Strategies for Successfully Managing Brand–Hotel Relationships

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Abstract
Contrary to the conventional wisdom, the study described in this report calls into question the principle that the best way for a brand to ensure that an affiliated hotel conforms to standards is to own that property. Instead, a comparison of opportunistic behavior at 49 brand-owned hotels with that of 247 hotels owned by a third party found that the brand-owned hotels report higher levels of opportunism on the part of hotel managers directed at brand headquarters. The study also revealed conditions that tend to limit opportunism, which is defined as using guile to pursue self-interest. Opportunism is limited when it is easy to monitor hotel performance, and when the brand is able to use opportunism as a form of retaliation. On the other hand, contrary to expectations, the study found no effects of ownership when combined with either emphasis on relational norms or transaction-specific assets to limit hotel opportunism. Ironically, the data indicate that having a third-party owner involved in the arrangement tends to stifle opportunism in the individual property.

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EXECUTIVE SUMMARY

Contrary to the conventional wisdom, the study described in this report calls into question the principle that the best way for a brand to ensure that an affiliated hotel conforms to standards is to own that property. Instead, a comparison of opportunistic behavior at 49 brand-owned hotels with that of 247 hotels owned by a third party found that the brand-owned hotels report higher levels of opportunism on the part of hotel managers directed at brand headquarters. The study also revealed conditions that tend to limit opportunism, which is defined as using guile to pursue self-interest. Opportunism is limited when it is easy to monitor hotel performance, and when the brand is able to use opportunism as a form of retaliation. On the other hand, contrary to expectations, the study found no effects of ownership when combined with either emphasis on relational norms or transaction-specific assets to limit hotel opportunism. Ironically, the data indicate that having a third-party owner involved the arrangement tends to stifle opportunism in the individual property.
Chekitan S. Dev, Ph.D., is associate professor of strategic marketing and brand management at the School of Hotel Administration. Recognized as a leading authority on strategic marketing and brand management, his award-winning research has been published in several peer reviewed journals, including the Journal of Marketing and Harvard Business Review. He has won all major hospitality research awards including the 2002 John Wiley & Sons award for lifetime contribution to hospitality and tourism research. Additionally, he has received several teaching excellence awards. A former corporate executive with Oberoi Hotels & Resorts, he has served corporate, government, education, advisory and private equity clients in over 35 countries on five continents as consultant, seminar leader and expert witness. These include Accor, Atlantis Paradise Island Bahamas, Breeden Capital Partners, Chandris Greece, Crystal Cruise Lines, Disney, Expedia, ExpoGourmand Chile, eHow Technologies China, Four Seasons Mumbai, French Culinary Institute, Grupo Posadas Mexico, Hilton, Holiday Inn, Horwath Austria, HOTUSA Spain, Hyatt, IHRAI Philippines, InterContinental, Jampro Jamaica, Jumeirah Dubai, Kerzner Mauritius, Leela India, Mandarin Singapore, Marriott, Moevenpick Switzerland, National University of Singapore, NHV Japan, One&Only UK, Orbitz, Peninsula, PlanHotels Italy, Priceline, Rosewood, Sarovar India, Starwood, Taj India, Travelocity, Westin, YUM Malaysia, Zatisi Czech Republic and many others. Dev was selected as one of the “Top 25 Most Extraordinary Minds in Sales and Marketing” for 2009 by The Hospitality Sales and Marketing Association International (HSMAI). He has been interviewed on hospitality and travel trends by TIME, Newsweek, The Wall Street Journal, The New York Times, The Washington Post, The Los Angeles Times, The International Herald Tribune, NBC Nightly News and National Public Radio.
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In every industry in which brands must work through partners, partner opportunism challenges brand managers who are seeking to optimize their brand standards to deliver a brand promise. In the lodging industry, in which hotel brands affiliate with multiple hotel properties, partner opportunism complicates a brand’s ability to deliver its distinctive value proposition to guests. For hotels that are operated under a franchise (often in connection with a management contract), a critical question is, what happens when the “partner” is the hotel manager in a hotel that is owned by the brand? In that case, the brand’s goal would be to prevent its own GM from opportunistic behavior, by which I mean using guile to pursue self-interest.
To help the industry learn more about the nature of opportunism, this report extends my other studies on this subject. The data from the study described in this report come from a study which I co-authored with two colleagues. We sought a better understand how hotel brands might achieve the goal of reducing partner opportunism through assuming ownership of affiliated properties. The study of relationships between hotel brands and individual hotel properties is of interest, because of hotel brands’ reliance on the quality of its relationships with the hotels in its portfolio. Moreover, the lodging industry’s wide variety of management and ownership structures makes it possible to focus on the effects of opportunism on specific ownership arrangements. While the results of the study described here took an unexpected direction, the study helps clarify the conditions under which brands can successfully manage opportunism on the part of hotel managers in hotels owned by the brand.

