1972).

According to Samuels (1992), government is not exogenous to the economy but rather plays a central role in defining and creating the economy. Government is the vehicle for institutional change as interest groups exercise their power and influence to initiate changes in laws. The link between rights, the economy and government is clear in the following:

> People tend to define socioeconomic reality in terms of legal rights. Government selectively protects, as rights, certain interests and not others - and it is rights that form, structure and operate through the market and the economy in toto. What people define as reality is thereby formed and reformed. . . . Government is thus an object of control by those who desire to use the government to organize or reorganize the economy and redirect economic performance. This is not a matter of having government intervene in a process from which it hitherto had been absent but of (re)determining the interest to which government will lend its support. . . Fundamental perennial conflicts exist between different ways of socially constructing and reconstructing the economy, between different interests that could gain from different social constructions of the economy, and between different uses to which government can be put (Samuels, 1992; p. 157).

By invoking efficiency arguments for institutional change, North's theory abstracts from the issues of public choice, collective action, changing preferences, and property rights. The literature reviewed in this section emphasizes these very elements. In Bromley's model, government and collective action are endogenous to the process. In this model, the question of whose interests count and the ability of interest groups to affect change through the exercise of power or appeal to government are the means of institutional change. The economy, as a matrix of institutions, is being continually defined and redefined as preferences, power relations and legal relations are defined and redefined through collective action.

2.5 Conclusion to Literature Review

The literature reviewed in this chapter has focused on three topics: 1) approaches to institutional analysis, 2) theories of collective action, and 3) theories of institutional change.

Theories of collective action provide direction for the study of how destination marketing organizations are formed and maintained. This particular body of literature raises questions about the conditions that must exist for sustained voluntary provision of joint impact and high exclusion cost goods such as tourism promotion. The literature reviewed here has emphasized the affects of group size, group member size, member ideology, learning, history, institutional (organizational) design, and a matrix of incentives.

Theories of institutional change provide insight into how the macro environment changes over time. This body of literature raises questions about changes in the legal structure and the role of government and interest groups in determining the nature and direction of institutional change. Where do new laws related to destination marketing organizations and tourism promotion come from? Where do changes in the existing laws come from? Who initiates these changes? Who benefits from these changes, and what are the consequences for the larger economy? The literature reviewed in this area has emphasized the effect of interest groups, their power, the nature of the existing rights arrangements, learning and cognition, ideology, changing social preferences, and changing relative prices.

Schmid's (1987) institutional impact theory and the theories of collective action and institutional change have been treated as distinct bodies of literature. In an applied setting--the choice, definition, and change of institutional structure, and the resulting consequences for economic performance--are not easily separable. Schmid and Soroko's (1997) study of the ASA and Ostrom's (1990) studies are examples of applied studies that integrate theories of collective action, institutional impact, and institutional change. Chapter 3 introduces the methods used to develop an integrated description of destination marketing organizations and their role in the development and maintenance of tourism promotion institutions in Michigan.

CHAPTER THREE

METHODS

3.1 Conceptual Foundations and Orientations

The situation, structure, performance paradigm presented in Chapter 1 expresses the relationship between a set of human interdependencies, the institutions controlling for these interdependencies, and the expected performance associated with the choice of institutional arrangements. Elements of this relationship could be expressed as hypotheses: 1) in the presence of high exclusion cost goods, such as tourism promotion, a voluntary cost sharing arrangement leads to performance outcomes where the prevalence of free riding complicates voluntary provision of the good; 2) in the presence of high exclusion cost goods, cost sharing by compulsion, such as a tax, produces unwilling riders. In other words, the whole paradigm could be thought of as a series of interrelated hypotheses linking the structure of Michigan tourism promotion, and destination marketing organizations, to performance .

It is important to emphasize that the institutional arrangements are not as simple as a dichotomy between voluntary or compulsory cost sharing as presented above and in Chapter 1. The choice of institutions controlling for high exclusion cost and joint impact goods may reflect varying degrees of compulsion, voluntarism, or a hybrid of both. Situational variations, largely associated with subjective perceptions, psychology, and emotion, will affect the choice and performance of alternative institutions.

Wilbur and Harrison (1978) and Dugger (1992) classify institutional paradigms, such as the SSP paradigm, as pattern models. In Dugger's (p.75) analysis, pattern models explain

human behavior by "carefully placing it in its institutional and cultural context." Pattern models are tested by comparing the hypothesized set of interdependencies and institutional structures with observations. Pattern models are contrasted with predictive models of the type that dominate neo-classical economics. Predictive models are deductive in nature; human behavior is deduced from a set of stated assumptions.

According to Dugger, the use of a pattern model applied to institutional economics leads to a search for structural evidence in lieu of predictive evidence. The distinction between predictive evidence and structural evidence is made clear in the following quote.

> Suppose one wishes to investigate the strength of a chair but cannot sit on it. Two kinds of evidence could be gathered. The chair's structure could be examined by observing the number, thickness, and strength of the legs, and the general state of repair. Or one could assume that the chair is sound, predict that people could use it safely, and then, in the course of observation, see how many people sit on it without the chair collapsing. In the first instance, structural evidence has been gathered; in the second, predictive evidence (Dugger, 1992; p. 79).

In pattern models, the behavior of individuals and groups is not precisely determined by the pattern. Instead, there exists a range of possible behaviors affecting performance. Precise predictive validity is not an issue in the application of pattern models because it is not the intent of the model. However, the validity of structural evidence is important because it is this evidence that supports and gives credence to the explanation derived from the pattern model. Structural evidence is validated through a process of cross validation from a variety of sources. These sources include historical records, interviews, previous case studies, questionnaires, and various field study approaches (Wilber & Harrison, 1978).

Most methods of institutional analysis derive from the intellectual tradition of holism. Holism is characterized by conception of the world as an evolving system. The whole system is greater than the sum of its parts, but the relationship and function of the parts determine the character of the system and the course of its evolution. From the holistic perspective, the unit of analysis is a self-maintaining social system. In institutional economics, these systems may include corporations, markets, voluntary organizations,

whole social systems, or whole eras in economic history. The researcher-observer searches for themes and structural evidence that clarifies the context and structure of the whole social system under study. The result is an explanation of the system and patterns of behavior emerging in the system. The holistic approach seeks to provide understanding of a system whereas a logical positivist approach (typified by neo-classical economic approaches) seeks to provide predictions (Wilber & Harrison, 1978).

This study is a descriptive study seeking to explain the structure and evolution of the tourism promotion system in Michigan. From a philosophy of science standpoint, this study embraces the tenets of holism and is guided by Schmid's SSP paradigm. The SSP paradigm and other theoretical dimensions, such as those identified in Chapter 2, focus the analysis and structure the inquiry. A process approach, as described by Scott (1995), is employed via an explanatory case study describing: 1) the institutional origins of Michigan destination marketing organizations, 2) the current institutional structure of tourism promotion in Michigan, and 3) the performance of this system over time.

The level of analysis is at the organizational field level. At this level the relationships between a set of primary organizations--local convention and visitor bureaus and regional tourism associations--can be linked to other organizations in the field such as state government agencies and other local voluntary member organizations.

The mode of analysis is the explanation building pattern matching mode described by Yin (1994). Pattern matching is a logic applied to case study analysis that compares an empirically based pattern with the expected explanations derived from a theoretical pattern model. The explanation building approach seeks to outline the causal links between the set of variables comprising the pattern model. This approach requires that the final explanation has been subject to a series of iterations or cross case comparisons. Through each iteration, or in each case, new explanatory information is collected. In this study, the iterations are reflected in the collection of both qualitative and quantitative data from tourism marketing organizations in Michigan. The history, evolution, and status of each

organization is representative of a case. Each organizational level case provided new information for inclusion in the study and for comparison with the pattern model.

Data used to construct the case studies were collected from 1) mail questionnaires sent to local destination marketing organizations, 2) historical records and documents and, 3) unstandardized interviews conducted with the past and present presidents of local destination marketing organizations, local community leaders, and state government officials, 4) secondary data sources. The techniques used to collect these data are described in the following sections of this chapter.

3.2 Interviews

Unstandardized interviews were used to collect some of the data in this study. Unstandardized interviews are a qualitative data collection technique commonly used in field studies because it allows for flexibility in the interviewing process. Unlike standardized interviewing techniques, where the set of important questions are assumed to be known in advance, unstandardized interviews assume that all of the relevant questions are not known by the researcher. They also assume that not all people will necessarily associate the same meaning to like worded questions. The people being interviewed are assumed to have different levels of knowledge and experience with the subject matter under investigation. This variation in knowledge and experience means that an individual's ability to respond to a standardized set of questions is limited. This limitation results in loss of data that could otherwise be collected unless the researcher has the flexibility to re-phrase questions or to frame questions in a context familiar to the person being interviewed (Berg, 1989).

The unstandardized interview technique was especially well suited for this study because there were several research objectives associated with the interviews. Each person interviewed had varying degrees of knowledge relevant to each of these objectives; therefore, the flexibility of the unstandardized interview allowed each interview to be

customized. This resulted in interviews that provided in-depth information about specific topics or objectives. For example, some people provided a great deal of data on the evolution and history of tourism promotion institutions while others were more familiar with the specifics of their own organizations. Finally, some people were more familiar with the role of state government and the legal process affecting tourism promotion legislation.

3.2.1 Interview Objectives

Interviews were conducted with three distinct groups of people. One group consisted of current presidents or executive directors of local destination marketing organizations in Michigan. Another group consisted of community members currently serving on the boards of directors of local destination marketing organizations. The third group consisted of government officials and past presidents of destination marketing organizations in the state. These groupings were not predetermined but emerged from the sampling technique used in this study.

The objectives of the interviews conducted with the presidents or executive directors of the destination marketing organizations were to:

1. Clarify the current formal structure of the destination marketing organization
2. Identify antecedent conditions that contributed to the formation of the organization
3. Identify problems and strategies used to maintain the organization over time
4. Identify criteria used to evaluate institutional performance over time
5. Clarify the historical evolution of tourism promotion institutions in Michigan.

The objectives of interviews conducted with community members serving on the boards of directors of the local destination marketing organizations were to:

1. Identify their incentives for participating in the organization and serving on the board of directors
2. Identify the criteria they use to evaluate the quality of the organization's output and performance
3. Identify their perceptions and attitudes about how the organization impacts them
4. Clarify the historical evolution of tourism promotion institutions in Michigan.

The objectives of interviews conducted with past presidents of local destination marketing organizations and government officials were to:

1. Identify the state's role in the development and maintenance of tourism promotion institutions in Michigan
2. Clarify the historical evolution of tourism promotion institutions in Michigan.

3.2.2 Potential Interview Population

The population for the interviews includes all people who have been involved in the formation or management of destination marketing organizations in Michigan. This includes people who have been involved in the drafting of legislation, those who have been involved in the management of the organizations, and those who have served in advisory capacity to the organizations. The population does not include community members and business owners who have no current association or past history with these organizations.

3.2.3 Sampling

A snowball sampling technique was used to generate the sampling frame. This process began with a judgment sample of people who were known to be active participants in the formation and management of destination marketing organizations in Michigan. The

judgment sample consisted of the presidents or executive directors of ten destination marketing organizations in Michigan and the director of research of the Michigan Travel Bureau. The judgment sample was selected on the basis of geographic location in the state and the length of time each person had been active in local or state issues related to tourism promotion. Each person in the judgment sample was asked to suggest others who might have insight regarding the formation, evolution, and maintenance of tourism promotion institutions in Michigan. Each person subsequently interviewed was asked to suggest others who might have similar insight. The process was concluded when people began to recommend individuals who had already been interviewed or who were scheduled for interviewing.

The snowball sampling technique generated a total of seventy-eight persons. Each person was contacted and asked if he or she would be willing to participate in the interview process. Fifty-six people agreed to be interviewed. The final sample reflected the three groups described above: 1) current presidents or executive directors of destination marketing organizations, 2) local business owners serving on the board of directors of these organizations, and 3) state government officials and past members or presidents of the organizations.

The final sample was comprised of individuals from Michigan's three distinct geographic regions: the upper peninsula; northern lower peninsula; and, the southern lower peninsula, including Detroit. The final interview sample also included people who were either members or presidents of organizations that were formed under different pieces of enabling legislation. A summary of the final sample is presented in Table 1. Individuals have been classified as members, presidents, and government officials/association presidents. This table also distinguishes the presidents by type of organization. Where "type of organization" indicates the enabling funding legislation for the organization. A Public Act 263 organization receives its funding predominantly through the county room tax. A Public Act 59 organization receives its funding through an assessment arrangement.

This distinction reflects both the size and the structure of the organizations. The Public Act 263 organizations tend to be larger organizations. The Detroit Convention Bureau is treated separately due to its size and the unique nature of the legislation that enables it to collect funds via an assessment. The details of each piece of legislation are described in Chapter 6. A complete list of people interviewed is included in Appendix A.

Table 1. Description of interview sample.

	Public Act 263	Public Act 59	Detroit	Total
Members	15	9	4	28
Presidents [1]	9	9	2	20
Government Officials and Association Presidents				8
				56

[1] There are only eight P.A. 263 organizations in the state, but the president of the Frankenmuth CVB was interviewed. Frankenmuth receives funding through the Saginaw County Convention & Visitors Bureau, which is the official P.A. 263 organization in the county. Both the past and acting presidents of the Detroit CVB were interviewed.

3.2.4 Interviewing Procedures

Interviews were scheduled at a time and place of the interviewee's convenience. Most of the interviews were conducted in person, at his or her office or home. Three interviews were conducted over the phone. One of those interviewed by the phone responded to the stated questions in a written transcript.

The length of the interviews varied depending on the amount of time each person was able to set aside for the interview and his or her familiarity with the subject. Most of the interviews were between one hour and one and one half hours. The longest interview was three hours and twenty minutes. The shortest interview was forty-five minutes.

The interview process began with the introduction of a form asking for permission to tape record the session. Each person consented. Each person was also asked for permission to use his or her name in association with their comments for the writing up of the research. Seventy percent of the people gave permission to use their name in

association with their comments. Some people asked for anonymity when speaking about issues they believed to be especially sensitive.

Each person was read a general statement about the objectives of the research and the interview. In order to avoid biasing their accounts, this description was kept as brief and as general as possible. They were then prompted with an introductory question regarding the history of their organization and their affiliation with tourism promotion and destination marketing organizations in general. The interviewer interrupted only when the person began to stray away from the objectives of the interview. Follow-up questions were asked when details were not clear or to direct the interview towards the objectives. As a result, the interviews attained the stated objectives.

When the interviews were concluded, each person was given a Michigan State University pen and a copy of Travel and Tourism in Michigan: A Statistical Profile, published by the Michigan Travel, Tourism, and Recreation Resource Center and the Department of Parks, Recreation and Tourism at Michigan State University.

3.2.5 Interview Content Analysis

Each interview was transcribed in its entirety and then coded using an open coding technique. The open coding technique is a qualitative content analysis technique that relies on the researcher's analysis and selection of interview content (Patton, 1990 and Strauss & Corbin, 1990). Coded phrases were classified based on the objectives of the interviews. For example, the content of some phrases was relevant for the historical elements of the case development. Other phrases were more relevant in identifying the incentives that affected individual participation in the local destination marketing organization. Finally, the coded phrases were categorized and filed in individual case files which were referred to in constructing the final case study.

There was a general tendency on the part of the presidents and executive directors of destination marketing organizations to talk about their personal accomplishments and to talk

about the quality of their advertising relative to the advertising of their regional competitors. Most of this data was coded as "not relevant to objectives."

3.3 Archive Data Collection

The archives of the Michigan Museum and Historical Center (MMHC), the Library of the State of Michigan, and the Michigan Travel Bureau were searched to construct the history and evolution of tourism promotion institutions and destination marketing organizations in Michigan. The MMHC archives contained both public and private archival records of regional destination marketing organizations, the Michigan Travel Commission and the Michigan Travel Bureau. These documents included financial records, personal and public correspondence, meeting minutes, annual reports, committee reports, policy position statements, media accounts, budget proposals, and research reports. The Michigan Travel Bureau archives contained official documentary records of local convention and visitor bureaus, including annual reports, referendum voting data, personal and public correspondence, and marketing plans.

The Library of the State of Michigan included documentation of appropriation and tax legislation, analysis of legislation, and opinions of the Attorney General. These documents were used to construct a history of funding for the destination marketing organizations and role of the state in creating and maintaining tourism promotion institutions. Where appropriate, the primary data sources were supplemented by secondary data sources from the United States Census and statistical abstracts.

3.3.1 Objectives of Archive Data Collection

The objectives of the archival data collection were to:

1. Identify the origins of tourism promotion institutions in Michigan
2. Identify how Michigan tourism promotion institutions evolved through collective action

3. Identify strategies employed by organizational entrepreneurs to maintain local destination marketing organizations
4. Identify the sets of incentives used to promote participation in destination marketing organizations at different times in history.

The MMHC archives contained a total of 92 files (over 1,800 documents) on regional destination marketing organizations, the Michigan Travel Commission, and the Michigan Travel Bureau. The Michigan Travel Bureau archives contained 70 files on the local convention and visitor bureaus. The files from both MMHC and the Michigan Travel Bureau were reviewed in their entirety. Appropriation and related legislation were collected from the Library of Michigan for each year covered in this study. Photocopies were made of documents that contributed to the objectives of the archival data collection process. These documents were then analyzed for specific content related to the objectives of this study.

3.3.2 Archive Document Content Analysis

The photocopied archival documents were analyzed for content using the open coding technique. The open coding process allowed each document to be further classified into a coding frame. Coding frames are classification schemes that simplify the organization of archival data by further reducing it into categories of documents with similar patterns or content (Berg, 1989).

The coding frames for the MMHC and Michigan Travel Bureau archival data were both temporal and topical in nature. The temporal frame is essentially a time line of events documenting the evolution of tourism promotion institutions in the State of Michigan. The topical frame is a categorization of documents that help to identify how collective action either invoked changes in the institutional framework or the nature of collective responses to those changes. The topical frame was further categorized based on the objectives of the archival data collection process. For example, some documents contained data on the role

of incentives for participation while other documents reflected proposed strategies of the organizational entrepreneur. These documents were then cross coded with the events in the time line to which they referred.

The MMHC archives contained comprehensive files for three of the four regional tourist associations. Data on the history and evolution of the Southeastern Michigan Tourist Association was limited to only six documents that were relevant to the study. As a result, the data presented for this organization comes primarily from references included in the files of the other regional tourist associations.

The data in the Library of the State of Michigan was both quantitative and qualitative in nature. In a qualitative sense, the various documents provide insight into the role of the state in assigning rights to different groups and the state's rationale for granting the rights. These data also provide insight into who sponsored and who benefited from the actions of the state.

Where possible, the archival data and the interview data were used to cross validate each other. In some cases the interview data served to clarify aspects of the archival data. Some of the archival data was so old that no currently living people could be used to provide corroborating accounts to cross validate the data.

3.3.3 Statistical Analysis of Quantitative Archive Data

The MMHC and Travel Bureau archives contained financial data of the local convention and visitor bureaus, the regional destination marketing associations, and the Michigan Travel Bureau and Travel Commission. Other quantitative data, such as referendum results, were also collected. In some cases, it was possible to reconstruct a partial time series of the funding history for the organizations. Some of these data were analyzed using descriptive statistical techniques and are presented in graphical and tabular forms throughout the study. In some cases these data have been supplemented with secondary data.

The appropriation legislation collected from the Library of the State of Michigan was used to construct a time series of annual appropriations to the various destination marketing organizations operating in the state. A quasi-experimental design was employed, in the form of interrupted time series analysis, to explore the relationship between the level of state appropriations to tourism promotion and state institutions created to provide the good. The methods used in this part of the study are presented separately in Chapter 4.
It should be emphasized that this section of Chapter 4 is exploratory and the analysis was conducted to establish a basis for recommendations on future research.

3.4 Mail Questionnaire

A mail questionnaire was sent to sixty-eight destination marketing organizations in Michigan. The questionnaire was pre-tested by a convenience sample of ten people who were presidents or executive directors of destination marketing organizations. The initial questionnaire was modified to clarify some of the questions and to add some questions that were suggested by the pre-test sample. The questionnaire used in this study was designed primarily to supplement the interviews and the archival data collection.

3.4.1 Objectives of the Mail Questionnaire

The general objective of the mail questionnaire was to develop a current profile of destination marketing organizations in Michigan. The specific objectives of the mail questionnaire were to:

1. Identify the number of paid full-time and part-time employees and volunteers
2. Identify the size of the organization measured by the number of hotel rooms in it jurisdiction
3. Describe the financial structure of the organization based on sources of revenue

4. Describe the composition of the board of directors of the organization
5. Collect bio-data on the president or executive director of the organization
6. Describe the attitudes of the president/executive director towards certain conditions that may exist in the organization
7. Identify training needs of presidents/executive directors and employees of destination marketing organizations in Michigan.

Objective Six was added at the request of several members of the pre-test sample. The questions related to this objective were developed in conjunction with these individuals. Objective Seven was added at the request of the Director of the Michigan Travel, Tourism, and Recreation Resource Center at Michigan State University.

3.4.2 Population for Mail Questionnaire

The population for the mail questionnaire was all destination marketing organizations in Michigan organized under either Public Act 263 or Public Act 59 as amended. The census was derived from a list of known operational destination marketing organizations provided by the Michigan Travel Bureau. The questionnaire was sent to all known members of the population and, therefore, is a census of these organizations. However, not all questionnaires were returned, thus diminishing the census characteristics of the data generated by the questionnaire. Three of the organizations on this list were later found not to be operational. The final potential census consisted of sixty-six destination marketing organizations.

Table 2 summarizes the questionnaire response rates, and it reflects the total response rate for all organizations as well as the response rate by type of organization. Again, organizations were classified by the legislation that enabled the organization's funding.

Table 2. Questionnaire Response Rates

Type of Organization	Number of Questionnaires Sent	Number of Questionnaires Returned	Response Rate
Public Act 263	8	5	62.5%
Public Act 59[1]	56	35	62.5%
Detroit CVB	1	1	100%
Total	65	41	63%

[1] A total of 59 questionnaires were sent to P.A. 59 organizations. Three of these organizations were no longer operational.

3.4.3 Questionnaire Design

The questionnaire consisted of four sections. A copy of the questionnaire is included in Appendix B. Section one of the questionnaire asked for information about the executive director/president and the staff of the organization. Questions in this section included the name of the executive director/president (Qst. 1), the official title of the president/executive director (Qst. 2), and the name and address of the organization (Qst. 3). Questions four through eleven asked for information about the nature and length of service of the executive director (Qst. 4), the number of employees (Qst. 8 & Qst. 9), the gender of the executive director/president (Qst. 7) and whether the position was full-time, part-time and paid or volunteer (Qst. 5 &6). Question eight asked for the number of full-time paid employees working in the organization. Question nine asked for the number of part-time paid employees working in the organization. Question ten asked for the number of volunteers working in the organization. Question eleven sought to identify the level of education of the executive director and his/her major area of study if he/she attended college.

Section two consisted of seven questions related to the composition of the board of directors and governance of the organization. Question twelve sought to identify what year the organization was formed. Questions thirteen through fifteen asked for information about the number of people serving on the board of directors (Qst. 14), the term length for board members (Qst. 15), and whether the organization was independent or a division of county government or a chamber of commerce (Qst. 13). Questions sixteen and seventeen

asked for information about the type and size of business owned or managed by each board member.

Section three consisted of six questions related to the size of the organization's budget (Qst. 23 and 24), and the number of transient lodging properties and rooms in the organization's jurisdiction (Qst. 20, 21 & 22). These questions asked for data from the 1994-95 fiscal year (the most recent full fiscal year) and the 1990-91 fiscal year. Questions eighteen and nineteen asked for information about the jurisdiction of the organization, the year the organization was formed, and when it started receiving funds from a tax or assessment.

Section four sought to capture the attitudes of the executive directors/presidents and to describe the educational and training needs of the organization. Question twenty-five is a series of eleven statements each of which are associated with a five-point Likert scale (1= strongly disagree, 5 = strongly agree). The statements address issues perceived as important by the convenience sample used to pre-test the initial questionnaire. The members of the convenience sample expressed interest in how changes in the size and ownership structure of lodging properties were affecting destination marketing organizations. They were particularly interested in whether it was more difficult to collect tax or assessment revenue from large properties or small properties. There was also an interest in the difference in attitudes among executive directors/presidents regarding independent hotel properties and corporate owned or franchise properties.

The members of the convenience sample, although not explicitly stated, seemed to have a working hypothesis that owners who did not live in the community were not as active in the governance issues of the organization. This issue related directly to the nature of incentives that work to affect local collective action with respect to tourism marketing institutions. The attitudes of the executive directors/presidents were polled to test this question. Responses to these questions were used to cross validate data related to similar

issues raised in the course of the interviews. Questionnaire data related to financial and budget questions were used to cross validate and supplement the archival data.

3.4.4 Administering the Questionnaire

The questionnaire was mailed with a cover letter, a postage paid return mail envelope, and a one dollar bill. The information requested on the questionnaire was perceived to be extremely sensitive by the pre-test sample. Recent political efforts to change laws governing some of the destination marketing organization in Michigan had made many of the managers of these organizations leery and distrustful of anyone associated with the state government. There were also concerns related to the proprietary nature of the information. In some areas, the tax or assessment districts are small enough that it would be possible to determine revenues of individual properties by using the tax receipts. The cover letter attempted to address these concerns directly by assuring the recipients that the data would be presented in aggregate form only and that the research was being conducted solely for the purposes of a graduate student research project.

The dollar bill was enclosed as an incentive for completion of the questionnaire. The recipients of the questionnaire are notoriously busy and receive numerous questionnaires from other tourism researchers in both the public and private sectors. The inclusion of the dollar bill was intended to distinguish the questionnaire from other questionnaires with the expectation that this would increase the response rate.

Two weeks after the initial mailing, the non-respondents were called and asked if they had received the questionnaire and if there were any questions. They were then encouraged to complete the questionnaire and return it as soon as possible. Phone calls were used instead of mail follow-up in order to directly address any concerns that the respondents may have had about release of the information requested. It also permitted for informal discussions with each person about the general topic of the research.

These informal discussions proved to be invaluable. In many cases, the recipient explained very frankly why he/she would not, or could not, complete the questionnaire. In most cases the reason given was that the board of directors of the organization had not approved the release of the information. In the course of the conversation, it was often possible to ask questions about the origins of the organization, how it was structured and governed, and the nature of any problems the organization was facing. This helped to further cross validate the interview data and the archival data.

The second follow-up was done in person at the July 16, 1996 meeting of the Michigan Association of Convention and Visitors Bureaus. Those who had not yet responded, and who had said they would complete the questionnaire during the phone follow-up, were in attendance at this meeting. The purpose of the research was stated and each person was encouraged to complete the questionnaire as soon as possible. Attending this meeting, in lieu of a mail follow-up, provided advantages similar to those derived from the phone follow-up. Those who had not yet completed the survey were able to explain why they had not done so. Many offered to assist the research by providing other materials and information that did not require a vote of the board of directors for release.

3.5 Delimitations

The interview data collected for this study are from sources directly involved in the production of tourism promotion and the management of destination marketing organizations. The data collected in the interviews is only from community members who are actively involved with the local destination marketing organization. There may be community members who have an interest in the structure and performance of the local destination marketing organization but who are not active in its governance or maintenance. The perceptions and attitudes of these people are not included in this research.

Communities often have numerous civic organizations that work to enhance the image and spirit of cooperation in the city, county, or township. The tourism promotion activities

of the destination marketing organization may have some effect on these groups. For example, the local convention and visitors bureau and the local chamber of commerce have objectives that may be very similar, and both may have an interest in providing tourism promotion. The relationship between chambers of commerce and convention and visitors bureaus is given consideration in Chapter 4, Chapter 5, and Chapter 6; considering detailed relationships between the local destination marketing organizations and other civic organizations is beyond the scope of this study.

CHAPTER FOUR

STATE & REGIONAL TOURISM PROMOTION INSTITUTIONS: THE ERA OF REGIONAL TOURIST ASSOCIATIONS

4.1 Introduction: The Era of the Regional Tourist Associations

The formation of the Detroit Convention Bureau in 1896 was a hallmark in the history of tourism promotion in Michigan. However, the early proliferation of city convention bureaus after 1896 happened mostly outside of the state. In the early 1900s, few cities in Michigan were large enough or lacked hotels of sufficient size to attract conventions. Further, the market for city-wide conventions was not well developed. The most comprehensive tourism promotion efforts were undertaken by four regional development associations formed in the early 1900s. These regional associations played an important role in the organization of tourism interests and the creation of state-level tourism promotion institutions. From the early 1900s to the early 1970s, these organizations pursued a political agenda that included the passage of tourism promotion funding legislation, funding for the improvement of the state road and signage system, the development of the state and national park system in Michigan, the formation of the Michigan Tourism Council, and the creation of the state travel office.

The initial sections of this chapter describe the history and role of these associations. Subsequent sections describe how changes in state-level institutions, initiated in large part by interest groups centered in urban areas across the state, impacted these organizations.

4.1.1 Railroads and Tourism Promotion

By 1872, more than three million acres of land had been granted by the federal government to the various railroads operating in Michigan. Because most of the land grants were justified as a means to develop sparsely populated areas in the state, the majority of the land was in the northern lower peninsula and upper peninsula of Michigan. The Pere Marquette Line, the Michigan Central Railroad, the Grand Trunk Line, and the Grand Rapids and Indiana Line all received land grants, some as large as a million acres, to build railroad lines (May, 1980).

As a result of this, through the late 1800s and into the early part of the 1900's the railroads profited from the growth of the lumber and mining industries of northern Michigan. Even though the railroads faced stiff competition for the mineral and mining trade from the various steamship lines operating in the Great Lakes, they dominated the transportation of lumber out of the northern lower peninsula to places such as Saginaw and Muskegon where large sawmill operations were located. Between 1880 and the early 1900's, the timber industry moved into the upper peninsula, so the railroads followed and established systems there (May, 1980).

Michigan's timber production declined steadily between 1888 and the early 1900s, when production shifted to the Pacific Northwest. As timber production declined, the railroads in the upper peninsula and the northern portions of the lower peninsula experienced significant decreases in the volume of freight and passenger traffic. In an effort to remedy the decrease, the railroad companies, in cooperation with the lumber companies, began to sell railroad and cut-over timber lands to farmers and new settlers. During this period, the railroads also began promoting and developing the resort industry in northern Michigan. The Grand Rapids and Indiana Railroad and the Pere Marquette Line built large resorts throughout northern Michigan in Petoskey, Harbor Springs, and Charlevoix. The largest resort hotel in the region, the Grand Hotel on Mackinac Island, was financed by the Grand Rapids and Indiana Railroad, the Michigan Central Railroad,

and the Detroit and Cleveland Navigation Company. In addition to the resort development financed by the railroads, religious camps and communities with cultural and artistic attractions were developed. The Bay View Assembly (1875), located outside of Petoskey, was modeled after similar Methodist excursion camps developed in New York (May, 1980).

Unfortunately for the railroads, passenger transportation by rail from the southern part of the state and from the east coast was complicated by the number of rivers and difficulty in navigating the open waters of the Great Lakes. The car ferry, which allowed passengers to remain in the coach cars while navigating the rivers and lakes, was not yet been widely used for open water navigation. In 1887, railroad companies operating in the two peninsulas formed an association to operate a car ferry between Mackinaw City and St. Ignace. In 1892, the Toledo, Ann Arbor and North Michigan Railroad implemented the first trans-Lake Michigan car ferry service between Frankfort, Michigan, and Kewaunee, Wisconsin (May, 1980).

Due to the inconvenience and cost of traveling via rail, many resorters and new settlers chose the alternative mode of steamship transportation to get to Michigan's northern destinations. The competition from the steamship lines and the relatively short resort season influenced the decision of some of the railroads to eventually abandon many of their northern lines. In addition, many of the north Michigan railroads eventually went bankrupt or merged with larger lines. However, those that remained continued to attempt to build demand for their land holdings and resorts through promotion and advertising (May, 1980).

Most of the early regional resort and land settlement promotion in northern Michigan was funded predominantly by the railroads and steamship lines. The Grand Rapids and Indiana Railroad, promoted itself as the "fishing line," touting the hunting and fishing attractions in northwestern Michigan. The Pere Marquette Line and other railroads offered special packages that featured their resorts and discounted transportation prices. With

financial assistance from the railroads, some towns, such as Hancock and Sault Ste. Marie, began publishing tourism and land settlement promotion brochures ("Tourist & Investor," 1895).

In addition to these local promotion efforts, the railroad, mining, and lumber companies of northern Michigan encouraged and financially supported three regional development bureaus located in the northern lower peninsula and upper peninsula of Michigan. The associations themselves were an outcome of local and, later, regional collective action organized to develop and promote the advantages of settling, farming, and vacationing in these regions.

4.2 Formation of Regional Destination Marketing Organizations & Interest Groups

4.2.1 The Regional Development Bureaus

By the beginning of the twentieth century, the northern portions of the lower peninsula and the upper peninsula (U.P.) of Michigan had been cut-over by the lumber industry. With the departure of the lumber companies and declining mining output, there was a growing interest in the larger communities, and on the part of the railroad companies, to find some alternative economic base. These regions of the state were already sparsely populated and had experienced a decline in population as the lumber industry moved further north and west. Community leaders and business owners in Traverse City, Menominee, and Bay City began to call for the organization of local businesses to develop agriculture and to promote their communities to potential settlers (State Archives of Michigan, Man. Rec., MS 77-1).

In 1908, Roger Andrews, a newspaper publisher in Menominee, began writing editorials in the Menominee Herald-Leader urging the formation of an Upper Peninsula Promotion League. Andrews expressed concern about the future of the upper peninsula economy and encouraged local business owners to support a tax that would be used to finance a promotional program for the U.P. His plan called for the levy of a property tax

of one-third of one-tenth of one mill per thousand dollars assessed valuation. This initial plan for a tax met with only limited local support, but the merit of an organization to promote regional settlement and agriculture was recognized by people in the U.P and the northern lower peninsula (Andrews, 1910-a). Andrews persisted with his editorials and lead the movement to form some type of regional promotion organization. As a newspaper publisher, he stood to profit from the sale of advertising to the associations and may have acted out of self interest. Precise information on his motivation is not available.

In his editorials Andrews appealed to people's emotions, their lack of action relative to other areas of the country, and their sense of pride to urge the Menominee Commercial Club, the precursor of a chamber of commerce, to form the Upper Peninsula Promotion League. In his December 2, 1910 editorial Andrews wrote:

> The upper peninsula of Michigan, rich beyond telling in the possibilities of agriculture, forestry, mining, fruit, cattle raising and diversified manufacturers, stands before the country today a confessed pauper. The second great Land Show in Chicago is drawing to a successful conclusion. Michigan was represented, there was a "Michigan Day", and yet the upper peninsula, Michigan's garden spot, was not mentioned in the show's booklets or shown on the map. It is no one's fault but our own. We are asleep in the midst of opportunity. Is there no pen or voice among us to lash us into activity? We have apples that Oregon cannot produce, farms and farm lands richer than Iowa, sugar beets sweeter than Colorado, we have farms, factory sites, town sites and splendid forests. All we need is people to harvest these riches, but we are doing nothing. . . . As the naturally richest section of Michigan, are we going to bring up the mournful rear of the procession of western states and districts? Let us say "no" and then act. May Heaven make some of us angry and ashamed and mortified enough to start something TODAY (Andrews, 1910-b).

The editorials appear to have been successful in calling attention to the need for a coordinated effort. On December 15, 1910, the Menominee County Board appointed a committee to initiate the formation of the Upper Peninsula Development Bureau. The committee was comprised of three members from the Menominee County Board and five members of the Menominee Commercial Club. The board's resolutions charged the committee with the formation of a development bureau to advertise the sale of land in the U.P. to potential settlers and to assist in the development of agriculture in the region. The

county board appropriated $500 to assist the committee in forming the Upper Peninsula Development Bureau (Andrews, 1911).

On February 21, 1911, the first meeting, attended by 246 individuals from throughout the U.P., the lower peninsula, and neighboring states, was held in Menominee. Some came from as far away as Green Bay, Wisconsin and Indianapolis, Indiana. This first meeting clarified the goals of the organization and set forth the rules of its operation. Membership was voluntary with dues at $5 for individual members, and other membership categories were established for lumber companies, mining companies, and land speculators (Andrews, 1911; U.P. Dev. Bur., Minutes, 1911).

Andrews' idea of a promotional league was called to the attention of the Bay County Board in 1909 which established a committee that investigated the potential of such an organization and subsequently incorporated the Northeastern Michigan Development Bureau in January of 1910. Once again, emotion laden appeals brought people to the first meeting and inspired their interest in the promotion of their communities. Initial seed money was provided by Bay County with the funds being used to recruit other counties and cover the initial costs of the organization. Once formed, the dues for county membership were set at $200 per year, and dues for corporations and individuals were set at a minimum of $15 per year (G.E. Bishop, personal communication, March 16, 1940; N.E. Mich. Dev. Bur., Minutes, January 13, 1910).

The West Michigan Development Bureau was formed in Traverse City in 1910. This organization was similar in structure and purpose to the U.P. and Northeastern Michigan Development Bureaus; however, in addition to emphasizing land sales and agricultural development, the West Michigan Development Bureau was explicit in its intentions to promote the recreational opportunities of the Lake Michigan shoreline (State Archives of Michigan, Man. Rec., MS 80-94). Its by-laws state the mission of the organization, which is characteristic of the other development bureaus:

> The West Michigan Development Bureau will work for the encouragement and advancement of agriculture, horticulture, manufactures, the mechanic arts and

> kindred industries, the promotion of tourist travel and resort interests, the improvement of public highways, etc. (West Michigan Development Bureau, By-laws, 1913)

By 1917, most of the populated counties in the U.P. and in the northwestern and northeastern portions of the lower peninsula were members of one of the regional development bureaus. The development of agriculture and the sale of land to potential settlers, supported in part by railroad companies and land promoters, was the initial focus of these organizations. By this time, all three organizations promoted hunting, fishing, and recreation generally. However, the promotion of recreation appears to be of secondary importance (G.E. Bishop, Personal Communication, March 16, 1940).

The initial organizational costs of the development bureaus was borne by a select group of county supervisors, boards of commerce, and commercial clubs at the county and village level. Despite the high exclusion cost characteristics of the land promotion programs, and the diversity of business interests, the organizers were able to coordinate the formation of the groups. Precise data on the motivation for initial participation is not available; however, there is evidence that rhetoric appealing to people's emotions, their sense of pride, and moral obligations, succeeded in soliciting attendance at the earliest meetings.

The motivation of county leaders in Menominee, Traverse City and Bay City cannot be determined from existing data. Their initial support and funding was used to solicit membership from other counties in each of the regions. The Board of Supervisors in Bay County, Grand Traverse County, and Menominee County committed funds to a regional promotion effort without knowing whether other counties would make comparable contributions.

The development bureaus solicited support from state legislators and public officials in an effort to encourage counties to make contributions to the bureaus. For example, in 1922, John Doelle, State Commissioner of Agriculture, wrote to the county boards of supervisors in each county explaining why it was important to have county participation in the bureaus. The following excerpt from a letter to the Charlevoix County Board of

Supervisors, on behalf of the Western Michigan Development Bureau, provides an example of this type of solicitation:

> Anticipating that the Board of Supervisors will be asked to aid the Western Michigan Development Bureau, I wish to note in brief the cooperation of the State Department of Agriculture with that organization. We contribute annually to its support. We realize that the development bureau is essential to carrying out a land policy for Michigan. We have numerous inquiries for farms. . . .When we receive these names we cannot send them to individuals but we do send them to your development bureau to follow up and determine exactly where the settler wishes to go. Our department, being a state department cannot favor any particular locality, but each part of the state, through its development bureau can advertise its section of the state and point out its advantages. . . . It takes time and money to work out all these things and I hope you will try to be generous with your development bureau, so that we can help you make your part of Michigan well known and appreciated throughout the country. It is good business. We need to advertise. California spends millions of dollars advertising her land, her products and her climate. . . . I have just received literature from Canada giving account of their raising one and one-half million dollars to organize a campaign for settlers, a large part of whom they expect to get from the United States. . . What are we going to do for Michigan? (J.A. Doelle, personal communication, September 30, 1922)

Doelle's letter reflects several strategies used by the development bureaus to solicit county memberships. First, it reflects how the organizations appealed to the supervisors' sense of duty to Michigan and the need for them to do what is right given the money being spent by other states and countries. These moral appeals establish the context for the creation of purposive incentives by informing the potential member of how group goals may be consistent with their own ideologies and belief systems. Second, the organizations consistently used external threats to motivate both contributing and potential members. These threats often focused on the competitive position of their region or Michigan relative to other states or countries. Finally, by soliciting the support of state government officials, the political entrepreneurs of the bureaus established credibility which could be leveraged to establish their role as the dominant promotional organization for the region.

As the boundaries of the organizations became better established, the definition of the region emerged. In the early promotional materials the definition of the region did not strictly follow county boundaries, nor was the definition of the region restricted only to

those counties who made appropriations. Non-contributing counties appear to have been included if they had unique resources or an abundance of tillable land.

The initial promotional programs were of a primary rather than selective nature. The emphasis was on attracting settlers to the entire region. All of the more populated counties in the region, regardless of whether they made contributions, were in some way included in the promotional materials. Since not all of them initially contributed to the bureaus, there is evidence of free riding on the part of some counties. Although there are no data to determine exactly which counties contributed in the first three years of each organization's existence, the earliest meeting minutes do not list attendance or monetary contributions from several counties, possibly due to the lack of well established county governments in sparsely populated areas.

Eventually the practice of advertising nonmember counties was abandoned, and promotion was conditioned on membership. By doing this, the bureaus were selling a low exclusion cost good, a type of selective incentive, in exchange for county membership in the organization (U.P. Dev. Bur., W. Mich. Dev. Bur & N.E. Mich. Dev. Bur, Meeting Minutes, Various Dates, 1918-1925).

Early promotional materials included regional maps and information packets sent to potential settlers and tourists. There was only limited advertising of specific resorts, hotels or other businesses, although larger members, such as the railroad companies and mining companies, were described or given special attention. To promote land sales, members from the three bureaus with lands in northern Michigan regularly attended the annual Chicago Land Show (N.E. Mich. Dev. Bur., Meeting Minutes, January, 1923)

To attract settlers from Europe, representatives from the West Michigan and Northeast Michigan Development Bureaus went to the Netherlands. The costs of these trips were shared by the development bureaus and the Public Domain Commission. In an effort to attract settlers from other parts of the country, the Northeast Michigan Development Bureau sent representatives to Texas and Ellis Island. The development bureau paid for

approximately half of the cost of travel for this contingent. The Michigan Central Railroad and other businesses covered the remaining costs (U.P. Dev. Bur., W. Mich. Dev. Bur & N.E. Mich. Dev. Bur, Meeting Minutes, Various Dates, 1918-1920).

In each of the three development bureaus one of the regional railroads approached, but did not fully attain, the position of a dominant member in a priveleged group. According to Olson's priveleged group hypotheses, if the railroads were acting as the dominant member they would have borne the full cost of establishing and coordinating the actions of the groups. This did not happen. In each case, individual group members, county supervisors, and state officials assisted in the formation of the bureaus and in coordinating investments in specific promotional efforts such as the European and Chicago trips.

By 1920 each organization saw that the cut-over timber lands were not suitable for the cultivation of many traditional crops. As a result, the development bureaus began to pursue the development of agricultural alternatives such as sheep, hogs and, dairy herds. In an effort to develop cultivation, they also provided erosion and soil conservation programs with the help of the Michigan Agricultural College.

The difficulty in developing the agricultural base of the regions contributed to a decrease in the number of farmers participating in the bureaus. The membership rolls of the organizations were comprised of an increasing number of hotel and resort owners and other businesses reliant on tourism activity. During this period, the promotional emphasis began to shift away from promoting land sales to settlers and emphasized regional agricultural products and recreational opportunities (G.E. Bishop, personal communication, March 16, 1940; N.E. Mich. Dev. Bur. Annual Meeting, October 22, 1925; U.P. Dev. Bur., Meeting Minutes, Jan. 23, 1924 ; E.W. Moore, personal communication, Oct. 6, 1922).

4.2.2 The Transition To Tourist Associations

In 1916, Arthur Stace initiated the formation of a tourist and resort association in western Michigan. Stace, a hotel owner, encouraged the West Michigan Development

Bureau to begin promoting resort and tourist business as part of its agricultural and land settlement promotion efforts. At first, his appeals were not embraced by the leadership of the development bureau dominated by farmers and others who believed that the promotion of agricultural projects was of primary importance (State Archives of Michigan, Man. Rec., MS 80-94). However, the West Michigan Development Bureau was having difficulty financing its operation solely through member dues and recognized the need to attract more members from other sectors of the regional economy (W. Mich. Dev. Bur., Meeting Minutes, 1917).

In April 1917, Stace and approximately fifty other resort and tourist business owners, organized the Michigan Tourist and Resort Association in Traverse City. This organization functioned as a separate entity for only three months. Stace and other officers believed that it would be beneficial if the resort association was part of the larger regional organization. In July, the Michigan Tourist and Resort Association merged with the West Michigan Development Bureau (State Archives of Michigan, Man. Rec., MS 80-94).

The inability of the development bureau to attract agricultural members and to implement an effective agriculture development and promotion program greatly reduced the organization's emphasis in these areas. Once again, the principle problem referred to in the meeting minutes was the poor quality of the cut-over lands for agricultural development. In fact, many of the new settlers, attracted by the development bureau's land sale promotional efforts, had shifted out of farming and had become increasingly reliant on recreation and tourism for their incomes (May, 1980; W. Mich. Dev. Bur. Meeting Minutes, 1917).

An increasing number of the development bureau's membership were affiliated with the Michigan Tourist and Resort Association, and by approximately 1930 the organization had shifted primarily to a tourism promotion emphasis. Eventually the West Michigan Development Bureau was dissolved, while the Michigan Tourist and Resort Association remained incorporated and became the primary destination marketing organization for the region represented by the development bureau. The name of the organization was

eventually changed to the West Michigan Tourist and Resort Association (State Archives of Michigan, Man. Rec., MS 80-94; W. Mich. Dev. Bur. Meeting Minutes, Various Dates, 1917-1921).

The organization of tourism and resort interests was also beginning in the northeastern part of the state. In 1922, with the assistance of the Northeastern Michigan Development Bureau, the Huron Shore Tourist Association was formed in Huron County. Like the West Michigan Development Bureau, the agricultural projects of the Northeastern Development Bureau proved to be unsuccessful. Other projects, more closely linked to the travel and recreation industries of the region met with greater success. For example, early in its formation the development bureau established the Huron Shore Road Association that worked with state agencies and county boards to secure funding for road development along the Lake Huron shoreline. These roads provided commercial benefits to farmers and the resort and hotel owners along the lake shore (State Archives of Michigan, Man. Rec., MS 77-1). By making the Lake Huron shoreline more accessible to Detroit, the market for resort business along the lake became better established. The success in securing funding for road projects was used to encourage membership in both the Huron Shore Tourist Association and the East Michigan Development Bureau (E. Mich. Dev. Bur., Annual Report, 1923).

By 1928, the development bureau's emphasis had shifted largely to the promotion and development of tourism in the northeastern quadrant of Michigan. The bureau was reorganized, and the East Michigan Tourist Association became the primary organization responsible for promoting the region. The development bureau remained incorporated through the 1930's and continued to promote the region's agricultural potential. The two groups remained affiliated until the 1970s when the development bureau was unincorporated. The meeting minutes and annual reports of the organization reveal that the emphasis on agriculture had been almost completely abandoned by 1942 (State Archives of

Michigan, Man. Rec., MS 77-1 & E. Mich. Tourist Association, Meeting Minutes, Various Dates).

The Upper Peninsula Development Bureau maintained a broader base of membership for a longer period of time. Lumber companies, mining companies, and shipping interests are listed as active members in the organization through the 1950s. The bureau was also more effective in securing state support for its agricultural programs, particularly those programs related to livestock herd development. These diverse sources of funding allowed the bureau to pursue agricultural and land promotion, as well as recreation and tourism promotion, in an integrated organization through the 1950's.

It incorporated tourism promotion as part of its program early in its formation and had an established history of promoting the region's resorts and recreational resources. In 1917, the organization spent $3,000 to advertise the recreational benefits of the U.P., making it the first development bureau to specifically set aside funds for tourism promotion. Tourism promotion was maintained in the organization, and no separate organization, strictly focusing on tourism promotion, was established in the early years of the bureau (G.E. Bishop, personal communication, March 16, 1940).

In 1954, the U.P. bureau was split into the industrial division and the recreation and tourism division (U.P. Dev. Bur., Annual Report, 1954) . In 1958, these were split into two separate organizations and the Upper Michigan Tourist Association was formed ("Compromise Agreement", 1958; U.P. Dev. Bur., Annual Report, 1958). Subsequent reorganizations resulted in the name being changed to the Upper Peninsula Travel and Recreation Association.

The Southeast Michigan Tourist and Publicity Association was formed in 1927, but it did not have a regional development bureau with which to associate itself (State Archives of Michigan, Man. Rec., MS 77-1). Its formation was supported by the Detroit Convention Bureau and the Detroit Board of Commerce. The Detroit Convention Bureau retained its focus on attracting conventions, while the Southeast Michigan Tourist and Publicity

Association was responsible for the promotion of regional leisure travel (A Century of Economic Development, 1996).

The group was successful in forming promotional partnerships with the other tourism promotion associations and worked closely with the East Michigan Association in lobbying for road development along the Lake Huron shoreline and westward out of Detroit. The group eventually changed its name to the Southeast Michigan Tourist Association (State Archives of Michigan, Man. Rec., Ms 77-1).

4.3 Characteristics of the Regional Tourist Associations: Membership, Boundaries & Interests

4.3.1 Boundaries

The boundaries defining each regional tourist association were established under the development bureaus. County inclusion in the region was determined by both the county appropriation to the associations and individual memberships from the county. Figure 3 is a map of the boundaries of each organization based on the area each claimed to represent. The tourist associations claimed to represent all of the counties in their regions; however, financial and membership records reveal that in any given year individual member dues or county appropriations were not collected in all of the counties included in the regional boundaries (G.E. Bishop, Personal Communication, March 16, 1940).

Some members residing outside the region made contributions to multiple regional associations. For example, at various times both the East Michigan Tourist Association and the Upper Peninsula Development Bureau listed contributions from members and government organizations in Wayne County even though Wayne County was technically in the Southeast Michigan Tourist Association.

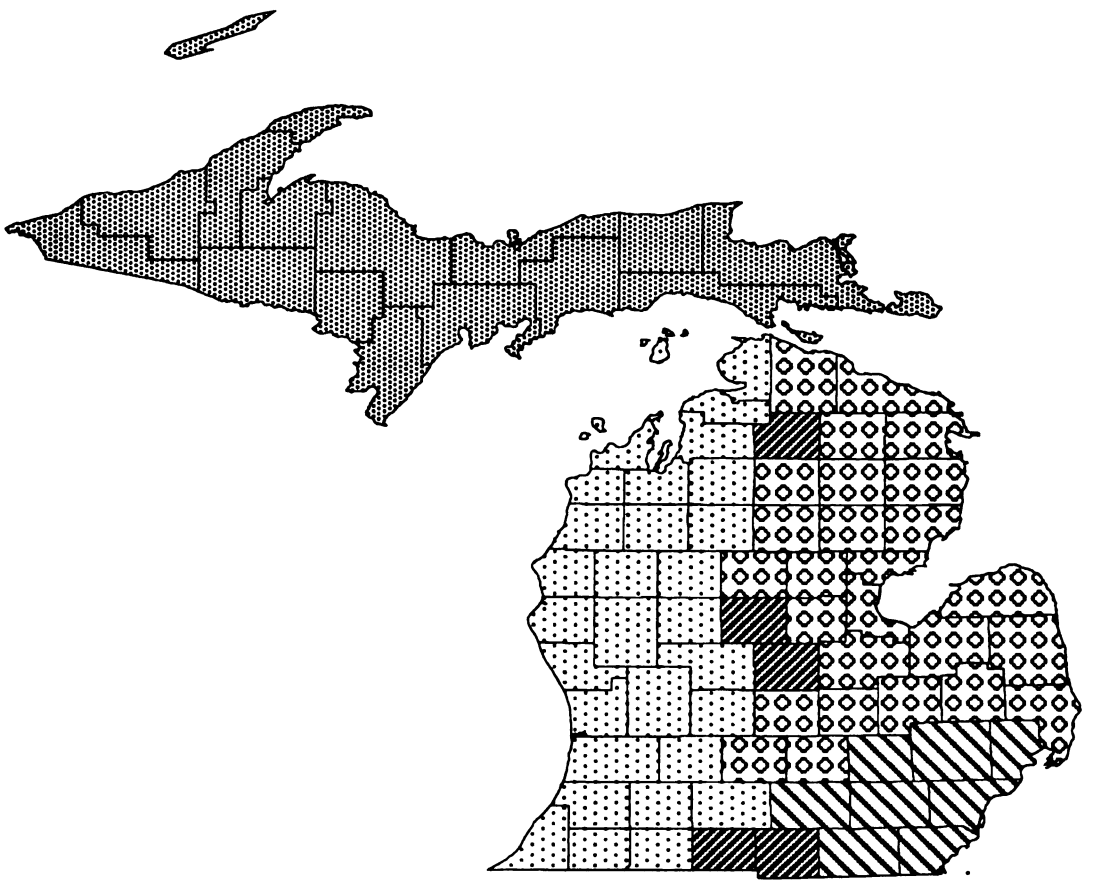

Figure 3. Boundaries of regional tourist associations

4.3.2 Membership

The membership of the associations included a heterogeneous mix of businesses, individuals, and governments. The earliest membership records for the development bureaus list counties, towns, chambers of commerce, lumber companies, railroad companies, milling companies, hotels and resorts, and farmers. How the membership was distributed among these various groups, and the extent of their financial contributions, cannot be precisely determined from the available data (U.P. Dev. Bureau, E. Mich. Dev. Bureau and Mich. Tourist & Resort Assoc. financial & membership records, various dates).

Unfortunately, a complete historical characterization of membership in the regional tourist associations is not possible for each organization due to data limitations; however, it is possible to provide examples of the diversity of membership in each of the organizations at different points in time. The 1948 membership roster for the Upper Peninsula Development Bureau lists hotels and motels, oil companies, civic organizations, government organizations, mining companies, restaurants, builders, publishers and banks among its 843 members (U.P. Dev. Bureau, Annual Report, 1948). The 1958 membership roster for the West Michigan Tourist and Resort Association, lists hotels and motels, food manufacturers, banks, civic organizations, government organizations, restaurants, builders, and transportation companies among its 2,200 members (W. Mich. Tourist & Resort Assoc., membership roster, November 8, 1958)

In 1964, the East Michigan Tourist Association listed 1,156 members. Four hundred were resorts, hotels, or motels; one hundred and seven of them were restaurants; eighty-six were either government organizations or chambers of commerce; and two hundred and seventy one were classified as 'miscellaneous' which included banks, utility companies, manufacturers and newspapers (E. Mich. Tourist Assoc., Membership Report, October 15, 1964).

In 1978, nineteen percent of the members in the Southeast Michigan Tourist Association represented lodging establishments, fourteen percent government agencies, twelve percent recreational facilities, ten percent restaurants, and ten percent chambers of commerce. The remaining thirty five percent represented diverse sectors of the economy including hotel and restaurant suppliers, retail stores, communications businesses, manufacturing firms, and utility companies (S.E. Mich. Tourist Assoc., Membership Drive, 1978).

4.3.3 Early Funding Sources of Selected Regional Tourist Associations

The financial records of the regional tourist associations provide insight into the composition of the membership and funding sources for each organization. The Archives of the State of Michigan include audited financial statements for all of the regional tourist associations. The archives have more complete financial statements for two of the associations: the tourist association in the U.P., under its various names, and the East Michigan Tourist Association/East Michigan Development Bureau.

To analyze funding sources, an annual time series was constructed from the data in the audited financial statements. Unfortunately, the series are not entirely complete. For example, the series presented for the Northeast Michigan Development Bureau is missing observations for 1918, 1922, and 1923. The original series for the Upper Peninsula Development Bureau, is missing observations for 1932, 1933, 1949, 1950 and for the period between 1938 and 1941. Values for these years, in both series, were interpolated using linear trend at point interpolation. The data series for the East Michigan Tourist Association was complete for the years presented.

The analysis of funding sources is complicated by the different accounting practices used by each organization and by changes in general accounting practices over time. For example, in various years the audited financial statements of the Northeast Michigan Development Bureau listed separate categories of members such as corporations, individuals, and transportation companies. Reflecting their initial importance, the

contributions from railroad companies were treated separately in the bureau's financial statements. County, city and, township memberships and appropriations were accounted for separately. The Upper Peninsula Development Bureau did not always account for county appropriations separately; as a result, the financial contributions from members for this organization include county appropriations. The East Michigan Tourist Association separated the revenues collected through county appropriations but did not delineate the contributions collected from other types of members.

A historical picture of the total revenue for each of the associations is presented in Figure 4. The downward trend in the revenue at the end of the Northeast Michigan Development Bureau series can be attributed to the transition of the organization from the development bureau era to the tourist association era. In 1928, the East Michigan Tourist Association became the parent organization, but the development bureau continued to collect some membership revenue and all of the county appropriations; these funds were then transferred to the tourist association at the end of year. The effects of the Depression and World War II can be seen in the decline and recovery in the Upper Peninsula Development Bureau series between 1930-1934 and 1942-1945. The East Michigan Tourist Association series reflects a general growth trend over the fourteen years.

Figures 5, 6 , 7, and 8 are decompositions of the total revenue series and reflect the major sources of funding, in nominal dollars, for each organization. Figure 5, for the Northeast Michigan Development Bureau, provides evidence of the major sources of revenue, memberships and county appropriations, during the development bureau era. The bureaus were not reliant on advertising and other selective incentives as significant sources of revenue. Single year observations for the Upper Peninsula Development Bureau and West Michigan Development Bureau reflect similar distributions in the sources of revenue during this period.

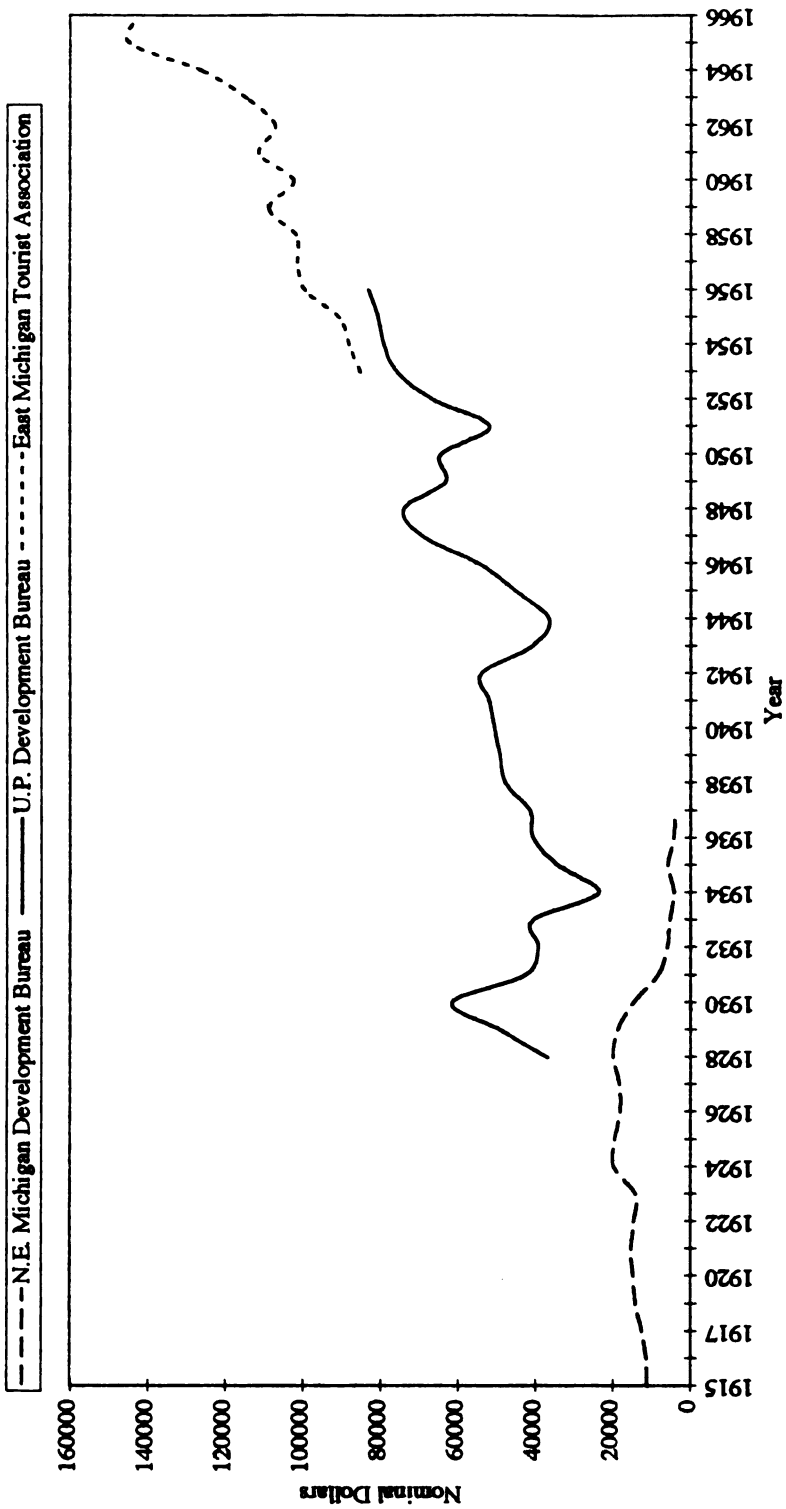

Figure 4. History of total revenue for selected tourist associations, 1915-1966.

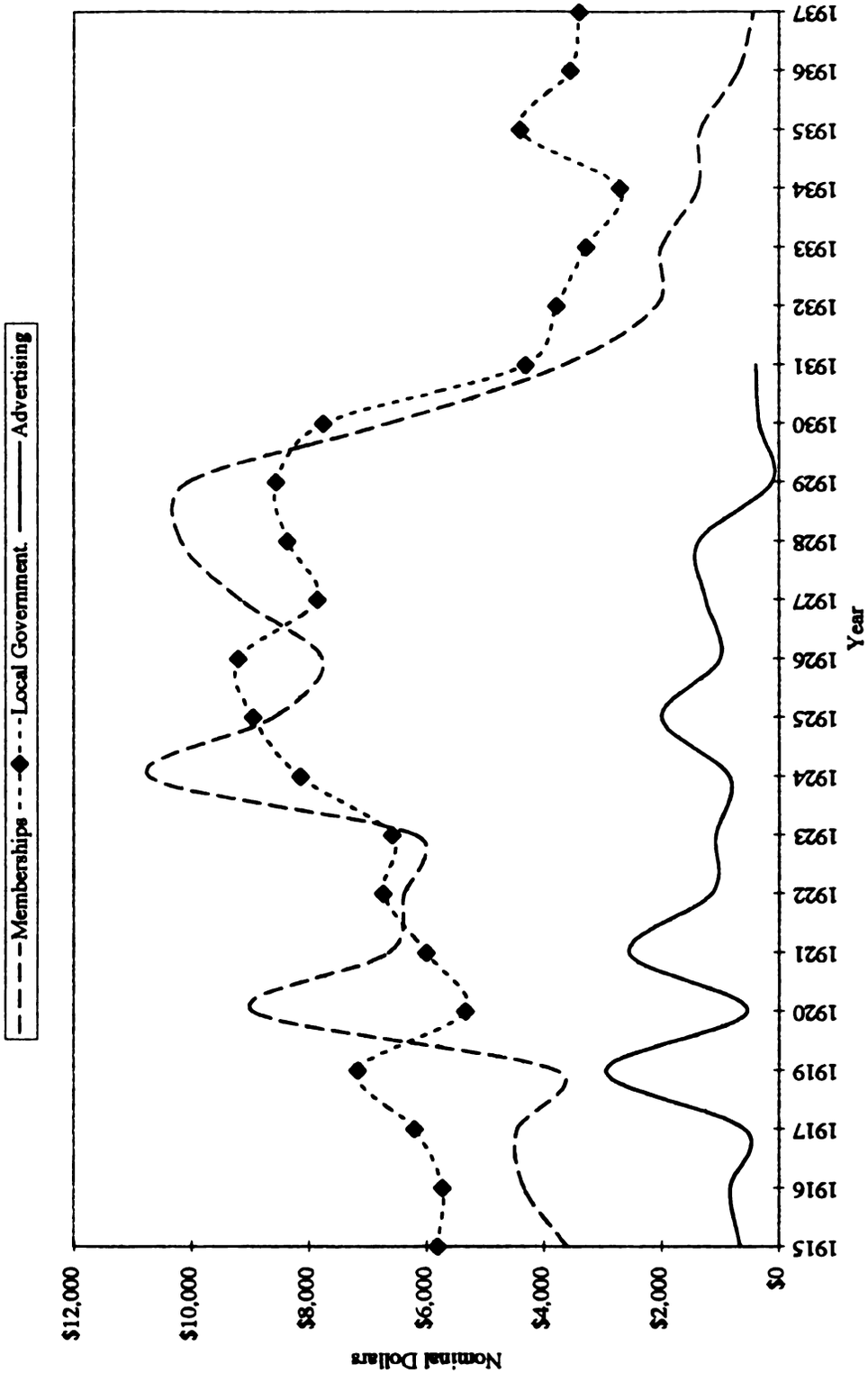

Figure 5. Northeast Michigan Development Bureau major funding sources, 1915-1937.

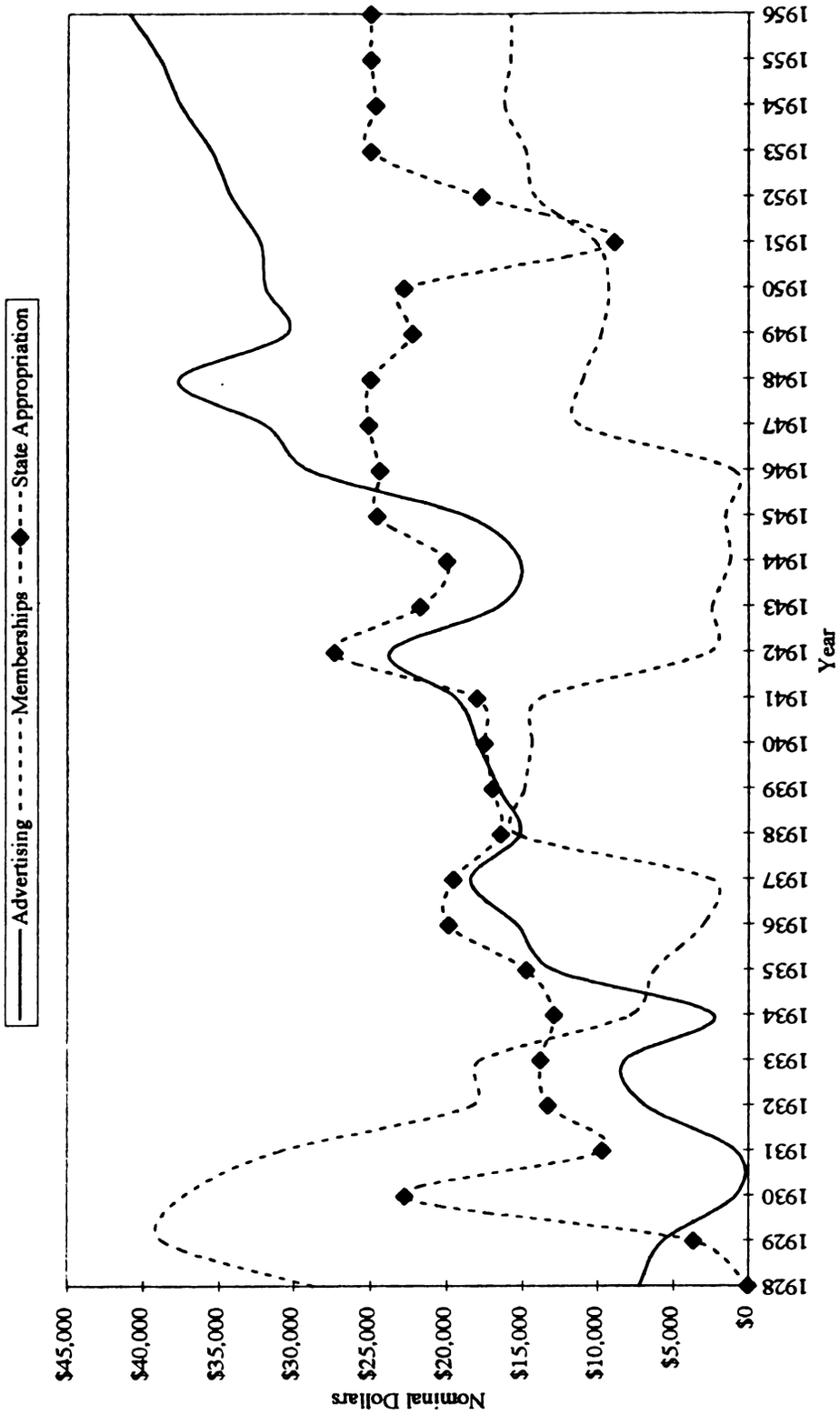

Figure 6. Upper Peninsula Development Bureau major funding sources, 1928-1956.

