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# The Franchisor-Franchisee Relationship: A Key to Franchise Performance

## Abstract

[Excerpt] The closer the relationship between franchise headquarters and the on-site hotel managers, the better individual franchisees will perform—and the stronger the chain becomes.

## Keywords

hotel industry, management, franchise relationship

## Disciplines

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## Comments

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# The Franchisor–Franchisee Relationship

## A Key to Franchise Performance

by James R. Brown and  
Chekitan S. Dev

**The closer the relationship between franchise headquarters and the on-site hotel managers, the better individual franchisees will perform—and the stronger the chain becomes.**

**T**he importance of franchising to the development of the U.S. lodging industry cannot be overstated. Franchising was the vehicle for the initial expansion of Holiday Inn and the motel segment in the 1950s. In recent years franchising has been an expansion strategy employed by hotel companies in all segments—making it unusual to find a chain that does not offer franchises. Industry analyst Stephen Rushmore found that “[f]ranchised hotels account for more than 65 percent of the existing U.S.

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hotel-room supply.”<sup>1</sup> As franchising increases its share of the lodging industry, achieving higher levels of market growth becomes more difficult for the franchisors. Over the past ten years researchers have been investigating a new tool for gaining competitive advantage that falls under the generic name of relationship marketing. This involves strengthening a firm’s relationships with its suppliers and its customers.<sup>2</sup>

The primary customers for hotel franchisors are their franchisees. Consequently, the relationship between a franchisor and the franchisees who are responsible for operating the hotels bearing a franchisor’s flag is especially critical. Local franchisees put into practice the plans and strategies formulated by the franchisor. Moreover, the local operators are responsible for managing the direct contact with the chain’s ultimate customers, the guests.

Effective relationships between hotel franchisors and their franchised hotels are really partnerships—relationships that benefit both parties, not just one. Not only do both firms benefit from a partnership arrangement, both also have a meaningful say regarding the strategic direction the partnership takes. Increasing the mutual participation in the decision-making process gives partners an expanded stake in the success of the relationship and encourages them to work harder to ensure that success. As a result, building marketing partnerships between hotel franchisors and their franchisees should lead to higher levels of performance.

We sought to explore this proposition using the following question:

*Does a stronger marketing partnership between a hotel franchisor and its franchised hotel lead to higher performance, both for the hotel and the partnership as a whole?*

To answer that research question we surveyed hotel general managers at properties in two major U.S. chains. In this article we discuss the notion of marketing partnerships, contrast them with traditional views of economic exchange, and clarify exactly what we mean by higher performance. We conclude by explaining the results of this study and discussing implications for both managers and researchers.

### Marketing Partnerships

Traditional economic theory views relationships among independent businesses as short-term exchanges that are terminated at the conclusion of the transaction. An example would be a traveling salesman whose car has broken down and who has to spend the night at an unfamiliar mom-and-pop motel in a strange town. The salesman has no intention of returning to the motel once his car is fixed and he is on the way to his next sales call. The terms of such short-term exchanges are simple. He trades money for the service of a room for the night. Neither the seller nor the buyer has any expectations for a long-term relationship to develop from this exchange. These one-shot, arm’s length relationships between buyers and sellers are termed discrete exchanges.<sup>3</sup> While many transactions are discrete exchanges, the contemporary marketplace usually involves more-complex exchanges, usually involving implied or express agreements and contracts.<sup>4</sup> The plethora of frequent-guest programs, buyers’

clubs, and affinity credit cards demonstrates retailers’ efforts to extend their trade beyond the status of a discrete exchange.

Firms involved in complex exchanges behave more like partners and less like purveyors and customers in an arm’s length business transaction. These partnerships are longer term, more personal, and more intertwined than discrete exchanges—and they often involve explicit contracts. For example, because their franchise contracts can last up to 20 years, Holiday Inn and its franchisees are bound to each other for more than just a single transaction. Such long-term exchanges become personal, as, for instance, the chain’s field representative calls upon the same hotel managers time after time. This enables people in both the chain and the hotel to develop personal rapport with each other.

The partnership concept assumes that an organization’s success depends on the success of its business associate. Certainly, that is the case in the lodging industry. An individual hotel would have difficulty succeeding as a member of a weak chain, although local conditions sometimes allow that to occur. Similarly, a hotel chain comprising weak local operations will struggle, no matter how excellent its concept.