Opportunism on the part of hotel managers involves deliberate, guileful misrepresentation of facts about their operations in order to protect or promote their own interests or the interests of their hotels. Such behavior can include “bluffing, lying, misleading, misrepresenting, distorting, cheating, misappropriating, [or] stealing,” as well as “shirking of contractual obligations.” The study I did with James Brown and Anjala Krishen cited a range of research suggesting that such opportunism undermines satisfaction with the contractual and the relational norms on which the relationship depends, increases transaction costs and the costs of monitoring the relationship, and, ultimately, threatens to degrade the relationship’s performance. The mechanisms available for limiting opportunism in such channel relationships include common ownership, goal congruence, investments in idiosyncratic assets, monitoring of partner activities and performance, and relational exchange norms. While opportunism can occur both at the time the terms of a partnership are in negotiation and during the active life of the partnership, we focused only on opportunism during the partnership.

This study applied transaction cost theory, agency theory, and relational exchange theory to analyze whether owning the hotel diminishes opportunistic behavior in comparison to third-party ownership arrangements, as the earlier study assumed. For this purpose, we analyze data gathered from a survey of brand managers or representatives and a survey of hotel general managers. The questionnaires were designed to measure the extent of opportunism on both sides of the brand-hotel partnership. The survey also records whether a hotel is owned by the brand, and it takes into account several key factors that theory suggests might affect how the brands manage hotel opportunism. Those factors are relational norms, the quality of hotel performance monitoring by the brands, the brands’ investment in transaction-specific assets at the hotels, and opportunistic behavior on the part of brand headquarters against the hotel, which might signal to a hotel that the brand is ready and willing to retaliate for hotel-level opportunism. To believe that ownership of hotel properties by brands might help brands manage or limit opportunism on the part of their affiliated hotels is in part to assume that owning a property makes it easier for the brand to ensure that the hotel delivers the brand’s standards of service and décor to its guests. From the brand’s perspective this should, in turn, lead to a more effective partnership between the brand and the hotel and, ultimately, to higher performance at the hotel level.

For this study, we isolated ownership of a hotel by a brand as one of several possible arrangements—and not even the most common structure. Nevertheless, I hoped this study would provide brand managers with some guidance as to whether and how to limit hotel opportunism through ownership. As I explain below, the findings turned this into a challenging assignment. One expects that a brand’s hierarchical governance of its owned properties might in and of itself limit partner opportunism. As I said, brands that own hotels could also apply monitoring, idiosyncratic or “transaction-specific” assets, relational norms, and brand-level opportunism in the mix to see how these factors might, in

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4 Brown et al., op. cit., p. 32.
conjunction with ownership, enable brands to manage hotel opportunism more effectively.

The Hypotheses: Ownership and Opportunism

It stands to reason that a brand will have access to richer and more accurate information about an owned hotel’s performance in its market and its implementation of the brand’s standards in its daily operations. Several studies have suggested that effective monitoring tends to limit opportunism on the part of hotel managers, perhaps by “increasing social pressure…to perform according to agreed-upon policies and procedures” under the ownership model. With this in mind, our first hypothesis was designed to test the potential negative effect of brand ownership of a hotel on hotel-level opportunism based on the quality of the brand’s monitoring effort. We expected high-quality monitoring under brand ownership to reduce opportunism.

