

LESSONS FROM THE JUNKET BUSINESS IN ATLANTIC CITY AND IN MACAO

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ABSTRACT

Although junket operators can help casino operators secure business from premium patrons, there has been limited study of this topic in the academic literature. Recent junket business developments in Atlantic City (the most strictly regulated jurisdiction in the US), and in Macao (the world's largest gambling market) have led to new insights and understandings of the junket business, and this paper identifies key lessons learned from these two major casino markets. The qualitative research interview was adopted due to the under-researched nature of the junket business. This study is based on the institutional theory to analyze human interactions and activities in terms of overt or implicit rules involved in the junket business.

A review of the literature and interview findings indicates that junket operators may play a more important role with the economic slowdown, since their business is focused on bringing patrons from strong regional or national economies. This can be achieved by adopting certain location-specific strategies to match changes in the regional market. Diversified product offerings, rather than price reductions, are critical to entice premium patrons in the face of increasing casinos in nearby regions. Despite the economic contribution of the junket business, some junket practices might be perceived as exploitative of patrons. Apart from the appropriate balance between the public policy to minimize social costs and an appropriate regulatory standard, a jurisdiction needs to consider such local contexts as its unique culture and junket operators' intention to promote their interest, in order to better regulate the junket business.

1 INTRODUCTION

Since casinos need junket operators to entice premium patrons to bet large in their casinos, junket operators can play a role to help casinos to secure more business. As casino gaming has proliferated domestically and abroad, the competition for premium patrons has intensified. Although junket operators are crucial in the procurement of premium patrons, they do not necessarily operate the same way in all gaming jurisdictions. In fact, the authors have conducted some studies on the junket business in Las Vegas and in Macao to support this view (Siu Lam and Eadington, 2009; Siu Lam, 2013).

Atlantic City's casino industry, one of the most strictly regulated jurisdictions in the United States, has seen significant expansion over the past thirty years and is experiencing economic difficulties in recent years. Macao, being the world's gaming capital after years of impressive growth from the junket business, is facing consecutive months of gaming revenue decline. While the Atlantic City market may be different from Macao, its history of junket business from a peak-to-trough perspective may provide some valuable lessons for Macao. On the other hand, with its gaming liberalization in 2001, Macao's junket business has become its economic growth engine and attracted the attention of many Asian policymakers (GGB Staff, 2008). Following this, an analysis of the junket business in Atlantic City and in Macao not only would provide some insights for the two jurisdictions, but also for gaming destinations considering the adoption of junkets to fuel their casino growth.

This article describes the junket business in Atlantic City and in Macao. Of the limited number of articles about the junket business, the first author used the institutional theory to explain individual and organizational action (Dacin et al., 2002) to analyze the strategic moves made by VIP-room contractors and junket operators for his earlier article titled "Changes in the junket business in Macao after gaming liberalization". In this article the authors attempted to extend the institutional theory across gaming jurisdictions to compare how the institutions and cultures in Atlantic City and in Macao have affected junket operators in their effort to improve their respective junket business.

Given that systematic and reliable statistics on the junket business are quite limited, the study of junket operators is difficult because their operational information is confidential and of strategic competitive importance. As a result, the authors conducted interviews with experienced junket executives and government officials as a primary data collection tool. While the first author managed to obtain information from interviews with junket operators in Macao from October 2011 to April 2013 for his article mentioned earlier, the other two authors were able to arrange in-depth, semi-structured interviews to better understand the strategic actions made by junket operators in Atlantic City.

The findings grounded in the life experiences of participants studied in both Atlantic City and in Macao were juxtaposed to identify homogeneity of major themes and to note discordance and dissonance. Rather than merging findings in an additive manner, the authors focused on the reasons for discordance and dissonance. This information helped secure new insights and understanding of prior junket business research findings across gaming jurisdictions

This paper will focus on how institutions and culture affect business strategies made by junket operators in Atlantic City and in Macao. The context of the junket business in Atlantic City and in Macao is then reviewed in the second section. The literature on institutional theory is then presented in the third section. In the fourth section, the methodology of the study is detailed. The fifth section contains analysis of descriptive findings, followed by a discussion in the sixth section. The final section presents conclusion of this article.

2 CONTEXT OF CASINO GAMING IN ATLANTIC CITY

By the early 1970s, tourist visits were declining, convention business was decreasing, and hotels and motels were closing in Atlantic City (AC). By 1975, AC had become one of the more economically distressed cities in the United States. Casino gambling, seen as a remedy for the city's desperate situation, was approved in a statewide ballot in November 1976, and legalized in New Jersey by the strict Casino Control Act of 1977 (Braunlich, 1996). The Act created an independent regulatory agency, the Casino Control Commission (CCC), responsible for oversight of the casino industry, and the collection of license fees and taxes. Another agency, the Division of Gaming Enforcement (DGE), is responsible for investigating license applicants and recommending or opposing licensure to the CCC (Cohen, 1982). According to Cohen (1982), the Casino Control Act required casinos to have numerous operational practices, including policies dealing with entertainment, floor space utilization, and casino's issuance of complimentary (Eadington, 1984), and is the strictest gaming statute in the USA (Bontempo, 2015). Since then, the Casino Control Act has been amended numerous times and the DGE has become the more significant regulatory agency, possessing a greater amount of responsibility and authority.

Unlike other US gaming jurisdictions, where casinos are permitted in a variety of locations within each state, New Jersey is the only state in the country limiting casinos to one municipality: Atlantic City. With a land area of 44.13 km² and population of about 39,558 (Atlantic City, New Jersey, n.d.), AC had twelve casino hotels with gross gaming revenue⁽¹⁾ (GGR) of US\$3.8 billion in 1996. Although casino GGR gradually increased through 2006 and started to decline through 2013 as illustrated in Table 1, its GGR was ranked second, only after Las Vegas in the US casino market in 2013 (American Gaming Association, 2013). The relative contribution to revenue

from table games and slot machines has remained constant, with revenue from table games and slot machines contributing about 30% and 70% respectively. Of all the table games, blackjack and craps are the most popular (Division of Gaming Enforcement, 2014).

Table 1 Casino gross gaming revenue and sources in New Jersey

Year	Gross gaming revenue in thousand USD	Percent from table games	Percent from slot machines
2013	2,862,068	27.9	72.1
2012	3,050,701	28.2	71.8
2011	3,315,939	29.4	70.6
2010	3,564,330	30.5	69.5
2009	3,943,171	31.0	69.0
2008	4,544,961	31.1	68.9
2007	4,920,787	29.6	70.4
2006	5,217,714	27.1	72.9
2005	5,018,275	26.8	73.2
2004	4,806,799	26.0	74.0
2003	4,488,335	25.9	74.1
2002	4,381,579	25.6	74.4
2001	4,303,078	27.0	73.0
2000	4,300,948	28.2	71.8
1999	4,164,197	29.0	71.0
1998	4,033,012	29.9	70.1
1997	3,906,139	30.4	69.6
1996	3,813,653	31.1	68.9

Source: Casino revenue from State of New Jersey Division of Gaming Enforcement

During 2014, four casino hotels closed, leaving eight casino hotels with about three-quarters of the industry's employment (Gordon, 2014). The eight casino hotels do not have strong appeal to tourists other than casino gambling (Mikle, 2013). A look at Table 2 indicates that AC's revenue from the non-gaming sector, including room, food and beverages, and entertainment shows, has contributed to about 30% of the industry's revenue. In contrast to the non-gaming sector contribution of 55% in Las Vegas (Nevada Gaming Control Board, 2013), AC is a less diversified tourist destination.

3 COMPLIMENTARY PACKAGE IN ATLANTIC CITY

Being a less diversified tourist destination, casinos in AC have a common practice to give away free goods such as rooms, food and beverages, travel reimbursements, or gifts, with the hope of boosting gaming revenues (Hill, 2008). These complimentary packages can be perceived as a discount on the price of the total trip budget to bind patrons to the gaming area of the compliment-offering casinos for a great duration of time (Lucas and Santos,

2003). According to Lee and Jang (2014), casinos in AC spent approximately 37% of their revenues on compliment-based promotional expenditures.