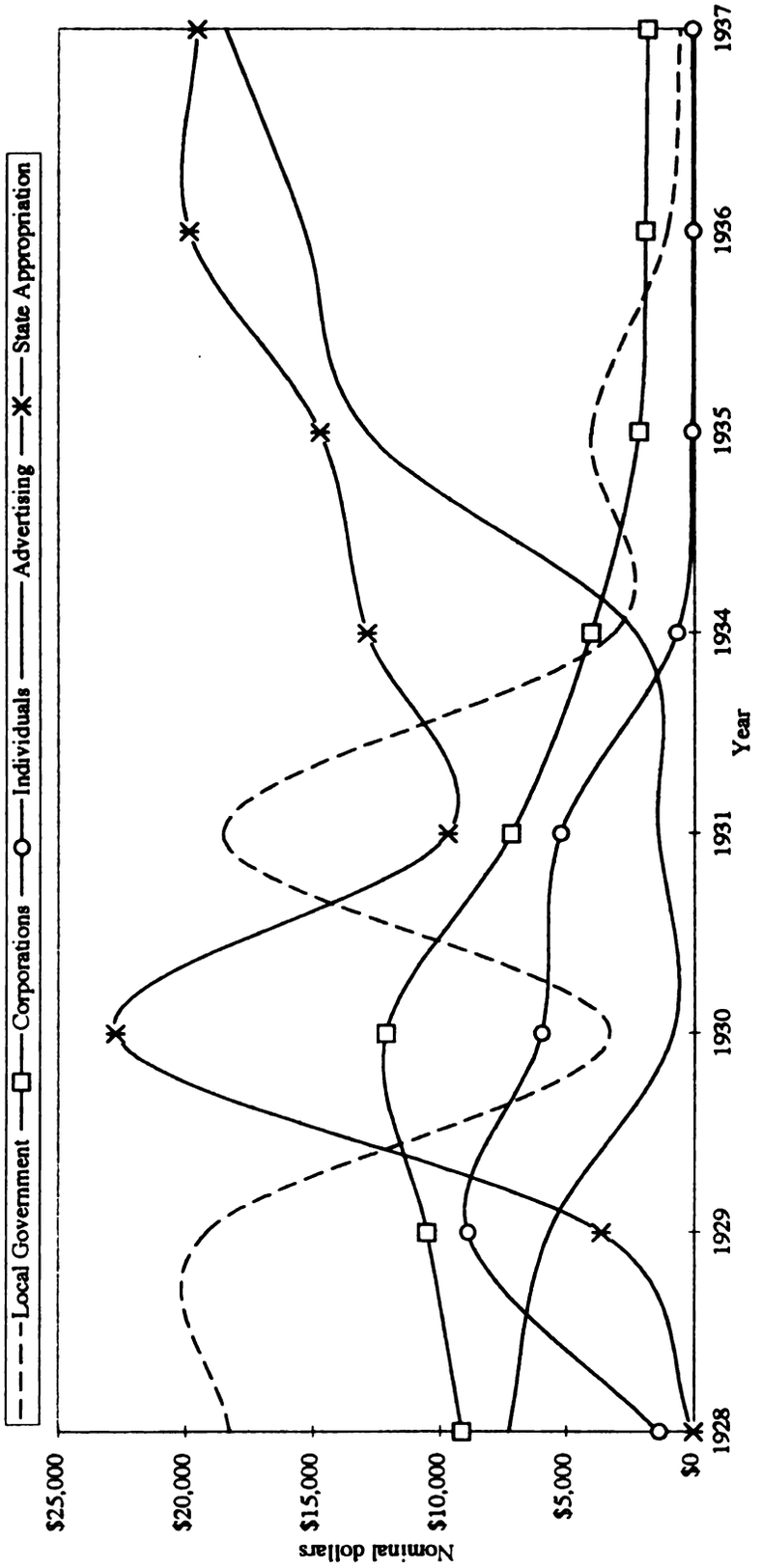

Figure 7. Upper Peninsula Development Bureau major funding sources, 1928-1937.

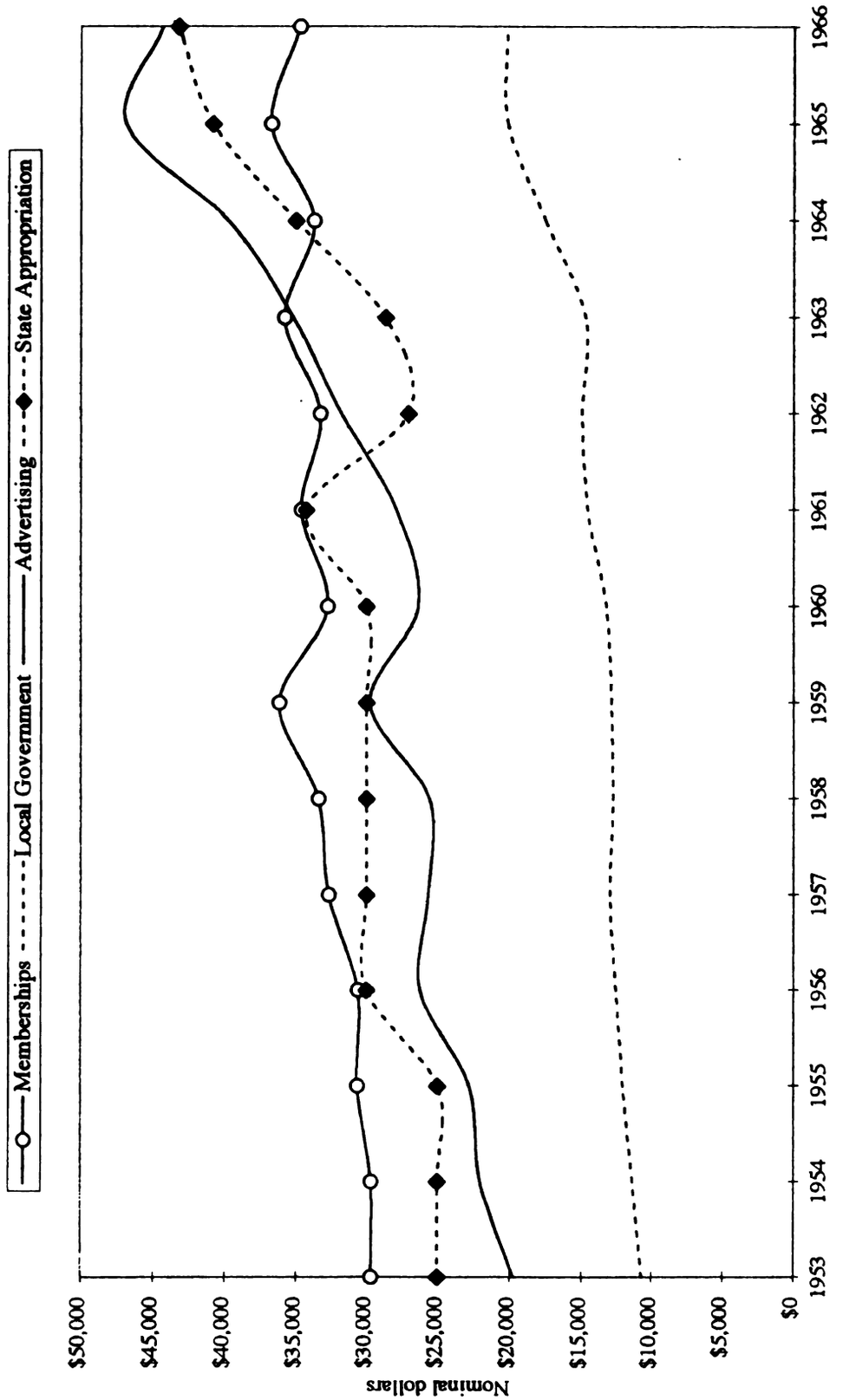

Figure 8. East Michigan Tourist Association major funding sources, 1953-1966.

Figure 6, for the Upper Peninsula Development Bureau, reflects the growing importance of advertising as a source of revenue. This figure also includes the association's share of the state appropriation, which was established in 1929 and is described in more detail in Section 4.5.2. The trough in the state appropriation series in 1951 is difficult to explain. Apparently, the association qualified for the full state appropriation of $25,000 but did not file advertising receipts to collect the full amount. It was also during this time that the bureau established the industrial division, and it may have used some of the appropriated funds for that. Membership revenue declined sharply between 1928 and 1937. Revenue from membership recovered for a five-year period after 1937 and then declined again during World War II.

It is important to note that the membership revenue series for the Upper Peninsula Development Bureau includes appropriations from the counties as well as the dues from businesses and individuals. While it is not possible to decompose the entire membership revenue series into more specific sources, it is possible for the period between 1928 and 1937, which is presented in Figure 7. This series is missing observations for 1932 and 1933; values for these years were not interpolated for this series. Since the long term trend is better reflected in Figure 6, the trend in Figure 7 is not as important as the actual sources of revenue. Local government--predominantly counties--corporations, and individuals were the major sources of membership revenue. This figure further reflects the transition from the development bureau era to the tourist association era. The revenue from individuals was mostly from farmers and interested community members. Over time, the bureau became a business interest group that derived very little revenue from individual farmers and community members.

Figure 8, for the East Michigan Tourist Association, reflects a trend consistent with the other tourist associations during this period. The trend indicates general growth in all sources of revenue, but revenue from state appropriations and advertising was growing at a rate faster than revenue from local government sources and memberships.

Figures 9, 10, and 11 reflect the major funding sources for each association as a percentage of total annual revenue. The difference between the top of each bar in the figures and 100% is the percentage of revenue derive from miscellaneous sources. For example, in 1915 and 1917 the Northeast Michigan Development Bureau got 10% of its revenue from the sale of livestock, seed, and plants. In 1929, the bureau got 12% of its revenue from miscellaneous sources such as interest on notes and other payables.

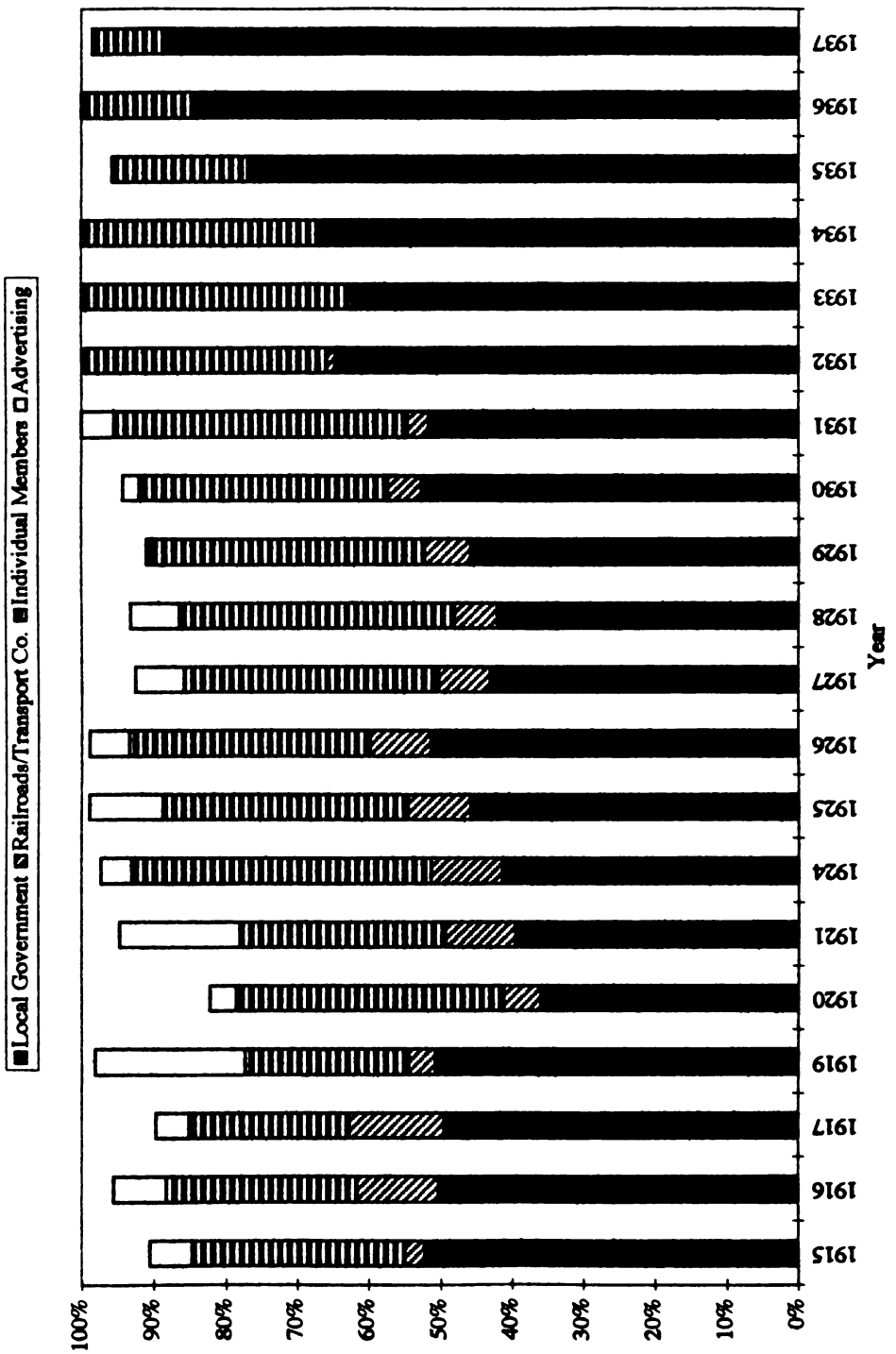

Figure 9. N.E. Michigan Development Bureau funding sources as a percentage of total revenue, 1915-1937.

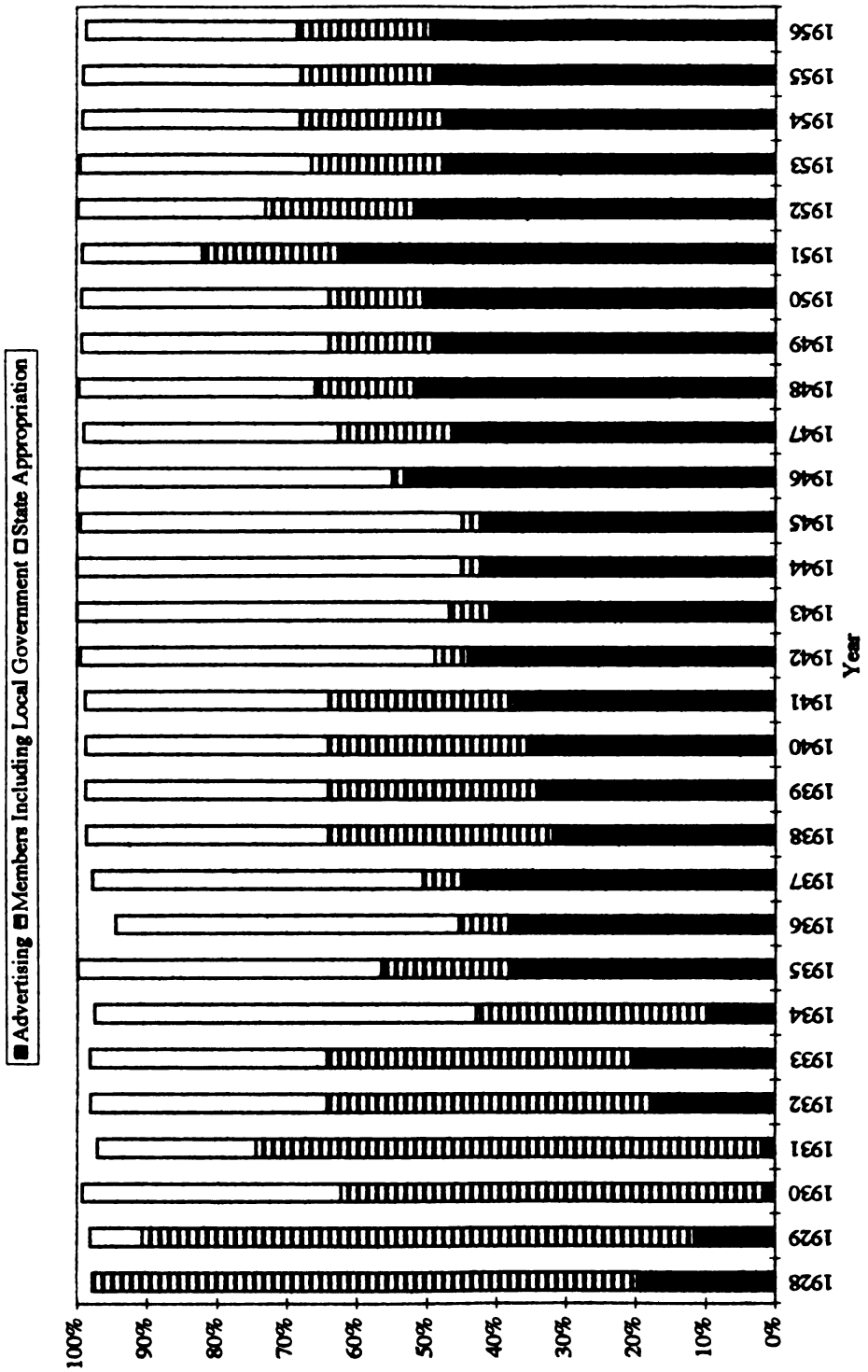

Figure 10. Upper Peninsula Development Bureau funding sources as a percentage of total revenue, 1928-1956.

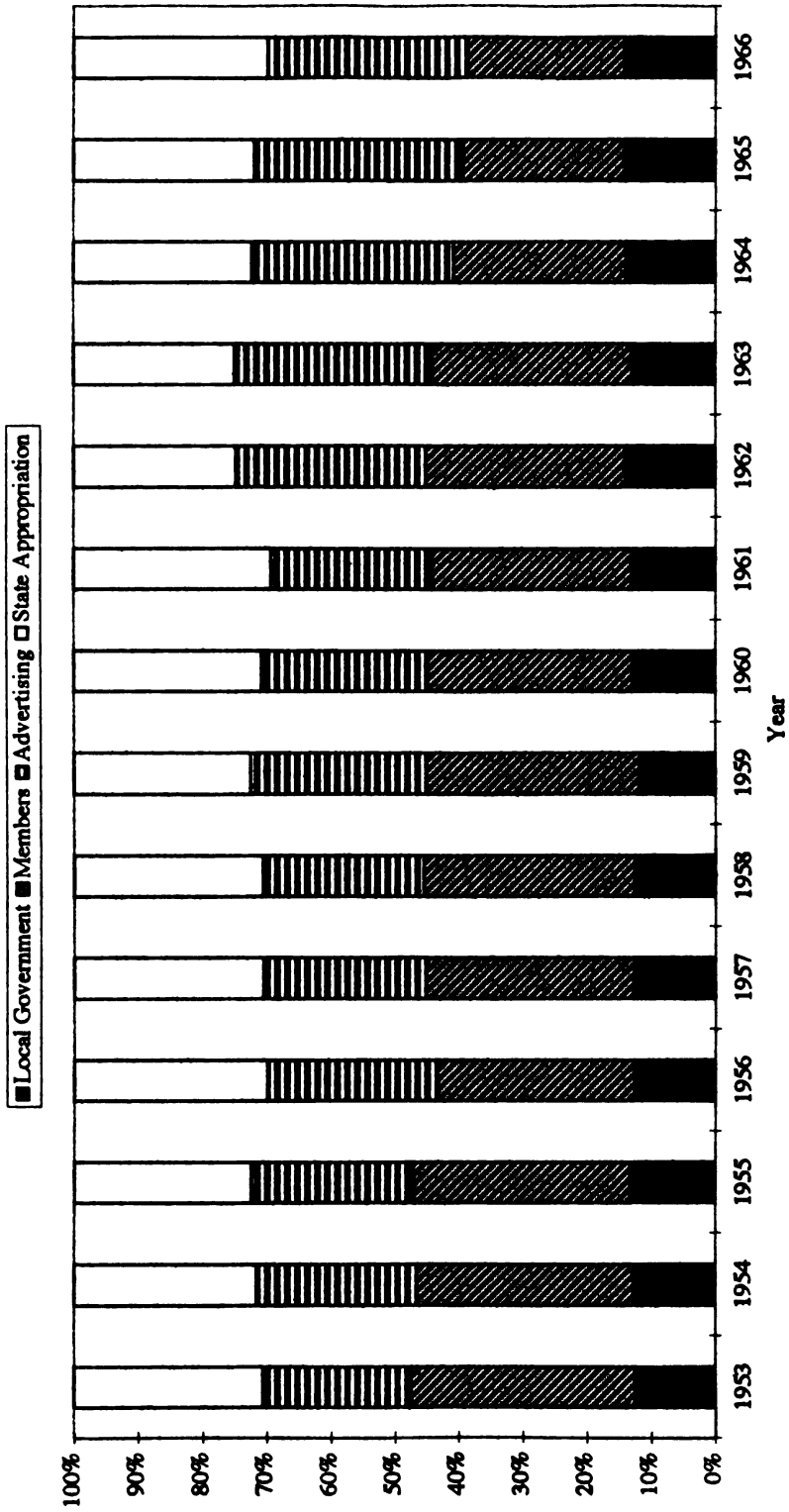

Figure 11. East Michigan Tourist Association funding sources as a percentage of total revenue, 1953-1966.

4.3.4 The Evolution of Internal Organization and Bureaucracy

During the development bureau period, the governance structure for each of the associations was very similar: Each association had a board of directors comprised of two representatives from each county included in the region. These representatives were nominated by the county supervisors and then elected by majority vote of the members. Each association had an elected president, secretary and treasurer, who initially served without pay.

Over the years, the members serving on the board of directors changed to a mix of business owners/managers and local government officials. County supervisors, business owners, and presidents of chambers of commerce are listed as directors for the Upper Peninsula Development Bureau, the East Michigan Tourist Association and the West Michigan Tourist and Resort Association. Data are not available to determine the composition of the board of directors of the Southeast Michigan Tourist Association.

The boards of directors played an important role in securing funding and governing the associations. Occasionally the individuals serving on the boards were not actual dues paying members but were retained as board members because they were effective fund raisers or politically influential. The following quotations reflect how the leadership of upper peninsula and west Michigan associations perceived the role of board members:

> Many of our directors at the present time do not and never have paid any money directly to the development bureau, but have been kept on as members or directors because of their influence in securing money from corporations or from county boards (Upper Peninsula Dev. Bur., Membership report, not dated [circa 1941]).

> [I] wish to extend my gratitude to our directors. All of these people have very busy schedules and yet they find the time to give of themselves to this organization. . . . Their assistance in securing support from the counties, the state, and private enterprise has insured yet another successful year of operation. . . . They have been most helpful in setting forth fiscal and promotion programs that are consistent with the needs of the membership and the best for the organization as a whole (W. Mich. Tourist and Resort Assoc., President's Report, 1960).

Each association established a committee structure. In the case of the upper peninsula, east Michigan and west Michigan associations, the early committees were structured around

the counties. The committee structure eventually changed to reflect both the specific interests of the membership and necessary support functions within the association. For example, in 1928, the Northeastern Michigan Development Bureau replaced the county committees with committees on agriculture, tourist and resort, legislation, membership, and finance. Later, all of the associations established broader functional committees. Each had committees on legislation, membership, finance, and nominations. At various points, special interest committees were established to address specific issues such as road signage, swimmer's itch, transportation and highways, and pollution (N. E. Mich. Dev. Bur., Meeting Minutes, 1928)

In addition to the committees, the associations established special councils to develop programs of interest for specific sub-groups in the associations. Members participated in these special councils by paying additional membership fees or by purchasing advertising in the programs developed by each council. With these councils, the associations gained and retained members with very specific promotional interests. For example, both the west and east Michigan associations established winter sports councils focusing on promoting skiing, snowmobiling, and other winter sports. Destinations and businesses relying heavily on these activities for income became council members and developed supplemental promotion programs that concentrated on winter sports (Meeting Minutes, Various Years).

Based on a review of the audited financial statements, the associations initially hired outside labor on an "as needed" basis to assist at various land promotion shows and with general office work. Each hired an office clerk or office manager early in their evolution, which eventually became a specialized position in the form of a secretary/manager. Secretary/managers were hired to coordinate the regional promotion effort, membership activities, communication functions, advertising sales, and lobbying efforts.

As membership increased, clerical and membership support staff were added. The membership support staff solicited new members, administered the sale of advertising, and serviced inquiries. Field representatives and clerical support staff engaged in personal

selling and servicing of the membership. Additional staff designed and edited advertising and other publications. Later, the field representatives were replaced with a single director of membership services whose personal contact with the membership was limited. Most of the advertising and publication production duties were eventually contracted out to printing firms or advertising agencies.

4.3.5 Legislative Issues and Agendas

Characterizing the legislative interests and other activities of the regional tourist associations provides insight into the interests of the membership. As interest groups, the tourist associations acted as representatives of the tourism industry in Michigan and lobbied for and against legislation that might impact their members.

Due to data limitations, a complete annual analysis of lobbying efforts by the tourist associations is not possible. It is possible, however, to construct a summary of the legislative issues addressed by the associations at various points in time. The data presented in this section were derived from the meeting minutes, annual reports, and other reports in the Archives of the State of Michigan.

The issues that attracted the attention of the political entrepreneurs and members of the regional tourist associations between 1921 and 1972 are presented in Table 3 and Table 4. The diverse interests of the associations' members are reflected in this data. The associations' leadership consistently supported the formation of various state level institutions related to tourism promotion. They also consistently lobbied in support of expanding the state park system and the state road system, and for improving signage along the roads. Opposition to hotel use and other room taxes that were not used explicitly for tourism promotion was also consistent.

Coordination of lobbying activities was done by both individual members and the secretary/managers of the associations. Individual members with a special interest often brought their interest to the attention of a committee or manager within the organization and

Table 3. Legislative and other interests of regional tourist associations, 1921-1955.

Year	Description of Interest	Source
1921	Supported: Changes in Public Act 88 of 1913 allowing counties to make appropriations for advertising purposes.	Minutes of Upper Peninsula Development Bureau 1921 and T. Read, Personal Communications, 1939.
1924-1925	Supported: Implementation of gas tax to be used in road construction and improvements.	Northeast Michigan Development Bureau Annual Report, 1925.
1927	Supported: Formation of an American Travel Development Bureau, a federal bureau to promote travel to the states.	Northeast Michigan Development Bureau Meeting Minutes, March 17, 1927.
1929	Supported: Public Act 305 of 1929 making appropriations to regional tourist associations.	Northeast Michigan, West Michigan and Upper Peninsula Development Bureaus meeting minutes, various dates.
1935	Supported: Changes in Public Act 3 of 1934 that created Michigan Tourist and Resort Commission.	Upper Peninsula Development Bureau, Funding History, 1936.
1945	Supported: Formation of Michigan Tourist Council and state legislative Committees on tourism. Creating tourist and resort extension program and Tourist & Resort Service Program at Michigan State University.	East Michigan Tourist Association, West Michigan Tourist and Resort Association, and Upper Peninsula Development Bureau, meeting minutes, various dates 1945. Tourist Industry Legislative Interests, 1963.
1948	Opposed: Transfer of Tourist Council to Department of Economic Development. Supported: Increase in state appropriation to Tourist Council.	F. Davis, Personal Communication, March 10, 1948.
1951	Supported: Upgrading Tourist Council to official state agency.	G.E. Bishop, Personal Communication, September 28, 1951.
1952	Supported: Improved health and sanitary standards for resort facilities. Funding of Michigan State Highway Maps. Completion of the Mackinac Straits Bridge.	Upper Peninsula Development Bureau, Annual Report 1952 and West Michigan Tourist and Resort Association Annual Report, 1952.
1955	Supported: Increase in Tourist Council appropriation to $522,269. Funding of Isle Royale National Park	Upper Peninsula Development Bureau, Annual Report 1954, and West Michigan Tourist and Resort Association, Meeting Minutes, Various dates, 1954.

Table 4. Legislative and other interests of regional tourist associations, 1955-1972

Year	Description of Interest	Source
1959	Supported: Repeal of action by legislature that forbids Michigan Highway Dept. to publish official highway map. Improvements and expansion of state parks system. Restoration Michigan Historical Commission budget. Appropriation to Michigan Water Resources Council to curtail swimmer's itch. Michigan Tourist Council proposed budget. Opposed: New use tax on room rentals.	Aurey Stropahl, Personal Communication, January 21, 1959 and Frank Davis, Personal Communication, January 20, 1959.
1960	Support of formation of Tourism Committees in both state House and Senate.	East Michigan Tourist Association, Secretary Manager's Report, 1962.
1962	West Michigan Tourist Association opposed establishment of Sleeping Bear Dunes National Recreation Area because it included developed resort areas around Glen and Platte Lakes.	Aurey Stropahl, Personal Communication, September 27, 1962.
1963	Supported: Increase in Michigan Tourist Council Budget to $829,555. Anti-litter programs. Expansion of state park system and number of tourist information lodges along state highways. Increased appropriation to Tourist and Resort Service Program at Michigan State University. Opposed: Controls on advertising along interstate highway system.	Legislative Interests of Michigan's Tourist Industry, 1963.
1963-1966	Supported: Upgrade of Tourist Council to a department under new state constitution. Transfer of Tourist Council to Department of Conservation. Consecutive numbering system of exits on Michigan's limited access highways. Reduction in non-resident hunting and fishing license fees. Increase in appropriation to Michigan Historical Commission to expand historical marker system. Exemption of hotel owners from use tax on purchases used in operation of their businesses. Opposed: Billboard control laws.	East Michigan Tourist Association, Annual Report, 1963, 1964, 1965, and 1966. Legislative Interests of Michigan's Tourist Industry, 1964.
1968	Supported: $2 million budget request of Michigan Tourist Council; Transfer of management and operation of Tourist Information Centers from Highway Department to Tourist Council. Creation of Tourist Industry Development Section in Tourist Council to assist resort operators. Special appropriation to Tourist Council for Sault Ste. Marie. Opposed: HB 2606 permitting municipalities to levy a special excise tax on admissions to amusements and on hotel room rentals.	East Michigan Tourist Association, Annual Report, 1967 and Legislative Interests of Michigan's Tourist Industry, 1967 and 1968.
1970-1972	Supported increase in state appropriations to Michigan Tourist Council and Tourist Associations.	Legislative Interests, 1971

asked for assistance in coordinating the lobbying effort. For example, the problem of swimmer's itch was brought to the attention of the leadership in both the east and west Michigan associations by Houghton Lake campground owners. The campground owners asked the associations to coordinate letter writing campaigns and other lobbying activities to encourage state investment in a program to mitigate swimmer's itch. In addition to letter writing campaigns, the organizations often sponsored meetings with local legislators which provided an additional lobbying format.

The managers of the tourist associations communicated through letters and met regularly to discuss issues of mutual interest. The state appropriation to the tourist associations was the issue most commonly referred to in the available archive data. There also appears to have been coordination of lobbying activities between the tourist associations and other groups such as the Automobile Club of America and The Michigan Hotel and Resort Association with similar interests. The following excerpt describes how the associations coordinated activities to establish a voice with state government on the signage of state roads.

> A new program of signing for Michigan's growing network of out-state expressways to direct motorists to service facilities on the old routes the new roads replace, has been announced by Highway Commissioner John C. Mackie after conferences with officials of the Michigan tourist industry. . . . Tourist industry representatives who conferred with Mackie on the program include Aurey Strohpaul, secretary manager of the West Michigan Tourist & Resort Association; Frank Davis, secretary manager East Michigan Tourist Association; Leonard H. Thomson, secretary manager of Southeastern Michigan Tourist Association; Norman Kukuk, manager of the resort and travel department of Upper Peninsula Development Bureau; and Harry Rogan, director of travel service of Automobile Club of Michigan, Detroit. . . . The formation of this advisory committee of tourist industry representatives and the erection of service signs along new limited access roads were requested in December in resolutions approved by the executive committee of the West Michigan Tourist & Resort Association and other members of the Michigan Tourist Council (Press Release, West Michigan Tourist & Resort Association, February 25, 1960).

The associations published legislative newsletters that encouraged members to be active in the lobbying process. The following excerpt from the West Michigan Tourist Association describes how member lobbying was coordinated.

> To gain approval of the Legislature, however, much remains to be done. It is not sufficient to advise each member of the House of Representatives and the Senate that our membership has given its endorsement to [a] program. EACH MEMBER OF THESE HOUSES MUST ALSO BE TOLD BY YOU, (or the organization you represent), because he must know what the voters who have sent him to Lansing want. If you are in accord with [a] program, you should let your representative and your senator, the Governor and other in authority at the state capitol know that you expect them to support it. This can be done by personal calls, by letter, telegram or telephone call. Action by organizations in your locality in the form of resolutions are advisable, but if this is done be sure that a copy of the resolution, along with a brief report on the type and number of members in the organization is sent to the legislators and clerks of both houses of the Legislature (West Mich. Tourist & Resort Assoc., Legislative Newsletter, Not dated. Emphasis in original).

The formulation of policy resolutions at local meetings of the tourist associations were frequently discussed and debated between the managers of the four associations. The managers often made joint decisions as to how to carry the issue to the state level. The discussions and debates between the association managers took place both formally in the Tourist Council (established in 1945) and via informal correspondence.

4.4 Free Riding and Funding Uncertainty: Strategies and Incentives

4.4.1 Evidence of Free Riding and Funding Uncertainty

In terms of size, the regional tourist associations were consistent with the definition of a latent group. They were large, both geographically and in terms of the potential pool of members. Geographically, each organization represented approximately one fourth of the state. The membership could be characterized as heterogeneous, with members having different levels of interest in, and deriving different levels of benefits from the provision of tourism promotion. There are not sufficient data to determine whether each member's contribution was proportional to or exceeded the benefits derived from the promotional program provided by the regional tourist associations. However, it is known that both the leadership and membership of each association perceived some of the funding problems they experienced to be associated with free riding behavior.

At various points in their histories, each of the associations was confronted with the free rider problem. In addition, there was uncertainty associated with the payment of membership dues, the consistency of county appropriations, and payment on the sale of selective incentives such as advertising. The following excerpts reflect these problems:

> A total of 1,202 business and governmental units are listed on our membership roll, 51 higher than a year ago. Yet this total created $2,100 less in dues payments than a year ago. The reason for this situation is simple apathy. About 200 members are in this group. At this time these members owe the association, under contract, a total of $8,500 in dues and $3,000 in advertising (E. Mich. Tourist Assoc., Secretary's Report, October 21, 1965).
>
> Current membership total of 1,175 compares to 1,130 a year ago this date. However, payment of dues is behind a total of $2,300 as of June 1. Of this amount $1,250 is in eleven multiple memberships. Field men report that business has been good in most areas from last summer through this spring. Apathy might well be the major reason for not paying up (E. Mich. Tourist Assoc., Secretary's Report, May 30, 1965).
>
> Secretary-Manager stated that probably not more that $5,000 in membership revenue would be taken in between now and September 1 and it was now apparent that membership revenue would fall far short of the amount budgeted due to the fact that anticipated new memberships did not develop (West Mich. Tourist Assoc., Budget Committee Minutes, April 10, 1964).
>
> Drop in membership and revenues of $1,325, caused by non-payment by hard-hit members and cut backs of several large multiple unit memberships. . . .Apathy

> coming from "Freeway towns." Our field men were given the "We don't need to advertise" treatment all during July, August and September. This also affects chambers of commerce (E. Mich. Tourist Assoc., Annual Convention Financial Report, October 24, 1963).
>
> Their own apathy, and this includes all retail and wholesale businesses as well as direct tourist service operators, has been the greatest handicap to both the old Upper Peninsula Development Bureau and the new Upper Michigan Tourist Association. The future of the Upper Michigan Tourist Association is the responsibility of every Upper Peninsula citizen and business - a handful of people should not have to do the job or provide the funds (Thomas Smith, President Upper Michigan Tourist Assoc., Personal Communication, April 30, 1962).
>
> We have a serious situation relative to delinquent accounts that have contracted for space in the 1959 edition of "Carefree Days". There is a total of $2,372 of this type of accounts, all in the northern territory. It has been our experience that when we carry advertising with the previous year's space unpaid that we encounter difficulty in collecting any of it (West Mich. Tourist & Resort Assoc., Aurey Strohpaul, Personal Communication, November 5, 1958).
>
> Cancellation of memberships has caused us a great deal of concern. . . . These figures show that as of September 1 we had 17 fewer members than on the same date of 1952. This had occurred while we have expanded our activities, giving our members more for their membership fee than ever. I honestly cannot explain why we lost in excess of 200 members in each of the last two years (West Mich. Tourist & Resort Assoc., Aurey Stropahl, Personal Communication, September 5, 1958).
>
> We found it quite impossible to sell memberships any more that is was possible for lodges, churches and fraternal groups to retain their support on a membership basis. So, we began selling advertising to resorts, cafes, operators of commercial hotels, resort hotels, cottage groups, overnight cabin groups and hotel companies who were the direct beneficiaries of this flood of new tourist money coming into the Upper Peninsula (U. P. Dev. Bur., Manager's Report, March 16, 1940).
>
> But gentlemen, when the April meeting of the supervisors was over we learned to our dismay that a number of counties had failed again to make the appropriations, and many business men and individuals refused to renew their memberships, and new memberships were as scarce as the proverbial hens teeth, the outlook was indeed bleak, and reduced program was unavoidable (East Mich. Tourist Assoc., President's Report, October 6, 1932).

Precise characterization of free riding behavior cannot be established from the existing data. It is not possible to determine whether those deciding not to contribute to the provision of the regional promotion program did so strategically, attempting to avoid their share of the cost while still deriving benefits, or whether they simply were not aware of the effect of their withholding dues.

Member participation and dues payments fluctuated throughout the period studied. In periods of declining member participation, the associations frequently reduced the scope and scale of the regional program; however, these periods were often followed by increased member participation, increased dues payments, and expansion of the promotional program. When exclusion costs are high, the individual member's use is constrained only by the total supply of the good. The scaling back of the promotional program may have served to inform members of the effect their actions had on the total annual supply of the regional promotion campaign. Having detected the change in the scope of the program and evaluated its effects, the marginal member could then determine whether to contribute to the following year's program. This informal feedback was reinforced by strategies and incentives developed by the leaders of the regional tourist associations.

4.4.2 Strategies and Incentives

The political entrepreneurs in the regional tourist associations employed a variety of strategies in an effort to over come free riding and funding uncertainty. At various times in their history, they lobbied for implementing county, city, and state taxes that would unseat free riders and insure a base level of funding. The sale of selective incentives, especially advertising, also proved to be successful in raising revenues. Other selective incentives--such as group health and life insurance, group purchasing programs, and discounts at other member businesses--were also developed. In addition to purely economic selective incentives, the available data provide evidence that purposive and solidary incentives were used to condition free riding behavior.

The interdependence arising out of high exclusion costs depends in part on whether members can detect the effect that their actions as well as the actions of other members have on the provision of the good. In the case of the regional tourist associations, mechanisms were established for detecting and communicating the effect of free riding and eliciting

responses to solidary and purposive incentives. Communication of organizational ideology, management philosophy, and lobbying record was an established function in each organization and was done through newsletters, letters from government officials, and field representatives who solicited memberships.

The newsletters often contained information about social functions and out-of-state meetings attended by the members. Reports of committee meetings and summaries of key general meetings were also described in the newsletters. The leaders and managers of the associations frequently explained why cooperation was the right thing to do and attempted to establish member identification with the organization by appealing to a sense of community and regional pride, and occasionally shame. The following excerpts provide examples of this strategy:

> This organization, although twenty years old is still a puny starving infant, able only to holler loud enough to be heard in about three states in the Union, and who is to blame? Not Mr. Marston, who has wet nursed this infant since birth, not the officers, but the parents, and the parents are the people of Northeastern Michigan who gave it birth and now seem about ready to repudiate their child (East Mich. Tourist Assoc., President's Report, October 6, 1932).

> Has it been worth while? Have not the benefits been sufficiently large and definite to merit a fight on behalf of Upper Peninsula people today, to continue the existence of this organization for the present and future service it may render? It came into being 22 years ago, in response to a desire of 246 Upper Peninsula citizens who gathered in Menominee. It has lived one-fifth of a century. . . . It has gained prestige and recognition throughout the State. . . . Have all of the problems of the Upper Peninsula been solved? Have we no more interests in common, in support of which mass co-operative effort is needed? The Upper Peninsula Development Bureau is, and should be, larger that the individuals who compose it, direct it or serve it, and its future during these trying days of depression will be determined largely by the consideration given to these issues and the action you choose to take (U.P. Dev. Bureau, Secretary's Report, 1932).

> Today we have enjoyed the good company and camaraderie that comes with being a member of this great organization. It was founded in a spirit of brotherhood that continues to this day. It is for this reason that I am occasionally perplexed by the attitude of those who, though benefiting from our efforts, have never contributed a thin dime or a scant hour to this organization. You all know them, they are your neighbor businesses, but in my mind they are free-loaders. . . . In some cases we have not communicated our purpose and the benefits of our twenty-some years of cooperation. It is to this end that we should direct our energies (West Mich. Tourist & Resort Association, President's Letter, 1938).

> It was faith in one another, faith in the potential resources of our region and faith in the power of teamed efforts that has enabled this organization to survive two

> periods of depression and to pass through two wars of national proportion. In fact when hard time have hit the people of the Upper Peninsula of Michigan, our faith has been intensified, loyalty to the Bureau has been renewed, as evidenced by the fact that in the forty-two years time $1,716,461.96 have been contributed to financing the program of the Bureau, and for the year just ending has materialized a budget of receipts, above the average for the past ten years, aggregating $66,290.86 (President's Message, U.P. Dev. Bureau, Annual Report, 1954).
>
> The suggestion was also made that in the case of certain industries we would be very frank and announce that we realize they are not directly engaged in the tourist business; but would like to interest them into supporting our organization from the sense of civic responsibility. It was pointed out in this connection that a number of firms and other cities support their chambers of commerce through that sense of responsibility and not because of any particular market in the so-called home town (E. Mich. Tourist Association, Membership Committee Meeting Minutes, February 11, 1960).
>
> My major point is simply this. We, you and I, are being out-promoted today. We are being out-promoted and letting our leadership slip away from us. The fact is we aren't paying our EMTA dues on time and some of us have quit paying dues. I'm speaking of many private businesses throughout our 29 counties that benefit from the tourist and vacation traffic that your EMTA produces week after week on our highways. This traffic doesn't come to us out of the blue; it is earned. . . . It is earned by putting your promotion dollars into the EMTA program, together with your local businessmen and women (E. Mich. Tourist Assoc., President's Report, October 18, 1967).

Field representatives were also used to communicate with existing and potential members. The tourist associations used two types of field representatives. In the early years of their development, each organization relied predominantly on dedicated members to personally contact non-paying or potential new members. In later years, the field representatives were paid employees whose job it was to contact potential members and to deliver customer inquiries to the existing members.

The field representatives served important functions in conditioning free riding behavior. Each field representative typically was assigned an area within the region from which to solicit memberships. By breaking the region into smaller component parts, the field representatives could more easily contact and identify contributing and non-contributing members. The personal contact with the members allowed the field representatives to clearly communicate the ideology, goals, and objectives of the organization; thus, it was possible to customize what was communicated to each potential

member. As evidenced by the following excerpts, the leadership of the associations believed that personal contact by the field representatives was especially important in mitigating free riding and late dues payments.

> One answer which is definite is that members are not contacted unless we are after a renewal of advertising or making collections, at least so it is with me. Of course there are exceptions for some I do get to see more often, but I am certain if we were able to see the members more often there would not be so many cancellations. Just a week or so ago when I stopped for dinner in the evening at the Plantation Lodge on US 31 south of Manistee I was told that if I had not made the call and taken their check for renewal of their membership they were going to cancel it (West Mich. Tourist & Resort Assoc., Larry Lind, Personal Communication, September 13, 1958).

> Also during this period a businesslike, systematic card file route list for all members has been devised and is now in use. This lists all pertinent information on each card and is set up by regions, counties and cities. This will permit closer supervision of the men's work, their calls and will insure that all members and prospects are contacted regularly. This will eliminate the complaint of members and directors that they are never contacted, and, we hope, stop some of the previous cancellations due to lack of knowledge of what is being accomplished in their behalf (West Mich. Tourist Assoc., Executive Committee Meeting Report, April 10, 1964).

The field representatives also acted as a type of monitoring and sanctioning device for the organization. They provided formal feedback to the organization about why certain members were canceling their memberships. For example, between 1958 and 1964, the field representatives employed by the East Michigan Tourist Association kept detailed records of the reasons given by each person canceling or rejecting membership (East Michigan Tourist Association, Membership Cancellations, 1958-1964). The organization often responded to these potential members through customized communications, such as letters from other local members, that further explained the benefits of membership.

The field representatives in the east and west Michigan associations developed lists of contributing members from the local area that were then presented to each non-contributing person. To encourage membership, the field representatives used this list to elicit a sense of responsibility or guilt on the part of non-contributing or potential members. This strategy also provided assurance to potential members that their contribution and participation was being matched by other local members. In addition, contributing

members were provided with lists of those not joining, which told the contributing members who the free riders were in the local area. Social incentives and sanctions could then be directed to those people not paying their dues.

By delivering customer inquiries, the field representatives also provided members with feedback regarding the effectiveness of the primary promotional program and selective incentives they purchased. The link between the advertising they purchased and the general advertising program of the association was communicated through the inquiry servicing process.

By breaking the region into smaller areas, the regional tourist associations established elements of a federated group structure; a quasi-federated group. Local chapters of the regional associations did not exist, but through close partnerships with local destination marketing organizations, the regional tourist associations could communicate the benefits associated with regional promotion activities. The presidents of the local chambers of commerce and county supervisors frequently served on the board of directors of the regional tourist associations, and they provided additional feedback to the regional association about how to better attract and maintain local members. In this quasi-federated structure, social sanctions and the benefits associated with purposive, solidary, and purely economic selective incentives, could be implemented and communicated.

The existence of local chambers of commerce and convention bureaus precluded establishing a fully federated structure; therefore, the local destination marketing organizations were still free to pursue their own political and economic agendas. There was no dues structure providing for joint membership in both the local destination marketing organization and the regional association; as a result, the local organizations competed with the regional associations for members and developed their own sets of incentives. For example, chambers of commerce frequently offered group health insurance programs, discounts, advertising, and other selective incentives to the members.

The initial reliance on dedicated members to solicit memberships was eventually replaced by paid employees in the form of field representatives and directors of membership services. Over time, the practice of employing several field representatives, with responsibility for the various sub-regions, was abandoned. The field representatives were replaced by smaller membership services staffs who worked mostly out of the main office of the regional tourist association, so the frequency of contact with local organizations and members declined as the regional tourist associations scaled back the resources dedicated to these activities. As a result, this mechanism for detecting and sanctioning free riders, securing feedback on organizational performance, and determining the effectiveness of selective incentives no longer existed.

At various points in their history, the regional tourist associations were able to increase membership and develop effective ways of identifying and sanctioning free riding. The organizations overcame the first order dilemma of organizing and maintaining a membership base by developing mechanisms for communication between the members and the association. Initially, the organizations did not heavily rely on purely economic selective incentives to encourage membership. The sale of advertising was not initially a significant source of funding. Other selective incentives, such as group insurance and discounts, were not developed until later in their evolution. There is evidence that other incentives--particularly purposive incentives of a subjective, ideological, and emotional nature--were effectively used in the formative stages of the associations.

4.5 The Pursuit of Alternative Funding Sources

Between 1913 and 1973 the regional tourist associations lobbied the state legislature in support of legislation to provide them funding through taxes or direct appropriations from the state's general fund. In addition, the associations lobbied to establish state level institutions related to tourism promotion. The following sections describe the early

lobbying efforts, the strategies employed by the associations, and the historical context of these efforts.

4.5.1 Local Taxes and County Funding, 1913-1925

The earliest lobbying efforts of the political entrepreneurs in the tourist associations were directed at county level government. These efforts focused on securing increases in the county appropriation from those counties that were already members. In addition, counties not members were targeted for membership. The leaders of the tourist associations attempted to secure county appropriations by linking the county fiscal and development objectives with the objectives of the association. During this period, the state and counties derived a majority of tax revenues from the property tax. It was argued that the promotion of land settlement and tourist activity would ultimately increase the assessed value of land in the county and generate tax revenues in excess of the appropriation.

Under Michigan law (Public Act No. 88, 1913), counties could levy a special tax to be used for "advertising the advantages of, and encouraging immigration and increasing the trade of said county and other adjoining counties." The initial organizers of each development bureau had proposed such a tax in the county where each bureau was first organized. These proposals were similar to Roger Andrews' proposal in Menominee and none of them were implemented. Instead, the counties opted to contribute to the bureaus via their dues payments. Data on why the tax proposals were not adopted were not available.

The practice of providing county funds through membership dues was challenged by the State Auditor General in 1917 who contended that the law did not allow the counties to make appropriations from the general fund for the purposes of advertising and that the county payment of dues was such an appropriation (T. Read, personal communication, May 17, 1939). The political entrepreneurs in the tourist associations lobbied for changes in the law to allow for direct appropriations from the counties. Once again, the argument in

favor of the change was that both the state and counties would benefit from the promotion activities through increased tax revenues.

In 1921, the law was amended to allow the county board of supervisors to "levy a special tax, or to appropriate from the general fund, an amount not to exceed $2000 to be contributed, all or any portion, to any Development Bureau or Board organized under the laws of Michigan, for the purposes of advertising the advantages of, and encouraging immigration and increasing the trade of said county and other adjoining counties (Public Act 63, 1921)." From 1921, until the peak of the Depression in 1933, county appropriations were a major source of funding for all the development bureaus/tourist associations (Read, personal communication, May 17, 1939 & financial records).

The political entrepreneurs in the tourist associations and local civic organizations worked to have similar legislation developed for cities and villages. Public Act 359 of 1925 permitted the common council of any city or village to levy a tax "for advertising, exploiting and making known the industrial, commercial or recreational advantages of the said city or village, and to establish recreational and educational projects for the purpose of encouraging immigration to, and increasing the trade, business and industries of the said city or village." Data on whether any such tax was implemented are not available. However, the available financial records for each of the tourist associations reveal that those cities and villages making appropriations to the organizations did so through direct appropriations out of their general fund or through payment of dues.

4.5.2 State Appropriations, 1927-1933

During the 1925-1927 legislative session, the state implemented the first gasoline tax. The revenues from the tax were to be used predominantly to fund paved road construction. The legislation received support from land owners, agricultural interest groups and tourism interests. Land owners supported the tax because they opposed using property taxes to pay for roads that would be used by people from outside of the local area and state. Farmers

and agricultural interest groups supported the tax as land owners and because improved transportation would help develop markets for their products. Resort and tourism groups supported the tax for similar reasons; road development would help to develop tourism markets. The application of the "user pays" concept had not been widely applied prior to the introduction of this tax. Opposition groups, such as the Automobile Club of Michigan, argued that roads were for the "use of every citizen", and that targeting a select group to pay for a "public benefit" was an "unheard of proposition" (Woodford, 1958; May, 1980).

The tourist associations, as representatives of both agricultural and tourism interests, actively supported the gas tax and invested in lobbying efforts. Each of the associations coordinated a letter writing campaign to legislators in support of the gas tax. A letter from the President of the Island Mill Lumber Company of Alpena, on behalf of the Northeastern Michigan Development Bureau, is characteristic of these letters:

> . . .Conditions however have changed to a great extent, in that the industrial side of the state is outstripping the agricultural for the moment at least, and, in harmony with the changing situation, the masses of city dwellers not alone in our own state are looking to northern Michigan in which to spend their vacations and establish their summer homes. Recognizing the new order of things, our Bureau, while not relaxing its efforts in agricultural development, is taking advantage of the opportunity presented it in the great growth of the tourist and resort business and, if the state of Michigan through the agency of such associations as ours is brought to appreciate its location, its advantages and attractions, it too will surely prosper. . . . I take this occasion to recommend some of the lines of work to be pursued in order to keep the eyes of the tourist and sportsman focused upon us. . .1) Extensive construction of highways. . . . 6). . . . in conclusion [I] recommend that we commit ourselves unequivocally in favor of a gasoline tax and the lakes to the ocean deep waterway (President Island Mill Lumber Company, personal communication, April 11, 1925).

With the passage of the gasoline tax, the tourist associations argued that the state could increase tax revenues by promoting nonresident tourism and travel activity. The leaders of each organization lobbied their legislators using this argument to justify state-level appropriations for tourism promotion. During this period, the legislative committees in each organization proposed several options for making state-level appropriations possible. One proposal would have earmarked some portion of the gasoline tax revenues to fund a state-level tourism promotion program. Other proposals included the implementation of a

state-level promotion tax and direct appropriations to the tourist associations from the state's general fund (U.P. Dev. Bur., Annual Meeting Minutes, October 24, 1924 ; N.E. Mich. Dev. Bur., President's Report, 1924).

In 1929, Senators Herbert Rushton and George Hartman, original members and organizers of the Upper Peninsula Development Bureau, sponsored a bill appropriating a biennial amount of $200,000 to "advertise the advantages of the state of Michigan to residents and non-residents, in newspapers, magazines, booklets, leaflets, periodicals and billboards (Public Act 305, 1929)." The bill was approved and became known as the Rushton-Hartman Act. The funds were divided equally between the four regional tourist associations (Upper Peninsula Development Bureau, Michigan Tourist and Resort Association, East Michigan Tourist Association and, Southeastern Michigan Tourist and Publicity Association) on the basis of a fifty percent match of local advertising expenditures. The tourist associations submitted their advertising expenditures to the state Administrative Board and were reimbursed for one half of their expenditure. The fifty percent match was to be used only for advertising expenditures and could not be used to pay salaries or other operating expenses of the associations. Any residual funds in the account reverted to the state's general fund (Public Act 305, 1929).

The Rushton-Hartman appropriation was renewed for the biennial period of June 1931 to June 1933 (Public Act 48, 1931). During the 1929 and 1930 fiscal years, the associations were not able to spend the $200,000 necessary to collect the full $100,000 in matching money. Under the 1931-1933 appropriation legislation, no match was specified. Instead, the associations were refunded the full amount of advertising moneys spent. In addition, an amendment to the appropriation bill provided that the unexpended balance remain in the appropriation to be used if and when possible.

The difficulty in securing the matching funds and spending the balance of the appropriation can be partially attributed to the Depression. By 1932, Michigan's property tax delinquency rate had climbed to the highest in the country. The legislature, responding

to significant public pressure, postponed tax sales and canceled delinquency penalties. In November 1932, the state constitution was amended to limit property taxes to no more than fifteen mills or one and one-half a percent and increased the percent of tax collections retained by the counties. Historically, the property tax revenues were shared between township, county, and state government. The reduction in tax revenues forced the state government to find alternative sources of funding. In 1932, the legislature implemented a three percent sales tax to fund state government, and in 1933 local units of government were given exclusive control over property tax revenues (May, 1980).

During the Depression, all the counties making appropriations to the tourist associations reduced property taxes. Throughout the U.P., the tax was reduced from three percent to one and one-half percent, effectively cutting county budgets in half. The result was a significant decrease in county appropriations to each of the associations. The economic hardship of the Depression also reduced the number of corporate and individual memberships. The reduction in appropriations and memberships, combined with the limited market for their advertising products, reduced the amount each association was able to spend on advertising. The secretary of the Upper Peninsula Development Bureau described the severity of the situation in his 1932 annual report to the members:

> Our entire operating costs up until August 1st for the current year amount to $22,060.86, which is $2,808.86 less than the financial support received. Salaries, office service, travelling costs, and advertising expenditures, have been decreased by 40 per cent. Every item that constitutes an advertising cost has been billed to the state for refunds as fast as those bills have been paid. Your Executive and Finance Committee at a recent meeting further cut salaries and took steps to reduce personnel, but today, it would take $12,977.74 to square the Development Bureau's obligations contracted for in good faith. . . . The depression that has hit the Upper Peninsula business interests has most logically and very definitely curtailed Bureau support. . . . Counties which voted appropriations last fall have been unable to pay. Business and corporate interests have been compelled to reduce or cut out their support for the current year. Those holding sign service contracts duly entered into have been unable to remit.

In the same statement, the U.P. Bureau president expressed his concern about the implications of these hardships on the credibility and status of the organization in the state legislature:

> The State Advertising Act must be re-enacted at the next session of the Legislature if State aid to the Development Bureau and other advertising agencies in Michigan is to continue after June 30, 1933. If the Bureau lays down now--fails to project a creditable advertising program--we are not entitled to and shall not receive state aid, and if the advertising associations now benefiting under the present Act do not carry the fight to the Legislature next January, rendering adequate account of their stewardship, and proving that from the angle of increased returns from the tourist and resort business alone, the State and its citizens have received a substantial return on the investment made, the cause of advertising Michigan will be lost and continued development retarded for many years.

The situation in the U.P had not improved by August of 1933, as evidenced by the minutes of the August 11th meeting where the discussion focused on how memberships could be increased and what strategies could be used to increase the state advertising refunds to the association. During the discussion, several members suggested that inspiring county loyalty and a sense of duty could be used to attract potential members:

> Mr. R.P. Zinn spoke at length on the condition of the Bureau . . . pointing out that because of the reduction in the tax that it seems impossible for us to expect a very much continued financial support in the way of appropriations from counties, but he stated that he felt that the burden of the financing the Development Bureau must be thrown back upon the shoulders of those who are benefiting from it, and that a wide spread canvass sponsored and directed by special committees and counties, and supported largely by county loyalty, should be made to the end that the funds absolutely needed be secured (U.P. Dev. Bureau, Minutes, August 11, 1933).

The discussion on ways to increase state advertising refunds concentrated on a pooling scheme. The members of the association agreed that they should work with local chambers of commerce, and other civic organizations, to combine their advertising expenditures for submission to the state. The membership debated the legality of this strategy, and some argued that it would bestow an unwarranted benefit on the chambers with the cost of processing receipts borne by the association. Others argued, that by doing this, the association would be able to justify its full appropriation from the state in both current and future fiscal years. A resolution was passed stating support for the local chambers of commerce and in favor of strengthened cooperation.

To this point in time the regional tourist associations maintained their positions as the dominant tourism promotion organizations in the state. The advertising reimbursement funds they received were essentially grants. There was no consideration by the state as to how the four regional programs inter-related or how these programs effected the state's image as a whole. The situation fundamentally changed in the early 1930's. New groups began to challenge the role of the tourist associations in providing tourism promotion for the entire state. Issues related to the cost sharing arrangement and who had the right to choose the nature of the promotion program came into question. The following section continues to describe the evolution of appropriations to the tourist associations and describes the early evolution of a state level tourism promotion program.

4.6 State Versus Regional Promotion: The Evolution of State Tourism Promotion Programs

At the organizational level, tourism promotion has characteristics of an optional preemptive joint impact good. Individual members could revert solely to individual effort in the form of their selective promotional campaigns. They could also withdraw payment of their dues, which meant they would neither receive special promotional consideration, nor be forwarded tourist inquiries. However, this does not mean that the image conveyed in the regional program would be consistent with the message of their selective program--the regional program is to a degree preemptive. Thus, conflicts between potential members and the organizational leadership about the nature and focus of promotional messages were an inherent part of the situation and, as discussed in subsequent sections, these conflicts greatly affected the future of the tourist associations.

Tourism promotion at the state level is essentially a different good. At the state level, tourism promotion has characteristics of a nonoptional preemptive joint imact good. The image of the state is, in part, determined by the images of its most famous cities, areas, or regions. The subjective assessments of tourists with respect to the state as whole can be

influenced by both their experiences at a given destination or the messages they are exposed to in promotional campaigns. Certainly one goal of promotion is to portray positive images that offset any negative perceptions potential tourists might have[1]. For example, urban crime is a problem that can greatly effect tourism activity. Although the problem may be limited to major cities, it can affect the tourist's perception of the state as a whole--the image of the state is preemptive. Unless a business is willing to move out of the state, or is capable of overcoming the negative image through its selective campaign, it will be affected by this image. Thus, the intentional and unintentional messages conveyed at the state level have ramifications for all residents regardless of their location.

The regional promotion programs of the tourist associations were not homogeneous, and, at times, they may have presented conflicting messages. Each region promoted the natural resources, attractions, and businesses that were unique to that region. Thus, in any given year the perception of the state as a destination was partly determined by the association with the largest or most effective advertising program. To the extent that this image effected the state as a whole, businesses in other regions could not avoid or reject the amount or quality of the good supplied by the more effective group. They could neither adjust the frequency with which they used (are exposed to) the image, nor their level of utilization. Thus, the institutional questions are: Who chooses what the image of the state will be? and, How will the costs be shared to provide the state program? As long as the message of the more effective program was consistent with the message desired by the other regions, or other tourism promotion organizations--it did not preempt their messages or desired image--there would not have been any conflict over who chooses the nature of the program. However, as will be described, conflicts did arise.

The following sections describe a series of conflicts between rival groups over tourism promotion at the state level, where the issues of cost sharing and promotional emphasis are

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[1] In more recent times problems associated with urban crime, catastrophic weather events, and natural disasters have effected tourism volume in places such as Florida, North Carolina, and California. In each of these cases promotion has been used to change perceptions about the situation (Gartrell, 1994).

central. These sections describe the evolution of a state level structure designed to cope with these interdependencies. The story begins in 1931, when the effectiveness of the promotional program provided by the tourist associations is questioned by groups representing specific areas of the state.

4.6.1 Mackinac Island and Detroit Versus the Regional Tourist Associations

Beginning in 1931, legislators from Detroit began questioning the regional emphasis of the promotional programs. They argued that the tourist associations were not promoting the whole state, as intended by the 1929 legislation, but instead focused on their own regional attractions and businesses. Resort owners on and near Mackinac Island, expressed similar sentiments (U.P. Dev. Bureau, "Funding History", June 17, 1936).

Mackinac Island, because of its status as a state park, did not have a county board that could make appropriations to tourist associations. The railroad companies that had been instrumental in the development of the island, and were original supporters of the tourist associations, had sold their interest in most of the Mackinac Island area resorts. The new owners were often from "down state" and were only sporadically involved as members of the associations (U.P. Dev. Bureau, "Funding History", June 17, 1936). The island was also a popular and nationally recognized tourist attraction making its image central to the state.

The Detroit legislators and the Mackinac Island resort owners argued that the inability of the tourist associations to fully expend the state matching funds proved that the regional promotional programs were ineffective. These groups began pressuring the legislature for changes in the Rushton-Hartman appropriation legislation.

The weakened financial position of the regional tourist associations and their inability to expend the funds appropriated culminated in an effort to consolidate the state's promotion program under a newly formed state commission chaired by Governor Comstock. The

1934 advertising appropriation legislation established the Michigan Tourist and Resort Commission.

The Michigan Tourist and Resort Commission had ten members appointed by the governor. The legislation appropriated $100,000, of which $60,000 was to be spent under the direction of the newly formed commission. Under the provisions of the bill, the commission with approval and input from the governor could appoint an administrative officer who would be paid $2,000 per year plus expenses, with the total of compensation and expenses not to exceed $5,000. In addition, $15,000 was appropriated directly to the Mackinac Island Commission, headed by Roger Andrews, to be spent as that commission deemed necessary. The remaining $40,000 was divided equally between the four regional tourist associations on the basis of a twenty-five percent match of advertising expenditures. The total appropriation to each of the regional associations had been cut by $15,000, with the basis of the match cut in half (U.P. Dev. Bureau, "Funding History", June 17, 1936; Public Act 3, 1934).

The Michigan Tourist and Resort Commission was short lived. The continued impact of the Depression, and his support of numerous new consumption taxes, made Governor Comstock unpopular throughout the northern regions of Michigan (May, 1980). Comstock's unpopular positions were capitalized on by the political entrepreneurs in the regional tourist associations. The leaders of the associations targeted the commission in letter writing campaigns to legislators and passed resolutions at their meetings that called for the dissolution of the commission on the grounds that it was ineffective in promoting the state. The members of the tourist associations, and the legislators supporting their cause, accused the governor of "playing favorites" in his appointments to the commission and called for re-establishing the appropriation under the original Rushton-Hartman framework. These efforts were successful, and the 1935 appropriation legislation reinstated the tourist associations as the primary recipients of the state's appropriation (U.P. Dev. Bureau, "Funding History," June 17, 1936).

The political entrepreneurs representing the tourist associations responded to the changes brought about in the 1934 legislation by lobbying for a larger state matching percentage, and by submitting the advertising expenditures of local civic organizations. By doing this, they were able to spend a larger percentage of the $25,000 annual appropriation. They also began to recognize the need to work more cooperatively to promote the state as a whole. Cooperation was viewed as a way of pre-empting any future attempts by rival tourism interests in the state. The primary concern was that the Mackinac Island Commission and hotel and resort owners in Detroit, which had only loose ties to one of the tourist associations, would continue to compete for larger shares of the state's appropriation (U.P. Dev. Bureau, "Funding History," June 17, 1936).

The 1935 appropriation legislation provided a total of $100,000 annually for the 1936 and 1937 fiscal years. Eighty thousand dollars each year was appropriated to the regional tourist associations on a eighty percent matching basis; the total amount to any one association was not to exceed $20,000 per year. The remaining $20,000 was to be spent by the state administrative board, in consultation with the regional tourist associations, in a manner jointly designated by the associations. The administrative board earmarked $6,000 of this general advertising fund to be spent on advertising Mackinac Island, leaving $14,000 to be spent by the regional tourist associations. The $14,000 did not have to be matched by expenditures from the regional tourist associations. This legislation also conditioned the appropriation to the Michigan Tourist Association on the change of the association name to the West Michigan Tourist and Resort Association, "for purposes of geographical identification" (U.P. Dev. Bureau, "Funding History," June 17, 1936 & Public Act 21, 1935).

The 1935 appropriation bill was the first attempt by the state to separate the regional programs from the state's. This is reflected in the state's administration of the Mackinac Island promotion campaign and in the requirement that the West Michigan Association be clearly named to avoid any confusion with an agency representing the state as a whole. To

cope with the interdependencies associated with joint impact goods, the 1935 appropriation legislation established rules for cost sharing and determining the quality of the state's program; state government provided the funds and the quality or nature of the program was determined jointly by the tourist associations. These rules were further clarified in subsequent years through collective action on the part of the leaders and members of the associations.

The appropriation to the regional tourist associations, for the 1937-1938 and 1938-1939 fiscal years, was increased to $150,000 annually, and the appropriation based on the eighty percent match remained at $100,000. The amount appropriated for joint expenditure by the administrative board and the tourist associations was increased to $50,000, again no match was required (Public Act 46, 1937).

In 1939, agriculture interests represented by the State Department of Agriculture were able to secure some of the funds previously provided to the tourist associations. The legislation for the 1939-1940 and 1940-1941 fiscal years provided for an annual appropriation of $100,000 to the tourist associations based on the eighty percent match formula. Five thousand dollars was appropriated to the administrative board to be spent in consultation with the tourist associations. An amount of $20,000 was designated for the promotion of state agricultural products. Specifically, the legislation provided for the advertising of Michigan horticultural, dairy and poultry products. The Department of Agriculture made the money available to associations specifically engaged in the promotion of these products or to other associations providing agricultural product promotion (Public Act 33, 1939).

Because these associations had retained some of the agricultural programs established under the original development bureaus, both the Upper Peninsula Development Bureau and the East Michigan Tourist Association were eligible for the agricultural promotion funds, and data from the financial records of both associations reveal that they received money under this program. In the case of the East Michigan Tourist Association, the

money was collected by the Northeastern Michigan Development Bureau, which was still incorporated, and then transferred to the tourist association. For the Upper Peninsula Development Bureau, the bureau submitted its agricultural advertising expenditures to the Department of Agriculture and received the funds directly.

Between 1940 and 1944, the total appropriation for agricultural promotion programs increased from $20,000 to $50,000. Based on the eighty percent match, the appropriation to the tourist associations was increased to $120,000 for the 1942 and 1943 fiscal years; however, the funds available for joint expenditure between the tourist associations, in conjunction with the administrative board, were reduced to $10,000 (Public Act 20, 1941). The appropriation for 1944 reduced the money available under the matching formula to $80,000 and increased the funds for joint expenditure to $25,000 (Public Act 74, 1943).

In 1941, Governor Van Wagoner requested that the attorney general review the constitutionality of the 1941 appropriation legislation. The governor was specifically concerned that the legislation violated Section 24, of Article 5 of the State Constitution, which prohibited the appropriation of state funds for private purposes. Van Wagoner's request reflects the continuing conflict between interest groups in Detroit and the tourist associations. Prior to his service as governor Van Wagoner, a democrat, served as state highway commissioner from 1933 until 1940 when he was elected governor. As highway commissioner Van Wagoner controlled the funds used for road building. He had leveraged the post to establish a popular political position throughout the state but especially in voter rich Detroit (May, 1980). According to the secretary manager of the Upper Peninsula Development Bureau the governor was "a Detroit man" implying Detroit interest groups were behind his call for review of the legislation (Unsigned memo, October, 1940).

The attorney general was Herbert Rushton who co-sponsored the original 1929 legislation that appropriated money to the tourist associations under the matching grants program. Rushton made the following observations in rendering his opinion in favor of continuing the appropriation:

> The Act does not so state but it may be true that the different bureaus, north, south, east and west, may use the money in their hands to publicize their particular area by the 4 working together, publicizing the state as a whole. Surely it is to the interest of the state at large to publicize the advantages of its recreational facilities, both summer and winter, as well as advertise to the world the agricultural, horticultural and dairy products of this state. Is it not a matter of statewide concern rather than of any particular locality? . . . Many times we ask ourselves what a public purpose is and the answer is not always easy, but in construing an act we take into consideration the object of it. If the purpose for which the money has been appropriated lies so near the border line that it may be doubtful on which side it lies, the court may not set its judgment against that of the lawmakers. In this case, according to the Journal Entry of the Senate, under date of March 4, 1941, the Senate declared, by a vote of 18 to 12, that the money so appropriated was not for a private purpose (Att. Gen. Op. 19212, March 11, 1941).

Rushton's decision called attention to the joint impact characteristics of state level tourism promotion and the need to work out an institutional arrangement beyond the regional level. Rushton's decision specifically addressed the cost sharing issue; the state, via the legislature had made a choice to fund the organizations through appropriations--a choice he reinforced in his decision. His decision also implicity protected the right of the tourist associations to determine the content of the state's tourism promotion program. The basis for this decision rested on his definition of what constitutes a public purpose.