Transaction-specific assets can include tangible assets that have little value beyond the relationship between partners, but in the lodging industry the most important of transaction-specific assets are likely to be intangible, such as marketing programs, brand standards, and training programs. When investments in such assets are made by a brand that owns a hotel, it is natural to surmise that hotel-level opportunism will be discouraged. After all, such investments should make the hotel staff feel valued and trusted by the brand. It goes without saying that employees of the hotel are employed directly by the brand in this arrangement, so if they betray that value and trust they risk termination. We therefore hypothesized that when ownership of a hotel is accompanied by investments in transaction-specific assets, the hotel staff would be less likely to engage in opportunistic behavior.

Brand ownership of a hotel should also enhance development of common goals. Owning a hotel should better position a brand to “socialize” its managers by developing common goals through shared relational norms, which are both formal and informal rules that establish behavioral expectations for both parties in the partnership between the hotel and the brand. In this regard, relational norms operate through both contractual and self-regulatory processes, but it is the quality or strength of the self-regulatory behavior that largely determines the extent to which such norms may limit opportunism. Surely, it seems, a hotel that is cognizant of the expectations of its brand, especially when the brand owns all its assets, will be less tempted to behave opportunistically. For this reason, our third hy-

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The Study: Methodology, Sample, and Measures

To investigate the effects of brand ownership on hotel opportunism, expecting strong norms to have a limiting effect on opportunistic behavior.

The fourth hypothesis focuses on the behavior of the brand, given considerable evidence in the literature that opportunistic behavior provokes reciprocation, or, to put it succinctly, "opportunism begets opportunism." While these findings would suggest that opportunistic behavior on the part of brand managers would provoke opportunism in retaliation from hotel managers, there is also evidence that in general a brand’s capacity and willingness to retaliate against partner opportunism may help to limit hotel managers’ opportunistic behavior. In that scenario, unprovoked opportunism on the part of the brand might be a signal of its capacity and willingness to retaliate, and in that way brand opportunism might limit hotel opportunism. We expected that, if you add ownership by the brand to brand opportunism, the authority inherent in ownership would only reinforce the effect of that opportunism. Thus our fourth hypothesis was that brand opportunism would further limit the effect of ownership on hotel opportunism.

The Study: Methodology, Sample, and Measures

To investigate the effects of brand ownership on hotel opportunism we surveyed a matched sample of 296 hotel general managers and their 37 brand representatives at brand headquarters, drawing the sample from the portfolios of two major U.S. lodging brands. Each of the 37 brand representatives reported on about eight hotels as part of the 296 brand–hotel relationships. For this study, we divided the sample into 49 hotels owned by a brand and 247 owned by independent parties holding a brand franchise. About half of the franchised properties (n = 149) operated under separate management contracts and the remainder were operated independently. For this particular study, we did not test any hypotheses pertaining to operating or management arrangements, but used the third-party-owned hotels as the base case for comparison with the brand-owned hotels.

The surveys, which were pre-tested and refined, featured structured questionnaires based on 7-point Likert scales. Sample questions for the constructs are shown in Exhibit 2.

The hotel survey tested the following three constructs: hotel opportunism towards brand headquarters, hotel ownership, and hotel perceptions of the relational norms governing the brand–hotel relationship. To measure opportunism we selected items that would show not only self-interested behavior at the hotel but also guileful behavior or deliberate attempts to mislead. The question measuring ownership asked whether the hotel was wholly or partially owned by the hotel headquarters or wholly independently owned. We found that few hotels were partially owned, so ownership became a binary dummy variable—that is, brand owned or not brand owned. Finally, to measure the strength of the relational norms governing the hotel’s relationship with brand headquarters we selected items that indicated commitment to the preservation of the relationship: namely, role integrity—which pertains to the hotel’s understanding of its present and future role vis-à-vis brand headquarters—and harmonization of conflict—which is the extent to which the hotel and brand headquarters are able to resolve disputes or misunderstandings in mutually satisfying ways. We confirmed the

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**Exhibit 2**

Sample questionnaire items

**Opportunistic behavior**

- To get the necessary support from headquarters (or from this hotel), we sometimes mask the true nature of our needs
- Sometimes we have to alter the facts slightly in order to get what we need from headquarters (or this hotel).

