HOTEL FRANCHISE AGREEMENTS AND THE PSYCHOLOGICAL CONTRACT

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DEDICATION

This thesis is dedicated to Allah, the most Beneficent and the most Merciful who guided me, particularly in the difficult stages of this thesis.

This thesis is also dedicated to my wife, Rehab, for her endless patience, support and encouragement along the way and to my children, Janna and Ali for all the times they have missed out during my research path.
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Thanks are extended to the hotel chains that carried out the cases studies and all of their directors who agreed to participate directly in the case studies. Thanks are also extended to the hotel owners involved, for the time given during the interviews with them, which has contributed effectively in building up this research.

In particular, I would like to express my thanks to my country Egypt which gave me the opportunity to study in the UK by sponsoring my research. I would also like to acknowledge my colleagues in Cardiff School of Management for their encouragement.

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ABSTRACT

This qualitative research study explores the hotel franchising relationships and the psychological contract and develops a model of success factors of hotel franchising relationships. There is a rich franchising literature, but little work that focuses on hotels. Three main issues on hotel franchising relationships are identified i.e. hotel franchising triggers; psychological contract and hotel franchising; hotel franchising lifecycle and phases. Various authors have highlighted the importance of managing franchising relationship and applying a systematic approach to evaluate it at regular intervals. Existing franchising lifecycle models and psychological contract models have also been criticized as in need of updating to design a comprehensive model of the success factors of the hotel franchise relationship.

A multiple case study approach was adopted involving document analysis and semi-structured interviews with hotel franchisors and a number of their franchisees to explore how hotel franchisors and franchisees approach the issues of hotel franchise lifecycle, phases and psychological contract. This study explores the nature of the relationship between franchisor and their franchisees in each phase of the hotel franchise relationship. The findings illustrated the important aspects which the franchisor and the franchisees should follow in each phase in order to have success in their relationship. These findings led to the development an initial model of hotel franchise success factors. Additionally the findings stressed the necessity of developing polices and practices used by the psychological contract to be more helpful for the success of hotel franchise relationships.

This research uses cross-case analyses to identify the gaps between cases; and the gaps between franchisors and their franchisees. The conceptual framework is used as a tool to structure the layout of the analysis. This led to the development of a success model for the hotel franchise relationship. The researcher developed the final model based on the way franchisors and franchisees approach hotel franchising relationship aspects. This model tries to make a relationship between tangible and intangible issues in each phase of the hotel franchising relationship in order to achieve the research aim. This strategy resulted in the identification of success factors affecting the hotel franchise relationship. The final model should be used by franchisors and franchisees to develop their own relationship management model which addresses their own needs since it can vary from one hotel to another.
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<td>British Franchise Association</td>
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<tr>
<td>CAQDAS</td>
<td>Computer Assisted Qualitative Data Analysis Software</td>
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<td>EFF</td>
<td>European Franchise Federation</td>
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<tr>
<td>FBD</td>
<td>Franchise Business Director</td>
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<td>IHG</td>
<td>Intercontinental Hotel Group</td>
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<td>MBA</td>
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Refereed papers


1.1 Introduction

Hotel franchising is a relationship agreement between the holder of a brand (franchisor) and another partner (franchisee) which provides the franchisee with the right to use the franchisor’s brand name in return for fees. The services provided by the franchisor range from pre-opening services, initial services and on-going support. The degree of satisfaction experienced by the franchisee over the duration of the franchise relationship will not necessarily be constant and can lead to serious problems between both parties (Hall and Dixon 1988). Therefore, there may be some sort of lifecycle in the relationship between the franchisee and the franchisor as reported as a general concept for franchising relationships (Nathan, 2007).

The concept of franchising goes back to the Middle Ages when the Catholic Church granted franchises to tax collectors in return for a percentage of their money (Cunill, 2006). The Singer Sewing Machine Company was the first company to use franchising as a means of distributing its products (Cunill, 2006). The origin of hotel franchising can be traced back to the 1950s when Holiday Inn established a hotel franchise business (Connell, 1999). Franchising took shape in the hotel industry in the 1960s with the expansion of Holiday Inn (Pine et al., 2000). The original Holiday Inn chain of hotels was founded in 1952 in Memphis, Tennessee, USA, by Kemmons Wilson to provide inexpensive family accommodation for travellers within the USA (Stutts and Wortman, 2006). In 1957, Wilson began to franchise Holiday Inn as a chain within the USA,
ensuring that the properties were clean, predictable and readily accessible to road travellers (Holiday Inn, 2007).

Monroy and Alzola (2005) and Pine et al. (2000) indicate that franchising ensures the development of brand image for the franchisor since the franchisor retains control of the distribution channel. Notwithstanding this, Mendelsohn (1999), Pine et al. (2000) and Monroy and Alzola (2005) argue that there are some disadvantages of becoming a franchisor, such as: having to ensure that all the standards are maintained in all franchised outlets; the risk of loss of trust between the franchisor and franchisee; contributing to the preparation of a future competitor by training the franchisee. However, the franchisee also has the benefits of using the franchisor’s patents, trade marks, trade secrets and knowledge.

Franchising is developing rapidly in the hotel industry with the expansion and globalization of hotel chains (Pine et al., 2000). A franchisee’s perception of franchisor value, and vice versa, changes over time and has an impact on the hospitality industry, for instance, franchisees report positive perceptions of franchisor value when they start their franchise but once the franchise is established, the franchisee’s perceptions often change over time (Grünhagen and Dorsch, 2003). For example, franchisees’ perceptions may decline if they do not get the best return on their investment or if the franchisor proposes a new system without considering the franchisees’ opinion. In contrast, a franchisor’s perception of a franchisee may decline if quality and brand
standards are not maintained and if the royalty fees are not paid on time (Grünhagen and Dorsch, 2003). This idea is supported by Housden (1984) who reported a lifecycle in the hotel franchise relationship as franchisor/franchisees perceptions change over time depending on the services and benefits received from each other. Altinay (2006) confirmed that the hotel franchising lifecycle is variable and he compared this lifecycle with a commercial marriage. He asserted that the interactions between franchise partners should develop before and after signing the franchise agreement to create a long and happy commercial relationship.

Therefore, Hall and Dixon (1988) declared that there is a lifecycle in the relationship between the franchisee and franchisor which can lead to serious problems for both parties. The fundamental problem faced by the franchisor is to ensure the quality of the operating procedures by the franchisee, as any deterioration in delivery standards can affect the franchisor’s image and may ultimately result in a franchisee exiting the franchise relationship.

1.2 The Research Problem
A possible reason for a franchisee exiting a franchise relationship is lack of trust and commitment between franchise partners (Hall and Dixon, 1988). Wang and Altinay (2008) noted that there are some psychological problems affecting franchise relationships. For example, franchisors may try to have excessive control over franchisees and sometimes they ignore franchisees’ opinions. Moreover, Frazer and Winzar (2005) note that conflicts in the franchising
relationship regarding the services offered by the franchisor may be responsible for franchisees exiting the system. However, franchisees may face financial and resource constraints as reported by Mukherjee (2003) and that may affect their ability to offer the standards required by the franchisor.

Therefore, a franchisee’s perception of franchisor value, and vice versa, changes over time and has an impact on the hospitality industry as there is a lifecycle in the hotel franchise relationship which is variable over the contract period (Grünhagen and Dorsch, 2003). However, Tikoo (2005) and Monroy and Alzola (2005) indicate that there is a lack of research that examines the relationship between franchise partners. This study will address this research gap in order to investigate how to effectively manage the hotel franchise relationship.

In line with the above research problem, the following research questions were devised:

1- What makes a good relationship between the franchisor and franchisee during the hotel franchise relationship?

2- Does the psychological contract explain the hotel franchising relationship? If yes, to what extent does the psychological contract can help in managing effectively the hotel franchise relationship?
1.3 Research aim and objectives

The aim of this study is to develop a model of success factors in the relationship between franchisors and franchisees to ensure the success of hotel franchising relationships. Such relationships encompass operating procedures, technical assistance and marketing assistance. The study will focus particularly on the unwritten promises and obligations between franchise partners which may positively or negatively affect both parties through the lens of the psychological contract. This aim will be reached through the following objectives:

1. To undertake a critical review of relevant literature on hotel franchising in order to develop a conceptual framework integrating the hotel franchise relationship with agency theory, resource scarcity theory, social capital theory and the psychological contract.

2. To develop a multiple case study of franchisors-franchisees to explore the hotel franchise relationship and develop a model identifying key issues relating to success of the hotel franchise relationships.

3. To explore in depth the key issues relating to the unwritten franchise agreement underpinning the franchisor-franchisee relationship in the hotel industry through the lens of the psychological contract.

4. To present a model of success factors in the relationship between franchisors and franchisees in order to ensure the success of hotel franchising relationships.
Through these objectives, it will be possible to assess the nature of the relationship between the hotel franchisor and their franchisees to develop the hotel franchise relationship model.

1.4 The significance of the research

This thesis is the first in-depth analysis of the hotel franchise relationship and in particular, how the psychological contract impacts on understanding this relationship. It develops a methodology for the evaluation of franchisor-franchisee relationships in the hotel industry. These evaluations are supplemented by semi-structured interviews with several hotel franchisors and samples of their franchisees. This data set provides the basis for understanding the basics of hotel franchising.

The thesis will develop a model relating to the success of hotel franchise relationships. The identification and exploration of related issues through a critical review of literature will also contribute to the growing academic literature on hotel franchising.

The researcher is an assistant lecturer in Faculty of Tourism and Hotel Management, Helwan University in Egypt. The researcher has been involved in the hospitality industry both academically and professionally throughout the last 14 years. Academically, the researcher has a Bachelor's degree in hospitality management from Helwan University in Egypt; and a Master of Science degree in the same field from the same university. During the last seven years, the
researcher has been interested in management agreements in the hotel industry. Professionally, the researcher has worked in seven hotels affiliated to four different hotel chains. This professional career has helped to experience the reality of being a hotelier, which create the confidence to make judgements based on the practice. As a result, the researcher aims to use this experience throughout this research in order to help achieve the research objectives which add more significance to the research.