Based on Rushton's interpretation, the promotional activities of the tourist associations constituted a public purpose but the actitivities of rival organizations did not; at least not explicitly. No mention is made of providing funding for the Mackinac Island or Detroit tourism promotion interest groups. Neither was any provision made for the input of these groups in the determination of the content of the state's promotional program.

Tourism promotion is not a good with an inherent public purpose. It becomes a public purpose when the state declares it one. Further, the opportunities created by this declaration are not equally distributed among the groups vying for legitimacy and funding from the state. Consider that at the time of Rushton's decision, each of the tourist associations received some portion of their funding, in some cases a majority of their funds, from private sources either in the form of dues or from the sale of advertising. Prior to 1929, each of the associations had been sustained for approximately a decade without

receiving funds from the state. In the face of funding uncertainty, and constrained by their inability to secure funding from local taxes, the political entrepreneurs in the tourist associations first lobbied the counties and then the state for supplemental funding via appropriations. At what point did the purpose of their activities become a public purpose necessitating public funding? The interests and activities of the tourist associations became a public purpose when the state formally defined them as such in the laws and various legal rulings that constitute the institutional framework for state tourism promotion.

Rushton's decision was one in a series of decisions by the state to protect the interests of the tourist associations while simultaneously exposing the interests of rival groups. The decision is significant as a statement of policy because it is the first time that the actitivities of the tourist associations and the provision of tourism promotion generally were explicitly defined as a public good.

In the course of approximately thirty years, the political entrepreneurs of the regional tourist associations had organized successful lobbying efforts to secure several rights. By supporting legislation allowing counties to levy taxes to fund advertising to potential settlers, the leaders of the associations attempted to secure the right to have the residents of counties in their regions share in the cost of a regional promotion program. Since no county implemented the tax, the organizations provided for county memberships and began offering low exclusion cost goods, in the form of selective promotional programs, in exchange for the county dues. When the legality of this practice was challenged, the leaders of the associations, with support from politicians in the counties, were able to get the legislation changed to allow for direct appropriations from the counties. Although these appropriations were supplemented by the sale of advertising to businesses, the county appropriations were a significant source of funding for each of the organizations until history intervened in the form of the Depression.

The leaders of the tourist associations eventually secured the right to have the state finance a portion of their regional promotion programs. They used the transition from

property taxes to consumption taxes as the primary source of state government financing as a rationale for linking their funding and missions to the economic and political objectives of the state as a whole.

The state appropriations eventually represented a large percentage of the total budget for each of the tourist associations; however, these appropriations were prone to the attempts of rival organizations and interests to secure some of the funds. These rival organizations were both state government agencies and privately organized interests working through their legislators. Claims that the promotional program of the regional tourist associations were deficient resulted in a temporary change in the institutional framework, where the right to determine the nature and quality of the state promotional program was assigned to another group.

Prior to 1934, the funds raised by the tourist associations were used primarily to support lobbying and regional promotion programs. The promotion programs focused on promoting businesses and recreational opportunities in each of the individual regions; there was no coordinated state level tourism promotion program. As more groups began to express their interest in having a voice in the nature of the state's image the state began to take a more activist role in mediating the conflicting interests. The 1935 appropriation legislation expanded the role of the State Administrative Board in tourism promotion policy making and funds administration. In addition, this legislation, and the subsequent opinion of the Attorney General, protected the right of the tourist associations to receive state funding and determine the state's promotional image. Through their lobbying efforts this role was expanded even further in 1945 with the formation of the Michigan Tourist Council.

4.6.2 State Versus Regional Tourism Promotion Part II, 1945-1973

In 1945, the state created a formal tourism promotion policy making body. Public Act 106 of 1945 created the Michigan Tourist Council. The council consisted of nine members:

the four secretary managers of the regional tourist associations and five members nominated by the tourist associations and appointed by the governor. The five appointed members served five-year terms, with the initial appointments staggered. The members initially received no compensation for their time or expenses.

This legislation authorized the Tourist Council to administer the expenditure of all funds appropriated by the act and to direct the state's tourism promotion program. It also required that the Tourist Council cooperate with the newly formed Agricultural Marketing Council. Other provisions included submitting an annual report of activities to the governor and legislature.

The 1945 appropriation to the Michigan Tourist Council was $250,000. Of this, $100,000 was made available, on an eighty percent matching basis, to the four regional tourist associations, with the maximum amount available to any one association set at $25,000. The remaining $150,000 was to be used by the Tourist Council on promotion agreed upon by the members of the council.

In addition, the members of the Tourist Council worked on state wide initiatives of interest to tourism-related businesses. The group continued to work for development and signage of Michigan's roads, expansion of the state park system, various issues related to hunting and fishing in Michigan, increases in the state tourism promotion appropriation, and development of educational programs (Tourist Industry Legislative Interests, 1948).

Throughout the next two decades the tourist associations lobbied for increases in the state appropriations to the Tourist Council. They did this in part because they initially had significant input into the how the funds would be spent and could determine what areas of the state would be emphasized in the state's promotional efforts. In addition, the 1945 appropriation legislation that created the Tourist Council was an amendment to the existing appropriation legislation for the tourist associations. Thus, their funding was formally linked in subsequent years to the Tourist Council's appropriation. They also appear to have believed that if the state was successful in attracting out-of-state tourists that the

regions would in turn benefit. Again, in an effort to secure increases in the state appropriations to the regions, the leadership of the associations linked their individual objectives to the broader goals of the state. The following quotation from the secretary manager of the Upper Peninsula Development Bureau reflects their beliefs:

> The millions of dollars spent by the State of Michigan and the Federal Government in Michigan highways, state parks, state forests, state game sanctuaries, road side parks, national forests, national game sanctuaries and national parks surely require the State to spend a sufficient sum of money in advertising to assure an earned income on the investments that have already been made. The State itself through non-rresident consumption of liquor, non-resident sales tax paid, non-resident gasoline taxes paid, non-resident fishing and hunting licenses paid is already a beneficiary of the overall advertising program projected so that any reasonable [approporiation] amount that [the Tourist Council and Tourist Associations] ask for will be at least a very small percent of the total benefits the State itself receives (George E. Bishop, Personal Communication, June 19, 1951).

From 1947 to 1950, the state annual appropriation to the Tourist Council remained at $250,000, with the amount available for each tourist association the same as the amount specified in 1945. The basic structure of the organization also remained the same.

In 1951 the state, under direction of Governor Williams, began reorganizing state government (May, 1980). This presented both opportunities and challenges to the Tourist Council. A state commission charged with investigating how best to structure the various state departments and commissions, proposed the formation of a Department of Business Research and Development. Under this, the four secretary managers of the regional tourist associations would be dropped from the Tourist Council and replaced with individuals appointed by the governor (G. Bishop, personal communication, September 28, 1951).

The tourist associations, their members, and members of the tourist council not only mounted a successful lobbying campaign to prevent the transfer but also had the Tourist Council upgraded to an agency in the state government. Thus, the 1951 appropriation legislation made the Tourist Council an official state agency responsible for the promotion and advertising of the state. It also provided funds to hire an executive secretary, an administrative assistant, and nine full and part-time employees to develop and implement

the state's advertising and referral programs. The matching grant appropriation for the four regional tourist associations remained at $100,000 annually (Public Act 272, 1951).

The budget for the Tourist Council was set at $295,658 for 1952 and $326,150 for 1953 (Public Act 193, 1952 & Public Act 217, 1953). The appropriation for 1954 was $330,261 and the number of staff positions was increased to ten full-time and two part-time (Public Act 204, 1954). In 1955, the appropriation was increased to $384,525 (Public Act 252, 1955). Throughout this period, the appropriation available to the tourist associations under the eighty percent matching program remained at $100,000 annually. In 1956, the amount available under the matching grant program was increased to $120,000, increasing the annual amount available to any one tourist association to $30,000 (Public Act 198, 1952). The appropriation to the Tourist Council continued to increase throughout the remainder of the 1950s.

As early as 1945, the tourist associations had lobbied for the creation of legislative committees for the tourism industry (East Michigan Tourist Association, Annual Report, 1945). In 1961, the Michigan House of Representatives created the Tourist Industry Relations Committee (East Michigan Tourist Association, Secretary/Managers Report, 1962). The Senate followed in 1962 with the creation of a similar committee. Both committees were dominated by representatives and senators from the northern regions of Michigan. The tourist associations viewed these committees as important vehicles for the voicing of tourism industry issues in the state legislature. They actively used the committees to lobby for increased appropriations for the Tourist Council and for their own organizations (East Michigan Tourist Association, Secretary/Managers Report, 1962; East Michigan Tourist Association, Legislative Committee Report, 1963).

In 1961, the state convened a constitutional convention and drafted a new constitution. The primary reasons were to revise the apportionment of legislative districts and to find solutions to the fiscal volatility the state experienced after World War II (May, 1980). Under the new constitution, all existing state agencies and bureaus were required to be

consolidated into not more than twenty departments (State of Michigan Constitution, 1963).

The members of the tourist associations and the Tourist Council lobbied to have the Tourist Council established as one of the twenty departments. One proposal advanced by George Bishop and members of the Upper Michigan Tourist Association would have expanded the Tourist Council's role to include the production of state road maps; then done by the Department of Transportation, and the advertising of the state's agricultural products; then done by the Department of Agriculture (G. Bishop, personal communication, May 12, 1961).

This lobbying effort was unsuccessful and in 1966 the operations of the Tourist Council were transferred to the Department of Conservation (W. Mich. Tourist Assoc., Manager's Annual Report, 1966). Under this department, the Tourist Council retained its basic structure, with each of the secretary-managers of the regional tourist associations and appointed members retaining their roles.

Between 1966 and 1973, the budget of the Tourist Council was increased from $927,431 to $1,398,824. During this same period, appropriations for grants to the regional tourist associations increased from $176,000 in 1966 to $360,000 in 1973. By 1973, each tourist association qualified for $90,000 annually under the matching grants program (Public Act 289, 1966 and Public Act 111, 1973).

Sections 4.5.1, 4.5.2, 4.6.1, and 4.6.2 have described the evolution of tourism promotion funding legislation from 1913 to 1973. The legislation is the outcome of collective action coordinated by political entrepreneurs and interested members in the four regional tourist associations. There is evidence of shared interest in the coordination of lobbying efforts to bring about legislation that established state agencies and specified state-level cost sharing arrangements. These new institutions are themselves high exclusion cost goods. The benefits associated with the newly formed agencies and legislative committees were available to all tourism businesses regardless of whether they contributed to the cost

of the lobbying efforts that brought the institutions about. Throughout this time, the tourist associations were also able to consolidate and expand their role in defining the nature of the state's tourism promotion program.

Both state and county governments were active participants in this process. County governments, as members of the associations, were often active participants in the lobbying process. Through their combined efforts, the state granted the tourist associations the right to government funding and the right to assist in defining the nature of the state's tourism promotion program. In addition, the state supplied the arena in which these institutional arrangements were worked out.

4.7 Relationships Between State Level Institutions and Appropriations to Regional Tourism Promotion Programs

Previous sections have described, in a qualitative sense, how between 1929 and the early 1970's the regional tourist associations were able to establish and maintain the right to state funding and the right to choose the nature of the state's tourism promotion program. The following sections describe the relationship between the state institutions associated with tourism promotion and the level of funding that existed between the state agency and the regional associations. The purposes of the following sections are: 1) to describe the relationship between state tourism institutions and policy and the overall level of state tourism promotion spending and; 2) to describe the impact of state policy on the appropriations to the regional tourist associations. These relationships are described in more statisitical detail in Section 4.10.

4.7.1 General Descriptive Relationships

An annual time series of the total state appropriations for tourism promotion and appropriations to the regional tourist councils are presented in Figures 12 and 13. Figure 13 is the total appropriation for tourism promotion and includes the appropriations to the tourist associations and the tourist council. Reference lines have been included in both

series to indicate when certain state-level institutions were established. The series were constructed using data in the appropriation legislation for each year. Both series begin in 1929 with the first appropriations under the Rushton-Hartman Act. The series are ended at 1973 because significant changes took place in state tourism policy beginning in 1974. These changes are described in Section 4.8.

Figure 12 reflects the annual total appropriation to the regional tourist associations from 1929 to 1973. The appropriation to the tourist associations was fairly constant between 1929 and 1955. Thus, during this period the strategy of linking the organizational objectives of the tourist associations to the broader goals of the state did not result in very large increases in the state appropriations to the associations. The series increased rapidly after 1963 and continued to increase into the 1970s. A possible explanation for this increase is that the associations, and the tourism industry generally, established a greater degree of legislative access via the two tourism committees in the legislature.

Figure 13 reflects the annual total state appropriation for tourism promotion from 1929 to 1973. During this period, the lobbying efforts of the tourist associations and other tourism interest groups facilitated six state level actions: 1) the passage of the Rushton-Hartman Act in 1929, 2) the development of a state level promotion program in conjunction with State Administrative Board in 1936, 3) the establishment of the Tourist Council in 1945, 4) the upgrade of the tourist council to a full state agency in 1951, 5) the formation of legislative committees in 1961 and 1962, and 6) the transfer of the Tourist Council to the Department of Conservation in 1966.

Figure 14 is two time series reflecting the composition of the annual state appropriations. One series reflects the tourist associations share of the total state appropriation for tourism promotion. The other series reflects the percentage of the appropriation dedicated to the state level tourism agency and other state and local agencies. The series begin in 1929 with the Rushton-Hartman appropriation and end in 1990, the last year the tourist associations received funding from the state. The series have been

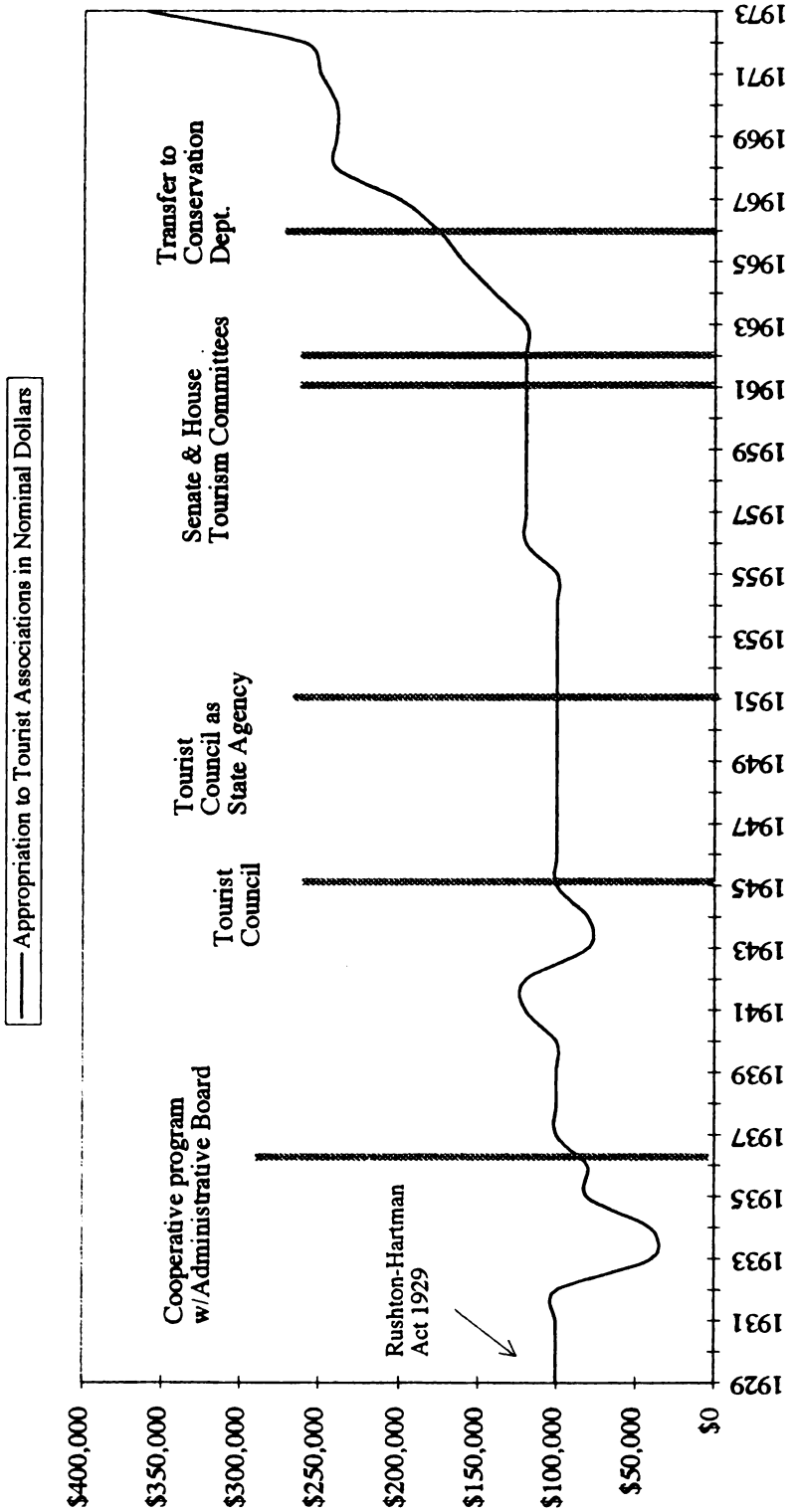

Figure 12. State Appropriations to Regional Tourist Associations, 1929-1973.

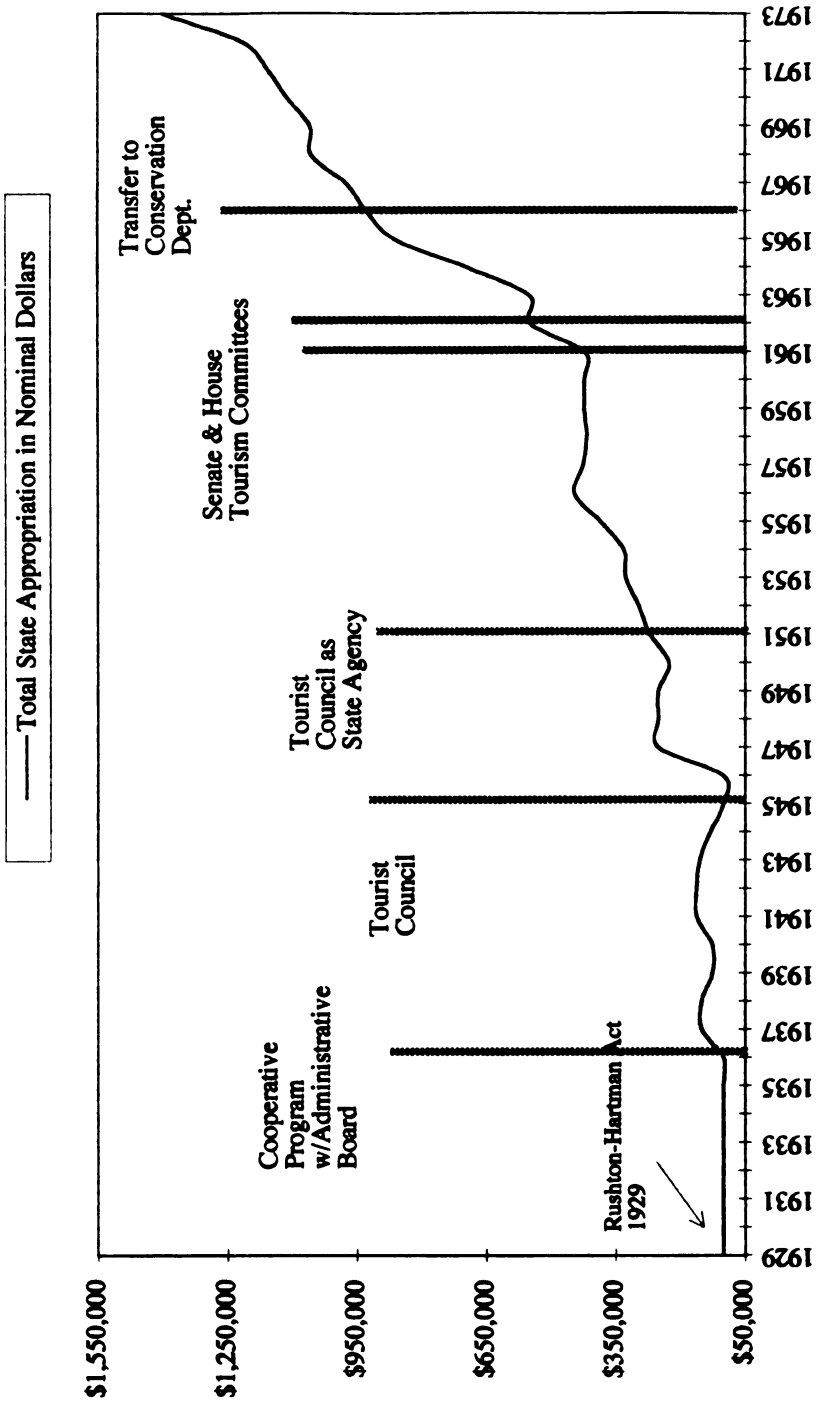

Figure 13. Total State appropriation for tourism promotion, 1929-1973.

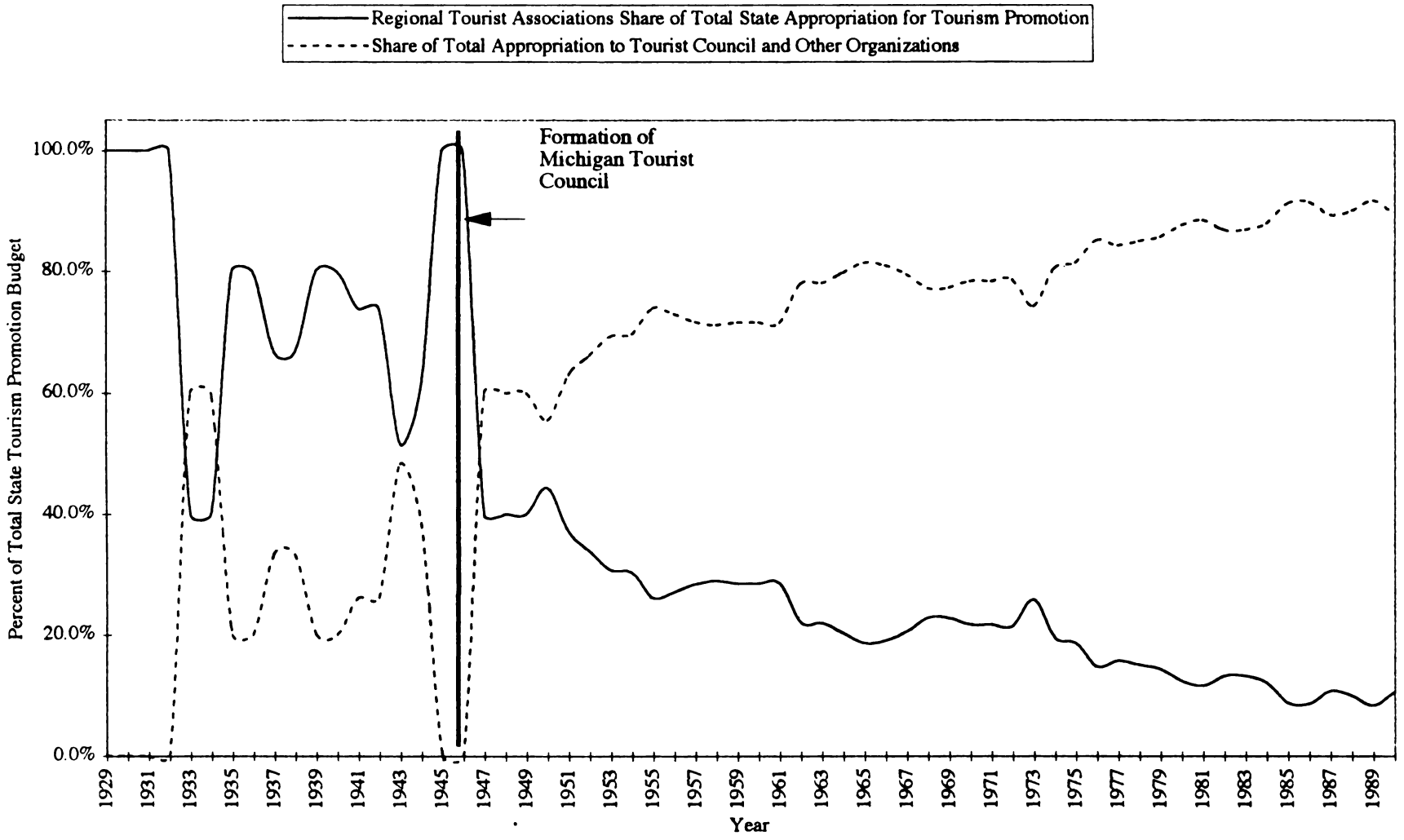

Figure 14. Shares of total state appropriation for tourism promotion.

extended to 1990 to emphasize the extent to which the tourist association share of the appropriation declined over time.

Prior to 1945, when the Tourist Council was created, the tourist associations received a majority of the total appropriation. Only in 1933, with the creation of the Michigan Tourist and Resort Commission, did the associations receive a minority share of the funds. After 1945, the percentage of total state funding directed to the tourist associations declined significantly. The state was allocating a larger percentage of its total tourism promotion budget to either state level activities, or other organizations. These other organizations did not receive very large percentages of the total state appropriation, and, in some years, no other organizations received funding. As will be described in Section 4.8, beginning in the late 1970's the state made annual grants to local tourism promotion organizations. These grants are reflected in the state's share of the total appropriation.

Figures 12, 13, and 14 reflect the impact of changes in state tourism promotion policy on the tourist associations. Prior to 1945, the state relied on the tourist associations individually to administer tourism promotion for the state as a whole. Subsequent to the formation of the Michigan Tourist Council, the state played a more activist role in promoting the state as a destination. Although the regional associations continued to play a significant role in the determination of the content of the state's promotion program, they did not continue to receive a majority of the state funds. Thus, the efforts of the political entrepreneurs in the tourist associations to legitimize the interests of their groups at the state level came at a certain cost. These leaders consistently fended off attempts of rival groups to control the state tourism program and associated funding, but in doing this they helped to create a state system that also rivaled them for funds.

4.8 Local Versus Regional Tourism Promotion

4.8.1 Early Evidence of Conflicting Interests

Conflicting interests played a role throughout the history of the regional tourist associations. Their emphasis on regional promotion, rather than city- or county-specific promotion, proved to be a continuing source of conflict between the associations and potential rival organizations, which included urban convention bureaus and other organizations, such as chambers of commerce, with city- or county-specific interests.

The tourist associations pursued a number of strategies intended to bring about cooperation with the local chambers, including having the presidents of the larger chambers serve on the board of directors. After the Depression, some of the tourist associations had formed effective partnerships with many of the chambers by jointly submitting their advertising expenditures for reimbursement to the state. This practice appears to have been largely abandoned by the early 1950s when the advertising expenditures of the tourist associations increased to the point where they qualified for the full state appropriation (W. Mich. Tourist Assoc., Upper Mich. Tourist Assoc., various meeting minutes, 1944-60).

The following quotation from an undated (circa 1940) memo reflects both the free rider problem, with respect to these civic organizations, and how they were perceived as competition by the managers of the tourist associations:

> Receipts [from memberships] from civic organizations over the same period do not reveal that the support from civic organizations increased in proportion to the amount of refunds which they received. A study of the table of refunds will reveal that the monies paid out by the Upper Peninsula Development Bureau as refunds was not evenly divided as between counties. I believe that it is possibly sound for the Development Bureau to subsidize cooperation on the part of civic organizations, inasmuch as the literature prepared by them is, in my judgement, essential to give the detailed information regarding given areas that cannot be given in Bureau publications. You will agree with me, I think, that it is not sound business if we desire the Development Bureau to continue to assist and receive adequate finances to place itself in a position where we are subsidizing competition. There should be some formula worked out and agreed upon whereby the sum of money for a given year set aside to grant refunds to civic organizations is distributed in a manner that is equitable and that takes into consideration the financial support given the Bureau by the community and the civic organizations presenting the bills (Upper Peninsula Dev. Bur., Internal report, not dated).

The local chambers of commerce and the tourist associations competed for resources both in terms of membership dues and for the state appropriation for tourism promotion. The intensity of this competition was no doubt different among the regions. However, over time, some of the chambers of commerce initiated efforts to control the state appropriation and to remove the regional tourist associations from the Tourist Council.

One proposal, advanced in 1962 by the secretary of the Petoskey Regional Chamber of Commerce, sought to have the state disband the three regional associations operating in the lower peninsula and to create two new ones. The Secretary of the Petoskey Chamber proposed the creation of a new tourist association for the lower half of the lower peninsula and one for the upper half of the lower peninsula. The Upper Michigan Tourist Association would be retained as the tourist association for the Upper Peninsula. The lower peninsula bureaus were to be restructured to give local chambers a greater voice in the regional tourism promotion program (Aurey Stropahl, Personal Communication, June 2, 1962).

The proposal from the Petsoskey Chamber was advanced before a state senate committee and was eventually reviewed by the attorney general who ruled that the tourist associations were voluntary non-profit organizations and there was no legal way to disband them. However, the legislature could amend the existing appropriation legislation that provided the matching funds to the associations, thereby reducing the financial resources available to the organizations (Aurey Stropahl, Personal Communication, June 2, 1962).

The competition between local destination marketing organizations and the regional tourist associations intensified in the early 1970s. City and county level destination marketing organizations sought greater control over the statewide promotion program and initiated lobbying efforts to that end.

4.8.2 Rural Versus Urban Tourism Promotion: Transfer of the Tourist Council to the Department of Commerce

As noted in section 4.5.3, changes in the state constitution in 1963 resulted in a transfer of the Tourist Council to the Department of Conservation in 1966. Under the Department of Conservation, the tourism promotion program and political objectives of the Tourist Council often conflicted with the interests of other groups affected by the policies of the department. For example, in the Upper Peninsula, a group of legislators began pressuring the department to down-play the role of charter boat fishing, and efforts were made to restrict charter boat access from certain commercial fishing waters. The stocking of salmon for sport fishing by the Department of Conservation was also a source contention between commercial fishermen and the charter boat captains ("Hurting Our Resort Industry," Ironwood Daily Globe, June 1, 1971). The sport fishing conflict, and other conflicts between the Tourist Council and Michigan-based conservation groups, were used by legislators from urban areas in the southern Michigan to question the department's role in managing tourism promotion for the state (Elmer C. Tryon, Personal Communication, June 14, 1971).

According to Chris Dancisak, a legislative aide working with House Tourism Committee during this period, the political pressure placed on the Department of Conservation reflected a conflict over the nature of the tourism promotion program supplied by the Tourist Council:

> A couple of other things that took place at that time that I think set in motion some of these other things, especially the room tax and assessment movement later, was the fact that in, my dates are not clear, but in the early 1970's there was a movement to move the old Tourist Council from the Department of Natural Resources to the Department of Commerce. The primary reason for that was the feeling on the part of urban interests in Michigan, especially those in Detroit and Grand Rapids and some of the other larger communities, that for too long the focus of any promotion that had been done, regardless of what level it had been done at, was directed primarily to the outdoors--the woods and waters. There was a feeling that if all of this was ever moved into the Department of Commerce, there would be a greater opportunity at least to sell travel and tourism as an economic development tool across the board, in the urban areas as well as in the traditional northern rural tourism destinations. To a large extent that effort was lead by the Detroit Convention Bureau. A gentleman by the name of Len Rolston was president at that

> time and their general manager, Ron Steffens, who is now president of Michigan AAA. They were the people at that time, for the most part in Michigan, [who] created the focus on the fact that urban communities had tourism activity. It wasn't much of a recognized factor prior to that time. But Ron and Len really pushed for the transfer of the Tourist Council and to have the urban bureaus, or at least the Detroit Bureau, represented in the new structure (Chris Dancisak, Interview, June 6, 1996).

The conflict surrounding the Department of Conservation and its role in tourism promotion was intensified by a number of historical events. From 1910 to 1970, Michigan's population shifted from a primarily rural distribution to a decidedly urban distribution. In 1910, according to the Census, 47% of the state's population was living in urban areas. By 1970, 74% of the state's population was living in urban areas (Federal Census, 1970). Between 1920 and 1950 the population of Detroit increased from approximately 1,000,000 people to over 1,800,000. Many other large cities in Michigan experienced similar growth.

At the time of the 1960 census, the population of Detroit had decreased to approximately 1,700,000. By 1970, the city's population had fallen to little more than 1,500,000, and the population in many of Michigan's other urban centers had decreased. Census population statistics for Detroit and other major Michigan cities are presented in Figures 15 and 16. Both of these graphs reflect the decline in population in Detroit, Flint, and Grand Rapids between the 1970 census and 1980 census.

The movement of city residents to the suburbs resulted in substantial population growth and development in areas such as Southfield, outside of Detroit, and Wyoming, outside of Grand Rapids. Between 1960 and 1970, the population of Warren virtually doubled from 89,246 to 179,260. Other Detroit suburbs experienced similar growth in population during this period, with places such as Roseville and Livonia growing by 20.5% and 65% respectively (Federal Census, 1960 & 1970). Few of these suburban communities were willing to consent to annexation by the adjacent city. In fact, many of the fringe communities around Detroit, such as Allen Park, Garden City, Lincoln Park, Roseville, and Livonia, became incorporated cities in response to annexation attempts (May, 1980).

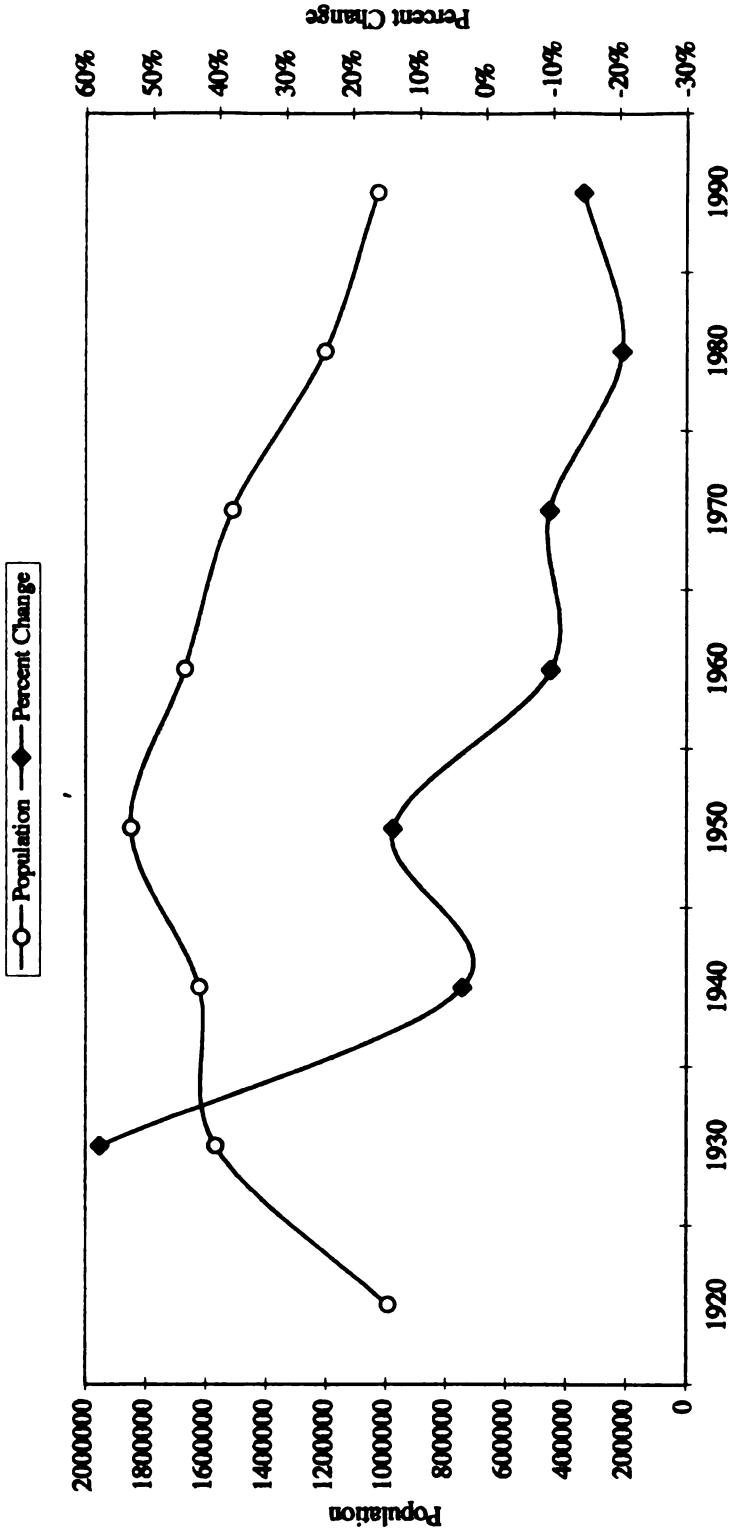

Figure 15. Changes in Detroit population, 1920-1990.

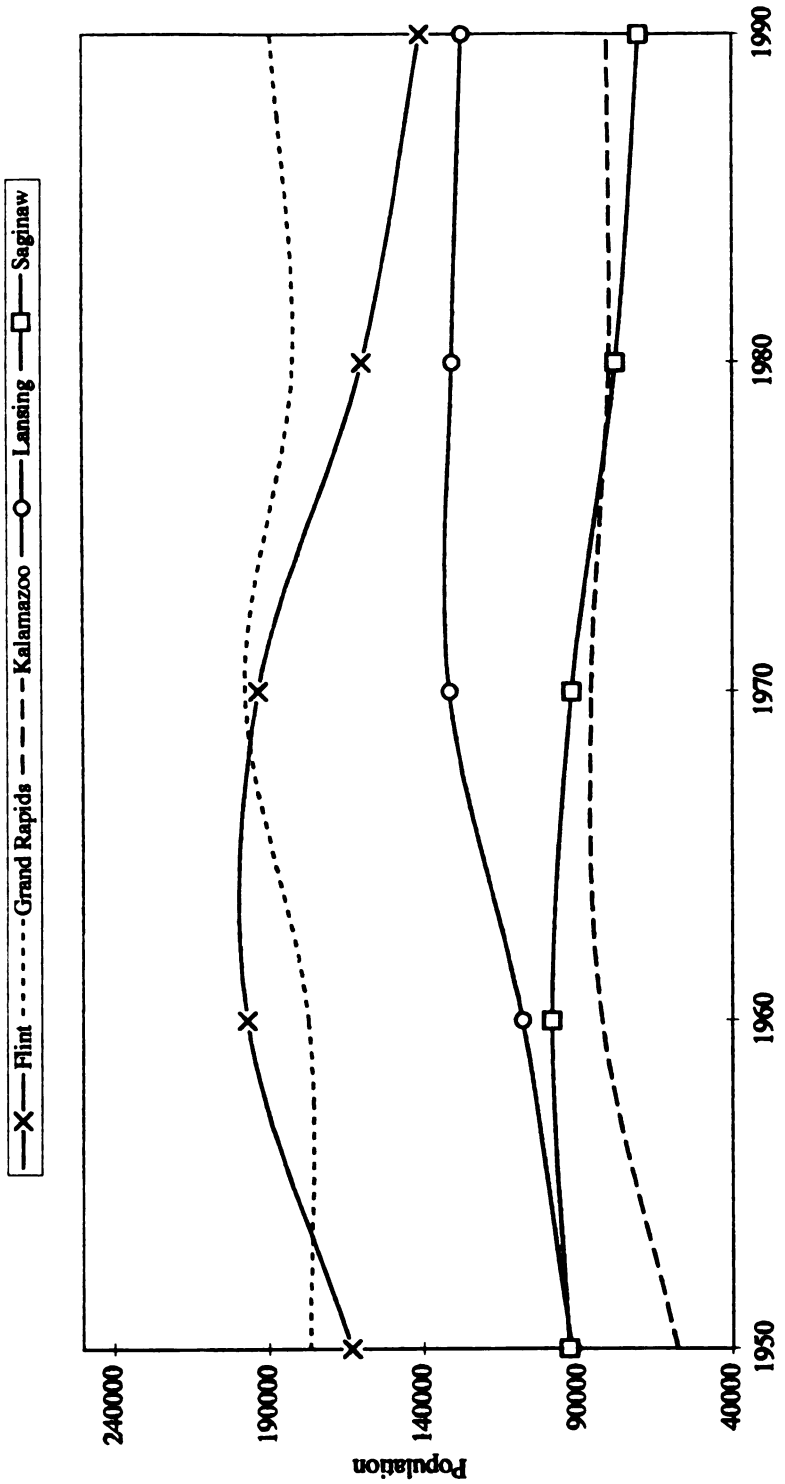

Figure 16. Population trends in other major Michigan cities, 1950-1990.

The urban to suburban shift in the population had a negative impact on the downtown areas of many Michigan cities. In downtown Detroit, urban anchor businesses, such as Crowley's department store and the Hilton and Tuller Hotels, closed during the 1970s. Hudson's Department Stores, which operated a large store in downtown Detroit, continually reduced both the staff and size of the urban store, while expanding into the suburban areas. This urban flight was experienced in other cities in Michigan, as evidenced by the closing of Arbaugh's Department Store in downtown Lansing, the Pick-Durant Hotel in Flint, and the Burdick Hotel in Kalamazoo. The erosion of the urban core was further compounded by the recession in the automobile industry during the 1970s (May, 1980).

The problems of the cities affected urban tourism promotion efforts in a number of ways. The negative publicity generated by the economic and racial problems of the cities affected their ability to attract convention business. Detroit had been particularly hampered in its ability to attract out-of-state conventions as a result of the negative publicity generated by racial riots that occurred during the summers of 1966 and 1967. In addition, the potential membership base of city convention bureaus and chambers of commerce declined as businesses moved or ceased operations. In response, urban convention bureaus and government officials advanced the promotion and development of urban convention and tourism business as a way to rejuvenate urban economies.

Under the Department of Conservation, the existing state tourism promotion emphasis on natural resource attractions conflicted with the promotional program desired by the cities. Further, in the absence of a tax and with a declining pool of businesses from which to solicit membership dues, the urban convention bureaus sought alternative funding sources through the state.

Chris Dancisak described the situation that existed in the early 1970s:

> In Detroit, and in other cities in Michigan, Lansing, Flint, not so much Grand Rapids, when the automobile industry started going downhill, there in the seventies, they were losing membership dollars and support from many traditional sources. The Big Three (auto manufacturers) were big supporters of the Detroit

> bureau; they probably still are. But, they--hell, the whole state was concerned about what was happening in Detroit. Anyway, they all knew that for urban tourism to succeed as an economic development vehicle there needed to be a change in the existing state promotion program. There had to be at least some recognition of urban tourism (Chris Dancisak, Interview, June 6, 1996).

Throughout 1974, the convention bureaus and local chambers of commerce advanced legislation that would require the Tourist Council to promote convention and group travel to Michigan. House Bill 5166 sponsored by legislators from Grand Rapids and Detroit, proposed the creation of a Convention and Group Service Bureau within the Tourist Council. While this bill did not leave committee, it reflects the continued efforts of the urban convention bureaus to change the nature of the state's tourism promotion program.

Through the efforts of the urban legislators, supported by the convention bureaus and county government officials, the operations of the Tourist Council were transferred from the Department of Conservation to the Department of Commerce in the 1974-75 fiscal year (Public Act 173, 1973). There were no data regarding the stance of the regional tourist associations with respect to this transfer.

4.8.3 The Creation of the Michigan Travel Bureau and Travel Commission

In July 1975, the Michigan Tourist Council was reorganized, and the Michigan Travel Bureau and Travel Commission were created (Public Act 145, 1975). The Travel Bureau was the state administrative agency responsible for tourism promotion and development activities and comprised of two divisions: the business development division and, the marketing and promotion division.

The Travel Commission, was a policy advisory committee to the Travel Bureau and consisted of thirteen members, including the secretary managers of the four regional tourist associations and nine members appointed by the governor. Of these nine appointed members, four had to be selected from the membership of the Michigan Association of Convention and Visitor Bureaus. The other five individuals had to be involved in the travel and tourism industry in the state. At the time, the Michigan Association of Convention and

Visitor Bureaus consisted only of the largest urban convention bureaus in the state (Michigan Travel Commission, Annual Report, 1975-76).

The restructuring of the Tourist Council and the formation of the Travel Commission provided urban convention and visitor bureaus a vehicle to directly affect state tourism promotion policy. Through their efforts, the promotion program of the Travel Bureau included a greater emphasis on conventions and related urban tourism (Michigan Travel Commission, Annual Report, 1975-76).

4.8.4 Funding Local Destination Marketing Organizations: Public Act 263

Beginning in 1973, the convention bureaus and representatives supporting their cause sponsored legislation that would give certain counties the right to tax hotel room sales. House Bill 5801 gave counties with populations of less than 600,000 and with a city having a population of at least 40,000, the right to levy a tax on the sale of hotel rooms. The amount of the tax was not to exceed 5% of the total charge for accommodations.

To understand the impetus for this legislation requires an understanding of specific local conditions and the interests that lobbied for the bill. According to Steve Wilson, director of the Kent County Convention Bureau, the bill was introduced in an effort to find funding sources for local tourism-related capital projects and as a means for funding local tourism promotion.

> There were two impetus for [this legislation]. One was promotion and another was capital projects in these eight counties with middle-sized cities, not Detroit, but also not the smallest cities. Grand Rapids--in fact legislators from Grand Rapids were actually the sponsors of the bill. At that time in Kent County we wanted to build the Grand Center. The Grand Center was built as a public/private partnership. Basically, the AmWay corporation said they would redevelop the old Pantlind Hotel and develop it into a 700-room facility if the city would build a convention center and attach it to their hotel. So [this legislation] became the vehicle for Grand Rapids to do that (Steve Wilson, Interview, June 24, 1996).

The final version of the bill included very specific language regarding allowable uses of the revenue from this tax. The specific provisions were that the revenues could be used for:

1. The cost of administration and enforcement of the ordinance
2. The financing of the acquisition, construction, and improvement, enlargement, repair, or maintenance of convention and entertainment facilities including the payment of principal and interest, when due, on bonds or other evidence of indebtedness issued by the county for convention or entertainment facilities
3. Current or future annual rental payable by the county to an authority organized pursuant to state law for the purpose of acquiring, constructing, improving, enlarging, repairing, or maintaining the convention and entertainment facilities and leasing them to the county
4. The promotion and encouragement of tourist and convention business in the county (Public Act 263, 1974).

The bill was supported by the county governments eligible to implement the legislation. The bill was opposed by the state's lodging industry through the Michigan Hotel and Motel Association (MH&MA). The hotel association opposed the bill on the grounds that the tax would be a burden to collect and would inflate hotel room prices (House Legislative Analysis Section, HB 5801). Despite the MH&MA opposition, the bill passed and was signed into law as Public Act 263 of 1974.

At the time of its implementation, nine counties qualified to collect the tax: Bay, Genesee, Muskegon, Saginaw, Kent, Calhoun, Ingham, Kalamazoo and, Washtenaw County. Each county implemented the tax and utilized the revenues differently, but each of the counties utilized some of the tax revenues to supplement the funds of an existing convention bureau or chamber of commerce [2]. In counties where no bureau previously

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[2] The details of how Public Act 263 was implemented in each county is described in Chapter 5: The Evolution and Structure of Michigan's County Accomodations Tax.

existed, one was established. Each of the bureaus were located in the major city in the counties.

Between 1974 and 1980, the urban convention bureaus and other local destination marketing organizations secured the right to have the state fund part of their programs through the Travel Bureau grants program. These organizations also secured the right to have the counties in which they were located levy a tax to fund some portion of their operation. Between 1980 and 1989, several laws were passed that further expanded the rights of a community to establish and fund local destination marketing organizations. During this period, only one of the regional tourist associations was able to secure the right to implement a regional assessment (tax) program [3].

4.8.5 Travel Bureau Programs: Grants and Inquiry Servicing Programs

In addition to the county level tax revenues, the convention bureaus receiving funds through Public Act 263 qualified for a state grant program that was initiated in the 1974-1975 fiscal year. Public Act 106 of 1945 was amended by Public Act 239 of 1974 to create the convention bureau grant program and to allow for changes in the rules governing the grants to the four regional tourist associations. Through Public Act 239, the state appropriated $250,000 to the Department of Commerce to be used for the convention bureau grant program. The Travel Commission, which was comprised of eight potential grant recipients, was responsible for promulgating the rules governing the grants to the convention bureaus and regional tourist associations.

Dave Morris, who administered the grants programs, characterized the rule making process for the grants as a series of tradeoffs between the regional tourist associations and the convention bureaus.

> That is sort of how the politics of it was to set up this grant program to the convention bureaus--about the same size in terms of the resources devoted to it as the resources devoted to the tourist associations. Again, giving them seats on the

[3] The details of the regional assessment district for the upper peninsula are described in Chapter 6: The Evolution and Structure of Michigan's Tourism Promotion Assessment Districts..

> Travel Commission, giving them the same number of seats as the regional tourist associations had, and then appropriating about the same amount of money as was appropriated for the regional tourist associations. And then, what the convention bureaus, according to the rules, according to the administrative rules promulgated as a result of the change in the law, was to focus what they did on primarily attracting out of state convention business in to the state. So the rules were written such that smaller convention bureaus couldn't participate in the grant program. You had to develop an out of state component of your convention promotion program. It was designed to keep people from the local level from creating tourism promotion programs that would compete with the larger regional tourist association programs. . . . the idea was to try to keep them fairly pure, and fairly separate, giving convention bureaus a very specific responsibility so they didn't compete or conflict with the regional tourist associations (Dave Morris, Interview, August 5, 1996).

Under the new administrative rules, the regional tourist associations and convention bureaus had to establish a minimal level of local funding and demonstrate that their promotional programs were consistent with the rules. The formula for making grants to the regional tourist associations was no longer based on a percentage of the total local funds used for advertising; instead the necessary level of local support was to be established in the administrative rules by the Travel Commission. For example, the minimal required level of local support for the 1977-78 fiscal years was set at $30,000. Each regional association was guaranteed one fourth of the total annual appropriation (Michigan Registry, R 2.111- R 2.113, 1975).

A summary of state and local funding for the four regional tourist associations, for the period from 1969 to 1980, is presented in Table 5. The table reflects the level of both funding sources and the percentage of the budget represented by the funding source. In three out of the four associations, the state money eventually represented a majority of the funds. The exception is the West Michigan Tourist Association, which was able to raise a larger percentage of its total budget from local members and advertising than the other three associations.

Table 5. State and local funding of regional tourist associations 1969-1980
Source: Fiscal Year 1981-1982 Budget Hearings for Regional Tourist Associations, Michigan Travel Bureau (1981)

	1969-1970	1973-1974	1977-1978	1978-79	1979-1980
West Michigan Tourist Association Total Budget	$240,000	$346,100	$478,890	$515,337	$563,500
State	$60,000	$90,000	$125,000	$135,000	$152,500
Percent of total	25.0%	26.0%	26.1%	26.2%	27.0%
Local	$180,000	$256,100	$353,890	$380,337	$411,000
Percent of total	75.0%	74.0%	73.9%	73.8%	73.0%
East Michigan Tourist Association Total Budget	$184,700	$227,900	$264,853	$274,852	$306,500
State	$60,000	$90,000	$125,000	$135,000	$152,500
Percent of total	32.5%	39.5%	47.2%	49.1%	49.8%
Local	$124,700	$137,900	$139,853	$139,852	$154,000
Percent of total	67.5%	60.5%	52.8%	50.9%	50.2%
Southeast Michigan Travel & Tourist Association Total Budget	$173,000	$213,300	$277,672	$299,886	$330,557
State	$60,000	$90,000	$125,000	$135,000	$152,500
Percent of total	34.5%	42.2%	45.0%	45.0%	49.8%
Local	$113,000	$123,000	$152,672	$164,886	$178,057
Percent of total	65.5%	57.8%	55.0%	55.0%	50.2%
Upper Peninsula Travel & Recreation Association Total Budget [1]	$113,600	$150,600	$197,791	$209,927	$227,200
State	$60,000	$90,000	$125,000	$135,000	$152,500
Percent of total	52.8%	59.8%	63.2%	64.3%	67.0%
Local	$53,600	$60,600	$72,791	$74,927	$74,700
Percent of total	47.2%	40.5%	36.8%	35.7%	33.0%

[1] Does not include other state and federal grants for 1978-79 or 1979-80

For the convention bureau grants, the total amount of local money raised by each qualifying bureau was pooled, and then each bureau received a share of the appropriated grant funds equivalent to its share of the total local funds raised. No one bureau could qualify for more than 50% of the total appropriated funds. Initially, the full amount of accommodations tax revenues could be used in the calculation of the level of local funding (Michigan Registry, R 2.111- R 2.113, 1975). Subsequent rule changes reduced the percentage of local accommodations tax revenues that could be used in the calculation of local funds. Changes in the rules in 1980 reduced the amount to 80% (Michigan Registry, R 2.111- R 2.113, 1980.) Subsequent changes in the rules reduced the amount to 35% (Michigan Registry, R 2.111- R 2.113, 1983).

Changes in the rules also reduced the number of bureaus that could qualify for the grants. Under the rules established in 1983, only those bureaus in counties implementing P.A. 263 of 1974, or those previously qualifying for the grants, could apply. Under this arrangement, larger bureaus, typically in the larger cities, received the largest share of the appropriated grant money (Michigan Registry, R 2.111- R 2.113, 1983).

Table 6 summarizes the grants made to each of the eligible convention bureaus for the period from 1974 to 1979. The total annual grants to both the convention bureaus and regional tourist associations for the period from 1974-1992 are presented in Table 7. Table 7 also demonstrates how the tourist associations' share of the total available grant money declined over this period.

Convention bureaus located in counties where there was no appropriations tax qualified for a smaller share of the state grant money. Changes in the administrative rules in 1976 conditioned qualification for the grant program on the basis of adopting Public Act 263 or establishing a minimal level of local funding (Michigan Registry, R 2.111- R 2.113, 1976). The counties in the Detroit metropolitan area and counties in the area covered by the Southwest Michigan Bureau were prohibited from implementing Public Act 263 due to its population restrictions. As a result, neither the Oakland County Bureau, nor the Southwest

Michigan Bureau were able to qualify for the traditional program grants under these rules. Although it did not receive funds through Public Act 263, the Detroit Convention Bureau was able to receive large shares of the total grants program due to the amount of local money it raised.

In addition to the program grants established for the regional tourist associations and convention bureaus, the Travel Bureau established "special program grants" and "special project grants." Destination marketing organizations could apply for special program grants if they demonstrated sufficient local support, both in terms of funding and governance, to complete the outlined program. The convention bureaus and regional tourist associations could qualify for the special program grants in addition to the funds provided under the traditional program grants (Michigan Registry, R 2.131- R 2.140).

In the 1988-1989 fiscal year the Travel Bureau established a contract with the regional tourist associations to service tourist inquiries. The tourist associations were paid $2.30 per unit to respond to inquiries about travel in their regions. In 1990 this money, combined with the grant funds, represented between 65% and 85% of the operating budgets of the East Michigan, West Michigan, and Southeast Michigan Tourist Associations (Anonymous, Interview, February, 1997). The state terminated the contract in the 1991-1992 fiscal year when the inquiry processing system was contracted to a private firm.

Table 6. State program grants to convention bureaus, 1974-1979
Source: Summary of Past & Present Grants Awards, Michigan Travel Bureau (1979)

Bureau	1974-75	1975-76[1]	1976-77	1977-78	1978-79	Total
Metro-Detroit Convention Bureau	$125,000	$149,375	$125,000	$215,000	$235,000	$849,375
Flint Area Convention & Tourist Council	$28,750	$17,602	$15,762	$58,501	$57,340	$177,955
Grand Rapids Convention Bureau	$32,250	$18,534	$16,837	$63,489	$76,845	$207,955
Kalamazoo County Convention & Visitors Bureau	$19,375	$23,183	$32,287	$10,836	$12,220	$97,901
Convention Bureau of Greater Lansing	$29,500	$40,009	$34,062	$34,593	$44,180	$182,344
Saginaw Convention & Visitors Bureau	$15,125	$9,094	$9,600	$34,851	$23,970	$92,640
Ann Arbor Conference & Visitors Bureau	-0-	$9,010	$8,950	$12,728	$20,445	$51,133
Convention & Visitors Bureau for Southwest Michigan	-0-	$9,214	$7,500	-0-	-0-	$16,714
Oakland County Visitors & Convention Bureau	-0-	$22,729	-0-	-0-	-0-	$22,729

[1] The 1975-76 values include a fifth quarter appropriation to the grants program.

Table 7. Total state grant appropriation for regional tourist associations and convention bureaus, 1974-1992.
Source: Compiled by author from appropriation legislation and travel bureau budgets

Fiscal Year	Tourist Associations	Convention Bureaus	Tourist Associations Share of Total Grant Money
1974-75	$360,000	$250,000	59.0%
1975-76	$360,000	$257,800	58.3%
1976-77	$360,000	$250,000	59.0%
1977-78	$500,000	$430,000	53.7%
1978-79	$540,000	$470,000	53.5%
1979-80	$640,000	$570,000	52.9%
1980-81	$445,000	$411,800	51.9%
1981-82	$620,000	$580,000	51.7%
1982-83	$599,300	$560,700	51.7%
1983-84	$629,300	$616,800	50.5%
1984-85	$630,800	$618,400	50.5%
1985-86	$630,800	$618,400	50.5%
1986-87	$630,800	$618,400	50.5%
1987-88	$630,800	$618,400	50.5%
1988-89	$626,100	$613,800	50.5%
1989-90	$540,800	$536,500	50.2%
1990-91	$527,300	$523,100	50.2%
1991-92	-0-	-0-	

4.9 The Decline of the Regional Tourist Associations

4.9.1 Evolution of Decline

The position of the regional tourist associations became so well established at the state level that people familiar with the history of the associations, who were interviewed for this study, characterized them as extensions of state government. Steve Wilson, a former director in the Southeast Michigan Tourist Association, characterized the relationship between the tourist associations and the state:

> In the early seventies the state established the Michigan Travel Commission and put tourism under the Department of Commerce. The organization I worked for was one of four regional tourism organizations in Michigan. And, they were, at that time, and had been for many years basically a local division of the state Travel Bureau. They were significantly funded by the State of Michigan. They were clearly, at that time, in the mid-seventies looked at -- well the office I worked in was looked at as the Travel Bureau's office in Detroit. It was a non-profit

> organization working under contract but it was a pretty tight contract with the state. And, much of the operational costs of that office were borne by the state grant (Steve Wilson, Interview, June 24, 1996).

Dave Morris characterized the position of the regional tourist associations in a similar way.

> It was basically, "here is $100,000" or whatever. It was a line item in our [Travel Bureau] budget that said "regional tourist associations". There was nothing else that we could do with the money if we decided not to give it to them. They had designated seats on the Travel Commission. They had designated funding coming from the state. They had become a state agency for all intents and purposes (Dave Morris, Interview, August 5, 1996).

This established position came at a cost in the form of individual member and county dissatisfaction. County support had never been formally guaranteed, but the number of counties paying dues to the regional associations decreased steadily beginning in the late 1960s and early 1970s. This was especially true in the case of the Southeast and East Michigan Tourist Associations. Individuals familiar with the associations attributed the withdrawal of county funding to several factors.

One person, who chose to remain anonymous, identified the incentives embodied in the tax legislation and problems with the perceived quality of the association's promotion program:

> Well, in the southeast you had the Detroit Bureau which had its own well established program, and the counties there supported it. There was a while when I think Oakland County wanted a separate bureau, but for the most part those counties supported the Detroit Bureau. In the east, we had two problems. Flint, Bay City and Saginaw all had their own CVBs. They didn't need to support the regional association. But, you know what, in the end all that they [the East Michigan Tourist Association] did was focus on Frankenmuth and that area. They went where the money was. They got money to service inquiries from the state and probably most of their inquiries came through those places. The counties in the northeast section of the state were almost completely ignored. No one was working to promote the Sunrise Side. They were not represented in the Travel Bureau publications, and EMTA was essentially a division of the Travel Bureau. People in Alpena, Cheboygan, Montmorency and the other counties in the north resented that. . . . Individually, we weren't large enough to go to Lansing to change things, but as a group we could. So we formed our own group and got the support of Representative Binsfeld to ask why we were left out of the Travel Bureau publications (Anonymous, Interview, February, 1997).

Another anonymous person identified similar reasons for county withdrawal of funds. Again, the perceived quality or nature of the promotion program is cited:

> People identified with the regional associations differently than the CVBs. The regional associations were state organizations, state government organizations, in a lot of people's minds. Anything the state screwed up was pretty much automatically blamed on the Travel Bureau and the regional associations. The CVBs were different; they were local, still pretty tight with county government, but people knew that they were going to promote their county. You didn't always know that with the regional associations or the Travel Bureau. . . . If you weren't Mackinac Island, Detroit, Frankenmuth or Traverse City, you had to fight to get attention. I think the county governments just followed what people, hotels, and all, wanted (Anonymous, Interview, August, 1996).

The tax legislation provided county and municipal political leaders with a means to fund a destination marketing organization that focused on the specific county or municipality. Under Public Act 263, an individual county could increase its tax revenues by attracting tourists to hotels in its jurisdiction; therefore the tax revenue provided incentives for county political leaders to fund an organization that promoted only those attractions and businesses within the county boundary. It was, in effect, an incentive for the counties to change the definition of the destination and delineation of organizational boundaries. These incentives, coupled with the perceived program quality problems of the regional tourist associations contributed in some cases to withdrawal of county funding support.

The state terminated the Travel Bureau grant programs in the 1991-92 fiscal year. Subsequently, two of the regional tourist associations became insolvent and disbanded by 1994: The East Michigan Tourist Association and the Southeast Michigan Tourist Association. The West Michigan Tourist Association continues operation at the time of this study. The Upper Peninsula Travel and Recreation Association (UPTRA) lobbied to have legislation passed allowing for the implementation of a regional assessment to fund its programs.

At the time of this study (1996), none of the secretary/managers of the existing regional tourist associations served on the Travel Commission. The role of the associations in

formulating state level tourism promotion policy and in providing regional promotion programs had greatly diminished.

An individual, wishing to remain anonymous, describes the diminished status of the regional tourist associations:

> I think most people would agree that there is really only one viable regional tourist association and that is UPTRA. The west Michigan area--I think that the only reason it survives today, and I am not sure how much longer it is really going to survive as an organization--it may be in its last stages now--is that there are just so many businesses, tourism dependent businesses, and businesses individually, in that part of the state, that they don't have to get a very large percentage of them to be members. And, they don't need to have a very large percentage of them to buy ads or to buy into a brochure of some sort to generate enough funds to keep that staff of two or three or four people busy. They say that they will represent the entire western part of the lower peninsula, that may be a bit of a stretch. Because I am sure that there are many counties that they may--if they have one or two members in that county would probably be about the extent of their coverage of that county and the only reason they claim coverage of that county is because no one else is, in terms of regional coverage anyway. The Sunrise Side group may emerge as viable entity in the eastern part of the state, but at this point--you can't compare it to UPTRA as far as funding and regional significance (Anonymous, Interview, August, 1996).

People interviewed for this study, who were familiar with the regional tourist associations, attribute financial and membership problems and subsequent dissolution of the two associations to a number of factors. Some linked the lack of membership support to the incentive structure embodied in the state grant program and the abandonment of internal structures to service members:

> The money they got [through the grant program] was in those days enough, almost enough, to support the association without any outside resources. And, I think that what you could see over time was definitely a pattern . . . the pattern of local funding actually invested in the program, in terms of selling memberships and getting other governmental--local governments to put money into the program; and selling advertising and things like that all declined over the years. . . . There really was no incentive built into the program for them to get any different amount from the state based on how much local money they had in their program versus the CVB program, which had some sort of incentive built into it that . . . your share of the money depended on how well you did locally with your local funding. It [the grant program to the associations] wasn't a matching program in any sense. And there really was no accountability in the program, the way the rules were written (Dave Morris, Interview, August 5, 1996).

> But all those years they had just this automatic, substantial, amount of money coming in the door from the state with virtually no strings attached to it. So it

> became very easy for them to become dependent on that money and not have a lot of incentive to go out and do the hard work, selling memberships and that kind of thing. And, what you saw, over the years is--well if all four of them at some point in the past had a membership services director whose responsibility it was to solely go out and sell memberships, then a couple of years later three of them had a position like that, and then a couple of years later two of them had that position. Then, finally, none of them, and it became the job of the director of the association to do that kind of job (Anonymous, Interview, August, 1996).

> You saw a pretty steady pattern of declining amounts of local funding in their programs overall. So, they became more and more dependent on the state money. They became pretty stagnant organizations that even the members that they had were often dissatisfied with the programs they were conducting. They didn't change at all from year to year. They were never trying anything new (Anonymous, Interview, June, 1996).

Others attributed the lack of membership support to inconsistency in the promotional program due to the uncertainty associated with the voluntary funding of the associations:

> Not only us in the southeast, but Boyne Country and all that area too--we would develop cooperative promotions where we would pool dollars from existing groups. Like we had a ski promotion and I know Boyne did and the Upper Peninsula did. . . . Those dollars were all pooled from the various private interest in that local industry. The problem with that was that if it was a bad year then everyone would pull back, there wasn't any continuity. Or one program failed and didn't do very well, and so next year it was just cut totally. There really was no continuity. There were really a lot of ups and downs. And, since the means for paying for it was, you know, this voluntary pooling, there was no way to establish continuity in the regional programs. . . . Because of this lack of consistency, and other reasons there was a real need for something like Public Act 263. . . [With the passage of Public Act 263] all of a sudden those cities were able to mount a program and not necessarily having to go out to attractions and hotels and all that to get funds, and as a result the could take out much larger ads and begin some proactive promotion (Steve Wilson, Interview, June 24, 1996).

> I expressed my opinion to the U.P. association that for all practical purposes membership organizations were dead in about five years unless some drastic changes were made in the funding arrangements. Because sooner or later the state was going to cut the funding and that was not the way to go.. . . As it was you couldn't put together a consistent program (Chris Dancisak, Interview, June 6, 1996)

> I mean get real, if I'm a hotel owner in one of the assessment districts, or in a 263, I have to contribute to the local effort. If I don't I get thrown in jail or sued or whatever. So, I am already contributing to a local effort. Am I really going to contribute to the regional effort? Especially if I don't think anyone else is and the consistency of the regional program depended so much on that. You know, how much money they could scrape up in any given year (Anonymous, Interview, August 1996).

One person identified boundary issues and problems with group identity as being a contributing factor:

> I also think it was a combination of some problems that the regional tourist associations had. With result today that there are only two. Probably the strongest one right now is the U.P. one, and I think the homogeneity there is some geographic kind of identity. I think it makes some sense as a marketing destination. Even people in the eastern and western UP feel some commonality just being in the UP together, even though it is a fairly large geographic area there is some traditional kinds of reasons that don't necessarily relate to just the tourism industry. . . . People can conceive of that as a single destination area. I think that the problem we had with some of the lower peninsula ones is that the boundaries were just kind of, I don't know, arbitrarily drawn almost. I'm not sure they related--I'm not sure the boundaries reflected a geographic identity (Dave Morris, Interview, August 5, 1996)

4.9.2 A Summary of Factors Contributing to Decline

The following is a summary of the identified factors contributing to the decline of the regional tourist associations:

1. In the presence of the relatively high costs of organizing contributions to the regional promotion program, the tourist associations decided to the abandon internal mechanisms, such as field representatives and member services directors, who had performed the coordination function. In abandoning these mechanisms, the associations abandoned structures that provided face-to-face communication and direct feed back from members on program quality.
2. Having secured the right to fund their programs through state appropriations and contracts, the managers of the tourist associations had little incentive to pursue alternative funding sources. The dependence on the state funding further contributed to the perception, on the part of some members, that the quality and nature of the program was in some way deficient. This perception was fueled by a sense that the state's program and the program of the regional associations unfairly represented one area over another.

3. The state granted rival organizations the right to collect revenues through a tax. The tax was a relatively lower cost means of coordinating investment in tourism promotion and provided a more stable source of funding these programs. The tax legislation established a cost sharing arrangement for the convention bureaus which constrained free riding and stabilized their funding sources. The tax did not unhorse all potential free riders since only the hotels and their customers were required to bear the cost. Other businesses deriving income from the tourist still stood to benefit but did not have the duty to share in the cost of providing the promotion program. The tax did reduce the cost of organizing provision of the good. As noted in the interview data, once the tax was implemented, the convention bureaus, unlike the regional tourist associations, did not have to go out to individual businesses to coordinate investment in the program.
4. The perception of declining program quality on the part of some members led them to seek alternatives in the form of rival organizations that may have been better funded or with which the member better identified.
5. The state terminated the right of the associations to receive state funds in the form of appropriations, grants, and contracted services.

4.9.3 The Status of Multicounty Destination Marketing Organizations

At the time of this study, two of the original regional tourist associations continued operation. The West Michigan Tourist Association continues to raise funds through county appropriations, membership dues, and the sale of advertising. As described in Section 4.6.6, the Upper Peninsula Travel & Recreation Association secured the right to implement a regional assessment to fund its program. In 1995, eighty-five percent of the association's revenue came from the assessment (UPTRA, Annual Report, 1995).

A third group, The Sunrise Side, has emerged in the northeast quadrant of Michigan to provide a tourism promotion program for that region. This organization was formed in 1988, in response to frustration with the nature of the program provided by the East Michigan Tourist Association and the Michigan Travel Bureau. In 1996, the organization claimed to have approximately 300 members and to represent Arenac, Iosco, Ogemaw, Oscoda, Alcona, Alpena, Montmorency, Presque Isle and Cheboygan Counties. Membership includes chambers of commerce, convention and visitor bureaus, retailers, hoteliers, utility companies and other businesses (Anonymous, Interview, February, 1997).