**Relational exchange**

- Both my hotel and headquarters consider the preservation of our relationship to be important.

**Specification of roles**

- Even though our relationship with headquarters is extremely complicated, both parties have clear expectations as to the role each performs.

**Quality of monitoring hotel’s performance**

- Our evaluation of this hotel is based on quite accurate information.
- It is just not possible to supervise this hotel closely (reverse scored).

**Transaction-specific assets**

- Our hotel (brand) has spent a lot of time and effort to develop a strong customer base for this particular brand (hotel).
- If we switched to another hotel (brand) in this market area, we would lose a lot of investment we’ve made.


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reliability and validity of these hotel-level measures through confirmatory factor analysis.

To measure brand opportunism towards hotels as viewed by the brand reps, we adapted the language of the corresponding items on the hotel general managers’ questionnaire. This survey, however, included the following two additional constructs: ease of performance monitoring of hotel operations, and brand headquarters’ investment in transaction-specific assets. Drawing on the literature, we used four items to measure each of these constructs. The equation also included a binary dummy variable to account for any possible differences between the two hotel brands whose hotels we surveyed. Confirming reliability and validity was more difficult in the case of the brand variables because of the relatively small sample size. This threatens an independence assumption that typically underlies the reliability of survey responses—which is that each representative evaluated each hotel uniquely. Statistical analysis confirmed the reliability and validity of the brand headquarters–level constructs.

The brand representative survey was constructed to learn about opportunism from the brand manager’s perspective. This is one of few studies that have looked at the brand-hotel relationship from both sides, by surveying the hotel manager and a “matched” brand manager. This was complicated to do, and built on our prior work that did not do this. This allowed us to look at how both parties viewed the brand-hotel relationship for a particular hotel, and “match” the opportunistic behavior of both partners focused on one hotel to determine if there was any “mutual” effect.

The Results

As I indicated at the outset, the findings did not confirm the anticipated effect of brand ownership on opportunistic behavior. The survey provided evidence that is consistent with two of the hypotheses but not with the other two. To begin with, though, the results generally indicate that hotel opportunism, on average, was rather low, generally good news for an industry that requires brands and their many affiliated hotels to work well together. The unexpected finding is that brand ownership of hotels tends to exacerbate hotel opportunism. This counter-intuitive finding runs contrary to conventional wisdom. As I’ll discuss more below, one possible explanation for this effect is that hotels owned by a third party have an additional layer of monitoring from the owners, thus limiting a hotel’s ability to engage in opportunistic behavior.

Our first hypothesis was that brand ownership of a hotel would limit opportunism at the hotel, based on the quality or ease of monitoring of the hotel’s performance. The results were consistent with this hypothesis (as shown in Exhibit 3). The results show rising levels of hotel opportunism towards brand headquarters at the lowest level of monitoring ease. That is, when brand headquarters is able to monitor hotel-level performance with relative ease, it experiences lower levels of opportunism from brand-owned hotels.

On the other hand, the second hypothesis proposed that a brand that owns a hotel can limit opportunism at that hotel by investing in transaction-specific assets, but the analysis showed no such effect. Although such investments might pay off in other respects, they have no apparent effect on opportunism, irrespective of form of ownership. Brand ownership of a hotel does not enhance the effect of such investments in limiting opportunism. So, the results failed to confirm the second hypothesis.

The third hypothesis, which was that brand ownership of hotels would limit hotel opportunism in the presence of strong relational norms, also was not supported. Although

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**Exhibit 3**

**Decomposition of significant cross-level effects (in brand-owned properties)**

Interaction between ownership and ease of monitoring

Interaction between ownership and headquarters’ opportunism

our analysis indicated that strong relational norms between a hotel and its brand headquarters indeed seem to limit hotel opportunism, brand ownership of the hotel had no significant impact on this effect. Thus, we conclude that ownership of a hotel by its brand headquarters does not enhance the effect of strong relational norms in limiting opportunism.