Table 2 Distribution of gaming and non-gaming revenue in Atlantic City

Year	Gaming revenue (%)	Non-gaming revenue (%)	Total revenue in thousand USD
2013	70	30	4,069,492
2012	70	30	4,306,858
2011	73	27	4,531,010
2010	74	26	4,802,275
2009	76	24	5,171,287
2008	77	23	5,841,145

Source: New Jersey Division of Gaming Enforcement

Although there is some variation among the casinos in AC, Lee and Jang (2014) indicated that rooms, and food and beverages were the most heavily used and accounted for roughly 47% of total promotional expenditures during the period under study. The second most used compliment was gaming credit and cash gifts. These two categories encouraged patrons to stay in specific casinos and were responsible for some 83% of the total promotional expenditures. This implies that casinos in AC have been primarily relying on complimentary packages and reduced prices to attract patrons.

4 MARKET PROFILE AND VISITATION PATTERNS IN ATLANTIC CITY

Founded as a dense, pedestrian-oriented resort close to the beach, AC has relied upon Philadelphia, Maryland and New York for visitors. The emergence of casinos in New York since January 2004, in Pennsylvania since October 2007, and in Maryland since September 2010 (New York Gaming Association; Bryant and Walker (2010); Maryland Gaming) has posed serious challenges to casinos in AC and led to substantial changes in its competitive environment. A look at Table 3 indicates that the total number of visitors to AC decreased rapidly from 2008 through 2013 to about 26 million. Casino-sponsored buses with patrons from such major markets as New York, Pennsylvania and Maryland, dropped to 2,040 thousand from 10,011 thousand visitors in 1996 (Turner and Renner, 1995). On the other hand, while visitors by air and rail showed some signs of contraction, visitors by automobile continued to total more than 23 million. All these indicate that AC has shifted to a primarily drive-to destination for people from neighbouring regions.

Moreover, Wittkowski (2010) indicated that visitors to AC tended to stay 15 hours, and were primarily day-trippers. A report by Spectrum Gaming Group titled “Atlantic City Visitor Profile 2008” reports that gambling was

the primary trip purpose for 80% of visitors to the city, leaving dining and walking on the Boardwalk as the other two favourite activities.

Table 3 Annual visitors to Atlantic City by travel mode (in thousands)

Year	Automobile	Casino Bus	NJ Transit Bus	Air	Rail	Total
2013	23,370	2,040	410	232	185	26,237
2012	23,807	2,491	461	274	194	27,227
2011	24,293	3,223	449	282	205	28,452
2010	24,678	3,709	456	292	194	29,329
2008	25,903	4,910	505	250	245	31,813
2006	27,545	6,041	526	260	162	34,534
2004	25,732	6,573	516	261	148	33,230
2002	24,676	7,586	514	268	143	33,188
2000	23,177	9,015	536	323	133	33,184
1998	23,293	9,903	530	447	127	34,300
1996	23,023	10,011	515	395	98	34,042
1994	21,803	8,352	518	433	215	31,321

Source: South Jersey Transportation Authority, 2013

5 HISTORICAL DEVELOPMENT OF JUNKET BUSINESS IN ATLANTIC CITY

When casino gambling was legalized in AC in 1978, independent agents in Nevada, who worked as intermediaries between a casino's marketing department and premium patrons arranging accommodation and entertainment, saw the economic opportunity of bringing premium patrons from non-casino gaming cities in the south, as far as Texas, to AC (personal communication, June 15, 2014). Joined by casino staff experienced in the development of premium patrons, these independent agents arranged junkets to licensed casinos, and are known as independent junket representatives (junket reps) in New Jersey (personal communication, May 30, 2014).

Junket reps in AC are not employed by the casino; they are independent contractors who receive compensation from casinos for organizing junkets (Sawyer and Collins, 2000). In the 1980s, since there was far more demand for casinos than supply, AC junket reps were commissioned by quantity, i.e., they were paid a flat fee for the number of patrons arriving on casino buses. Given that patrons were primarily slot machine players, as evidenced by about 70% of contribution to casino gaming revenue, a flat-fee system encouraged junket reps to pursue volume (Makens and Bowen, 1994). Later, some casinos in AC started to commission junket reps by a certain percentage out of a patron's "theoretical" value⁽²⁾. A patron's theoretical value is the gaming revenue a casino ought to win from a patron over time based on statistical probability. Based upon this, a table patron's theoretical value is calculated based on a combination of the patron's average bet, the length of play, and

speed of the game, while a slot patron’s theoretical value is based on the denomination and the amount of coins circulated through the slot machines (Makens and Bowen, 1994).

Junket reps in AC are licensed to the standards established for casino employees. Some junket reps have formed junket enterprises offering the service of a junket rep to licensed casinos in AC. These junket enterprises are required to meet the standards established for casino key employees in order to be licensed (New Jersey Control Act and Commission Regulations, 2014). In New Jersey, junket enterprises are identified as ancillary casino service industries pursuant to New Jersey Statutes Annotated (N.J.S.A., 5:12-102c) effective from August 2012. Table 4 indicates that the number of licensed junket enterprises is on the decline.

Table 4 Number of junket enterprises in Atlantic City

Year	Initial Licensees	Renewal Licensees	Total
2013	4	5	9
2012	8	10	18
2011	2	0	2
2010	10	3	13
2009	14	29	43
2008	19	39	58
2007	17	40	57
2006	17	38	55
2005	19	45	64
2004	19	47	66
2003	24	50	74
2002	30	51	81
2001	38	52	90
2000	50	51	101

Source: Annual Reports (Casino Control Commission, State of New Jersey, and New Jersey Division of Gaming Enforcement)

Under the Casino Control Act, junket reps in AC are to identify patrons to receive complimentary based on their actual play, authorize such complimentary and determine the amount of such complimentary. These junket reps are neither allowed to offer gaming credit, nor to collect upon checks returned by banks. Such reps are required to prepare reports giving the list of participants, arrival and departure details, and the actual amount of complimentary services. Moreover, the stringent Casino Control Act stipulates that no single transaction in an amount of US\$10,000 is permitted to redeem for cash or exchange chips or markers during a gaming day.

6 CONTEXT OF JUNKET BUSINESS IN MACAO

Macao, situated on the humid Pearl River Delta, was the first European settlement on the China coast under the Portuguese administration for almost 450 years (Porter, 1993), and Macao has operated as a free-trade port since then. When Macao was under the Portuguese administration in the 19th century, the Macao-Portuguese government had chosen to adopt an incomplete and ambiguous regulatory system to manage the economy (Siu Lam, in press). With the popularity of gambling in Macao among the working class, including construction workers, domestic helpers, and harbour coolies, the Macao-Portuguese government granted the gambling monopoly rights to the Tai Xing Company in 1934, and to the syndicate the Sociedade de Turismo e Diversões de Macau (STDM) in 1962 (Lo, 2009). In 1984 STDM informally outsourced some of its private VIP-rooms to certain third parties who had social networks to entice high-betting gamblers to its casino premises. This was how a junket of premium patrons was organized by these third parties to Macao. At that time, most premium patrons were from Hong Kong and Taiwan. Since these patrons wanted to remain anonymous and keep a low profile in Macao, they preferred to go to private VIP-rooms with just a few tables where they could primarily play baccarat (Siu Lam, 2013).

To qualify for sharing in the gross gaming revenues derived from bringing patrons into VIP-rooms, VIP-room contractors, and junket operators who worked for them under informal contracts, would enter into agreements with STDM where compensation would be determined as a percentage of the turnover of non-negotiable chips⁽³⁾ computed on a monthly basis, from the concessionaire. At that time STDM was legally prohibited from issuing credits to patrons, so VIP-room contractors and junket operators were the only issuers of gaming credit in Macao. After Macao’s handover to the People’s Republic of China (PRC), its gaming liberalization introduced six gaming franchisees from Macao, Nevada and Australia respectively, as demonstrated in Table 5. Since the junket business could ensure significant amounts of gaming revenues, the VIP segment has been the focus of these gaming franchisees (Siu Lam, 2013).

Table 5 Gaming franchisees in Macao

Local Franchisees	Foreign Franchisees	
	Nevada-based	Australia-based
Galaxy Casino	MGM Grand Paradise	Melco Crown (Macao)
Sociedade de Jogos de Macau (SJM)	Venetian Macau	
	Wynn Resorts (Macao)	

7 GAMING ATTRACTIONS IN MACAO

With the outbreak of the SARS (severe acute respiratory syndrome) epidemic in Hong Kong in March 2003, the PRC introduced the free individual traveller scheme in July 2003 to revive the economy of both Hong Kong and Macao (Wang and Eadington, 2007). Following this, the number of visitors from the PRC has contributed to more than 63% of the total number of visitor arrivals in 2013, as shown in Table 6.