1.5 The research approach

This research adopts a qualitative approach using a case study research strategy to accomplish the overall aim, objectives and questions of the study as it is characterized by its ability to get detailed information about the phenomenon being investigated, namely hotel franchise relationships. A multiple case study of hotel franchisor-franchisee relationships is designed which enhances the validity of this research and offers the opportunity to study hotel franchising issues. The case study allows the problem to be investigated from different perspectives focusing on relationships and processes and using multiple sources of evidence, including: semi-structured interviews, and document analysis. Thus, any findings will be accurate and persuasive (Yin, 2003).

The plan was to conduct a multiple case study in six different hotel chains in the UK in order to explore hotel franchise relationships. The first objective was started in February 2007. This objective was achieved through the writing of the
literature review. The conceptual framework developed at the end of this phase from the literature review. The researcher upgraded from an MPhil to a PhD in May 2008. After the upgrade process, the researcher moved on to achieve the second and third objectives which involved semi-structured interviews with hotel franchisors and their franchisees.

The interviews were conducted between January 2008 and October 2009. Throughout the time spent conducting the interviews, the researcher transcribed and analyzed the qualitative data. After conducting the interviews, the researcher managed to obtain some documents that related to the hotel franchise relationships. The researcher then moved on to achieve the fourth objective, which is to present a model of success factors in the relationship between franchisors and franchisees in order to ensure the success of hotel franchising relationships.

1.6 Thesis outline

The thesis is broken down into seven chapters. Chapter one introduces the study and outlines its background, setting the stage for what follows. Specifically, it addresses the research problem and questions, states the overall thesis aim and specific objectives.

Chapter two presents key literature on franchising and the relationship between franchisors and franchisees in the hotel industry. It moves from the general conceptualization of franchising to specific issues of how to create and maintain
good relationships between franchisors and franchisees in the hotel industry. It considers definitions of hotel franchising and how to develop a working definition to comply with the aim of the thesis. It critically reviews relevant literature on the advantages and disadvantages of hotel franchising. It identifies the major franchisors in the hotel industry. The development of a special relationship between the franchisor and the franchisee is explored with agency theory, resource scarcity theory, social capital theory and psychological contract, each of which is discussed in the context of franchising. It highlights the different aspects of the lifecycle of hotel franchising. It discusses services provided by the franchisor ranging from selecting partners in the hotel franchise relationship to on-going franchise support. A suggested conceptual framework is presented. This thesis emphasizes that hotel franchising literature is extremely limited. As a result, this section will try to apply existing literature to the hotel industry.

Chapter three outlines the epistemological and theoretical perspectives of the research and provides a justification for choosing the research design and methodology. The chapter then describes the phases of the methodology employed in this research which adopts a multiple case study approach. This methodology includes two research methods in order to meet the research objectives; semi-structured interviews with hotel franchisors-franchisees and document analysis.
Chapter four analyses the transcribed interviews. This chapter provides a detailed discussion of the results from interviews conducted with hotel franchisor and their franchisees in relation to the relationship themes facing hotel franchise relationships. These themes include: application phase, pre-opening phase, opening phase and on-going franchise support. It presents the perspectives of the franchisor and franchisees towards the aforementioned issues. The chapter concludes with a model which incorporates these findings with the conceptual framework presented at the end of the literature review.

Chapter five similarly investigates issues related to the psychological contract for hotel franchise relationships. This chapter highlights the hotel franchise psychological contract which led to the success of hotel franchise relationship. It introduces a modified model for the success of the hotel franchise relationship. Some themes are presented: psychological contract and franchisors, psychological contract and franchisees, measures for psychological contract in franchise relationships. The chapter concludes with a model which incorporates these findings with the model presented at the end of chapter four.

Chapter six evaluates and discusses hotel franchise relationships across all the cases studied. It investigates tangible and intangible issues relating to hotel franchise relationships. It develops a cross-case analysis which results in the development of a model relating to the success of hotel franchise relationships. Finally, it presents a model which can be used to understand and explain the success factors of hotel franchise relationships.
Chapter seven concludes this study on franchise relationships in the hotel industry. It presents a review of the research objectives and outlines the major research findings. It also highlights the thesis’ contributions, limitations and opportunities for future research. Figure 1.1 summarizes the thesis layout in relation to the four research objectives.

Figure 1.1 The thesis layout
1.7 Summary

This research is aimed towards presenting a model of success factors in the relationship between franchisors and franchisees in order to ensure the success of hotel franchising relationships. This chapter has highlighted the research objectives that are targeted in order to achieve the research aim. This chapter has explained how these objectives achieved in a systematic manner using a structured plan. This chapter has also highlighted the research significance, research approach and research layout.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

2.2 Definition of franchising
   2.2.1 Product distribution franchising
   2.2.2 Trademark franchising
   2.2.3 Business format franchising
   2.2.4 Definition of hotel franchising

2.3 Advantages and disadvantages of hotel franchising

2.4 The major hotel franchisors

2.5 Franchising theoretical triggers
   2.5.1 Resource scarcity theory
   2.5.2 Agency theory

2.6 Psychological contract and the franchise agreement
   2.6.1 Psychological contract: history and background
   2.6.2 Psychological contract: contents
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   2.6.4 The influence of commitment on the psychological contract and franchising
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2.8 The relationship between the franchisor and the franchisee
   2.8.1 The franchise contract
   2.8.2 Selecting partners in the hotel franchise relationship
   2.8.3 Services provided by the franchisor

2.9 Conceptual framework
2.1 Introduction

This chapter will present key literature on franchising and the relationship between franchisors and franchisees in the hospitality industry. It also analyses theoretical perspectives regarding the franchise lifecycle. It moves from the general conceptualization of franchising to specific issues about how to create and maintain good relationships between franchisors and franchisees in the hotel industry. Section 2.2 considers the definition of hotel franchising and how this definition could be developed to conform with the aim of the thesis. Section 2.3 critically reviews relevant literature on the advantages and disadvantages of hotel franchising. Major hotel franchisors around the world and in the UK will be explored in section 2.4. Agency theory and resource scarcity theory, and their relation to franchise relations will be explored as theoretical franchise triggers in Section 2.5. Psychological contract and the franchise agreement are explored critically in Section 2.6. Section 2.7 highlights the different aspects of the lifecycle of hotel franchising. Section 2.8 discusses the selection of partners in the hotel franchise relationship and the services provided by the franchisor. This section also considers particular issues associated with the hotel franchise contract and how they impact on the franchise relationship. Section 2.9 will present a conceptual framework of modelling the hotel franchise relationship through the lens of the psychological contract. This thesis emphasizes that hotel franchising literature is extremely limited. As a result, this chapter will try to apply existing literature to the hotel industry.
2.2 Definition of franchising

The literature offers several fairly similar definitions of franchising. Mendelsohn (1999) provides a descriptive approach and stated that the British Franchise Association (BFA) defines franchising as a contractual license granted by the franchisor to the franchisee which allows the franchisee to carry on during the period of the franchise a particular business belonging to the franchisor; it obliges the franchisor to provide the franchisee with assistance during the period of the franchise to pay fees.

Furthermore, the European Franchise Federation (EFF) defines franchising as:

a system of ongoing collaboration between legally and financially separate and independent undertakings, the franchisor and its individual franchisees, whereby the franchisor grants its individual franchisee the right, and imposes the obligation, to conduct a business in accordance with the franchisor’s concept

(Monroy and Alzola, 2005, p586)

According to Kneppers-Heijnert (1988 cited Cliquet et al., 2007), franchising definitions can be categorized to three different types: product-distribution franchising, trademark franchising and business format franchising.

2.2.1 Product-distribution franchising

Kneppers-Heijnert (1988 cited Cliquet et al., 2007) points out product-distribution franchising as follows:
Product-distribution franchising: In this form, the ‘franchisor’ grants the ‘franchisee’ the right to sell specific goods by using the name of the franchisor. In the Netherlands this is not called ‘franchising’ because it is actually a form of licensing. In the U.S. it is often referred to as ‘first generation franchising’.

According to Kneppers-Heijnert (1988 cited Cliquet et al., 2007), the most important characteristics of this form are:

- The ‘franchisees’ manage by using their own names and do not really form part of a chain with a uniform identity.
- The ‘franchisees’ do not follow certain standardized methods and ways of presentation toward customers.
- The franchisees do not pay royalties or fees.

An example of product-distribution franchising is stated by Price (1997) as he revealed that in the brewing industry, brewers lease real estate to tenants on the condition that they only sell beer supplied by these brewers.

2.2.2 Trademark franchising

Through trademark franchising the ‘franchisor’ grants the ‘franchisee’ the right to use a certain production system to produce certain goods. The franchisor arranges the presentation and promotion of the goods. This type of franchising is mostly used in the soft-drinks industry, for example Coca-Cola (Kneppers-Heijnert, 1988 cited Cliquet et al., 2007). Trademark franchising refers to the situation where the franchisor is typically a manufacturer seeking someone else to distribute the branded product to retailers (Felstead, 1993).
2.2.3 Business format franchising

Housden (1984) defines the business format franchising as a modern type of franchising and indicates that the most extensive example of this type in the United Kingdom (UK) is the catering sector. Kneppers-Heijnert (1988 cited by Cliquet et al., 2007) indicated that in business format franchising, the franchisor offers a complete ‘business format’ to the franchisees. This format reflects a certain identity toward customers. Some of the earliest business format franchise systems in the United States (U.S.) are Holiday Inn, McDonald’s and Kentucky Fried Chicken, which started franchising in the early and mid-fifties. According to Kaufmann and Eroglu (1998) a business format franchising consists of four elements: Product/service deliverables, benefit communicators, system identifiers and format facilitators. Under this system, Felstead (1993, p47) points out that “the franchisee not sells the franchisor’s product and/or service, but does so in accordance with a set of precisely laid down procedures or ‘format’”. This research will explore franchising in hotel industry as a business format franchising.