A fourth group, The Southwestern Michigan Tourist Council, is a multicounty organization representing Berrien, Cass, and St. Joseph county in the southwestern part of the state. This group receives funding through an assessment and from membership dues.

Figure 17 is a map reflecting the boundaries of multicounty destination marketing organizations in Michigan as of 1994. The map includes the Detroit Convention and Visitors Bureau as one of these organizations. The Detroit bureau is an assessment district encompassing Wayne, Oakland, and Macomb counties.

The persistence of a regional tourism promotion structure reflects that the interdependence associated with goods having high exclusion cost and joint impact characteristics remains. In spite of continual change in the funding and governance of regional tourism promotion, there still exists a collective effort coordinating investments in the promotion program and working out rules regarding the nature of the program. In some ways, two of the associations have come full circle--voluntary members and county governments share in the cost of providing the good through dues and appropriations. The board of directors of the Sunrise Side group is comprised of members from each of the nine counties it represents and six members at large. It is an arrangement that is very similar to the early structure of the development bureaus and regional tourist associations.

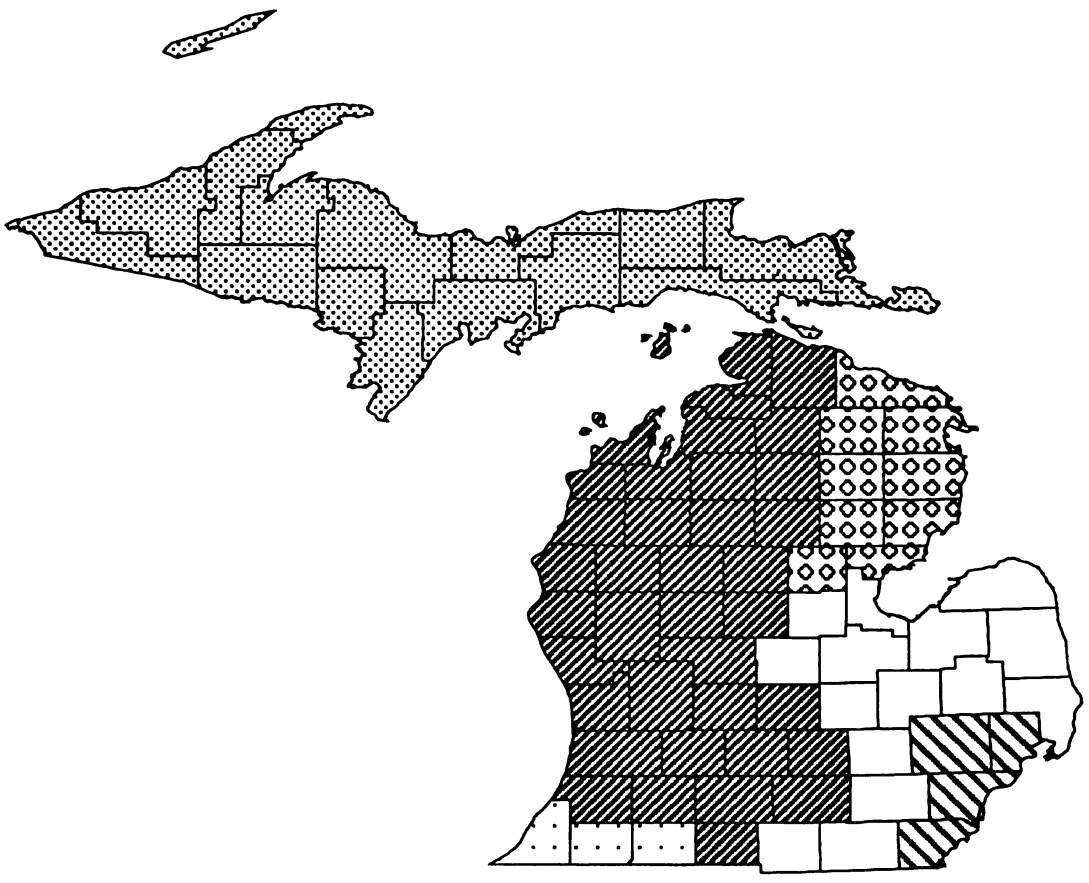

Figure 17. Boundaries of multicounty destination marketing organizations

4.10 Time Series Analysis of the Impact of Tourism Promotion Institutions on State Funding for Regional and State Tourism Promotion, 1929-1994

The purpose of this section is to provide supplemental evidence of the impact of state tourism promotion institutions on appropriations for the regional tourist associations and the state as a whole. Specifically, the question of whether the creation of state institutions had a positive or negative impact on appropriations for the regional tourist associations will be addressed. The section provides further descriptive evidence of institutional performance with specific attention paid to the long run performance of the cost sharing relationship between the state and the regional associations. Although statistical time series techniques are used, the analysis is still descriptive because it is unlikely that the results could be generalized to other states or situations.

4.10.1 Description of the Procedure

An interrupted autoregressive time series model was used to test the relationship between state institutions--policy variables--and changes in the real level of state appropriations to regional and state tourism promotion programs. Time series intervention analysis was first used by Campbell and Stanley (1966) and Cook and Campbell (1979) to assess the impact of a discrete intervention in a social process. The methodology is described in Mills (1994) and Chatfield (1994). The approach has been used in a number of applications related to policy analysis. For example, Box and Tiao (1975) used it to examine the effectiveness of air pollution control laws. McPeters, Mann, and Schlagenhauf (1984) used it to analyzed the impact of changes in firearm penalties on property crime. Fomby and Hayes (1990) examined the impact of the War on Poverty on low income families. Further, Bonham, Fujii, Im, and Mak (1991) employed intervention analysis to test the impact of changes in international exchange rate policy and hotel room tax law on hotel room revenues in Hawaii.

Unlike the studies cited, which generally utilized ARIMA models, the statistical technique employed in this study is autoregression. Because of the stationarity requirement of ARIMA models, it is difficult to test the impact of policy variables on the levels of the time series. To make a series stationary often requires differencing of the data, resulting in the loss of the structure of the original time series. Thus, to retain the structure of the data in the original levels, either multiple linear regression or autoregressive techniques can be used. However, most time series violate the linear regression requirement of uncorrelated errors. Due to the autocorrelation problem, the original series must be transformed using iterative techniques that produce estimated generalized least squares (EGLS) estimates of the coefficients. Common iterative approaches used to adjust for autocorrelation include, 1) Cochrane-Orcutt iterative least squares technique, 2) Durbin's two stage method, 3) the Hildreth-Lu search procedure, and 4) Maximum Likelihood estimation (Kennedy, 1993).

The SPSS Trends statistical package allows for convenient estimation of autoregressive models using both the Cochrane-Orcutt correction for autocorellation, and Maximum Likelihood estimation. The Cochrane-Orcutt correction was used because the coefficients generated can be easily interpreted as in ordinary least squares linear regression.

The Cochrane-Orcutt correction begins by regressing the residuals from ordinary least squares estimation on themselves lagged one period. This provides an estimate of the autocorrelation coefficient--rho. The independent and dependent variables can then be transformed using this estimate of rho, which produces the EGLS estimate of the coefficients. New estimates of the residuals can be done by substituting the EGLS coefficients into the original equation. The residuals from this equation are then regressed on themselves lagged one period and another estimate of rho is produced, which is presumably better than the first. The independent and dependent variables are again transformed, and the new EGLS estimators are again substituted into the original relationship. This process is repeated until the best estimate of rho is produced and all of the autocorrelation is accounted for (Kennedy, 1993).

4.10.2 The Data and the Models

The data used in the models are state appropriations for the promotion programs of both the regional tourist associations and the state for the period beginning in 1929 and ending in 1994. The series begins in 1929 because this was the first year the state made direct appropriations to the tourist associations under the Rushton-Hartman Act. The series ends in 1994 because this was the last year for which data are available. The appropriations were compiled from the appropriation legislation for each year. The appropriations were adjusted to constant 1994 dollars using the CPI-W. The appropriation time series for both the state and the regional associations are included in Appendix C.

Throughout the time period studied, tourism interest groups made annual appeals to the state for increases in tourism promotion appropriations. They often based their arguments on the grounds that the previous year's appropriation was insufficient, or that more tourists could be attracted if more money was spent. Thus, it is reasonable to assume that the appropriation in any given year was partly a function of the amount appropriated in the previous year. To reflect this relationship, autoregressive models were used. Autoregression simply uses lagged values of the dependent variable as regressors in the estimating relationship.

Over time, Michigan's tourism interest groups were able to secure legislation and create tourism promotion entities at the state-level, and they often used these relationships to leverage more funding for tourism promotion. In addition, local tourism interest groups lobbied for tax legislation that would allow them to fund their efforts. As described in previous sections, these institutions were created by the legislature in specific years. The years of interest for this section are:

1. 1945, the year the Michigan Tourist Council was created
2. 1951, the year the Michigan Tourist Council was upgraded to a state agency
3. 1961, the year the tourism committee was created in the House of Representatives

4. 1962, the year the tourism committee was created in the Senate
5. 1974, the year Public Act 263 was passed allowing counties to levy a tax to fund tourism promotion and development activities.

Step functions were created for each of these years. Step functions are dummy variables that introduce interruptions in the time series for the years of interest. Step functions assume the interruption, or policy of interest, has a lasting impact on the level of appropriations. Thus, the coefficients on the step functions are interpreted as the cumulative affect of the policy variable on the dependent variable (Mills, 1994). Two models were created. One regressed appropriations for the state tourism program, in constant 1994 dollars, on lagged values of those appropriations, appropriations to the regional tourist associations, and the five step functions described above. This model will be referred to as the state model. The other model regressed appropriations to the regional tourist associations, in constant 1994 dollars, on lagged values of those appropriations, appropriations for the state program, and the five step functions described above. This model will be referred to as the tourist association model. The variables included in each of the models are described in Tables 8 and 9.

Table 8. Variables in the state appropriation model

Variable Label and Type	Variable Description
Independent Variable STATE94	Total state appropriations for tourism promotion activities in constant 1994 dollars.
Dependent Variables Lagged values of STATE94	
RTAAPP94	State appropriations to the regional tourist associations in constant 1994 dollars.
STEP1945	Step function in the STATE94 series reflecting creation of Michigan Tourist Council in 1945.
STEP1951	Step function in the STATE94 series reflecting the upgrade of Michigan Tourist Council to a state agency.
STEP1961	Step function in the STATE94 series reflecting the creation of the House of Representatives Tourism Committee.
STEP 1962	Step function in the STATE94 series reflecting the creation of the Senate Tourism Committee.
STEP 1974	Step function in the STATE94 series reflecting the implementation of the county accommodations tax

Table 9. Variables in the tourist association model

Variable Label and Type	Variable Description
Independent Variable RTAAPP94	Total state appropriations to the regional tourist associations in constant 1994 dollars.
Dependent Variables Lagged values of RTAAPP94	
STATE94	Total state appropriations for tourism promotion activities in constant 1994 dollars.
STEP1945	Step function in the RTAAPP94 series reflecting creation of Michigan Tourist Council in 1945.
STEP1951	Step function in the RTAAPP94 series reflecting the upgrade of Michigan Tourist Council to a state agency.
STEP1961	Step function in the RTAAPP94 series reflecting the creation of the House of Representatives Tourism Committee.
STEP 1962	Step function in the RTAAPP94 series reflecting the creation of the Senate Tourism Committee.
STEP 1974	Step function in the RTAAPP94 series reflecting the implementation of the county accommodations tax

Because this was a descriptive exercise, no formal hypotheses were formed prior to the analysis. However, given the evidence provided in previous sections of this chapter, it was believed that several relationships would be confirmed by the statistical analysis. For the state model the following relationships were believed possible:

1. Each new state-level institution involved the state more in tourism promotion. Thus, each time a new arrangement was devised, the state government established more control over the state's tourism promotion program, and could direct more resources to the program. As a result, the coefficients on the step functions for 1945, 1951, 1961, and 1962 should be statistically significant and positive.
2. Because the state had an interest in the efforts of the regional tourist associations, and because the tourist associations linked their funding to the state appropriation, the coefficient for appropriations to the regional tourist should also be statistically significant and positive.
3. If the ability of local organizations to promote themselves came at the expense of regional tourist associations (as described in the previous sections of this chapter) then the state could possibly justify appropriating more money to state efforts to fill the gap left by the declining regional associations. Because the local organizations (CVBs) had a viable cost sharing alternative in the form of the accommodations tax, there is little reason to believe that they would compete with the state to direct more resources their way. In fact, they worked with the state to secure grants for their efforts, but these grants were part of the overall state program and are reflected in the state share of tourism promotion appropriations. Thus, it is reasonable to believe that the step function for 1974 would be positive and statistically significant.

The following relationships were believed possible in the regional tourist association model:

1. Because the state established a greater degree of control over the promotion program with each new state-level institution, more of the state's resources were

potentially directed away from the tourist associations to the state's program. Thus, the coefficients on the step functions for 1945, 1951, 1961, and 1962 should be negative and statistically significant.

2. Because the tourist associations linked their funding to the overall level of state funding, the coefficient on the state appropriations should be positive and statistically significant.

3. In 1974, with the implementation of the local accommodations tax, several large counties were able to better fund their own tourism promotion programs. As a result, their use of the regional promotion programs supplied by the tourist associations diminished. As described in previous sections, it was during this time that the promotion of urban tourism was gaining recognition, and local CVBs established themselves as viable alternatives to the regional organizations, often competing for state resources. At the same time, the state had progressively established control over the state program, thereby diminishing the historical role of the regional tourist associations in promoting the state as a whole. Thus, the step function for 1974, which captures the impact of the local accommodations tax, should be negative and statistically significant.

4.10.3 Results and Interpretation of the Models

The results of the state model are presented in Table 10. In this model, the only statistically significant coefficients were for appropriations to the tourist associations (RTAAPP94), and for the 1974 step (STEP1974) function. In any given year, when the affects of the other variables are held constant, a one dollar increase in RTAAPP94 resulted in a $1.80 increase in total state appropriations for tourism promotion. As anticipated, the coefficients for each of the step functions had positive signs. However, only the coefficient on STEP1974 was statistically significant. This indicated that the cumulative effect of stronger local organizations, and the ability of these organizations to establish local

funding arrangements had a positive affect on the amount of money directed to the state's promotion program. When the effects of all other variables are held constant, the cumulative affect of events taking place in 1974 resulted in an increase of $3,172,830 in constant dollar appropriations to the state program.

The results of the tourist association model are also presented in Table 10. In this model only the coefficient for the total state appropriation (STATE94) was statistically significant. In any given year, when the affects of the other variables are held constant, a one dollar increase in STATE94 resulted in a $.068 increase in appropriations to the tourist associations. It is important to note that the significance of the coefficient for the 1945 step function (STEP1945) is borderline. If the STEP1945 coefficient is considered reliable and unbiased then, when the affects of all other variables are held constant, the affects of events taking place in 1945 resulted in cumulative decrease of $203,389 in appropriations to the tourist associations.

The signs on three of the step function coefficients had the anticipated negative sign. The signs on STEP1945 and STEP1951 are both negative. It was in these years that the state's tourism promotion efforts were either formally recognized or fully institutionalized. The signs on STEP1961 and STEP1962 are not negative as anticipated. The institutional changes taking place in these years occurred in the legislature rather than in the executive branch of state government. Thus, it is possible that the creation of the legislative committees had a positive affect on appropriations to the regional tourist associations. However, this relationship is inconclusive given the statistical insignificance of the coefficients for those variables.

Although the coefficient is not significant, the sign on the coefficient for STEP1974 is negative as anticipated. This would seem to support the contention that the growing influence of CVBs and their ability to fund their own programs had a negative affect on the level of state funding received by the regional tourist associations.

Graphical analysis of the residuals from both models was done to determine if autocorrelation was still present. This was a necessary step since the Cochrane-Orcutt technique assumes the time series is a first order autoregressive process (AR 1). If the series were second order autoregressive (AR 2) some autocorrelation might still be present and the estimators in each of the equations would be biased. The autocorrelation function plots of the residuals from both models indicated that the residuals were white noise at the 95% confidence level. These plots are included in Appendix D.

Table 10. Results of autoregression models

Dependent Variable	Independent Variables	Estimated Coefficient	t-statistic
STATE94	RTAAPP94	1.8	2.755*
R-squared= .887	STEP1945	619,224	1.317
Adj. R-squared= .872			
Durbin-Watson= 1.88	STEP1951	705,673	1.507
rho= .244			
	STEP1961	855,471	1.129
	STEP1962	802,190	1.048
	STEP1974	3,172,830	8.844*
	Constant	-374123	-.595
RTAAPP94	STATE94	.068	2.924*
R-squared= .243	STEP1945	-203,389	-1.844
Adj. R-squared=.142			
Durbin-Watson= 1.88	STEP1951	-91,479	-.808
rho= .564			
	STEP1961	4239	.0311
	STEP1962	71,868	.537
	STEP1974	-156,066	-1.389
	Constant	772,967	9.15*

* Significant at the 95% confidence level

It is important to note that the step functions may capture the effects of events other than the creation of new state tourism promotion institutions. It is possible that other events, not considered in these models, contributed to the dynamics of the time series. More complete models might consider changes in the overall state budget and relative power of other interest groups competing for state appropriations over time.

Both models present supplemental evidence of the interdependence between the regional tourist associations, CVBs, and the state tourism promotion program. Both models demonstrate the link between the level of funding for the state program and the level of funding for the tourist associations. The models also provide evidence that the creation of state and local tourism promotion institutions had a cumulative negative affect on the amount of money received by the tourist associations. As describe in previous sections, both the state and local programs effectively covered areas historically promoted by the regional associations. As local organizations became viable, they no longer needed or supported the promotional or lobbying efforts of the regional tourist associations. Similarly, as the state government expanded its role in promoting the state to tourists, an increasing share of the tourism promotion appropriation was directed away from the regional tourist associations to the state's program.

4.11 Summary of Chapter 4

4.11.1 Summary of Processes and Relationships Affecting Group Formation and Maintenance

This chapter described the origins and evolution of organizations developed to coordinate the supply of tourism promotion services at the regional level in Michigan. The level of analysis taken is the organizational field level. This level is necessarily multi-institutional. It examines the dynamics and structure of relationships between potential and actual members and the tourist associations, between the tourist associations and rival organizations in the field, and between the associations and state government.

The most fundamental level in the field is the individual actor, and the set of rules and internal processes or strategies that shape the actor's behavior with respect to the organization. In the case of the regional tourist associations, individual actors played an important role both in the formation of the organizations and their maintenance. During the development bureau era, individuals such as Roger Andrews, Herbert Rushton, and Arthur Stace acted as organizational entrepreneurs, supplying information about the benefits of collective action, and ideas about what a regional promotional organization might achieve. Later, individuals such as George Bishop and Aurey Stropahl acted to clarify and articulate the goals of the associations as tourism interest groups, and provided the leadership for lobbying activities and membership development.

In forming the associations, individual entrepreneurs, such as Stace, were able to utilize existing interest groups, such as the development bureaus, to form tourism interest groups. Selective incentives, broadly defined, were later developed to maintain membership and increase funding. Structures to facilitate communication and interaction among members were established and maintained. Strategies and structures were developed to detect and mitigate free riding. Emotional rhetoric and other means of establishing identity with the group were also strategically employed.

There is evidence that voluntary cost sharing arrangements were problematic; however, the problems can not be fully attributed to strategic free riding. Fluctuations in general economic conditions and unknowing free riding were also contributing factors. Institutions, such as the field representative system, were developed to carry out the functions of informing members of benefits and soliciting their contributions. However, over time these systems proved to be costly and variable in effectiveness. This adversely effected the ability of the organizations to consistently secure dues payments from members and in turn produce consistent programs. Consistency was identified as a determinant of program quality.

The relationship between the associations and their membership can be characterized in two general ways. In one sense it was an exchange relationship. After they were formed, all of the associations eventually began selling low exclusion cost goods--such as advertising--to increase revenue and provide selective incentives for the members. However, there is evidence of a moral or purposive dimension to the relationship. Some individuals joined the organization and paid dues out of a sense of geographic identity and a desire to do the right thing for their communities. This sense of regional identity and the strength of this committment apparently weakened over time as rival organizations with a more localized focus developed and became viable options for exit. Further, grants from the state and the exchange relationship became dominant features of the institutional matrix. There is evidence that this somehow diluted the potential members' identity with the organizations and their ability to effectively supply tourism promotion services.

Other organizations in the field impacted the tourist associations in a number of ways. Initially, chambers of commerce and county boards of supervisors acted as organizational entrepreneurs by supplying funding and legitimizing the associations by becoming active members. These groups assisted and facilitated both the local and state lobbying activities of the associations. Later, although they continued to cooperate in some areas, these groups and the local convention and visitor bureaus began to compete with the tourist associations for state funding, legitimacy, and membership. Conflicts over the nature and quality of the promotion program supplied by the tourist association led some counties to withdraw support in favor of funding the local organization. These conflicts also led to changes in state policy and the state institutions designed to facilitate the state's tourism promotion program. The interaction between the regional destination marketing organizations, the state, local destination marketing organizations, and other rival organizations has been described as the dynamic underlying changes in the institutional structure in the state.

In the context of institutional change, the case of the regional tourist associations suggests that there is more to the process than simple calculation and maximization of net benefits. Benefits and costs were being constantly revealed as the members and leadership of the associations interacted with each other and others in the field. This interaction involved a high degree of uncertainty and complexity that limited the actors ability to a fully account for the costs and benefits that might arise from changes in decision rules and rules for cost sharing. Instead, there is evidence that the leadership of the associations were often in a coping mode by searching for, or living with, the best known arrangement. For example, the linking of funding to the state organization may not have been the best arrangement in the long run, but it worked for a long time. There was little incentive to revert to alternative arrangements--taxes or improved member participation--because the arrangement with the state had worked fairly well for almost 60 years. Thus, institutional change is conditioned on the actions of others in the field and the general acceptance of arrangements that may not be optimal but that have proven to be suitable.

The tourist associations engaged in a number of legitimizing processes or strategies. Initially, the political entrepreneurs in the associations called upon state government officials to support their initiatives by writing letters and serving on their various boards and committees. Later, the associations helped to create and legitimize state institutions that gave them voice in both tourism policy formation and the appropriation process. By appealing to the state, the political entrepreneurs in the regional tourist associations were able to secure the right to have the state fund part of the regional promotion program. They were also granted the right to coordinate and determine the nature of the state's tourism promotion program. Ultimately, three of the tourist associations became dependent upon state financing. When this funding was withdrawn, two of the organizations disbanded, one was reorganized under a different cost sharing arrangement--the assessment--and one remains operational, although marginalized in terms of its legitimacy at the state level.

Evidence from the case of the regional tourist associations conflicts with Olson's (1965) predictions for the fate of such groups. According to Olson, relatively large groups with such a diversity of interests should not be able to organize without supplying selective incentives. Selective incentives, of the type prescribed by Olson, were not employed until after the organizations had formed. There is evidence that purposive and solidary incentives, as described by Clark and Wilson (1961) and Moe (1980) were effectively employed by both individual and organizational entrepreneurs to initially organize the groups.

Olson's predictions for the ability of these groups to coordinate investments in other high exclusion cost goods--such as state policy and state institutions--does not seem to hold. According to Olson, these groups should fail to make investments in the supply of institutions that benefit all potential members. In the case of the regional tourist associations, investments in these activities were made, maintained, and often times successful. Thus, despite the size of the group and the high exclusion cost characteristics of the primary good, the members and organizational entrepreneurs were able to organize and coordinate investments in the lobbying effort and in the promotion program.

As Oliver and Marwell (1988) suggest, there is evidence of a role for a critical mass or core group, to facilitate organizational formation. In at least two cases, a select group of railroad companies and county governments acted as the core to supply a large share of the fixed costs of forming the regional associations.

There is also evidence that existing networks of people, as described by Oliver and Marwell (1988), played a role throughout the history of the tourist associations. Organizational leaders and government officials often had overlapping memberships in different groups. For example, Herbert Rushton was both an original member of the Upper Peninsula Development Bureau and later a member of the state legislature. It was his legislation that provided the framework for funding the tourist associations through state appropriations. Presidents of local chambers of commerce and county government

officials often had overlapping membership and leadership duties in the tourist associations. Thus, it was possible for these people to communicate and coordinate lobbying activities and funding issues between the associations, the chambers, the counties, and the state.

The case of the regional tourist associations underscores the complexity of the environment in which groups desiring high exclusion cost and joint impact goods operate. Group formation, cohesiveness, and long run maintenance are a function of numerous variables including: 1) entrepreneurial behavior on the part of individuals and organizations; 2) purposive or moral incentives, as well as selective incentives; 3) the ability of the group to devise systems for communicating with members; 4) the ability of the group to devise ways of detecting and mitigating free riding behavior; 5) the ability of the group to secure government sanctioned funding and; 6) the actions and relative power of other groups. Thus, the existing models related to interest group formation and maintenance can be supplemented by inclusion and consideration of these variables.

4.11.2 A Summary in the Context of the SSP Paradigm

Tables 11, 12, and 13 are descriptive summaries of interdependencies, the chosen institutional arrangment, and the performance of that arrangement for regional tourism promotion in Michigan. The tables reflect three different stages in the evolution of the regional tourist associations--a formative stage, a maintenance stage, and a decline stage. The formative stage describes the period of time during which the development bureaus and tourist associations were being organized. The maintenance stage describes the period of time during which the tourist associations dominated state tourism promotion. It also describes a period when the associations maintained stable memberships and stable sources of funding. Finally, the decline stage describes the period when the tourist associations no longer dominated the promotional efforts of the state. It was also during this period that

fundamental changes in the state's tourism policy resulted in a state and local emphasis in promotion rather than a regional emphasis.

Chapter 5 is a continuation of the evolution of tourism promotion institutions in Michigan. The chapter describes the evolution and structure of an accommodations tax. This tax is used to help fund county level tourism promotion efforts. In most counties levying the tax, the local convention and visitor bureau is the primary recipient of the tax revenues.

Table 11. SSP Paradigm Summary of Formative Stage of Regional Tourist Associations

Situation -High Exclusion Costs and Joint Impact Characteristics	Structure	Performance
1) High Exclusion Cost Characteristics Large sparsely populated areas of the state begin to seek settlers. Large land owners (i.e railroads and lumber companies) and business owners seek to attract new residents and farmers Promotion advocated as best way to attract interest. New settlers potentially benefit all. Land owners benefit from land sales. Governments benefit from taxes. Business owners benefit from patronage. No single entity can exclude others. Who among them shares in the cost of promoting when detecting use and individual benefits of the promotion is costly? 2) Joint Impact Characteristics Promotion program is available to and affects all regardless of their level of contribution or utility. Regional program is preemptive. Some interested organizations such as chambers and county governments exist. Existing businesses also have interest. At this point there is little conflict that regional emphasis is valued. Who determines what to promote and how to promote? Eventually lumber companies and railroads either sell land or it reverts to state. The interest of the land owners fades leaving local businesses who wish to develop patronage and settlement. Best opportunities for patronage perceived to be in recreation/tourism and agriculture products. Efforts to attract agricultural development are largely unsuccessful.	1) Cost sharing is voluntary in the form of dues paid to the organization. Membership is a diverse mix of farmers, businesses, county governments, and chambers of commerce. 2) Existing civic and business associations, businesses, and individuals act as organizational entrepreneurs supplying information on purposive incentives, initial funding, and facilitate overcoming the first order or first mover dilemma. Development bureaus are established by existing organizations and individuals to administer land and recreation promotion. Decision making with respect to promotion is done democratically but directed mostly by those counties making contributions to the development bureaus. Administrative structure reflects a quasi-federated group based around county governments and chambers of commerce. Very little formal bureaucracy with administrative efforts and leadership undertaken by volunteers. Development bureaus shift to recreation and tourism promotion emphasis.	1) Some free riding by individuals and counties but free riding is not problematic in the face of growth. Initial growth in membership and dues revenues. 2) Existing organizations pay fixed cost of initial program. Marginal cost of other users such as developing counties and new businesses is zero. Participating counties and individual members control the focus and content of promotion program.

Table 12: SSP Paradigm Summary of Maintenance Stage of Regional Tourist Associations

Situation-- High Exclusion Costs and Joint Impact Characteristics	Structure	Performance
1) High Exclusion Cost Characteristics Groups interested in tourism promotion now consist mostly of local businesses: retailers, resorts, hotels, motels, restaurants, and suppliers. State begins to collect consumption taxes and has interest in attracting out of state visitors. Counties still benefit from property taxes on new tourism businesses. Situation remains fundamentally the same: All potentially benefit. Who among beneficiaries shares in the cost of promotion when detecting use and benefits is costly?	1) Cost sharing is initially still voluntary via membership dues. However, sale of selective incentives becomes an increasing source of revenue. Initial efforts to secure funding from county and township property taxes are not successful. Counties make grants in the form of dues. Tourist associations are clearly established as dominant tourism promotion groups and begin lobbying state for funding. Rushton-Hartman Act of 1929 establishes precedent for state involvement in cost sharing. Funding is provided by subsequent state appropriations.	1) Free riding and funding uncertainty become problematic and feed back into political entrepreneur's efforts to secure alternative funding sources through the county and state. If property taxes were used, local residents would be unwilling riders and might act politically. Some members exit and member growth is not proportional to costs associated with new bureaucracy. Increasing reliance of associations on state funding and sale of selective incentives.
2) Joint Impact Characteristics Promotion program is available to and affects all regardless of their level of contribution or utility. Regional image preempts local image. The boundaries of counties, towns, and villages have become clearly defined. Local chambers of commerce and other organizations want to promote themselves. State image becomes an issue and is affected by collective regional images. Who determines what to promote and how to promote? Which image will dominate--local, regional or state? Who shares in the cost of the program chosen?	2) Joint decision making regarding regional program still embodied in regional tourist associations. However, difficulty in securing enough money for matching state appropriations gives credence to rival organizations with a more local interest. Associations respond by enhancing partnerships with local organizations. Both regional associations and local organizations collect appropriations money from state. Joint decision making regarding state and regional programs is done via state administrative board and eventually Tourist Council comprised solely of regional tourist associations and their nominees. Tourist Council is made state agency to determine and administer state promotion program.	2) Regional tourist associations and their members organizations dominate decision making process and regional emphasis dominates. Most of the associations place emphasis on natural resource and outdoor recreation.

Table 13: SSP Paradigm Summary of Decline Stage of Regional Tourist Associations

Situation High Exclusion Costs and Joint Impact Characteristics	Structure	Performance
1) High Exclusion Cost Characteristics Shared identity of counties with regions has lessened as counties and cities have grown and developed a recognition of urban tourism. Businesses, counties and cities still benefit from regional program but their satisfaction with the program is diminished. Some counties may benefit more given the image portrayed by the regional and state programs. CVBs emerge as viable exit options for members. Who among beneficiaries shares in the cost of promotion when detecting use and benefits is costly?	1) Cost sharing is predominantly from State appropriations and sale of selective incentives, especially advertising. Members still contribute but most members are county governments. Dues are not a substantial part of revenues. Systems for detecting member satisfaction and use--field representatives--are abandoned. Eventually state withdraws appropriation and grant support to regional tourist associations.	1) Free riding and funding uncertainty are obviously problematic and feed back into political entrepreneur's efforts to secure funding sources through state. Tourist associations become largely dependent on state funds. Lines between regional and state program are not clearly defined and feedback into member dissatisfaction and exit. Two of the associations disband. One establishes an assessment and one continues to operate.
2) Joint Impact Characteristics Counties and cities are well established. Urban growth is followed by period of decline and economic uncertainty. Desired county images become more oriented to urban tourism such as conventions. Regional programs still emphasize outdoors and natural resources. County/city CVBs rival regional associations. Which image will dominate--local, regional or state? Who shares in the cost of the program chosen?	2) Joint decision making regarding regional and state program is embodied in the Tourist Council and later the Travel Commission which has been restructured to include appointees by governor and local/county tourism industry representatives. The role of tourist associations is greatly diminished. Various transfers of Tourist Council as a state agency facilitate greater input of CVBs in decision making process. CVBs given state grants to facilitate establishing and maintaining their programs. Eventually they secure right to implement a tax at the county level. Two of the associations include several counties with cities qualifying to implement the tax (Northeast Michigan--Flint, Saginaw, Bay City-- and Southeast Michigan--Detroit & Lansing).	2) State and urban programs dominate. Increasing emphasis on convention trade at county level. A distinct state program is well established in lieu of a regional emphasis. State program reflects multiple interests around the state. Southeast Michigan and Northeast Michigan Associations become insolvent.

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INTERESTS, INSTITUTIONS, AND ORGANIZATIONS: THE CASE OF TOURISM PROMOTION FINANCING AND DESTINATION MARKETING ORGANIZATIONS IN MICHIGAN, 1896-1996

VOLUME II

By

James A. Myers

A DISSERTATION

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CHAPTER FIVE

LOCAL TOURISM PROMOTION INSTITUTIONS: THE EVOLUTION & STRUCTURE OF MICHIGAN'S COUNTY ACCOMMODATIONS TAX

5.1 Introduction

The organization of regional tourism interest groups, and how the actions of those groups led to the creation of a state structure for tourism promotion, was described in Chapter 4. This chapter describes the evolution and structure of a tax used to fund tourism promotion at the county level. The evolution and administrative structure of destination marketing organizations coordinating the tourism promotion program in these counties, is also described.

This chapter covers the period from the early 1970s to 1996, even though the local interdependence was recognized long before this period. As described in Chapter 4, legislation was developed in the early 1900s that gave both counties and townships the right to levy a tax to advertise the advantages of the municipality. Since it appears none of these taxes were implemented, the primary means of sharing the cost of the local tourism promotion program was by voluntary payment of dues to the local organization.

The period described in this chapter is distinguished from preceding periods by the statewide proliferation of compulsory cost sharing arrangements in the form of taxes and assessments, and the proliferation of organizations--convention and visitor bureaus--dedicated solely to the administration and provision of tourism promotion. Other local organizations, such as chambers of commerce, often have general business interests and work to promote the patronage of their membership regardless of industry affiliation. Chambers of commerce typically administer local tourism promotion as part of the overall

work of the organization and represent broader business interests. In contrast, convention and visitor bureaus (CVBs) administer the tourism promotion program exclusively and represent the narrower set of interests of tourism businesses. Convention and visitor bureaus have a specific interest in the promotion of tourism activity and the development of the tourism industry.

Often chambers of commerce have acted to support the formation of the local convention and visitor bureaus and provided money for their formation. In some communities there was no distinction between the chamber of commerce and convention and visitor bureau. This often happens because the local economy is so reliant on tourism activity that the chamber membership reflects a tourism interest group. In other communities this may not be the case, and the chamber of commerce and CVB have separate and distinct roles. In some communities the distinction may be vague, and the two organizations may aggressively compete for both members and other community resources. Thus, this chapter is a continuation of the story of local destination marketing organizations and the structure of rights that have led to their creation and maintenance.

5.1.1 A Brief History of Michigan's Urban Convention & Visitor Bureaus

The Detroit Convention and Businessmen's League, formed in 1896, was the first organization dedicated to attracting conventions to a city in Michigan (" A Century of Economic Development," 1996). Earlier efforts were organized in Grand Rapids in the late 1850s to attract furniture manufacturing conventions to that city. However, the Grand Rapids organization was not a sustained effort (Steve Wilson, Interview, 1996).

The Detroit Bureau was formed out of the joint efforts of the Detroit Chamber of Commerce, The Detroit Manufacturers Club, local hoteliers and other businesses. Since its inception, the Detroit Bureau has undertaken a wide variety of initiatives related to convention and tourism promotion and the development of the tourism market in Detroit. As early as 1907, the Bureau supported proposals for municipal funding of a city

convention center when a referendum approving the necessary funds was passed but was later overturned by a court decision (" A Century of Economic Development," 1996).

In the following decades, the Bureau continued to support the building of a convention center, expanding the number of hotel rooms, and attracting major conventions. The Bureau's centennial history documents it involvement in the construction of Cobo Hall and the Renaissance Center as well as securing the 1980 Republican National Convention, and the 1982 Superbowl ("A Century of Economic Development", 1996).

Convention and visitor bureaus were established in other Michigan cities later in the 20th Century. The Grand Rapids Bureau, formed in 1932, was the second urban convention bureau in the state (Steve Wilson, Interview, 1996). The Lansing CVB was organized in 1960 and was followed by the Saginaw Bureau in 1969 . Both the Flint Bureau, formed in 1973, and the Kalamazoo bureau, formed in 1974, were established to administer a tourism promotion program under Public Act 263 of 1974. The Battle Creek CVB was formed as a division of the chamber of commerce in 1979 for similar reasons (Survey of Destination Marketing Organizations, 1996).

Public Act 263 of 1974 was the first legislation to establish a tax used specifically to fund tourism promotion activities and tourism related capital projects. Unlike previous legislation, where the proposed tax was a property tax, Public Act 263 created an ad valorem tax levied on the sale of hotel rooms. The tax is administered by the county government subsequent to the passage of a local ordinance. The following sections describe the local conditions leading to implementation of the tax and show how the cost sharing arrangement is structured and administered in each county.

5.2 General Characteristics of the Interdependence Leading to Public Act 263

5.2.1 Hoteliers and Tourism Promotion Versus County Officials and Facilities

The county accommodations tax established under Public Act 263 of 1974 was partially described in Chapter 4. In that chapter, the urban to suburban population shift, the development of urban fringe areas, and the actions of tourism interest groups were identified as factors that focused community attention on tourism . These events and actions encouraged city government officials to finance capital projects often associated with tourism. In fact, legislators from Grand Rapids had sponsored the legislation to finance building a convention center, and the Grand Rapids CVB supported the legislation because some of the funds could also be used for tourism promotion (Steve Wilson, Interview, 1996).

The Michigan Hotel and Motel Association opposed the legislation maintaining that the tax would inflate room prices and affect demand for local hotel rooms (Michigan House of Representatives, Analysis of House Bill 5801, 1974). At the local level, not all of the hoteliers opposed the legislation. Larger hotels, particularly those located near potential convention center sites, actively supported it. For example, in Grand Rapids, AmWay Corporation, the owner of what was then the Pantlind Hotel, supported the legislation because the proposed convention facility would be connected to the company's renovated property. In most of the cities located in counties qualifying to implement the tax, there was at least one large hotel close to an existing or a proposed facility site (Steve Wilson, Interview, 1996).

People interviewed for this study, who were familiar with the situation prior to the implementation of Public Act 263, characterized the opposition to the legislation as coming primarily from hoteliers who either owned properties outside of the city or had a hotel too small to service convention business. In addition, hoteliers in smaller counties were concerned that the legislation would set a precedent for other counties to adopt similar legislation.

Hotel owners and managers derive income primarily from tourists spending the night in a hotel in the city. According to the hotel owners and managers interviewed for this study, some capital projects do not appeal to overnight visitors. Local parks, baseball stadiums, and sports arenas generally are attractions that generate primarily local tourism activity, with little impact on the demand for hotel rooms.

Hotel owners and managers also noted that management policies of the convention center determined whether the capital investment generates demand for hotel rooms. If the management of the convention center primarily pursues "gate shows", the center generally will not generate demand for hotel rooms. This is especially true if the gate show is not a regional or national event. Gate shows are organized by product or service suppliers who charge the general public a fee for admission to the event. Common types are boat shows, flower shows, auto shows, and home shows. In contrast, conventions and trade shows are typically attended by people who live outside of the area, and they understand that they will spend at least one night in a hotel room.

The hoteliers also made a distinction between group business--such as conventions and tradeshows, eisure business, and corporate business. Leisure business is the demand for lodging generated by families or individuals for general vacation or visitation purposes. Corporate business is the demand for lodging generated by visitors conducting business or attending a business meeting. Depending on the location of their hotel, the hotel owners and managers view demand created by leisure travel differently. Urban hoteliers tended to believe that attracting corporate travelers was preferable to attracting leisure travel; however they wanted leisure travel to be developed for specific seasons of the year or days of the week--such as the weekend. Because leisure travelers may stay the night with a relative, at a bed and breakfast, or at a campground, many hoteliers believed that a promotion program and the construction of facilities focusing on this type of traveler might not create demand for hotel rooms. Corporate travelers, on the other hand, provide the hotel with potential income in two ways: meeting rooms in the hotel as well as guest rooms. This type of

demand was generally believed to be less price sensitive. It is important to note that hoteliers located in popular vacation areas in Michigan believed the promotion program should address both leisure and corporate business.

The nature and management of the capital project can affect the nature of demand and the characteristics of the tourist using the facility. Thus, the hotel groups' opposition to Public Act 263 reflected their uncertainty over how the funds would be used and whether they would be used to generate demand for their products and services. Clearly, the interdependency associated with joint impact goods is evident in this conflict between hoteliers and those wanting to pursue the construction of attractions. The institutional issues are who will be given the right to choose the content of the promotional program and how will funds be allocated between potentially competing uses.

Elected county government officials may have incentives to pursue the construction of facilities rather than spend money on tourism promotion services. Facilities are tangible features of the local economy which both residents and non-residents may utilize. Construction of facilities such as convention centers and stadiums can be politically important when the politician can claim credit for it. In contrast, tourism promotion is intangible and largely directed outside of the community. Thus, local residents (voters) may not be familiar with it or value its. Thus, tourism promotion is not necessarily an issue upon which local politicians stake their platforms. As one anonymous interviewee noted:

> You aren't going to be reelected because you have helped put together a great CVB and a wonderful advertising campaign. Bricks and mortar, that will get you votes (Anonymous Interview, June, 1996).

5.2.2 Hoteliers and Tourists as Potential Unwilling Riders

As described in Chapter 1, the tax creates the potential for unwilling riders--those who previously did not necessarily share in the cost of providing the good but who must now bear certain costs associated with its provision. In the case of the accommodations tax,

both tourists and hoteliers bear certain costs. Hoteliers bear costs associated with collection and potential loss of producer surplus associated with the effects of the tax on price. The latter is the cost of lost potential revenue which depends on the elasticity of supply and demand in the local hotel market. Tourists potentially bear costs due to the loss of consumer surplus also associated with the tax's price effects.

In addition to purely economic concerns, both hoteliers and tourists may perceive the tax as unfair or may object to the processes for determining the nature of the promotion program and the allocation of funds associated with the program. Again, they may value and express a desire to have a generic destination marketing program but resent funding the program because they think the cost sharing arrangement and the processes for determining program quality are unfair.

The number, geographic diffusion, and transient nature of tourists make it difficult for them to organize as a group and voice their opposition or support of the cost sharing arrangement--they are faced with a situation of high transaction costs. Under the tax arrangement, tourists may easily exit by simply choosing to go to other destinations. In contrast, hoteliers frequently interact in local and state hotel associations. Because hoteliers are often organized locally, they can respond to the cost sharing arrangement and methods for determining the nature of the promotion program. In addition, due to the fixed nature of their investment they are more restricted in their ability to leave the destination and may be more likely to voice their dissatisfaction with the existing structure. Thus, hoteliers as unwilling riders have both the potential to voice their objections and the opportunity to organize collective action. To recognize this aspect, the interview sample providing some of the data for this chapter included a number of hoteliers. Even though individual tourists were not interviewed, the reaction of consumer groups representing the traveling public is evident in Chapter 6 on tourism assessment districts.

Many of the hoteliers positively valued the primary tourism promotion program supplied by the CVBs. However, they disagreed with the concept of a cost sharing arrangement that

did not include other potential beneficiaries. The value placed on the tourism promotion program is reflected in the following interview data.

> I view the CVB as an extension of our sales force. They supplement our resources in terms of data and effort. It doesn't matter what city we are talking about, the CVB is an important supplement to the marketing budgets of the hotels (Peter Lion, Interview, June 28, 1996).
>
> I am a strong advocate and believer in visitor and convention bureaus, and I consider them to be the marketing arm of the hotels because without them as individuals we can't go out and have the same impact as a bureau does with an overall marketing plan and image building for the community (David Sanders, Interview, July 30, 1996).
>
> I would say that it is the marketing program that they put together, the advertisements that they put and buy in Michigan Living and different advertisements that they put together I would say are the best. That generates demand or interest for the area. We see it directly (Bob Spillane, Interview, June 10, 1996).
>
> It is the marketing arm to any business, whether you have ten rooms or two hundred and forty. It is a marketing extension for any business and it is really a shame if the hotelier doesn't use them as that (Kay Jendrzejewski, Interview, June 25, 1996).
>
> You need a destination marketing program to be competitive, and I would say that generally they can be very helpful to the hotel industry. I think the issue is the tax and what they do with it (Barb Spearman, June 17, 1996).

The interdependence between hoteliers and other businesses was not evident in the archive data or in interviews with people familiar with the situation prior to the time the tax was enacted. Most of the resistance to the tax came from hoteliers objecting to the use of the tax to fund facility construction. However, once the tax was passed the interdependence between hoteliers and other businesses and the general extent to which hoteliers were unwilling riders was revealed in the interviews. Many of the hoteliers interviewed believed that a tax solely on hotel rooms was unfair and believed that other businesses such as restaurants and retailers should be required to share in the cost sharing arrangement. The following interview excerpts reflect this:

> I think it [the tax] is very unfair. One segment of the hospitality industry is working very hard to bring in revenue that is used by all the other segments in the destination marketing program. It really concerns me (Kay Jendrzejewski, Interview, June 25, 1996).
>
> I mean why don't these fast food places, the gas stations, and restaurants have to collect the tax too. It is just a burden that is put on the hotel community when all these other businesses benefit from the tourist too (Chet Lambert, Interview, June 5, 1996).
>
> You are never going to get away from hotel room taxes, and they are an exceedingly unfair way of financing tourism promotion. You can't tell me that every gas station and every fast food joint along the interstate, and most of the restaurants in this city don't benefit as much as the hoteliers. I will never understand how the concept of taxing hotel rooms to pay for something that benefits everyone became so popular (Anonymous, Interview, 1996).
>
> Not that our tax dollars aren't an expense or couldn't be said that it isn't costing us because that customer that comes in and has to pay $60, I only get $54 because of the tax difference. I know that they aren't going to pay more than $60 because that is the breaking point for this particular hotel and this particular market. So, I am paying that money as a hotelier because I am forgoing that difference between what they would pay at $60 and the $54 I actually get. . . . Let's put it this way. If I didn't have [the tax] I would have an additional $40,000 per year to promote my property as I see the best way to promote it (Bob Spillane, Interview, June 10, 1996).

5.2.3 Arts, Museums, and Festivals versus Hoteliers

In addition to hoteliers, tourists, and county governments, other groups or government agencies may have wanted to promote their specific products or services via the generic county program. For example, museums and those interested in the development of the arts often seek to attract tourists. Other groups, such as managers of county parks, owners and managers of sports facilities, and groups sponsoring festivals have similar intentions. These groups have an interest in both promotion and the construction of facilities. While all of these groups may benefit indirectly from the generic county program, each may also desire a more specific program that focuses on their particular venue or event.

Even though the interdependencies between these groups, hoteliers, and county governments were not evident as the accommodations tax was being implemented, the issue of who had the right to choose the nature of the county's promotion program emerged

later when these groups sought both input into the promotional program and a share of the tax revenues. As will be described in the following sections, the CVBs have, in some cases, been able to contain the conflict between these groups by including their input in the content of the promotional program; however, the cost sharing issue has not always been so easily resolved.

5.2.4 Interdependencies Associated With Geography and Political Boundaries

In most of the counties there are communities--villages, towns, or cities--outside of the major city wanting to promote their own tourist attractions or fund their own capital projects. A cost sharing arrangement at the county level meant that groups in these communities might qualify to receive some of the revenue generated from the tax, but there was no guarantee that they would be able to effectively bargain and secure that right. There is no evidence that businesses or government officials in the smaller outlying municipalities either resisted or supported the concept of the accommodations tax. However, subsequent to the legislature's approval of the tax, there is evidence of the interdependence between the major city and the smaller municipalities in the county. In many cases, contractual arrangements were negotiated giving business groups in the outlying municipalities more voice in the development of the promotion program and, in some cases, granting them part of the tax revenues.

5.2.5 Other Alternatives and Early Challenges to the Tax

There are no data on the success or failure of the voluntary cost sharing arrangement that pre-dated the accommodations tax. It is not known precisely why chambers of commerce and CVBs actively pursued funding from the tax except that they believed this would increase their budgets. Certainly one alternative to the tax would have been to continue under the status quo arrangement of grants and dues payments.

There are no data on the precise preferences of local property owners, but it is assumed they resisted paying additional property taxes to fund capital projects or tourism promotion especially if there was a perception that these expenditures would benefit specific hotel owners or other businesses. The fact that the Kent County Board of Commissioners supported the tax on accommodations rather than proposing an increase in property taxes is evidence of the local position.

Another alternative to the accommodations tax is the general county sales tax, which would have compelled retailers, restaurateurs, and local residents to share in the cost of capital projects and tourism promotion. Both the state constitution and existing state sales tax legislation make this impossible. It is assumed that local individuals favored the accommodations tax because the tax would paid by tourists and hoteliers.

Elements of the interdependence between hoteliers and other businesses potentially benefiting from a county tourism promotion program was subsequently revealed in the case of *Bailey v Muskegon County Board of Commissioners.* In this case, the Muskegon County accommodations tax ordinance was challenged on the basis that it violated both state and federal constitutional guarantees of equal protection of the law. The plaintiffs, who were various hotel and motel operators in Muskegon County, contended that the tax should be applied to all businesses benefiting from tourism promotion not just on the sale of hotel rooms.

In the ruling, the Michigan Appellate Court found the following:

> In the instant case, plaintiffs contend that the accommodations tax ordinance violates equal protection because it failed to impose a tax on other businesses which will benefit from the increased convention and tourist trade generated by the accommodations tax revenues. The trial judge found that the tax scheme adopted by the ordinance bears a 'fair and substantial relationship to the object of the ordinance.' We concur.
>
> Tax revenues expended to promote tourism and conventions bear a substantial relationship to the motel and hotel industries in Muskegon County. Moreover, the exclusion from the taxation classification of other businesses likely to benefit from increased tourism and convention business, such as restaurants, campgrounds, and retail stores, is not invidious because a substantial portion of their business is derived from local residents. The motel and hotel industry derives a far greater proportion of its income from tourism and conventions. Therefore, the

> classifications scheme adopted in the accommodations tax ordinance violates neither the state nor the federal Equal Protection Clauses (333 N.W. 2d 144 [Mich. App., 1983]).

Thus, the Michigan Appellate Court protected the right of the counties to continue levying the tax. It also protected the right of other businesses to be excluded from the cost sharing arrangement while holding hoteliers liable for collection of the tax. The basis for the decision rests on the relationship between the tax and the primary beneficiaries of the tax: the hotel and motel industry. This assumes, of course, that tax revenues are used in ways valued by the hotel industry and that hotelier input influences the content of the promotional program. This assumption may not have been true in all the counties.

It is difficult to generalize the subjective characteristics of the interdependence prior to Public Act 263 because many of the individuals interviewed were responding to the structure of the act; in essence, they were evaluating the performance of the legislation. Specific local situations are evident in the following sections which describe how the tax was implemented and administered in each county.

5.3 General Elements of Structure and Performance Under Public Act 263

5.3.1 Legislation and Revenues

As described in Chapter 4, Public Act 263 gives the county board of commissioners, if the county has a population of less than 600,000 and a city of at least 40,000, the right to enact an ordinance levying an accommodations tax not to exceed five percent. The tax can be collected from any "business [engaged in] providing rooms for dwelling, lodging, or sleeping purposes, except in hospitals or nursing homes, to transient guests, whether or not membership is required for the use of the accommodations (Public Act 263, 1974)." A transient guest was defined as a "person staying less than 30 consecutive days (Public Act 263, 1974)."

For purposes of clarity, the allowable uses of the tax revenues are restated:

1. The cost of administration and enforcement of the ordinance
2. The financing of the acquisition, construction, and improvement, enlargement, repair, or maintenance of convention and entertainment facilities including the payment of principal and interest, when due, on bonds or other evidence of indebtedness issued by the county for convention or entertainment facilities
3. Current or future annual rental payable by the county to an authority organized pursuant to state law for the purpose of acquiring, constructing, improving, enlarging, repairing, or maintaining the convention and entertainment facilities and leasing them to the county
4. The promotion and encouragement of tourist and convention business in the county (Public Act 263, 1974).

The legislation was amended specifically for Kent County in 1989 by Public Act 13 to allow the tax revenues to be used for museum construction in cities with a population of 180,000 or more. This amendment was introduced by Kent County legislators who wanted to fund the construction of a local museum. The additional allowable use clause reads:

5. The principal and interest, when due, on bonds or other evidence of indebtedness issued by or on behalf of the county for the purpose of financing the construction of a museum, or the current or future rental payable by the county to an authority organized pursuant to state law for the purpose of constructing a museum and leasing it to the county, only if the museum is located in a city with a population of 180,000 or more (Public Act 13, 1989).

Convention and entertainment facilities are defined as "all of any part, or any combination of convention halls, auditoriums, stadiums, music halls, arenas, meeting rooms, exhibit areas, and related public areas (Public Act 263, 1974)." However, it did not specifically define "promotion and encouragement of tourist and convention business".

Neither did the act specify how funds are to be distributed between capital projects and promotional efforts; these issues are left to be determined at the local level.

The legislation also provided general rules for enforcement of the act. The procedural details were to be established by the local ordinance; however, the act provided specific rules related to auditing of taxpayer books and records. In addition, specific penalties were prescribed, including a fine of $500 or imprisonment of not more than 90 days.

At the time the legislation was enacted, nine counties qualified to levy the tax: Bay, Genesee, Washtenaw, Kent, Calhoun, Kalamazoo, Muskegon, Saginaw, and Ingham. Later, however, the population of Bay County fell below the requirements of the legislation, and at the time of this study it did not collect a tax under Public Act 263.

Some counties established the full 5% tax rate allowed by the law upon implementation. Other counties established a lower tax rate, and over time some have increased it. Table 14 summarizes the accommodations tax rates effective at the time of this study. Washtenaw County is the only county that had not increased the tax rate since the tax was implemented.

Table 14. County accommodations tax rates effective 1996

County	Tax Rate
Calhoun	3%
Genesee	5%
Ingham	5%
Kalamazoo	4%
Kent	5%
Muskegon	5%
Saginaw	4%
Washtenaw	2%

Source: Survey of destination marketing organizations, 1996, and interviews.

The treasurer's office in each county supplied annual tax collections for this study. In most cases, the data supplied covered the period between 1992 and 1995. However, two county treasurers--Washtenaw County and Saginaw County--provided more extensive data

series, which provide evidence of the trend in revenue from the accommodations tax. Figure 18 is an annual time series of the nominal tax revenues in these counties for the period between 1987 and 1995. The series for Saginaw County is limited to the period between 1989 and 1995 because in 1989 the tax rate was increased from 2% to 4%. The tax rate in Washtenaw County remained at 2%. In both cases, revenue from the tax increased over the period presented.

Table 15 is a summary of accommodations tax revenue for the eight counties collecting the tax for the period between 1992 and 1995, and shows that the revenues have increased steadily . Unfortunately, tax revenue data for Kalamazoo County were not available for 1992 or 1993. Of the eight counties, Kent County collected the most revenue from the tax, followed by Saginaw County, Ingham County, Kalamazoo County and Washtenaw County. Calhoun and Muskegon Counties generated the least revenue from the tax. In 1995, total collections across all eight counties were $9,820,796, a 7.9% increase over 1994.

Table 15. County accommodations tax revenue, 1992-1995

County	1992	1993	1994	1995	Percent Change 1992-1995
Calhoun	$348,300	$347,990	$388,428	$431,995	24.0%
Genesee	$868,623	$914,705	$987,459	$1,072,705	23.5%
Ingham [1]	$1,298,875	$1,294,335	$1,369,809	$1,511,870	16.4%
Kalamazoo	NA	NA	$1,019,704	$1,073,951	NA
Kent [1]	$2,595,474	$2,746,752	$3,081,254	$3,276,246	26.2%
Muskegon	$423,674	$411,848	$508,646	$528,896	24.8%
Saginaw	$905,510	$935,937	$969,337	$1,095,755	21.0%
Washtenaw	$670,951	$702,358	$778,529	$830,378	23.8%
			$9,103,166	$9,820,796	

Source: County treasurers.

[1] Does not include interest and penalties

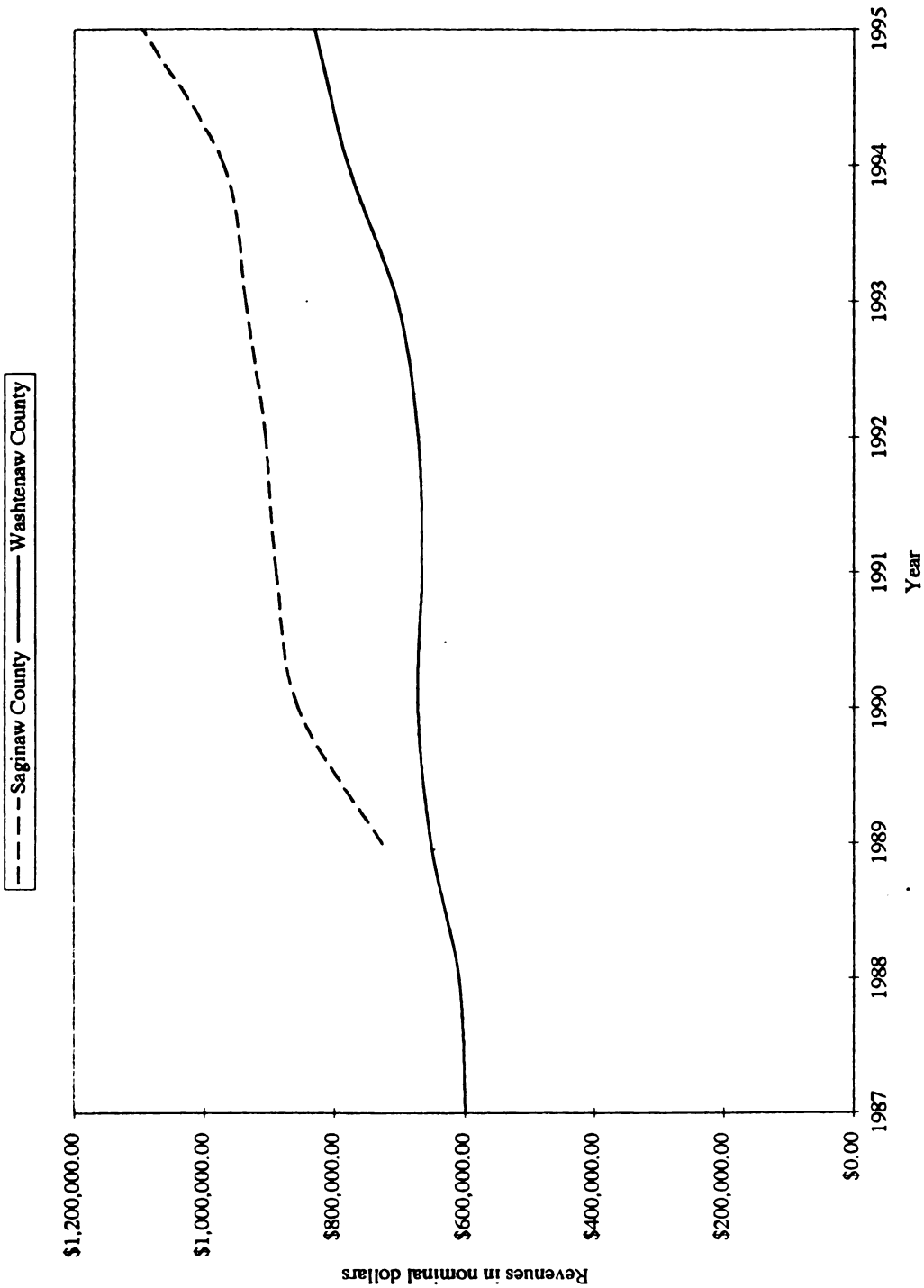

Figure 18. Washtenaw and Saginaw County accomodations tax revenues, 1987-1995.

The revenues from the tax are split among three general uses: 1) administration of the tax; 2) tourism promotion-related activities; 3) tourism-related capital projects. When Public Act 263 was implemented, each of the counties contracted with either an existing independent CVB or with a CVB created as a division of the local chamber of commerce to provide tourism promotion services.[1]

In most cases this contract was with a CVB located in the largest city (usually the county seat) in the county. The term of the contracts between the counties and the destination marketing organizations vary but are typically for one to three years. In exchange for developing and implementing a destination marketing program, the CVBs receive a percentage of the county accommodations tax revenues.

With the exception of Washtenaw County, the contracts were between the county, represented by the county board of commissioners, and the local destination marketing organization. In Washtenaw County, the contract was between the Accommodations Ordinance Commission (AOC) and two designated CVBs. The Washtenaw AOC acts as agent for the county in negotiating the contract and monitoring the management programs of the Ann Arbor and Ypsilanti CVBs.

At the time of this study, the Kalamazoo CVB and the Muskegon CVB were the only organizations that were not independent organizations. The Kalamazoo CVB was a division of the local chamber of commerce, and the Muskegon CVB was a division of the Muskegon Economic Growth Alliance (MEGA), an economic development organization that includes an economic development corporation and the chamber of commerce.

Most of the contracts were specific with respect to the services provided by the CVB. For example, the following list of services expected of the Greater Lansing CVB in Ingham County, is typical of all the contracts:

---

[1] An independent CVB is an organization that is not a division of a larger organization. In most cases independent CVBs have IRS status as a 501(c)6 non-profit corporation.

1. Conduct an aggressive mail and advertising campaign stressing Ingham County's advantages through all available media
2. Prepare and distribute, as widely as possible, printed materials regarding convention and tourism opportunities in Ingham County
3. Vigorously promote non-convention tourism in Ingham County
4. Secure conventions, including participation in bidding, travel and other necessary needs in Ingham County
5. Assist in convention arrangements for Ingham County
6. Operate a room-availabilty clearing house for Ingham County
7. Maintain and/or operate Ingham County Information Centers
8. Define and publicize points of interest from a tourism standpoint in Ingham County
9. Assist in the planning and development of new points of interest and activities in Ingham County (Agreement between Ingham County and the Greater Lansing Convention and Visitors Bureau, 1995).

The contracts also specify the details related to enforcement of the ordinance. In general, the county controller is responsible for auditing hotels and monitoring tax collections. In addition, other rules related to CVB accounting procedures, reporting, and program evaluation are provided in the contract. All counties made some provision for an annual review of the CVB's program by the county board of commissioners.

In all cases, the counties retain a percentage of the tax revenues for administration. Table 16 summarizes the percentages of the accommodations tax revenue designated for tourism promotion and for administration of the fund. Calhoun and Muskegon Counties retained the largest percentage of the revenues for fund administration (10%). Both Genesee and Kent Counties assessed an annual administrative fee rather than using a percentage based formula. It is important to note that the percentage designated for tourism

promotion is not indicative of the percentage actually received by the primary CVB. Some of this revenue was further allocated to organizations in other communities in the county.

Table 16. Allocation of county accommodations tax receipts, 1994-1995.

County	Percent of Revenue to Tourism Promotion	Percent of Revenue Retained for Administration of Fund
Calhoun	90%	10.0%
Genesee	75%	1.3%[1]
Ingham	80%	5.0%
Kalamazoo	75%[2]	1.5%
Kent	20%[3]	1.8%[4]
Muskegon	74[5]%	10.0%
Saginaw	95%	5.0%
Washtenaw	95%	5.0%

Source: Interviews and county convention and visitor bureau contracts.

[1] The Genesee County administrative fee was $14,000 per year. In 1995, this amount was equivalent to 1.3% of the total accommodations tax receipts.
[2] The Kalamazoo CVB received approximately 75% of the funds after the county deducted 1.5% management fee and approximately $60,000 annually to finance a position for marketing the county park and fairground facilities.
[3] The Kent County CVB received end-of-the-year adjustments to its account, based on the difference between 20% of the actual tax receipts and the amount it is paid by the county during the year. As a result, the actual amount it received was approximately 18% of the current year's tax receipts.
[4] Kent County sets an annual administrative fee. In 1994, the administrative fee was $55,172.77 or approximately 1.8% of the total accommodations tax receipts.
[5] The Muskegon CVB received 61% of the accommodations revenue, but the county spent 74% of the tax revenue on tourism-related promotion in 1995. Some of this promotion was done by other organizations affiliated with MEGA.

5.3.2 General Characteristics of the CVBs and the Counties

This section describes general characteristics of the eight CVBs and the counties in which they are located. The data in this section come from questionnaires sent to the CVB presidents, interviews, and secondary data sources.

Five of the eight presidents of CVBs funded by Public Act 263 responded to the questionnaire and provided detailed information about their organizations. In addition, these people provided information about the hotel market in their counties. The number of hotel rooms in each county was used as an indicator of the size of the tourism market.

The CVB president in all eight organizations is a full-time paid position. Each CVB president was asked to indicate the number of people working in the organization. Table 17 presents a summary of the number of paid full-time and part-time employees in the five organizations responding to the questionnaire. Of these five, the Greater Lansing/Ingham County CVB has the largest staff with a total of 38 full-and part-time employees. The Battle Creek/Calhoun County CVB has the smallest staff with a total of 5 full-and part-time employees.

Table 17. Full-time and part-time employees in CVBs funded by Public Act 263

Organization	Number of full-time employees (including president/executive director)	Number of part-time employees
Battle Creek/Calhoun County CVB	3	2
Flint/Genesee County CVB	16	2
Kalamazoo County CVB	8	2
Lansing/Ingham County CVB	18	20
Saginaw County CVB	6	0

Source: Survey of destination marketing organizations, 1996.

Table 18 is a summary of the number of hotels and other businesses in each of the counties. In this table, the questionnaire data have been supplemented by data from the 1994 Census of County Business Patterns (CCBP) and the 1995 Census of Population. The CCBP provides data on the number of hotels and motels in each of the eight counties. While this number reflects the total number of businesses engaged in accommodating overnight guests, it may not reflect the number of establishments responsible for collecting the tax. Accommodations tax revenue per room has been calculated for those counties where the CVB president responded to the questionnaire. This was done by dividing the total 1995 tax revenues by the number of county hotel rooms indicated in the survey. In addition, each county has been ranked by the number of business establishments and population. Wayne, Oakland and Macomb Counties comprise Metropolitan Detroit and

were expressly excluded from Public Act 263 by the population requirements of the legislation. Outside of these three counties, the eight counties implementing the legislation are among the largest counties in the state both in terms of population and the number of business establishments. In addition, the cities located in each of the counties are the largest cities in the state outside of Detroit. Of these eight counties, Kent County is the largest county in terms of both population and number of business establishments. Based on these criteria, Calhoun County is the smallest of the eight counties.

Table 18. General market characteristics of counties implementing Public Act 263

County	Number of Hotel Rooms, 1995	Tax Receipts Per Hotel Room, 1995	Number of Hotel & Motel Establishments, 1994	Total Number of Business Establishments Rank in State	Population Rank in State
Kent	NA	NA	55	4	4
Genesee	3010	$356.38	42	5	5
Washtenaw	NA	NA	57	6	6
Ingham	4500[1]	$335.97	43	7	7
Kalamazoo	2344	$458.17	31	8	8
Saginaw	3900	$280.96	30	10	9
Muskegon	NA	NA	22	12	11
Calhoun	1582	$273.07	28	16	15

Source: Survey of destination marketing organizations, 1996, Census of County Business Patterns, 1994, Census of Population, 1995, author's calculations.

[1] Includes rooms in assessment district outside of Ingham County

5.4 The Structure of Decision Making: Who Chooses the Promotional Good?

As previously described, the CVBs receiving funds from Public Act 263 can be broadly characterized as independent or non-independent organizations. The basis for this distinction is largely associated with the organization's status relative to other civic organizations in the community. In some cases the CVB is a division of the chamber of commerce. As a division of the chamber of commerce, the CVB often shares offices,

membership, a board of directors, and resources with the chamber. In other cases, the CVB is a division of a larger organization representing the business and economic interests of the community. In this case, the community has often integrated several organizations under an umbrella organization. In this situation, community members join the umbrella organization and may serve on the board of that organization. Again, the CVB shares in the resources, membership, and governance of the larger organization. In still other cases, the CVB may be an independently governed and managed entity with its own membership, president, and board of directors.

These distinctions reflect a local institutional choice between alternative administrative structures. This choice has implications for how the tourism promotion program is administered and funded and how different groups perceive the performance of the structure. This section describes the organizational structures, funding arrangements, and internal governance characteristics of CVBs receiving accommodations tax revenues under Public Act 263.

5.4.1 Independent or Not Independent: Choice and Impact of Organizational Structure

As described in Section 5.3.1, the CVBs in Kalamazoo and Muskegon Counties were not independent organizations at the time of this study. In both cases, the chambers of commerce in Kalamazoo and Muskegon acted as organizational entrepreneurs in forming a CVB when Public Act 263 was implemented. The two organizations have similar structures. Both organizations have integrated a variety of community initiatives and organizations into one administrative structure. This structure is a type of federated group--an organization of organizations. In Kalamazoo, the Kalamazoo County Chamber of Commerce served as the umbrella organization. The CVB in Kalamazoo had a separate board of directors, a budget that was separate from the Chamber of Commerce, and generally more autonomy than did the Muskegon Bureau. In Muskegon, the Muskegon Economic Growth Alliance (MEGA) was the umbrella organization. The CVB in

Muskegon County did not have a separate board of directors, and its budget was established by the umbrella organization. In both cases, there was no separate membership in the CVB. Individuals with an interest in tourism promotion joined the umbrella organization.