Table 6 Visitor arrivals by country of origin in percentage

Country of Origin	2013	2012	2010	2008	2006	2004	2002	2000	1999*
PRC	63.5	60.2	53.0	50.6	54.5	57.2	36.8	24.8	22.1
Hong Kong	23.1	25.2	29.9	30.6	31.6	30.3	44.2	54.1	56.8
Taiwan	3.4	3.8	5.2	5.7	6.5	7.7	13.3	14.3	13.2
Other Southeast Asian Countries	7.5	8.2	9.2	9.7	5.2	2.9	3.4	3.9	4.2
America	1.0	1.1	1.2	1.4	1.0	0.9	1.0	1.2	1.3
Europe	0.9	0.9	1.0	1.2	0.9	0.8	1.0	1.3	1.8
Oceania	0.4	0.5	0.5	0.7	0.4	0.3	0.3	0.4	0.5
Others	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.1
Total number in million	29.3	28.1	25.0	23.0	22.0	16.7	11.5	9.2	7.4

Source: *Visitor arrivals* (DSEC, 1999-2013)

Note.* Figures before 1999 were not available as visitors were then categorized according to their nationality, instead of their country of origin.

Table 7 Distribution of gaming revenue and non-gaming revenue in Macao

Year	Gaming revenue (%)	Non-gaming revenue ⁽¹⁾ (%)	Total in million USD ⁽²⁾
2013	95.7	4.3	40,777
2012	95.6	4.4	34,298
2011	95.7	4.3	29,983

Source: Annual Reports submitted to Hong Kong Stock Exchange by gaming franchisees in Macao

Note: (1) Non-gaming revenue primarily includes revenue from food and beverages, hotel rooms, entertainment and exhibitions. For Galaxy Casino, the revenue from construction material is not considered as non-gaming revenue.

(2) The exchange rate from Hong Kong currency to USD is 7.78 to 1.

Due to its superb border-location, Macao has been able to feed off its dominant outbound tourist markets the PRC and Hong Kong, where casinos are illegal (Siu Lam and Crossley, 2014), and become the world's largest gambling capital. With a land area of about 30.3 km² and a population of more than 600 thousand (DSEC, 2013), Macao is not only one of the densest urban centers in the world (Siu Lam and Crossley, 2014), but also a gambling-dependent city serving about 30 million tourists annually.

Given that all gaming concessionaires in Macao have been listed in Hong Kong since 2011, the data for the distribution of gaming and non-gaming revenue were available from 2011. A look at Table 7 indicates that the non-gaming revenue contributed to less than 5% of the total revenue, leading Macao to a less diversified gaming destination. Despite this, the restaurants and retail outlets offered by 35 casinos are within easy reach in the confined territory, and visitors in Macao were predominantly day-trippers who came to gamble and shop (Siu Lam and Crossley, 2014).

8 CHINESIFICATION OF THE JUNKET BUSINESS IN MACAO

As a result of the abundant business opportunities associated with the enormous number of visitors from the PRC in Macao, some mainland Chinese have been attracted to be junket operators, who could better understand their patrons' needs and more effectively serve them (Siu Lam, 2013). Due to the PRC's restriction on cross-border flow of capital, these mainland Chinese junket operators needed to create political connections for information gathering, and establishing networks with the functional equivalent of banks and financial institutions for capital mobilization. To achieve the mentioned activities, these junket operators always have the incentive to work with reps and their collaborators, who are related by blood or ethnic ties, as their information is likely to be complete and it incurs no additional efforts to monitor their behaviour. In addition, these junket reps and collaborators could also help to lure people from the same and related clans to gamble in their VIP- room (Siu Lam, 2013). Since the registration of junket operators is not effectively enforced, the number of licenses issued to junket operators as demonstrated in Table 8 appears to be fewer than the data from other sources (Leong, 2004; Siu Lam and Eadington, 2009).

Table 8 Number of licenses issued in Macao

Year	Companies	Individuals	Total
2013	203	33	236
2012	248	40	288
2011	218	44	262
2010	177	47	224
2009	171	55	226
2008	160	75	235
2007	147	82	229
2006	81	70	151
2005	39	33	72

Source: Data were compiled from a private source.

Apart from arranging accommodation and recreational activities, these junket operators are expected to assume such “value-added” services as credit arrangement and collection. Since junket operators work on the basis of “no prey, no pay”, and some of them can be tempted to extract as much money out of their patrons as possible (Siu Lam, 2013). As a result, it is not unusual to hear about stories of patrons’ significant gaming losses, which are exploitative based on the weaknesses of patrons, in cafes or restaurants near casino junkets. (Siu Lam and Eadington, 2009).

9 JUNKET COMMISSION IN MACAO

Junket operators in Macao receive commissions based either upon net wins⁽⁴⁾ or on rolling-chip turnover⁽⁵⁾. Local gaming franchisees adopted the traditional net-wins (40-40-20) model for the junket commission base. In this model, the franchisee pays roughly 40% of net wins as tax, roughly 40% to VIP-room contractors, junket operators and reps, and then retains 20% for itself, as demonstrated in Table 9. In 2008, Nevada-based gaming licensees in Macao introduced the rolling-chip turnover model (Siu Lam and Eadington, 2009). The licensee would pay (according to a tiered, volume-based structure) around 1.1% of rolling-chip turnover to junket operators. Concerned with the instability of the high commissions, the Macao Special Administrative Region (MSAR) government announced that the junket commission rate cap be set at 1.25% of rolling-chip sales, with effective from 12 September 2009. With the average win rate of 2.8% on rolling-chip turnover, junket operators receive roughly the same amount of money from either model, as illustrated in Table 9. Since the tax rate of about 40% leaves a modest amount of money to share among casinos, VIP-room contractors, and junket operators, it is the volume of play that delivers the profits for junket operators in Macao after player development costs and other overhead expenses are accounted for.

Table 9 Bases of junket commissions in Macao

Party	Commissions based on net-wins	Commissions based on rolling-chip turnover
Government tax	40%	1.1% (40% of 2.8%)
Commissions		
—junket operators and reps	30%	0.8% (30% of 2.8%)
—VIP-room contractors	10%	0.3% (10% of 2.8%)
Gaming franchisees	20%	0.6% (20% of 2.8%)
Total	100%	2.8%

Source: Siu Lam and Eadington, 2009

10 LITERATURE REVIEW

The previous section indicates the context of gaming and historical development of junket business in AC and Macao. While independent agents

in Nevada identified business opportunities in AC and brought premium patrons there in compliance with the stringent Casino Control Act, junket business in Macao has evolved in an informal and custom-based fashion developed from the social interactions among the gaming franchisee, VIP-room contractors, junket operators and casino patrons (Siu, 2007). A perusal of the literature in the social science indicates that much of human interaction and activity structured is related to the institutional theory, which has risen to prominence as a popular and powerful explanation for both individual and organizational action. It would thus be beneficial to have some knowledge of the institutional theory to analyze the human interactions involved in the junket business, in order to better understand the strategic moves made by these actors to improve their respective positions in different jurisdictions.

11 RELATIONSHIP BETWEEN FORMAL AND INFORMAL INSTITUTIONS

According to North (1994), institutions are “the humanly devised constraints that structure human interaction”, comprising of: (1) formal or written law rules concerning what people and groups can and cannot do such as statutes, bodies of law and constitutions; (2) informal habits, social norms or conventions which affect how people and groups behave, especially with each other.

While formal institutions represent structures of codified and explicit rules and standards that shape interaction among societal members (North, 1990), they promote order and stability by providing authoritative behavioral guidelines (Scott, 1995). Governmental authorities enforce formal institutions by means of such sanctions as fines, imprisonment and execution (Pejovich, 1999).

Informal institutions are enduring systems of shared meanings and collective understandings that reflect a socially constructed reality that shapes cohesion and coordination among individuals in a society (Scott, 2005). Culture is an important reflection of a country’s informal institutions, representing shared values and non-codified standards (North, 1990; Peng et al., 2008), and defining what actions are considered ethical, acceptable, and desirable (Reed, 1996). The enforcement of informal institutions takes place by means of such sanctions as expulsion from the community, or loss of reputation (Pejovich, 1999).