2.2.4 Definition of hotel franchising

With regards to hotel franchising, Altinay (2006) takes his definition from BFA and EFF. However, he adds that the franchisor allows the franchisee to make use of a complete business package, including training, support and the corporate name, thus enabling them to operate their own business to exactly the same standards as the units in the franchised chain.
However, franchising definitions do not offer evidence on how to ensure a good relationship between franchisor and franchisee and they define franchising from a contractual point of view (Connell, 1999). He attempts to address this issue and offers the following definition:

Franchising is a business relationship whereby a franchisor permits a franchisee to use their brand name, product or system of business in a specified and ongoing manner in return for a fee

(Connell1999, p215)

Whilst a variety of definitions of the term franchising have been reviewed, these definitions are upgraded into the following definition which will try to incorporate some psychological issues. This proposed definition will be used as a working definition for the purpose of this thesis: “Hotel franchising is an agreement between the holder of a brand (franchisor) and another partner (franchisee), consisting of a written agreement providing the franchisee the rights to use the franchisor's brand name in return for the payment of a fee and an unwritten agreement which consists of unwritten promises and obligations between both parties”. The issues of written and unwritten franchise agreement will be explained later in this chapter.
2.3 Advantages and disadvantages of hotel franchising

Monroy and Alzola (2005) and Pine et al. (2000) indicate that franchising ensures the development of brand image for the franchisor since the franchisor retains control of the distribution channel. Furthermore, Mendelsohn (1999) and Monroy and Alzola (2005) indicate that the franchisor has the ability to expand more rapidly on a national or international basis by creating a distribution network at a low cost. Soriano (2005) and Castrogiovanni et al. (2006) indicate that agency theory suggests reducing franchisor organizational costs. Mendelsohn (1999) reveals that earning a reasonable profit without becoming involved in high capital risk or in problems which arise in management is one of the great benefits to the franchisor. There are considerable costs of monitoring the franchise contract (Cullen, 1997). Franchising can reduce monitoring costs and therefore franchising gives the franchisor the opportunity to expand rapidly at low cost (Mendelsohn, 1999). Agency theory argues that franchising offers particular advantages to the franchisor that are not found in fully integrated channels. (Hopkinson and Hogarth-Scott, 1999).

Mendelsohn (1999), Pine et al. (2000) and Monroy and Alzola (2005) argue that there are some disadvantages of becoming a franchisor, such as: a franchisor has to ensure that all the standards are maintained across his franchised outlets; there may a lack of trust between the franchisor and franchisee; the franchisor may prepare a future competitor by training the franchisee. Mendelsohn (1999) and Khan (1999) report that the brand name of the
franchisor may become less reputable for reasons beyond the franchisee’s control. Khan (1999) declares that there are some problems which might happen to the franchisor, such as: franchisors trying to expand very quickly and the system being unable to handle the strain; franchisees not paying their royalties or refusing to do so; franchisees not following instructions and neglecting to maintain standards. Mendelsohn (1999) reports that some problems raised in the franchise relationship relate to the unwillingness of franchisors to change and to accept new systems.

Mendelsohn (1999) and Monroy and Alzola (2005) state that the franchisee experiences some benefits from joining a franchise system, such as: access to a proven business concept and a prestigious brand and constant support; the franchisor will provide the franchisee with the incentive of becoming the owner of a business supported by the background of the franchisor; the franchisee should (where appropriate) receive assistance in site selection, staff training, equipment purchase, getting the business open and running smoothly and reducing start-up risks. The franchisee also has the benefits of using the franchisor’s patents, trademarks, trade names, trade secrets and knowledge and the franchisee has the benefits of the franchisor’s continuous research and development programme designed to improve the business.

Fowler and Fowler (1985) state that there are three particular circumstances in which becoming a franchisee is definitely attractive: firstly, if someone has a
recognized skill or trade, but little or no commercial experience; secondly, if someone has the aptitude or inclination to run a particular type of business, of which there is no experience; thirdly, if someone has the desire to run a business, has some capital available but does not know what to do. The latter point can be illustrated by resource scarcity theory as Castrogiovanni et al. (2006) assert that it is preferred for SMEs to overcome their resource scarcity by using franchising systems. Shane (1996) indicates that franchising helps small firms raise capital through franchisors. The small firms use this theory to access the franchisor's resources (reservation, marketing, purchasing and training). Managerial shortages and capital are the most important reasons for joining a franchise system (Castrogiovanni et al., 2006). Franchising allows the franchisor to overcome internal resource constraints by providing access to franchisees' resources (Hopkinson and Hogarth-Scott, 1999).

Furthermore, Grünhagen and Dorsch (2003) suggest that advertising costs are one of the most important and most frequent causes of tension and litigation in the franchise relationship. Franchisees complain that their advertisements do not yield results commensurate with the fees paid. Also, franchisees often voice concerns about the amount paid as an entry fee into the franchise system (Grünhagen and Dorsch, 2003). Mendelsohn (1999) points out that some franchisees feel that advertising and promotion fees are of little or no advantage when they are unreasonably high.
2.4 The major hotel franchisors

The concept of franchising goes back to the middle ages when the Catholic Church granted franchises to tax collectors in return for the percentage of their money and in the mid-nineteenth century, Singer was the first company to use franchising as a mean of distributing its products (Cunill, 2006). In relation to hotel franchising, the origin can be traced back to the 1950s when Holiday Inn established a hotel franchise business (Connell, 1999). Franchising developed in the hotel industry in the 1960s with the expansion of Holiday Inn (Pine et al., 2000). The original Holiday Inn chain of hotels was founded in 1952 in Memphis, Tennessee, USA, by Kemmons Wilson to provide inexpensive family accommodation for travellers within the USA (Stutts and Wortman, 2006). In 1957, Wilson began to franchise the Holiday Inn as a chain within the USA, ensuring that the properties were clean, predictable, and readily accessible to road travellers (Holiday Inn, 2007).

2.4.1 Intercontinental Hotel Group (IHG)

Hotel franchising has developed rapidly in the UK as prior to the early 1990s, Holiday Inn was the only franchisor in the UK hotel market (Connell, 1999). Table 2.1 shows the rapid rise of UK hotel companies’ involvement in franchising. The IHG website (2007) reported the full history of establishing the IHG (see Table 2.2).
Table 2.1. Major franchise developments in the UK hotel Industry

<table>
<thead>
<tr>
<th>Year</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>Bass enter the hotel franchise business through the acquisition of Holiday Inn</td>
</tr>
<tr>
<td>1990</td>
<td>Holiday Inn the only franchisor in the UK hotel market</td>
</tr>
<tr>
<td>1992</td>
<td>Scott’s hotels leave the Holiday Inn Franchise network and enter a master franchise agreement with Marriott International</td>
</tr>
<tr>
<td>1993</td>
<td>Edwardian Hotels enter a corporate franchise agreement with Radisson International</td>
</tr>
<tr>
<td>1994</td>
<td>Friendly hotels enter corporate franchise agreement with Choice International and convert their hotels to the Quality, Comfort, Clarion and sleep brands</td>
</tr>
<tr>
<td>1995</td>
<td>Whitbread acquire Scott’s Hotels and expand full service, Courtyard and resort products through the conversion of their Country Club and Lansbury hotel brand</td>
</tr>
<tr>
<td>1996</td>
<td>Scandia Crown converts city centre hotels to the Holiday Inn Crown Plaza brand. Friendly Hotels enter a master franchise agreement with Choice International</td>
</tr>
<tr>
<td>1997</td>
<td>Friendly Hotels enter a new ten year master franchise agreement with Choice. Premier Hotels enter a corporate franchise agreement with Cendent, representing Days Inn and Howard Johnson brands</td>
</tr>
</tbody>
</table>

[Source: Connell 1999, p87]
Table 2.2. The History of IHG

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1777</td>
<td>The origins of IHG can be traced to 1777 when William Bass established a brewery in Burton-on-Trent</td>
</tr>
<tr>
<td>1867</td>
<td>In 1867, The Bass red triangle becomes the first hotel trademark to be registered in the UK</td>
</tr>
<tr>
<td>1988</td>
<td>In 1988, Bass makes its first significant international move into the hotel industry by buying Holiday Inns International</td>
</tr>
<tr>
<td>1991</td>
<td>In 1991, Bass launches Holiday Inn Express, a brand in the limited service segment</td>
</tr>
<tr>
<td>1994</td>
<td>In 1994, Bass launches Crown Plaza, a move into the upscale hotel market</td>
</tr>
<tr>
<td>1997</td>
<td>In 1997, Bass creates a new hotel brand, Staybridge Suites by Holiday Inn.</td>
</tr>
<tr>
<td>2002</td>
<td>In 2002, the IHG brand was announced.</td>
</tr>
</tbody>
</table>

[Source: IHG website 2007]

IHG (2009) highlights that IHG owns a portfolio of seven hotel brands and manages the world’s largest hotel loyalty programme.

1. Intercontinental Hotels and Resorts: High-class facilities and services aimed at the discerning business and leisure traveller.
2. Crown Plaza: One of the world’s fastest growing upscale brands, for business and leisure travellers who appreciate style.

3. Hotel Indigo: Design-led hotels for people who value design at an affordable price.

4. Holiday Inn: One of the world’s most recognised hotel brands, which is undergoing a $1 billion re-launch announced in October 2007.

5. Holiday Inn Express: Convenience, comfort and value, ideal for people who are on the road – also part of the $1 billion Holiday Inn re-launch.