In addition to these general characteristics, firms in effective marketing partnerships jointly plan to attain mutual goals and objectives. Especially critical in guiding this joint planning are: (1) the mutual desire to preserve the relationship, (2) role integrity, and (3) the harmonization of marketing conflict.<sup>5</sup>

Exhibit 1 summarizes the characteristics of effective marketing partnerships. The mutual desire to preserve the relationship is based on the extent to which the parties view

<sup>1</sup> Stephen Rushmore, “Hotel Franchising: How To Be a Successful Franchisee,” *Real Estate Journal*, Summer 1997, p. 56.

<sup>2</sup> F. Robert Dwyer, Paul F. Schurr, and Sejo Oh, “Developing Buyer-Seller Relationships,” *Journal of Marketing*, Vol. 51, April 1987, pp. 11–27; and Jan B. Heide, “Interorganizational Governance in Marketing Channels,” *Journal of Marketing*, Vol. 58, January 1994, pp. 71–85.

<sup>3</sup> For a discussion of the characteristics of discrete exchange, see: Dwyer, Schurr, and Oh, Table 1, p. 13.

<sup>4</sup> See: Johan Arndt, “Toward a Concept of Domesticated Markets,” *Journal of Marketing*, 43, Fall 1979, pp. 69–75.

<sup>5</sup> Ian R. Macneil, *The New Social Contract* (New Haven, CT: Yale University Press, 1980), p. 65.

## Exhibit 1 Characteristics of economic exchanges

General Characteristics	Discrete Exchange	Marketing Partnerships
Temporal perspective	Short-term	Long-term
Personal relationships	Minimal	Extensive
Expectation for future exchange	None	Substantial
Joint planning achieved through...		
...Relationship preservation	Low	High
...Role integrity	Low	High
...Harmonization of marketing conflict	Low	High

their relationship as richer than a series of discrete transactions and the extent to which the parties mutually view the relationship as important in and of itself and the extent to which the firms view themselves as being members of the same team.<sup>6</sup>

A contract defines what goods or services each firm provides to the partnership and what each can expect to gain from the partnership. Beyond that, roles in relational partnerships "...cover a multitude of issues not directly related to any particular transaction."<sup>7</sup>

Role integrity means that the firms in a relationship clearly understand the rights and responsibilities of each party. The more these roles are clearly understood by all, the easier it is for partners to predict how each will behave, and the more smoothly the relationship will operate. Role integrity is critical to providing the stability necessary for exchange relationships to deepen.<sup>8</sup>

This characteristic encourages partners to make decisions and be-

have in ways that strengthen the relationship.

Enduring relationships of all types experience difficulties. Relational partnerships survive these difficulties because the parties attempt to resolve their conflicts in mutually satisfying ways. By harmonizing relational conflict, the integrity of the partnership is placed above the separate interests of the individual firms.<sup>9</sup>

### Franchisor-Franchisee Performance

Performance may be examined in terms of the performance of the franchisee, its franchisor, or the franchisor-franchisee relationship. We chose to investigate two of these aspects: how well the partnership performs and how well the hotel performs individually. To judge how well the hotel-franchisor relationship performed overall, we relied on the judgment of our respondents, that is, the hotel general managers.

Franchisee performance for our purposes is a financial measure, reflecting both common sense and previous research.<sup>10</sup> We investigated the hotel's sales volume and its profitability in terms of both gross op-

erating profit and net operating profit.<sup>11</sup> We also evaluated the hotel's competitive performance against its direct competitors, as well as compared to other hotels of the same brand. We based these comparisons on the firm's occupancy rate, its average room rental, its gross operating profit, its quality-assurance evaluations, and its guest-satisfaction ratings.<sup>12</sup>

To test whether a strong relationship leads to higher performance, we studied the relationships of two major hotel franchisors with their individual North American hotel properties. The hotel companies provided us with the names of their hotels' general managers, numbering nearly 1,400 in all. We mailed the questionnaire to each of the general managers, along with a cover letter supporting the research from each franchisor's chief operating officer. The questionnaire asked the general managers to report on several facets of their hotel's relationship with the franchisor headquarters, including the constructs under study. We received sufficiently complete questionnaires from 331 general managers, representing a 24-percent response rate, which is acceptable for this type of research.<sup>13</sup>

To make sure that our sample of hotels was not biased, we conducted a telephone survey of 50 nonresponding general managers, asking just a few of the questions we posed in the mail survey. We found no significant differences in the responses of the original survey

<sup>6</sup> See: Macneil; and Patrick J. Kaufmann and Louis W. Stern, "Relational Exchange Norms, Perceptions of Unfairness, and Retained Hostility in Commercial Litigation," *Journal of Conflict Resolution*, Vol. 32 (1988), pp. 534-552.

<sup>7</sup> Kaufmann and Stern, p. 536.