In Muskegon County, the decision of the community to integrate the CVB, the local chamber of commerce, and the county economic development agency into one organization was done, in part, to economize on community resources both in terms of time and money when many community members found that they were asked to serve on the boards of all of the organizations and to donate money to each group. Dave Wendtland, President of MEGA, described the situation leading to the formation of MEGA:

> Well, we had a number of organizations in town that operated independently, the chamber of commerce, New Muskegon, travel and tourism, and employment and training under the Jobs Bill. Those were the four agencies that were operating. There were other agencies also. There was Labor Management Council, SBDC, the Employers Association, and the SCORE type programs. . . . Tom Keenan, who was the CEO at Teledyne Continental Motors, had some experience with a county, a community, outside of St. Louis. And, the people who served on these boards in Muskegon found themselves being asked at various times to serve on this board, the chamber, New Muskegon, and there was a lot of people who were trying to do a lot of the same things. . . . So, his experience with an organization that was a combined organization outside of St. Louis led him to propose that we can at least afford to look at how to restructure ourselves to better save money to better utilize resources and to bring the power base of the community under one roof. So they did about a two-year study of that organization in St. Louis and then they came back and came up with a proposal that they combine under the heading of Muskegon Economic Growth Alliance. . . . why has the community come together as it has under the Muskegon Economic Growth Alliance and try to tear away some of the programs that are maximizing certain areas and put them into an umbrella agency that said these should all be contained under what we call business development? I think there were monetary issues of people unwilling to fund multi-levels and numbers of agencies that were out there (Dave Wendtland, Interview, July 25, 1996).

The decision to integrate the CVB into the MEGA organization was done in part because the image of the community, as conveyed via the tourism promotion program, was believed to be vitally important in the economic revitalization of both the county and city of Muskegon. A broader community consensus was believed necessary because of the importance of the promotion program and the potential externalities that might arise if one

group--hoteliers--controlled the program. The following comment describes the dynamics of this decision:

> The image of this community when I came here, and I am told many years before that, it was very down on itself--it had a very poor internal as well as external image--and one of the elements of the first [strategic plan] was to come up with an image campaign just purely to get people to believe, the residents to believe, that it had a lot to offer but then to go one step further and proclaim that image to the rest of the country and state. . . .When you [allow one organization control] you go down a path and that organization tends to not always know what the impact of what they are doing is on another sector. That was especially important to us with respect to the image of the city and county. Image is not something that is exclusive to the accommodations people or the CVB that tends to represent them; it is a broader community issue (Dave Wendtland, Interview, July 25, 1996).

In Kalamazoo, the chamber of commerce has traditionally served a broad set of community and business interests. Members of the chamber, who benefited from tourism activity, had supported the formation of a CVB as a division of the chamber when Public Act 263 was initiated. This was done in an effort to take advantage of the tax as a source of funding for county tourism promotion and development initiatives. In addition, business community members identified with the chamber as the dominant business organization in the community and appear not to have wanted a separate organization. The importance of tourism and community image was also cited as a reason for maintaining the non-independent status of the CVB. The following quotation describes the rationale for maintaining this type of structure.

> We have a very committed and active business community here. It has been that way for as long as I can remember. The chamber has been pretty effective in serving the needs of the business community and I think most people recognize the chamber as the business and economic development organization in town. . . . There really has never been a need or a desire to have the CVB separate. . . . Besides, I think the attitude has been 'why create more organizations?' People don't have the time. . . .Tourism and the marketing of the community affects everyone and this way, with most businesses active in the chamber, they all know what is going on (Anonymous Interview, 1996).

In both cases, the communities have decided that the best way to economize on community resources was by integrating several program areas into one organization. In addition, both communities decided the best way to cope with the joint impact nature of

tourism promotion was by integrating the CVB in this larger organization to facilitate joint decision making.

It should be noted that integrating the CVB into an umbrella organization potentially diminishes the opportunity of tourism interest groups to voice their input on the extent and content of the promotion program. The level and nature of tourism promotion desired by hoteliers or other tourism dependent businesses may be subjugated to the broader interests of the community. This was especially true in Muskegon, as expressed in interviews with both tourism businesses and the MEGA leadership. It was apparent in Muskegon that many tourism businesses felt alienated from the organization. They felt strongly that they had little voice in either the development of the tourism promotion program or spending of the accommodations tax revenues.

The following interviews reflect how the tourism businesses in Muskegon objected to the existing structure.

> It is different here than in some of the other places I have been. As you know, the CVB here isn't really a CVB in the traditional sense, it is a department in a larger organization and we are subject to the priorities and goals of that larger organization. We don't have a separate membership to call on to lobby the state or county. The membership is MEGA membership. As a result it is difficult to organize the lodging community around the CVB cause. They, the hotels that is, can choose to do that on their own, but we can't really act as a vehicle for that like might happen elsewhere. That may happen here but I think the hotels feel a little alienated from the organization. I think that they believe that MEGA has acted too often against their wishes for more destination marketing dollars, you know spending the money on other things. That is reflected in the board membership. Out of 42 or 43 members on the board only one person has volunteered to represent the lodging community. Now is that apathy or alienation? I don't know for sure but my sense is that it is alienation (Bob Barker, Interview, June 28, 1996).

> On the other hand, there has been enough concern that marketing perhaps has not happened to the degree that accommodations people would have used it if they had been in control. There is some--that they are not as happy as they could be. I think that is a temporary situation. I think that there is a need for some additional resources but I don't believe that it would be to the benefit of this community if it were split apart and travel and tourism tried to do their own thing (Dave Wendtland, Interview, July 25, 1996).

> It [MEGA] is a big black hole. . . . I don't know what goes on there. That is I don't know what they do for us. It is not for lack of trying either. I have gone to their meetings and tried to give input but the whole issue of marketing and advertising is secondary to having nice offices or attracting a new manufacturing facility that employs 30 people. I mean we employ that many people in the

> shoulder season. . . .I focus my attention on another organization outside of this county. It is smaller and just faster on its feet; more responsive. . . . We have a large enough marketing budget that we can really do our own thing without help from MEGA. It is unfortunate because I think a lot of really good people with an interest in the tourism industry in Muskegon aren't active because they don't see the value in it (Anonymous Interview, July, 1996).
>
> There is a tourism committee or a tourism and convention leg of MEGA. And, though I am involved [in MEGA] I still don't see that the people who are providing the funds are having a voice in it. . . . So, I personally see that we are at a point where I am not sure that the present situation is in our best interest as a community but we don't know any other way. . . . I have a sense from some of the other people that I talk to that they don't necessarily feel that they have a voice and that maybe their needs aren't being met in the promotion of tourism and how those dollars are being spent. . . . Now today obviously [hoteliers] are the only ones who are contributing any sort of revenue source for the CVB. I don't think that anyone would disagree with me saying that they would like to have more say in how those dollars are spent. I don't think anyone disagrees with the direction [of the CVB] in terms of the promotion they are able to do. Looking at those promotion programs in place and the brochures that have been developed I think that everyone agrees they are headed in the right direction. . . . I think that the issue is that how much funding is thrown to tourism promotion lies in the hands of who. Whose hands does it lie in? I suppose theoretically it lies in the budget approval of the board of directors at the recommendation of the president of MEGA and the finance officer (Gina Lister, Interview, July 12, 1996).

In many ways the tourism groups--mostly hoteliers--were responding negatively to the amount of money that was spent on tourism promotion. However, they were also expressing their dissatisfaction with the structure of the organization and their lack of voice in the organization. Most of these potential members responded by exiting from the decision making process. Gina Lister, a long time resident of the community and active participant in both the local hotel association and member of the MEGA board, described:

> The sense that I get from the lodging group is that people don't think they have much of a voice and it is probably out of their control. So, they pull back. They say: What is the point? No one is going to hear me. They have spent the dollars the way they want to spend them anyway." I think that is the dynamic for the most part (Gina Lister, Interview, July 12, 1996).

However, when asked why she continued to be active she responded:

> It is my town. I want to be proud of it. If you just sit back and take what is handed you, then nothing will change. I mean we are on the front line here. People can just sit back and watch as tourists drive on by on their way up to Ludington or Traverse [City]. They can just let the money they collect from the tax be spent by people who don't understand tourism. I don't want to do that. The situation isn't ideal but there are opportunities to make it change. It is a great community and will

> be even a better community, but you have to be involved make it change (Gina Lister, Interview, July 12, 1996).

Although they could not exit from the cost sharing arrangement, alienated members did exit from the decision-making process, believing that they had no voice in the organization. In the case of at least one member, there is evidence of loyalty which was not directly linked to the organization but rather to the community and the role of the organization in determining the image of the community.

In the six other counties, the CVBs were independent or unitary organizations. With the exception of the CVBs in Ingham and Kent Counties, all of these organizations were, at one point, divisions of a local chamber of commerce. In these communities, the chambers of commerce had historically been responsible for the community's destination marketing program. Public Act 263 explicitly referred to tourism and convention promotion and provided incentive for the chambers to form divisions dedicated to attracting tourism and convention business. In this way, the chambers could justify contracting with the county and receiving funds from the accommodations tax revenue.

Over time, the primary CVBs in Saginaw, Washtenaw, Genesee, and Calhoun counties became independent. Individuals interviewed for this study related the different missions of chambers and CVBs as the primary reason for separating the entities. Chambers of commerce were believed to focus their attention on local business activity and the development of local business opportunities generally. In contrast, it was believed that CVBs should focus attention on attracting outside visitors. The following comments reflect this distinction.

> What chambers are interested in mostly is their membership. They don't have the bigger picture. The Clio Chamber is interested in making things better for Clio business people. If they could promote their [member's] taco stand in deference to everyone else's taco stand in the county, then so what. If they were able to bring the business up to their stand and drop business for other taco stands in the county, they have done their job as opposed to bringing new customers for that taco stand and not affecting the other taco stands in the county. They don't care where the business comes from. . . . It is our [CVB] purpose to bring people into the county (Jerry Preston, Interview, June 5, 1996).

> I have a simple analogy of what chambers do and what bureaus do. Chambers deal with people that . . . live here, spend their money, work here, buy a business, whatever. We [CVB] deal with people that come to Battle Creek spend their money, stay in a hotel, and leave (Bonnie V'Sosky, Interview, June 25, 1996).
>
> Chambers and bureaus are two different animals. Chambers are focused on local business issues that are important to their members. They don't have a county focus. They don't care where the business comes from. Bureaus care where the business comes from. They are focused on bringing outsiders in . . . (Anonymous, Interview, 1996).

The difference in organizational focus was the rationale for separating the CVBs from the chamber of commerce. Pressure to make the separation came from members of the local hotel association, the CVB director, or other community members who believed that tourism promotion would be better provided by an organization separate from the chamber of commerce. However, this separation was not done without conflict. In communities where the CVB had attained independence, the relationship between the CVB and parent chamber had often been initially strained. In all cases, the leadership of both organizations has attempted to reconcile these conflicts. Those interviewed believed that these efforts had been successful.

The choice of organizational structure has been very much influenced by county government--specifically, the county board of commissioners. The county board of commissioners controlled the primary source of CVB funding--the accommodations tax--and determined whether the contract with the CVB would be renewed. Thus, the CVBs in these eight counties were necessarily sensitive to local political dynamics. All of the CVB presidents and directors agreed that the independent structure better serves tourism interests--specifically hotels--but may not serve the broader interests of the county as represented by the county commissioners.

This interdependence between the county political hierarchy and the CVB as a representative of tourism interests has meant that at various times there has been pressure to integrate the CVB into some type of umbrella organization. For example in Ingham County, the City of Lansing operates a convention center. The county and city had once

investigated the possibility of merging the operations of the CVB with the convention center (Tom Galyon, Interview, 1996).

At one point Saginaw considered incorporating tourism promotion and the CVB into an umbrella economic development organization. In this case, the CVB opposed the move and launched a local lobbying effort to retain its funding and independence. The following statement from the CVB president describes the situation and outcome:

> At one point the city and the county and the chamber of commerce launched a program known as Saginaw New, no it was Saginaw Futures to begin with. They each obligated themselves to $150,000 to put into this economic development corporation. The county took a very strong look at our money thinking that would be a very easy source and they asked us to get a legal opinion. So we went to a very prominent law firm that represents us. Their opinion was, "No, they cannot use the money [the tax money] to turn over to the economic development corporation." That was sort of the end of it. Now, I am assuring you that, with a million dollars in our budget, these guys are constantly looking at it, and it is just a matter of time before there is another storm that comes down the pike. But, that is this business. I have never run a bureau where it wasn't kind of a prevalent concern (Barry Dickston, Interview, June 19, 1996).

Similarly, in 1995, Calhoun County investigated the merger of the Cereal City Development Corporation, the Battle Creek Chamber of Commerce, and the Calhoun County Visitor and Convention Bureau into one organization (Bonnie V'Sosky, Interview, 1996). The following comment by Mike Gray, who at the time of this study was president of the Battle Creek Hotel Association, generally characterizes hotelier sentiments about integrating the CVB with other organizations:

> But, just recently there was a little trouble brewing where they wanted to get all the CCDC, which is the Cereal City Development Corporation, Battle Creek Unlimited, which is the marketing arm of the Fort Custer area, the chamber of commerce, and the visitors and convention bureau all under one roof. . . . Marketing the industrial park has nothing to do with the convention and visitor bureau, but someone had this idea that they should all be under one organization. . . . That idea for the most part died. They were trying to get funding for the renovation of the building. They had gone to Kellogg's to get the money and I heard today that they weren't going to fund it, so it's done (Mike Gray, Interview, June 25, 1996).

In all three counties, the communities decided not to integrate the various groups due to resistance from local hoteliers and the CVB, but in each case, the organization became the focus of groups with conflicting interests. These groups generally consist of the CVB--representing tourism interests, the local chamber of commerce--representing other local business interests, and representatives of county and city government. The change or maintenance of the status quo structure was a function of the ability of any one of these groups to convince the local government to change either the CVB contract or funding arrangement.

5.4.2 The Organizational Impact of the Accommodations Tax

All eight of the CVBs relied heavily on the accommodations tax revenues to fund operations. In the two non-independent organizations--in Muskegon and Kalamazoo Counties--the budget of the CVB was based almost entirely on the tax collections. Presidents of three independent organizations supplied detailed financial information on sources of funding for both the 1990-1991 and 1994-1995 fiscal years. These funding sources are summarized in Tables 19, 20, and 21. In each of these organizations the accommodations tax was the largest single source of funds. In the interview process, all of the CVB presidents highlighted this fact. For example, the president of the Kent County CVB estimated that approximately 85% of the bureau's funding is from the tax (Steve Wilson, Interview, 1996).

Table 19. Greater Battle Creek/Calhoun County Visitor & Convention Bureau funding sources

Source	Percent of Total Funding in 1990-1991 Fiscal Year	Percent of Total Funding in 1994-1995 Fiscal Year	Change in Funding Source Between 1990 and 1995
Accommodations Tax	89.3%	95.6%	105.7%
State Grant	5.6%	0.0%	-100.0%
Advertising and other	5.1%	4.4%	62.7%
Total	100.0%	100.0%	92.0%

Source: Survey of destination marketing organizations, 1996 and author's calculations.

Table 20. Flint Area/Genesee County Convention & Visitor Bureau funding sources

Source	Percent of Total Funding in 1990-1991 Fiscal Year	Percent of Total Funding in 1994-1995 Fiscal Year	Change in Funding Source Between 1990 and 1995
Accommodations Tax	92.6%	95.5%	70.2%
Memberships	5.5%	4.5%	33.3%
Advertising and other	1.9%	0.0%	-100.0%
Total	100.0%	100.0%	65.0%

Source: Survey of destination marketing organizations, 1996 and author's calculations.

Table 21. Greater Lansing/Ingham County Convention & Visitor Bureau funding sources

Source	Percent of Total Funding in 1990-1991 Fiscal Year	Percent of Total Funding in 1994-1995 Fiscal Year	Change in Funding Source Between 1990 and 1995
Accommodations Tax	72.8%	63.0%	44.3%
Public Act 59 Assessment [1]	16.4%	27.9%	183.3%
Memberships	3.9%	5.1%	120.6%
City Funds	1.7%	0.5%	-55.0%
Advertising and Other	5.2%	3.5%	16.2%
Total	100.0%	100.0%	66.9%

Source: Survey of destination marketing organizations, 1996 and author's calculations.

[1] Both assessment and tax collections are derived from sale of hotel rooms. Thus, the perecent of total revenue derived from lodging related activities was 89.2% in 1990-1991 and 90.9% in 1994-1995.

By increasing hotel room sales, the CVB presidents could increase their annual budgets. Thus, the interests of the organization had become aligned to some degree with the interests of the local hotel community. The CVB presidents interviewed for this study frequently referred to "putting heads on beds" as one of their priorities and the basis upon which they evaluated their success. The following interview data reflects this priority.

> We have no members. We are strictly here to put heads on beds (Barry Dickston, Interview, June 19, 1996).

> We have two events that put heads on pillows, and I have to look at events that are going to bring people in for overnight because that is my funding source. Basically, that is my total funding source . . .(Bonnie V'Sosky, Interview, June 25, 1996).

> Putting heads in beds is the name of the game. It is where our funding comes from, and it is what the hotel community expects (Anonymous, Interview, 1996).
>
> The hotel community is important to the CVB because it is the mechanism that is used to collect the tax. That money passes from the guests hand through the hotels hands to us (Tom Galyon, Interview, June 18, 1996).
>
> For the most part festivals don't bring in new dollars into the community; they redirect existing dollars. And, part of what you are trying to do is bring people from far enough away that they have to stay in a hotel. If they have to stay overnight, then they truly bring new dollars into the community. That kind of is the gage I use [when deciding to support a festival] (Jerry Preston, Interview, June 5, 1996).

All of the CVB presidents expressed a need for the organization to be sensitive to the interests of the local hotel community. In addition, they noted that the hotel community often sought a voice in formation of CVB policy. The CVB presidents believed this pressure to influence policy was justified in the minds of hoteliers because they were the group collecting the tax. The CVB presidents believed that many hoteliers perceived the tax funds as their money, thereby entitling them to a voice in CVB program development and policy formulation. The presidents expressed a need to balance organizational priorities between the hotel community and the broader interests of the destination as represented by county or city government. They underscored the fact that the tax funds were public money--specifically county funds--not hotel funds. Each recognized the hotel community as an important resource in terms of members and funding for the organization. Because they identified hoteliers as a potentially vocal interest group to which they had to be responsive, they included hoteliers on the CVB board of directors and on various committees.

Through control of the accommodations tax the county governments may exercise some control over the setting of organizational priorities and policies. All of the CVB presidents expressed the need to be sensitive and responsive to city and county political dynamics. To achieve this, each of the organizations had representatives of both county and city governments on their board of directors.

Representatives of county and city governments with special interests in local projects, festivals, or other organizations frequently sought support or funding for these interests through the CVB. The following interviews describe the dynamics of this influence and explain how it affected organizational policies, priorities, and governance.

> The county commissioners, and I can't speak for all counties in Michigan, I don't know, but Ingham County is run by the board of commissioners. They literally decide what lawnmowers they are going to buy and who is going to get raises and that kind of thing. I will be perfectly honest with you. We are on a month to month lease with the county. I mean they could change that mix [snap] just like that. That is why we are very attendant to their needs (Tom Galyon, Interview, June 18, 1996).

> We are now about a week away from our balloon event. Actually, it will start this Saturday. Well, for two to three months prior to that my staff is spending an awful lot of time on the phone because we have allowed the festivals to use our 800 number. . . .So we have started doing that because that is one of the things that came up with our county commissioners: "what is the bureau doing to help the festivals?" (Bonnie V'Sosky, Interview, June 25, 1996).

> Well the biggest interest group, or the most influential, are the county board of commissioners. They see this as a rapidly growing income stream which they are not directly accountable to the general public for. They clearly see it as county money even though it is a dedicated earmarked tax from a very specific source. A hotel operator can say, "You know those are my dollars." The county commissioners will very clearly say, "No, those are county dollars. It is a county tax by law and you are collecting that tax." . . . the county board typically very clearly [will] say to the hotel community, the CVB and others, "These are our dollars. We're going to deliberate among our members on the county board on how the money is spent." Ultimately it is their decision. . . . One of the weaknesses with [Public Act] 263 is that they operate under short term contracts. One year contract is the average. The longest I have seen is like three years. So the contract becomes a means by which the county can renegotiate the distribution of the funds (Steve Wilson, Interview, June 24, 1996).

> The county board of commissioners and to some extent here, the city government, exercise a lot of control over where we direct our attention. I mean they all have their pet projects, and it doesn't matter to them if it makes sense in terms of bringing in new money or overnight guests. . . .In this organization, I don't have direct membership, so the county and city governments really have a lot of say in what we do each year. They do that through our budget process (Anonymous, Interview, 1996).

Thus, the accommodations tax linked the CVBs to two interest groups with potential to influence the structure and finance of the organization and the development of the local tourism promotion program. The county board of commissioners exercised influence through its control of the accommodations tax funds. The hotel community perceived a

right to a voice in CVB governance and program development because they were the group responsible for collecting the tax. Growth in tax revenues provided CVB presidents with larger budgets and created an incentive for them to focus attention on a promotion program that generates business for hotels. However, this was balanced against the interests of representatives of county government who may have believed that the construction of facilities, support for festivals, or community identity were more important goals for the organization to pursue.

5.4.3 The Influence of Membership

The accommodations tax provided a fairly stable and increasing source of funding for the eight organizations described in this chapter. As a result, some of these organizations do not rely on membership dues to fund any part of the promotion program. In contrast, some of the organizations have large dues paying memberships. This distinction between member and non-member organizations has implications for the internal politics of the organization and the response of various groups to the effectiveness and fairness of the promotion program.

At the time of this study, six of the eight county CVBs were classified as member organizations. However, in the non-independent organizations--the CVBs in Muskegon and Kalamazoo Counties--membership was indirect. In these two counties members joined the parent organization rather than attaining direct membership in the CVB. Table 22 is a summary of the organizational structure, member status, and approximate number of members in each organization.

Table 22. Summary of organizational structure and membership status, 1996

County/CVB	Organizational Structure	Membership status	Approximate Number of members
Calhoun	Independent	Non-member	NA
Genesee	Independent	Member	260
Ingham	Independent	Member	590
Kalamazoo	Non-independent	Member	NA
Kent	Independent	Member	380
Muskegon	Non-independent	Member	500[1]
Saginaw	Independent	Non-member	NA
Washtenaw	Independent	Member	225

Source: Survey of destination marketing organizations, 1996 and interviews.

[1] Reflects membership of parent organization.

The choice between establishing a member or non-member organization affected both the formal structure of the organizations and the nature of organizational incentives. All of the organizations with memberships had established formal functional departments to administer membership services. In essence, these services were selective incentives, or low exclusion cost goods, available only to members of the bureaus. These selective incentives took various forms including training and informational programs, advertising, cooperative purchasing programs, and preferential treatment in tourist inquiry referrals. In the case of the Muskegon and Kalamazoo organizations, payment of dues entitled members to join group health and dental insurance programs.

In member organizations, membership becomes the basis for inclusion in many of the printed promotional materials provided by the bureau. Further, tourists seeking overnight accommodations, or organizations seeking convention and meeting facilities, may contact the CVB to secure information about accommodations and attractions in the city or county. Often these inquiries are generated from the promotional activities of the bureau. These inquiries--referred to as leads--are distributed among the local hotels. In member organizations, the receipt of leads by a hotel is conditioned on membership. Thus, membership is the conditional mechanism for sorting demand among hotels.

In contrast, the promotional programs of non-member organizations supply information about all of the hotels, attractions, and restaurants in the county. No preferential rate structure existed for businesses purchasing advertising in the CVB publications. Leads generated by the non-member CVB were distributed solely on the basis of room availability and requirements of the inquiring group. [2]

The CVB presidents in these eight counties possessed varying opinions about the organizational benefits and costs of maintaining a membership. Some argued that a diverse membership detracted from developing a coherent focus for the organization by forcing them to be responsive to the multitude of interests represented in the membership. In addition, some believed that maintaining membership placed the bureau in a position of competing with the local chamber of commerce which could prove costly in terms of community perception. However, the membership was also believed to serve as a valuable organizational resource. They noted that some members supplied time and financial support beyond their dues payments. In addition, they believed that members served as a cadre of people who could be marshaled to support the bureau politically and to deliver services to visitors.

The following interviews describe the potential organizational costs associated with maintaining a CVB membership.

> I am convinced that you are fighting a fruitless battle in a membership bureau. Number one, depending on the product that you have to sell, if you have any hotel rooms and convention facilities, the name of the game is heads in beds. If you have to solicit Sam's men's clothing store down the street, and hit him for a $250 membership fee, you had damned well better have some kind of program to maintain his interest, keep him going, give him something for his money. Therefore, the bureau becomes a dancing pony. A number of people that have been in the business for years consider it a wash as far as the income versus what you have to do to maintain that membership. Secondly, what are you doing to yourself politically? How many members are not going to join the chamber of commerce but they are going to join you. Therefore, you are in competition with the chamber. That is sort of a political no no, especially if you are a tax-funded organization (Barry Dickston, Interview, June 19, 1996).

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[2] This is not to suggest that member organizations did not consider hotel room availabilty and group requirements in distributing leads; they most certainly did. However, the first criteria for receiving leads was membership in the bureau.

> [The reason we are not a member organization] is because for a number of years we were tied to the chamber. Being tied to the chamber we couldn't have conflicting interests. If we had our own membership organization, then certain businesses in the community would probably make a decision which organization they wanted to belong to and probably not both. We, so far have wanted to avoid that conflict. . . . I have had people tell me if you don't have to have [a membership] you are further ahead because the actual amount of money you derive from a membership in a smaller or mid-sized community isn't as much as the cost of having to service that membership (Bonnie V'Sosky, Interview, June 25, 1996).
>
> This is the first member organization I have ever run, and sometimes I feel that you are better off without members. They can distract time and resources from the promotional mission of the organization (Tom Galyon, Interview, June 18, 1996).

The presidents of member organizations believed the members were responsive primarily to selective incentives. Establishing a membership provided the CVB with a means of identifying--through dues payments--those businesses valuing the selective incentives. The following interviews reflect the organizational perspective on the role of selective incentives and the value of member response to this type of incentive.

> How do you determine which business is really interested in the promotional activity and which business really doesn't want it? For example, there may be a drug store downtown that says, "Hey, you aren't promoting us." Frankly, the drug store doesn't have anything that the tourist would want to see. And, if they really felt that they had something of interest that people would want to see, then they would pay a fee, and then we could pay attention to them. If it were just that all businesses get promoted equally, then it is kind of hard to identify those businesses that are truly interested and those that are not. . . .All of the bed and breakfasts in the county have become members, primarily because our front desk gets calls all the time, and we refer them. They see the referrals coming to them, and if they weren't a member we wouldn't make the referrals (Jerry Preston, Interview, June 5, 1996).
>
> But, membership has its privileges. We have in our convention services department, that is where we really use our membership at its best because once the sale has been finalized and the meeting, or the tour group for that matter, once they have committed there are 150 different needs that they have. . . . So, convention services and our registration people are prepared and have been trained to direct convention attendees to our members. In fact, we just had a situation at the Lansing Center where an attendee forgot a belt and needed a place to go. So we sent him over to [a local clothing store] because they are a member. That is just one simple example, we do that all the time. So we can really marshal a group together when a large convention comes to town to service the group . . . (Tom Galyon, Interview, June 18, 1996).
>
> [Our membership] is where we draw our strength from. We have 375 members right now and that is growing. We generate about $80,000 in membership revenues and above and beyond that in-kind donations and contributions. For instance, the airlines help us out when we are attending trade shows or inviting

> clients in. Last year in just airline tickets we were, from our membership, able to generate $16,000. . . . We pull together those hotels that can handle regional or national conventions, we involve our convention center, we involve our airport authority, and we involve the airlines. We pull those interests together and we say, "this is what we can fund from the CVB." Then each of those parties, one says they will print the invitations, the airlines say they will fly them in. A restaurateur says, "if you bring them to our restaurant we will do a sit down dinner for 20 people"; or whatever. So it really is that spirit of cooperation that exists even though our public funding is here too (Steve Wilson, Interview, June 24, 1996).
>
> The number one thing hoteliers respond to is leads. If we aren't generating leads for them and business for our other members, we simply aren't doing our jobs. And, they know it. . . .Sure, membership can be a hassle but it also helps us. They are the primary source of co-op advertising dollars and support for the bureau's efforts when we host a group from out of town--a potential meeting or sports group (Anonymous, Interview, 1996).

The two presidents of non-member organizations believed the absence of membership broadened the scope of the promotional program and the diversity of services they could provide to potential clients.

> I feel that we have to promote every hotel in Saginaw County. . . . I maintain, morally speaking, that if a bureau participates in tax funding they are morally obligated to promote the entire community. It seems to me that if that was ever legally challenged they would have to promote the entire community. . . . The membership issue really does affect how you go about doing business in a bureau. . . . Having no members, we only send leads to the hotel properties or the facilities that can handle the group. If you were shopping, and you said, "I want to have a meeting in Saginaw. Barry, what do you have to offer?" I am going to hit you with all this literature . . . I don't recommend a hotel. If you come to me with specific requirements I can say, "Well, we have these three"; but I won't recommend one of the three (Barry Dickston, Interview, June 19, 1996).
>
> It doesn't for us [being a non-member organization] if you look in our visitor guide, our visitor guide tries to be all encompassing in that we have all of the hotels in it; we have all of the restaurants. [This is in contrast to a member organization]. If it is a member organization, if a hotel wasn't a member, it probably wouldn't be in the directory. Or possibly, because of the delicacy of the room tax or room assessment, they may have a bolded listing or some other distinction for the member. . . . If you are going to a community, you want as much [information] as you can get. The visitor doesn't care if you are a member of the organization or not. And, if they are not a member you are not going to promote them. This way, if we are working with a meeting planner or whatever we can give them several choices. Where for instance [in a member organization] if there is a florist needed for a convention, and there is only one florist who is a member, that is the florist that you have to deal with and direct that convention meeting planner to (Bonnie V'Sosky, Interview, June 25, 1996).

In summary, member organizations had a formal structure in place to develop and administer selective incentives. Membership was the condition for inclusion in certain promotional programs and the basis for receiving leads or other business through CVB. In non-member organizations, no such formal processes or conditions existed; instead allocation of leads was based on the discretion of the CVB management and employees.

In member organizations, membership was also the conditional requirement for having input into the promotional program. The membership can pressure the CVB leadership to consider their special promotional interests and seek the development of selective incentives or promotional programs that reflect those interests. Non-member organizations tended to have a broader perspective on the promotional objectives of the organization. Thus, the promotional materials tended to be more inclusive of all businesses in the community, not just those that were members. However, in both types of organizations, the final content and focus of the promotion program, and the distribution of money, were very much influenced by representation in governance structure of the organization. This structure and its impact is described in following section.

5.4.4 Internal Governance and Policy Making Bodies

Representation in CVB decision making was valued differentially across the various groups existing in a community. As noted in Section 5.4.2, hoteliers and county government officials were two groups linked to the organization by the accommodations tax. In both member and non-member organizations, other groups existed within the community with an expressed interest in the output of the organization. The structure and nature of internal decision making processes condition the ability of these various groups to influence CVB policy. The primary internal decision making bodies were the board of directors, the executive committee, and the various sub-committees existing in each organization.

Each of the organizations had a board of directors. The size of the boards, and the processes for selecting board members varied in each organization. Much of the formal policy making was done by the executive committee and was then subject to approval by the board of directors. Each of the organizations also had marketing committees responsible for determining the marketing objectives and goals of the organization. In some cases, individuals had to be members of the board of directors to be able to serve on the marketing committee. In other cases, representation on the marketing committee included representation from the general membership and the board of directors. Ultimately any recommendations of the marketing committee or other sub-committees were subject to the approval of the board of directors.

Seven of the CVB presidents provided information regarding the size and composition of the boards of directors and executive committees. A summary of the size of these bodies in each of the organizations at the time of this study is presented in Table 23.

Table 23. Number of people serving on CVB boards of directors

Organization	Number of People on Board of Directors	Number of People on Executive Committee
Greater Battle Creek/Calhoun County CVB	18	4[1]
Greater Flint/Genesee County CVB	25	4[1]
Greater Lansing/Ingham County CVB	41	11
Kalamazoo County CVB	23	5
Grand Rapids/Kent County CVB	29	8
Muskegon Economic Growth Alliance	42[2]	15[2]
Saginaw County CVB	16	6

Source: Survey of destination marketing organizations, 1996.

[1] Voting members only
[2] Reflects the size of board and executive committee for the parent organization--MEGA

The interdependence associated with joint impact goods, such as tourism promotion, requires a structure for determining who has the right to choose the nature and level of the good. At the organizational level, policy making bodies such as the board of directors and the executive committees determine both of these issues. In addition, the committees also determine organizational rules related to cost sharing and the distribution of organizational resources. Thus, a group can voice its preferences and exercise control over the organizational priorities by securing representation on these committees. A group that is able to secure majority representation may be able to direct resources or constrain the organization to focus on priorities that reflect the interests of the dominant group. This is especially true if democratic processes are used in voting and in selection of committee membership, as was the case in all of the CVBs. The extent of control may not be absolute and is likely to be conditioned by the cohesion the majority group, as well as the power of other groups, institutional constraints, and past organizational performance.

Seven of the eight CVBs provided detailed information about the composition of the board of directors for their organizations. The boards were comprised of diverse groups of business and community leaders. Representatives of the local hotel industry, city government, county government, the local banking industry, the local retailing industry, educational institutions, utilities, and suppliers to the tourism industry were commonly listed as directors in the organizations.

The industry or government affiliation provided by the CVB presidents was used to sort board members into groups that might share similar interests. In five of the organizations, there existed groups on the boards with larger shares of the votes. In two of these organizations, the largest blocks of votes were evenly split between representatives of local government and representatives of the local hotel industry. In the three other organizations with potential coalitions, the largest blocks of voting members were representative of the local hotel community. In two of the organizations--in Kent and Muskegon Counties--industry representation was distributed across a wide variety of businesses and potential

interest groups. In these two organizations no single group had a substantially larger block of votes. A summary of industry or government representation on the board of directors of these seven organizations is presented in Table 24 .

As described in Section 5.4.2, the accommodations tax links the organization to two groups--county and city governments and hoteliers. This link is further reflected in the representation of these groups on the boards of directors. In most cases, the distribution of representation is not mandated by the rules governing the organization. In some of the organizations, board members were appointed. In others, representation on the board was done through a democratic process involving nominating and voting on the individual.

Only in Ingham County was the distribution of representation specified formally. In this county, the accommodations tax revenue was supplemented by an assessment collected in Delta Township in Clinton County. As will be described in Chapter 6, the legislation related to tourism assessment districts requires that a majority of the board of directors be representatives of the local hotel industry.

Table 24. Groups with majority representation on Boards of Directors

Organization	Group	Percent of Voting Board Members Represented by Majority Groups
Greater Battle Creek/Calhoun County CVB	Hotels	21.4%
	City or County Government	21.4%
Greater Flint/Genesee County CVB	Hotels	16.0%
	City or County Government	16.0%
Greater Lansing/Ingham County CVB	Hotels	51.0%
Kalamazoo County CVB	Hotels	26.7%
Grand Rapids/Kent County CVB	No dominant group	No Majority Group Evident
Muskegon Economic Growth Alliance	No dominant group	No Majority Group Evident
Saginaw County CVB	Hotels	20.0%

Source: Survey of destination marketing organizations, 1996 and author's calculations.

The CVB president in Washtenaw County did not provide detailed information about interest representation in the governance process for the organization. However, the structure in the county deserves special attention because it is unique among the eight counties. In Washtenaw County, the Ann Arbor and Ypsilanti CVBs had contracts with an intermediary organization called the Accommodations Ordinance Commission (AOC). The AOC oversaw the distribution of accommodations tax revenues to the two county CVBs in Ann Arbor and Ypsilanti. It was also responsible for reviewing any proposed changes in the structure of the tax and changes in the tax rate. Representation on the commission included county government officials, hoteliers, and other representatives of the county business and cultural community. According to those interviewed for this study, the majority of active commission members were hoteliers.

This commission was formed as a result of collective action on the part of hoteliers in Washtenaw County. As the following comment describes, hoteliers wanted to control the structure and use of the tax revenues:

> We had a strong hotel association and we knew that the tax was going to come whether we liked it or not and so we knew we wanted to control it. So, a few of us that were the original local owners and operators of hotels, like Herman Weber of Webers, Don Roberts, who had the two Holiday Inns, Jack Stegman, who had the Campus Inn downtown and, me. The local people said that if we were going to have a tax we want to control it. So, we went to the local political structure and said, "Look this legislation is coming down from Lansing we can't fight it, it is going to happen, but we don't want that money to go to the general fund. We want the money to be controlled by our industry, the hospitality industry" (Bob Hacker, Interview, July 9, 1996).

This arrangement allowed hoteliers greater voice in directing accommodations tax revenues to those projects or promotional programs that were perceived to be most beneficial to them. In addition, it removed the county commissioners from having direct responsibility for the management of the accommodations tax fund. As Bob Hacker said:

> So, by having this commission that we have, the Accommodations Ordinance Commission, any of those issues that come up relative to the tax dollars, the two percent hotel tax, [the county] send[s] them over to us. Then they appear before us, and we make a ruling, and then we get back to the county commissioners. So it has kind of taken the pressure off of the commissioners of not having to make the decision and not discussing it in a public arena. It has worked out quite well for us

> from the standpoint that it has protected not only us as hotel people and us as hospitality industry people but the county commissioners and the political machine as well (Bob Hacker, Interview, July 9, 1996).

In Washtenaw County, the role of the county commissioners was supplanted by the AOC who controlled how the tax revenues were used. The AOC was, in turn, controlled largely by local hoteliers who used the commission as a way of directing tax funds to groups with promotional interests consistent with their own.

In summary, in five of the eight counties hoteliers and local government officials were dominant representatives in the process of deciding which groups received promotional or project funding. In two of the counties, Kent and Muskegon, representation in the decision making process was more diversified, and no single group serving on the boards of directors had a majority of votes. In Washtenaw County, hoteliers exercised control of the tax funds through their creation of, and service on, the Accommodations Ordinance Commission. Thus, these two groups--hoteliers and local government officials--have the greatest potential to influence the content of the CVBs promotional program and in directing funds to various community groups that appeal to the CVB for support.

5.5 County Promotion versus City, Village, and Township Promotion

This section describes an interdependency between individuals and organizations wanting a generic county level tourism promotion program and those wanting a promotion program for their specific community within the county. As a joint impact good, tourism promotion at the county level has characteristics of being both optional and preemptive. The good is optional to the extent that an individual business or community can adjust their frequency or level of use of the program. This may be possible if the community or business is capable of linking its identity to another geographic area outside of the county.

For example, a business or community may be in County A and close to the border between County A and County B. Assume that the community is comprised mostly of businesses wanting a promotion program that attracts people to engage in outdoor

recreation. If County A develops a promotional program designed to attract conventions--a program for which the community or business has only limited utility--and County B develops a promotion program emphasizing outdoor recreation, then the community may prefer to have its image tied to County B rather than the county it actually resides in. A business may attempt to make this link through its selective promotional efforts and by involving itself in the destination marketing organization of County B. A community may attempt to link its image to County B through its primary program and by cooperating with groups in County B on matters of promotion. They may even join the destination marketing organization in County B. The extent to which the community is successful in linking its image with County B is the extent to which they can opt out of utilizing the promotion program in County A. Further, the business or community may resist any cost sharing arrangement that does not allow it to fund its individual effort. Although the community or business my value some dimensions of the program in County A, they may only actively participate in this program occasionally, if at all.

The issues associated with the optional dimension of joint impact goods include who gets to choose how often, if at all, County A will emphasize the features desired by the individual community. In addition, the extent to which the community will be required to share in the cost of the generic program must be determined.

County tourism promotion efforts are preemptive to a degree because the image of the county partly determines the image of its constituent communities. If the county repeatedly places advertisements and attends tradeshows with the intention of attracting conventions to the largest city, the image of county becomes defined through the city. Other communities may want to have conventions because they hope to benefit from spill over demand, but they would prefer also to have advertisements placed that emphasize other aspects of the county that are unique to their vicinity. Similarly, a single community or business may have an extraordinary reputation as a tourism destination that generates substantial tourist volume for the county. Here again the image of the county is at least partially determined

by the image of this community. The county may try to attract tourists to other communities by primarily emphasizing the extraordinary destination and by supplementing this emphasis with smaller amounts of information about other communities. A conflict may arise when the other communities want equal emphasis or an equal level of recognition in the promotional materials.

The issues associated with the preemptive dimension of joint impact goods are related to who has the right to choose the physical characteristics of the promotion program. Issues such as the size of advertisements, the type of pictures used, and logos may be contested, and a rule must be established to determine who chooses the nature of these things and how the costs will be shared among potential beneficiaries.

5.5.1 The Structure and Evolution of Local Revenue Sharing Arrangements

The CVBs in the largest city in each county were the primary recipients of tax revenues designated for tourism promotion. However, four of the counties had revenue sharing arrangements with village- or township-level destination marketing organizations located outside of the major city. Calhoun, Muskegon, Saginaw, and Washtenaw counties all had revenue sharing arrangements as part of the contract terms with the primary CVB. There were no revenue sharing arrangements with other destination marketing organizations in Genesee, Ingham, Kalamazoo, and Kent Counties.

In the case of Calhoun County, the county contract was with the Greater Battle Creek/Calhoun County CVB; however, both the Albion and Marshall Chambers of Commerce received approximately 92% of the tax revenues generated in those municipalities. In Muskegon County, the contract was with the Muskegon Economic Growth Alliance, the parent organization of the CVB, located in the City of Muskegon, but the contract requires the White Lake Area Chamber of Commerce be reimbursed for tourism promotion expenditures such as advertising, inquiry servicing, and the staffing of a tourism information center.

In Saginaw County, the CVB was located in the City of Saginaw; however, as part of a separate contract with the county, the Frankenmuth Chamber of Commerce received approximately 75% of the accommodations tax revenue generated from hotels in the village of Frankenmuth. In addition, the chambers of commerce in Chesaning, St. Charles and Birch Run received a percentage of the accommodations tax revenues. In Washtenaw County, the AOC had contracts with both the Ann Arbor Convention and Visitors Bureau and the Ypsilanti Convention and Visitors Bureau. Table 25 is a summary of the revenue sharing agreements for these four counties.

Table 25. Structure of revenue sharing agreements, 1996.

County	Description of revenue sharing agreements
Calhoun	The Albion and Marshall Chambers of Commerce received approximately 92% of the receipts generated in their jurisdiction (after deduction of the county administrative fee). The remaining 8% of the receipts generated in Albion and Marshall were retained by the Calhoun County CVB for administration of an amateur sports marketing program.
Muskegon	White Lake Area Chamber of Commerce was reimbursed for expenses incurred in the operation of the North County Visitor Center. MEGA budgeted $45,000 for this expense during the 1996 fiscal year.
Saginaw	Frankenmuth Chamber of Commerce received 75% of the receipts generated in their jurisdiction (after deduction of the county administrative fee). The chambers in other communities--Birch Run, Chesaning, St. Charles-- receive a "degree of support and financial assistance [that is] determined upon the basis of a formula which shall be adopted by the Saginaw County Board of Commissioners . . .[to] provide for a fair distribution of funds in proportion to the revenues derived . . .(Saginaw County CVB Management Agreement, 1991)."
Washtenaw	After deduction of the county administrative fee the accommodations tax revenues are split between Ypsilanti Convention & Visitors Bureau and Ann Arbor Convention and Visitors Bureau. The Ypsilanti bureau received 25% of the revenues, and the Ann Arbor bureau received 75% of the revenues.

Source: County contracts with convention and visitor bureaus.

In Saginaw and Muskegon Counties the revenue sharing arrangements were adopted subsequent to the implementation of the tax. Often, the revenue sharing arrangements emerged because businesses in the smaller municipalities argued that the quality of the promotional program supplied by the county's representative organization was in some

way deficient or not of the quality they desired. For example, the arrangement between Saginaw County and the Frankenmuth Chamber of Commerce emerged out of this type of conflict.

Prior to 1992, the Frankenmuth Chamber of Commerce received 25% of the accommodations tax revenue generated from hotels located there. Beginning in late 1990, the Frankenmuth organization initiated an effort to secure more funds from the county and establish more control over its own tourism promotion program. Elements of the issue are characterized in the following comments:

> . . . we were, meaning Frankenmuth, the major source of that tax base that Saginaw County was utilizing, yet we didn't have a lot of control of where those dollars were being spent and we didn't have enough funding ourselves for the Frankenmuth CVB. . . . We realized, looking at it over the years, that this was not going to work and that it wasn't working for our community. So, we developed a partnership with the Saginaw CVB of how we wanted to take the dollars and promote Frankenmuth as well as the Saginaw CVB. . . . We felt that we could do just as well, not necessarily better, but we knew how to promote our community because we had been doing it for years. . . . you had personalities that didn't agree on how to promote. Frankenmuth's position was simply this: "We are not saying that you aren't doing a good job but that we can take those dollars and do an equal or better job." . . . You start looking at where the money is going and you start asking, "Where are you guys placing it because we don't see the growth there and we think there are different opportunities" (John Shelton, Interview, June 6, 1996).

> So, the point was that we have a group of people here that have been promoting Frankenmuth a long time. Their livelihoods depend on it. They know what they are doing. Each year they are doing better than they have the year before for many years. It was felt that we could do a better job by promoting from within than promote from Saginaw. . . . Disneyland in California doesn't rely on Orange County Convention and Visitor Bureau to do the job for Disneyland. The same philosophy [in Frankenmuth] on a smaller scale, we could promote more effectively from within Frankenmuth. If you say "hey, come to Saginaw County," most people don't know that Frankenmuth is in Saginaw County. Frankenmuth is the place they are thinking of when they come to Frankenmuth or for that matter when they come to Saginaw County. . . . They would spend lots of money on downtown Saginaw economic development. What it had come down to was that over the years of only two people from Frankenmuth being on the board and those two continually encouraging change, it just wasn't happening. They would not change the way they would operate. There was a strong feeling that [the Saginaw CVB] and other people on the board simply didn't want to do it, put more Frankenmuth people on the board and simply didn't want to change the way they were doing things. . . . Let me give you an example. when you go to national travel shows people request appointments in advance through computer systems and tour operators place their requests and then they get matched [with a destination]. You have approximately forty open spots for appointments and consistently, year after year, Frankenmuth Chamber of Commerce and Bavarian Inn and Bavarian Inn Lodge would get anywhere between thirty five and thirty eight appointments filled.

> The Saginaw CVB, filling out the same forms and doing the same thing would get ten or twelve appointments. Well, again, people don't know that Frankenmuth is in Saginaw County. If it had clicked with them: "Oh, Saginaw County that is where Frankenmuth is," they would have requested to have appointments with the Saginaw CVB. Of course they [Saginaw County] didn't have material that said "Saginaw County, home of Frankenmuth" they wouldn't do that (Jim Engel, Interview, June 6, 1996).

> They [Frankenmuth] certainly used quality in their war. They said, "We don't like the way you advertise, we don't like where you are advertising, we can do a better job for us." It is probably true, but it is true of anything. If you had a hotel and you kept that money you could probably do a better job for yourself, if you had the expertise and the staff, of selling your property than a bureau would do for you. On the other hand, if you don't have enough money to have your own staff you can't do as good a job because we do things that represent the hotels collectively that no one individual hotel can do on their own. I mean that is what we do, but they didn't see it that way (Barry Dickston, Interview, June 19, 1996).

Similar debates and bargaining occurred in the other counties with revenue sharing arrangements. In Calhoun County, the revenue sharing arrangement between the county and the Albion and Marshall Chambers of Commerce emerged out of bargaining between those supporting the tax and the county commissioners representing Albion and Marshall. Part of the rationale for having funds revert back to these communities was due to the generic nature of the county promotion program which did not accommodate the preferences of the individual communities. This is described in the following interview:

> [The revenue sharing emerged because] that was the only way that they would go along with [Public Act 263] in the beginning. . . .when it was started, Public Act 263, you had to have approval of the county commissioners and agreeing to the split was the only way that supporters of the tax, which at that time was the membership of the Battle Creek Chamber, that was the only way that they could get the county commissioners to agree to enact the tax. . . . In the past the relationship between [the Battle Creek CVB] and those chambers has been competitive. I think because--especially the Albion Chamber--because they don't see themselves as a tourism destination aligned with Battle Creek. Albion would liked to be aligned with Jackson. So, any promotion that we were doing for the whole county they don't feel like they benefit from (Bonnie V'Sosky, Interview, June 25, 1996).

In Washtenaw County, the revenue sharing arrangement was the result of collective action by local hoteliers to cope with local interest groups and to control how the tax revenues were used. Prior to county implementation of Public Act 263, hotel owners and managers in Washtenaw County organized a local lobbying effort to secure greater voice in

the way the funds were used. As part of this effort they agreed to and supported the revenue sharing arrangement. Bob Hacker, owner and general manager of the Comfort Inn, who was active in this process described the strategy employed by the hoteliers:

> But, in order to get this thing going . . . Gary Owen was speaker of the House up in Lansing and Gary was very, very, very active in the political structure of Ypsilanti. So what we did is we got together with them and did sort of our own back of the house politics before we went to the commissioners and the politicians and everything else. We needed the Democratic vote to get this thing through to the county commissioners. To get it set up the way we wanted it set up with the Accommodations Ordinance Commission rather than just have them throw it into the general fund and who knows what is going to happen to it. . . . So, in order to get that all together we figured we have to give everybody representation [on the AOC]. So we made up the board basically made up through the chambers of commerce, because that was a viable tool that was recognized by everybody. So we took the Ypsi Chamber and the Ann Arbor Chamber, and we said we will form those bureaus within that structure rather than trying to start over with a new from-the-ground-up 501-c corporation. . . . that is why there are two CVBs. And, the reason there are two is basically because of Gary Owen and the political structure. We needed that support so there was kind of a tradeoff. There were no hotels in Ypsilanti. Now you have the Marriott, but at that point all you had was a couple of motels that might have been ten rooms each. . . . But, in order to get this thing passed the way we wanted to get it passed you have to give and take. So we came up with a twenty-five seventy-five split. Ypsilanti got twenty-five percent and Ann Arbor got seventy-five percent (Bob Hacker, Interview, July 9, 1996).

In all of the counties with revenue sharing arrangements, the issue of who controlled the tax funds and who directed the content and focus of the promotional program were the primary sources of conflict. When asked to characterize the single most consistent conflict facing the CVB in her county and CVBs generally, a hotelier in Calhoun County responded:

> It is all around segments and location. Who gets promoted more or less? What gets emphasized more? It is so hard to promote a destination and not place some emphasis in one place either geographically or in a particular segment (Kay Jendrzejewski, Interview, June 25, 1996).

A similar sentiment was expressed by the president of the Greater Lansing/Ingham County CVB:

> But, all across the country there is always that misperception. All across the country they are saying that CVBs are concentrating too much on the downtown hotels and not enough on the suburban hotels, or putting too much emphasis on the suburban hotels and not enough on the downtown hotels, or you are putting too

> much emphasis on this block of hotels and not enough on this group (Tom Galyon, Interview, June 18, 1996).

In essence, the existing rules for deciding on the content of the program and cost sharing arrangements resulted in unwilling riders and people with unsatisfied preferences. This was largely defined by geographic and political boundaries. These people wanted to be able to control the funding and content of their own programs. These groups generally valued and wanted some type of generic county promotion program but disagreed about the content of the program and how the tax revenues were split between the local program and the county program. The resulting revenue sharing arrangements--local institutions--allowed these groups to formulate separate decision rules, usually in other organizations such as the local chamber of commerce, and to fund their specific programs

5.5.2 The Impact of Revenue Sharing Arrangements and Alternative Arrangements

One alternative to a revenue sharing arrangement is to make no such provision. In other words, to have the CVB be the exclusive recipient of the tax with no money reverting back to the communities in the county. Four of the counties did not have revenue sharing arrangements as described in the previous section: 1) Ingham County, 2) Kalamazoo County; 3) Kent County and, 4) Genesee County. However, Ingham County had a unique arrangement with Delta Township in Clinton County. Rather than having tax funds revert from the county to the community, an assessment district was established and the assessment funds reverted to the Greater Lansing CVB. In some of the counties without revenue sharing arrangements, the conflict between the outlying communities or areas and the largest city persisted. In these situations, some hoteliers and other groups in the outlying areas believed the promotional program emphasized the city and the attraction of conventions to the major city. The following interview data reflect these sentiments:

> They primarily promote the downtown area and convention trade. I don't necessarily think that is bad, but I would appreciate more money being spent on tour groups and some transient stuff. Those are our markets here (Chet Lambert, Interview, June 5, 1996).

> Their agenda? Downtown. I think for years the Lansing Center and the CVB worked as two separate entities which I sort of thought that was how they are supposed to work, but I see the CVB getting into a more and more controlling hand in the direction of the Lansing Center. . . . I remember a promotion a couple of years ago that had these two hokey looking people in everything. I forget what their names were. I keep wanting to say Floyd and Maude, they were just a really hokey looking husband and wife. I thought this is the worst image for this town. I just could not believe that they had that going all over this country. Wherever they were sending their material here were these two hokey looking people. I don't want my town represented like that (Barb Spearman, Interview, June 17, 1996).

> Well out here in Clio it is hard to believe that we relate in anyway to downtown Flint. As a [bed and breakfast] we attract a different sort of traveler. A traveler [who] is looking for something different than the downtown hotel. So it is difficult to say whether the overall promotion program actually benefits us or whether that happens somewhat naturally. We get business through the CVB; there is no doubt about it. It definitely covers our membership dues. But their emphasis is certainly downtown and conventions (Carol Powell, Interview, June 6, 1996)

In general, all of the people interviewed who resided in communities or areas outside of the city believed their ability to attract business was partly affected by the success of the downtown in attracting conventions and other types of business. They believed the demand for their products and services was partly a function of the spillover demand that occurred when hotel rooms filled in the downtown area. This is a separate issue discussed in Section 5.6.

The CVB presidents in those counties with revenue sharing arrangements expressed a general dissatisfaction with the effect the arrangements had on the generic county program. They believe that the revenue sharing arrangements reduced the amount of money they had available for the county program and may have resulted in some duplication of effort. The following interview data reflects the specific sentiments of CVB presidents in some of those counties.

> [The revenue sharing arrangement] dilutes, to some degree, the impact of what we could be doing for them (the different communities). I can buy an ad in Michigan Living Magazine. They can't. Not with the little pittance they get; I can. Frankenmuth is a different story (Barry Dickston, Interview, June 19, 1996).

> It is hard to say because I don't really control the budget, but it does affect the amount of money I have to spend on promotion. They (other communities) get forty some thousand dollars. After administrative costs and after all of the dedicated money is spent, my whole promotion budget--the actual money leftover

> to spend on advertising--is only $30,000. I could do a lot for this county with another forty plus thousand dollars (Bob Barker, Interview, June 28, 1996).
>
> For a long time it was a competitive relationship between the two cities and the two organizations. I think that is changing now. We are working much more cooperatively. There is some duplication of effort but not as much as in the past because we are working better together (Mary Kerr, Interview, June 20, 1996).

In summary, the revenue sharing arrangements have evolved over time in an effort to cope with the interdependency between those wanting a county tourism promotion program and those in outlying communities wanting to fund and choose their own promotion programs. Individuals interviewed for this study who lived in the outlying communities were generally satisfied with the arrangement and believed it to be the best way to fund their programs. However, these funding arrangements reduced the total budget available for the CVB and may have resulted in some duplication of promotional efforts.

In those counties without revenue sharing arrangements, people in outlying areas expressed a belief that their promotional preferences were secondary to the promotion of businesses in the downtown areas of the largest city. They expressed a desire to have more money and more emphasis placed on their particular area or on the tourist markets most likely to patronize their business.

5.6 Interdependencies and Structure Associated with Surpluses and Fluctuations in Demand

The high exclusion cost and joint impact nature of tourism promotion was assumed prior to beginning this research. The exact nature of the interdependencies and the evolution of the associated institutional arrangements became clearer in the process of interviewing people and reviewing historical information. However, the interdependencies associated with surpluses and fluctuations in demand were not assumed or understood even at a basic level prior to beginning the research. This interdependency and the relationship to tourism promotion and destination marketing organizations was identified completely in the research process. In many ways it was identified after all of the interviews were

completed and the transcripts were being analyzed. As a result, specific questions related to this aspect of the tourism promotion good were not asked. Thus, it is the least developed and least understood aspect of the research.

5.6.1 A Description of the Interdependencies Associated With Surpluses and Demand Fluctuations

Many of the individuals interviewed referred to a dynamic of "spillover," "overflow," and "displaced" demand. This was especially true among hoteliers. Many of the hoteliers believed that the attraction of conventions and other large groups to a destination created a situation where demand was displaced out of hotels in one location into hotels in another area. This dynamic was also described as happening between communities. When a particular community fills with tourists, the businesses in communities in close proximity are expected to have an increase in business. When occupancy rates are high, hotels typically will adjust price upwards. This practice--referred to as yield management--is used in many capacity constrained industries, such as the airline industry. It is a form of price discrimination that allows hoteliers to capture larger shares of consumer surplus than would otherwise occur under a one price policy.

In a destination, location, level of service, and the efforts of the CVB often determine who first fills to capacity and who must compete for the spillover demand. Many of the people interviewed believed larger hotels and full service hotels were the first to receive direct benefits from the primary tourism promotion program. This was due in part, they believed, to the emphasis placed by the CVB on attracting large groups and conventions. The following interviews reflect the nature of the interdependency.

> Not only in terms of bringing in conventions but also the spin-off of conventions if you are not large enough--which we aren't of course--or if you don't have meeting space--which we don't, but when they do bring in those conventions there is always spin-off. I mean the displaced business has to go somewhere. . . . You can almost see the change in the smaller properties business based on how busy the larger properties are. I guess the point in being for years across the street from Howard Johnson's was a Knight's Inn, and they were not even in the same market as Howard Johnson's; however, it had a real go-getter for a sales manager who

> used the CVB to capture some of that spill-over. . . .If there isn't a very broad based and fair group of people handling those funds, then I have seen where it gets channeled off more to the larger properties--eighty plus room hotels--and the mom and pop hotels end up on the side lines. . . . I mean it is a natural thing to want to fill up the largest property because the rates are higher and the visitor bureau gets its money from the tax. The higher the room rate, the more rooms sold at that rate, the higher the revenue to the bureau (Kay Jendrzejewski, Interview, June 25, 1996).
>
> I would definitely say that Stouffer's and us would benefit more [from the CVB's promotions]. You know when somebody is contacting them to bring in a convention, they need more rooms than what a lot of the other places have. The requirements of the groups they have coming in are full service generally over a limited service hotel. We have only three full service properties here in town. . . . We don't have the facilities to bring in [a convention] and Stouffer's is quite often making us the overflow. If I took it personal, like I was a stepchild, it might bother me, but I don't care if I am the step child. . . . I think we feel that way because we are a smaller city and we know what is going on. I know that if Stouffer's gets a convention I am going to get overflow. But, if this was a bigger town, I think it is harder to see that happen (Mike Gray, June 25, 1996).
>
> Conventions benefit everyone, even the smaller properties. If the Amway is full with a convention, then the customers that would have stayed there spill out into the other properties. As my occupancies go up, my price and my yield go up. Even a Hampton [Inn] that normally gets transient business benefits because some of those people who would have paid my normal rate won't, and they look for the next level of service. . . . It works best for the community if you can keep them all in the area, but you have to work together to make that happen (Peter Lion, Interview, June 28, 1996).
>
> I think that you might find your limited service properties that don't have meeting space, they might feel they are not getting the same level of benefit that a full service hotel does. They may not get the type of leads where they can go out and get specific business for their hotel. I think that a lot of that is the responsibility of the bureau to go out and sell to them that we are not only marketing to groups, but we are marketing to individuals who are going to stay in your facility. I think also that they have to realize that when the full service hotels sell out that overflow is going to them as well. I think that if you have any entity in any community that is paying the hotel tax, it is the limited service properties that feel they don't get a proportional benefit (David Sanders, Interview, July 30, 1996)
>
> You can see that the small hotels don't directly benefit from it [the promotion program], but as the other hotels fill up, the people that are going to be in Saginaw or whatever, are going to areas that are not necessarily promoted by the CVB (Bob Spillane, Interview, June 10, 1996).

The relationship between the high exclusion cost characteristics of tourism promotion and the surplus interdependency have similarities. However, hotel room demand in a destination is antecedent to the promotional good. The surplus issue is about who will get the tourists and not about who will pay for the promotion program, as is the issue with the

high exclusion cost dimension. These are really two separate goods. One of the goods is the promotion program, and the other is the tourists who are attracted by the program. The advertising aspect of the promotion program may influence where people stay, but coping with the spillover demand requires a more activist role on the part of an individual hotel or collective action on the part of all hotels.

5.6.2 Role of the CVB in Coordinating Spillover and Allocating Demand

Many of the CVBs had programs in place to facilitate information sharing between hoteliers in the destination about the aggregate level of demand and spillover demand. In addition, the process for handling leads generated by the CVB determined, to some extent, who captured the demand for the destination. As described in Section 5.4.3, in member organizations leads were often only available to members. Once a potential group expressed interest in visiting the destination (a lead), the CVB would coordinate visits to local hotels, attractions, and restaurants to familiarize the potential client with the destination. In many cases, if the group was large and wanted convention services, the lead would be given to those hotels with sufficient space to accommodate the group and in close proximity to the convention site. The number of rooms needed by the group may exceed the room availability of a single hotel. In this case, the CVB may coordinate between the various hotels to insure the group has a sufficient number rooms. In this way, the CVB plays an active role in allocating demand between the facilities in the market.

In most destinations, this process was accepted as a norm of business practice. Many hoteliers believed this was the best way to structure the relationship. Many believed they would benefit anyway by capturing the spillover demand created by the conventions held in larger hotels. However, not all hoteliers felt this way. For example, one hotelier believed the process was unfair and that leads, regardless of the size of the group seeking accommodations, should be sent to everyone. This is reflected in the following interview:

> The other thing they do with their lead process is that they don't send them out to every hotel. For example, if it is a group of 350 people, they know this hotel can't handle 350 people, so I won't get that lead. Now, until the information sheet that says, "these are the confirmations that have come out in this town," until that sheet comes out, I don't even know that that particular piece of business is interested or is going to book something in this town. If I knew when the leads came out, perhaps I could call Denise at the Holiday Inn next door and say, "Could we work on something for this piece of business together." Or, I could go out and say to the hotel that gets the business and say, "I would like to go in on overflow business on this. You can't handle all of these guests, what do you think?" Now that may or may not work, but it seems to me that is at least gives me a chance up front to be part of the bidding process in conjunction with somebody else. I can't do it because they [the CVB] won't do it. They filter those leads (Barb Spearman, Interview, June 17, 1996).

In addition to the lead processing function, many CVBs maintained programs that coordinated the allocation of spillover demand. The specific process varied in each county, but the fundamentals of the process included: 1) a method for cooperatively sharing occupancy rates or room availability and; 2) a system for reporting the groups staying in hotels that were booked through a lead generated by the CVB. The following interviews describe how this process worked.

> We do an occupancy report. I mean it is really sort of public information through the tax records but we do our own through the convention bureau and we have guidelines set up so that those that participate get a copy of it, and those that don't participate don't get a copy of it. We share our average daily rate and our occupancy figures by the month. I think we, as an association, have to look at it that we are doing well because when we are all doing well, we don't cut each other's throat (Bob Hacker, Interview, July 9. 1996).

> We [the CVB] are doing availability constantly trying to know where rooms are so that if we get a call and someone says, "Can you tell me where to find a room Saturday night?" Then we have a list on everybody's desk that says yes these are the hotels that have rooms available. And, if we don't have any rooms available in our community, or I should say in our county, because we go with the county first, then our next step is to go to Kalamazoo and find out what they have . . . That works back and forth. They do the same for us. If their rooms are full they will come to us and ask if we have rooms (Bonnie V'Sosky, Interview, June 25, 1996).

> Our goal is to keep people in the county, so we track availability for the hotels and try to place the spillover locally. It works pretty well. It really is just a matter of getting the hotels to participate and being smart about not giving away too much information (Anonymous Interview, July 19, 1996).

> So, my vice president of convention sales has been going out and meeting with the directors of sales in the hotels to try and find out what we can do to help them do their job. What more do they need from us that we are not giving them? . . . We want to know can you bid on this piece of business, why can't you? Rates too

> low? Rooms committed during that period of time? Not interested in that particular piece of business for whatever reason? Then we can look for the people who are interested (Tom Galyon, Interview, June 18, 1996).

Within the CVBs, the existing system for allocating leads incorporated mechanisms for monitoring and allocating spillover demand. In member organizations, access to spillover demand was first conditioned on membership and then on the requirements of the client. In nonmember organizations, with these systems in place, location and group size were the basis for sorting spillover demand. Thus, larger hotels and hotels with full service accommodations tended to receive the leads associated with conventions. Generally, these hotels were located in downtown areas of the largest city in the county. The extent to which conventions were a priority varied in each city, but when conventions were emphasized, hotels that had the appropriate facilities were often given priority over other types of hotels. For example, in Lansing, in Ingham County, conventions were a priority. The following comment describes this:

> So, the Lansing Center events, the hotel rooms, they have priority bookings over there. Priority one booking is 250 hotel rooms or more, if they use one or two of our hotels. That is certainly our priority as well (Tom Galyon, Interview, June 18, 1996).

Smaller hotels, or hotels located in suburban areas, either objected to this system or accepted it as the norm where spillover from conventions was the benefit they received. They were satisfied with the arrangement if the spillover demand was sufficient. However, any new supply of hotel rooms could potentially diminish the extent to which the hotels on the periphery received the spillover demand. Thus, any perceived efforts on the part of the CVB to assist in the development of new hotels was opposed by these hoteliers. This is another aspect of the interdependency associated with surpluses and fluctuations in supply and demand that was embodied in the CVBs and impacted perceptions of their performance.

5.6.3 CVBs versus Hoteliers: CVBs as Local Tourism Development Agencies

As the dominant representative of the local tourism industry, CVBs and CVB presidents are often part of the local community development policy making process. This process often involves assisting in, and making decisions about, the construction of both publicly and privately operated tourism facilities. The decision to pursue the development of a new hotel often involves the CVB leadership either as active participants in the process or as suppliers of information about the local hotel market. In this role, the policy stance of the CVB leadership may conflict with the interests of local hoteliers who may want to limit new competition in the market or who oppose the construction of new facilities, such as convention centers. Thus, there is a potential conflict between hoteliers and the CVB leadership that may affect the cohesion of local tourism groups represented in the organization.

New hotels compete for both new and existing convention trade and potentially affect the capability of existing hoteliers to capture spillover demand. When the CVB leadership supports or assists new hotel construction, they may contradict the interests of local hoteliers who typically want the CVB to concentrate on tourism promotion. Thus, one reaction to the structure of the CVB is the policy stance it takes on these issues. One CVB president explicitly recognized the potential conflict between supplying tourism promotion and acting in support of tourism development initiatives:

> I think that bureaus have done this to themselves because bureaus have been trying to position themselves as economic development organizations. I don't see us as economic development. I see us as marketing and promotion. I think that we get ourselves into trouble when we start doing some of those sorts of things (Bonnie V'Sosky, Interview, June 25, 1996).

When these issues arise, the focus of CVB efforts is often questioned by local hoteliers and it influences their perceptions of the current cost sharing arrangement and decision-making processes. The following interview data describe hotelier resistance to the CVBs acting to attract new hotels.

> But, then what happens is we get it [hotel occupancy] up to a point where the bureau starts broadcasting. We used to have a problem with the bureaus broadcasting figures. You know, occupancy and that type of thing. I said: "I don't care what you broadcast as far as the number of rooms you bring to town, the amount of money you bring into town, but when you start digging into my pocket on average daily rate and occupancy, I got a problem." Because then you start talking to developers and the next thing you know I have a hotel across the street from me. "They're running a 98% occupancy rate in Ann Arbor. Oh, that is a hell of a place to build a hotel." That is what happened in every one of our cycles. Every time we have had an over building problem it is because the bureau has gone out and tooted their horn. . . . I think that they have to make sure that they toot their horn based on what they are supposed to be doing and not on what the effect is. I think too many bureaus do that because they want to justify their being. Then you get at odds with the hotel association; you get at odds with the motel people (Bob Hacker, Interview, July 9, 1996).

> Until we start pumping people into this town on a regular basis, we don't need more hotel rooms. Yet, I know that [the CVB president] is working on more hotel rooms in downtown Lansing, because of the convention center which is a city-subsidized operation that "has" to be successful for political reasons. Now, I believe that every city needs a good convention center. Their theory is that every group wants to be close to downtown; they don't want to be shuttled around. I guess I think they should be working on getting a shuttle service to existing hotels rather than trying to build new hotels that are located next to the convention center (Barb Spearman, Interview, June 17, 1996).

> Well, where you get into trouble is when the CVB gets involved in the politics of new hotels. I have seen this in a number of cities where the CVB actively works on soliciting or pursuing new hotels. I think there is probably some appropriate role there but it sets the existing members against the organization--especially hotels. . . Why would I support an organization that works to build my competition (Anonymous, Interview, July 19, 1996)?

In summary, the CVBs frequently administer programs to allocate spillover demand among the various hotels in the destination. These programs have emerged in an effort to cope with the interdependencies associated with surpluses and fluctuations in demand. The promotion program may place particular emphasis on the attraction of large groups. These large groups typically seek the services of full service hotels and hotels located near convention facilities. Thus, on any given day, these properties are the first to fill to capacity. Other properties in the destination seek to capture the excess demand either through individual programs or the collective program developed by the CVB. In member organizations, participation in the collective program was conditioned on membership. In nonmember organizations, these programs were available to all who were interested.

If the total hotel room capacity of the destination was believed to be sufficient, hoteliers resisted the efforts of the CVB to attract new hotels. Their primary concern was that new capacity would diminish the potential for them to capture any surplus demand.

There is not an absolute distinction between the interdependencies associated with surpluses and those associated with the high exclusion cost characteristics of tourism promotion. The systems developed for allocating spillover demand are a type of selective incentive, informing the member of benefits derived from the primary promotion program. However, within a specific sub-group, such as hoteliers, the issue of who first fills to capacity and who in turn has the ability to adjust prices upwards is a function of both the organizational dynamics and the promotion program of the CVB.