7. Candlewood Suites: Mid scale rooms and suites for extended stays of a week or longer.

In 2009, IHG announced that they want to grow faster by making their brands the first choice for both guests and hotel owners as operating a management and franchise business means managing brands through owners and thus considering owners’ needs as well as those of guests (IHG, 2009). There are over 3,700 hotels operating under IHG brands which are franchised (IHG, 2009). The full background of setting up the Holiday Inn chain is illustrated in table 2.3. It could be noted from table 2.2 that IHG has excellent history with dealing with hotels and this confirms the work of Cunill (2006) which highlights the ideal franchisors should have a widespread and successful history
Table 2.3. The History of Holiday Inn

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1952</td>
<td>Holiday Inn founded by Kemmons Wilson in Memphis, Tennessee</td>
</tr>
<tr>
<td>1967</td>
<td>Holiday Inn Leiden opens in the Netherlands, the first Holiday Inn to open in Europe</td>
</tr>
<tr>
<td>1984</td>
<td>Opening of China’s first international brand hotel, the Holiday Inn Lido Beijing</td>
</tr>
<tr>
<td>1988</td>
<td>Bass acquires Holiday Inns International</td>
</tr>
<tr>
<td>1990</td>
<td>Bass acquires the remaining North American Holiday Inn business</td>
</tr>
<tr>
<td>1994</td>
<td>Holiday Inn Worldwide goes live on the internet and becomes the first hotel company to offer direct booking capability</td>
</tr>
<tr>
<td>2004</td>
<td>The first ‘next-generation Holiday Inn’ opens in Gwinnett County, Georgia, US and sets the standard for Holiday Inn properties to come</td>
</tr>
<tr>
<td>2007</td>
<td>Holiday Inn launches the new style in Europe, offering increased quality and comfort for guests, whilst reducing build costs by 25% and bringing a higher return on investment for owners</td>
</tr>
</tbody>
</table>

[Source: Holiday Inn website 2007]


2.4.2 Choice Hotels International

Choice Hotels International franchises more than 5,900 hotels, representing more than 479,000 rooms, in the United States and more than 30 other countries and territories. The company’s Comfort Inn, Comfort Suites, Quality, Sleep Inn, Clarion, Cambria Suites, Mainstay Suites, Suburban Extended Stay Hotel, Econo Lodge and Rodeway Inn brands serve guests worldwide (Choice Hotels Investors, 2009).

The Choice story began in 1939 when seven independent motel owners in Florida got together to talk about how they could better satisfy the needs of their customers. Over the next few years, the group continued to meet and share best practices, and in 1941 they formalized the relationship by creating a membership association called Quality Courts United, with its headquarters in Daytona Beach, Florida, creating the nation’s first hotel chain. By 1946, the association had grown to include 50 motels familiar to many by their common sunburst-logo sign. By 1952 the association had grown to include 100 hotels, providing helpful assistance to new motel owners with site selection, cash flow projections, construction plans and operations guidance. In November 1961, Stewart Bainum, who operated the hotels he owned under the name Park Consolidated, joined the board of directors of Quality Motels and he tried to restructure the organization from a non-profit membership organization into a for-profit corporation and this idea was approved the in January 1963. The 1970s were truly an exciting time for the company, as it expanding its presence to international markets — beginning with Germany and Belgium, followed by Mexico, New Zealand and Canada. In 1981, the Comfort brand was created, followed by the purchase of the Clarion brand and the launch of Sleep Inn and Comfort Suites in 1986. In 1990, the company changed its name to Choice Hotels International. In 2005, Choice expanded its presence in and commitment to the extended stay market with the acquisition of the Suburban Extended Stay Hotel brand.

(Choice Hotels History, 2009)
Wood and Brotherton (2008) identified that Choice Hotels International is one of the leading global companies that only franchises mid-market and economy segments. They identified three different franchise strategies for global growth of Choice Hotels:

1. Multi-unit franchising businesses controlled by choice. It refers to the acquired control of a hotel organization in the host country and the transition of its portfolio to Choice-defined brand segmentation.
3. Open-enrolment. It refers to the solicitation of new individual franchisees in the host countries by the country or regional offices of Choice Hotels International.

2.4.3 Wyndham Hotels

Wyndham is one of the world's largest hospitality companies. Wyndham Worldwide offers travellers around the globe, as well as hotel investors, developers, and operators, a broad suite of hospitality products and services across various accommodation alternatives and price ranges. Wyndham hotels have built a significant presence in major hospitality markets in the United States and throughout the world (Wyndham Hotels, 2008).

Wyndham Hotel Group franchise hotels in the upper upscale through economy segments of the lodging industry and provide property management services to upscale properties through Wyndham Hotel Management. Wyndham brands include more than 6,500 franchised hotels and more than 550,000 rooms on six continents (Wyndham Hotels, 2008).
2.4.4 Marriott Hotels

Marriott International is a leading player in the international hotel, timeshare and corporate accommodation markets. The group owns leases, manages and franchises nearly 2,600 hotels in 65 countries under a wide variety of brands.

Its business encompasses full-service, more mid-scale select-service and extended-stay hotels; luxury timeshare apartments; and corporate accommodation for executives.

Marriott major hotel brands

1. Marriott Hotels & Resorts (full-service, upper-midscale brand)
2. JW Marriott Hotels & Resorts (full-service luxury brand)
3. Renaissance (full-service upper- to mid-scale brand)
4. Courtyard by Marriott (select-service three-star brand)
5. Ritz-Carlton Hotel Company (full-service luxury brand)
6. Fairfield Inn by Marriott (select-service economy brand)
7. Bulgaria Hotels & Resorts (full-service luxury brand in partnership with Italian jewellery firm Bulgari)
8. SpringHill Suites by Marriott: (select-service, all-suite brand)

The business expanded over the years to include airline catering (1937), food service management (1939, fast-food and family restaurants, senior living services and accommodation (1989), housekeeping and laundry services (1989) and food wholesaling. In 1957, the company opened its first hotel, the Twin Bridges Marriott Motor hotel, in Arlington, Virginia. In 1964, the company name becomes Marriott-Hot Shoppes. Marriott has 76 properties in the UK and Ireland. Up to 2005, when Whitbread gave up its Marriott franchise and hotels,
Marriott directly operated just three Marriott and five Renaissance hotels in the UK. It now manages all the UK properties except for Courtyard by Marriott (Marriott annual report, 2005).

2.4.5 Hilton Hotels

In the UK and Ireland, is a priority development market for Hilton Hotels, the company will enter into a preferred development alliance with Shiva Hotels Limited, representing its first UK hotel franchise deal with a major property partner. The agreement is expected to result in the addition of at least 15 new hotels and will focus on the following Hilton family of hotels: Hilton, Doubletree by Hilton, Hilton Garden Inn and Hampton by Hilton (Hilton Franchise 1, 2009).

Hilton franchise core business principles are based upon such timeless values as teamwork, fair play, mutual respect and open communications. Hilton offers franchisees a wide range of hotel brands and brand extensions, each with a unique and differentiated product and service profile, and at distinct price points. Each Hilton brand focuses its competitive efforts on brands outside the Hilton family of hotels (Hilton Franchise 1, 2009).

Both Hilton hotels and the franchisee should each be committed to maintaining a professional and positive relationship with one another. If Hilton hotels should approve a project, and the franchisee, feel that the decision to approve the
application is contrary to the intended spirit of relationship; Hilton will strive to maintain an open line of two-way communication to respond to concerns and seek to find opportunities that create “win-win” situations (Hilton Franchise 2, 2009).

When franchisees join the Hilton Family of Hotels, Hilton will value their loyalty by offering them a special package of services and benefits including (Hilton franchise 2, 2009):

• Gold VIP membership
• Owner Travel Program which offers discounted hotel rates
• Franchise development awards program

2.4.6 Easy Hotels

Easy hotel brand is recognized and respected by a wide range of customers since 1995. Although this brand is growing in the UK, its values remain the same, no frills, value for money, always fun, and available to all. The design of Easy hotels rooms is unique; it combines aesthetics with durable long lasting materials, which are almost free of maintenance costs. The customers will book on-line, all customers will benefit from pricing logistics and yield management system, enabling them to request and book our different room types confident in the knowledge they are getting a consistent room product, well located, safe
and secure, and in the best location the money can buy. Easy hotels will provide training for new franchisees and their employees, they will get a design and technical specification manual as well as an operations manual as reference books. Easy hotels will share with franchisees the benefit of customer feedback via on-line helpdesk, and quality assurance audits (Easy hotel, 2009).

2.5 Franchising theoretical triggers

The reasons motivating firms to choose franchising rather than expansion through company-owned units is a topic that inspires debate in the literature. In this section, the research will try to review resource scarcity theory and agency theory as theoretical explanations for the choice of franchising as an organizational form, followed by an assessment of the empirical support available for each of the perspectives.

2.5.1 Resource scarcity theory

Franchisors and franchisees cooperate because they possess complementary resources as the franchisor considers the franchisee as a source of financial, managerial and entrepreneurial resources and the franchisee is concerned with the business format of the franchisor (Mendelsohn, 1999). In the franchising literature, resource scarcity theory focuses on the role of resources in franchise relationships (Carney and Gedajlovic, 1991; Lee, 1999).
However, resource scarcity theory is suggested to help Small and Medium Enterprises (SMEs) to grow rapidly because they might facing some pressures and constraints, such as advertising and purchasing (Castrogiovanni et al., 2006). Oxenfeldt and Kelly (1969) explain that franchising is an attractive option because of the franchisee’s need for a ready supply of management labour and talent. Shane (1996) found that it is essential for new firms to overcome the limitation of their resources through the franchising system. “The resource scarcity theory views franchising as an organization’s response to a shortage of the necessary resources required for its expansion, such as financial capital, labour capital, managerial talent, or local market knowledge” (Wang and Altinay, 2008, p227).

Shane (1996) added that as franchisees grow, their internal resources will grow as well and they subsequently will become less reliant on the franchisor as they mature. This issue was mentioned by Mendelsohn (1999) as he indicates that as the franchisee gains practical experience, he/she becomes less dependent and he/she thinks that there is no value from the franchisor.

On the other hand, Rubin (1978) suggests that it is not lack of capital or lack of management resources that fully explains why firms choose to franchise. He contends that a firm could simply hire experienced managers, assuming that the firm had sufficient capital, rather than enter a franchise relationship.
From the franchisors’ point of view regarding the use of franchising as an expansion method, resource scarcity theory (Oxenfeldt and Kelly, 1968; Carney and Gedajlovic, 1991; Shane, 1996) argues that expanding firms through franchising is to get access to scarce capital (the franchisees’ capital) in a cost effective way. Selling franchises may therefore be the more cost effective and realistic option (Dant and Kaufmann, 2003). Furthermore, franchisees may be able to provide capital to the franchisor at a lower cost than passive investors (Combs and Ketchen, 1999). Low-cost capital, motivated managerial expertise, and better local market knowledge are three key resources that should reduce a franchisor’s overall risk and have a significant, positive impact on a franchisor’s performance.