<sup>8</sup> Rajiv P. Dant and Patrick L. Schul, "Conflict Resolution Processes in Contractual Channels of Distribution," *Journal of Marketing*, Vol. 56, January 1992, p. 43.

<sup>9</sup> Macneil, p. 68.

<sup>10</sup> See, for example: Chekitan S. Dev and James R. Brown, "Marketing Strategy, Vertical Structure, and Performance in the Lodging Industry: A Contingency Approach," *International Journal of Hospitality Management*, Vol. 9 (1990), pp. 269-282.

<sup>11</sup> Robert C. Lewis and Richard E. Chambers, *Marketing Leadership in Hospitality: Foundations and Practices* (New York: Van Nostrand Reinhold, 1989), pp. 498-499.

<sup>12</sup> Compare with: Lewis and Chambers, pp. 498-499, 550, and 604.

<sup>13</sup> One study reports response rates ranging from 6 percent to 37 percent for studies examining business relationships. See: H.G. Parsa, "Franchisor-Franchisee Relationships in Quick-Service-Restaurant Systems," *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 37, No. 3 (June 1996), p. 45.

respondents and those of our telephone sample ( $p > 0.10$ ). Therefore, we concluded that nonresponse bias was not present in this study.

**Measurements**

In developing our questionnaire we took a number of steps to eliminate vague wording and ambiguous questions. First, we thoroughly reviewed the relevant academic and practitioner literature to find related survey items that had already been validated and help ensure that the original questions developed for this study were valid. Next, we pre-tested and refined the survey with a convenience sample of over 30 hotel general managers enrolled in a university executive-development program. As a final check, senior managers in both hotel chains reviewed the questionnaire prior to its mailing.

**Scoring partnerships.** Because an effective marketing partnership rests on the three distinct dimensions of preservation of the relationship, role integrity, and harmonization of conflict, we asked hotel general managers to rate their relationship with franchise headquarters on each of these three dimensions. Exhibit 2 shows the 14 questionnaire items we used to compute the marketing partnership scores (one was dropped during the statistical-scale purification procedure).<sup>14</sup>

We used second-order confirmatory factor analysis to test the validity and reliability of our marketing-partnership scale.<sup>15</sup> According to

<sup>14</sup> The questions that form the marketing-partnership scale are based on the work of: Patrick J. Kaufmann and Rajiv P. Dant, "The Dimensions of Commercial Exchange," *Marketing Letters*, May 1992, pp. 171-185.

<sup>15</sup> For more on measurement reliability and validity, see: Gilbert A. Churchill, Jr., *Marketing Research: Methodological Foundations*, 5th ed. (Chicago: Dryden, 1991), pp. 482-501. The specific procedure we used is detailed in: Jan-Benedict E.M. Steenkamp and Hans C.M. van Trijp, "The Use of LISREL in Validating Marketing Constructs," *International Journal of Research in Marketing*, Vol. 8 (1991), pp. 283-299.

**Exhibit 2**

***The marketing-partnership score***

If you would like to see how your firm (either hotel or chain headquarters) stacks up in terms of your marketing partnerships, take the following quiz. Chain executives should respond to this quiz with a specific hotel in mind as their partner. Hotel executives should respond with the brand headquarters in mind as their partner. Score each statement on the quiz using a 7-point scale with a "1" indicating that you "strongly disagree" with the statement, a "7" showing that you "strongly agree" with it, or any number in between to indicate degrees of disagreement or agreement.

- We expect our relationship with this partner to last a long time.
- Both my firm and this partner consider the preservation of our relationship to be important.
- My firm and this partner are committed to the preservation of a good working relationship.
- Both my firm and this partner think it is important to continue our relationship.
- Both my firm and this partner work hard at cultivating a good working relationship.

*Sum the preceding five items (subtotal 1).*

- Our relationship with this partner goes beyond our remitting their share of our sales revenue (or profits), negotiating room availability for the reservations system, and conforming to quality standards.
- Even though our relationship with this partner is not complex, we are still uncertain about who does what. (1= strongly agree to 7= strongly disagree; note the scale reversal for this question.)
- Our two organizations have well-formed expectations of each other which go beyond buying and selling of products and services.
- Even though our relationship with this partner is extremely complicated, both parties have clear expectations as to the role each performs.

*Sum the preceding four items (subtotal 2).*

- There are standard procedures for resolving disputes between my firm and this partner that do not involve third-party intervention.
- My firm and this partner are very conscientious, responsive, and resourceful in maintaining a cooperative relationship.
- Both my firm and this partner are generally able to resolve disagreements to both parties' satisfaction.
- Both parties try to resolve any disagreements that arise between us in good faith.
- The high level of mutual trust between my firm and this partner enables us to settle our disagreements to everyone's satisfaction.