While formal institutions define the “blueprint for behavior” (Scott, 1981:82), informal institutions define the actual behavior of players (Zenger et al., 2001). Although formal institutions are relatively stable once established, they are more malleable in that they are a product of human agency (DiMaggio, 1988). While formal institutions might depend on political processes which entail costly procedures and special interests, informal institutions would depend on social consensus which can be more flexible in some circumstances. This view is consistent with de Soto’s (1989) analysis of

the underground economy in Peru that informal institutions can be efficient to regulate private interactions when the law is not available. Cooter (2000) also contributed to this view by adding that the role of formal institutions can be limited to correcting failures in such a circumstance. Despite this, Cooter (2000) indicated that public enforcement through formal institutions is necessary, although unproductive and uncooperative behaviour can sometimes be prevented by informal institutions prevalent in a particular culture.

12 EVOLUTION OF THE DEFINITION OF CULTURE

Although culture is an important reflection of a country's informal institutions, North (2005: 6) indicated that: "the culture of a society ... that we inherit from the past, shape our present and influence our future". This implies that culture is not fossilized and inert, but is dynamic instead. However, North (2005: 18) indicated that "economies that had evolved a cultural heritage that led them to innovate institutions of impersonal exchange dealt successfully with this fundamental novelty. Those with no such heritage failed". This notion of cultural heritage has the dangers of turning culture into a "catch-all" explanation for the differences between societies that cannot be explained otherwise (see Goldschmidt and Remmele, 2005; Herrmann-Pillath, 2006). Owing to the diversity of meaning assigned by economists and social science scientists, studies which rely on it are often discredited (El Karouni, 2007). Based upon this, a brief look at the evolution of the definition of culture in the neighbouring disciplines can help pave the foundation for our understanding of its change in focus, if any.

According to Bourdieu (1972), culture refers to the complex of meanings, symbols, and assumptions about what is good or bad, legitimate or illegitimate that underlie the prevailing practices and norms in a society. This static concept was substituted with a more flexible understanding of culture as a "system of symbols and meanings" as Geertz (1973: 89) indicated that "[culture] is a historically transmitted pattern of meanings embodied in symbols, a system of inherited conceptions expressed in symbolic forms by means of which men communicate, perpetuate, and develop their knowledge about and attitudes towards life". Later, some social scientists including Swidler (1986: 273) challenged the "system of symbols and meanings" concept of culture by insisting that "culture is a sphere of practical activity shot through by willful action, power relations, struggle, contradiction, and change". According to this concept, culture helps justify and guide the ways that the family, economic, political, or religious systems function. The people involved, including organizational leaders, policy-makers, and individual persons, draw on culture to select actions, evaluate people and events, and explain or justify their actions and evaluations (Kluckhohn, 1951; Hofstede, 1980; Schwartz, 1999). Based upon the above, it appears that the focus of culture shifts away from *what culture is* to *what people do with culture*.

13 CULTURE, INSTITUTIONS AND BELIEF SYSTEMS

Apart from shaping how a country's people view the world (Chui et al., 2002), culture determines how they make sense of events occurring in that world (Witt and Redding, 2009), and helps them interpret the explanations offered by others (Zilber, 2006). Moreover, culture serves as a base for the development of formal institutions by influencing what problems are identified, their perceived importance (Schwartz, 1999), the generation of potential solutions for them (Reed, 1996), the evaluation of such solutions (Zilber, 2006), and the behaviors enacted to implement the solutions (Prasad and Elmes, 2005). Through this process, Inglehart and Baker (2000) indicated that formal institutions reflect, embody, and reinforce the country's culture across the population. Specifically, Greif (1994) and Hofstede (1980) pointed that culture, as a basis of formal institutions, leads to stable and systematic differences across countries. This view is consistent with North (1990: vii) that "[h]istory matters. It matters not just because we can learn from the past, but because the present and the future are connected to the past by the continuity of a society's institutions".

According to North (2005: 27), "belief systems provide a means of reducing the divergent mental modes that people in a society possess and constitutes the means for the intergenerational transfer of unifying perceptions". Consistent with this, Denzau and North (1994) indicated that the resulting "prevailing belief system" prescribes the tracks along which learning takes place in a society. Despite this, North did not provide a theory on the emergence of the "prevailing belief system", and how the ideas come to be shared and thus to create common knowledge. On the other hand, Searle (2005) indicated that individuals structure the sensory perceptions they receive from their social environment by referring to one out of a limited number of competing belief systems, and they will adhere to a restricted number of common competing ways to define the relevant "cultural heritage" of their society.

Given that all institutions are both an outcome of an adaptation to a given (social) environment, and the result of human agency (Hodgson, 2006), the relationship between culture and beliefs is a two-sided one with culture not only influencing beliefs, but culture also being constructed and chosen according to beliefs. Zweynert (2007) indicated that if a reform can emphasize its compatibility with "the" cultural heritage of the importing society and/or by re-inventing the country's historical past in a way that emphasizes the cultural compatibility between domestic traditions and reforms, a sustainable shift in the mainstream belief system is achievable. On the contrary, if the new beliefs fail to take root in the prevalent culture, they will be rejected and this would result in a failure to achieve an institutional change.

14 STRATEGIC ACTION AND INSTITUTIONAL CHANGE

Although cultural compatibility can play a role in institutional changes, institutions may not necessarily rest on practices of passive rule-following by individuals, but on a more active process in which capable players seek to advance their interests. Consistent with this thought, Hall and Thelen (2009) indicated that if an institution fails to serve the interests of the parties concerned, it becomes fragile and susceptible to defection from its rules. Moreover, Hall (2005) indicated that players' calculations about whether an institutional practice serves their interests are complex ones, dependent on a range of considerations.

Since institutions do not define final behaviour, players are generally engaged in a continuous reassessment of their own scope for action and the intentions of those with whom they are interacting to assess the effects of alternative courses of action (Hall and Thelen, 2009). It is not surprising that some capable players may manipulate culture to prefer certain arrangements to "sell" the new or imported ideas and institutions as compatible with the cultural heritage of the importing society. On the other hand, if these players are reluctant to change, they may constrain reforms by "selling" the idea that these new ideas and institutions as incompatible with the prevailing culture (Licht et al., 2001).

Given that the institutional change is an open process, Culpepper (2005) argued that the process of changing informal rules is a collective discussion among social players. Eggertsson (2001) specifically indicated that the higher the players are placed in the social hierarchy, the more powerful they are to control the social institutions. Following this, when the players see influential central players begin deserting the status quo, these lower-level players would look for cues from other players about their beliefs concerning the world. Based upon this, by interacting with players assumed to share the same beliefs and to be guided by a similar set of motivational goals, these capable players may make the deliberate choice to adhere to "the" reform that is in their interest unless and until an exogenous shock upsets the equilibrium.

The above indicates that there is nothing automatic, self-perpetuating, or self-reinforcing about institutional arrangements. In fact, Mahoney and Thelen (2010) indicated that a dynamic component is built in, where institutions represent compromises. Based upon this, the outcome of the acceptance of "the" institution is not solely a matter of chance, apart from the culture and belief, it is largely an outcome of political clashes between players pursuing their interests (Sewell, 1999). Furthermore, the process of institutional change can be vibrant as the players attempt to gain the best "deal" for themselves (Fine, 2001).

15 METHODOLOGY

In order to study what lessons can be learnt from the junket business in AC and in Macao, the authors chose a qualitative research approach since the systematic and reliable statistics of the junket business are quite limited. In order to get a better understanding of the junket business, the authors decided to conduct in-depth semi-structured interviews to “discover the meanings that participants attach to their behaviour, how they interpret situations, and what their perspectives are on particular issues” (Woods, 2006: 2), and such a method is particularly suited to under-researched areas of investigation (Finn et al., 2000).

Based upon the interview findings collected from seven participants over eighteen months in 2012/13 for his earlier journal article titled “Changes in the junket business in Macao after gaming liberalization”, the first author secured substantial data on the junket business in Macao.