2.5.2 Agency theory

In addition to the resource scarcity view, dynamics of franchised outlets has been examined from an agency-theoretic perspective as well. Many franchisor-franchisee relationships can be characterised as agency relationships. Such relationships tend to be maintained as long as each partner’s benefits exceed its costs. Agency theory can be defined as “an agency relationship exists in any joint effort in which one party (the principal) delegates the authority to as a second (agent)” (Vazquez, 2007, p908). From the perspective of agency theory, the franchise agreement is designed to maximize the relational qualities of exchange, and the contract clauses are the means to ensure unity (Hopkinson
and Scott, 1999). In franchising relations, franchisors act as principals, giving some resources and authority to franchisees (Vazquez, 2007).

The agency perspective points at two possible problems in the franchise relationship. First, there is the problem of moral hazard. This means that the agent might not put as much effort into the work that was agreed upon. Second, there is the problem of adverse selection, which refers to the agent’s misrepresentation of his abilities. The principal has two ways of dealing with these risks. First, he can invest in instruments to collect information about the agent, such as budgeting systems, reporting procedures, or adding extra management layers. With these instruments the principal can monitor the agent’s behaviour (these are called ‘behaviour-based contracts’). The second way of dealing with moral hazard and adverse selection is to contract on the outcomes (‘outcome-based contracts’). This means that the rewards for the agent are based on the actual outcomes of the task.

(Croonen, 2007, p18)

Carney and Gedajlovic (1991) point out the following agency problems in franchise relationships: inefficient investment, free-riding and quasi-rent appropriation. Inefficient investment results from the fact that franchisees have a large proportion of their wealth tied up in one or a few units, and therefore have to consider the full risks of each marginal investment they make. According to Carney and Gedajlovic (1991) the problem of free-riding refers to the situation where the franchisee tries to cut costs by offering a lower quality than specified by the franchisor. In these cases, the franchisee benefits from the system’s well-known brand name, but at lower costs than the other franchisees. As a result, the franchisee’s lower quality offerings might damage the reputation of the franchise system. The free-rider problem is particularly common in
franchises with few or no repeat customers (Brickley et al., 1991). The third agency problem concerns the issue of quasi-rent appropriation. A quasi-rent exists if the value of an asset is higher in its current use than it is in alternative uses. Quasi-rents arise when partners make relation-specific investments (Carney and Gedajlovic, 1991).

In agency theory, franchisors have two basic tools to ensure franchisee cooperation: direct observation of franchisee behaviour such as monitoring and incentives and motivation to franchisee outputs (Castrogiovanni et al., 2006). Soriano (2005) stated that agency theory suggests that franchisors want to reduce their organizational costs – monitoring costs in particular – by rewarding a franchisee’s efficiency with profit. Moreover, the franchisor controls the franchisee through direct observation of franchisee’s behaviour and by providing incentives to franchisees (Castrogiovanni et al., 2006; Wang and Altinay, 2008).

On the other hand, Carney and Gedajlovic (1991) found two problems with agency theory as they observed that this theory ignored the fact that franchisees engage in creative problem-solving and tactical decision-making and that is also assumes that the franchisor has unlimited control over the franchisee. This issue is in agreement with previous research (Khan, 1999; Mendelsohn, 1999; Pine et al., 2000; Monroy and Alzola, 2004) as they state that the franchisor may propose new systems without taking the franchisee
opinion and the franchisee is not satisfied by the franchisor control and he/she may try to resist this control.

To conclude, agency theory offers the following explanation: under the conditions of low monitoring costs, company-owned outlets are more efficient than franchised outlets despite their lower-powered incentive mechanisms. However, when the monitoring costs rise, due to uncertainty and opportunism, franchised outlets are more efficient because of their higher-powered incentive effects.

Agency theory and resource scarcity theory are two leading theories which offer theoretical insights into the franchising relationship (Wang and Altinay, 2008). However, neither the agency theory perspective nor the resource scarcity perspective alone provides a complete rationale for choosing franchising (Dant, 1996). The application of a sole theory to franchising gives inconclusive results (Inma, 2005). Incorporating elements from both theories as illustrated by Dant (1996) could enrich the explanation of choosing franchising. Therefore, Castrogiovanni et al. (2006) state that resource scarcity theory illustrates that the franchisees pursue rapid growth in their early years and franchisors provide the resources needed for this growth. From the agency theory perspective, the level of growth of the franchisee might be slower, and the role of the franchisor is to reduce monitoring costs. Carney and Gedajlovic (1991) highlight that resource scarcity theory and agency theory view franchising as a useful
strategy for small firms seeking growth. Therefore, Castrogiovanni et al. (2006) suggests that resource scarcity theory is more relevant during the early years of franchising, and agency theory is more relevant during later years of franchising.

2.6 Psychological contract and the franchising agreement

2.6.1 Psychological contract: History and background

The psychological contract can be traced back to as early as 1960 when Argyris (1960, cited Anderson and Schalk, 1998) used the term to describe the relationship between employees and the foreman in a factory in which he was conducting research. After Argyris (1962) discussion of the psychological work contract, a number of researchers developed their own perspectives on the psychological contract. Schein (1965) took the perspective that psychological contracts are unwritten and informal. Schein (1965) also suggested that psychological contracts include not only expectations, but involve the whole pattern of rights, privileges, and obligations between worker and organizations. A key element to Schein’s theory of psychological contracts is that they are dynamic and develop over time through interaction between the employee and employer moving from initial organizational entry stages through early socialization. Kotter (1973) discussed the psychological contract as a matching of expectations, where matched expectations lead to higher employee satisfaction and less turnover.
Rousseau (1989; 1995) developed the psychological contract beyond that of the work of Argyris’ (1962) and Schein (1965) by defining the psychological contract as promissory exchange agreement of reciprocal obligation. According to Rousseau (1995) obligations of the two parties are the basis for the beliefs that constitute the psychological contract. Additionally, Rousseau’s theory of psychological contracts tends to focus on the contract as an individual’s belief system, mainly in terms of the employee’s beliefs regarding the obligations of the organization.

The psychological contract has been defined as “an individual beliefs, shaped by the organization, regarding terms of an exchange agreement between individuals and their organizations” (Rousseau, 1995, p9). Robinson (1996) added that the psychological contract is like an invisible agreement between partners concerning the circumstances of their relationship. Moreover, Guest (2004) indicated that the contents of this contract would be the reciprocal promises and obligations implied in this relationship. To conclude, the psychological contract is the unwritten agreement that exists between partners as it binds both sides to act fairly and honestly with the other, and its terms concern issues ‘above and beyond’ normal ‘legal’ contractual terms and conditions as it covers a series of mutual expectations that cannot be easily expressed in legal terms (Rousseau, 1995). The core of the psychological contract concerns the exchange of promises and commitments as psychological contract defines what the individual expects from the organization in order to achieve and maintain psychological wellbeing (Guest and Conway, 2004).
2.6.2 Psychological contract contents

Anderson and Schalk (1998) argued that there is no real consensus about what the psychological contract is. Cavanaugh and Noe (1999) supported Anderson and Schalk’s viewpoint by agreeing that there is currently no consensus on what psychological contracts contain, although they do suggest some agreement on relational components such as career development, organizational commitment, and job security. Csoka (1995) provided some insight into what each party expects from the contract (Table 2.4)

Table 2.4 Basic parts to the new psychological contract

<table>
<thead>
<tr>
<th>Employee Provides:</th>
<th>Employer Provides:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commitment to business Objectives</td>
<td>Employability</td>
</tr>
<tr>
<td>Shared responsibility for Success</td>
<td>Learning</td>
</tr>
<tr>
<td>Quality performance</td>
<td>Flexibility</td>
</tr>
<tr>
<td>Flexibility</td>
<td>Performance-based compensation</td>
</tr>
<tr>
<td>Judgment</td>
<td>Greater participation and involvement</td>
</tr>
<tr>
<td>Strategic skills</td>
<td>Interesting and challenging work</td>
</tr>
<tr>
<td>Continuous improvement</td>
<td></td>
</tr>
</tbody>
</table>

[Source: Csoka 1995, p27]

Herriot et al. (1997) identify twelve organizational obligations, which they labeled training, fairness, needs, consult, discretion, humanity, recognition, environment, justice, pay, benefits, and security. They also identified seven
employee obligations, which they labeled hours, work, honesty, loyalty, property, self-presentation, and flexibility. Hutton and Cummins (1997) identified two employer obligations: support, and respect and fair practice, and three employee obligations: getting the job done, flexible citizenship, and loyalty.

Coyle-Shapiro and Conway (2005) suggested that, within the context of social exchange, the psychological contract is one way of operationalizing the employee-employer exchange. Understanding employee expectations relating to that social exchange may help identify the factors that shape employee perceptions of the psychological contract. One of those factors is reciprocity which provides a basis for a global evaluation of the employment relationship by the employee (Coyle-Shapiro & Conway, 2005). Rousseau (1995) also found that motivation and intention to stay with the recruiting organization were factors that shaped employee perceptions of the psychological contract.

Psychological contracts mediate the relationship between organizational factors and work outcomes such as commitment and job satisfaction (Guest, 1998). The roles of the psychological contract are work satisfaction, organizational commitment, job security, employment relationship, and life satisfaction, and these roles might lead to low intention to quit the work (Guest and Conway, 2004). However, there may be some sort of violation in the psychological contract when an employee experiences a discrepancy between the actual and fulfilment of the organization, and promises made about these obligations (Rousseau, 1995). Therefore, there is a negative relationship between
psychological contract formation and psychological contract violation (Kingshott and Pecotich, 2007). This is confirmed by the work of Hall and Dixon (1988) as they assure that the level of psychological satisfaction experienced by the franchisee may lead to serious problems between franchise partners and the ideal franchisee is an individual who receives a reasonable level of security, affiliation and respect.

It is worth noting that most of the roles of the psychological contract might be applied to the hotel franchise relationship. This is due to the fact that psychological contracts are fundamental to the behaviour of individuals and actions of organizations, and can be used to distinguish cooperative behaviours and interdependence from independence (Rousseau, 1995; Robinson, 1996). The promises and obligations of the psychological contract have the capacity to increase trust and commitment alternatively they may engender dispute and disagreement between parties and therefore have the capacity to impact negatively upon relationships (Kingshott and Pecotich, 2007).