*Sum the preceding five items (subtotal 3).*

*Sum the three subtotal numbers. This is your marketing-partnership score.*

**Interpreting the marketing-partnership score**

*If your marketing partnership score is:*

- 14-70 You have an arm's length relationship with your partner. By working more like a team, you can improve your firm's (and your partner's) performance substantially.
- 71-82 You have an average relationship with your partner and could improve your firm's (and your partner's) performance.
- 82-98 You have an excellent relationship with your partner and should be reaping the benefits of strong teamwork.

### Exhibit 3

#### Overall performance of the relationship

- *The hotel's association with franchise headquarters has been a highly successful one. (1 = strongly disagree to 7 = strongly agree)*
- *If I had to rate franchise headquarters on its performance during the past year, it would be: \_\_\_\_ . (1 = poor to 7 = outstanding)*
- *Taking all the different factors into account, franchise headquarters' performance has been: \_\_\_\_ . (1 = bad, couldn't be worse to 7 = excellent, couldn't be better)*
- *Overall, how would you characterize your hotel's relationship with franchise headquarters? (1 = fallen far short of our expectations to 7 = greatly exceeded our expectations)*

### Exhibit 4

#### Hotel's competitive performance

- **Occupancy rate**  
*Compared to your direct competitors, how well did your hotel do in terms of occupancy? (1 = much worse to 7 = much better)*
- **Average room rate**  
*Compared to your direct competitors, how well did your hotel do in terms of average room rate? (1 = much worse to 7 = much better)*
- **Gross operating profit**  
*Compared to your direct competitors, how well did your hotel do in terms of gross operating profits? (1 = much worse to 7 = much better)*
- **Quality-assurance ratings**  
*Compared to other hotels of this brand, our quality-assurance ratings are well above average. (1 = strongly disagree to 7 = strongly agree)*
- **Guest-satisfaction ratings**  
*Compared to other hotels of this brand, our guest-satisfaction ratings are well above average. (1 = strongly disagree to 7 = strongly agree)*

usual rules of interpretation, this analysis showed that our marketing-partnership scale was indeed reliable and valid.<sup>16</sup> The composite reliability coefficients were 0.83 for the relationship preservation subscale, 0.60 for role integrity, and 0.80 for harmonization of conflict. The composite reliability for the overall

<sup>16</sup> For the technically oriented, all factor loadings were statistically significant ( $p < 0.01$ ). The fit indices we obtained were as follows:  $\chi^2 = 248.23$ ,  $df = 74$ ,  $p = 0.00$ ; GFI = 0.93; CFI = 0.95; TLI = 0.94; and B&B = 0.93. Except for the significant  $\chi^2$  statistic (the usual case with large sample sizes), all fit indices exceeded the 0.90 rule-of-thumb cutoff.

marketing partnership scale was 0.97.

Next we divided the sample into thirds based on the marketing-partnership scores (Exhibit 2, bottom). Parsing the sample by thirds resulted in scores ranging from 14 to 70 being defined as low (33.6 percent of our sample); 71 to 82 were moderate (33.1 percent), and scores exceeding 82 are strong marketing partnerships (33.3 percent).

#### Checking the relationship.

We asked the GMs four questions to assess the overall performance of the relationship, as listed in Exhibit 3.<sup>17</sup> We averaged the responses to these four questions to obtain our measure of the overall performance of the hotel-franchisor relationship. The reliability and validity of this measure was affirmed by a one-factor confirmatory factor analysis on the responses, which indicated that this was a reliable and valid measure of these four questionnaire items.<sup>18</sup>

The competitive performance of the hotel reflects its ability to support the franchisor's efforts in the hotel's local market. We asked each hotel's general manager to compare his or her hotel's performance to its direct competitors on three key operating measures—occupancy rate, average daily rate (ADR), and gross operating profit (GOP).

The general manager also compared his or her hotel to other hotels of the same brand in terms of quality-assurance ratings and guest-satisfaction ratings (see Exhibit 4). Instead of creating scales from these

<sup>17</sup> These questionnaire items are based on the work of Nirmalya Kumar, Louis W. Stern, and Ravi S. Achrol, "Assessing Reseller Performance from the Perspective of the Supplier," *Journal of Marketing Research*, Vol. 29, May 1992, pp. 238–253.