On the other hand, the second and third authors stationed in New Jersey managed to get a list on active vendors for January 26, 2014 from the Division of Gaming Enforcement in New Jersey. There were altogether 17,363 enterprises providing ancillary casino service on the list, and by searching for the word “junket”, the authors had found ten enterprises with the word “junket” in their names. These authors made telephone contacts with these ten enterprises asking for interviews, and four of them rejected. Based upon the remaining six enterprises and their recommendations, these authors managed to interview nine executives with more than ten years’ experience in the junket business over six months since March 2014. To have a better knowledge of the junket business from the regulatory perspective, these authors tried to interview experienced government officials from both the Casino Control Commission and the Division of Gaming Enforcement in New Jersey. To avoid embarrassing the source or jeopardizing the source’s job for expressing their own personal opinions, these authors adopted the same approach as the first author by contacting experienced middle-level government officials through their friends, rather than submitting a formal request with the two organizations. Seven experienced middle-level government officials were contacted from April 2014 to July 2014 and three ultimately agreed to be interviewed.

The perspectives in this study came from nine junket executives and three government officials, gathered over a period of six months. Table 10 summarizes the profiles of these twelve interviewees. Given that the sample size of qualitative inquiry is determined by data saturation, and whether new information is discovered on the study phenomenon, these interviews were found to be sufficient to express some major perspectives on the junket business in AC. Since the perspectives from these junket executives and government officials did not attempt to represent all possible perspectives, the findings should allow readers to make their own judgments as to whether the findings can apply to other situations with which they are familiar.

Table 10 Profile of the interviewees

No.	Occupation	Gender	Age range	Working experience in the junket business	Educational attainments
1	Junket executive	Female	30 to <40	15 years	High School
2	Junket executive	Male	40 to <50	15 years	High School
3	Junket executive	Female	≥50	20 years	Bachelor
4	Junket executive	Male	40 to <50	15 years	Bachelor
5	Junket executive	Female	40 to <50	12 years	High School
6	Junket executive	Male	40 to <50	18 years	High School
7	Junket executive	Male	40 to <50	15 years	High School
8	Junket executive	Male	40 to <50	15 years	High School
9	Junket executive	Male	≥50	20 years	High School
10	Government official	Male	30 to <40	15 years	Bachelor
11	Government official	Male	40 to <50	18 years	Master
12	Government official	Female	40 to <50	15 years	Master

It was made clear to the interviewees that the principles of anonymity and confidentiality would be observed at all times. All interviews are referred to by number to protect the confidentiality of the sources. Interviews were conducted in English in a private location, such as a restaurant near the respondent's workplace or apartment. Conversations were tape-recorded with the respondents' permission. The interviews lasted from ninety minutes to approximately one hundred and twenty minutes. The same pre-set, open-ended questions raised by the first author in his interviews in Macao, which had been reviewed by two professors at the University of Western Australia, were directed at respondents in AC. The second and third authors had not asked questions on gaming credits and increased interactions with the mainland Chinese as these were not particularly related to the junket business in AC. The interview questions used in AC are shown at Appendix A.

Like the first author's earlier article, the content was analyzed using the Miles and Huberman (1994) framework. The three authors coded the answers to open-ended questions in a way that reflected higher order concepts, leading to the identification of categories and issues pertaining to the guiding research questions. The authors content-analyzed not only those segments of the transcripts where a specific question was asked, but also the whole transcript, trying to find relevant discussions. The authors performed the coding independently, and if they were uncertain, they not only revisited the data but also talked with their colleagues to check if a code made sense.

During the coding process, the themes that emerged in each interview were compared across individuals to identify common beliefs that were held simultaneously by different people. The recursive process of qualitative data analysis continued until no new sources of information or themes emerged from the data and clear patterns had emerged and were integrated, leading to the generation of the findings of the study. Validation strategies were

employed to ensure research trustworthiness, including corroborating the evidence from multiple sources and checking with interviewees and peer debriefing with their colleagues.

The findings grounded in the life experiences of participants studied in the contexts of Macao and AC were juxtaposed to identify homogeneity of codes and, critically, to note discordance and dissonance. Given that there is no one correct view of a phenomenon (Walsh and Downe, 2005), the three authors managed to find out the reasons for discrepancies in the two gaming jurisdictions in order to achieve credible interpretations. Rather than merging findings in an additive manner, the authors focused on the multi-layered contexts which can be peeled back to reveal generative processes of phenomena not glimpsed in standalone studies (Sandelowski et al., 1997), in the hope of securing new insights and understandings (LeCompte and Goetz, 1982) with regard to the junket business.

16 INTERVIEW FINDINGS

The findings presented here are both supported by and composed of the direct first-hand words of interviewees. Where a direct quote is given, a simple code that accords with the sequence number of the interview that provided these words follows the code. For instance, (3) indicates the third of the twelve interviews conducted.

17 JUNKET BUSINESS IN ATLANTIC CITY

While many casinos in AC have turned to glitzy regional marketing campaigns, some have looked beyond the local population to fly in “high rollers”. Typical comments on this were:

There are broadly three types of junket reps in Atlantic City. The first type is tour and travel reps, who can have thousands of customers in their database. These are not high-end gamblers. They are, your normal everyday people, and this type operates in a cost plus way. For example, if the cost of the junket includes taxis, buses, planes or food, the rep simply adds on a percentage of the total. The second type is charter reps. These reps gather business through mailers and e-mail blasts (5-10k) based on the schedule of charter planes from different cities or other airlines. As these reps sell group travel from various cities on scheduled charter planes, they are also called group junkets. The final type is splinter reps who have exclusive license with a certain casino. These reps usually have much experience as casino hosts and provide customized, one-on-one service to high-end premium patrons. (3)

Caesars has been described as the ‘Walmart’ of the junket business in Atlantic City because of its focus on quantity and mass distribution points, and its Total Rewards members may redeem their points in venues all over the country. On the other hand, Borgata is at the other end of the junket business in Atlantic City representing the high-end exclusive and most aggressive targeting elite players - mostly from the New York area. (2)

Splinter reps bond with patrons by accompanying them to dinners, golf outings, and fishing trips. Sometimes, these reps may conduct ‘player development trips’ by visiting patrons. Because of the personal relationships that form between us, we can convince most of our patrons to follow us to whatever casinos we suggest. (6)

With the different types of junket reps in AC, different casinos have adopted different strategies, with some focusing on quantity and others on high-end patrons. Based upon the above, it appears that the splinter reps in AC resemble the junket operators in Macao, who develop close relationship with their premium patrons.

18 EFFECT OF LOCATION ON JUNKET BUSINESS

With the increased competition from out-of-state casinos, AC’s particular location suggests some target markets to focus. Typical comments were:

Geographic proximity of Atlantic City to east coast would result in quicker travel time and cheaper cost. For this reason, Atlantic City is a more favourable destination to junket reps who primarily serve east coast clients. Besides, the limited number or non-existence of charter flights to Las Vegas from east coast cities, like North Carolina and Virginia, also contributes to Atlantic City being a more favourable gaming destination. (1)

The increased competition by additional gaming options in other jurisdictions has affected our [junket] business. Travel time and cost plays a significant role in bringing clients to Atlantic City. For this reason, casino operators are more likely to offer charter flights to Atlantic City for clients from locations along east coast of the US, while we junket reps book commercial flights for our premium patrons. (7)

The geographic proximity of AC to the east coast has made AC a more favourable destination to patrons from the east coast, and premium patrons interested in the east coast tour.