2.6.3 Psychological contract typology

There are two major types of psychological contracts: relational and transactional (Rousseau, 1995). Relational contracts characterise beliefs about obligations and promises based on exchange of socio-emotional factors such as loyalty and support. A relational contract can engender feelings of effective participation and can carry out the employer to provide some investments like
training, career development, and job security (Grimmer and Oddy, 2007).

Relational contracts, in which the relationship between employee and employer is dominant, are based on collective interest, are linked to social exchange, in which each acknowledges the other's interest (Millward and Brewerton, 1999). Kissler (1994) argued that relational contracts may reflect longer term commitments. Cable (2008) indicates that the major influence on the content of relational contracts is the employment relationship itself and a healthy employment relationship, which supports the fulfillment of a relational contract is proposed to result in an organizational environment more conducive to the ongoing wellbeing of the individuals involved.

In contrast, a transactional contract is a short-term agreement with little involvement of the partners (Grimmer and Oddy, 2007). Transactional contracts are based on self-interest focus on short-term relationships (Cavanaugh and Noe, 1999), in which the outcome of the transaction is more important than the continuance of the relationship. They involve limited personal participation in the job and low emotional investment (Rousseau, 1995). Such contracts are likely to result in decreased loyalty and employee alienation (Cavanaugh and Noe, 1999). Transactional elements are more clearly defined than relational elements and they include more tangible elements such as pay and benefits, whereas relational elements are considered to be more open-ended such as loyalty and job security (Rousseau, 1995).
2.6.4 The influence of commitment on the psychological contract and franchising

McDonald and Makin (2000, p86) stated that “there are obvious links between the nature of the psychological contract and the individual’s commitment to the organization”. Organizational commitment may be defined as a global attitude that employees have toward the organization – an affective and evaluative response toward the organization (Meyer and Allen, 1991). Organizational commitment is considered to be an emotional response (attitude) which links the individual to the organization.

Meyer and Allen (1991) mentioned three types of commitment: affective commitment which concerns with the extent to which the individual identifies with the organization; continuance commitment which concerns with individuals need to continue with the organization; and normative commitment which is similar to affective commitment and it is influenced with the society norms.

According to Mowday et al. (1979), the concept of commitment can be characterized by at least three factors: (a) a strong belief in the organization’s goals and values, (b) a willingness to exert considerable effort on behalf of the organization; and (c) a strong desire to remain in the organization.

Individuals enter the organization with specific skills, needs and goals. In return, individuals expect a work setting where they are able to use their skills, satisfy their desires, and achieve their goals (Angle and Perry, 1983). Commitment is
likely to be strong in organisations where people are kept informed, taken into confidence, feel important, and treated with respect (Lester and Kickul, 2001). Employees will also express strong commitment when they feel the organisation recognises their individual contributions and achievements (Winter and Schmuttermaier, 2002). The issue of commitment and motivation has a big impact on the franchise relationship (Hall and Dixon, 1988). Altinay (2006, p125) suggests that “creating a co-operative environment between the franchise partners to have a long and happy commercial marriage”. Therefore, there should be stages of solid commitment between franchise partners (Munn, 2001).

Based on the practical work undertaken by previous researchers, such as Angle and Perry (1983) and McDonald and Makin (2000), it could be concluded that if the organization fails to provide resources able to satisfy the needs and goals of organizational members, resulting in lower job satisfaction, it might be possible that employees’ commitment to the organization to decrease. Organizations need to ensure the satisfaction of their employees at work through providing ample promotional opportunities, adequate income, and fair supervision.

2.6.5 The influence of trust on the psychological contract and franchising

Applying the idea of trust to business-to-business relationships seems challenging as these relationships are always based on considerations of common interest and risk assessment (Sebenius, 1992). Business relationships
are often categorized by a stratified web of inter-personal trust relationships between employees of interacting organizations. Trust has been defined in business-to-business relationships as a fundamental cornerstone of cooperation (Mayer et al., 1995). Trust can be defined as “the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party” (Mayer et al., 1995, p. 712). Sheppard and Sherman (1998) described the trust in relationships into four different forms:

(1) Shallow dependence;

(2) Shallow interdependence;

(3) Deep dependence; and

(4) Deep interdependence.

These forms of trust in relationship (Sheppard and Sherman, 1998) could be mapped into the franchise relationship. Munn (2001) highlights that at the beginning of the franchise relationship; the franchisee relies too much on the franchisor (Deep dependence). As the franchisees gain experience, they will depend more on themselves (Shallow dependence). Some franchisees recognise that they are doing all the work without good levels of support from their franchisor (Shallow interdependence). At the end of the franchisees will be
aware of the importance of the franchisors’ support and therefore, they cooperate together for the success of the relationship (Deep interdependence).

Sheppard and Sherman (1998) discuss two key factors in building trust in an organization which are business competence and people orientation, with these factors likely to be embraced by the content of the psychological contract. On the other hand, Mouzas et al. (2007) highlighted that inter-personal trust is a relevant but not in itself sufficient condition for the development of sustainable business relationships because it fails to capture the underlying interests and objectives of organizations. Therefore, it is useful to consider the existence of the other parts of a relationship without trust. Branes (2001) stressed that one of the most interesting features of the business relationship is trust and commitment. He defines many other factors which influence the relationship as illustrated in Table 2.5. Hence, trust which is assessed in the present study is proposed to be a critical factor with respect to psychological contract management and franchising, which means higher levels of trust provide a more conducive environment to the development of healthy psychological contracts and sustainable business relationships.

Table 2.5 Dimensions of building a good business relationship

<table>
<thead>
<tr>
<th>- Trust</th>
<th>- Dependability</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Commitment</td>
<td>- Social support</td>
</tr>
<tr>
<td>- Reliability</td>
<td>- Two-way communication</td>
</tr>
<tr>
<td>- Empathy</td>
<td>- Intimacy</td>
</tr>
<tr>
<td>- Shared values</td>
<td>- Interest in needs</td>
</tr>
<tr>
<td>- Respect</td>
<td>- Responsiveness</td>
</tr>
<tr>
<td>- Caring</td>
<td>- Keeping of promises</td>
</tr>
</tbody>
</table>

[Source: Barnes 2001, p119]
There are two types of trust and distrust: cognitive and affective (Huotari and Iivonen, 2004). Atkinson (2007) adapted a conceptualisation of trust that incorporates both its cognitive and affective bases and confirms that these concepts have a relation to the nature of the psychological contract. Cognitive trust is defined as being rational and calculative, focusing on an individual’s gains, usually material and it is based on the degree of knowledge one has about others in a relationship (Huotari and Iivonen, 2004). Affective trust, however, consists of relational bonds between the parties, respect and concern for one’s welfare, including perceptions of motivation, intentions, ethics, and citizenships (Leena and Iivonen, 2004).

*Cognitive trust needs to develop prior to affective trust being possible, but that once established, affective trust can continue in the absence of cognitive trust. Affective trust also seems to be linked to employees enhancing their contribution.*

(Atkinson, 2007, p.242)

However, incorporating both cognitive and affective trust will add a value to the franchise relationship. This is due to the fact that the franchise relationship is focusing on a franchisee gains, respect and motivation (Hall and Dixon, 1988; Altinay, 2006).

Trust and commitment are present in all psychological contracts, but may differ in their nature and scope and that this has implications for nature of the
psychological contract. Understanding the basis of trust that works in the psychological contract may well have practical implications for the management of the employment relationship (Atkinson, 2007). Similarly, this can be extended to the management of the franchising relationship.

2.6.6 Psychological influences of social capital theory

Putnam (2000) described social capital theory as “Connections among individuals forming social networks and norms of reciprocity and trustworthiness that arise from them” (Putnam, 2000, p. 19). Similarly, Woolcock (2000) referred to social capital theory as the norm and networks that facilitate collective action. Woolcock stressed the importance of maintaining a focus on the relational aspects of social capital theory. Bourdieu defined social capital theory as:

The aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition

(Bourdieu, 1986:248)

Putnam (1995) identified two categories of social capital. The contents of social capital was described as those social networks of relationships and associated norms of reciprocity and trustworthiness that bind people into cohesive groups, associations or organizations. Bridging social capital was described as those social networks of relationships and associated norms of reciprocity and trustworthiness that connect people to other cohesive groups, associations or
organizations. A third category of social capital - linking social capital was identified by Woolcock (2000). In referring to the work of previous writers, he noted that poverty was largely a function of powerlessness and exclusion. He saw the need in development work with some groups to form alliances with sympathetic people in power, a form of networking he called “linking social capital”. Subsequent research and development by Woolcock and others (Woolcock, 2000; Narayan and Cassidy 2001; Grootaert et al., 2004) consolidated six dimensions of social capital within each of the three categories. These were:

1. Groups and networks
2. Trust and solidarity
3. Collective action and cooperation
4. Information and communication
5. Social cohesion and inclusion
6. Empowerment and civic action

- **Social norms as psychological influences on social capital**

Although there is not a consensus as to how to define social norms, the pragmatic definition offered by Miller and Prentice (1996) is rigorous and adept. Miller and Prentice define social norms as:

> Attribute[s] of a group that [are] considered to be both descriptive of and prescriptive for its members. Some groups have norms for personal appearance, some have norms for opinions and some have norms for personal characteristics and most have norms for behaviour. Social norms are sometimes formally
codified but more often their communication and enforcement are less explicit. They serve as prescriptive standards for the group and, by extension, for all members of the group.

(Miller and Prentice, 1996, p800)

Woolcock (2000) describe norms as a product of a group in the form of rules, (explicit or implicit) developed within groups of people to regulate the behaviour of members. As such, norms do not exist outside the context of a group.