5.7 Capital and Community Projects Versus Tourism Promotion

Public Act 263 specified three allowable uses for the accommodations tax revenues. In simplified terms these uses are 1) fund administration, 2) the construction of facilities to attract tourists, 3) tourism promotion. These allowable uses position two groups with potentially conflicting interests in the same institutional arena. Tourism businesses, largely represented by hoteliers, had a general preference to have the money spent on tourism promotion and attracting visitors from outside the destination. In contrast, county and city government officials often wanted to spend the money on facilities or on events taking place in the community. In addition, the legislation left the interpretation of what constituted tourism promotion to the counties. Thus, different groups wanting funding for promotion or facilities often attempted to define their goals in the context of tourism and sought funding from the accommodations tax.

The extent to which these groups conflicted was different in every county. However, this particular issue was by far the most contentious and, among those interviewed, it was issue most commonly raised. The following section describes the structure of the cost sharing arrangement between these groups.

5.7.1 Conflicting Interests: Explaining Changes in the Tax Rate

Five of the eight counties implementing Public Act 263 used some portion of the tax revenues to finance capital projects that were believed to benefit the tourism industry. In addition, some of the funds were used to pay for the development and promotion of community projects such as festivals, parks, and local theater and arts groups, among others. In many cases, this has required an increase in the tax rate from its original level. Such an increase in the tax rate often reflects local conflicts of interest where groups wanting funds for capital or other community projects have sought funding through the accommodations tax. At the time of the proposed increase, local officials, CVB members, and CVB presidents negotiated trade-offs between these groups and hoteliers who have generally been resistant to increases in the tax. The following interviews describe how the process took shape in these counties:

> What happened was that we went from 3% to 5% total tax about three years ago and the bureau conceded another 5% of the total going to the parks. So now it is 25% [of total revenues] going to the parks. Because of these abilities of the county to siphon these funds off and without a lot of recourse on the part of the CVB because, we debated this at length, suppose the county had taken another 25% for the airport, so 25% goes to the airport and 25% goes to the parks and we get 50% of what is left. The hoteliers would say that's not fair, and the bureau could go ahead and sue the county, and suppose we win. We still lose because there is nothing in the legislation that says the county has to contract with the CVB. The county can form their own department of the visitors bureau and give the money to that department (Jerry Preston, Interview, June 5, 1996).

> Okay, many years ago, about twenty-five I guess, there was a 2% room tax levied on the hotel properties, Public Act 263 being the authority to do that. And, for several years that was all that was collected. Now in, in 1989, this is a guess, my board, I started in 1990 so I wasn't here at the time, the powers that be, my board and the county board, decided that the bureau didn't have enough money to promote the area. So, they put on another temporary 2%. And, the only way the hotel properties and the various communities would agree to that is that if 25% of that additional 2% was sent back to the community and the hoteliers for promotional purposes. The county monitored that program and continues to. The difference that has occurred is that in 1991 we made that a permanent tax. . . . The rules are such that a community must be engaged in the promotion of tourism, they must have either a chamber of commerce or a convention and visitors bureau. . . . In addition to that, this is another way we sold the hotels on increasing the tax rate to 4%, every hotel is eligible for a $500 per quarter rebate. They must apply for that, and the county monitors the program. They must use the rebate for promotional purposes. Some hotels don't collect enough tax to qualify for $500 per quarter (Barry Dickston, Interview, June 19, 1996).

> Well, in the 1992-1993 fiscal year we raised the tax from 3% to 4%. The reason that we did this was because the county had applied for a grant to help fund the local arts council and needed local money to supplement the grant amount. So now the tax rate is 4% and the bulk of the initial 3% goes to the chamber of commerce for the CVB, and most of the 1% goes to the arts council. Although, the grant has really run out, and now the money from the additional 1% is also used to fund other civic organizations and activities. You know too that we use some of the accommodations tax revenue for our fairgrounds? . . . I don't think any hotelier is crazy about more taxes, but in this community [Kalamazoo] anyway most of them recognize that we have a commitment to the arts and that it does generate revenue for them--it requires consensus building and communication though (Anonymous, Interview, July 19, 1996).

> I think it was in 1990 that we were having problems financing this sports organization. It used to be funded with just private people that donated their time and they would go out and secure all kinds of different tournaments and different events to have in Battle Creek. Well, all of that free labor kind of dried up and so we had to hire somebody. So where is that money going to come from? The thought was to raise the bed tax one percent and when we first started every hotel was dead set against it. Then we went through a give and take kind of thing where: "How is this amateur sports thing going to be organized as far as a board?"; "What is its focus going to be?" We hired a mediator to help us through this process. . . . After about a month or two we went from 100% against the increase to 100% in favor. Basically that is how we started funding this amateur sports authority (Mike Gray, Interview, June 25, 1996).

In counties where the tax had not been increased or where the tax was at the highest allowable rate, there had been times when groups wanting some of the tax revenues proposed increases in the tax or changes in the revenue sharing formula in order to fund their interests. For example:

> The tax is at two percent. There are some that want to raise it to five percent. We are trying to hold it down to two percent because if we open up Pandora's box everyone will rush up to the trough and now we have created a real monster. I think it was several years ago that the Washtenaw Council of the Arts moved in and wanted to raise the tax and sign a separate contract. . . . There was talk at one point that the owner of the Detroit Tigers was going to bring the team to Ann Arbor and of course he was looking at the tax dollars as a way to fund the stadium (Bob Hacker, Interview, July 9, 1996).

> That whole thing [using the revenues for capital projects] raised its ugly head again this year here in Genesee County. Genesee County has built a very fine airport I mean its a nice airport, but there are no airplanes there. There are no jets in and out of Bishop. They wanted more money to help market the airport. They thought they could entice the airlines here if they could offer the airlines some money to help market the idea of Genesee County residents leaving. There were those that interpret that as tourism (Jerry Preston, Interview, June 5, 1996).

> It will always be there [using revenues for community projects]. Everybody and their brother--the Elks wouldn't mind having some of [the money]. I mean I guess

> anybody can go after it you know. But I feel there isn't any other segment that can use [the money better]. If the bed tax is designed towards developing tourism--overnight stays--[the CVB] is obviously the one that would create a room night. Battle Creek is not a destination. The arts are not going to create a room night. The Cereal Festival isn't going to create a room night. Those groups are always in there after the money. The balloons will, but they have their funding sources pretty well nailed down with their corporate sponsorships, and I haven't heard anything about the Balloon Festival coming after the bed tax money (Mike Gray, Interview, June 25, 1996).
>
> One of them [groups looking for funding from the tax] is the arts community--more festivals than arts I should say. Festivals are looking for funding, and they have set up their own state festival association. Now that funding is either going to come from the existing tax revenues or from an increase. The hotels won't go for an increase. Generally, personal opinion, festivals are local events. We have two events that put heads on pillows, and I have to look at events that are going to bring people in for overnight because that is my funding source (Bonnie V'Sosky, Interview, June 25, 1996).

The extent to which each county used the accommodations tax revenue for capital projects or other community projects differed. At the time of this study, Kent County used a majority of the revenue for these types of projects: approximately 77% of the tax revenue. Table 26 presents how the 1995 tax revenue was allocated in Kent County. Genesee County used 25% of the tax revenue to help fund the operation and promotion of county parks. Kalamazoo County used approximately 25% of the revenue to fund the local arts council and other civic organizations with tourism promotion interests. In addition, Kalamazoo County set aside an annual percentage of the revenue to fund a full-time position that promotes the county fairgrounds, and in a given year, may allocate more funds for fairground renovations and capital improvements (Kalamazoo County Treasurer, 1996).

In Muskegon County, all of the tax collections from the Holiday Inn were used to pay the debt on this facility. This arrangement existed because the county assisted in financing construction of the Holiday Inn as a local convention center. The original operator of the facility went bankrupt and left the county with debt outstanding. To recover the debt associated with the facility, the county retained the tax collections. In addition, at the time of this study, the county provided annual support to the Cherry County Playhouse. In

1995, the county used $90,000 from the accommodations tax revenue to fund a marketing program for this organization (Dave Wendtland, Interview, 1996). In 1995, Ingham County used 10% of the tax revenues to fund the operation of the county fairground and 5% of the funds were appropriated annually to county board approved arts councils (Tom Galyon, Interview, 1996). Table 27 summarizes how the counties (excluding Kent County) used the accommodations tax revenue for capital and community related projects.

The extent to which each county allocated accommodations tax revenue to a capital project, other community projects, or tourism promotion reflects local political and economic conditions. In some counties, such as Saginaw County, Ingham County, and Washtenaw County, the political power and cleverness of the CVB leadership and the local hotel community enabled these groups to direct more of the funds to tourism promotion via the CVB. In addition, in counties where the hotel community was well organized, they secured the right to have greater input into the formulation of the tourism promotion program. In other counties, where the use of the tax revenues were challenged by other interest groups, or where the political environment of the county was strongly in favor of capital projects, the CVB and the local hotel community had been less successful in securing funds for tourism promotion activity.

Table 26. Uses of Kent County accommodations tax revenue

Use	1992	1993	1994	1995	1996
County Administration Fee	$58,482	$46,257	$55,172	$60,982	$64,013
CVB	$463,192	$575,942	$625,364	$683,554	$740,249
Arts Council	$10,000			$10,000	
West Michigan Tourist Association	$2,290	$2,500		$2,500	
Debt #1 [1]	$412,987	$402,767	$467,577	$453,525	$514,227
Debt #2 [2]	$250,977	$240,840	$230,628	$220,340	$234,985
Zoological Society		$261,090	$160,500	$435,112	$412,541
Museum Debt	$752,592	$724,842	$722,742	$724,292	$729,042
Revenue Stabilization	$494,740	$137,337	$154,062	$163,901	$171,668
Total	$1,247,332	$1,769,376	$1,735,509	$2,756,201	$2,062,463

Source: County treasurers and author's calculations.

[1] Debt payment on Grand Center scheduled to retire in 2002
[2] Debt payment on Grand Center scheduled to retire in 2000

Table 27. Summary of county use of accommodations tax revenues for capital and community projects, 1995

County	Description of revenue uses
Genesee County	25% of revenues designated for operation and maintenance of county parks.
Kalamazoo County	25% of revenues designated for arts organizations and related arts festivals. An annual amount is charged to the fund for county fair ground operations.
Muskegon County	All collections from the Holiday Inn are used to service debt on the facility. Other projects to be funded are specified in the budget process. During the 1995-1996 fiscal year, $90,000 was used to support the Cherry County Playhouse.
Ingham County	10% of revenues designated for county fair ground operations. 5% of revenues designated for county approved arts councils and associated arts activities.

Source: County contracts with CVBs and interviews.

5.7.2 The Impact of Splitting Revenues Between Facilities and Promotion: Reactions of Hoteliers and CVB Presidents

Splitting the revenues between facilities, other groups, and tourism promotion was a structural component of the tax in five of the counties. Hoteliers represent a group of potential unwilling riders because subsequent to the tax they were required to share in the cost of tourism promotion and in the construction of facilities. The exact nature and focus of their unwillingness were different in each community. However, in four of the five counties spending money on facilities, hoteliers consistently expressed dissatisfaction with the local structure of the tax.

Kent County spends a majority of the tax revenues on the construction of facilities. Hoteliers in this county were among the most vocal opponents to the existing cost sharing arrangement. The following interview data provides insight into hotelier reaction to the tax in this county.

> Right now it would be very difficult to get a new convention into Grand Rapids in the next two years not because its not a great town but because we are not spending

> enough money to attract them and the convention center is probably filled up with gate shows on the key dates in the spring and fall. You see associations don't pay for convention space, they pay for hotel rooms. Gate shows pay for convention space that they then lease to the exhibitors. So if I am a convention center manager under pressure from the county to not run an operating deficit I want to book gate shows. That ignores the big picture. Which one has the greater economic impact? Which one brings new money in? Not the gate show. At least not to the extent that a convention does. . . .The county has a $2 million slush fund for bricks and mortar projects, all of these things are needed but we don't do anything to sell these facilities. Part of the problem is that county commissioners, and more importantly the voters, can't see or feel a marketing program You can't point to it at election time and say look what a big beautiful marketing program I have brought to this community. . . .The Kent County Lodging Association is for the first time getting politically active and you better believe that all of our employees will be informed of the issue and will be encouraged to vote for the commissioners that know and understand our position (Anonymous, Interview, 1996).
>
> Now in Kent County we have a CVB that does an excellent job with the resources it has, but the problem is that it doesn't have enough money to do some of the things that it needs to do, given all of the other investment that has been made in bricks in mortar. . . . Conventions have a significant economic impact because virtually all of the money coming in is new money to the community. That is money that cuts across the community--restaurants, attractions, and, of course, hotels. To attract a convention you have to be at the major association tradeshows. You have to be able to market to meeting planners and association executives through the primary media that they read. As it stands right now, we can't do a lot of those things because the marketing program suffers at the hands of the county's building program. Now both are important. We need a convention center. We should have the best museums and so forth. The question is should that come out of the pockets of hotel owners and their guests. My feeling is that some of it probably should but not all of it. In Grand Rapids virtually all of it does. The split of the accommodations tax money is way off. It should probably be fifty-fifty. Fifty percent for marketing and fifty percent for other projects related to tourism. I'm afraid that is not going to happen though. . . . The thing that the county doesn't understand is--well actually they don't understand two things--they don't understand economic impact and they don't understand what it takes to attract a convention. It takes a minimum of two years of hard work, spending money to book a convention. Some of that is just normal lead time. Most associations book their conventions two to three years out so to get them for 1999 or 2000 we have to be out there now cultivating their interest. . . .They don't seem to understand that if you continue booking local events or attract local residents you are doing nothing in terms of economic impact, you are not generating new dollars. . . .To fill the buildings with people from outside of the community you have to spend money on marketing and promotion and we are drastically behind the curve in that respect (Peter Lion, Interview, June 28, 1996).

The president of the Greater Grand Rapids/Kent County CVB also expressed dissatisfaction with the extent to which the revenues from the tax were used for the construction of facilities. By using a larger percentage of the revenues for facilities, the county limited the budget of the CVB relative to other CVBs in the state. The following

comments reflect the concerns of the CVB president with respect to the structure of the tax in this county.

> . . . while we are the second largest city in the state of Michigan, we are only the fourth or fifth largest CVB [in terms of budget]. The reason behind that is, other than Metro-Detroit, all of the other cities ahead of us get 75% or greater of the hotel/motel tax in that community, or the assessment in the case of Traverse City. Traverse City gets 100% of the assessment, so that is their revenue. Lansing gets 80%, Flint gets 75%, whereas we are generating $780,000 based on only 20% of the hotel/motel tax. As far as being underfunded, I would site two specific examples: each one of those four other cities that are ahead of us, with the exception of Detroit, and Kalamazoo which is neck and neck with us, are much smaller communities with less hotel rooms and, in my opinion, less to offer the convention delegate, or meeting planner, or the traveling public. [Responding why this was the situation.] It goes to retire the bonds on the Grand Center. The museum that they built downtown, $40 million museum, $7 million of the hotel/motel tax over time are devoted to that. They have a capital improvement program at the zoo and revenues from the hotel/motel tax go to that. Some occasional operational cost at the convention center are covered with the hotel/motel tax revenues. . . . My goal was to get a larger percentage of those funds for the CVB. The community and the county in particular do not want to do that (Steve Wilson, Interview, June 24, 1996).

In response to the amount of tax revenues used for facilities, hoteliers and the CVB leadership have attempted to change how the tourism promotion program in Grand Rapids was funded. In 1996, the Grand Rapids/Kent County CVB and the owners of the larger hotels proposed legislation that would establish an assessment district in the county. The details of Michigan's lodging assessment legislation will be described more thoroughly in Chapter 6. For the purposes of this section, the description of the Kent County legislation will be very general.

The Kent County legislation would enable the local lodging community to initiate a referendum among the local hotels to levy an assessment of 1%. The revenue from the assessment would be used exclusively by the CVB to fund its destination promotion program. In addition, as with the other existing assessment legislation, hoteliers would have a greater voice in the formulation of the promotion program via an advisory board that would have veto power over the CVB's marketing program (Steve Wilson, Interview, June 24, 1996). At the time of this study, the legislation had advanced to the Tourism Committee in the Michigan House of Representatives but had not yet left committee.

In Muskegon County, hotelier response to the tax was equally negative for similar reasons. Upon implementation of the tax, the county government decided to use a majority of the tax revenues for the construction of a hotel with facilities large enough to act as a convention center. The owner of this hotel eventually defaulted on county-backed loans and the tax revenues were used to pay these loans. Over time, as the debt was reduced on the hotel, the percentage of funds dedicated to servicing the debt on this hotel was reduced; however, at the time of this study, a portion of the revenues were still used to pay for this facility.

As described in Section 5.4.1, hoteliers and other tourism businesses in Muskegon County responded to the structure of decision making processes by exiting from the organization. This was due in part to their inability to obtain a voice in the decision making process when the CVB was incorporated into a larger organization. However, the exit of hoteliers from the decision making process must be considered in the historical context of how the tax and the organization evolved. According to one person interviewed, the decision of the county to use the tax revenues to fund the hotel as a convention center alienated hoteliers early in the evolution of the tax. The following comment summarizes how hoteliers in Muskegon County responded to the use of the tax revenues for the construction of this facility.

> And, obviously [prior to the tax] there were no funds available to promote tourism with. That came when the hotel tax was enacted. And, in this county there was great outrage when that was enacted because all of the funds were not going towards tourism promotion. They would go towards the debt retirement of the downtown hotel facility because they had built this very large hotel as a convention center. So, now you have this band of people who are collecting the tax and who are very bitter because that money is being used to retire debt on a defaulted property that the city insists is necessary because it is kind of the keystone of the downtown turn around. That situation actually still continues to this day. . . . But, what you had created was a pocket of dissenters (Gina Lister, Interview, July 12, 1996).

In Genesee County, hoteliers and the CVB have also responded negatively to the use of tax revenues for purposes other than tourism promotion. In this county, 25% of the tax revenues, after deduction of administrative fees, are dedicated to the promotion of a

division of the county parks. The following interviews reflect the impact of this policy on hoteliers.

> Then they [the county] were collecting a total of 3% and they were giving 20% to the parks earmarked for the promotion of Cross Roads Village which they interpreted as being a tourism destination and therefore eligible under the permissible uses of the funds. . . . This ruffled some feathers. . . . They decided they wanted to fund their parks. This Cross Roads Village is a pretty entrepreneurial activity and it was above and beyond what many folks wanted to do but if they could fund it from some other source than local tax payer dollars, they thought it [using accommodations tax revenues] was a pretty good idea. . . . That upset hoteliers in this county, but it also had state wide implications (Jerry Preston, Interview, June 5, 1996).

> Well, we have some problems, and it irritates me to no end because here the county is taking tax from everyone who stays at my hotel. So then, they are taking that money, and that money, to me, should go to promote tourism. That is what I am telling my customers. But, they are taking part of that money and giving it to the county parks, and now they are thinking about taking of that money and giving it to the airport. I mean the airport just doesn't help me that much. I think I should have a say in where that money goes, and I don't. It is a county decision (Chet Lambert, Interview, June 5, 1996).

> Well you must know that 25% of the money goes to parks and recreation. I have been around and around on this. Yes, parks bring people into Flint. But, how you tie tourism and parks together is pretty questionable. . . . I am against it because we have a CVB that is very good at marketing and advertising, so why not let them do it for the county. Why have another entity promote the airport or the parks. Although in the parks situation, I don't know if any of it actually goes for promotion (Mark Kucera, Interview, June 6, 1996).

Even in counties where the accommodations tax revenue was used predominantly for tourism promotion, hoteliers were sensitive to the ability of the county government to direct revenues to facilities or other groups. The following quotations from hoteliers in Calhoun County and Washtenaw reflect this:

> Many individuals benefit from the bed tax across the community and yet they don't pay for it. In that respect, I get angry because our guests are forced to pay that to keep the CVB going which it needs. But, to continuously keep increasing the tax on one segment of the industry I think is unfair. It is a shame that the bed tax is used to fund arenas, museums, or stadiums. I feel that is very detrimental and not what the tax should be used for. . . . The bed tax is supposed to generate revenues for the visitor and convention bureau to attract outside visitors; to market the Battle Creek area, to put heads in beds. It is not supposed to be used to fund festivals and local events or events that attract mostly local residents (Kay Jendrzejewski, Interview, June 25, 1996).

> Because they [county government] have the right to raise the tax without anyone's involvement. They don't have to have the approval of the hotels. The theater or the Ann Arbor Arts Festival could go to the county and say art is good for tourism and it is good for the city. So, they say to the county "raise the tax one percent to support the art festival or build a new theater." It is always a concern [for hoteliers] and during the budget process you go to the hearings and people are standing in line asking for money from the county. So it is always a concern (David Sanders, Interview, July 30, 1996).

As unwilling riders, hoteliers responded negatively to the ability of the counties to use the tax revenues for purposes other than funding the CVB. It was this particular aspect of the cost sharing arrangement that most upset hoteliers in counties covered by Public Act 263. In some cases, such as Kent County, hoteliers began a process of trying to circumvent county involvement in funding the CVB and were committed to changing the funding arrangement through the political process. In other counties, hoteliers disliked the arrangement and voiced their opposition through the CVB or through their local hotel association. At the time of this study, no fundamental changes had been made in the legislation. However, as will be described in the following section, the performance of Public Act 263 did have ramifications for subsequent funding arrangements in Detroit and in other areas of Michigan.

5.7.3 Unwilling Riders and Institutional Change: The Detroit Assessment District

Since its inception in 1896, the Metropolitan Detroit Convention and Visitors bureau had been funded through a mix of voluntary dues payments and grants from state, city and county governments. Public Act 263 of 1974 set population limits on both county and city populations to exclude the counties comprising the Metropolitan Detroit area. At the time the tax was proposed, the leadership of the CVB and Detroit hoteliers did not want to have the tax established in these counties and lobbied to be excluded from the law. They did this because the legislation was a county tax. As an organization, the Detroit CVB encompasses the three counties; Wayne, Oakland and Macomb County. A county level tax

might have meant that each county could have established a separate entity to promote its specific area.

In the years following the implementation of Public Act 263, the Detroit CVB began to seek new funding sources. However, the traditional structure of a tax was not an acceptable alternative. The main concern for the Detroit CVB and Detroit hoteliers was related to the role of county governments in collecting and administering the tax funds. According to people interviewed for this study, the fundamental concern was the extent to which county governments directed the tax revenues to facilities that were not believed to be tourism related. People interviewed believed the Detroit hoteliers had learned, as a result of Public Act 263, that hotelier interests in promotion and their voice in the promotion program, were often subjugated to the interests of county government officials and other groups when the cost sharing arrangement was structured as a county or city tax. In addition, the Detroit CVB wanted to avoid the traditional tax arrangement for similar reasons. Thus, in considering alternative funding arrangements, the Detroit CVB sought to develop an arrangement that limited the role of county or city governments in the administration of the revenue.

Ultimately, the Detroit CVB proposed legislation creating the first tourism assessment district in the country. The details of Michigan's tourism assessment districts are described in Chapter 6. In general, the assessment legislation gave the CVB exclusive control over the administration of assessment revenues. The assessment legislation for Detroit also requires hotelier approval of the organization's marketing plan. The Detroit assessment legislation became the framework for subsequent legislation allowing the creation of assessment districts in smaller communities throughout Michigan. The revenue from the assessment in these districts is also administered by the organization and not the county or city government. Similarly, the legislation allowing for these districts requires that 51% of the people on the board of directors of the promotion organization be hoteliers.

Jerry Preston, President of the Greater Flint/Genesee County CVB believed that the evolution of Michigan's assessment districts were greatly influenced by the performance of Public Act 263:

> It is because of Genesee County and Genesee County's use of Public Act 263 funds that [the assessment districts] were created. I don't know if you are familiar with that history. . . .The county commissioners, the board, they decided they wanted to fund their parks. . . . The convention bureau was in place at that time with membership. The convention bureau pushed to have [Public Act 263] passed at the legislature, so the county didn't think it was appropriate to take all of the funds, so they only took 20% of the funds and gave it to the parks. That upset hoteliers who supported Public Act 263. So, when it came time for the smaller counties to get in. As opposed to amending Public Act 263, just remove the city population, they could have said a major city of 2,000 or something, then any county could have been involved in it. Well, they didn't do that. Because of the pressure of the hotels, both in Detroit and across the state, they created a whole new [assessment legislation] because they didn't want the county boards to have any touch on it (Jerry Preston, Interview, June 5, 1996).

Michael Wright, who at the time of this study was acting President of the Metropolitan Detroit CVB, also attributed the evolution of the assessment concept to the performance of Public Act 263:

> But still, from the hotel industry's perspective their industry needed to absorb that extra cost and felt that there should be greater confidence that the dollars raised would be used in a manor that would benefit that industry. And, from their [hoteliers] perspective, there were too many horror stories around the county and here in Michigan where that was not the case. That the tax dollars being raised through room taxes were being used for non-visitor oriented activities. There were enough instances across the country that they could cite to support their hesitancy about a room tax at that time (Michael Wright, Interview, July 2, 1996).

Chris Danciszak, who drafted some of the original assessment legislation covering areas outside of Detroit, also believed the performance of Public Act 263 played a role in the evolution of the assessment district concept:

> I think there is no question that [Public Act] 263 shaped the thought process on [assessment districts]. Initially there was no thought of an assessment concept. First of all, no one had come up with the assessment concept. Secondly, it probably would have been difficult to pass initially because people still thought of these things as being government. If you are going to collect something on a bill there had to be some government in it at that point. The thought of letting an industry almost self regulate the process of collecting money for something on a common basis was a pretty foreign idea . . . I think the interests that were initially involved in [Public Act] 263 were either interested in getting some promotion money because their economy was declining or they needed a facility of some sort

> to help them promote their community. I think hoteliers and others were willing to take a gamble that they could get at least a pretty good percentage of the money once the tax went into place and felt that anything they got was better than what they had at the moment. . . . Now, as the money pot grew and tourism grew, these initial supporters saw they weren't getting quite what they thought they should get, and it pissed them off. I think the biggest struggle has been in Grand Rapids. . . . Then along comes this creative alternative that keeps counties out of it (Chris Danciszak, Interview, June 6, 1996).

When the time came to find a cost sharing arrangement in those areas not covered by Public Act 263, hoteliers and other destination marketing organizations across the state responded to the structure of Public Act 263 by seeking an alternative institutional arrangement that circumvented the role of county governments. Public Act 263 allowed the accommodations tax revenues to be used for two purposes which hoteliers and CVBs believed to be incompatible. Because the county governments controlled the extent to which funds could be used for either tourism promotion or facilities, they could divert funds from the CVB to other uses and to other groups with interests that conflicted with the interests of CVBs and hoteliers. The new arrangement, which eventually applied to most of the state geographically, was structured to remove local governments of any type from the administration of the funds. Thus, one outcome of Public Act 263 was a group of unwilling riders--hoteliers--and a new institutional arrangement that gave them greater voice and more control over funding and promotion program content.

5.8 Summary of the Structure and Performance of Public Act 263

The evolution and structure of Michigan's accommodations tax, and how it was used to fund tourism promotion and development efforts in eight Michigan counties, has been described in this chapter. Prior to the tax, the cost of providing tourism promotion was primarily by voluntary dues payments to an existing CVB or a local chamber of commerce. The tax was initiated by Kent County representatives in order to fund the construction of facilities in the City of Grand Rapids. Over time, revenue from the tax has increased, and it has provided a stable and growing source of revenue for both tourism promotion and

facility construction. As the tax revenues have increased, a variety of groups have sought funding for their interests through the tax. The tax has resulted in hoteliers being unwilling riders. Hoteliers have responded negatively to two aspects of the cost sharing arrangement:

1. The exclusion of other potential beneficiaries of tourism promotion from the cost sharing arrangement. Hoteliers specifically cited restaurants and certain types of retailers as possible beneficiaries who have been granted the right to be free of the tax.

2. Groups other than hoteliers were able to use the local political process to secure funding for their interests from the tax revenues. The leadership of the CVBs and local hoteliers want the tax revenues to be used primarily for the tourism promotion program supplied by the CVB and resent the use of tax funds for these other purposes. Hoteliers and CVB leaders were especially opposed to the use of funds for the construction of facilities and the promotion of events that attracted mostly local residents. This ultimately affected the structure of future tourism promotion funding arrangements because hoteliers and CVBs devised an arrangement that circumvented county and local government involvement.

In some counties, the process for making decisions with respect to the content and focus of the promotion program has resulted in dissatisfaction and alienation of some hoteliers and other tourism interest groups. This dissatisfaction can be linked to two aspects of the institutional arrangement:

1. The structure of the CVB affected how hoteliers perceived the performance of the organization. When the CVB was independent there was little conflict about hotelier ability to voice their input in the decision making process. In independent organizations, hotelier preferences were generally met, although there may be conflicts between different types of hotels over program content and focus. However, when the CVB was part of a larger organization, hoteliers preferences with respect to promotion are subject to broader concerns of the community. In this

case other interest groups may have equal or greater voice in how the CVB operated and in determining the content of the promotion program.

2. The boundary of the tax was defined by county boundaries. However, within the county there existed other groups, largely defined by city and village boundaries, that wanted their own promotion program. Revenue sharing arrangements were devised to allow local organizations funding and control over their own programs. In some cases this may have resulted in duplication of efforts; but generally it has resolved the conflict between the smaller communities and the county.

To cope with fluctuations in supply and demand and the interdependencies associated with spillover demand, the CVBs and hoteliers devised systems for allocating tourists between existing hotels. The promotion programs often placed emphasis on attracting large groups and conventions. Thus, larger full service hotels and hotels located near convention facilities received obvious and direct benefits from the CVB's efforts. Other hotels, especially smaller minimum service hotels, had to compete for any spillover demand. To cope with the interdependency between these two general types of hotels, CVBs have developed ways of identifying surplus hotel capacity and allocating demand to those hotels.

Summaries of the institutional arrangements in the eight counties--described in the context of the situation, structure, performance paradigm--are presented in Tables 28 and 29. The links between the high exclusion cost characteristics of tourism promotion, the chosen institutional arrangement, and performance are presented in Table 28. Similarly, the structure and peformance outcomes associated with the joint impact characteristics of tourism promotion are presented in Table 29. Both of these figures reflect the role of hoteliers and county governments in shaping the content of the promotion program.

Table 28. SSP Paradigm Summary of High Exclusion Cost Characteristics and Structure of Public Act 263 CVBs

Situation - High Exclusion Cost Characteristics	Structure	Performance
Kent County seeking ways to fund construction of facilities related to tourism activity, such as convention centers and museums, Other counties also interested in facilities but also want to promote existing county attributes. At the local level, hotels, restaurants, retailers, attractions, and others benefit from attracting tourists. County government officials also want to attract tourists but may want to have facilities as attraction rather having an advertising program. Who among them shares in the cost of promoting when detecting use and individual benefits of promotion is costly?	In some counties CVBs exist and in other chambers of commerce act as organizational entrepreneurs. Cost sharing arrangements when existing state institutions preclude local sales tax: 1. In member organizations, via dues payments by members. Selective incentives sold in both member and non-member organizations. Leads and advertising privileges used to detect beneficiaries in member organizations. 2. Accommodations tax. Public Act 263 of 1974. County government administers tax and can direct funds to three uses: promotion, facilities, and fund administration. Hoteliers and their guests share cost of promotion program and facility construction.	Members of existing organizations pay fixed cost of initial program dedicated to convention and visitor promotion. If sales tax is used, locals must share in cost of programs and facilities. Locals may be unwilling riders. 1. Members pay but expect program to deliver direct benefits (selective incentives) that may detract from primary promotional efforts. Free riding is known to be problematic since not all businesses join and budgets were believed to be "too small." 2. Hoteliers and hotel users are unwilling riders. Hoteliers are especially sensitive to use of funds for purposes other than tourism promotion. This is feedback into establishing assessment districts in other parts of the state.

Table 29. SSP Paradigm Summary of Joint Impact Characteristics and Structure of Public Act 263 CVBs

Situation - Joint Impact Characteristics	Structure	Performance
County promotion program is available to all and affects all regardless of their level of contribution or utility. Who gets to choose the image and emphasis of the program? 1. Between communities and county: Image of communities in the county versus the county image: County image is preemptive. Which image will dominate? Who shares cost of county image and local image? 2. Among local businesses: Attracting residents versus nonresidents. Hotels want to attract nonresidents who spend the night in a hotel. Retailers and restaurateurs want non-residents also but don't distinguish between residents and nonresidents. Who gets to choose the focus of promotional efforts and image of destination? Who shares cost? 3. Between large or full service hotels and small or limited service hotels: Downtown & convention image versus individual traveler and outlying area image. Large hotels want conventions to fill capacity. Some smaller hotels willing to capture spillover demand but want general promotion or promotion of transient business. Which image will dominate? Who shares cost?	Joint decision making embodied in CVBs via contract with county. In some cases the CVB is integrated into larger organization to control for interdependencies across businesses & areas in county. Boards of directors and marketing committees make decisions about emphasis. Representation on these entities determine who gets promoted. 1. Communities use committees to secure revenue sharing arrangements where funds are controlled by a local business organization such as a chamber of commerce. 2. In most cases representation on CVB committees is dominated by hotels and county officials. 2a) Member organization. All share in cost due to tax but members only involved in voting on marketing decisions. 2b) Nonmember organization. Tax links hotels to organization. Hotels want to direct program if organizational structure allows for their representation. CVB leadership and county government also involved. 3. Large hotels are major source of revenue for CVB, so their input in decision making is weighted. Again, who chooses depends on mix in committees or board of directors of the CVB.	Integrated organization may limit hotelier voice and alienation. Broader community interests are considered. Funds are directed to numerous uses. 1. CVB budgets are reduced. County image is diversified reflecting images of communities comprising county. 2. In most counties, hotels and county government officials influence chosen image. Hotels often "win" and attracting nonresidents is emphasized. 2a) Depending on mix on boards and committees dominant members--hotels--choose program focus. 2b) Depending on mix on boards and committees, dominant groups in community choose program focus. In most cases, hotels "win" and nonresident focus dominates. 3. Large hotels often dominate committees and informal decision making processes, and their preferences--conventions--are reflected in promotion program. Smaller hotels must negotiate for promotion of their segments.

CHAPTER SIX

THE EVOLUTION AND STRUCTURE OF MICHIGAN'S TOURISM PROMOTION ASSESSMENT DISTRICTS

6.1 Introduction

This chapter describes the evolution and structure of tourism promotion assessment districts.[1] Many of the organizational dynamics of assessment districts are similar to those of the convention and visitor bureaus (CVBs) described in Chapter 5. For example, in some cases assessment districts are independent organizations, and in other cases they are divisions of local chambers of commerce. The organizational issues associated with this distinction are fundamentally identical. In addition, issues associated with having or not a membership are similar. Rather than present redundant data, this chapter will emphasize organizational dynamics unique to the assessment districts. Since very little was known about these organizations, much of the data simply describes characteristics of the organizations.

Initially, the assessment as a means of sharing the cost of tourism promotion was limited geographically to the three counties comprising Metropolitan Detroit. The Detroit Convention and Visitor Bureau initiated the assessment legislation in an effort to overcome funding problems. At the time it was implemented, the Detroit assessment district was the only one of its type in the United States. Subsequently, groups in other areas of the state lobbied for new legislation allowing them to implement an assessment in their municipalities. At the time of this study, the tourism promotion assessment was the

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[1] Most of these organizations are referred to as convention and visitor bureaus (CVBs). However, this terminology will not be used in this chapter, simply to avoid confusion with the CVBs described in Chapter 5.

primary funding arrangement for over 55 destination marketing organizations in Michigan, many of which did not exist prior to the passage of the various assessment acts.

6.2 The Metropolitan Detroit Assessment: Public Act 383 of 1980

Since its inception in 1896, the Metropolitan Detroit Convention and Visitor Bureau had been funded predominantly by dues payments from members. As described in Chapter 4, the Bureau also received funding from the state through grant programs established in the early 1970s. Members historically included a mix of individual business owners, corporations, and county and city governments. Detroit and Pontiac, and the three counties comprising metropolitan Detroit--Wayne, Oakland, and Macomb County-- made large contributions through dues payments. In some years, Wayne County contributed as much as $60,000 and the City of Detroit contributed as much as $350,000 (Michael Wright, Interview, 1996).

The Bureau experienced funding problems at various times in its history and frequently supported accommodations tax legislation that would provide funding. These various measures either were not approved, failed to pass local referendums, or were changed to exclude the Bureau as a beneficiary of the tax. In fact, the three counties comprising Metropolitan Detroit had been expressly left out of Public Act 263 of 1974. This was done, in part, because the legislation provided for a county-level tax, making it difficult to formulate a cost sharing arrangement among the three counties comprising Metropolitan Detroit that would benefit the CVB. The leadership of the Detroit CVB and their state representatives did not seek to be included in Public Act 263 because such an arrangement could have negatively impacted the Bureau by giving each county the incentive to form its own CVB. (Michael Wright, Interview, 1996).

In 1980, Wayne County, faced with a fiscal crisis, was forced to withdraw its financial contribution. The other municipalities, faced with similar budgetary problems, also reduced their contributions. In addition, the general economic climate in Detroit affected

support from key members such as General Motors and Ford Motor Company (Michael Wright, Interview, 1996).

The leadership of the bureau became concerned that the fiscal problems in the state, and in Detroit, would continue to erode funding and weaken the ability of the organization to compete nationally in attracting major conventions and events. They also believed a tax proposal involving county or city government in its collection and administration would be strongly resisted by the local and state hotel associations. According to Michael Wright, an active participant in this process, the hotels were vocally opposed to any tax proposal that would allow local government access to the funds for purposes other than tourism promotion. In addition, hotels expressed a desire to have a greater voice in the administration of any cost sharing arrangement and associated promotion program development. In part, this was because hoteliers in Detroit believed that Public Act 263 of 1974, and similar legislation in other states, had not allowed for hotelier representation and had allowed for too much involvement of county and city government. The following comment summarizes the dynamics underlying the concerns of the CVB leadership and the hotel industry during this period.

> So the situation in the seventies for this organization was that virtually all major bureaus across the country had begun to tap into room tax funds to underwrite their budgets. By the late seventies we found ourselves in a very difficult dilemma with regard to the fact that all our key competitive cities were enjoying budgets of twice and sometimes three and four times what we had available, because at that time we were still a dues based organization. That was our exclusive form of revenue. We did receive governmental funds but those really flowed to us in the form of dues as well. . . . When it came time for us to deal with the funding issue we had already begun to think in terms of a broader product for the metro region, and, so in our deliberations to create a funding mechanism we wanted it to be a region-wide vehicle versus just a city based or Wayne County based funding source. . . . So, we engaged in a dialogue with our local hotel community at the time and [asked if we should implement a tax]. A lot of resistance from the hotels still to a room tax--a traditional room tax. And, at the time, it essentially amounted to a feeling that the tax dollars, while being imposed on the industry, at least the consumers of the product of the hotels . . . But still, from the hotel industry's perspective their industry needed to absorb that extra cost and felt that there should be greater confidence that the dollars raised would be used in a manner that would benefit that industry. And, from their perspective, there were too many horror stories around the county and here in Michigan where that was not the case. That the tax dollars being raised through room taxes were being used for non-visitor oriented activities.

> There were enough instances across the country that they could cite to support their hesitancy about a room tax at that time (Michael Wright, Interview, July 2, 1996).

In response to these various constraints and conditions, the CVB leadership asked the organization's law firm to investigate possible ways of funding the bureau without implementing a traditional tax ("A Century of Economic Development," 1996).

6.2.1 Adapting Agricultural Promotion Assessments to Tourism Promotion

The law firm for the Detroit CVB turned its attention to cost sharing structures that existed in the state for agricultural commodity promotion. The model legislation, and associated court precedents, was the Agricultural Commodities Marketing Act of 1966 (M.C.L § 290.651, et seq; M.S.A § 12.94(21) et seq.). This act established an agricultural assessment program for a variety of agricultural commodities. An agricultural commodity board could implement the assessment once the Director of the Michigan Department of Agricultural had approved a marketing program. With the marketing program approved, the group was then required to hold a referendum among the commodity producers in the state. The referendum passed if either of the following conditions were met :

1. If 66.66% or more by number of those voting representing 51% or more of the volume of the affected commodity produced by those voting assent to the proposal.
2. If 51% or more by number of those voting representing 66.66% or more of the volume of the affected commodity produced by those voting assent to the proposal (M.C.L. § 290.662; M.S.A. § 12.94(32).

If the referendum passed, the designated commodity board could use the funds for a number of promotional purposes, as outlined in the marketing program:

1. Provisions for establishing advertising and promotional programs.
2. Provisions for establishing market development programs.

3. Provisions for establishing and supporting supplemental research programs designed to improve the market acceptability of the specific commodity and contribute to the effectiveness of the program.

4. Provisions for determining the existence of any surplus in any market period, for any commodity or product, or of any grade, size, or quality thereof, and providing for handling and equitably sharing the cost of such surplus handling among the producers of the commodity. Before provisions under this paragraph are included in any program, particular attention shall be given to determining that Michigan producers affected by the provisions produce a sufficient proportion of the product covered by the provisions for the program to be effective in the particular market toward which the provisions would be applicable.

5. Provision for payment for all usable products purchased from producers according to established grade (M.C.L. § 290.653; M.S.A. § 12.94(23).

The marketing programs of the commodity boards were to be administered by a "commodity committee, to consist of an odd number of members with no less than 5 nor more than 15 . . .producers and handlers or processors . . . directly affected by the marketing program (M.C.L. § 290.657(a); M.S.A. § 12.94(27)(a))."

The constitutionality of the Agricultural Commodities Marketing Act had been challenged several times. In 1978, ***Dukesherer Farms, Inc. v. B. Dale Ball (Director of the Michigan Department of Agriculture) and the Michigan Cherry Promotion and Development Committee***, laid the groundwork for the Detroit CVB. The plaintiff, a Michigan cherry producer, sought relief from the act on the grounds that the assessment was a tax, and that the act unconstitutionally delegated the taxing power of the state to the Michigan Cherry Promotion and Development Committee (Mich., 273 N.W. 2d 877). The State Supreme Court upheld the Circuit Court ruling that the act was constitutional and denied the plaintiff relief from the act.

The Michigan Supreme Court's ruling in this case is relevant because in rendering its decision the court makes clear the distinction between an assessment and a tax. The Michigan Supreme Court referred to the Circuit Court ruling in making this distinction:

> As correctly stated by Judge William S. White, Berrien Circuit Court, in his opinion in the instant suit, "[t]axes and assessments do have a number of elements in common. Both are exactions or involuntary contributions of money the collection of which is sanctioned by law and enforced by the courts. Here, however, the similarity ends." Exactions which are imposed for public rather than private purposes are taxes. . . .Revenue from taxes, therefore, must inure to the benefit of all, as opposed to exactions from a few for benefits that will inure to the persons or group assessed (Mich., 273 N.W. 2d 877 [III, 2,3]).

The court went on to say:

> This is not to say that the proper subject matter for an assessment as opposed to a tax is always easily distinguishable. Levies authorized by the Legislature can confer special benefits on a particular group and, at the same time, create a general benefit for all persons in the state, through, for example, stimulation of the economy (Mich., 273 N.W. 2d 877 [III, 4]).
>
> . . . Incidental benefits to the general public such as enhanced revenue or reputation to the state resulting from increased revenue to the producers of a particular commodity, or enhancement of the public interest through increased and enforceable standardization of grading and quality of a particular commodity, do not change the fact that it is the producer who is the direct and most immediate beneficiary of a program initiated under the Act (Mich., 273 N.W. 2d 877 [III, 9]).

Thus, both the Agriculture Commodities Marketing Act and the Michigan Supreme Court's ruling served as a framework for developing funding legislation for the Detroit CVB. Conceptually, the bureau viewed the hotel industry and hotel rooms as the product to be promoted by the assessment. Michael Wright describes the conceptual foundations of how the agricultural promotion assessment legislation was adapted to fit tourism promotion:

> Why not view the lodging industry from the exact same perspective. That is, they are the producers of a product being hotel rooms and through pooling of funds could position that product as a major asset and promote generically to draw more visitors to the community. And, also, much like the agricultural industry, the structure there was to provide a much larger role for the producers of the product to weigh in on how the pooled funds would be utilized. So that principle too was incorporated into the assessment [legislation]; which is that a representative body of producers or lodging facility owners and operators would be provided far more responsibility to receive and review and approve the marketing strategies for which the funds would be utilized (Michael Wright, Interview, July 2, 1996).

In 1980, a final version of the draft legislation was sponsored by Senator Ross and was passed in both the Senate Finance Committee and the House Taxation Committee. After minor modifications in the way that the assessment was to be reflected on a guest's bill, the legislation was approved by both the House and Senate and signed into law in January of 1981 as the "Convention and Tourism Marketing Act (Public Act 383, 1980)."

6.2.2 Elements of the Detroit Structure and Performance: Legislation and Revenues

Like the Agricultural Commodities Marketing Act, the Detroit Convention and Tourism Marketing Act required the CVB to draft a marketing program notice and submit it to the Director of the Michigan Department of Commerce and the transient lodging facilities that would be affected by the assessment. The legislation defined a transient lodging facility as "a building which contains 35 or more rooms used in the business of providing dwelling, lodging, or sleeping to transient guest, whether or not membership is required for the use of the rooms (Public Act 383, 1980)."

Population restrictions in the legislation limited the adoption of the proposed marketing program notice to the three counties comprising Metropolitan Detroit--Wayne, Oakland, and Macomb Counties. The assessment would automatically go into effect within 40 days of the distribution of the marketing program notice unless the Director of the Department of Commerce received a written request for a referendum from the owners of transient lodging facilities "representing not less than 40% of the total number of owners or not less than 40% of the total number of rooms in all transient facilities (Public Act 383, 1980)."

In the event of a referendum, each hotel owner was given 1 vote for each room in the owner's hotels located in the three-county area (Public Act 383, 1980). Thus, the structure of voting rules favored owners with a large number of hotel rooms, or with the largest properties. As described in Chapter 5, these properties would potentially benefit the most from a tourism promotion program emphasizing conventions.

The assessment concept was popular among most hoteliers. However, a group of smaller independent hotels did resist the implementation of the assessment. According to Michael Wright, ideology played an important role in the opposition of this group:

> The only opposition that we had was locally from a group of independent hotel operators and by and large they were smaller independent properties. They fought us pretty vehemently but in the final analysis they didn't marshal much support. . . Two things I think really were affecting their thinking. These were independent operators. They were entrepreneurs who just generally sort of resist the idea of being part of a cooperative effort. And, I think they were concerned that the larger hotels would just dominate this organization and the process of implementing the assessment (Michael Wright, Interview, July 2, 1996).

The assessment referendum passed, and the assessment was put in place in 1981. The original rate was 1% and in 1990 was increased to 2% by a majority vote of the assessment district members. Again, the voting rules for the rate increase were based on one vote for each hotel room.

The increase in the assessment in 1990 was the result of a conflict between hoteliers and the Wayne County Board of Commissioners. Wayne County had proposed a new accommodations tax to be used for funding the construction of a new stadium for the Detroit Tigers. Initially, the county proposed a five percent tax rate. Hoteliers opposed the tax because they believed the rate too high. In negotiating with the county, the CVB leadership, and hotel representatives, agreed to increase the assessment to 2% if the county would lower the tax rate. The 1% increase in the assessment was to be split evenly between the existing CVB promotion program and tourism development efforts in Wayne, Oakland and Macomb Counties. The portion set aside for tourism development funding was to be administered by the CVB. Due to lobbying on the part of hoteliers and other groups the county tax to fund the stadium was not implemented. However, the assessment remained at 2% (Michael O'Callaghan, Interview, June 21, 1996).

Throughout the early years of implementation the assessment was challenged by groups of hoteliers with smaller properties. According to the centennial history of the Bureau, the most serious challenge was in 1985. In this year, some hoteliers were able to secure

enough support to hold a referendum on repeal of the assessment (A Century of Economic Development, 1996). Under the assessment legislation, hotel owners could call for such a referendum a minimum of two years after implementation, and only if 40% of the owners, or if owners of 40% of the rooms, called for it (Public Act 383, 1980).

The conflict leading to the referendum was attributed to the bureau's decision not to actively fight a new room tax that would be used to fund expansion of the Cobo Hall convention center. Some hoteliers believed the assessment revenues were being used against them because the CVB did not take an strong position to oppose the tax. While the CVB supported the expansion of the facility, it tried to remain neutral with respect to the tax. Some of the controversy was allayed after a compromise agreement resulted in a graduated tax based on a hotel's size and proximity to the convention center. The referendum calling for repeal of the assessment was defeated after the compromise on the new room tax (A Century of Economic Development, 1996). Between 1985 and 1996, the year of this study, the assessment had not been substantively challenged either in court or by a referendum calling for repeal.

The Detroit assessment has provided a stable and growing source of revenue for the Metropolitan Detroit CVB. Table 30 is a summary of the Bureau's funding sources for the 1990-1991 and 1994-1995 fiscal years. The table reflects the percent of total revenue from each source and the percent change in each funding source between the two years. Revenues from the assessment are the largest source of revenue for the Bureau, and have increased over 36% between 1990 and 1995.

Table 30. Metropolitan Detroit Convention & Visitors Bureau Funding Sources

	1990-1991 Fiscal Year		1994-1995 Fiscal Year		
Funding Source	Revenues	Percent of Total	Revenues	Percent of Total	Percent Change 1990-1995
Assessment Collections	$5,512,000	86.60%	$7,513,000	91.14%	36.30%
Memberships	$360,500	5.66%	$334,000	4.05%	-7.35%
County Funds	$60,000	.90%	$20,000	.25%	-66.67%
City Funds	$60,000	.90%	$20,000	.25%	-66.67%
Other Revenues	$372,500	5.85%	$356,000	4.32%	-4.43%
Total Revenues	$6,365,000	100%	$8,243,000	100%	29.51%

Source: Survey of destination marketing organizations, 1996.

The assessment allowed the Detroit CVB to expand its programs, and helped it to overcome the funding problems it was experiencing prior to 1980. The increased revenues from the assessment allowed it to increase its staff by 25% and facilitated the creation of a department to attract corporate meetings (A Century of Economic Development, 1996). At the time of this study, the Bureau's budget was the largest in Michigan and eighteenth largest CVB budget in the country (Michael Wright, Interview, July 2, 1996). At the time of this study, the bureau employed 53 full-time employees and approximately 180 paid part-time employees (Survey of destination marketing organizations, 1996).

6.2.3 Suburban Promotion versus Downtown Promotion: The Structure of Decision Making in the Detroit CVB

The assessment legislation required that hoteliers have greater input into the tourism promotion program of the bureau by creating an advisory committee consisting of "representatives of the owners of transient facilities located within the assessment district, together with the director or the directors designated representative (Public Act 383, 1980)." The Owners Advisory Committee (OAC) consists of "not less that 9 nor more than 15 person, at least 1 of whom shall not be affiliated with a bureau member (Public Act 383, 1980." The OAC has at least three persons from each of the three counties

comprising the assessment district. It was also requires that at least one of the three county representatives be from an establishment with 75 rooms or less (Public Act 383, 1980).

The OAC was given the explicit right to approve the marketing program proposed by the bureau. If the OAC rejected the marketing plan, the CVB was required to make changes in the plan to reflect the input and preferences of the OAC. Thus, the OAC had the right to approve both the content of the promotion program and the amount of money spent on a particular aspect of the program.

Like other CVBs in the state, the Detroit CVB also had a board of directors. At the time of this study, the board of directors consisted of a chairman, five vice chairmen, a treasurer, and 54 directors. Some members of the OAC served as directors, but other directors were from a cross-section of the Detroit business and cultural community, and state and local government. In addition, some members of the board served on the executive committee, which was responsible for most of the formal decision making and policy review. The composition of the executive committee varied, but it usually had 13 members including the chairman of the OAC (Michael Wright, Interview, July 2, 1996).

The OAC and the board of directors served different administrative functions. According Michael Wright, these functions were not always clear and evolved over time.

> Well, this [the OAC] has been in place since 1981, and frankly we are still learning [how the board and OAC] relate to each other. Ideally, or the balance that we attempt to strike is that the board of directors, through the executive committee, is responsible for long term thinking embodied in the form of a strategic plan, and overall responsibility for ensuring that systems are in place to guarantee the efficient, effective uses of the resources available: both in terms of people, money, and planning. And, it does that through a number of standing committees that have a pretty clear focus: a finance committee that focuses on fiduciary responsibilities; a membership committee that focuses on establishing a rationale for why individual businesses should be members and support of that efforts: a marketing research committee. . . . Then when it comes to actual implementation of the short term plans, that is where the owner advisory committee's role becomes significant. . . . Now that is the ideal. We have gone through probably a five-year period where there has been a lack of clarity about that and real strong debates about where does that balance fall. We are still working on that (Michael Wright, Interview, July 2, 1996).

The power of the OAC to approve or disapprove the marketing program can suspend the work of the organization and influence the cost sharing arrangement between those initiatives desired by the board and the ones wanted by hoteliers. The hoteliers can use this power as leverage in their negotiations with the board of directors.

The potential conflict between the interests of hoteliers and the broader interests of the board of directors was apparent at the time of this study. Hoteliers in some of the suburban areas around Detroit were seeking to have greater control over the funding and focus of promotion initiatives. Many of these hoteliers served on the OAC and were pressuring the CVB to change the structure of the local cost sharing arrangement. They believed that the promotion program emphasizing the attraction of conventions was not benefiting them and that the program primarily benefited hotels in the downtown area. Thus, they wanted to develop their own programs emphasizing the markets most likely to use suburban hotels and meeting facilities. The following interviews reflect the sentiments of two suburban hoteliers serving on the OAC:

> Well I think I may echo a lot of people's thought on this, and there may be two different opinions on it, but if you are in one of the suburbs or one of the outlying areas of Detroit, [the CVB] doesn't work for you to the extent that it does for the properties downtown. The amount of business that it generates for us is very very minimal. . . . I think that historically that may not have been the case a long time ago when the initial assessment was set up. I think at that time there was a feeling that the business that was going to occur downtown was going to spread out into the suburbs and that clearly does not happen, and has not happened for a long time. In fact, the truth is almost the reverse in that it is almost the case that business in the suburbs will spill out into other suburbs and the suburbs closest to Detroit may spill out into Detroit (Peter Marshall, Interview, June 21, 1996).

> From my standpoint, operating this hotel, I believe that the convention business at one time, when convention bureaus were formed, the pure intent was to go out and compete for city wide conventions. Metropolitan Detroit is not in a position any longer to go out and attract a great number of city-wide conventions. . . . So, the business has changed a lot since the old days. So, the dollars need to be divided in some sort of plan that attracts visitors to Metropolitan Detroit who ideally will stay in hotel rooms but not just limited to going after conventions (Michael O'Callaghan, Interview, June 21, 1996).

These and other members of the OAC were proposing a revenue sharing arrangement that would allow sub-districts in the three counties comprising Detroit to create their own

marketing programs. None of the individuals interviewed wanted to retain all of the assessment revenues collected in their areas for these sub-district programs. All believed that a general citywide promotional effort was needed. Their primary concern was that the current program placed too much emphasis on conventions in the downtown area. They did not want any money from the proposed revenue sharing arrangement to go to other organizations, such as the local chamber of commerce. They believed the Metropolitan Detroit CVB to be the best organization for administering the programs in these sub-districts. In general, the hoteliers were proposing the development of marketing plans for the sub-districts with input from the area hotel association or chamber of commerce. One member of the OAC described how the arrangement might be structured:

> But, I think there is a way you could take that assessment and return a portion of it back to a particular marketing district. It doesn't have to be counties necessarily. When you look at it from a client's perspective they are not looking at Wayne, Oakland, Macomb Counties. To them that doesn't make any difference. What they are looking at is a particular marketing area because it offers certain things they want whether it be hotels, shopping, sports, recreational or other types of facilities. So, I think what you do is align yourself in different market pockets that make sense from a marketing perspective, from the client's perspective, and you market yourself appropriately. The funding mechanism being some portion of the assessment coming back to those different areas with some central control over them to make sure there is no overlap. So that you don't have inefficiencies in allocating the resources. To make sure there is an opportunity to share leads generated from those marketing efforts with other [Detroit] markets. So that if one area gets a lead obviously, they have the first right to pursue that lead, but then we are not wasting that lead if it doesn't happen to fit that market and maybe fits another market with Metropolitan Detroit. And, making sure that there is come conformity in some of the marketing collateral so that the client is not seeing a ton of different messages that don't have any kind of similarities. So, I think that is a role the bureau can play. That is how I see it working. The details are in how to decide how much of the assessment is going back and how to get everyone, or as many as possible involved in that marketing decision process (Peter Marshall, Interview, June 21, 1996).

Each of the OAC members interviewed referred to the OAC's ability to veto the marketing plan and the ability of hoteliers generally to call for a referendum repealing the assessment as a sources of negotiating power with the CVB board of directors. At the time of this study no decision had been made regarding the possible new cost sharing arrangement between the Bureau and the suburban hotel groups. Each of the individuals

interviewed in the Detroit area, including board members and CVB leadership, believed an agreement would be reached providing some type of cost sharing arrangement that accommodated the promotional interests of suburban hoteliers.

6.3 The Evolution and Structure of Statewide Assessment Districts

Once the Detroit assessment district was in place, other areas began to consider the assessment as a way of funding local tourism promotion efforts. The first groups in the state to pursue formation of an assessment district outside of Detroit, were hoteliers in the municipalities around Traverse City and Mackinaw City. Following the passage the legislation for these areas, other municipalities in rural areas of Michigan lobbied to have the right to establish similar assessment districts. The following sections describe the evolution of these pieces of legislation.

6.3.1 The Structure of Public Act 395 of 1980: The Traverse City Assessment District

Shortly after the Metropolitan Detroit CVB proposed its assessment legislation, tourism groups in Traverse City in Grand Traverse County, and Mackinaw City in Mackinaw County proposed similar legislation. Both of these communities are popular tourist destinations in northern Michigan. This assessment legislation was supported by the local chambers of commerce, and members of the local hotel association. At that time, tourism promotion efforts for the Traverse City area were being administered by a CVB that was a division of the chamber of commerce (Chris Danciszak, Interview, June 6, 1996).

In January of 1981, Public Act 395 known as the "community convention and tourism marketing act" was passed The legislation limited adoption of the assessment to Grand Traverse County or Mackinaw City in northern Michigan. To achieve this, limitations were placed on the size of the county, cities within the county, chamber of commerce size in the county, and the number of hotel rooms in the county. These limitations were specific to the two areas.

Public Act 395 was similar to Public Act 383. To implement the assessment, the CVB or chamber of commerce had to file a marketing program notice with the Director of the Michigan Department of Commerce. The program notice was required to include the following:

1. A statement that the bureau proposed to create a marketing program under the act and cause the assessment to be collected from owners of transient facilities.
2. A description of the structure, history, membership and activities of the bureau.
3. A description of the marketing program to be implemented and specification of the assessment rate, which was not to exceed 2%.
4. A description of the geographic area to be covered by the marketing program (Public Act 395, 1980).

Like the Detroit legislation, copies of the marketing program notice were to be distributed to the owners of transient facilities affected by the proposed assessment. A transient facility was defined as "a building which contains 10 or more rooms used in the business of providing dwelling, lodging, or sleeping to transient guests, whether or not membership is required for the use of the rooms (Public Act 395, 1980)." The proposed assessment would automatically take effect within forty days of approval by the Department of Commerce. However, the assessment would not be implemented immediately if the Commerce Department received a written request for a referendum within forty days of the Department's approval from 40% or more of the owners of lodging facilities or from owners representing not less than 40% of the rooms. If a referendum was held, each owner of a lodging facility had one vote for each room in their facilities. Clearly, the referendum weighted the preferences of owners of large facilities more heavily than owners of smaller facilities.

Like the Detroit assessment legislation, Public Act 395 of 1980 created an advisory committee of lodging property owners or their representatives. This committee was to "consist of not less than 7 nor more that 15 persons" and had to have at least 2 persons

from each county in the assessment district (Public Act 395, 1980). The advisory committee was also given the right to approve or reject the marketing program of the CVB. In both Detroit and Traverse City, the CVB and chamber of commerce had boards of directors who, prior to the assessment legislation, were responsible for developing and approving the marketing program for the organization. After the passage of the legislation, the right of approval was given to a group of hoteliers. Thus, the two acts provided hoteliers greater voice in the formulation of the tourism promotion campaign and changed the structure of decision making in both organizations.

Like the Detroit legislation, Public Act 395 allowed for repeal of the assessment within 2 years after initiation if 40% of the owners, or owners of 40% of the rooms, called for a referendum on repeal. The assessment would be repealed if owners of a majority of the rooms voted for discontinuance. Each owner or their representative had one vote for each room in each of the transient facilities they owned (Public Act 395, 1980).

Unlike the Detroit assessment legislation, Public Act 395 did not specify which counties were to be included in the assessment district. The organizations could specify contiguous counties or areas to be covered by the assessment in the marketing program notice. Thus, the legislation did not limit the adoption of the assessment to areas defined by county boundaries (Public Act 395, 1980).

The act also specified rules for enforcement of the assessment by requiring hoteliers to submit audited statements of use tax collections on a quarterly basis to the CVB. In addition, the CVB was required to submit an audited annual report to the Department of Commerce, describing the activities and finances of the bureau (Public Act 395, 1980).

Subsequent to passage of the legislation, assessment districts were established in Grand Traverse County and in Mackinaw City. At the time of this study, there had been no legal challenges to the assessment or successful attempts at repeal.

6.3.2 Statewide Adoption of Assessment Districts: Public Act 59 of 1984

Tourism interest groups in many cities and counties throughout Michigan expressed interest in adopting a tourism promotion assessment. Groups in areas such as Sault Ste. Marie and Marquette, in Michigan's Upper Peninsula, and areas along the Lake Huron and Lake Michigan shorelines wanted the ability to fund local tourism promotion efforts. Many of these areas were popular tourist destinations and had chambers of commerce responsible for administering tourism promotion efforts Unfortunately, these groups could not implement an assessment due to the population restrictions and other limitations specified in both Public Act 383 and Public Act 395. Businesses and chambers of commerce in these areas began to lobby for legislation that would allow them to implement tourism promotion assessments.

In 1984, Senator Irwin sponsored a bill to amend large sections of Public Act 395. The proposed amendments removed the population and organizational restrictions and allowed groups in smaller municipalities throughout Michigan to implement an assessment. The bill was signed into law in April of 1984 as Public Act 59.

The basic structure of Public Act 59 was similar to the two previous pieces of legislation. The process of implementing the assessment remained essentially the same, requiring submittal and approval of a marketing program notice to the Department of Commerce. Conditions for holding a referendum on the assessment were also essentially the same, although the time limit for holding the referendum was changed to within 30 days of the first day of the month after Commerce Department approval of the program notice. Rather than requiring approval of 40% of the owners, or owners of 40% of the rooms, the amended legislation required approval of owners by a majority of the rooms in the district. Votes were similarly weighted, allowing each owner 1 vote for each room in each of the facilities owned (Public Act 59, 1984).

Like the previous legislation, Public Act 59 restricted groups in counties having a tax under Public Act 263 of 1974 from implementing an assessment. Thus, the CVBs in the

eight counties covered by Public Act 263 of 1974 could not implement an assessment. Neither could groups in the counties comprising the Metropolitan Detroit implement an assessment under Public Act 59. Thus, the structure of the Detroit assessment was not affected by the amendment (Public Act 59, 1984).

Public Act 59 amended the sections of Public Act 395 which had provided for the creation of an advisory committee of lodging facility owners. Rather than creating advisory committees, the amended legislation required the boards of directors of organizations implementing the assessment to have lodging facility owners as a majority of voting directors (Public Act 59, 1984).

The amendment also defined a transient facility as a "building or combination of buildings under common ownership, operation or management which contains 10 or more sleeping rooms" (Public Act 59, 1984). Thus, cottages, townhouses and other similar properties could be included in the assessment if these facilities rented to tourists. This section also made provisions allowing facilities with less than 10 rooms to participate in the assessment if the owner decided they wanted to (Public Act 59, 1984).

Like the previous legislation, Public Act 59 provided for enforcement of the assessment. Hoteliers in the assessment districts were required to submit audited use tax records to the independent certified public accountant of the CVB. Interest penalties were set at 1.5% per month for the first 90 days of delinquency. Payments in arrears beyond 90 days were also assessed an additional 1.5% (Public Act 59, 1984).

Public Act 59 also required the assessment districts to submit audited annual financial reports to the Department of Commerce.

> The financial statements of the bureau shall be audited at least annually by a certified public accountant. A copy of the audited financial statements shall be mailed each owner not more than 150 days after the close of the bureau's fiscal year. The financial statements shall include a statement of all assessment revenues received by the bureau during the fiscal year in question and shall be accompanied by a detailed report, certified as correct by the chief operating officer of the bureau, describing the marketing programs implemented or, to the extent then known, to be implemented by the bureau. Copies of the audited financial statements and the certified audit shall simultaneously be mailed to the director (Public Act 59, Section 6.1 and 6.3, 1984).

Each piece of assessment legislation limited the ability of members to file for repeal of the assessment after 2 years had passed since approval. If a referendum was held and the assessment was repealed, the organization could file and serve another marketing program notice not less that 60 days after certification of the referendum (Public Act 383, 1980; Public Act 395, 1980; and Public Act 59, 1984).

At the time of this study, 54 assessment districts had applied to hold a referendum under Public Act 59. The statewide proliferation of these organizations and a description of their characteristics are presented in Sections 6.4 and 6.5.

6.3.3 The Upper Peninsula Assessment: Public Act 244 of 1989

Over time, the original Upper Peninsula Development Bureau described in Chapter 4 had been restructured and renamed several times. During the period described in this section, the Upper Peninsula organization was referred to as the Upper Peninsula Travel and Recreation Association (UPTRA) and was one of the four regional tourism organizations operating in the state through the 1980s and early 1990s. As described, in Chapter 4, the organization had struggled to fund its tourism promotion efforts through member dues payments. At various times, dues were supplemented by different types of state grants.

By the late 1980s, it became apparent to the leadership of UPTRA that relying on the state and membership dues for funding was neither stable nor sufficient to fund the desired programs. Chris Danciszak, who was President of UPTRA and helped draft the legislation outlined in this section, described the situation:

> It was one of those things where in the early eighties I realized that any regional or local organization, and I expressed this opinion to the UP association, that for all practical purposes membership organizations were dead in about five years unless some drastic changes were made in the funding arrangements. Because sooner or later the state was going to cut the funding and that was not the way to go. At that point I put a paper forward to the executive committee of UPTRA saying that we basically had four options. One was to basically dramatically increase dues, which probably wouldn't fly. The second one was to scale back programs or be prepared to scale back programs at any moment based on the political whims in Lansing, especially if we were going to be reliant on the state for 50% of our funding. The

> third one was to seek a different source of funding and at that point I proposed a regional assessment. The fourth was to shut the doors because, again, it was obvious there were too many people who were looking for the money because times were getting tighter in Michigan. The convention bureaus wanted a piece of the action. A lot of smaller communities who perceived that they had never had a piece of the action wanted some of the money. You couldn't fight that battle forever (Chris Danciszak, Interview, June 6, 1996).

In 1989, state representatives from the Upper Peninsula sponsored two pieces of legislation that would allow UPTRA to create an assessment district in the Upper Peninsula. One piece of legislation further amended Public Act 395 of 1980 by removing restrictions on the creation of assessment districts in areas already collecting an assessment. It was passed as Public Act 245 of 1989. The other piece of legislation proposed the creation of a regional assessment for the Upper Peninsula.

The initial bill for the Upper Peninsula included Mackinac Island in the assessment region. Hoteliers on Mackinac Island opposed being included in the bill, and eventually the island was removed from inclusion in the region (Chris Danciszak, Interview June 6, 1996). In addition, ski areas operating in the western part of the Upper Peninsula objected to the possibility that condominiums in their ski areas could be assessed. Thus, the definition of transient facility excluded "a building or combination of buildings that is otherwise a transient facility, but that is located within 1 mile of a ski lift (Public Act 244, 1989)" Other than the ski area operators and Mackinac Island interests, there was little opposition to the bill, and it was passed as Public Act 244 of 1989--the regional tourism marketing act (Chris Danciszak, Interview, June 6, 1996 & Public Act 245, 1989).

The assessment legislation for the Upper Peninsula was similar in many ways to the previous assessment legislation. The law was written to limit the implementation of the assessment to an area region composed of 15 counties with a regional marketing organization in place for 10 or more years. Rules for implementing the assessment were essentially the same as those for the other assessment districts. Like the other pieces of legislation, the law required a majority of the board of directors of the regional marketing organization to be transient facility owners. Rules for enforcement and auditing the

financial statements of members were also similar. The regional assessment rate was set at 1% of the lodging room price (Public Act 244, 1989).

Like in other areas of the state, the assessment proved to be a stable and growing source of revenue. However, the assessment appears to have negatively impacted revenues from dues payments. Table 31 shows the composition of UPTRA funding for the period from 1988 to 1995. As shown in the table, assessment revenues have consistently increased since implementation, while membership dues have consistently decreased. Total dues collected declined over 59% during this period. Further analysis indicates that most of the decrease in dues payments can be attributed to withdrawal of payments by lodging facilities. In the 1988-1989 fiscal year, dues paid by lodging facilities amounted to $36,855. In contrast, in the 1994-1995 fiscal year, dues paid by lodging facilities were $12,490, a decrease of 66.1% from 1990. It is clear that the compulsory cost sharing arrangement produced positive results in total revenues, but negatively impacted funding from voluntary payments.