19 COMMISSION REVENUE OF JUNKET REPS IN ATLANTIC CITY

Although there is no publicly available data on the commission revenue of junket reps in AC, some participants commented on the change in their commission revenue, illustrated as follows:

To better determine what a patron is really worth, Caesars made use of computer technology and created the Total Rewards Program. The program calculates what the patron is worth, i.e., the average trip theoretical (ATT) based on the patron's actual play. Junket reps receive commissions that can be as low as 10% or as high as 16% of the ATT based on their patron's rating. For instance, if a patron with an ATT of US\$10,000 is comped US\$1,000, the patron is only worth US\$9,000 to the casino. If the junket rep may get 14%, this means that the junket rep may make 14% of US\$9,000, i.e., US\$1,260. (4)

As a result of computer technology, casinos have become more sophisticated in identifying the level of patron play. Years ago the information was more speculative without computers and casinos used to give 40% of ATT in comps, but that has been reduced to 10 – 20% now. (6)

Apart from the stipulated percentage of the ATT, some junket reps are entitled to fixed commissions. One participant commented:

Usually there are minimums of US\$750 per person per trip and maximum is US\$25,000 in commission on a player per trip. Besides, there are few very large junket reps who can get such a fixed commission as US\$50,000 per month for bringing in many big patrons. (5)

On the other hand, since casino operators need junket reps to entice premium patrons to their properties, some junket reps in AC appear to be able to make a decent income, and may not necessarily be affected by the local economic downturn. Typical comment was:

Despite the fact that gaming revenue in Atlantic City has declined, some junket reps have managed to survive the downfall by bringing patrons from some stronger regional or national economies. Besides, some capable reps are able to make more money by opening such retail shops as boutiques, cafes and restaurants in Atlantic City, apart from their commission revenue. (11)

20 CUSTOMER SERVICE IN SECURING PATRONS

The key to success for junket reps in AC is providing excellent customer service to patrons, as indicated by the following participants:

As casino gambling spreads all over the country, casino companies have developed the sophisticated loyalty programs such as Total Rewards to effectively keep track of the amount of money their customers have spent, especially for splinter reps. This has shifted to focusing on player quality rather than quantity. Thus, as systems developed to assess a player's worth to the point where 'worth' is a well-established amount, it has tended to 'level the playing field' among [junket] reps with the competitive field emerging as customer service. (1)

It's difficult to find quality patrons as there is intense competition for such patrons, and these patrons are primarily businessmen, and not professionals. Such quality patrons want privacy, fair game and the chance to win. They dislike being asked questions about their personal lives. (8)

Splinter reps in New Jersey usually have prior experience as casino hosts or in player development. They arrange every aspect of the trip with door-to-door service that is customized and often very high-end. Their patrons typically want special butler service from flowers to lingerie, very professional dealers, and very pleasant staff with high limit, and fair games. As these high-end patrons want a clean and safe room and an environment that is as private as possible, discretion and customer services are very important, so you never ask personal questions and you never notice anything. (4)

Apart from considerate customer service and attention to patrons' privacy, junket reps in AC need to make patrons feel that they understand their needs and have much to offer. Typical comments to this effect were:

In Atlantic City, older gamblers simply gamble and are not concerned or focused on ancillary comps. Whereas, younger gamblers want to gamble, but also want to experience all the casino has to offer in entertainment, like food and beverages, and shows. Younger gamblers expect more comps and want a 'complete casino experience'. (9)

As casino gambling has grown to many new jurisdictions around the country, patrons want to have more choices and more places to go. We can offer cruise ships and islands to our customers, so it's easier for us to sell repeat trips in this way. (1)

21 EFFECT OF BUSINESS ENVIRONMENT ON JUNKET BUSINESS

With the deteriorating business environment in AC, some interviewees indicated that the casinos' profit-driven attitude has made casinos less attractive than before. Two participants commented:

In the past, Atlantic City casino properties had more aggressive advertising programs, more generous complimentary programs, and a greater focus on attending to patrons... and comps from casinos have dropped from 40% of ATT to 10 – 20% now. As a result of the worsening economic environment and thinner profit margins, I think Atlantic City casinos have developed more of a 'corporate' bottom line, profit-driven attitude, which could contribute to a patron's less pleasurable experience. (7)

Years ago clients had fun in Atlantic City as they were treated more personally and 'special'. The recent climate in Atlantic City has evolved into being focused on money making and visitors aren't having fun like they used to years ago, and this has led to the City's overall reduced 'hospitality' reputation. (9)

Despite the difficult business environment, some junket reps indicated that they are playing a more important role than before. One participant commented:

With the closing of casinos, casino operators may rely on junket reps to a greater degree to bring people in from surrounding areas.... Frequency of employee turnover resulting in casino operators' inability to build effective relationships with patrons would bring the outcome of junket reps to have more responsibility for relationship building. Besides, elimination of higher-level executives for cost and efficiency savings also result in junket reps being relied upon to a greater degree. (3)

Despite the more important role played by junket reps, some participants commented on the difficulties in promoting AC. Typical comments were:

With fewer casino properties in Atlantic City, our clients have restricted choices. This, together with the limited non-gaming attractions and events, has made Atlantic City less attractive and not that easily marketable [as Las Vegas]. (1)

We have weekend getaway promotions, and special events like the airshow or food/wine show. Despite this, we have few weekday events, and limited food and beverage choices. I don't think there are enough additional attractions in Atlantic City that make it more favourable when compared to other cities like Las Vegas. (11)

By offering more and improved events and incentives, Atlantic City can gradually develop its own 'personality' like Las Vegas, and we can bring clients from other jurisdictions like Ohio, Canada and Europe. All these would lead to a greater opportunity for growth. (12)

22 REGULATION OF JUNKET REPS IN NEW JERSEY

Although the junket business can be of some economic benefit in New Jersey, the regulatory approach in New Jersey appears to be quite involved. Three participants commented:

The [minimum] cost of the initial 'enterprise' license [in which junket operators are required in New Jersey] was US\$2,000 and the license period for initial licensure was four years. License renewal terms were five years a renewal fee of US\$2,000. At a minimum, junket reps are required to complete an 83-page initial and renewal application. The application requires detailed personal information for multiple years, including copies of bank statements, personal loan documents and tax returns. The Division of Gaming Enforcement investigator comes to the house and reviews about a one-hundred page document of every asset, investment, tax return, bank statement, and business and financial dealing of the junket reps. Junket reps are required to file a report of junket patrons to the Division, although this requirement is not strictly enforced. In Nevada [the application] is only a 15-page document and it costs US\$1,000. (9)

The regulations here are burdensome due to the cost and the time and effort required to achieve licensure or license renewal, and they detract from the time needed to devote to the business operations. Outside of the collection of information being arduous, the time to complete the process to obtain a license can take up to one and a half years, although temporary licensure is often awarded until the final licensure is achieved. I really believe that some of the requested information is excessive and unnecessary. (3)

The New Jersey application process is extensive, time-consuming and costly. If a junket rep is licensed in New Jersey, and applies for licensure in another jurisdiction, the new jurisdiction doesn't require a thorough process like New Jersey, since they only rely on the outcome

of New Jersey's licensing process: New Jersey does all the work and other jurisdictions ride on New Jersey's licensing award 'coat-tails'. (2)

With the repeated requests from the casino industry, although New Jersey has undergone a series of "deregulation" to make its regulations more business friendly, some junket reps thought that the regulators were not helpful, and requested for greater support and fairer treatment.

Regulatory changes have not made Atlantic City more market-oriented. In fact, may be less market-oriented as changes included scaling back cash comps. (2)

Although we junket reps can be of some help to the industry, I think regulators remain discourteous, unhelpful, and unresponsive. I really hope that they would express the same degree of hospitality to junket reps as they do to casino operators, like making parking accommodation for junket buses close and convenient to casino operators. (6)

Casino operators don't necessarily have to report 'real' numbers, due to the lack of CCC representatives' presence on the casino floor during hours of gaming operation, where they once were. These operators have the ability to not be 'entirely forthcoming' when reporting revenue. While this change may have helped casino operators, this change did not help junket reps. (9)

23 DISCUSSION

Based upon the perspectives of the interviewees, the authors attempted to discuss how the practices in Macao compare to those that are currently implemented in AC, and to discuss what lessons Macao and AC can learn from each other with respect to the junket business.

23.1 *Lessons from Macao on the junket business in New Jersey*

23.1.1 Location-specific strategies

With a land area of 30.3km², Macao has 35 casinos to receive annual visitors close to 30 million a year. With its superb border-location, as well as the wealth accumulation of the mainland Chinese as a result of the PRC's rapid economic development since its open-door policy in 1978, Macao has been able to enjoy the first-mover advantage to feed off the PRC's outbound tourist markets, where casinos are illegal (Siu Lam and Crossley, 2014). Macao, operating as a free trade port in the midst of relatively few gaming

jurisdictions in Asia, has been able to provide a variety of food and goods at acceptable quality within easy reach in a confined territory (Siu Lam and Crossley, 2014). With the greater ease the mainland Chinese can travel abroad, the mainland Chinese junket operators have been able to entice patrons from different parts of the PRC (Siu Lam, 2013). All these have contributed to Macao's remarkable junket business and the world's largest gambling capital.

Despite this, being one of the densest urban centres in the world (Siu Lam and Crossley, 2014), Macao's convenience afforded by its confined space is subject to constraints and may lead to rowdiness, congestion, and patron dissatisfaction if the flow of increasing number of tourists is not properly managed.