Clusters of common themes of definitions of the concept of social norms relate to:

1. Common goals of members
2. Interdependence of members
3. Interpersonal interaction of members
4. Perceptions of membership
5. Structured relationships between members
6. Mutual influence of members on each other, and
7. Motivation for belonging to the group

It is these components that enable partners to obtain access to the stakes or resources of a field and they are, therefore, the source of social capital (Portes, 1998). When these components are absent or weak, partners will be unable or unwilling to act together in a collaborative pursuit. The two most important components can be categorized as trust and social norms (Wetterberg, 2007).
The literature on social capital is far more ambiguous in its treatment of social norms than trust (Holland, 1998). While most researchers working with social capital consider that social norms play a role in the production of social capital, Putnam et al (1993) incorporated social norms solely as the reciprocity of exchange, stating: "The most important of these norms is reciprocity" (Putnam et al., 1993:172). The link between the production of social capital and reciprocity is, therefore, that mutual exchange produces an outcome that functions as the basis for a partner to engage in collective action. Feelings of closeness, of having things in common and, of sharing the same ideas and goals as other structurally-defined partners can be used as a good indicator as to whether they share a set of social norms. Norms are defined as:

*The group’s common beliefs regarding appropriate behaviour, attitudes and perceptions for members. They are the prescribed modes of conduct and belief that not only guide the behaviour of group members but also help group interaction by specifying the kinds of responses that are expected and acceptable in a particular situation.*

(Johnson, 2003, p. 26)

**Trust as a psychological influence on social capital**

Trust is considered as an influence for social capital theory (Bastelaer and Leathers, 2006). There is widespread agreement of the importance of trust in the production of social capital (Putnam, 2000). Gambetta's (1988) definition of trust
provides a useful starting point in devising a clearer understanding. Gambetta states:

\[
\text{Trust (or, symmetrically, distrust) is a particular level of the subjective probability with which an agent assesses that another agent or group of agents will perform a particular action, both before he can monitor such action (or independently of his capacity ever to be able to monitor it) and in a context in which it affects his own action.}
\]

(Gambetta, 1988: p217)

This definition highlights one of the most important features of trust, that is, being trusted is based on a person's probability assessment that another person's behaviour will be agreeable. Trust is actually more complicated than reciprocity. Johnson (2003, p.128) identify the essential elements of trust as “openness and sharing on the one hand and acceptance, support and cooperative intentions on the other”. There are risks in reciprocal relationships in that another party may not know that the norm of reciprocal relationships exists, may not share the norm of reciprocity, or may choose to breach the norm, hence the importance of the second norm, that of trustworthiness.

Trustworthiness is the level of confidence one party has in another that they know the norms of reciprocity and can be relied upon to respect them. Within the network of relationships, there is an agreed set of informal rules that people will respect the norm of trustworthiness.
• Applying the concept of the psychological contract to the franchise agreement

Explicitly grounding social capital thinking in the psychological theories of groups enables a degree of separation from ideological considerations of the role of individualism verses cooperation in the dominant conservative society (Putnam, 2000). Psychological theory allows an understanding of the mechanisms of social capital to develop and enables access to a body of scientific knowledge about the nature of human behaviour and interactions within and between groups. Psychological contracts argue for the potential benefits of mutual expectations and for long-term relations between employee and employer. At the same time, these attributes can be shared among employees (Blackman and Hindle, 2007). They indicated that in organizations which are strong in applying social capital theory, the psychological contract and its contents are the operational underpinnings of behaviour both between employer and employee and among different employees.

Morrison and Robinson (1997) emphasized the distinction between relational and transactional arrangements among employers and employees in the psychological contract. A transactional arrangement focuses on the short term relationship with obligations and rewards. Relational contracts, conversely, are more long term and include aspects like associability and trust. Transactional
contracts are rooted in the principles of economic exchange, whereas relational contracts depend on social exchange norms (Rousseau, 1995).

Recently, the entrepreneurship literature has highlighted the significance of ‘social capital’ in the creation and growth of franchising (Shane and Cable, 2002; Zhang et al., 2003). Social capital provides entrepreneurs with considerable resources to facilitate the identification, evaluation, and exploitation of opportunities. If, in thinking about franchising and social capital theory, one concentrates attention on what various parties to a contractual relationship expect of one another, this leads to a consideration of the theory of the psychological contract because of its focus upon the role of expectations and their impact upon emergent employee/employer relationships. A psychological contract deals with implicit reciprocal promises and obligations in the workplace which contains trust and social norms of social capital theory (Rousseau, 1989; Guest, 1998; Cullinane and Dundon, 2006). It is argued that the state of the psychological contract will explain the dynamics of the elements affecting the employment relationship and, potentially, the likelihood of successfully utilizing or changing aspects of work (Rousseau, 1989). This could seriously impact upon the potential of a new business to achieve its desired outcomes (Pate et al., 2000).

Some researchers (Carney and Gedajlovic, 1991; Shane, 1996; Hopkinson and Scott, 1999; Soriano, 2005; Castrogiovanni et al., 2006; Wang and Altinay,
2008) noted that there are some psychological problems in the franchise relationship, such as ignoring the franchisees’ opinions, unlimited control of the franchisor over the franchisee and the franchisees becoming less reliant on the franchisor as they mature. This research will use the psychological contract as a theory to enhance the understanding of franchisees’ and franchisors’ perceptions and attitudes toward the franchise relationships with emphasis on the intangible franchise agreement. The psychological contract may be particularly useful in franchising research to assist in the explanation and understanding of the variables which are influenced by the psychological contract process, including satisfaction, loyalty, motivation, trust, respect and communication.

Psychological contracts originate when individuals infer promises that give rise to beliefs in the existence of reciprocal obligations, typically between employee and employer (Rousseau, 1989). Using psychological contracts for the analysis of business relationships is not new, and at least two empirical studies have been conducted where the concept has been applied to other settings. The first study was conducted by Pavlou and Gefen (2005) and dealt with psychological contract violations in online marketplaces. In this study, the authors find that the online buyers are rarely aware of the legal terms regarding the transactions, but were very aware of the psychological contract in the mind of the customer. The second study, investigated the impact of psychological contracts on trust and commitment, was conducted by Kingshott and Pecotich (2007). In this study of
relationships between suppliers and distributors, a direct effect of the psychological contract on relationship commitment and trust was found.

With regards to the justification of applying the concept of the psychological contract to the hotel franchise agreement, Gartner (1989) noted that when certain psychological traits are carefully evaluated, it is not possible to differentiate franchisors from managers or from the general population. Kingshott (2006) justified the extension of the psychological contract concept into marketing theory by noting that marketing scholars model distributor-supplier relationships from the perspective of social exchange and he suggested that the psychological contract is also likely to have both theoretical and managerial implications for marketing relationships grounded in social exchange theory. Drawing on agency theory and the norm of reciprocity in franchising (Croonen, 2007), the psychological contract hypothesizes that employees are motivated to seek balance in their exchange.

From these studies (Gartner, 1989; Pavlou and Gefen, 2005; Kingshott, 2006), it could be noted that the construct of psychological contract does have relevance for increasing the understanding of other business relationships. Therefore, the psychological contract and its relation to hotel franchising should be explored to identify the different outcomes for this relationship. Hence, this study will use the psychological contract as a framework for understanding different outcomes across the franchise relationship.
2.6.7 Psychological contract model

Conway and Briner (2005) defined the outcomes of adapting the psychological contract as the following: there is a positive relationship between psychological contract and commitment, affective wellbeing and job satisfaction; there is a negative relationship between psychological contract and employee’s intention to quit the system. This is in agreement with the work of Hall and Dixon (1988) as they report a positive relationship between the franchisee satisfaction and his intention to stay in the franchise relationship. Housden (1984) indicates the importance of the motivation to the franchise relationship.

Guest (2004) presents an extended model of the psychological contract to provide an analytic framework within employment relationships. This model suggests that the extent to which employers adopt people management practices will influence the state of the psychological contract, the contract is based on employees’ sense of fairness and trust, and where the psychological contract is positive, increased employee commitment and satisfaction will have a positive impact on business performance. Marks (2001) suggest that the psychological contract can be reconceptualised to deal with multiple foci on a number of levels including top management.
Figure 2.1 A model of psychological contract

<table>
<thead>
<tr>
<th>Background factors</th>
<th>Policy and Practices</th>
<th>Psychological contract</th>
<th>State of the psychological contract</th>
<th>Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Franchisee</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>Direct Participation</td>
<td>Promises</td>
<td>Delivery</td>
<td></td>
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<td>Intention to stay/quit</td>
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[Adapted from Guest 2004, p 550]

It is apparent from Figure 2.1 that the model of Guest (2004) can be adapted to the franchising relationship. The most striking result to emerge from the Guest (2004) model is that the background factors which are mentioned by Guest are in agreement with those noted by Jambulingam and Nevin (1999) as they point out that franchisee level of education and experience would be some of the franchisee selection criteria. Interestingly, there is a correlation between the franchisor size and business strategy and the franchisee willing to join the franchisor system (Mendelsohn, 1999). Organizational climate is considered as an important factor which affecting the franchisor policies (Hall and Dixon, 1988). Herriot et al. (1997) identify twelve organizational obligations, which can be adapted to the franchising relationship such as support, training, fairness,
pay, benefits, and security. They also identified seven employee obligations, which they can adapted to the franchisee, including loyalty, self-presentation, and flexibility. Housden (1984) declares the importance of the trust and fairness to the franchise relationship. Hall and Dixon (1988) and Housden (1984) highlight the importance of the motivation to the franchise relationship and the correlation between the franchisee satisfaction and his intention to stay in the franchise relationship.

2.7 The franchising lifecycle

In franchising, the franchisor is continuously evolving and interacting with the environment. Hence franchisor strategies and profiles play a significant part in determining the success or failure of franchises (Chutarat, 2005). Oxenfeldt and Kelly (1969) were pioneers in demonstrating the various profiles of franchise organizations by classifying franchise firms into four development stages: penetration, growth, maturity and late maturity and they called this the franchise lifecycle.