Table 31. UPTRA Funding Sources, 1988-1995

Fiscal Year	Dues (% of total)	Advertising (% of total)	State Grants (% of total)	Assessments (% of total)	Other (% of total)	Net Revenues (% of total)
1988-1989	$122,232 (38.9%)	$38,500 (12.2%)	$148,413 (47.2%)	$0 (0.0%)	$5,278 (1.7%)	$314,423 (100%)
1989-1990	$120,283 (32.5%)	$33,500 (9.0%)	$182,025 (49.2%)	$28,847 (7.8%)	$5,675 (1.5%)	$370,330 (100%)
1990-1991	$99,860 (14.6%)	$0 (0.0%)	$149,232 (21.8%)	$424,760 (62.1%)	$10,004 (1.5%)	$683,856 (100%)
1991-1992	$67,835 (11.9%)	$31,575 (5.5%)	$0 (0.0%)	$464,038 (81.1%)	$8,458 (1.5%)	$571,906 (100%)
1992-1993	$59,435 (9.8%)	$37,753 (6.2%)	$0 (0.0%)	$504,151 (83.0%)	$6,398 (1.1%)	$607,737 (100%)
1993-1994	$53,995 (7.8%)	$51,053 (7.2%)	$0 (0.0%)	$604,852 (84.8%)	$3,327 (00.5%)	$713,227 (100.0%)
1994-1995	$49,914 (6.9%)	$48,896 (6.8%)	$0 (0.0%)	$618,927 (85.8%)	$3,410 (00.5%)	$721,147 (100%)
Total Change 1988-1995	-$72,318	$10,396	-$148,413	$618,927	-$1,868	$406,724
Percent Change 1988-1995	-59.2%	27.0%	-100.0%	2045.6% [1]	-35.4%	129.4%

Source: Michigan Travel Bureau Archives, UPTRA Financial Statements, 1989-1995.

[1] Calculation based on 1990-1995 change.

6.3.4 Summary of Michigan's Assessment Legislation

The Metropolitan Detroit Convention and Visitor Bureau, was the first organization to pursue the assessment as a way of funding local tourism promotion efforts. The organization can be credited with conceptualizing and creatively adapting agricultural assessment concepts to tourism promotion. The convention and tourism marketing act, Public Act 383 of 1980, was the first piece of legislation in the country to establish a tourism promotion assessment (Michael Wright, Interview, July 2, 1996).

The assessment concept was adopted by two organizations representing communities in Northern Michigan and resulted in the passage of the community convention or tourism marketing act, or Public Act 395 of 1980. This legislation was later amended by Public Act 59 of 1984 to allow implementation of the assessment in communities throughout Michigan. The regional tourist association operating in the Upper Peninsula was the only regional tourist association given the right to pursue funding via an assessment. The organization successfully secured passage of the regional tourism marketing act, or Public Act 244 of 1989.

As a result of the assessment legislation, and Public Act 263 of 1974, there were two ways that destination marketing organizations could benefit from compulsory cost sharing arrangements--taxes or assessments. The assessment legislation made the two funding arrangements mutually exclusive. In other words, an organization in a county collecting the accommodations tax under Public Act 263 of 1974 could not implement an assessment.

The various assessment laws were supported by local hoteliers and other local tourism interest groups. The legislation was also supported by the Michigan Hotel and Motel Association. Hoteliers supported the assessment concept because it gave them greater control over the tourism promotion program (Dave Morris, Interview, August 5, 1996 & Michael Wright, Interview, July 2, 1996). This was done either by establishing an owners advisory committee, as in Detroit, or by requiring the CVB to have hoteliers as a majority on the board of directors.

In addition, the assessment legislation eliminated county and city governments' ability to shift tax revenues from tourism promotion programs wanted by hoteliers to other interest groups or to use the funds for facility construction. County and city governments were not involved in the collection or administration of the assessment revenues--the funds were not government funds. Further, the assessment legislation did not specify the boundaries of the assessment districts. The boundaries were neither limited to, nor did they necessarily have to follow, county boundaries. Thus, hoteliers could choose, via the referendum, whether their properties were geographically aligned with the promotion interests of the organization proposing the assessment.

Outside of Michigan, only one other state has proposed a tourism promotion assessment. At the time of this study, tourism interest groups in California proposed a statewide tourism promotion assessment. Unlike Michigan's assessment legislation, which was for local organizations, the California assessment was designed to fund the state tourism promotion organization. The state tourism promotion office was to be by a new organization, created and directed by tourism industry representatives (California Senate Bill 1398, 1996).

6.4 The Formation of Assessment Districts: Evidence From Local Referendums

The archives of the Michigan Travel Bureau had the results of 55 assessment district referendums (not including the Detroit and UPTRA referendum), from 1980 to 1995. The data included the number of hotel properties in each district, the number of rooms in each property, and how each property voted on the referendum. In addition, many of the voters stated their support or opposition for the referendum by including written comments on their ballots. The information in the archives yields insight into the size of assessment districts in terms of the number of hotel properties, the rate of institutional adoption across time, and the performance of referendum voting rules.

6.4.1 Organizational Entrepreneurs

The formation of an assessment district required that someone or some group draft and file a marketing program notice with the Department of Commerce. In many cases, the marketing program notice was filed by the local chamber of commerce on behalf of interested hoteliers. In other cases, the program notice was filed by the members of the local hotel association or representatives of the county economic development office. The Michigan Travel Bureau archives had data on program notices for 28 different assessment districts. Of these, 20 were filed by a chamber of commerce on behalf of the local hotels, 3 were filed by a local hotel association, and 2 were filed by economic development offices. There was no indication who filed the program notice for the remaining 3 organizations.

As will be described in subsequent sections, chambers of commerce have worked closely with the tourism promotion assessment districts in their areas. In some cases, the assessment organization was a division of the chamber of commerce. In other cases, the assessment organizations had contracts with the chambers, paying them for clerical and other administrative support.

There are no data on the incentives of the chambers in helping to create assessment districts. It is possible the chambers of commerce hoped to share in the assessment revenues either through contractual arrangements, or, more directly, by integrating the assessment organization into the chamber structure. It is also possible the chambers were simply acting in support of hotels that were members of the chamber. It is likely both of these were true, and that the incentives varied among the chambers of commerce depending on leadership, and the nature of the relationship between hoteliers and the chambers. It is known, from interviews, that if the assessment organization was initially integrated into the chamber of commerce, it has often evolved over time to become an independent organization.

6.4.2 General Characteristics of Districts at the Time of Referendums

Between 1984 and 1995, the number of assessment districts increased each year. Figure 19, shows the number of assessment districts established each year and the cumulative number of districts in the state. Because some of the districts have disbanded, and because many do not file their annual reports with the state, as required by law, it was difficult to determine precisely how many assessment districts remained in operation. However, of the 55 referendums held, it appears that approximately 50 (not including Detroit and UPTRA) were still in operation at the time of this study (Dave Morris, Interview, August 5, 1996).

The referendum data yield insight into the size of the districts and the size of the hotels participating in the referendums. Since the referendums took place over approximately 11 years, these numbers are not good indicators of the present market characteristics. However, they do provide some insight into the characteristics of the districts at the time each was formed. Table 32 presents the average number of properties, and the average number of rooms for all assessment district referendums held between 1984 and 1995. The table shows that 593 properties, representing 18,963 rooms, participated in assessment district referendums between 1984 and 1995. On average, the assessment districts had approximately 11 lodging properties at the time of referendum. The largest district had 43 properties participating in the referendum, and the smallest had 2 properties. On average, the properties had approximately 38 rooms, with property size ranging from 10 rooms to 731 rooms. On average, assessment districts were comprised of 351 lodging rooms. The largest district had 1,162 rooms and the smallest had 34 rooms.

Figure 19. Proliferation of assessment districts since passage of Public Act 59

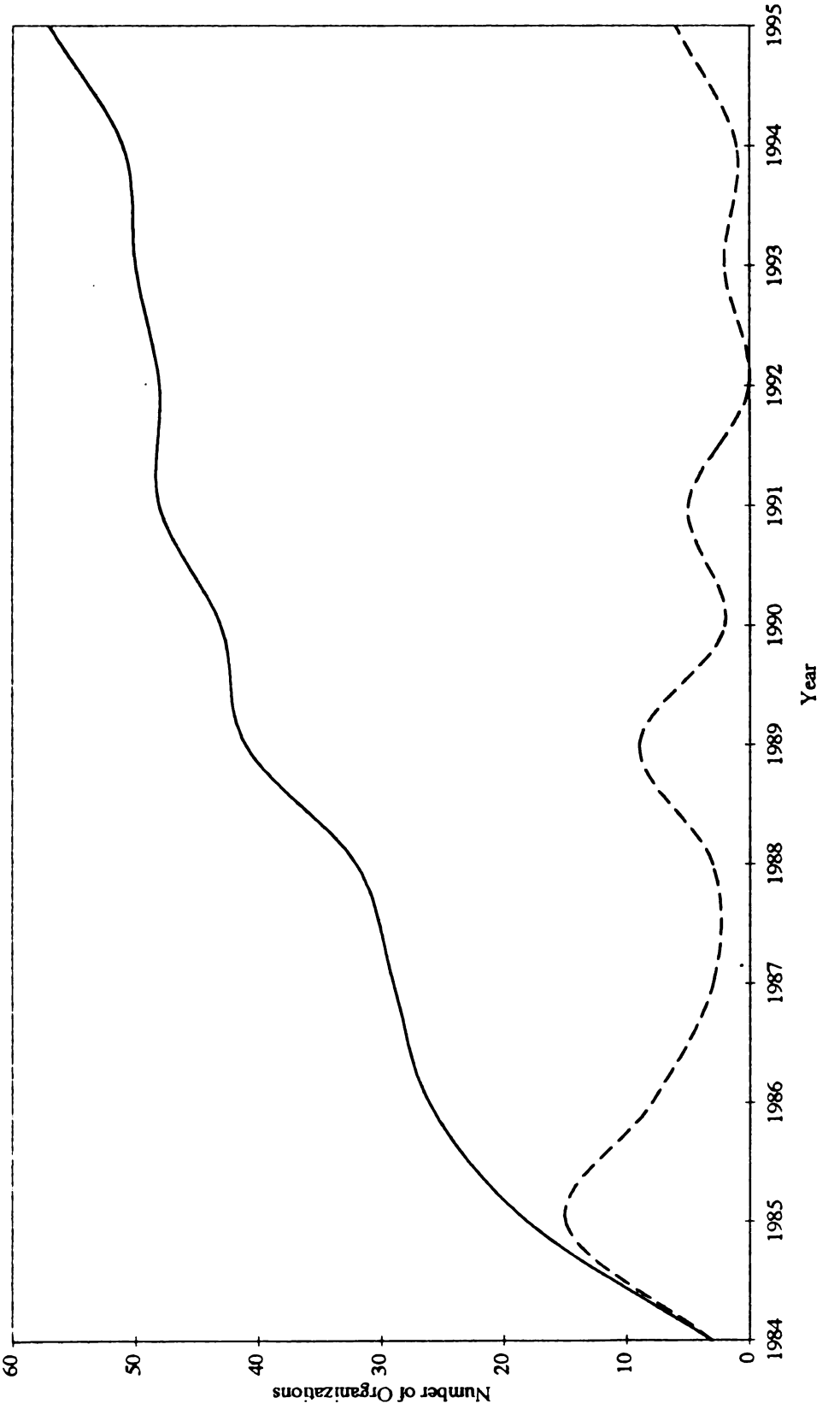


Table 32. General Characteristics of Assessment Districts at Time of Referendum

	Mean	Standard Deviation	Median	Minimum	Maximum
Number of Lodging Properties in Districts n= 593 properties	11	8.089	9	2	43
Number of Lodging Rooms/Units in District n=18,963 rooms	351	227.319	312	34	1162
Number of rooms per property	38	50.749	20	10	731

Source: Travel Bureau Archives

6.4.3 Large versus Small Hoteliers: Evidence from Referendum Results

As described in Section 6.3.2, under Public Act 59 of 1984, the passage of the referendum required a "Yes" vote by owners of a majority of the hotel rooms in the proposed district. Thus, it was possible that a minority of owners could either form or block the formation of an assessment district if they owned a majority of the rooms. To determine if this happened, comparisons of votes were made between the percentage of properties and the percentage of rooms in each district. Table 33 presents the results of this analysis. Of the 55 referendums held, only one was not approved by owners of a majority of the hotel rooms. However, if a different voting rule was used, allowing one vote per property, 9 of the referendums would not have passed by a majority vote of the properties.

Table 33. Assessment District Referendum Results

District	Percent of Properties Voting "YES"	Percent of Properties Voting "NO"
Augres	100.0%	0.0%
Baraga	100.0%	0.0%
Boyne	100.0%	0.0%
Branch	100.0%	0.0%
Ironwood	100.0%	0.0%
Lansing/Delta Township	100.0%	0.0%
Manistee	100.0%	0.0%
Manistique	100.0%	0.0%
Mecosta	100.0%	0.0%
Munising	100.0%	0.0%
Oscoda	100.0%	0.0%
Rogers City	100.0%	0.0%
Cadillac	90.9%	9.1%
Bay	90.0%	10.0%
Iron City	90.0%	10.0%
Jackson	90.0%	10.0%
Monroe	90.0%	10.0%
Grand Haven	88.9%	11.1%
Saugatuck	86.7%	13.3%
Mackinaw City	86.5%	13.5%
Grayling	81.8%	18.2%
Keweenaw	81.0%	19.0%
Charlevoix	80.0%	20.0%
Alpena	77.8%	22.2%
St. Ignace	76.9%	23.1%
Gaylord	75.0%	25.0%
Lenawee	75.0%	25.0%
Les Cheneaux	75.0%	25.0%
Paradise	75.0%	25.0%
West Branch	75.0%	25.0%
Shoreline	75.0%	25.0%
Blue Water Area TC	72.7%	27.3%
Bluewater	71.4%	28.6%
Cheboygan	71.4%	28.6%
Holland	71.4%	28.6%
Sault St. Marie	71.4%	28.6%
Delta	70.0%	30.0%
Manistee Filer Township	66.7%	33.3%
Midland	66.7%	33.3%
Lakeshore	62.5%	37.5%
Ontonogan	62.5%	37.5%
Newberry	58.3%	41.7%
Traverse City	58.1%	41.9%
Tawas	57.1%	42.9%
Harbor Country	55.6%	44.4%
Oceana	55.6%	44.4%
Dickinson	50.0%	50.0%
Gogebic	50.0%	50.0%
Ludington	50.0%	50.0%
Mecosta Tourist Council	50.0%	50.0%
River City	50.0%	50.0%
Schoolcraft	50.0%	50.0%
Mt. Pleasant	40.0%	60.0%
Marquette	36.4%	63.6%
Unknown	33.3%	66.7%

District	Percent of Rooms Voting "YES"	Percent of Rooms Voting "NO"
Augres	100.0%	0.0%
Baraga	100.0%	0.0%
Boyne	100.0%	0.0%
Branch	100.0%	0.0%
Ironwood	100.0%	0.0%
Lansing/Delta Township	100.0%	0.0%
Manistee	100.0%	0.0%
Manistique	100.0%	0.0%
Mecosta	100.0%	0.0%
Munising	100.0%	0.0%
Oscoda	100.0%	0.0%
Rogers City	100.0%	0.0%
Jackson	98.2%	1.8%
Cadillac	97.3%	2.7%
Lenawee	94.8%	5.2%
Grand Haven	94.8%	5.2%
Gaylord	94.5%	5.5%
Holland	93.3%	6.7%
Bay	93.1%	6.9%
Alpena	93.0%	7.0%
Grayling	92.2%	7.8%
Shoreline	91.5%	8.5%
West Branch	91.4%	8.6%
Iron City	90.4%	9.6%
Gogebic	89.9%	10.1%
Mackinaw City	89.7%	10.3%
St. Ignace	88.5%	11.5%
Charlevoix	88.0%	12.0%
Keweenaw	87.7%	12.3%
Blue Water Area TC	87.4%	12.6%
Bluewater	87.0%	13.0%
Delta	84.9%	15.1%
Monroe	84.4%	15.6%
Les Cheneaux	83.9%	16.1%
Midland	83.3%	16.7%
Saugatuck	81.9%	18.1%
Oceana	80.7%	19.3%
Manistee Filer Township	78.9%	21.1%
Traverse City	77.0%	23.0%
Cheboygan	76.0%	24.0%
Sault St. Marie	75.6%	24.4%
Ludington	70.1%	29.9%
Tawas	70.1%	29.9%
Newberry	69.7%	30.3%
Paradise	69.1%	30.9%
Ontonogan	67.6%	32.4%
Harbor Country	66.5%	33.5%
Mecosta Tourist Council	64.6%	35.4%
Mt. Pleasant	62.5%	37.5%
Lakeshore	60.7%	39.3%
Dickinson	57.1%	42.9%
Marquette	56.9%	43.1%
Schoolcraft	52.0%	48.0%
River City	51.5%	48.5%
Unknown	38.3%	61.7%

According to Olson's (1965) hypothesis, larger hotels have more of an interest in tourism promotion efforts because their relative size means they will capture a greater share of the benefits in the form of tourists staying in their hotel. Under a voluntary cost sharing arrangement, such as the cost sharing for a tourism promotion program supplied by a chamber of commerce, the larger hotels might pay dues to insure that the promotion program is supplied. According to Olson's hypothesis, smaller hotels would have an incentive to free ride on the dues payments of larger members and still benefit from the attraction of tourists. As a result, the assessment was potentially a way of unseating the free riding smaller properties, and it is likely that larger lodging properties would support it more than the smaller properties.

To test for differences in voting behavior between large and small hotels, a two-sample t-test, assuming non-homogeneous variances, was used to compare the means of hotel size and fair market share for "yes" and "no" voters. Fair market share indicates the percentage of rooms each property has in the market, and was calculated by dividing the number of rooms in each property by the total number of rooms eligible to vote in the referendum for each district. The null hypotheses for these tests were that there was no difference in the mean size, or in the mean market share, of those properties owned by people voting in support of, or rejecting, the referendum.

The results of the t-tests are presented in Tables 34 and 35. Table 34 shows the results of the comparison on the basis of the number of rooms in each property: that the average size of properties owned by people voting for the referendum was 42 rooms, and that the average size of properties owned by people voting against the referendum was 24 rooms. The table also shows that the means were not statistically equal, thereby the rejecting the null hypothesis for this test. In other words, people owning larger properties were more likely to vote in favor of the referendum and people owning smaller properties were more likely to vote against it.

Table 35 presents the results of the comparison on the basis of fair market share. The table shows that the average market share of people owning properties voting for the referendum was 10.7%, and the average market share of properties voting against the referendum was 5.6%. The table also shows that the means were not statistically equal, thereby rejecting the null hypothesis for this test. In other words, people owning properties with a larger relative share of the market were more likely to vote in favor of the referendum, and those with a smaller relative share were more likely to vote against it.

Table 34. Results of Two Sample t-Test Comparing Means of Number of Rooms

	"Yes"-Rooms	"No"-Rooms
Mean	42.499	24.346
Variance	3133.758	855.631
Observations	431	162
Degrees of freedom	532	
t-Statistic	5.124	
p-Value one tail	0.000000	
t-Critical one tail	1.648	
p-Value two tail	0.000000	
t-Critical two tail	1.964	

Alpha= .05

Table 35. Results of Two Sample t-Test Comparing Means of Fair Market Share

	"Yes"-Market Share	"No"-Market Share
Mean	0.1069	0.0558
Variance	0.0139	0.0027
Observations	431	162
Degrees of freedom	577	
t-Statistic	-7.273	
p-Value one tail	0.000000	
t-Critical one tail	1.648	
p-Value two tail	0.000000	
t-Critical two tail	1.964	

Alpha= .05

It is possible that smaller properties were behaving strategically by trying to avoid collecting the assessment and continuing to free ride on the voluntary payments of larger properties to the chambers of commerce. However, it is not known whether small and large properties differentially supported the tourism promotion efforts of the chambers. There is, however, evidence that some small property owners ideologically opposed the assessment. In some cases this opposition was rooted in a distrust of collective action and a belief that the voting rules were unfair. For example, one motel owner with 10 units wrote on his referendum ballot:

> What a racket! You make me want to get the hell out of business. This is unconstitutional. If you want communism why don't you move to the Soviet Union! The idea of one vote per room means that the person with the most money will get the most votes (Anonymous, 1989).

Another motel owner with 14 units was more explicit, attaching a letter to his referendum ballot outlining his ideological opposition to the assessment and the fairness of the referendum:

> I am an independent business man and cannot emphasize the word independent strongly enough. . . . I hold to the creed that since 1976 I have been a strong defender of the Free Enterprise system. I also belong to the National Federation of Independent Business [and the] National Association for the Self Employed and other trade enterprises. Having made my stand I charge the [assessment district] with: A. As being a socialistic organization. Definition according to the dictionary as the desire to effect reform by cooperative efforts (the opposite of individualism); doctrine based largely upon the writings of Karl Marx. B. Big business takes over small business. Consider Big Snow Country and Superior North Country input. Consider the vote outcome if all facilities voted "no" but Indianhead and Big Powderhorn. The referendum would still pass 455 to 443. This is democracy? I think not (Anonymous Letter, April 21, 1986).

Another motel owner with 17 units objected to the assessment because she did not feel it would be used to benefit her property, and she perceived the assessment as an attempt by the government to unfairly tax her:

> Reasons we object to this tax: [I] do not feel this is going to be beneficial to smaller businesses such as our own. Why give big businesses more say? [I] fear the revenues will be filtered into other segments of the government and not used for which it is designated. . . . Tourist trade benefits every business. Why single out the lodging establishments to do the taxing (Anonymous, 1987).

Another motel owner with 14 units wrote on his referendum ballot:

> This is collectivism at its worst! Big business is eating us alive and the government allows it to happen. It is entirely unfair (Anonymous, 1985).

In summary, the formation of assessment districts were opposed by some owners of smaller lodging establishments. These people can be classified as unwilling riders. The exact nature of their opposition is not absolutely clear, but there is evidence that some were ideologically opposed to a compulsory cost sharing arrangement and objected to a voting rule which gave more weight to the votes of larger businesses. Despite the opposition of some owners, the assessment appears to have been a popular cost sharing arrangement among lodging establishment owners. The assessment was approved in 98% of the areas holding referendums. Even if the voting rules were changed, allowing one vote per owner, the assessment would have passed in 84% of the referendums.

6.5. Characteristics of Michigan's Public Act 59 Assessment Districts

This section describes administrative and funding characteristics of Michigan's tourism promotion assessment districts. The data in this section are from the survey of destination marketing organizations described in Chapter 3, and the archives of the Michigan Travel Bureau. The Metropolitan Detroit CVB is not included in this description.

A total of 35 assessment district organizations returned questionnaires. Of these, 3 were from organizations that were no longer in operation. These 3 respondents did not provide data useful for this section. However, they did provide information useful for other sections of this study. Almost all of the remaining 32 respondents completed the entire questionnaire.

In administering the questionnaire, respondents were assured that the information they supplied would be reported in aggregate form only. Because of this, and due to the number of organizations, it is not possible to provide in-depth financial or organizational information on individual assessment districts. Instead, the data are presented in the form of summary descriptive statistics for all of the organizations responding to the questionnaire.

6.5.1 Size of Assessment Districts: Lodging Market Characteristics

Tables 36 through 39 provide insight into the size and growth of the lodging market in the assessment districts. Table 36 is a frequency distribution of assessment districts based on the number of lodging properties in the district. Table 36 shows that a majority (62.5%) of the districts represented fewer than 20 properties. Table 37 is a frequency distribution of the districts based on the number of lodging rooms or units. Similarly, Table 37 shows that 75.0% of the districts represented fewer than 1000 rooms.

Table 38 presents descriptive statistics for the assessment districts in terms of both the number of lodging properties and lodging rooms or units represented by the district. This table shows there were a total of 738 properties with 26,740 rooms in the 32 districts. On

average, each district represented approximately 23 properties. The largest district had 80 properties and the smallest had 2. In terms of the number of lodging rooms or units, the average district had 827 lodging rooms/units, with the largest district having 2,800 rooms, and the smallest having 37. In comparison to the CVBs described in Chapter 5, the typical Public Act 59 assessment district had fewer properties and rooms.

Twenty-seven of the respondents provided information allowing for comparison of assessment district lodging market characteristics between 1990 and 1996. In many cases there had been substantial growth in the number of hotel rooms in the market. In 1990, the 27 districts represented 20,012 lodging rooms. In 1996, the same districts represented 23,839 lodging rooms, an increase of 19.1%. Table 39 summarizes lodging room growth rates across all organizations for the period from 1990 to 1995. The average growth rate was 20.9%, with the number of rooms more than doubling in one of the districts.

Table 36. Frequency Distribution Based on Number of Lodging Properties in Assessment Districts, 1996

Number of Properties	Frequency of Organizations in this Range	Percent Frequency	Cumulative Percent
1-9	8	25.0%	25.0%
10-19	12	37.5%	62.5%
20-29	3	9.4%	71.9%
30-39	4	12.5%	84.4%
40-49	2	6.3%	90.7%
50-59	0	0.05	90.7%
60 and over	3	9.3%	100.0%
Totals	32	100.0%	

Source: Survey of destination marketing organizations, 1996.

Table 37. Frequency Distribution Based on Number of Lodging Rooms/Units in Assessment Districts, 1996

Number of Rooms	Frequency of Organizations in this Range	Percent Frequency	Cumulative Percent
Less than 200	1	3.1%	3.1%
200-599	14	43.8%	46.9%
600-999	9	28.1%	75.0%
1000-1399	3	9.4%	84.4%
1400-1799	2	6.3%	90.6%
1800 and More	3	9.4%	100.0%
Totals	32	100.0%	

Source: Survey of destination marketing organizations, 1996.

Table 38. Characteristics of Assessment Districts: Number of Lodging Properties and Number of Rooms/Units, 1996

	Total in all districts	Mean	Median	Standard Deviation	Minimum	Maximum
Lodging Properties in Assessment Districts n=32 districts	738	23.1	17.0	19.46	2	80
Rooms/Units in Assessment Districts n=32 districts	26,470	827.2	625.0	692.5	37	2800

Source: Survey of destination marketing organizations, 1996.

Table 39. Changes in Number of Lodging Rooms/Units in Assessment Districts, 1990-1996

Number of Organizations	Total Rooms in 1990	Total Rooms in 1996	Percent Change 1990-1996	Average Growth Rate	Median Growth Rate	Range
27	20,102	23,839	19.1%	20.9%	10.7%	0-144%

Source: Survey of destination marketing organizations, 1996.

6.5.2 Assessment District Boundaries

Unlike the CVBs described in Chapter 5, assessment district borders did not necessarily have to follow county borders. Although many of the organizations represented entire counties, some represented only townships and villages in a county, and others represented portions of multiple counties. Table 40 summarizes the municipalities included in the 32 assessment districts responding to the questionnaire.

In the process of developing the marketing program notice, the organizational entrepreneurs identified hotel and other lodging establishments that might be interested in collecting the assessment. If enough of the hoteliers expressed interest in the assessment, the municipality in which they were located was included in the program notice. Based on interviews with executive directors involved in forming organizations, many went through a process of consensus building before submitting the program notice. They often polled hoteliers prior to submitting the program notice. If a large enough group of hoteliers in a municipality expressed that they would vote against the assessment, the municipality in which they were located was not included in the program notice. This may account for why so many of the referendums were passed.

Over time, it was possible to hold additional referendums in areas not included in the original program notice. Thus, the boundaries of these organizations are not static and it is possible that new areas have been added or deleted since the time of this study.

Table 40. Municipalities Represented by Assessment Districts

Organization	Municipalities Represented
Alpena CVB	Alpena County
Au Gres Area CVB	City of Au Gres in Arenac County
Bay Area CVB	Bay City and Townships of Bangor, Frankenlust, and Monitor in Bay County
Cadillac Area Visitors Bureau	Wexford County
Cheboygan Area Tourist Bureau	City of Cheboygan
Four Flags Area Council on Tourism	Cities and Villages of Niles, Buchanan, Berrien Springs and Eau Claire. Townships of Niles, Buchanan, Orinoko and Berrien in Berrien County
Garland Area CVB	Greenwood Township in Oscoda County
Gaylord Area Convention & Tourism Bureau	Otsego County
Grand Haven/Spring Lake Visitors Bureau	Cities and villages of Grand Haven, Spring Lake, Ferrysburg, Coopersville, Eastmanville, and Lamont in Ottawa County
Grayling Area Visitors Council	Crawford County
Harbor Country Chamber of Commerce	Cities and villages of Michiana, Grand Beach, New Buffalo, Three Oaks, Union Pier, Lakeside, Harbert, and Sawyer in Berrien County
Holland Area CVB	City of Holland and Townships of Holland and Park in Allegan and Ottawa Counties
Houghton Lake Area CVB	Roscommon County
Iron County Tourism Council	Iron County
Jackson Convention & Tourist Bureau	Jackson County
Keweenaw Tourism Council	Houghton and Keweenaw Counties
Lenawee County CVB	Lenawee County
Livingston County CVB	Livingston County
Ludington Area CVB	Mason County
Mackinaw Area Tourist Bureau	Mackinaw City and WaWatom Township in Cheboygan and Emmet Counties
Marquette Country CVB	Marquette County
Mecosta County CVB	Mecosta County
Midland County CVB	Midland County
Mt. Pleasant Area CVB	Isabella County
Oceana County Tourism Bureau	Oceana County
Oscoda Area CVB	Villages of Oscoda, Ausable, and Greenbush in Iosco County
Petoskey/Harbor Springs/Boyne Country Visitors Bureau	Boyne City, Village of Boyne Falls and Townships of Boyne Valley, Melrose, Evangeline and Bay in Charelvoix County Cities of Petoskey, Harbor Springs and Townships of Bear Creek, Resort, Little Traverse, Pleasantview, and West Traverse in Emmet County
Sault Area CVB	Chippewa County
Shoreline Assessment District	Cities of Benton Harbor, St. Joseph, and Lincoln. St. Joseph and Benton townships
Tourism Association of the Dickinson County Area	Cities and Villages of Iron Mountain, Felch, Kingsford, Norway, Loretto and Quinnesec in Dickinson County
West Branch Ogemaw County Travel & Visitors Bureau	Ogemaw County.
Western Upper Peninsula CVB	Ontonagon County and Gogebic County

6.5.3 Assessment District Administration and Governance

Of the 32 organizations completing the entire questionnaire, 21 had executive directors or managers that were full-time paid positions. In 8 of the organizations, the executive director was a part-time paid position. In 3 of the organizations, the executive director was an unpaid volunteer. Table 41 presents data describing the organizations in terms of the number of employees and volunteers working in them. These data do not include the executive director positions.

Table 41. Staffing Characteristics of Assessment District Organizations, 1996

	n (Organizations)	Total for all organizations	Mean	Range
Paid Full-time Employees	17	30	1.76	1-4
Paid Part-time Employees	20	31	1.55	1-4
Volunteers	7	18	2.57	1-10

Source: Survey of destination marketing organizations, 1996.

The 17 organizations with paid full-time employees, employed a total of 30 people in these positions. On average, the organizations had approximately 2 paid full-time employees. Similarly, the 20 organizations with paid part-time employees, employed a total of 31 people and, on average, each organization employed approximately 2 paid part-time people. As can be seen in Table 41, only 7 of the organizations relied on volunteers to support the organization's activities.

As described in Section 6.4.1, chambers of commerce often acted as organizational entrepreneurs to establish assessment districts. Over time, many of the assessment district organizations evolved away from the chambers to become independent destination marketing organizations. The extent to which the assessment districts were independent varied across the state. Some were still divisions of the local chamber of commerce, while others were independent with contractual services provided by the chamber. Still others

were completely independent with no contractual relationship with the chamber of commerce. Table 42 summarizes the relationships between chambers and assessment district organizations across the state. This table shows that 80% of the organizations responding to the survey were independent organizations, 11.4% were divisions of local chambers of commerce. Unfortunately, 8.6% did not complete this section of the questionnaire.

Table 42. Summary of Assessment District Organizational Structure in Relation to Chambers of Commerce

Type of Organizational Structure	Number of Organizations	Percent of Organizations
Independent	28	80.0%
Division of Chamber	4	11.4%
Did Not Respond	3	8.6%
Total	35	100.0%

Source: Survey of destination marketing organizations, 1996.

Like the CVBs described in Chapter 5, decision making in assessment district organizations was done formally by the board of directors. Because the board of directors tended to be quite small, very few of the assessment district organizations had executive committees. Some had standing committees that included a marketing committee responsible for developing the marketing program in conjunction with the executive director. However, based on data from interviews with the executive directors, most of the organizations relied on the board of directors to formulate the promotion program objectives.

As previously described, Public Act 59 of 1984 required that the boards of directors be comprised of a majority of lodging property owners or their representatives. Thus, decision making with respect to the tourism promotion program reflected their interests. Tables 43, 44, and 45 provide a summary of the composition of assessment district boards. Table 43 presents descriptive statistics for size of the boards for the 32 organizations completing the entire questionnaire.

In addition to hoteliers, many of the organizations had other members of the local business community serving on the board of directors. The most common other representatives were professionals, such as lawyers and accountants, advertising and printing business owners, and representatives of the chamber of commerce. Table 44 summarizes the extent to which hoteliers were represented on the boards of each organization. In four of the organizations, lodging properties represented less than a majority of the board members. This is not consistent with Public Act 59 requirements. Two of these organizations were divisions of a chamber of commerce, and it is possible that a lodging property representative served as both a representative of the chamber and the lodging industry.

In some cases, it was possible to have all lodging properties in the district represented on the boards of directors. This was not possible in communities with a large number of hotels. Table 45 summarizes the extent to which all members of the hotel community were represented on assessment district boards.

Table 43. Size of Assessment District Boards of Directors

	Mean	Median	Standard Deviation	Minimum	Maximum
Number of people serving on boards of directors	10.38	10	3.51	3	17

Source: Survey of destination marketing organizations, 1996.

Table 44. Lodging Property Representation on Assessment District Boards of Directors

Percent of voting board members that are lodging property representatives	Frequency of organizations with this level of representation (n=32 organizations)
100%-90%	5
89%-80%	5
79%-70%	8
69%-60%	2
59%-50%	8
49%-40%	1
Less than 40%	3

Source: Survey of destination marketing organizations, 1996.

Table 45. Percentage of All Lodging Properties Represented on Assessment District Boards of Directors

Percentage of properties represented on boards of directors	Frequency of organizations with this level of representation (n=32 organizations)
100%-80%	8
79%-60%	3
59%-40%	4
39%-20%	10
Less than 20%	7

Source: Survey of destination marketing organizations, 1996.

Clearly, people representing the lodging industry dominate the decision making bodies of the assessment districts. In many cases, the organizations were a type of local hotel association because almost every lodging property was represented on the board of directors. The affect of this level of hotelier representation is that the money raised from the assessment was used for promotion, advertising, and fulfillment purposes, rather than for constructing facilities. In addition, rarely did other groups vie for a share of the assessment revenues. When this happened, any grants to other community organizations were subject to approval of the board of directors, which was typically dominated by lodging property representatives.

6.5.4 Characteristics of Assessment District Funding

The data presented in this section are from both the audited financial statements of the assessment districts filed with the Michigan Travel Bureau, as well as data collected on the questionnaire. The data from the Michigan Travel Bureau provide a more comprehensive summary of the assessment collections for all districts. A total of 35 organizations filed audited financial statements for the 1994-1995 fiscal year. Given the larger sample, and the fact that one of the state's larger districts--Traverse City--is included in the Travel Bureau data, these data are a more accurate estimate of total assessment collections in the state. However, because the questionnaire collected data on specific sources and uses of revenue, these data provide more insight into the structure of funding in individual organizations.

Based on 35 financial statements in the Travel Bureau archive, total assessment collections for the 1994-1995 fiscal year were $6,080,453. Total revenues including assessments, membership dues, advertising sales, and grants were $7,390,110. Thus, in aggregate, the assessment represented 82.7% of all funding sources. Because some assessment districts did not consistently file audited financial statements, it was not possible to make direct year to year comparisons of assessment revenue. However, 30 organizations filed financial statements for both the 1994-1995 and 1993-1994 fiscal years. Total assessment revenue for these 30 organizations was $5,409,112 in 1993-1994 and $5,843,697 in 1994-1995, an increase of 8.03%.

Table 46 is a summary of assessment revenues and revenues from all sources for the three year period from 1992-1995. Again, the revenue values are not directly comparable because different organizations filed financial statements each year. However, these data provide insight into the approximate amount of assessment funds and total funds available for local tourism promotion efforts statewide.

Table 46. Assessment District Total Revenues and Assessment Revenues, 1992-1995

	1994-1995	1993-1994	1992-1993
Number of organizations reporting	35	34	26
Total revenue	$7,390,111	$6,563,452	$5,053,933
Assessment revenue	$6,080,453	$5,724,369	$4,356,577
Assessment revenue as a percentage of total revenue	82.7%	87.2%	86.2%

Source: Audited financial statements in Michigan Travel Bureau Archives.

In addition, these data can be summarized to provide a profile of revenues for the typical assessment district. Summary descriptive statistics of the Travel Bureau Archive data for the 1994-1995 fiscal year are presented in Table 47. This table shows that, on average, assessment districts collected total revenues of $211,146 and assessment revenues of $173,727. The largest district, in terms of revenue, collected total revenues of $1,849,411, and assessment revenues of $1,219,774, or 66.0% of total revenue. The smallest district collected total revenues of $12,692, and assessment collections were $11,973, or 94.3% of total revenue.

Table 47. Descriptive Statistics for Total Revenues and Assessment Revenues, 1994-1995

	Total Revenue (n=35 organizations)	Assessment Revenue (n=35 organizations)
Mean	$211,146	$173,727
Median	$113,299	$108,322
Standard Deviation	$313,896	$216,528
Maximum	$1,849,411	$1,219,774
Minimum	$12,692	$11,973

Source: Audited financial statements in Michigan Travel Bureau Archives.

Comparable financial data were provided by 24 people responding to the questionnaire. These people provided revenue data for both the 1990-1991 and 1994-1995 fiscal years. This information allows for analysis of the growth in assessment and total revenues across time. Table 48, summarizes this comparison and shows that for these 24 organizations,

total revenues increased 31.4% and assessment revenues increased 32.8% between 1990 and 1995. Thus, the assessment provided a growing source of funding for these 24 local destination marketing organizations.

Table 48. Growth in Total Revenue and Assessment Revenue, 1990-1995

	1990-1991	1994-1995	Percent Change
Total revenue	$3,144,527	$4,131,104	31.4%
Assessment revenue	$2,654,752	$3,524,832	32.8%
Assessment revenue as a percent of total	84.4%	85.3%	1.2%

Source: Survey of destination marketing organizations, 1996.

Thirty of the 35 questionnaire respondents provided information regarding the composition of their funding sources for the 1994-1995 fiscal year. These data can be summarized to provide a profile of revenue sources for the typical assessment district. Total revenues for these 30 organizations in 1994-1995 were $4,533,905. Total assessment collections were $3,894,777, or 85.9% of total revenues. Of these 30 organizations, 12 collected dues from associate members. In those organizations collecting dues, total membership revenues were $64,914. All of the organizations collected revenues from sources other than the assessment and memberships. Most of this revenue came from the sale of advertising and other selective incentives. The total revenue from other sources was $566,508, or 12.5% of total revenue.

Table 49 summarizes financial data for the 30 organizations responding to the questionnaire. This table includes summary descriptive statistics including the mean, median and range of collections in each category. The table shows that, on average, these assessment districts collected $129,8256 in assessment revenues, $18,884 in revenues from other sources, and $151,130 in total revenues. The largest organization, in terms of total revenue, collected $402,800, and the smallest collected $4,325.

Table 49. Summary of Assessment District Revenue Sources for 1994-1995 Fiscal Year

	Assessment revenue (n=30)	Membership revenue (n=12)	Other revenue (n=30)	Total revenue (n=30)
Totals	$3,894,777	$64,914	$566,508	$4,533,905
Average percent of total revenue	90.2%	5.1%	7.7%	100.0%
Mean	$129,825	$5,410	$18,883	$151,130
Median	$107,079	$3,038	$2,360	$107,547
Standard Deviation	$101,946	$6,558	$38,489	$122,991
Maximum	$450,625	$23,650	$136,974	$402,800
Minimum	$4,325	$14	$0	$4,325

Source: Survey of destination marketing organizations, 1996.

The data presented in this section show the extent to which the organizations rely on the assessment to fund local tourism promotion programs. In addition, the data show how the assessment has provided a growing source of revenue for local destination marketing efforts, and yield some insight into the size of the assessment districts, in terms of the funds they have available.

6.6 Assessment District Maintenance and Cohesion: Evidence of a Small Group Problem

Public Act 59 allowed lodging property owners to rescind the assessment if after two or more years not less than 40% of the total number of owners, or owners of not less than 40% of the rooms, called for repeal. If such a situation occurred, the act required that a referendum be held to determine if the assessment should be discontinued. At the time of this study, few referendums on discontinuance had been held. However, there were several cases where the members of the assessment district agreed to disband.

The data in the following sections are from interviews, and written responses on three of the questionnaires. The interview data are from the case of one organization in Huron County. The questionnaire data are from written descriptions, provided without prompting, by three individuals who received the instrument. In these three cases, the

organizations had disbanded, and the respondents provided some information about why that had happened.

The data presented in this section provide evidence that small group size is not a predetermining factor of a group's success in organizing. Each of the assessment districts discussed in this section were comprised of fewer than 20 hotels. Further, the four groups analyzed were, on the surface, homogeneous--the groups were comprised entirely of lodging property owners who would seem to have similar interests.

6.6.1 Easy Detection of Relative Cost Shares and Benefits: Evidence From the Questionnaire

As described in Chapter 2, one of the potential problems in large groups is that members cannot easily detect who benefits from and who is contributing to group output. In contrast, small groups are believed to be more effective at organizing because detecting benefits and cost shares is relatively easy, and sanctions can be devised to effectively control dissenting or free riding members. However, when the distribution of benefits and cost shares are obviously unequal among the members, human emotions such as jealousy, or a sense of unfairness may come into play and effect group cohesiveness.

The following data from written testimony on 3 questionnaires provide evidence of this dynamic. Each of the groups had one or two members who were larger, in terms of the number of lodging rooms they represented. The remainder of the group was comprised of between 10 and 15 other members who were smaller, often having less than 15 rooms. In the cases where there were two large members, there is evidence of conflict between them. There is also evidence of conflict between larger members and small members. Two of the people made note of the amount of assessment revenue their property contributed to the total. In both of these cases, they did not perceive they had a voice in the group's activity proportional to the amount of assessment revenue they collected.

One person wrote:

> I formed our group about 1990. We functioned for about 3 years. [The group was comprised of] about 15 small operators--not very sophisticated about business or marketing. Properties in Lewiston voted to disband because they felt they were more closely related to I-75 and Gaylord than to the Sunrise Side. The truth is that we could never come to agreement on who should have a say how to spend the money. A lot of jealousy over my role and the role of the other "big" property in Lewiston. The two of us collected about 70% of the room tax revenues, yet the board was dominated by 10-15 unit property owners. Because we were bigger we thought we should have more say. There was also a personality conflict between myself and the manager of the Redwood Motor Lodge [the other big property]. . . . Trying to develop programs that satisfied everyone and were effective was very difficult to do. . . . My conclusion was that for this area it was more trouble than it was worth. I would not be inclined to try to put together a group again, unless it was one property district with only our property (Anonymous, 1996).

Another person described a similar conflict. Again, reference is made to the level control and the direction of benefits not being proportional to the person's share of contributions to the group.

> Our group was just too small--about 13 properties--and properties were small--average about 15 units. My property was considered the big one--30 units. We collected about 50% of the assessment money and had less than 1% say in things. They took a small time approach and did it with my money. I pushed to disband and nobody really disagreed. . . We never really raised enough to do much anyway (Anonymous, 1996).

The third person made reference to competition between the two larger members and their inability to agree on the content of the promotion program:

> It was a small organization of 18 properties. We had two of the larger property owners who couldn't agree on anything. They competed with each other and didn't want to cooperate for common good. We worked for about two years and then all hell broke loose. Too much in-fighting, competition and jealousy. Many of the other properties have joined another district. Everyone agreed that breaking it up was for the better (Anonymous, 1996).

In all three cases, the amount of assessment revenues collected by one or two property owners was substantially larger than those collected by the others. Because the groups were small, all of the members knew specifically who collected the most. They also knew who among them had the most voice in determining the content of the program. It was possible then to easily compare these two factors and make judgments about the fairness of

the arrangement. In all three situations, the conflict centered around the larger property owners and their unwillingness to cooperate given the distribution of costs and benefits. Although each group was able to initially overcome the first order dilemma of organizing, they were not able to sustain the effort. As a result of the conflicts, the three organizations simply disbanded. Instead of holding a referendum, the groups were small enough to come to consensus on rescinding the assessment.

The following section describes this dynamic in more detail for a specific organization in Huron County. This case allows for more in-depth analysis of the problems of organizing a relatively small group of hoteliers to promote tourism

6.6.2 Evidence From the Case of Huron County

In 1991, the Huron County Economic Development Corporation (HCEDC), in cooperation with the Huron County Council of Chambers of Commerce, and the County Board of Commissioners, initiated a countywide tourism promotion program. Tourism promotion had been done for many years by the HCEDC. However, there had not been a dedicated office or a coordinated countywide program, and the program had been carried out in an ad hoc fashion. At the request of the County Board of Commissioners, the HCEDC began the development of a coordinated program, and hired a full-time program coordinator. The county government pledged $22,000 to cover the coordinator's salary and benefits. In addition, an informal agreement was formed between the HCEDC and the Council of Chambers to have supplemental funding from the county chambers of commerce. The nature and level of funding to come from the chambers was never fully defined, and the office operated for approximately a year with almost all of its budget coming from the county commissioners (Anonymous, Interview, 1996 & Deb Kretcham, Interview, June 7, 1996).

According to an interview with an anonymous person who helped establish the office, the chambers had difficulty funding their own organizations and were not able to coordinate

support for the tourism promotion program. Further, the county had agreed to fund the coordinator's position, given that additional funding sources from hoteliers and the chambers would be used to develop advertising and promotion materials. Because the chambers could not coordinate support for the program, the HCEDC began to look at establishing an assessment district as an alternative funding source. The following interview describes the challenges the organization faced:

> The chambers were not able to pull anything together. Our office [HCEDC] became the focal point in leveraging and applying pressure with the board of commissioners who were saying, "We are not in a position to fund this on a continual basis. You have to start looking for additional funding mechanisms." And, the chambers were sitting out there saying, "We have a hard time keeping our organization together let alone coming up with funding for the operation. You have to come up with some other funding mechanism." So, having those two different organizations, and my board in the middle saying; "We support tourism, what would you have us do?" Well, we have this funding mechanism, Public Act 59, which seems to provide funding and focus for the program (Anonymous, Interview, 1996).

Because of the pressure to find alternative funding sources, the HCEDC leadership, and the tourism program coordinator, began discussions with county hoteliers to determine their level of interest in establishing an assessment district. In this process, they sought to develop consensus among hoteliers regarding the assessment. However, rather than seeking unanimity in the decision to implement the assessment, the HCEDC decided to pursue simple majority support for the assessment prior to filing the program notice and conducting the referendum. The following interview describes the process of polling and building consensus:

> We basically approached it--and hindsight is twenty-twenty--we approached it saying we are going to count rooms. We are going to go out and talk to people who have large room counts. We are going to go over 51%, that is our goal. . . . We approached it very precise and came in with it and we had 55% of the rooms supporting the assessment. We had reached our target and we thought okay people will accept that and they didn't (Anonymous, Interview, 1996).

Like the organizations described in Section 6.6.1, the Huron County assessment district was comprised of approximately 20 property owners, most with fewer than 25 units. In addition, there was one owner who had a property with approximately 40 units--the largest

in the district. From the initial formation of the group, the larger property owner resisted the assessment and refused to collect it. However, with the exception of two others, all of the property owners began collecting the assessment and supporting the organization. After a year of operation, the organization was collecting approximately $15,000 in assessment revenue. It had also established a lead referral program and produced several promotional pieces. Still, the owner of the largest property refused to collect the assessment (Deb Kretcham, Interview, June 7, 1996).

Unfortunately, the owner of the largest property was not available to be interviewed for this study. Instead, others have provided their account of his opposition. Once again, the unwillingness of the larger property owner to collect a large part of the total assessment revenue was identified as a possible reason for opposing the assessment.

> This is speculation. Part of it was that he felt that is was rammed down his throat. That it was not a democratic process. . . . I also think he saw that his hotel was the largest and was going to contribute a big chunk of money. It was a contribution to an effort he really didn't agree with (Anonymous, Interview, 1996).

> You would have to know him to understand. I think he would have ended up being one of our biggest supporters but we would have needed to show him that we could generate business for him. As it was he believed all of the benefit was going to the smaller properties along the shoreline (Deb Kretcham, Interview, June 7, 1996).

The assessment district's board of directors decided to sue for collection after approximately 9 months of failing to collect the assessment from the three dissenting properties. The judge in the case ruled against the destination marketing organization, citing that the original marketing program notice failed to properly delineate boundaries of municipalities. At this point, those members still wanting to have a collective promotion campaign could have filed another program notice and redefined the boundaries of the organization. However, if they did this, and included the area of the major dissenting member, they believed the dissenting member would still not have collected the assessment. The organization's budget was too small to cover the legal costs associated with further court battles, and, as result, the group disbanded. One member of the organization's board of directors described the dilemma they faced:

> He just didn't want to do it. He was against it from the beginning and he made it hard to keep going. He fought us at every turn. In the end we could have tried to file for a new district but we knew he would fight us and we would have to sue him again. The legal fees were more than we had in our budget. He put us in a position where we just couldn't do anything other than dissolve the group. It is really a shame (Bill Anderson, Interview, June 7, 1996).

The group also could have redefined the boundaries to exclude the dissenting member. When asked why this was not done, people explained that this would not have been fair since they believed the dissenting member would have benefited from countywide program. They were willing to cooperate conditioned on the forced compliance of the dissenting and potentially free riding member. If his participation was not going to be forthcoming the smaller properties were not willing to cooperate and supply the county program. Further, because of their involvement in initially funding the program, both the HCEDC and the County Commissioners expected the promotion program to have a countywide focus. The following interviews reflect this dynamic.

> My job was to bring people to Huron County, not just to Caseville or Harbor Beach. Most of the board members understood that and were really supportive. But, they weren't stupid. They weren't going to collect the assessment while [the dissenting member] sat down in Bad Axe. You know, not doing anything. In fact doing things that undermined their efforts (Deb Kretcham, Interview, June 7, 1998).

> I guess we could have [redefined the boundaries] but that wouldn't have been fair. In fact I was willing to continue, but we had spent so much time and money and energy in the first round that everyone just sort of threw up their hands. It got pretty emotional and I think people had a bad taste in their mouth after the whole thing was over. No one was going to try and set-up an assessment if he [the dissenting member] wasn't going to participate (Bill Anderson, Interview, June 7, 1996).

Failure of the group to sustain itself could be attributed to a lack of selective incentives. However, according to the former coordinator of the program, selective incentives were provided, even to the large dissenting member.

> The first year we had maybe 100 inquiries. The second year we had ten thousand. It was to the point where on Friday afternoons we were filling hotel rooms. What we would do is sit by the phone on Friday and Saturday and take inquiries. As they came in we would take our list of hotels and call around to see if anyone had any hotel rooms left. The hoteliers were aware that we were doing things. We even sent inquiries--a lot of inquiries to [the dissenting member]. We wanted his

> participation and we thought the best way initially to get was to show him that we were doing things for him. It was really starting to work (Deb Kretcham, Interview, June 7, 1996).

The dissenting member in Huron County may have resisted the assessment because he was not involved in the actual formation of the group. The HCEDC and the County Board of Commissioners initiated the tourism promotion program and then sought hotelier approval. As a result, two of the people interviewed believed that the dissenting member had no ownership in the program. They believed that the county was too active in the process of forming the assessment district and placed too much pressure to have it become financially independent. The following interviews reflect this:

> We would have probably, eventually, gotten the big guy to join in what we were doing. I think on seeing the impact of what we were doing he would have joined and been persuaded. I think if we would have been able to wait and hold the vote [the dissenting member] would have changed his mind. . . . But the county commissioners were not willing to wait to have the CVB start bringing in dollars. The board of commissioners was funding my position until we could bring in our own money. They expected the local hotel community to start kicking in through the assessment, and through advertising promotions, and things like that. They expected the tourism office to be independent. They had a deadline and said, "If [the assessment] is voted down it goes down. But, if it passes then we are going to proceed with the process of collecting whether the one hotelier pays or not." I think a little more work with those few properties might have swayed them. If we had a little more time to build consensus (Deb Kretcham, Interview, June 7, 1996).

> I would not have put the HCEDC in the middle. At the time it seemed logical because [the HCEDC] was doing tourism promotion. The board of commissioners felt comfortable with [that] organization. They agreed to give [HCEDC] money but they wouldn't give money to an outside organization directly. . . . So, hind sight is that [HCEDC] would not have been the driving force in setting up the district. [HCEDC] could provide technical support for that whole process, and have volunteered that again and again since this thing has been disbanded. . . . But, looking back, [HCEDC] would not have done it by saying that we are going to get 51% plus of the rooms. We would have had 100% or none. . . . We would have made sure that the hotels came forward and said, "this is a great idea." [HCEDC] would not have driven the process, in hind sight. The hoteliers would've had to have more ownership. Specifically, [the dissenting member] would have been more involved (Anonymous, Interview, June 7, 1996).

Thus, organizing a small group can be difficult if the distribution of cost shares are obviously unequal and known to all members of the group. In the four cases discussed in

this section, the larger members of the groups resented providing a large share of the assessment revenues without having a proportional voice in the governance of the organization. In the Huron County case, the large member essentially held the group hostage by refusing to pay. Although the law provided for enforcement of the assessment, the group did not have the resources to continue to the assessment and force the dissenting member. The dissenting member in Huron County may have resisted the assessment because he was not involved in the actual formation of the group. The HCEDC and the County Board of Commissioners initiated the tourism promotion program without developing consensus among all members. Specifically, in building consensus, those involved in the process would have paid more attention to the larger member of the group.

6.6.3 Challenges and Strategies in Establishing Group Identity

Almost all of the people interviewed, who were involved in the establishment of assessment districts, described initial problems in building consensus among lodging property owners. In most cases, peoples' reactions were affected by their perception of the relative distribution of benefits and concerns over who would control the promotion program. Smaller members were especially concerned that their share of benefits and their voice in developing the promotion program would be subjugated to the voice and benefits received by larger members. To overcome this, organizational entrepreneurs often spent a great deal of time communicating the potential benefits of collective action to individual members and communities. They often assured the smaller members that they would have representation on boards of directors and attempted to establish a sense of identity among the different communities.

Larger members were important because without the support of larger members it was difficult to secure the necessary majority vote of hotel rooms. Thus, in the process of building consensus, the organizational entrepreneurs attempted to communicate with all members but, when it became obvious some hoteliers would not cooperate, attention was

typically shifted to larger members, or the boundaries of the district were redrawn to exclude the dissenters.

Chris Danciszak, who coordinated the formation of the assessment district in the Upper Peninsula describes the nature of the resistance by some hoteliers and communities in the region:

> Well, the one I am familiar with is over in the west end [of the Upper Peninsula] in Gogebic County--the city of Ironwood. I mean they basically had a small group of fifteen and twenty unit motels that didn't want to be a part of the countywide effort because the countywide effort was going to be dominated by the ski hill operators. Well, of course anything that was done over there was going to be dominated by the ski hill operators. They had no specific marketing plan in mind. It was just that they didn't want to be dominated by the ski hill operators. The only reason that people came to Ironwood was to ski. So, without the ski hills their motels would have gone out of business years ago. But, you had people that didn't want to be a part of [the assessment district] because they were afraid that they were in some way going to get screwed. They were afraid that someone was going to get more than they were getting. . . . Most of the instances and experiences I had, and I was on the road for the better part of a year talking to community leaders, hotel operators, hotel associations, legislative leadership, just about everybody across the U.P., in my view, talking to people one-on-one, it wasn't the rational argument that came through. The argument wasn't, "I don't think you are going to spend the money correctly." It was more, "I am opposed to this because my neighbor is going to get more than I am, or because he is a friend of somebody," totally irrational arguments, but things we still needed to address (Chris Danciszak, Interview, June 6, 1996).

In the Gogebic County case, organizational entrepreneurs first attempted to build consensus across all members, and then shifted attention to larger members in order to secure their votes:

> I know it involved a lot of talking with everyone in that community--the little guys and the ski hills. In the end there were still some who just weren't going to support it no matter what you did. So you have to sort of shift over and make sure you have the majority from those who might otherwise support it. . . . It didn't really matter [the objections of smaller members] because they had the larger properties lined up, and when the referendum went up they carried the vote (Chris Danciszak, Interview, June 6, 1996).

The boundary of the assessment district and people's identity with the district influenced their decision to cooperate. In the process of delineating boundaries, the organizational entrepreneurs had to communicate how the different municipalities were represented by the

larger region. Chris Danciszak described this process for the Upper Peninsula regional assessment:

> Of course how you draw the boundary during the referendum phase and how you communicate who the assessment district will represent basically makes a big difference. That was one of the advantages, the major advantage, we had in creating the regional assessment district in the UP. There was no question in the minds of anyone that there was regional identification of the Upper Peninsula. I mean it didn't make any difference if one argued whether or not they felt they got their fare share. There was a regional identification and so that the name in and of itself, and the promotion of the UP, was valid to just about everyone. Then you got into issues of whether or not there was going to be enough promotion of the east end, or the west end, or the central end of this community or that community, but with the name and the region itself there was validity. There is so much to be said of how these things are set up. There are no defined boundaries. You define them as you go along and you do it in such a way that you hopefully get 51% of the votes. Then you end up very much in the political arena in terms of selling it to get the votes you need (Chris Danciszak, Interview, June 6, 1996).

Cooperation among communities did not always happen, regardless of the market characteristics contributing to geographic identity. Perceptions of how benefits would be distributed among communities in the larger area occassionally precluded cooperation. Peter Fitzsimons, who coordinated the formation of the Petoskey/Harbor Springs/Boyne Country assessment district described this with respect to a smaller community's participation in a multi-community assessment district:

> It is stupid really. It is really pedestrian thinking. It is the Charlevoix type of thinking. I approached Charlevoix when they were in the formative stages of trying to put their assessment district together, which turned out to be the city of Charlevoix. I went over there and said, "We are just extending the thought that perhaps Petoskey, Charlevoix, and Harbor Springs, our particular area have a lot in common to where we can be one entity." They said, "Thanks, we will think about it." I went back again as they were going through the referendum process to extend that again. They said, "No, we would rather do it on our own." . . . I think there was this misperception that somehow one of the communities was going to get more than their fair share and have more say. They thought somehow they were going to be screwed. It is complete nonsense because there is fundamentally no difference in the tourism market between the three communities (Peter Fitzsimons, Interview, June 3, 1996).

To insure consensus, organizational entrepreneurs often adopted a policy of securing unanimous support prior to holding a referendum. In some municipalities there were only one or two properties, and referendums often were not held if these properties did not want

to participate. Communities could also join a district after the initial referendum, and they were often accommodated by holding additional referendums. Peter Fitzsimons describes how this worked in his organization:

> We held concurrently 8 separate referendums that connected municipalities from north of Petoskey to Boyne Falls area. We held those concurrent ones because we knew we had a clear majority and consensus in each one. I continuously said that unless we had a unanimous vote we would not consider holding a referendum in a municipality. That was a little too idealistic and we ended up holding two that did not pass unanimously. One was in Bear Creek township, that is the district where the Holiday Inn I worked in is located. There was a small resort of ten cabins that voted against it and they were adamant about that. . . . Then we did have a municipality in Waldon Lake Village, there was one elderly lady that said she wouldn't feel quite right about charging another 2%. So we let that one go. Eventually, the motel sold and the new owners came in and said why aren't we a part of it. We held a referendum there then. Boyne City approached us, so we held a referendum there. Harbor Springs eventually approached us and we held a referendum there. So, we have held referendums now in twelve or thirteen municipalities (Peter Fitzsimons, Interview, June 3, 1996).

The assessment legislation allowed for flexibility in the determination of organizational boundaries. In many cases, this facilitated the development of boundaries that made sense to participating members. Organizational entrepreneurs devised local rules and engaged in consensus building to ensure that participating members identified with the organization and felt secure in their representation. However, in some cases, individual perceptions of fairness, and concerns about the relative distribution of benefits, precluded cooperation among hoteliers in communities with similar market characteristics. In some cases, these dissenting groups formed separate smaller organizations. Thus, in some areas of the state, multiple destination marketing organizations were formed to promote municipalities close to each other that may not have had distinct identities and characteristics.

6.7 State Level Impact of Public Act 59

This section describes two state level issues associated with Public Act 59: 1) Assessment district accountability and compliance with the act; 2) The impact of numerous local destination marketing programs on the state's overall tourism promotion efforts. These issues were identified in the interview process. Ways of coping with these

interdependencies were taking shape at the time of this study and the final policy solutions are not fully known.

6.7.1 Tourists and Dissenting Hoteliers versus Assessment Districts: Compliance and Accountability Issues Related to Public Act 59

During 1994, a group of hoteliers in St. Clair county began challenging the assessment in their area. Although in the minority, this group wanted to repeal the assessment, but they did not have a sufficient number of votes. Instead, they took their complaints to their local legislator and began pressuring for changes in the legislation. This group contended that the assessment organization was being mismanaged and, because they were denied access to financial and marketing information, they had no way of holding the organization's management accountable. In response to this group's claims, Representative Karen Willard sponsored legislation requiring a greater level of accountability and disclosure on the part of assessment districts. Further, the Michigan Tax Payers Union joined in the debate because of their concern that the assessment was not being uniformly applied to the guest bill, and the tourist had no way of knowing what they were being charged for (Nancy Sharon Bland, Interview, August 6, 1996).

As described in Section 6.3.2, Public Act 59 required assessment districts to file both audited financial statements and marketing plans with the Michigan Department of Commerce. Within the Department of Commerce, the Michigan Travel Bureau was given the responsibility for oversight of assessment district reporting. However, the legislation did not provide for enforcement of this aspect of the law. Neither the Department of Commerce, nor the Michigan Travel Bureau, were given the right to suspend the activities of an assessment district failing to comply. Thus, organizations could refuse to file their reports with the State having little recourse.

The initial rationale for requiring the organizations to submit reports can be attributed to the joint impact nature of tourism promotion. The legislators sought to control potential conflicts between hoteliers and other community members by providing oversight and

access to the financial and marketing activities of the organizations. If conflicts arose over the management of the local program, the state would have the necessary information to assist the groups in working out solutions (Chris Danciszak, Interview, June 6, 1996). One legislator, who at the time of the study chaired the Tourism Committee in the Michigan House of Representatives, expressly recognized the role of the state in moderating the tourism promotion interests of hoteliers with the interests of the community at large:

> In granting private citizens the right to collect an assessment, we have a duty to oversee their activities. Now that does not mean we should infringe on their activities. One of the strengths of Public Act 59 is that it empowers local interests without the state being actively involved. It gives people at the local level a way, if they want, to fund a tourism promotion campaign. But, tourism promotion is a broader community issue. It is an issue that affects more than just the local hotelier. Under [Public Act] 59, the hoteliers are given a lot of power to direct and administer the local effort. Personally, I think that is good and it works well. However, we have a duty to insure that the community interest is protected and consistent with what the accommodations people are doing under a state sanctioned assessment. In my opinion, the best way to do that, without burdening the organizations, is to have them simply file a report with the state. I think anything more than that is burdensome (Beverly Bodem, Interview, July 17, 1996).

At the time of this study, the Michigan Travel Bureau listed 61 assessment districts--including Detroit and UPTRA--as having held referendums between 1984 and 1995. It is not fully known whether all of these were still operational at the time of this study. However, as of July 1996, twenty-two had not filed financial statements or marketing plans for the 1994-1995 fiscal year (Michigan Travel Bureau, Internal Document, Assessment District Reports, July 1996). Further review of the Travel Bureau archives revealed that many of the organizations only sporadically submitted their reports to the state. Thus, there was only limited compliance with, and enforcement of, this aspect of the law.

The lack of compliance became an issue when the group of unwilling riders in St. Clair County challenged the assessment and were denied access to information by the local organization. In response, the legislator supporting the group drafted House Bill 4737 of 1995. This bill proposed amendments to Public Act 395, the original assessment

legislation, to give more power to the state to enforce compliance with the reporting requirement. Specifically, the following powers would have been granted to the state:

> If copies of the audited financial statements and certified reports are not received by the director within 60 days after the closure of the bureau's fiscal year pursuant to subsection 3, the director shall suspend the authority of the bureau and owners to collect the assessment under this act. Any assessment collected during the period that the bureau's and owner's authority to collect the assessments has been suspended shall be returned to the person who paid the assessment (House Bill 4737, Section 6.4, April 25, 1995).
>
> The director of the department of commerce shall investigate a bureau if the director has reason to believe that a violation of this act has occurred. If the director of the Department of Commerce commences an investigation under this section, the director shall make his or her findings available to the public (House Bill 4737, Section 6.5, April 25, 1995).

In order to address the concerns of some hoteliers and other members of the community, they were to be given the following rights:

> Upon written request, the bureau shall provide copies of the audited financial statements and certified reports to a person who requests them. . . . If the bureau fails to provided the requested copies within the 30-day time frame, the person who requested the copies may file a complaint to compel the bureau to provide the requested copies. The complaint shall be filed in the circuit court of the county in which that person resides or has his or her principal place of business. The court shall order the bureau to provide the requested copies and award reasonable attorney fees to the person who requested the copies (House Bill 4737, Section 8.6, April 25, 1995).
>
> A building or combination of buildings which becomes a transient facility under this section shall remain subject to the assessment unless either of the following occurs: . . . B) The owner of the transient facility gives 30 days written notice to the bureau of the owners intent to terminate the agreement described in subsection 1. Upon 30 days written notice to the bureau, that owner is no longer subject to this act and shall not participate in the marketing program for the assessment district or collect any fee authorized under this act (House Bill 4737, Section 10.2[B])

The executive directors of assessment districts opposed the proposed amendments and actively lobbied against them through the Michigan Association of Convention and Visitor Bureaus (MACVB) and the Michigan Hotel and Resort Association. All of the executive directors interviewed believed that compliance with the reporting requirement was necessary, and most of them were in compliance. They believed there were a number of possible reasons why assessment districts failed to file with the state. Several believed that

some assessment districts were little more than well funded local hotel associations who feared having others know about the revenues they collected. Some of those interviewed believed hoteliers did not want to release assessment revenue data because other hoteliers might be attracted to their areas, or because it violated their sense of privacy. Many speculated that most of the districts failing to comply had small budgets and could not afford the cost of auditing. Even if they could afford the cost, it would consume a large share of their budget. Others believed that the lack of compliance could be attributed to irresponsibility on the part of the assessment district management, or ignorance of the requirement compounded by the state's failure to enforce it.

The executive directors were primarily concerned with the sections of the amendment allowing individual properties to stop collecting the assessment. They believed allowing individual properties to exit and enter at will would make it difficult to sustain the organization. They expressed concern that the collection of the assessment by all members was conditioned on the coerced collection of the assessment by dissenting members. If dissenting members were not accountable for collection, other members, regardless of the level of benefits they received, would also exit. Due to the high exclusion cost characteristics of tourism promotion, it would be difficult to determine who should rightly collect the assessment and who should be held accountable.

At the time of this study, the proposed amendment had been moved to committee where it was tabled. It is not known whether the amendment was reconsidered. However, both the assessment districts and the Travel Bureau had begun to take a more proactive stance on reporting. The executive directors of the assessment districts believed the best way to avoid changes in the legislation was to insure that all districts complied with the reporting requirement. Thus, they initiated a campaign, in conjunction with the Travel Bureau, to inform their peers of this.

6.7.2 The Potential Impact of Assessment Districts on the State's Tourism Promotion Efforts

Prior to Public Act 59, there were 11 formal local destination marketing organizations in the state--the eight county level CVBs, the Metropolitan Detroit CVB, and the destination marketing organizations in Traverse and Mackinaw Cities. Other local programs were administered in an ad hoc fashion, often as a secondary function, by local chambers of commerce. Following the passage of Public Act 59, hoteliers in communities throughout the state established formal destination marketing organizations and tourism promotion programs. These programs often contained different messages and communicated different images of the areas represented. Some of the people interviewed believed this had resulted in intra-state competition among the various communities and fragmented the image of the state in the minds of the traveling public. This concern had been raised at the time Public Act 395 was being debated in the Senate. These concerns were expressed by representatives of some of the county CVBs and the regional tourist associations operating at the time. The arguments presented in the Senate analysis of the initial legislation reflect the exact nature of people's concerns and the response of supporters:

> Opposing Argument: The bill would continue the fragmentation of the state's tourism promotion into small pieces, setting one area of the state against the others in the promotion of tourism. The Grand Traverse area and Mackinaw City already have established assessment districts under this act and the Metro Detroit Convention and Visitors Bureau has established an assessment district under Public Act 383 of 1980; undoubtedly under the bill there will be many more. What is needed is a comprehensive, long-range plan to aid tourism in the entire state (Analysis of Senate Bill 269, Senate Analysis Section, April 26, 1984).
>
> Response: Since a long-range plan of this nature does not exist, areas that depend on tourism should be allowed to help themselves by their own initiative. The bill would encourage healthy competition among various municipalities around the state. It has been estimated that Michigan's share of the tourism market can more than double if these areas are provided with the financial means to promote their particular attractions . . . (Analysis of Senate Bill 269, Senate Analysis Section, April 26, 1984).

Determining whether the creation of assessment districts negatively affected the perception of the state is beyond the scope of this study. However, some of the people interviewed expressed concern that the act had created unnecessary competition among

communities. They believed that some communities in close proximity to each other, with little discernible difference in the characteristics of tourism resources or markets, now competed, and the results of their efforts had little additional positive impact on the state's overall share of the midwest tourism market. The extent to which this happened cannot be determined in the scope of this research.