On the other hand, with the increased competition emanating from the mushrooming "convenience gaming" locales throughout the region including Pennsylvania, New York City and Maryland, AC being a drive-to and day-tripper destination, is under heavy pressure going forward. Given that AC does not have a lot non-gaming attraction and events, casinos in AC have been relying on complimentary packages to attract patrons. Since these complimentary packages are a discount on the price of the total trip budget and junket reps in AC are licensed to certain casinos, these casinos would attempt to invent more restrictive promotions with compulsory requirements, in order to avoid benefiting neighbouring casinos.

Since such complimentary packages exist to increase casinos' corporate bottomline due to a profit-driven attitude, the result may be a less than pleasurable patron experience. This may also contribute to a "less-than-hospitable" reputation of a casino property and contradict the original intention of awarding complimentaries, resulting in reduced casino profit margins. Faced with the changes in the regional casino market, New Jersey may need to consider such strategies as offering convenience gambling within easy reach of the diversely populated parts of New Jersey, and easy access online gambling in order to compete for patrons' gambling dollars.

23.2 Improved loyalty programs for junket patrons

Apart from arranging accommodation and recreational activities, junket operators are expected to accompany their premium patrons upon their arrival in Macao. Working on the basis of "no prey, no pay", these junket operators would provide exceptional service to please their patrons to make their living (Siu Lam, 2013). Consistent with this view, some participants in AC indicated the importance of considerate service and attention to patrons' privacy to attract premium patrons. To induce these patrons to return and effectively keep track of their money spent, some casinos in AC have made extensive use of information technology to employ loyalty programs to offer patrons more benefits. Despite this, some participants indicated that such loyalty programs have led to patrons' less pleasurable experience.

Loyalty programs are created to offer some rewards to a patron to favour a particular casino over another. Thus an increase in dollars spent in a casino not only increases the dollar value of rewards received by the patron, but also loses the more and better rewards by not accumulating points with the casino (Corstjens and Lal, 2014). Although information technology can effectively determine what a patron is worth, its processing of a mass scale of patrons might have made some casinos negligent in the substantial variation between patrons in the same category. Since many premium patrons might not necessarily care much about gifts or extra discounts, the strict application of loyalty system strategies might result in patrons' reduced fun or even dissatisfaction when they feel treated discriminately or inappropriately in the hierarchy of loyalty classes.

On the other hand, given the junket operators' preference for ethnic homogeneity in Macao, they tend to work with junket reps sharing the same or similar code of ethics, who would in turn lure patrons from the same and related clans to gamble in their VIP-room (Siu Lam, 2013). Sharing the same cultural practices, these junket operators are in a better position to deliver considerate personalized service, thus paving the way for meaningful relationships with their premium patrons.

With the mushroom convenience gambling throughout the AC region, patrons have a growing abundance of convenient choices. However, from the interviews conducted in this study, it appears that the loyalty programs in some Atlantic City casinos have not induced enough loyalty to be sustainable. Based upon the lessons from the Macao experience, these casinos in AC may consider whether their loyalty programs are flexible to consider the fit that mirrors their patrons' interests, in order to improve their customer service.

23.3 *Friendly regulatory environment*

Given that the VIP segment contributed to about two-thirds of Macao's casino gaming revenue occupying more than 85% of Macao's GDP (Siu Lam and Crossley, 2014), Macao is a gambling-dependent city with a gambling-based economy. Based upon this, the MSAR government would tend to adopt a prudent policy in the regulation of its junket business.

With the increasing number of mainland Chinese to travel abroad, VIP-room contractors in Macao have actively engaged in the price war in junket commissions leading to a commission cap of 1.25%, in order to capture more business from junket operators. Based on the principle of "no prey, no pay", some capable junket operators have been able to manipulate loopholes to secure business opportunities associated with the enormous number of mainland Chinese visitors in Macao (Siu Lam, 2013). This, in conjunction with the absence of particularly active enforcement of the regulation of junket operators, has contributed to the skyrocketing junket business in Macao.

As indicated by some participants, with the closing of casinos in AC, junket reps will likely have greater responsibility for relationship building

with patrons due to the elimination of higher-level executives and changes in personnel associated with casino efficiency and cost-savings purposes. Junket reps in AC may have a greater role in the development of premium patrons. Despite the economic contribution by junket reps, some participants complained of the arduous and time-consuming application process, unfair and discriminated treatment from regulators, and called for less restriction on gambling regulation.

Whenever gambling is legalized, there is the need to keep out organized crime and the desire to minimize social costs (Collins, 2003). However, competition from neighbouring states offering casino gambling under a less strict regulatory regime may create an incentive to relax regulations, particularly for jurisdictions like AC that rely on gambling and tax revenues. By lifting some restrictions on gambling like extending New Jersey's gambling industry beyond AC, or lowering regulatory standards in AC, New Jersey may be able to attract patrons from neighbouring states. Just as the shoemaking industry could not return to a craft industry, the changes in the regional casino market have already reversed the evolutionary process and necessitated a more important role for junket reps in bringing premium patrons from some stronger regional or national economies. Faced with such changes, New Jersey may consider the appropriate status between its public policy to keep out organized crime and minimize social costs, and a lower regulatory standard.

23.4 *Lessons from Atlantic City on the junket business in Macao*

23.4.1 Heavy reliance on complimentary packages

The Atlantic City casinos have a common practice to give away complimentary goods such as rooms, food and beverages, or gifts, in order to boost gaming revenues (Hill, 2008). However, as casinos in AC have been in a fierce competition for gaming demand by increased use of promotional expenditures to bind patrons to specific properties, whether such increased expenditures will necessarily increase profitability is questionable.

In contrast to 10% to 20% of the ATT made by junket reps in AC, junket operators in Macao are allowed to earn no more than 1.25% of the 2.8%, i.e., about 45% of the ATT for the most popular baccarat. Unlike junket reps in AC who are not allowed to offer gaming credit, junket operators in Macao have to bear relatively greater risk as a result of their gaming credit authorization and collection. A look at Table 11 indicates that the average GGR earned by a gaming table in VIP-rooms appears to be increasing at a slower pace when compared with the average GGR of a gaming table from the mass halls. The ratio between the average GGR of a gaming table from VIP-rooms with that of a gaming table from the mass halls declined from 7.18 to 1 in 2007 to about 3.61 to 1 in 2013.

Table 11 Gross gaming revenue (GGR) in million USD⁽¹⁾ from gaming tables in VIP-rooms and in mass halls in Macao

Year	GGR from gaming tables in VIP-rooms	Number of gaming tables in VIP-rooms	Average GGR ⁽²⁾ per VIP gaming table	GGR from gaming tables in mass halls	Number of gaming tables in mass halls	Average GGR ⁽³⁾ per gaming table in mass halls	Ratio ⁽⁴⁾ between average GGR by a VIP gaming table and by a gaming table in mass halls
2013	29,765.64	2,186	13.62	13,457.58	3,564	3.78	3.61 to 1
2012	26,312.18	2,288	11.50	9,988.89	3,197	3.12	3.68 to 1
2011	24,474.75	2,260	10.83	7,526.89	3,042	2.47	4.38 to 1
2010	16,927.65	1,877	9.02	5,500.41	2,914	1.89	4.78 to 1
2009	9,962.56	1,573	6.33	4,122.10	3,197	1.29	4.91 to 1
2008	9,206.08	1,215	7.58	3,662.24	2,802	1.31	5.80 to 1
2007	6,958.59	1,081	6.44	2,953.30	3,294	0.90	7.18 to 1

Source: Data were compiled from a private source.

Note: (1) The exchange rate from Macau currency to USD is 8.0134 to 1.

(2) It was found by dividing column 2 by column 3.

(3) It was determined by dividing column 5 by column 6.

(4) The ratio was determined by dividing 4 by column 7.

Given that the profit on the junket business in Macao depends on the volume of play, the slowdown in the average GGR from VIP-rooms in Macao has rendered it difficult to sustain the high level of profitability in the previous years. Moreover, the junket commission rate cap of 1.25%, in conjunction with the fact that increasing number of mainland Chinese patrons would ask for a postponement or a discount of their gambling debts (Siu Lam, 2013), has made junket operators get squeezed and may lead to price wars. Following this, junket operators in Macao may need to consider shifting their focus from primarily volume of play to provision of diversified products.