<sup>18</sup> All factor loadings were statistically significant ( $p < 0.01$ ) and the fit indices for this analysis were  $\chi^2 = 26.45$ ,  $df = 2$ ,  $p = 0.00$ ; GFI = 0.97; CFI = 0.97; TLI = 0.93; and B&B = 0.98. The composite reliability coefficient was 0.88.

questions, we treated each item as a separate measure. We also judged that the GMs' perceptions of these measures were accurate; that is, that they correctly reported their hotel's performance. We did not seek to confirm these answers (which were on Likert-type scales) with actual market data.

To examine financial performance, we used three key indicators of the hotel's financial performance—its sales revenue, its GOP, and its income before fixed costs (see Exhibit 5)—expressed per available room (i.e., REVPAR, GOPPAR, and IBFCPAR) and per available employee (i.e., REVEMP, GOPEMP, and IBFCEMP). We adjusted the performance measures in this way to eliminate distortions from hotel size.

The per-available-room and per-available-employee bases put hotels on a relatively equal footing. Moreover, assessing financial performance in terms of rooms available and number of employees indicates how effectively the hotel uses its resources—physical capital (i.e., rooms) and labor—to generate sales revenues and profits. The higher the sales revenues per room (and, hence, higher franchise royalty fees), the happier the franchisor. The higher the profits, the happier the hotel owner.

**Analytical procedure.** We used one-way analysis of variance (ANOVA) with the Duncan multiple-range test to investigate the proposition that greater performance in hotel-franchisor relationships is associated with stronger marketing partnerships.<sup>19</sup> One-way ANOVA provides an overall statistical comparison of the mean responses to the performance measures for each of the three partnership groupings (i.e., high, medium, and low).

<sup>19</sup> See: B.J. Winer, *Statistical Principles in Experimental Design*, 2nd ed. (New York: McGraw-Hill, 1971), pp. 196–197.

**Exhibit 5**  
**Hotel's financial performance**

• **Sales volume**

*Approximately what were the total annual sales for your hotel last year?*

• **Gross operating profit**

*Approximately what was the gross operating profit (GOP) for your hotel last year?*

• **Income before fixed charges\***

*Approximately what was the income before fixed charges (IBFC) for your hotel last year?*

\* IBFC was defined for the respondents as income from all operations before deducting rent, property taxes, property insurance, interest, depreciation, income taxes, and reserve for replacement.

**Exhibit 6**  
**Comparison of relationship and performance**

Marketing-partnership score	Overall performance*
Low (14–70)	3.99
Medium (71–82)	4.95
High (83–98)	5.69

n= 331

Significance level  $p < 0.01$

\*The differences among the three case are statistically significant ( $p \leq 0.10$ ).

**Partnership and Performance**

Testing the overall performance of the relationship using ANOVA, we found that the relationship's overall performance does indeed vary significantly according to its partnership score (Exhibit 6). Duncan's test showed that a higher relationship performance is associated with stronger marketing partnerships. The high group scored 5.69, while the medium group scored 4.95 and the low group achieved 3.99. Thus, the more the hotel and its franchise headquarters work as a team (in the GM's view), the better the partnership's overall performance. This result is consistent with our research proposition.

## Exhibit 7

### Comparisons of hotel performance (n = 331)

Marketing-partnership score	Low (14-70)	Medium (71-82)	High (83-98)	Statistical significance
Occupancy rate	3.27 <sup>A</sup>	3.65 <sup>B</sup>	3.68 <sup>B</sup>	< 0.01
Average daily rate	3.40 <sup>A</sup>	3.46 <sup>A</sup>	3.75 <sup>B</sup>	< 0.02
Gross operating profit	3.47 <sup>A</sup>	3.67 <sup>A B</sup>	3.80 <sup>B</sup>	< 0.05
Quality-assurance ratings	4.72 <sup>A</sup>	5.21 <sup>B</sup>	5.40 <sup>B</sup>	< 0.01
Guest-satisfaction ratings	4.58 <sup>A</sup>	5.07 <sup>B</sup>	5.20 <sup>B</sup>	< 0.01

\* Numbers with different superscripts indicate statistically significant differences ( $p \leq 0.10$ ); those with the same superscripts are not statistically different at  $p \leq 0.10$ . Thus, the high group is statistically distinct from the low group, but in most instances not statistically different from the middle group.