6.8 Summary of Chapter 6

The lodging room assessment was devised by the Metropolitan Detroit CVB as an institutional alternative to the accommodations tax. Although both were compulsory cost sharing arrangements, the assessment legislation was unique in that it gave hoteliers the right to determine the content and nature of the tourism promotion program. Under the accommodations tax, the preferences of hoteliers were often subjugated to the preferences of other groups in the community, and funds from the tax were often used for purposes other than tourism promotion. Hoteliers objected to both of these conditions and sought to create a cost sharing arrangement that would preclude the involvement of county and city governments in the administration of the funds.

Once the assessment was in place in Detroit, hoteliers in other areas of the state lobbied for the right to implement the assessment. These efforts culminated in Public Act 59 of 1984, which amended Public Act 395 of 1980, and allowed for statewide formation of assessment districts. Once this legislation was passed, local hoteliers, with the support of local chambers of commerce, successfully formed over 60 assessment districts. These organizations were typically smaller--in terms of geography, membership, and finances--in comparison to the regional tourist associations described in Chapter 4 and the CVBs described in Chapter 5.

Based on the proliferation of these organizations, and the high approval rate of referendums, these groups exhibit a greater overall degree of cohesion and homogeneity of interests. Despite the apparent homogeneity, differences existed among hoteliers based on

their size, ideological orientation, and location. Local institutional arrangements, such as geographically based revenue sharing arrangements and organizational by-laws requiring representation of smaller properties in the decision making process, have been devised to cope with some of these differences.

Some smaller organizations did struggle to maintain themselves. Conflicts over the relative distribution of benefits and cost shares resulted in a few groups disbanding. In these situations, the defection of one or two dissenting members typically resulted in the unraveling of the organization, because individual participation in the assessment was conditioned on the compulsory participation of all potential beneficiaries.

Organizational entrepreneurs, in the form of organizations and individual actors, played an important role in submitting marketing program notices, devising boundaries, and coordinating consensus among hoteliers. In passing the referendums, hoteliers voted to impose restraints on themselves in order to fund the local promotion program. The state supplied the necessary framework (rights) but did not compel hoteliers to provide the good.

Revenues from the assessment have grown consistently over the period studied. This level of funding allowed local organizations to develop and expand tourism promotion programs. However, giving private groups of hoteliers the rightm to administer the assessment has resulted in limited public access to information about the level and use of the funds. As a joint impact good, the nature of the tourism promotion program potentially affects all members of a community. As a result, some members who were excluded from the decision making process sought to have a greater level of disclosure and lobbied for changes in the rules related to organizational oversight.

Finally, there was some concern that the proliferation of numerous local destination marketing programs had a negative impact on the overall image of the state in the minds of tourists. Determining the extent this happened is beyond the scope of this study.

CHAPTER 7

CONCLUSIONS AND RECOMMENDATIONS

The purpose of this chapter is to synthesize the various theories of institutional impact and institutional change with the findings from the three case studies. The chapter has 6 sections. The first section is a set of general findings from each of the cases. The second section summarizes the findings with respect to theories of group formation and the provision of high exclusion cost and joint impact goods. The next section summarizes the findings with respect to theories of institutional change. The fourth section discusses the limitations associated with the design and implementation of the research. The fifth section discusses implications of the research. The chapter ends with recommendations for future research into tourism promotion as it relates to institutional economics and institutional theory generally.

7.1 General Findings Related to Michigan Tourism Promotion

This research was prompted by an interest in tourism taxation. In the process of conceptualizing the research, it became apparent that tourism taxes in the United States, especially accommodations taxes, were rarely used to fund general activities of government. In many states and counties there are organizations, other than government, who benefit from accommodation tax revenues. The most common beneficiaries of these taxes were some type of destination marketing organization. In other words, behind the cost sharing arrangement there were organized interests who had somehow convinced government to direct tax revenue to their interests. In addition, it was apparent not all destination marketing organizations received funding

from a tax. Many throughout the country were funded by voluntary dues payments or grants. In a general sense, this prompted 3 questions: 1) How did the different ways of funding these organizations come to be?, 2) How did these different cost sharing arrangements work?, 3) Who benefited from these arrangements?

Michigan provided a unique opportunity to study these questions because of its history of organized primary tourism promotion and the structure that existed in the state. It also became apparent that very little was known about Michigan's destination marketing organizations and the institutional arrangements developed to fund them. The following sections summarize some of the general findings related specifically to tourism promotion financing and destination marketing organizations in Michigan.

7.1.1 The Organizations and Cost Sharing Arrangements

Chapters 4 through 6 are case studies of three different types of destination marketing organizations in Michigan--regional tourist associations, urban convention and visitor bureaus (CVBs), and assessment districts. Each type of organization can be described in terms of the cost sharing arrangement used to fund the organization through much of its history.

In the case of the regional tourist associations, voluntary dues payments, the sale of selective incentives, and appropriations from the state were the primary funding sources. Despite the fact they were geographically large and represented a heterogeneous mix of businesses and communities, these four organizations had a long history of providing primary tourism promotion programs for the regions they represented. The combination of funding sources proved effective for many years. For over 6 decades the organizations played a significant role in determining the nature of the state's tourism promotion program. However, fundamental policy changes at the state and local level adversely affected the organizations' abilities to solicit members and develop effective programs. The organizations became increasingly reliant on state

funding, and two disbanded when the state decided to stop their appropriations. Two ancestors of the original tourist associations remained in operation at the time of this study. One, in Michigan's Upper Peninsula, was funded by an assessment. The other is still funded by dues and advertising sales. In addition, new and smaller regional associations have emerged. These organizations are funded either by voluntary payments and advertising sales or by an assessment.

In the case of urban CVBs, the county accommodations tax was the primary source of funding. The tax was legislated in Public Act 263 of 1974, and implemented in eight counties. The primary impetus for the tax was to fund the construction of tourism related facilities in Kent County. However, at the request of the leadership of CVBs, the legislation also allowed counties to use the funds for tourism promotion. All eight counties contracted with a CVB to provide county level tourism promotion in exchange for tax revenues. In some counties, the CVBs were existing member organizations. In others, the local chamber of commerce helped to form the CVB. The Metropolitan Detroit CVB did not seek to have the counties comprising Detroit eligible for the tax.

Under the accommodations tax, county government officials and hoteliers often competed over how the revenues would be used. In general, hoteliers were supportive of the destination marketing organization and valued the primary promotion program. However, they objected to the tax revenues being used for facility construction and purposes other than tourism promotion. In this study, hoteliers have been identified as a set of unwilling riders. Hoteliers were unwilling riders, in part, because of their resistance to the alternative uses of funds but also because they questioned why other beneficiaries did not have to collect the tax. In addition, depending on the local organizational structure, the voice of hoteliers in determining the content of the local program may have been subjugated to broader community interests. Thus, in the aggregate, hoteliers preferred an alternative to the tax.

Assessment districts were developed as a creative alternative to the accommodations tax. The Metropolitan Detroit CVB developed the assessment concept as a way of overcoming funding problems. The organization is the oldest known destination marketing organization in the state. It was historically funded by voluntary dues payments and grants. However, these funding sources proved to be insufficient and volatile. In addition, the organization, under pressure from local hoteliers, did not want to have a county or city tax implemented. Instead, it adapted an existing cost sharing arrangement from the agricultural sector--the assessment--to fund its programs. The Detroit CVB secured passage of Public Act 383 of 1980, establishing a hotel room assessment district in the three county area comprising Metropolitan Detroit.

Unlike the county accommodations tax revenues, which were public funds administered by the county governments, the assessment revenues were considered private funds of the destination marketing organization. After the passage of the Detroit assessment legislation, hoteliers and tourism groups in other areas throughout Michigan sought to have the right to implement an assessment. These efforts culminated in the passage of Public Act 59 of 1984, which amended large sections of an early law, Public Act 395 of 1980. Since the passage of this act, over 60 referendums had been held by local hoteliers to create assessment districts and form local destination marketing organizations. Not all of these referendums were successful, nor were all of the organizations maintained. However, the assessment proved to be popular among hoteliers because they had greater control over the use of the revenues and greater voice in determining the content of the promotion program.

7.1.2 Total State, Local, and Regional Funds Available for Tourism Initiatives

One of the performance outcomes of widespread implementation of taxes and assessments was that the destination marketing organizations had stable sources of funding that increased over time. Each of the cases provide evidence that tax and

assessment revenues have increased since implementation. Given that these compulsory cost sharing arrangements emerged in an effort to overcome problems with voluntary cost sharing arrangements, it is likely that the amount of funds available for local tourism promotion initiatives would have been substantially less if these institutions had not been developed.

The data collected in this study allow for an estimation of the total funds available for tourism promotion and development activities in Michigan. Table 50, provides an estimate of the total funds available at the state, regional, and local levels, for the 1994-1995 fiscal years. These data underestimate total funds because they do not include revenues from organizations still funded solely by voluntary dues payments, or those assessment districts failing to file financial statements with the state. However, it is the only known estimate of funding across these various levels.

The estimate was developed by aggregating the total budgets of the various destination marketing organizations, including the budget of the Michigan Travel Bureau, for the 1994-1995 fiscal year. Total budget information was not available for some of the urban CVBs. In these cases, the accommodations tax revenues have been used as a proxy. According to this estimate, the state raised approximately $35 million in revenues for tourism related initiatives during the 1994-1995 fiscal year. Most of this money was used to administer tourism promotion programs. Some of the county and Michigan Travel Bureau funds were used for product development purposes, such as construction of facilities.

Table 50. Total State, Regional, and Local Funds Available for Tourism Promotion and Development Initiatives, 1994-995 Fiscal Year

Organization	Primary Funding Arrangement and Legislation	Total Funds 1994-1995
Michigan Travel Bureau	State Appropriation Legislation	$9,041,300.00
8 County CVBs	Accommodations Tax Public Act 263, 1974	$9,250,494.00 [1]
Detroit Assessment District	Assessment Public Act 383, 1980	$8,243,000.00
35 Local Assessment Districts	Assessment Public Act 395, 1980 Public Act 59, 1984	$7,390,111.00
Upper Peninsula Assessment District	Assessment Public Act 244, 1989	$721,147.00
	Total	$34,646,052.00

[1] Includes total budgets for 5 CVBs, and tax revenues for Washtenaw, Kent, and Muskegon Counties.

7.1.3 The Structure of Decision Making: Who Chooses the Nature of Promotion Programs?

Participation in the decision making process differed in each of the organizations. In each case, the institutional arrangement directly impacted who participated and who was excluded. The geographic scope of the programs also influenced who participated in the decision making process. Control over the content of the promotion program rested with the executive committees and boards of directors in each organization. Thus, interest groups could influence the decision making process if they could secure majority representation and voice on the boards and committees.

In the case of the regional tourist associations, organizational representatives dominated over individual member representatives. Throughout much of their history, the boards of directors of the associations where dominated by presidents of chambers of commerce, county government representatives, city government representatives, state government representatives, and presidents of other civic organizations. Over time, funding for these organizations came mostly from local and state government, and

chambers of commerce. Larger individual members, who typically made larger dues payments, were also given special consideration in serving on the boards.

The geographic scope of the regional promotion programs made it difficult to have numerous individual members participate in the decision making process. As a result, these organizations relied on the leaders of local organizations to aggregate and communicate the preferences of their constituent groups. Thus, the structure of decision making was described as a quasi-federated group structure. It was quasi-federated in the sense that the local organizations were not bound to the regional associations by any formal institutional arrangement. As a result, when incentives and focus shifted to the development of local promotion programs, many of these organizations ceased to participate in the regional program. In fact, many began to compete with the regional tourist associations for limited state resources and legitimacy. The defection of these organizations negatively affected both funding and feedback on the quality of the regional promotion programs. Over time, state resources came to dominate as a source of funding. The state also came to be a dominant influence in the focus and content of regional programs.

The regional tourist associations played an important role in the development of state level tourism promotion institutions. Their initial success in securing funding from the state was followed by active involvement of the state in tourism promotion. Initially, the state's involvement was limited to the administration of appropriations to the regional associations under a matching grant program. However, it became apparent that the state's image was being determined in large part by the regional programs, which varied in effectiveness and content from year-to-year. More formal state level institutions, such as the Tourist Council, were developed to control external affects between the regional programs, and to recognize the state level promotion interests of other groups.

Initially, the regional tourist associations were the dominant representatives on the Tourist Council. This fundamentally changed in the early 1970s when urban tourism interest groups were able to secure a voice on the Tourist Council and, later, on the Travel Commission. Programmatic emphasis on outdoor recreation and rural tourism activity was then supplemented by programs emphasizing urban tourism activities, most notably conventions and meeting trade.

In eight counties, decision making regarding tourism promotion was embodied in the urban convention and visitor bureaus (CVBs). In these organizations, representation on the boards of directors and executive committees were often a mix of local civic and government entities, and individual members. For the most part, individual members dominated the decision making process. Among the members, there were diverse sets of interests, typically characterized by the nature of their business. Restaurateurs, hoteliers, bankers, lawyers, attraction owners and managers, retailers, and local government officials were common representatives on the boards of these organizations. This study focused on the structure of decision making in these organizations after the implementation of the county accommodations tax in 1974.

The structure of decision making varied among the counties collecting the accommodations tax. In some counties, the CVB was a division of a larger organization representing a broader set of community interests. In these organizations, the preferences of tourism interest groups, specifically hoteliers, were often subjugated to the broader interests of the community. Tax funds in these counties were often diverted to projects and purposes other than direct tourism promotion. In other counties, participation in determining the content of the promotion program may have been equitably distributed among various interest groups, but the county government played an more activist role in administering the tax funds. In these counties, the local government influenced the promotion program through its control of the funds. In still other counties, local government was not as involved, and decision making was often

dominated by hoteliers. In one county, hoteliers had secured the right to establish an intermediary commission that made recommendations to the county on funding and programmatic issues related to the CVB. In most of the counties, hoteliers and local government officials dominated representation on the boards of directors.

In some of the counties, there were geographically defined interest groups who wanted to establish their own promotion programs. To accommodate this, revenue sharing arrangements were worked out between the local organizations and the county. In all of these situations, issues related to the quality and content of the generic county promotion program were raised. The revenue sharing arrangements allowed these groups to formulate local programs better reflecting their preferences.

In the assessment legislation, hoteliers were granted a greater voice in the decision making process. In Detroit, two entities--the Owners Advisory Committee (OAC) and the CVB's Board of Directors--shared responsibilities for determining programmatic content and focus. The assessment legislation required the formation of the OAC to give hoteliers greater voice in determining the content of the promotion program. In this organization, the OAC had veto power over the marketing programs and greatly influenced the type of promotion programs developed. In other assessment districts, the legislation required that hoteliers be a majority of the board members. In some cases, hoteliers were the only board members.

Some CVBs and assessment districts maintained memberships. The maintenance of a membership diminished the generic nature of the promotion programs, because member organizations placed particular emphasis on the promotion of individuals who were members. Members received special advertising rates and preferential treatment in promotional materials.

7.2 Findings Related to Organizing the Provision of Goods with High Exclusion Cost and Joint Impact Characteristics

Several of the theories presented in Chapter 2 suggest that large groups with diverse interests will not be able to organize and provide goods with high exclusion cost (HEC) characteristics unless: 1) government provides the good, 2) markets are developed for the good, 3) effective selective incentives are devised and, 4) institutional arrangements are devised to effectively sanction free riders. Proponents of these theories tend to take a more determinant policy stance by recommending government intervention, market creation, or a specific type of selective incentive to overcome the free rider problem.

Other theories either supplement or challenge these paradigms by considering: 1) purposive and moral incentives, 2) organizational entrepreneurs, including both individual actors and organizations, 3) individual and group cleverness or creativity, 4) effective formation of a core group and, 5) the affects of historical events. Proponents of these theories tend to be less determinant and prescriptive in terms of policy recommendations. In these theories group success in providing high exclusion cost goods is complex, context dependent, path dependent, and indeterminate.

The joint impact dimensions of the tourism promotion good may complicate provision because disagreements over cost shares may arise. For joint impact goods (JIG), the marginal cost of an additional user is zero and agreements have to be worked out between those paying the fixed costs of provision and the marginal users. Further, participation in the process to determine the quality or nature of the promotion program may affect perceptions of fairness and willingness to share in the costs of provision. The findings of this study with respect to these issues are summarized in the following sections.

7.2.1 Evidence From the Case of the Regional Tourist Associations

In the case of the regional tourist associations, individual actors and organizations played active roles in the formation of a core group of interested individuals and organizations. Initially, free riding was not problematic and selective incentives were not used to solicit participation in the groups. Purposive incentives played an important role throughout the organizations' histories, but were especially important in the formative stage when identity with the group was being developed. As the organizations grew in membership, geographic size, and bureaucracy, selective incentives--in the form of advertising sales--were developed, and came to be a large source of funding. However, the effectiveness of one type of incentive over the other cannot be determined since both were used throughout the period studied.

Both state and local governments were active participants in the formation and maintenance of the regional tourist associations. However, the role of government was not as a leviathan acting to coerce groups and individuals to cooperate. Instead, government supplied the policy arena that the existing groups used to appeal for new rights or funding. For example, the regional tourist associations repeatedly attempted to establish local taxes to be used for tourism promotion, and they used the state legislature to appeal for appropriations. In addition, the state often facilitated the group's interests by recognizing their legitimacy.

Historical events both positively and negatively affected the regional tourist associations. At the formative stage, the depletion of timber stock and the precarious condition of local economies where events the groups could not have foreseen or controlled. However, these events facilitated a search for an alternative economic base and a sense of shared purpose among the communities and businesses comprising the regions. In contrast, The Depression negatively affected both the funding and stability of the organizations. The emergence of urban tourism, and the historical events that

shaped the evolution of CVBs as rivals for state resources, also affected the ability of the regional associations to coordinate investment in their programs.

The case of the regional tourist associations provides evidence that the formation of groups to provide HEC and JIG is a highly complex and indeterminate process. Existing theories can be supplemented by considering the role of organizational entrepreneurs, rival groups, purposive incentives, and history.

7.2.2 Evidence From the Case of the Urban CVBs

The case of the CVBs presented in Chapter 5 does not extensively examine how the groups were formed. Historical data on their evolution was limited. As a result, the organizational impact of the accommodations tax is emphasized in this chapter. There is evidence that local chambers of commerce acted as organizational entrepreneurs in forming some of the bureaus subsequent to the passage of the law. Some of the organizations were still linked with the chamber at the time of this study, and some had become independent from the chamber less than 5 years prior to this study.

The accommodations tax was initiated by Kent County to fund the construction of tourism related facilities. The existing CVBs and their representatives lobbied to allow some of the funds to be used for tourism promotion. It is not known whether the CVBs sought tax revenues in an effort to overcome funding problems associated with voluntary cost sharing.

Although the state hotel association opposed the tax (i.e. Public Act 263), some local hoteliers supported it, and were involved in the process of devising the local institutional arrangements. For example, in the case of Washtenaw County, hoteliers became active in the process of developing the Accommodations Ordinance Commission and the administrative structure that existed in that county. Many hoteliers were not initially opposed to the tax and some were willing to support it even though it placed certain duties and restraints on them. In each county, these groups--CVBs,

chambers of commerce, county governments, and hoteliers--became engaged in a process of formulating and negotiating what the local institutional arrangement would look like. In other words, the final structure of the tax was not imposed on the counties by state government. The counties, with support from CVBs and some hoteliers, actively pursued the development of the initial legislation, and then the groups worked together to formulate contracts, revenue sharing arrangements, and administrative rules. Each of these elements of the local institutional arrangement were unique to the county.

Strong hotelier opposition to the tax did not emerge until the dynamics of the local institutional arrangement took shape. In many instances, hoteliers were not opposed to the tax as a means of sharing the cost of tourism promotion, but they were opposed to how the tax was administered at the local level. Because of the tax, hoteliers could not easily exit and were bound to the organization. As a result, many sought an active voice and often were very involved in the decision making process of the organizations.

In some of the counties, the county government used large portions of the tax revenue to fund the construction of facilities. They also often diverted revenues to other groups and organizations in the county to fund local projects and facilities, such as festivals and fairgrounds. Hoteliers, who preferred the funds be used for tourism promotion, objected to these uses of the tax revenue. In these counties, many hoteliers became vocal unwilling riders and strong critics of the local institutional arrangement.

The case of the accommodations tax and the 8 CVBs provides further evidence that groups seeking to provide HEC and JIG can work out the necessary institutional arrangements without overt government action. In this case, the CVBs and county governments were able to coordinate investment in lobbying activities to secure passage of Public Act 263. Once the law was passed, county governments, CVBs, hoteliers, and other local interest groups, made investments in the supply of local institutional arrangements.

Selective incentives were less important under the tax. The tax itself is a punitive or coercive selective incentive because the hotelier who refuses to pay is punished. All of the organizations sold advertising, but in non-member organizations this was simply an additional source of revenue and not a selective incentive. Organizations with memberships developed other types of selective incentives in addition to advertising sales. However, these selective incentives were of limited utility and only a minor source of income.

The case raises issues about the concept of homogeneous groups. There is no doubt that hoteliers and others involved in the tourism industry share many economic and political interests. However, within an interest group there are often subgroups with their own interests and concerns. For example, in the case study it became obvious that hoteliers differed in their interests based on their size, location, and the nature of the services they provided. The implication of this is that some hoteliers were satisfied with the existing local institutional arrangements while others were not. Thus, assuming group homogeneity based on generic industrial or geographic aggregates ignores these subtle differences which may be sources of contention and affect cohesion in a group.

7.2.3 Evidence From the Case of Assessment Districts

The assessment districts discussed in Chapter 6 provide further evidence for the role of organizational entrepreneurs in overcoming problems of organizing provision of HEC and JIG. Organizational entrepreneurs played an important role in both the development of the initial legislation and in coordinating formation of the groups at the local level. The Metropolitan Detroit CVB, the Michigan Hotel and Resort Association, and the Traverse City Chamber of Commerce actively lobbied for passage of the initial assessment laws. Later, chambers of commerce and the Michigan Hotel and Resort

Association lobbied for hoteliers to have the right to organize assessment districts statewide.

Once the legislation was in place, leaders in local chambers of commerce, individual hoteliers, and county economic development officials acted to file program notices and solicit support among local hoteliers. These groups and individuals worked to build consensus among hoteliers to secure passage of the referendums.

The case provides further evidence that groups can organize and supply self restraining institutions that help them overcome the free rider problem. The state supplied the legislative and judicial policy arenas in which the legislation was formulated and debated, but it did not unilaterally compel hoteliers to organize.

The case provides evidence that small groups may have as much difficulty as large groups in successfully organizing and sustaining the provision of HEC and JIG. In some small assessment districts, rivalries, personality conflicts, envy, and jealousy were intensified by an obviously inequitable distribution of cost shares. In these situations, it was obvious who in the group was responsible for collecting the most in assessment revenue. These individuals typically wanted more voice in the decision making process and dissented when it was not granted. When the large member of a small assessment district defected, the group had little recourse to force his compliance with the law. There is evidence that members of these groups conditionally cooperated in the collection of the assessment because once the large group member defected, the organizations unraveled as other members refused to comply. Thus, it is not a foregone conclusion that small and seemingly homogeneous groups will automatically be successful in organizing.

Successful formation of assessment districts typically depended on a process of consensus building and establishing a sense of group identity--types of purposive incentives--prior to submission of the program notice and holding of the referendums. The assessment legislation allowed for flexibility in defining the boundaries of the

districts which contributed to the overall success rate of the referendums. When hoteliers with a majority of rooms in a municipality objected to the assessment, it was possible to redraw the boundaries of the district to exclude them.

This case also raises issues related to the concept of homogeneous interest groups. The assessment districts were organizations of hoteliers who would seem to have similar interests. However, even in these groups interests varied based on location, size, and services provided. These subtle differences cannot be ignored because of their potential affect on group stability and cohesion. For example, in the case of the Metropolitan Detroit CVB, differences in the interests of urban and suburban hoteliers were found to affect how the organization administered its promotion program. If a reasonable compromise was not achieved, the maintenance of the assessment and the viability of the organization could be threatened.

7.2.4 Summary of Conclusions Related to Group Formation and Maintenance

The findings in the three case studies suggest that in addition to group size, transaction costs, resource characteristics, selective incentives, and macro-institutional arrangements, researchers studying the potential of groups to organize provision of HEC and JIG should consider the following in their analysis:

1. The historical and situational context of the group at the time of formation and over time
2. The role and effectiveness of both individuals and organizations as entrepreneurs
3. The role and effectiveness of purposive incentives
4. The role and effectiveness of local or micro-institutional arrangements in overcoming the free rider problem and in providing voice in the decision making process

5. The level and extent of shared interests and identity among group members
6. Micro-level interests, even in groups that appear in the aggregate to have homogeneous interests
7. The indeterminate effect of group size on successful and unsuccessful organization.

7.3 Findings Related to Institutional Change

The three case studies are linked by both macro- and micro-level changes in Michigan's tourism promotion institutions. Until 1974, the primary means of sharing the cost of local and regional tourism promotion was through voluntary payment of dues. The passage of Public Act 263 was the first obvious institutional change because the cost sharing arrangement shifted from voluntary payments to compulsory payments under the tax. However, this process began long before 1974 with the recognition of urban tourism and the realignment of state resources to include the urban CVBs. If these events had not taken place, the sponsors of Public Act 263 probably would not have been able to successfully argue for the right to implement a tax to build convention centers and fund tourism promotion efforts.

The recognition of urban tourism was itself a function of the economic and historical events taking place in Michigan during the late 1960s and early 1970s. If the urban areas of Michigan had continued to thrive and grow as manufacturing economies, it is unlikely that urban tourism would have received much attention as a viable economic base. As it turned out, the economic and social problems of the cities helped to focus people's attention on a search for alternative industries. In addition, during this time it became apparent that the competitive position of the state's cities in attracting conventions and tourism was eroding. Thus, it was obvious to the leadership of urban

CVBs, and city and county government officials, that the state's current promotional emphasis on rural and outdoor tourism needed to change, and they initiated action to realign the emphasis and resources of the state.

The status quo institutional arrangement of voluntary cost sharing proved to be too costly given the competitive situation and the new emphasis placed on urban tourism. As a result, county governments and the CVBs began to search for alternative cost sharing arrangements.

Conceptually, the accommodations tax was not an institutional innovation unique to Michigan. Several other states had implemented similar taxes prior to Michigan's adoption of Public Act 263. Thus, the institutional framework existed, but it took unilateral action of the group in Kent County to introduce it and customize it to Michigan.

The basic structure of the tax legislation has remained unchanged. However, the local institutional arrangements that ultimately direct the flow of funds and the structure of decision making have changed over time--revenue sharing arrangements have been developed, tax rates have changed, and funds have been shifted from one use to another. All of this happened incrementally, but these subtle changes affected perceptions of the costs and benefits of the tax among some local groups. As unwilling riders, hoteliers were especially sensitive and vocal about how the existing arrangement affected them.

In contrast to the accommodations tax, the assessment was an institutional innovation unique to Michigan. Once again, the historical context in which this institutional innovation was supplied is important. The voluntary cost sharing arrangement used to fund the Metropolitan Detroit CVB proved be costly given the weakened competitive position of the city in attracting conventions. By the late 1970s, large members had been forced to withdraw support due to fiscal problems and a weak Michigan economy. Detroit hoteliers opposed a tax because they had seen the

outcomes of Public Act 263 and similar taxes in other states. As a result the CVB leadership was forced to innovate and develop a new institutional arrangement that would be accepted and workable in their situation. The case of the Detroit CVB provides evidence that the supply of new institutions and the path of institutional change are functions of human creativity and ingenuity.

In each case, the cost and benefits of changes in the status quo institutional arrangement were revealed in a historical context. In addition, these changes were largely incremental and dependent on the nature of prior changes. In none of the cases was there evidence that the groups sought optimal new arrangements. More often, they were responding to the limits of their environment as defined by existing and overlapping institutions, and the actions of rival groups. They sought and devised institutional arrangements that worked given what they knew, and what they thought was best at the time.

7.4 Limitations

This study has a number of limitations, some a function of its descriptive objectives, and some related to research design and implementation. The limitations are presented below under three categories: 1. scope and delimitation of the research, 2. sampling, and 3. data and measurement.

7.4.1 Scope and Delimitation of the Research

The scope of the study is simply too broad. This can be attributed to its descriptive and qualitative nature, the inclusion of multiple objectives at the conceptualization stage, and the level of analysis. For example, it may have been better to limit the study to analyzing the impact of a single institutional arrangement, such as the tax, or to limit analysis to a single organization. The scope was necessarily broadened by including

objectives related to the study of institutional change and by taking an organizational field level of analysis.

The original intent of the study was to describe the evolution and structure of the accommodations tax and the assessment. However, in the research process it became apparent that these institutional arrangements were related to each other, and to the historical evolution of the regional tourist associations. The tax and assessment are relatively new institutional arrangements in comparison to the evolution of institutions related to the regional tourist associations and the state. Deleting analysis of the regional tourist associations would have ignored several decades of successful organization under voluntary cost sharing and neglected the evolution of the state program altogether. Thus, by conducting the analysis at the organizational field level and by including objectives related to institutional change, it became necessary to include the regional tourist associations in the study.

To limit the scope, it may have been better to limit the analysis to the organization level while still addressing the process of institutional change. However, there are very little data on specific destination marketing organizations in Michigan. Only one--the Metropolitan Detroit CVB--had a comprehensive archives. Thus, any analysis conducted at the organization level would have faced data limitations.

7.4.2 Limitations of the Interview Sampling Procedure

The technique used to generate the interview sample may have introduced some bias and redundancy into the interview data. Each person interviewed was asked to provide the name of another person, or persons, who were familiar with the evolution of destination marketing organizations and related institutions. This produced a large sample of very knowledgeable people. However, many of those interviewed often recommended others with similar interests or opinions. This was especially true of

hoteliers who tended to recommend other hoteliers who shared similar opinions on the performance of the tax or assessment.

Government officials and most of the representatives of destination marketing organizations recommended individuals with diverse interests and opinions. However, some of the representatives of destination marketing organizations may not have recommended people who were critical of the organization. In some cases, it was apparent that there were individuals who were not being recommended for interview because of their unhappiness with the performance of the local institutional arrangement and their criticism of the organization.

In addition, not all of those recommended for interview agreed to be interviewed, or they were not available for interview. This happened with 3 individuals. Two of them would have provided substantially more insight into the historical evolution of Public Act 263. The third, a hotelier in Huron County, would have provided more insight into the dynamics of small assessment organizations.

7.4.3 Data and Measurement

Much of the data presented are qualitative. The process for collecting and coding qualitative data requires some discretion and judgment on the part of the researcher. As a result, coding errors and errors made in the interview process may have introduced some bias. For example, an unstructured approach was taken in the interview process. This allowed for flexibility in the interviews and collection of field data that might not otherwise have been collected if a more structured approach had been used. However, the unstructured approach requires the researcher to avoid leading or biased framing of the questions. While every attempt was made to do this, it is possible that some of the interviews were affected by the interviewer's framing of the question and/or the interview environment.

The process of coding both the archive and interview data was grounded in institutional theory. In doing this, it is possible that variables and processes outside of the mainstream theories were not considered. To avoid this, every attempt was made to compare variation and commonalties in the data with the theoretical variables and processes. Because the research is descriptive, this largely involved classifying and grouping the data into defined theoretical constructs. The classification process is largely a subjective process, and it is possible that some of the data were improperly coded and classified.

Finally, some sections of the questionnaire proved to be redundant and not instrumentally relevant to the objectives of the study. This was especially true of the opinion scale. This section was included at the suggestion of some of the destination marketing organization presidents. However, the questions simply did not shed light on the evolution and performance of local institutional arrangements. Further, many of the respondents did not complete this section of the questionnaire. In retrospect, this section would be eliminated and more questions related to the composition of membership, market characteristics, and funding would be added.

7.5 Implications of the Research

This study has implications for researchers studying institutions, tourism policy makers, and the managers of destination marketing organizations. The possible implications for each are discussed in the following sections.

7.5.1 Implications for the Study of Institutions

By using a historical case study approach, the study demonstrates that organizing the provision of high exclusion cost and joint impact goods is a complex and evolutionary process. It shows that interest groups can organize and develop institutional arrangements to provide these types goods. In addition, an expanded

number of variables have been identified for consideration when analyzing these situations.

Studying the dynamics of interest group formation and evolution provides insight into the structure of the economy. Specifically, studying these groups provides insight into the role of voluntary member associations in the economy. By conducting the analysis at the organizational field level, the study shows how the interaction of these organizations with government and other organizations effects performance across time. Further, studying this interaction helps to clarify the role of government in the supply of new institutions and in the process of institutional change. The study raises questions about the reliability of studies that utilize cross sectional approaches, and broad summary variables--small groups versus large groups and homogeneous groups versus heterogeneous groups--to arrive at conclusions about the success or failure of organizing the provision of goods with high exclusion cost and joint impact characteristics.

The study describes the dynamics of institutional change as the groups moved from voluntary to compulsory cost sharing arrangements. It suggests that the process of institutional change is fundamentally incremental and driven by a sequential combination of choices across time. Further, the study provides evidence that the process of institutional change involves human creativity and cleverness in adapting to a set of existing conditions.

7.5.2 Implications for Tourism Policy Makers

The study has implications for people involved in formulating tourism policy. Specifically, the study has implications for those involved in formulating tourism promotion policy. Each of the case studies sheds light on the performance of a different institutional arrangement for funding tourism promotion programs in different situations. By studying the structure and performance of each arrangement, policy

makers could determine whether their situation is similar to Michigan's and make judgments about which structural elements are appropriate for their situation. By reviewing the case studies, policy makers could determine whether they wanted similar outcomes and speculate as to how modifications in the structure would affect their setting.

7.5.3 Implications for the Managers of Destination Marketing Organizations

The study possibly has the most direct implications for managers of destination marketing organizations. In reviewing the case studies presented herein, managers could better classify their activities and prioritize how they structure and manage their organizations. For example, the study clarifies the distinction between selective and purposive incentives. It also makes clear the role of each in maintaining organizations through time. The cases provide evidence that successful destination marketing organizations provide both types of incentives. Thus, in addition to developing cooperative advertising programs, managers of voluntary member organizations should consider engaging in activities that build member identity with the organization and consider developing programs and formats that facilitate communication among group members. In addition, they should consider developing programs that communicate the benefits of membership.

The case studies also show how destination marketing organizations are affected by the local and state institutional arrangement. The study provides insight into the tradeoffs associated with different types of funding arrangements and different organizational structures. In addition, the cases show the importance of providing constituent groups voice in the decision making process and how voice is affected by organizational structure. Managers could use this information to decide how best to structure there organizations.

In reviewing the cases, managers could make decisions about the applicability of the case to their situation and learn how organizations in Michigan have been structured, managed, and funded.

7.6 Recommendations

This study is a starting point for future research on tourism promotion financing and destination marketing organizations. The study provides a comprehensive description of tourism promotion funding arrangements and destination marketing organizations in Michigan. It can serve as a foundation for future research in the areas of interest groups, institutions, and organizations. Recommendations for continuing this type of research include:

1. More research is needed at the organizational field level. The development of case studies that examine how different counties, states, and national governments structure and fund tourism promotion and destination marketing organizations is needed. This line of research would allow for comparison of institutional and organizational performance in a variety of settings and situations. This study has described the arrangements that exist in Michigan; it is likely that the structure has evolved differently, and performed differently, in other states.

2. More research is needed at the organization level. It would seem appropriate to focus more attention on a single destination marketing organization to develop insight into the effects of both local and state institutions on the evolution of the organization's structure. The Metropolitan Detroit CVB has a long history, and it would provide an excellent basis for a case study examining its evolution. The organization has operated under a variety of funding arrangements, survived through many different leaders, and endured years of changing economic conditions. An analysis of this type would help to clarify the tradeoffs between different funding arrangements and different

organizational structures. The case would undoubtedly provide deeper insight into how destination marketing organizations are formed and maintained.

3. More research is needed on tourism interest groups. In the process of conceptualizing and reviewing the literature for this study, an abundance of literature was found on the behavior of agricultural and manufacturing interest groups. No literature was found on tourism interest group behavior. This type of research would help to clarify whether the tourism industry has gained credibility and voice in different political arenas. It would help to identify those factors that have contributed to the success or failure of tourism interest groups in the political process. This type of research would also help to clarify whether the diverse sectors that comprise the tourism industry have common or different interests, and the exact nature of those interests. For example, a study of how the American Hotel and Motel was formed, structured, and behaved would be a good starting point.

4. Additional research could clarify the tradeoffs between different institutional arrangements. This study has provided some statistical evidence that compulsory cost sharing arrangements negatively affected voluntary dues payments. It has also provided some evidence that the emergence of a state program negatively impacted appropriations to the regional tourist associations. More qualitative and quantitative research is needed in this area. This type of research would help to clarify the effects of choosing one institutional arrangement over another. It would provide insight into costs and benefits of altering the institutional set up.

5. Additional research could clarify the relationship between state tourism promotion programs and local tourism programs. This line of research might address which program has a greater impact on tourists' perception of the state, whether the programs are compatible, and how the two types of programs are coordinated. This type of research could take an institutional or perceptual/marketing perspective. The institutional issues would be similar to those addressed in this study but would focus

more attention on how the institutional arrangement translates into tourist perception and awareness. The perceptual/marketing issues might relate to which image is more effective in shaping travel and destination choices.

6. Additional research could clarify tourists' perception of taxes and assessments. When taxes and assessments are used to fund tourism promotion, tourists share in the costs. In Michigan, the accomodations tax increases the price of a night's stay by as much as 5%. This is in addition to the state's use tax of 6%. Under voluntary cost sharing arrangements, tourists do not directly share in the costs of tourism promotion. Thus, when the tax is used they are a potential group of unwilling riders. Tourists' attitudes and perceptions of tourism taxes have not been addressed in this study. It would be useful to study tourists' level of awareness of tourism taxes, whether the tax affects their travel decisions, and if the use of the tax revenues affects their perception of it.

Appendix A

Interviews

LIST OF PEOPLE INTERVIEWED

Tom Erhart, Owner, Terrace Inn, Bay View, MI (June 1, 1996)

Peter Fitzsimons, Executive Director, Petoskey/Harbor Springs Boyne Country CVB, Petoskey, MI (June 3, 1996).

Jerry Preston, President/CEO, Flint Area CVB, Flint, MI (June 5, 1996)

Chet Lambert, General Manager, Red Roof Inn, Flint, MI (June 5, 1996)

Carol Powell, Owner, Cinnamon Stick Bed and Breakfast, Clio, MI (June 5, 1996)

Mark Kucera, General Manager, Holiday Inn, Flint, MI (June 6, 1996)

John Shelton, General Manager, Zehnders, Frankenmuth, MI (June 6, 1996)

Jim Engle, Assistant General Manager, Bavarian Inn, Frankenmuth, MI (June 6, 1996)

Chris Danciszak, Former President of UPTRA and involved in formation of upper peninsula assessment district, and former legislative aide to the House Tourism Committee, Lansing, MI (June 6, 1996)

Carl Ostentoski, Director, Huron County Economic Development Corporation, Bad Axe, MI (June 7, 1996)

Bill Anderson, Owner, Real Estate One, Bad Axe, MI (June 7, 1996)

Deb Kretcham, Former coordinator of Huron County Tourism Office, Bad Axe, MI (June 7, 1996)

Dan Donarski, Executive Director, Sault Area CVB, Sault Ste. Marie, MI (June 11, 1996)

Barb Spearman, Director of Sales, Hoffman House Best Western Hotel, Grand Ledge, MI (June 17, 1996)

Tom Galyon, President, Greater Lansing CVB, Lansing, MI (June 18, 1996)

Bob Spillane, Owner, Best Western Hotel, Saginaw, MI (June 19, 1996)

Barry Dickston, President, Saginaw County CVB, Saginaw, MI (June 19, 1996)

Mary Kerr, President, Ann Arbor CVB, Ann Arbor, MI (June 20, 1996)

Victor Martin, Owner, Best Western Inn, Sterling Heights, MI (June 21, 1996)

Peter Marshall, General Manager, Double Tree Guest Suites, Troy, MI (June 21,1996)

Michael O' Callaghan, General Manager, Hilton Hotel, Novi, MI (June 21, 1996)

Harold Skramstead, Director, Henry Ford Museum/Greenfield Village, Dearborn, MI (June 21, 1996)

LIST OF PEOPLE INTERVIEWED

Steve Wilson, Executive Director, Grand Rapids/Kent County CVB, Grand Rapids, MI (June 24, 1996)

Michael Bradon, Fund Administrator, Kent County Treasurer's Office, Grand Rapids, MI (June 24, 1996)

Bonnie V'Sosky, President, Greater Battle Creek/Calhoun County CVB, and President of Michigan Association of CVBs, Battle Creek, MI (June 25, 1996)

Kay Jendrejewski, Owner, Comfort Inn, Battle Creek, MI

Mike Gray, General Manager/Partner, Battle Creek Inn, Battle Creek, MI (June 26, 1996)

Phyllis Dowsett, Executive Director, Southwest Michigan Tourist Council, Benton Harbor, MI (June 26, 1996)

Larry Wozniak, General Manager/Owner, Park Inn International, Stevensville, MI (June 26, 1996)

Darrin Winters, General Manager, Hampton Inn, Stevensville, MI (June 26, 1996)

Chuck Garlanger, Owner, Quality Inn, Benton Harbor, MI (June 26, 1996)

Suzanne Wicks, Onwer, Wicks Apple House, Dowagiac, MI (June 26, 1996)

Peter Lion, President/Owner, Holly's Inc. (Multiple Holiday Inns and other hotels), Grand Rapids, MI (June 28, 1996)

Don West, General Manager, Harley Hotel, Grand Rapids, MI (June 28, 1996)

Bob Barker, Vice President, Muskegon County CVB/MEGA, Muskegon, MI (June 28, 1996)

Wendy Hodeck-Erskine, Executive Director, Jackson CVB, Jackson, MI (July 1, 1996)

Michael Wright, Acting Director, Metropolitan Detroit CVB, Detroit, MI (July 2, 1996)

Bob Hacker, General Manager/Owner, Comfort Inn and Business Center, Ann Arbor, MI (July 9, 1996)

Scott Rood, General Manager, Pleasure Island, Muskegon, MI (July 12, 1996)

Gina Lister, Owner, Ashley-Gardner (Hotel and Restaurants), Muskegon, MI (July 12, 1996)

Bob Morin, Curator, USS Silversides, Muskegon, MI (July 12, 1996)

Greg Hokans, Executive Director, Marquette Country CVB, Marquette, MI (July 16, 1996)

Beverly Bodem, State Representative and Chair of the House of Representative's Tourism Committee, Lansing, MI (July 17, 1996)

LIST OF PEOPLE INTERVIEWED

Laurel Nease, Director, Grand Haven CVB, Grand Haven, MI (July 18, 1996)

Tom Fricke, Executive Director, Kalamazoo County CVB, Kalamazoo, MI (July 19, 1996)

Dee Clark, President, Michigan Hotel and Resort Association, Lansing, MI (July 22, 1996)

Annette Rummel, Executive Director, Frankenmuth Chamber of Commerce and CVB, Frankenmuth, MI (July 23, 1996)

Dave Wendtland, President, Muskegon Economic Growth Alliance, Muskegon, MI (July 25, 1996)

David Sanders, General Manager, Holiday Inn North Campus, Ann Arbor, MI (July 30, 1996)

Roy Coop, General Manager, Radisson Hotel, Lansing, MI (July 30, 1996)

Deb Knudsen, Executive Director, Traverse City CVB, Traverse City, MI (August 2, 1996)

Dave Morris, Director of Research, Michigan Travel Bureau, Lansing, MI (August 5, 1996)

Nancy Sharon Bland, President, St. Clair County CVB, Port Huron, MI (August 6, 1996)

Sue Brillhart, Director/President, Ludington Chamber of Commerce and CVB, Ludington, MI (August 8, 1996)

Ron Steffans, Former President, Metropolitan Detroit CVB, (phone interview with written responses)

Tom Ferguson, President, Michigan's Sunrise Side, (phone interview, September 15, 1996)

Appendix B

Questionnaire

TRAVEL, TOURISM, AND RECREATION RESOURCE CENTER

172 NATURAL RESOURCES BUILDING • MICHIGAN STATE UNIVERSITY • EAST LANSING • MI • 48824-1222
TELEPHONE: (517) 353-0793 FAX: (517) 432-2296

June 18, 1996

Kathy Vallier
Manistique Lakes Area Tourist Assoc.
P.O. Box 37
Manistique, MI 49854

Dear Ms. Vallier:

Enclosed is a questionnaire designed to collect data about the operations and structure of your convention and visitor bureau or assessment district. The research is being conducted for my doctoral dissertation. My topic concerns the economic and political history of local tourism promotion efforts in Michigan. The questionnaire is being sent to all convention bureaus and assessment districts currently collecting a tax or an assessment as allowed for by Michigan law. In addition to this questionnaire, personal interviews are being conducted with a small sample of bureau directors and board members throughout the state. The information collected by the questionnaire will be used to supplement the interviews and other aspects of the historical analysis.

The questionnaire consists of four sections: 1) questions related to staffing and the background of the president/executive director; 2) questions related to the composition of the board of directors and governance of the organization; 3) questions related to the finances of the bureau and; 4) questions related to your opinion and recommendations. The financial and market information you supply will be kept in the strictest confidence and will be reported in aggregate formats only **-- none of the information collected in this survey will be reported, in any form, on the basis of individual bureaus or assessment districts.**

In addition to the questionnaire you will find a one dollar bill. Please use this dollar to enjoy a cup of coffee (or your favorite beverage) while you take the 15 or 20 minutes necessary to complete the survey. If you have any questions please do not hesitate to contact me at (517) 353-0793.

Thank you very much for your time and cooperation.

Sincerely,

Jim Myers
Graduate Student

The TTRRC (Donald F. Holecek, Director) is supported by the following units of Michigan State University: Agricultural Experiment Station, Michigan State University Extension, and Department of Park, Recreation and Tourism Resources

MSU is an Affirmative Action Equal Opportunity Institution

Survey of Convention & Visitors Bureaus & Assessment Districts

Park, Recreation &
Tourism Resources

Travel, Tourism &
Recreation Resource Center

MSU is an affirmative-action,
equal-opportunity institution

The questionnaire has four sections and a total of 27 questions. If you have any questions or concerns please contact Jim Myers at 517-353-0793.

In order to protect the rights of the people participating in this research, Michigan State University requires that you provide signed consent. Please read the following statement and sign below:

I am providing the following information on the condition that it will be kept confidential. I have read the enclosed cover letter and understand the purpose of the research and the way that the data collected by this research will be reported.

_____

Signature Date

Section One- Information About Executive Director, President or CEO and Staff

1. Your name: _____

2. Your official title: _____

3. Name of organization: _____

   Address: _____

   City: _____ State: _____ Zip: _____

4. How many years have you been Executive Director, President or CEO? _____

5. Is your position: ❑ FULL-TIME ❑ PART-TIME

6. Is your position: ❑ PAID ❑ VOLUNTEER

7. Are you: ❑ FEMALE ❑ MALE

8. How many full-time paid employees (35 hours or more per week), other than yourself, work for the organization? _____

9. How many part-time paid employees (less than 35 hours per week), not including yourself, work for the bureau? _____

10. How many volunteers regularly work in your office (5 hours or more per week)? _____

11. Please circle the number that represents the highest level of education you have completed:

1 2 3 4 5 6 7 8	9 10 11 12	13 14 15 16	17 18 19 20
(Grade School)	(High School)	(College)	(Graduate School)

11 a. If college, what was your major? _____

Section Two: Information About the Board of Directors and Governance

12. What year was this bureau or assessment district established?_____

13. Which of the following best describes your organization? (Check one)
    - ❑ An agency of county government
    - ❑ A division or department within a Chamber of Commerce
    - ❑ An independent non-profit corporation

14. How many persons serve on the board of directors of the organization? _____

    14 a. How many of the representatives on the board of directors are:

    Directors_____
    Ex-Officio Members (voting) _____
    Ex-Officio Members (non-voting) _____

15. What is the term length of individual board members? _____ years

Note: For purposes of this questionnaire, a transient lodging facility is any business that provides lodging or sleeping quarters to transient guests, and that collects taxes or assessments on behalf of the bureau or assessment district.

16. Please provide the following information for each board member that is a representative of a transient lodging facility. In the spaces labeled "TYPE OF PROPERTY" please indicate whether the property each board member represents would be classified as: 1) an Independent Hotel/Motel property; 2) a Chain/Franchise Hotel/Motel property; 3) Condominium units; 4) a B&B or Inn; 5) Cottage units or; 6) Other. In the space labeled "NUMBER OF ROOMS" please write in the number of rentable guest rooms/units in each of the properties represented on the board.

	TYPE OF PROPERTY (CHECK ONE)		NUMBER OF ROOMS/UNITS
BOARD MEMBER #1	❑ Independent Hotel/Motel ❑ Condominium ❑ Cottage	❑ Chain/Franchise Hotel/Motel ❑ B&B or Inn ❑ Other	_____
BOARD MEMBER #2	❑ Independent Hotel/Motel ❑ Condominium ❑ Cottage	❑ Chain/Franchise Hotel/Motel ❑ B&B or Inn ❑ Other	_____
BOARD MEMBER #3	❑ Independent Hotel/Motel ❑ Condominium ❑ Cottage	❑ Chain/Franchise Hotel/Motel ❑ B&B or Inn ❑ Other	_____
BOARD MEMBER #4	❑ Independent Hotel/Motel ❑ Condominium ❑ Cottage	❑ Chain/Franchise Hotel/Motel ❑ B&B or Inn ❑ Other	_____

Continued on Next Page ---------->

Question 16 continued

	TYPE OF PROPERTY (CHECK ONE)		NUMBER OF ROOMS/UNITS
BOARD MEMBER #5	❑ Independent Hotel/Motel ❑ Condominium ❑ Cottage	❑ Chain/Franchise Hotel/Motel ❑ B&B or Inn ❑ Other	_____
BOARD MEMBER #6	❑ Independent Hotel/Motel ❑ Condominium ❑ Cottage	❑ Chain/Franchise Hotel/Motel ❑ B&B or Inn ❑ Other	_____
BOARD MEMBER #7	❑ Independent Hotel/Motel ❑ Condominium ❑ Cottage	❑ Chain/Franchise Hotel/Motel ❑ B&B or Inn ❑ Other	_____
BOARD MEMBER #8	❑ Independent Hotel/Motel ❑ Condominium ❑ Cottage	❑ Chain/Franchise Hotel/Motel ❑ B&B or Inn ❑ Other	_____
BOARD MEMBER #9	❑ Independent Hotel/Motel ❑ Condominium ❑ Cottage	❑ Chain/Franchise Hotel/Motel ❑ B&B or Inn ❑ Other	_____
BOARD MEMBER#10	❑ Independent Hotel/Motel ❑ Condominium ❑ Cottage	❑ Chain/Franchise Hotel/Motel ❑ B&B or Inn ❑ Other	_____
BOARD MEMBER#11	❑ Independent Hotel/Motel ❑ Condominium ❑ Cottage	❑ Chain/Franchise Hotel/Motel ❑ B&B or Inn ❑ Other	_____
BOARD MEMBER#12	❑ Independent Hotel/Motel ❑ Condominium ❑ Cottage	❑ Chain/Franchise Hotel/Motel ❑ B&B or Inn ❑ Other	_____
BOARD MEMBER#13	❑ Independent Hotel/Motel ❑ Condominium ❑ Cottage	❑ Chain/Franchise Hotel/Motel ❑ B&B or Inn ❑ Other	_____

17. The purpose of this question is to identify the affiliation of board members who do not represent transient lodging facilities. Please describe the type of business or organization represented by each board member who is not affiliated with the lodging industry. If none, please enter "NA".

BOARD MEMBER #14 _____ BOARD MEMBER #15 _____

BOARD MEMBER #16 _____ BOARD MEMBER #17 _____

BOARD MEMBER #18 _____ BOARD MEMBER #19 _____

BOARD MEMBER #20 _____ BOARD MEMBER #21 _____

BOARD MEMBER #21 _____ BOARD MEMBER #22 _____

18. Please list the counties, townships, and/or cities that comprise the bureau or assessment district.

_____

_____

_____

_____

Section Three: Information About Room Assessment/Tax Collections and Budget

19. Does your organization currently fund operations by collecting an assessment or room tax?

❑ YES ❑ NO (IF "NO" PLEASE GO TO QUESTION NUMBER 26)

----------> 19 a. What year was the assessment/tax implemented?_____

19 b. Which of the Michigan Public Acts allows the bureau to collect this assessment/tax?

❑ PUBLIC ACT 263

❑ PUBLIC ACT 59
(AND THE AMENDMENTS RELATED TO P.A. 395)

❑ PUBLIC ACT 383

19 c. What is the assessment or tax rate? _____%

20. How many transient lodging properties are represented by your bureau or assessment district? _____ Properties

21. What are the total number of transient rooms represented by your bureau or assessment district? _____ Rooms.

If you do not monitor exact numbers please provide estimates.

21 a. Please allocate the total rooms in Question 21, to the types of properties listed below:

_____HOTEL/MOTEL/LODGE ROOMS
_____BED AND BREAKFAST/INN ROOMS
_____CONDOMINIUM AND TIME SHARE UNITS
_____COTTAGE UNITS
_____OTHER, PLEASE DESCRIBE_____

_____TOTAL

21 b. Of the total rooms in Question 21, how many are in properties that are independently owned and operated? _____ Rooms

21 c. Of the total rooms in Question 21, how many are in properties that are part of a national chain or franchise? _____ Rooms

22. For the 1990-91 fiscal year what was the total number of transient rooms represented by your bureau or assessment district ? _____ Rooms.

22 a. Please allocate the total rooms in Question 22 to the types of properties listed below:

_____HOTEL/MOTEL/LODGE ROOMS
_____BED AND BREAKFAST/INN ROOMS
_____CONDOMINIUM AND TIME SHARE UNITS
_____COTTAGE UNITS
_____OTHER, PLEASE DESCRIBE_____

_____ TOTAL

If you do not monitor the exact number of rooms please provide estimates. If the bureau or assessment district was not in operation during the 1990-91 fiscal year, please enter "NA" in the space provided.

23. The purpose of this question is to collect information about revenue sources for the bureau. Please provide the dollar amounts for each revenue source for each fiscal year. If the bureau was not in operation in a given year or did not receive revenue from one of the sources listed, please enter "NA" in the space provided.

	Fiscal Years	
	1990-91	1994-95
TAX/ASSESSMENT COLLECTIONS	$_____	$_____
MEMBERSHIPS	$_____	$_____
COUNTY FUNDS	$_____	$_____
CITY FUNDS	$_____	$_____
OTHER REVENUES	$_____	$_____
TOTAL BUDGET	$_____	$_____

Reminder: All of this information will be kept in the strictest confidence and will be reported with data collected from other bureaus/districts.

24. The purpose of this question is to collect information about general expenditures of the bureau. Please enter the dollar amount spent in each category for each fiscal year. If you are not certain of the specific amounts, please provide your best estimate. If the bureau was not in operation in a given year or did not spend in one of the categories listed, please enter "NA" in the space provided.

	Fiscal Years	
	1990-91	1994-95
OPERATING/OVERHEAD EXPENSES	$_____	$_____
PERSONNEL EXPENSES & SALARIES	$_____	$_____
DIRECT PROMOTIONAL EXPENSES	$_____	$_____
TOTAL EXPENSES	$_____	$_____

Section Four: Attitudes and Recommendations

25. Listed below are a series of statements that represent possible attitudes that the executive directors or presidents of convention bureaus or assessment districts might have about the governance and management of their organizations. Please circle the number that indicates the extent to which you agree or disagree with each statement.

1 Strongly Disagree	2 Disagree	3 Neither Agree Nor Disagree	4 Agree	5 Strongly Agree

A.	The promotional program provided by this organization should benefit the local transient lodging facilities the most since they are the ones collecting the taxes and assessments.	1	2	3	4	5
B.	Because they pay more in taxes/assessments, the larger transient lodging properties in this bureau/district are subsidizing the promotion of the smaller properties.	1	2	3	4	5
C.	The larger properties in this bureau/district are more likely to be late with their assessment/tax payments.	1	2	3	4	5
D.	The transient lodging properties in this bureau/district are subsidizing the promotion of other businesses such as restaurants and retailers that benefit from tourism activity.	1	2	3	4	5
E.	The smaller properties in this bureau/district are more likely to be late with their assessment/tax payments.	1	2	3	4	5
F.	The locally owned businesses are more committed members of the bureau/district than are businesses owned by persons who live out of town.	1	2	3	4	5
G.	When conflicts arise in the organization they tend to be about the effectiveness of a particular promotional campaign.	1	2	3	4	5
H.	This bureau/district cooperates with other bureaus to promote tourism in the larger region.	1	2	3	4	5

Section Four Continued on next page -------->

1 Strongly Disagree	2 Disagree	3 Neither Agree Nor Disagree	4 Agree	5 Strongly Agree

I.	The properies that are independently owned and operated are more committed members of the bureau/district than are properties that are part of a chain/franchise.	1	2	3	4	5
J.	When conflicts arise in the organization they tend to be about how the tax/assessment monies are spent.	1	2	3	4	5
K.	The board will not let me cooperate with other bureaus to promote tourism in the larger region.	1	2	3	4	5

26. In your opinion, what will be the biggest threat/challenge to the stability and viability of your organization in the next five years?

_____

_____

_____

_____

27. As a land grant university, Michigan State University seeks to provide continuing education opportunities for people in the State of Michigan. The MSU Department of Park, Recreation, and Tourism Resources and the Travel, Tourism, and Recreation Resource Center need your help identifying the training and continuing education needs of tourism and hospitality professionals in the State. In the spaces below please provide suggestions for specific training or education programs that you and your staff would find useful.

Suggested training programs for myself and other CVB directors:

_____

_____

_____

_____

Continued on next page ---------->>

Suggested training programs for my staff:

_____

_____

_____

_____

Thank you very much for taking the time to complete this questionnaire! Please return your completed questionnaire in the self-addressed, stamped envelope provided. If you misplaced this envelope, please send the questionnaire to:

Jim Myers
TTRRC
172 Natural Resources Bldg.
East Lansing, MI 48824-1222

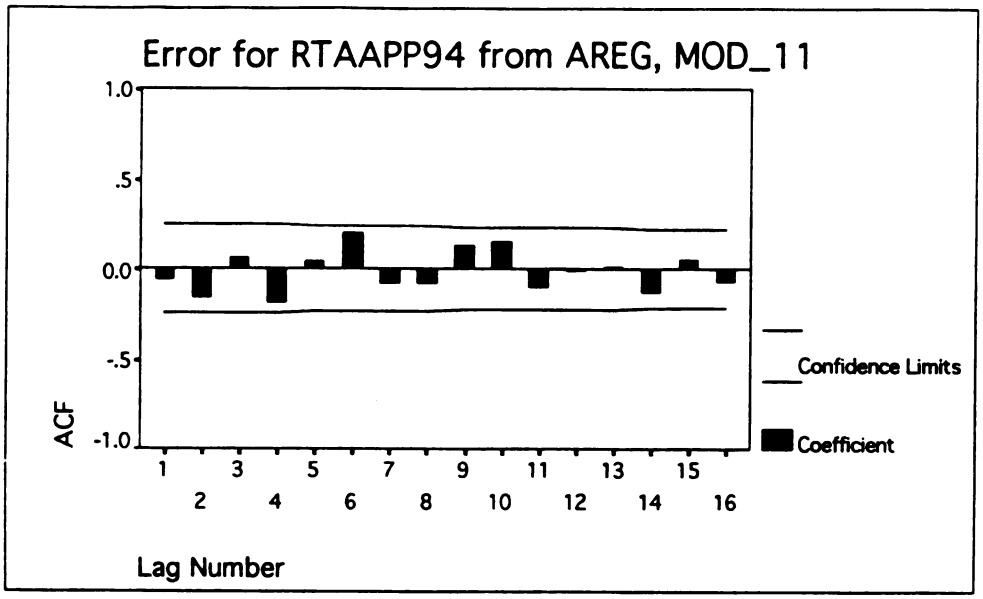
Appendix C

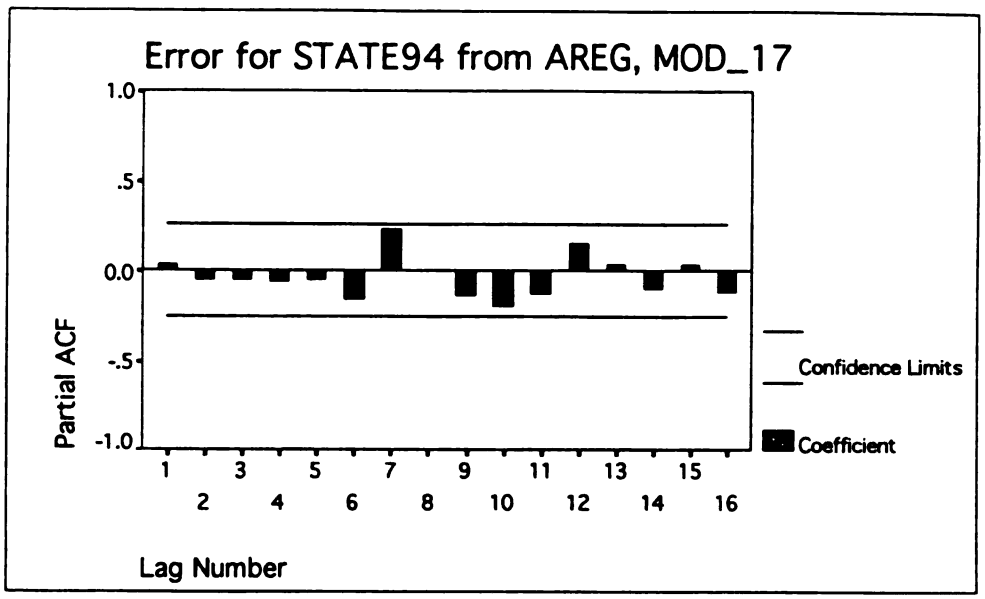
Appropriation Data Sets

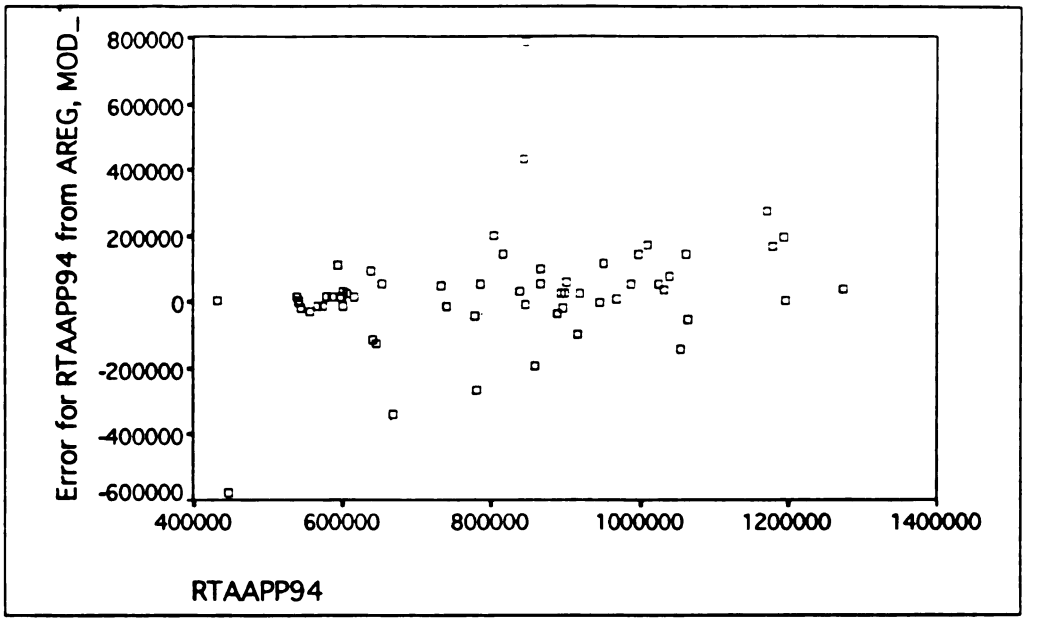
Appropriations to Regional Tourist Associations						
Year	Total State Appropriation	Total To Assoc	To Each Assoc	Convention Grants	Admin Brd/Tourist Cncl/Travel Com.	Agriculture
1929	100000	100000	25000			
1930	100000	100000	25000			
1931	100000	100000	25000			
1932	100000	100000	25000			
1933	100000	40000	10000			
1934	100000	40000	10000			
1935	100000	80000	20000		20000	
1936	100000	80000	20000		20000	
1937	150000	100000	25000		25000	
1938	150000	100000	25000		25000	
1939	125000	100000	25000		5000	20000
1940	125000	100000	25000		5000	20000
1941	162500	120000	30000		10000	32500
1942	162500	120000	30000		10000	32500
1943	155000	80000	20000		25000	50000
1944	130000	80000	20000			
1945	100000	100000	25000			
1946	100000	100000	25000			
1947	250,000	100000	25000		150,000	
1948	250,000	100000	25000		150,000	
1949	250,000	100000	25000		150,000	
1950	225,000	100000	25000			
1951	270000	100000	25000		170000	
1952	295658	100000	25000		195658	
1953	326150	100000	25000		226150	
1954	330261	100000	25000		230261	
1955	384525	100000	25000		284525	
1956	444768	120000	30000		324768	
1957	424190	120000	30000		304190	
1958	416000	120000	30000		296000	
1959	422191	120000	30000		302191	
1960	422195	120000	30000		302195	
1961	420871	120000	30000		300871	
1962	545439	120000	30000		425439	
1963	548360	120000	30000		428360	
1964	691096	140000	35000		551096	
1965	859904	160000	40000		699904	
1966	927431	176000	44000		751431	
1967	974128	200000	50000		774128	
1968	1054563	240000	60000		814563	
1969	1057537	240000	60000		817537	
1970	1110263	240000	60000		870263	
1971	1154640	250000	62500		904640	
1972	1215004	260000	65000		955004	
1973	1398824	360000	90000		1038824	
1974	1847700	360000	90000		1487700	
1975	1934550	360000	90000		1574550	
1976	2438250	360000	90000	250000	1828250	
1977	3185829	500000	125000	430000	2255829	
1978	3601019	540000	135000	470000	2591019	
1979	4484400	640000	160000	570000	3274400	
1980	3597500	445400	111350	411800	2740300	
1981	5374900	620000	155000	580000	4174900	
1982	4562100	599300	149825	560700	3402100	
1983	4802300	629300	157325	616800	3556200	
1984	5224900	630800	157700	618400	3975700	
1985	7195900	630800	157700	618400	5946700	
1986	7323600	630800	157700	618400	6074400	
1987	5889600	630800	157700	618400	4640400	
1988	6294300	626100	156525	613800	5054400	
1989	6499000	540800	135200	613800	5344400	
1990	5020900	527300	131825	523100	3970500	
1991	6333600				6333600	
1992	6727200				6727200	
1993	9032200				9032200	
1994	9041300				9041300	

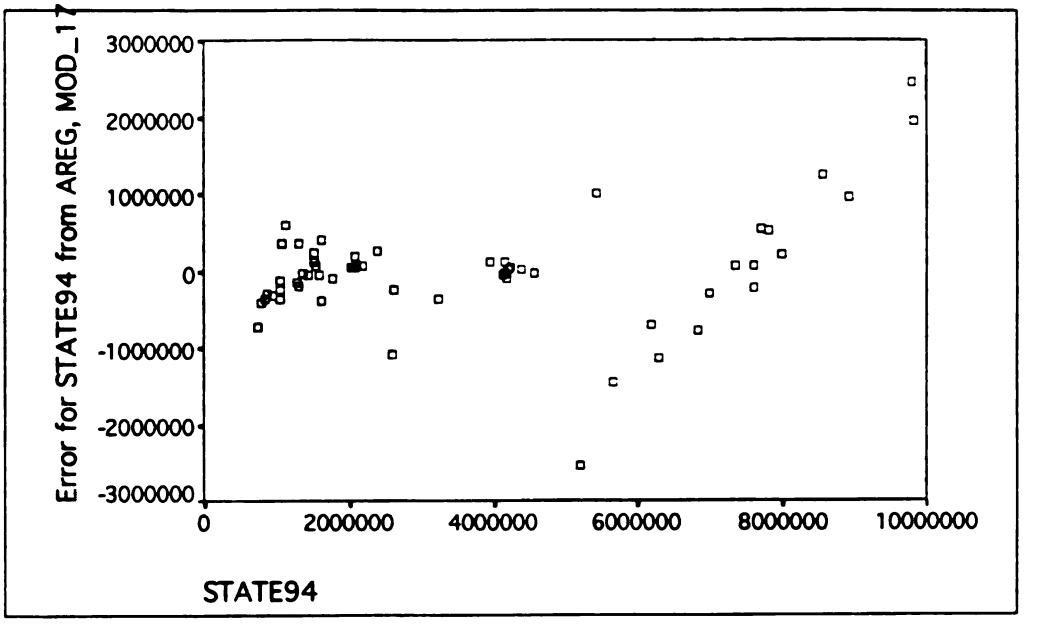
Appendix D

Error Autocorrelation & Residual Plots


Error for RTAAPP94 from AREG, MOD_11
1.0
.5
0.0
-.5
-1.0
ACF
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16
Lag Number
Confidence Limits
Coefficient


Error for STATE94 from AREG, MOD_17
1.0
.5
0.0
-.5
-1.0
Partial ACF
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16
Lag Number
Confidence Limits
Coefficient


Error for RTAAPP94 from AREG, MOD_
800000
600000
400000
200000
0
-200000
-400000
-600000
400000
600000
800000
1000000
1200000
1400000
RTAAPP94


Error for STATE94 from AREG, MOD_17
3000000
2000000
1000000
0
-1000000
-2000000
-3000000
0
2000000
4000000
6000000
8000000
10000000
STATE94

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