Finally, the fourth hypothesis was that the negative effect of brand ownership of hotels on hotel opportunism towards brand headquarters would be enhanced when the brand engages in opportunism against its hotels. Although our analysis indicates that, other things being equal, brand ownership actually increases hotel opportunism, we found that this effect is indeed reduced when brand headquarters directs opportunism at its hotels, thus confirming the fourth hypothesis. The results (also depicted in Exhibit 3) show that high levels of brand-level opportunism against brand-owned hotels significantly reduces hotel opportunism, but apparently the brand needs to go “all in” on opportunism to produce this effect, as the results show almost no effect from moderate levels of opportunism.

A surprising finding from doing this match of hotel and brand manager was the insight that an “eye for an eye” strategy on part of the brand can lower opportunism. So, what may seem to the untrained eye to be “mutually assured destruction” was actually associated with lowered levels of opportunism.

Discussion and Managerial Implications
These results underscore the complexities of managing partner opportunism. On balance, brand ownership of a hotel does not by itself diminish the hotel's opportunistic behavior towards its brand. Instead, the presence or absence of opportunistic behavior seems to depend on a mix of hotel characteristics, brand characteristics, and interactions between these characteristics.

Remarkably, it turns out that the “main effect” of a brand's ownership of one of its hotels is actually to exacerbate opportunism. So if a brand is using ownership alone to restrict opportunistic behavior, that approach seems likely to backfire, since hotels owned by third parties reported lowered levels of opportunism. I have to add two caveats at this point. While this study analyzed data from hotels affiliated with one midscale and one upscale hotel brand, we did not study luxury hotels. Perhaps the “ownership effect” could be different for the top end properties. In any event, we found no “brand effect,” since the results were similar for both brands. That said, although our respondent sample is quite large for this study, we nevertheless examined only two brands. While there is no reason to believe that these firms are distinct from their competitors, it’s possible that we could see different results from other brands.

A second implication is that paying attention is worth the effort. We found that ownership can limit opportunism when the brand can easily monitor the hotel’s performance. Thus, the positive relationship between ownership and opportunism is especially strong where the brand finds it difficult to keep tabs on the hotels it owns. Although our data don’t address this, it is possible that some sort of profit-sharing arrangement might help to limit opportunism by aligning the hotel’s goals with the brand’s goals. The findings do indicate that the best way to limit opportunism on the part of brand-owned hotels is to institute effective monitoring mechanisms.

Finally, these data indicate that brand ownership can limit opportunism when the brand itself engages in opportunism in retaliation for hotel-level opportunism. This is a complex issue, because ownership by itself was shown to increase hotel opportunism. Moreover, our analysis suggests that low levels of brand opportunism are likely to provoke hotel opportunism. On the other hand, if brand headquarters establishes a credible threat of retaliation through opportunism, the hotel is likely to curtail its opportunistic behavior to avoid the negative consequences. Naturally, such an “offense is the best defense” strategy on the part of brand headquarters should be undertaken with caution and applied only in cases in which hotel opportunism is seen as a serious problem. In general, it seems that opportunism is not desirable regardless of who is involved, but under certain circumstances a brand might find it to be the best strategy.

Conclusions
This study helped identify at least two strategies that brands can employ to limit opportunism that do not involve brute force (and one that does). These strategies are to establish strong norms of behavior irrespective of the ownership arrangement under which a hotel operates and to improve monitoring channels. To begin with, strong norms make it clear that opportunism towards brand headquarters will not be tolerated, but more to the point, when the brand and the hotel mutually agree upon norms of behavior they can also see more clearly where their goals coincide. One of the best ways to avoid hotel opportunism is to instill in the hotel the belief that it is working with the brand to achieve mutually beneficial goals. To foster ease of monitoring, a brand may own a geographic cluster of hotel properties, which would reduce the cost of monitoring while increasing the frequency of onsite visits. In this situation, the brand may want to offer subtle rewards for honest dealings and strong performance. In conclusion, although opportunistic retaliation is a possibility, this study indicates that establishing strong relational norms is the best defense against opportunism. ■