## Exhibit 8

### Comparison of hotel financial performance (\$000s)

Marketing-partnership score	Low (14-70)	Medium (71-82)	High (83-98)	Number of hotels	Statistical significance
RevPAR	\$22.4 <sup>A</sup>	\$23.4 <sup>A</sup>	\$31.0 <sup>A</sup>	273	> 0.10
GOPPAR	\$7.4 <sup>A</sup>	\$8.8 <sup>A B</sup>	\$12.4 <sup>B</sup>	241	< 0.08
IBFCPAR	\$5.8 <sup>A</sup>	\$6.9 <sup>A</sup>	\$9.6 <sup>B</sup>	228	< 0.06
RevEmp	\$37.9 <sup>A</sup>	\$38.4 <sup>A</sup>	\$40.2 <sup>A</sup>	268	> 0.10
GOPEmp	\$12.8 <sup>A</sup>	\$14.5 <sup>A</sup>	\$14.9 <sup>A</sup>	238	> 0.10
IBFCEmp	\$10.0 <sup>A</sup>	\$10.7 <sup>A</sup>	\$13.3 <sup>B</sup>	225	< 0.04

\* Numbers with different superscripts indicate statistically significant differences ( $p \leq 0.10$ ); those with the same superscripts are not statistically different at  $p \leq 0.10$ . Thus, all three groups are statistically similar in many categories. The high group is statistically distinctive from the other two groups in income before fixed charges.

Exhibit 7 shows a test of our research proposition in terms of competitive performance. More specifically, the ANOVA results indicate that, compared to its direct competitors, when a hotel's management and its franchisor score high in acting as partners:

- the occupancy rate is higher;
- average room rate is higher; and (consequently)
- gross operating profit is higher.

Compared to GMs' assessment of other hotels of the same brand, moreover, the Duncan's multiple-range test shows that as a hotel's partnership score increases:

- quality-assurance ratings rise; and
- guest-satisfaction ratings are higher.

Taken together, these results are also consistent with our overall research proposition that stronger partnerships between franchised hotels and their franchisor headquarters perform better than weaker relationships.

Exhibit 8 shows the comparisons of hotel financial performance across the three groupings. The ANOVA results show that hotel financial performance generally does improve as the hotel and its franchisor work more closely together. We found gross operating profit per available room (GOPPAR) to be higher, on average, for the medium and strong marketing-partnership groups than for the weakest group. Income before fixed charges per available room (IBFCPAR) was significantly greater for strong hotel-franchisor partnerships. Although sales revenue per available room appears to differ across the three groups, these differences were not statistically significant.<sup>20</sup> Thus, the stronger the hotel-headquarters partnership, the more the hotel is able to generate both gross operating profits as well as net profits from its available rooms. This finding is consistent with our basic research proposition.

Employee productivity paralleled room productivity. The strength of the hotel-franchisor partnership had no significant bearing upon sales

<sup>20</sup> A mean that appears larger than another may not be statistically different because the statistical confidence interval about that mean may overlap with the confidence interval for the adjacent mean. The size of the confidence interval is directly proportional to variation about the mean. Thus, a larger mean with higher variation may not be statistically different than its much smaller neighbor. Such was the case here.

## Partnership for Performance

The basic premise of franchising systems is that they enable their member firms to perform at levels unattainable by each firm alone. A firm can gain economies of scale by specializing in the performance of certain activities and delegating to a partner firm those activities that the partner can undertake more efficiently and effectively.<sup>1</sup> For example, franchised hotels rely on the franchisor to provide a strategic direction for the system, develop coherent system-wide standards and a marketing program, and police the system to ensure that all hotels are upholding the chain's quality standards. On the other hand, the franchisors rely on their individual hotels to deliver the lodging services that the chain promotes to its customers, not to mention remitting franchise fees. This specialization and division of effort enables the franchisor to concentrate on the strategies, plans, and programs for the chain and permits the hotels to focus upon the delivery of guest services.

The benefits of specialization and division of labor can be enhanced if firms treat each other as close partners rather than as arm's length business associates. Being partners means that both the hotel and its franchisor look out for the best interests of the relationship rather than emphasize their own interests. The orientation is on increasing the overall size of the pie for both firms. When this happens the size of each partner's slice will increase. This is in contrast to discrete exchanges where each firm fights over the slices of a fixed pie. The full benefits of partnership result when firms respond to each other's needs in a flexible manner, freely share relevant information with each other, trust each other to make decisions beneficial to the partnership as a whole, and commit to growing and maintaining the partnership.

When firms are flexible they can adapt to changing marketplace and regulatory conditions. This provides the partnership with a leg up on competitive hotel chains that are not partnership oriented and therefore lack the flexibility required by a competitive environment.