23.4.2 Diversification of product offerings

The limited non-gaming sector offered by the eight casino properties has made AC less attractive and not easily marketable for junket reps. Some participants indicated that young patrons wanted “a complete casino experience” while mature patrons cared about price. Moreover, some participants suggested diversifying the AC market by encompassing non-gaming amenities to the complement of casinos that had been the city’s hallmark, and establishing its own unique personality. Despite this, no study has been found to show a cause-and-effect relationship between diversification and prosperity (Siu Lam and Crossley, 2014). Although non-gaming amenities have helped diversify and build the tourism market for Las Vegas, there are uncertainties about how it should be done.

Although Macao has 35 casinos with greater variety of food and entertainment, its non-gaming revenue occupied less than 5% of the gross revenue of casino operators in Macao as illustrated in Table 7, which was much less than that of about 30% in AC. With the increasing interest in a number of jurisdictions in Asia to employ casinos to fuel their economic growth (Coleman et al., 2014), Macao's benefit from its superb location has started to get eroded.

Lessons from the Atlantic City experience indicate that the lack of non-gaming amenities would be a threat due to its reduced appeal to patrons in contrast to other gaming jurisdictions. With the ease of the mainland Chinese patrons to visit gaming destinations abroad (Siu Lam, 2013), junket operators in Macao may need to consider the tastes and preferences of their patrons in a creative way and the manipulation of service approaches and strategies to adjust to those tastes and preferences, such as working with junket reps abroad on arranging junkets so that their patrons might experience gaming trips which mirror their interests. Although the achievement of such non-price differentiation requires more professional knowledge, wider business network, and greater execution skills, it is likely to lead to customer loyalty and increased profits.

23.4.3 Regulation of junket business in the Macao context

Junket reps in AC are considered as providing ancillary casino services, and they need to ensure that their business practices comply with the strict licensing standards and other statutory requirements. Based upon this, New Jersey has developed its own junket regulation model to govern the individual behaviour of junket reps based upon formal rules and regulations that are enforceable in a court system (Djanvok et al., 2008; La Porta et al., 2006), although some participants requested for a lower regulatory standard.

In contrast to the legal and largely impersonal regulation model in New Jersey, junket business in Macao has evolved in an informal and custom-based fashion developed from the social interactions among the gaming franchisee, VIP-room contractors, junket operators and casino patrons (Siu, 2007). Given that the Chinese society is centered on the individual, it is "created from relational ties linking the self with discrete categories of other individuals" (Hamilton and Zheng, 1992, p.24; King, 1991; Liang, 1974). Based upon this, such a structure encourages people to feel bound to other people, and less to formal rules and regulations (Fei, 1992; Hamilton, 1998). In Macao junket business, mainland Chinese junket operators' preference for junket reps related by blood or ethnic ties, who entice premium patrons sharing the same or similar code of ethics to their VIP-room, has enabled these junket operators to better understand their patrons' tastes and needs (Siu Lam, 2013). In the absence of particularly effective enforcement by the regulator, such a structure would likely facilitate junket operators'

maximization of their earnings based upon their principle of “no prey, no pay”.

With the emergence of such news reports as US wants “robust oversight” of Macau junkets (James, 2013), Hong Kong probes Macau junket figures (RA/CG, 2014), and the need for junket operators’ restructuring (HKEJ, 2014), there has been mounting pressure for reform to “solve” the social ills associated with the apparently exploitative or corruptive practices associated with the junket business in Macao. Although lessons from the Atlantic City experience indicate that some enforcement mechanisms based upon formal rules and regulations could carry greater clout than just moral suasion, many mainland Chinese junket operators would tend to follow the Chinese culture of linking themselves to some key junket figures and closely observe the moves made by such figures in order to determine their next move to advance their interest.

Apart from observing the moves by leading junket figures, if there is powerful external pressure such as the likely involvement of the PRC’s central government that challenges the continuity of their informal rules, many junket operators and reps from the same and related clans would be engaged in a continuous reassessment of their own scope for action (Hall and Thelen, 2009) and consider the reform – legal rules and regulations. Whilst lobbying government officials of the substantial loss in gaming tax and employment, these junket operators and reps might work together to determine the intentions of the regulator, the formal rules and regulations they have to respect, and the loopholes they can manipulate (Siu Lam, 2013). Rather than individually observing the externally imposed formal rules and regulations, junket operators and their men would continuously come up with innovative ideas to actively observe the formal rules and regulations in order to advance their interest. Based upon this, without considering such factors as the relational ties and interests associated with the mainland Chinese junket operators and reps in Macao, the strict application of formal rules and regulations to regulate them would unlikely produce satisfactory effect.

24 CONCLUSION

AC enjoyed great casino growth when there were no casinos in its neighbouring region. The mushrooming “convenience gaming” locales throughout the region since 2001, in conjunction with AC’s limited non-gaming attraction, has led to the closure of some casinos in AC. To secure more business, casinos in AC have been employing complimentary packages to bind patrons to their casinos, and loyalty programs to better assess a patron’s worth. As a result of the cost and efficiency savings associated with the closing of casinos, casino operators in AC have relied more on junket reps to bring patrons from some stronger regional and national economies. Despite the more important role expected of junket reps in the difficult period, junket reps in AC appear to be very strictly regulated.

On the other hand, Macao has enjoyed impressive junket business growth due to its location-specific strategies in the midst of limited number of Asian gaming jurisdictions, despite its very limited non-gaming appeal. Moreover, mainland Chinese junket operators' preference for ethnic homogeneity of junket reps has led to their better understanding of the tastes and needs of patrons from the same and related clans. Given that junket operators have been primarily relying on business volume to maximize their earnings, the increasing knowledge of the mainland Chinese patrons about the junket operation in Macao and their request for discounts and benefits has made junket business not as profitable as before to junket operators.

An analysis of the above two jurisdictions indicates that location-specific strategies are critical to a gaming jurisdiction in the midst of relatively few gaming jurisdictions in the region. When additional gaming options are available in neighbouring region, diversified product offerings, rather than price reductions, would be crucial to entice premium patrons, particularly for gambling-dependent jurisdictions. Despite the effectiveness afforded by the computer technology, loyalty programs may not necessarily provide more satisfactory service than what junket operators can offer in Macao. In fact, if such programs are inappropriately executed, it might result in a "less-than-hospitable" reputation. Moreover, to effectively regulate the junket business, apart from the appropriate status between the public policy to keep out organized crime and minimize social costs, and an appropriate regulatory standard, the regulator needs to consider such local contexts as the legal regulation model versus the relationship-based structure, and junket operators' intention to promote their respective interests, to achieve more satisfactory effect.

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Note

- 1) Gross gaming revenue is the amount wagered minus the winnings returned to players. It is the figure used to determine what a casino or gaming operation earns before taxes, salaries and other expenses are paid.
- 2) Theoretical value is also referred to as "theoretical win" or "earning potential", depending on the terminology the respective casino adopts.
- 3) Non-negotiable chips, or "dead chips", are played until they are lost; when patrons win, they are paid in negotiable or "cash" chips that are redeemable. Nonnegotiable chips are also called "rolling-chips".

- 4) Net wins refer to the amount resulting from deducting all gaming losses from all wins.
- 5) Rolling-chip turnover refers to the sale of non-negotiable chips. Bets are wagered with nonnegotiable chips and winning bets are paid out by casinos in “cash chips”. Baccarat averages a house advantage of about 1.4%, and each non-negotiable chip lasts about 2.0 wagers; thus the theoretical win as a percentage of rolling-chip turnover is about 2.8%.
- 6) Total Rewards is a casino loyalty program which enables members to earn points based on plays at slot machines and table games, and these points may be used towards meals, merchandise and other items.

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APPENDIX A

Questions prepared for interviews on junket business in Atlantic City:

- 1) Are there any differences between junket reps now and when gaming was liberalized in neighbouring states such as New York and Pennsylvania? What are they?
- 2) What are some features of junket reps in Atlantic City? Have there been any changes in Atlantic City after gaming liberalization in neighbouring states like New York and Pennsylvania? Why?
- 3) For casino operators in Atlantic City, are there any differences between now and when gaming was not yet liberalized in neighbouring states like New York and Pennsylvania? What are they?
- 4) What are the major problems a junket rep faces in Atlantic City? What can be done to minimize the effects of such problems?
- 5) There have been some requests for more effective measures on regulating the junket business in Atlantic City. What do you think about this? What can Atlantic City do to help improve its junket business?