Trust and commitment go hand in hand.<sup>2</sup> When firms trust each other to act in the best interest of the relationship, they feel free to commit additional time, talent, and financial resources to that relationship.<sup>3</sup> These resources enable the partnership to achieve performance levels unattainable without them. Moreover, increased trust should mean that extensive monitoring systems will not be needed. Any reduced monitoring costs transfer directly to the bottom line.<sup>4</sup>

Few studies of the performance of relational partnerships in business have been conducted and we are aware of none in

the hospitality industry. By and large, though, relational partnerships were found to achieve higher levels of performance. For example, in their study of buyer-vendor relationships, Noordwier, John, and Nevin found that buyers in relational partnerships experienced higher rates of on-time delivery and nondefective product shipments, especially when supply availability and prices were uncertain.<sup>5</sup> Similarly, Heide and Stump found that relational partnering (as measured by the expectation that the relationship would continue) between original equipment buyers and their vendors of component parts led to increased perceptions of overall performance. This was especially true when buyers faced greater uncertainty in forecasting demand for those components and when they invested more heavily in assets to support the partnership.<sup>6</sup> Dahlstrom, McNeilly, and Speh found that firms' perceptions of the performance of their third-party warehouses increased the more the firm and the warehouse saw themselves as teammates.<sup>7</sup> Only one study found no strong link between performance and relational partnering in business-to-business marketing<sup>8</sup> and none has found a negative relationship. Therefore, we feel confident that these limited findings can be generalized to franchisor-franchisee relationships.

Thus, we developed our basic research proposition: The stronger the relationship between a hotel franchisor and its franchisees, the higher the level of performance, both for the franchisee and the relationship as a whole.—J.R.B. and C.S.D.

<sup>1</sup> George J. Stigler, "The Division of Labor Is Limited by the Extent of the Market," *Journal of Political Economy*, Vol. 59, June 1951, pp. 185-193.

<sup>2</sup> Robert M. Morgan and Shelby D. Hunt, "The Commitment-Trust Theory of Relationship Marketing," *Journal of Marketing*, Vol. 58, July 1994, pp. 20-28.

<sup>3</sup> Nirmalya Kumar, "The Power of Trust in Manufacturer-Retailer Relationships," *Harvard Business Review*, Vol. 74, November-December 1996, pp. 92-106.

<sup>4</sup> Kumar, p. 97.

<sup>5</sup> Thomas G. Noordwier, George John, and John R. Nevin, "Performance Outcomes of Purchasing Arrangements in Industrial Buyer-Vendor Relationships," *Journal of Marketing*, Vol. 54, October 1990, pp. 80-93.

<sup>6</sup> Jan B. Heide and Rodney L. Stump, "Performance Implications of Buyer-Seller Relationships in Industrial Markets: A Transaction Cost Explanation," *Journal of Business Research*, Vol. 32, January 1995, pp. 57-66.

<sup>7</sup> Robert Dahlstrom, Kevin M. McNeilly, and Thomas W. Speh, "Buyer-Seller Relationships in the Procurement of Logistical Services," *Journal of the Academy of Marketing Science*, Vol. 24, Spring 1996, pp. 110-124.

<sup>8</sup> Robert F. Lusch and James R. Brown, "Interdependency, Contracting, and Relational Behavior in Marketing Channels," *Journal of Marketing*, Vol. 60, October 1996, pp. 19-38.

revenue per employee (REVEMP) or gross operating profits per employee (GOPEMP). Stronger partnerships did, however, generate greater net operating profits per employee (IBFCEMP). This finding is consistent with our overall expectations.

## Partnership for Performance

Our research indicates that if a franchisor wants to improve the performance of its hotels, it should treat

them more like partners than as "necessary evils" to be tolerated or, worse, adversaries to exploit.

Our results clearly show the benefits of strong marketing partnership to be manifold:

- Higher overall performance of the hotel-franchisor relationship;
- Higher hotel occupancy rate as compared to the direct competition;

- Higher average room rate as compared to the direct competition;
- Higher gross operating profit as compared to the direct competition;
- Higher quality-assurance ratings as compared to other hotels in the chain;
- Higher guest-satisfaction ratings as compared to other hotels in the chain;

- Higher gross operating profit earnings and income before interest and taxes (both of them in terms of available rooms) than hotels with weaker partnerships; and
- Higher income before fixed costs (on a per employee basis) than hotels with weaker partnerships.

Some franchisors clearly understand the importance of working closely with their franchisees. For example, Courtyard by Marriott encourages its franchisees to participate in its support and service programs. This strengthens the franchisor–franchisee relationship. As Craig Lambert, the chain’s brand vice president observed, “The more [franchisees] are involved, the better the outcome.”<sup>21</sup> In view of our findings, we find it surprising that more franchisors do not strengthen their partnerships with their hotels.

Our research suggests four ways for a chain to strengthen its hotel partnerships. To begin with, franchisors should view the relationship with its hotels as important in and of itself and should genuinely strive to preserve that relationship. Here are three additional suggestions:

- (1) Behave in a stable fashion. Refrain from abrupt and frequent changes in strategic direction that confuse and frustrate franchisees.
- (2) Develop jointly with the hotel clear expectations as to what functions it is to perform and how it is to be evaluated. Similarly, the hotel must have clear expectations about the support that it can receive from the franchisor. Feedback programs that allow the hotel to evaluate the franchisor’s performance on dimensions that affect it are also important.

- (3) Work in a harmonious way to resolve the inevitable conflicts that arise in any business relationship. This means ensuring that all parties’ concerns are resolved to their mutual satisfaction. When all parties are satisfied, the relationship becomes team-oriented instead of adversary-oriented.

One way of ensuring satisfaction in franchisee–franchisor relationships is through the judicious use of power. For example, in his study of franchise relationships in the quick-service-restaurant industry, Parsa found franchisees to be more satisfied when the franchisor relied upon legitimate authority, relationship bonds, and high-quality information and support.<sup>22</sup> He also found franchisees to be more satisfied when franchisors avoided relying on coercion to influence their franchisees. We expect the use of power in lodging-industry franchise relationships to operate similarly.

Other researchers suggest some additional dimensions of marketing partnerships, although we did not explicitly study them here. Among them are the firms’ flexibility in dealing with each other, their mutual sharing of information, and their taking a long-term orientation to the relationship.<sup>23</sup> Also critical to effective marketing partnerships are mutual trust and commitment,<sup>24</sup> fair treatment and just outcomes,<sup>25</sup> and mutual interdependency.<sup>26</sup> If the

partnership stresses these qualities, it should expect its performance to increase commensurately.

### The Growth Factor

Hotel franchisors court additional franchisees as marketing partners for continued growth in sales revenue. In today’s competitive climate, potential franchisees, especially those with lots of promise, have their choice of suitors and are likely to scrutinize them carefully. As this research makes clear, hotels affiliated with chains that forge strong partnerships are more likely to achieve superior performance. The chain that promises (and delivers) a strong partnership is more likely to have its choice of prospective hotel partners. Thus, developing strong partnerships can be a powerful tool that franchisors can use to recruit high quality franchisees.

If hotels wish to experience the benefits of a strong hotel–franchisor partnership, they must be willing to work on behalf of the partnership, perform roles that may extend beyond their traditional boundaries, and resolve their disagreements to the benefit of the partnership rather than to their own benefit. In short, strong partnerships require sacrifices on the part of both the hotel and its franchisor headquarters. Our research shows, however, that these sacrifices have substantial payoffs in terms of hotel performance as well as the performance of the relationship as a whole. **CQ**

<sup>22</sup> Parsa, p. 47.

<sup>23</sup> See: Kaufmann and Dant, pp. 171–185; Brett Boyle, F. Robert Dwyer, Robert A. Robicheaux, and James T. Simpson, “Influence Strategies in Marketing Channels: Measures and Use in Different Relationship Structures,” *Journal of Marketing Research*, Vol. 29, November 1992, pp. 462–473; Jan B. Heide and George John, “Do Norms Matter in Marketing Relationships?,” *Journal of Marketing*, Vol. 56, April 1992, pp. 32–44; and Thomas G. Noordwier, George John, and John R. Nevin, “Performance Outcomes of Purchasing Arrangements in Industrial Buyer–Vendor Relationships,” *Journal of Marketing*, Vol. 54, October 1990, pp. 80–93.

<sup>24</sup> Robert M. Morgan and Shelby D. Hunt, “The Commitment–Trust Theory of Relationship Marketing,” *Journal of Marketing*, Vol. 58, July 1994, pp. 20–28.

<sup>25</sup> Nirmalya Kumar, Lisa K. Scheer, and Jan-Benedict E.M. Steenkamp, “The Effects of Supplier Fairness on Vulnerable Resellers,” *Journal of Marketing Research*, Vol. 32, February 1995, pp. 54–65.

<sup>26</sup> See: Robert F. Lusch and James R. Brown, “Interdependency, Contracting, and Relational Behavior in Marketing Channels,” *Journal of Marketing*, Vol. 60, October 1996, pp. 19–38; and Nirmalya Kumar, Lisa K. Scheer, and Jan-Benedict E.M. Steenkamp, “The Effects of Perceived Interdependence on Dealer Attitudes,” *Journal of Marketing Research*, Vol. 32, August 1995, pp. 348–356.

<sup>21</sup> Mike Malley, “Getting the Most Value Out of Franchising,” *Hotel and Motel Management*, Bonus Supplement, May 5, 1997, p. 42.