Moreover, there are distinctive phases in the relationship between franchisor and franchisees and there are significant differences in the commitment-trust dimensions representing the franchise lifecycle (Schreuder et al., 2000). The franchisor and franchisee are subject to vital changes as they mature regarding their goals, capabilities and opportunities facing each one (Oxenfeldt and Kelly, 1969). Hall and Dixon (1988) explained that the degree of satisfaction
experienced by the franchisee will not necessarily remain at such a high level over a prolonged period of time and in fact many often decrease within a relatively short time-span. Therefore, there may be variations in the relationship between the franchisee and the franchisor which described as franchisee lifecycle which unless appropriately managed can lead to serious problems for both parties (Hall and Dixon, 1988). This study will concentrate on the franchisee lifecycle and the impact of the psychological contract on it.

The franchising lifecycle has been compared to a marriage or a relationship between a child and its parent as there are courtship stages, honeymoon stages and stages of solid commitment (Munn, 2001). Nathan (2007) reports that franchise relationship phases go from real dependence on the franchisor to independence and finally to interdependence. Figure 2.2 illustrates these stages.
In the Glee stage, the franchisee is very happy with the relationship (Nathan, 2007). Hall and Dixon (1988) explained the Glee phase as an initial learning period in which there is heavy reliance on franchisor for training and assistance. Nathan (2007) assumed that although the franchisee is making money, the royalty payments are taking most of the profit. Nathan (2007) indicates that this stage last between 3 and 12 months depending on the franchise partners past experience. He highlights the importance of structured selection process as it plays an important role at this stage. He adds that franchisor over-promising and under-delivering is the fast way to create unhappy franchisees. He
highlights the importance of ensuring that all the franchisor team understands their basic legal obligations.

At certain time, the franchisee starts to be concerned about the fees being paid to their franchisor in return for the services or products received (Hall and Dixon, 1988). Nathan (2007) highlights that checking from time to time the strength of the franchise system to deliver value to the franchisees is very important at this stage which called Fee stage. He adds that the respect and fairness is very important to make a control on the franchisee at this phase.

Hall and Dixon (1988) indicates that franchisees feel that their success is a result of their own effort and they forget the franchisor’s help when they started. At this stage which called Me the franchisees think that they might be successful without franchisor help (Nathan, 2007). ‘Thus while the franchisee may temporarily satisfy their need for self-esteem and autonomy, the continuing control which is exerted by the franchisor may rapidly reduce the franchisee’s feeling of autonomy’ (Hall and Dixon, 1988, p82). Altinay (2006) highlights the risk of franchisor competing with their franchises through trying to prove that they are better than them.

The free stage would be in this case when the franchisees really dislike all these restrictions by the franchisor and they will become frustrated and annoyed. Therefore, the franchisees may seek to terminate the franchise relationship in order to manage their business alone (Hall and Dixon, 1988). In other cases the franchisees may go through this phase for a short time but they
then cope to reconcile their feelings and understand that this control is in their own interest as well as that of the franchisor but the franchisor should be aware that his continuing control may lead to lack of the franchisees’ psychological needs such as security (Hall and Dixon, 1988). Altinay (2006) points out that the annual practical training for the entire franchisor management team is important to keep the business strategy healthy.

However, the franchisee guesses that they can see the importance of following the system of the franchisor and acknowledges the value of the franchisor support services (Nathan, 2007). Finally, the franchisor and franchisee need to work together to make the most of their business relationship. The franchisee needs help in certain areas, but he also has some ideas that he wants the franchisor to consider (Nathan, 2007).

Schreuder (2000) suggested four phases for the franchise life which incorporate a recommended timeline:

*The Courting Phase: The first phase in the franchisee lifecycle is like a honeymoon period for a couple that has courted each other and has just got married. The typical duration of this phase is about one year. The average likelihood of franchisee retention in this stage is 80%.*

(Schreuder, 2000)
Initially the franchisee may be primarily interested in obtaining an outlet for his energy and initiative in a situation which provides some security while giving him stimulation through at least partial autonomy (Oxenfeldt and Kelly, 1969).

**The "We"-Phase:** During this phase the franchisee will still value the cooperative relationship with the franchisor and will work hard to make the most of the business relationship. It is evident that the franchisee satisfaction has already deteriorated, due to possible doubts, relationship conflict and restrictions enforced by the franchisor amongst others. It is significant to note that at this stage, the average likelihood of franchisee retention decreased to 66%.

(Schreuder, 2000)

**The "Me"-Phase:** After approximately 24 months the franchisee will start to question the reasons for royalty payments and generally will regard the success achieved up to that stage to be purely through their own hard work. The average likelihood of franchisee retention now stands at its lowest level 47%.

(Schreuder, 2000)

As he prospers, however, his security needs ordinarily become less pressing while his desire for identity is likely to grow. When he has become established he may seek more independence (Oxenfeldt and Kelly, 1969).

**The Rebel Phase:** In year four of the franchisee lifecycle, the Rebel phase is characterized by further questioning of the restrictions placed on them by the franchisor and a desire for more independence. A more entrepreneurial franchisee will arrive at this phase quicker than anticipated and are most likely start their "own thing" (approximately 5% of franchisees will definitely end the relationship). If the progress to Phase 4 takes a natural duration, it is
interesting to note that the average likelihood of franchisee retention can recover to 73%. This is probably due to the fact that most franchisees who have made it to four years are preparing for their contract renewal in year five.

(Schreuder, 2000)

Should the franchisee survive to the mature declining stage, several forces may move him to sell out; for instance the desire for easy life. Even as the franchisee’s goals change, so do his capabilities. At first his major strengths may be his ambition, willingness to work hard, local knowledge and finances. Because of his lack of certain important skills, he may welcome the close attention and training by the franchisor. Through time, he acquires managerial skills of his own. His self esteem grows, and he comes to resent the constraints placed upon his actions by the franchisor.

(Oxenfeldt and Kelly, 1969)

Furthermore, Franchise Classroom (2007) suggests that the franchise relationship lifecycle goes through four basic stages. Introduction: the franchisee needs to go through the necessary introductory stage to ascertain whether or not this is the correct time, product, and/or service to begin operating a franchised unit; the franchisee must take the time to evaluate and analyze all the business opportunities which are available. Growth: from the time of the grand opening, generally through the first year or two of operations, and the franchisee works very hard to develop a strong level of business performance. Maturity: the franchisee will work very diligently to ensure constant sales volume and proper management techniques. Decline: this may occur simply because of the environment of the business, the local community, or a conflict between
franchise partners. Oxenfeldt and Kelly (1969) explained that the frustrations and difficulties involved in operating a franchise system are powerful pressures toward ownership which permit for greater control.

Franchising is developing rapidly in the hotel industry with the expansion and globalization of hotel chains (Pine et al., 2000). A franchisee's perception of franchisor value, and vice versa, changes over time and has an impact on the hospitality industry (Grünhagen and Dorsch, 2003). There is a lifecycle in the hotel franchise relationship as franchisor/franchisees perceptions may change over time depending on the services and benefits received from each other. For example, franchisees’ perceptions may decline if they do not get the best return on their investment or if the franchisor proposes a new system without considering the franchisees opinion (Housden, 1984 and Grünhagen and Dorsch, 2003).

2.8 The relationship between the franchisor and the franchisee

2.8.1 The franchise contract

A franchise contract is:

A legal contract between a hotel’s owners (the franchisee) and the brand managers (the franchisor) that describes the duties and responsibilities of each in the franchise relationship

(Hayes and Ninemeier 2006, p 27).
Previous research on franchising (Hall and Dixon, 1988; Forward and Fulop, 1993;) show that the franchise contract refers to a variety of aspects concerning the operation of the franchised units, such as the products offered, the hours of operation, and the franchisee training provided by franchisors. The franchise contract may require the franchisee to purchase specific inputs from the franchisor (Hall and Dixon 1988). The minimum length of franchise contract is about 5 years whilst the maximum is about 20-21 years (Forward and Fulop, 1993). Stutts and Wortman (2006) indicate that franchise agreement should include detail on how the franchisor can protect the franchisee against competition; and technical assistance. Hall and Dixon (1988) state that before signing the franchise agreement, the appropriate fee, continuing royalties, etc should be determined. This means that the franchise contract must be a contract of adhesion (Hall and Dixon, 1988).

Stephenson and House (1971) highlight that the franchise contract forms the core of the relationship between the franchisor and franchisee, as many contracts have been written to favour the franchisor which creates conflict between the partners. Contracts of this nature are unsatisfactory for purposes of establishing a durable relationship. Therefore, the provisions of the agreement should be completely fair so that neither party may claim unreasonable authority by the other.
Mendelsohn (1999) stated a comprehensive description for the franchise contract. The franchise agreement can be divided into seven sections:

1. The rights granted to the franchisee.
2. The obligations undertaken by the franchisor.
3. The obligations imposed upon the franchisee.
4. The trading restrictions imposed upon the franchisee.
5. Assignment/Death of the franchisee.
6. The termination provisions.
7. The consequences of termination.

2.8.2 Selecting partners in the hotel franchise relationship

The most important and obvious way of avoiding the build up of excessive franchisee dissatisfaction lies in the careful initial selection of franchisees (Mendelsohn, 1999). One of the criteria upon which the franchisor can base their franchisee selection is not to sell franchises to individuals who are likely to have hard feelings about the continuing control that the franchisor must exercise over them (Hall and Dixon, 1988). For example, Munn (2001) reports that the franchisees can go to the annoyed phase quickly if they do not bear the restrictions by the franchisor. Murphy (2006) adds that the franchisee should hire someone who has an expertise in the franchise law to avoid going to the annoyed phase at the beginning. Education, experience, personal characteristics, financial capability and managerial factors, demographic factors, and attitudes/ personality would be some of the franchisee selection criteria.
(Jambulingam and Nevin, 1999). Altinay (2006) adds strategic rational and the market as points to be considered when selecting the franchisee. The franchisor should test franchisee understanding of the value and ability to protect his intellectual property (Koslow, 1996). Hall and Dixon (1988) suggest that the franchisor should have a profile of the ideal franchisee which covers all aspects such as the required financial resources, previous experience and psychological make-up.

From the perspective of the franchisee on how to select a franchisor, quality and experience of the brand managers and perceived service quality level of the brand could be the most important criteria for choosing the franchisor (Hayes and Ninemeier, 2006). The franchisee should examine the franchisor profit margins and the level of support offered by the franchisor (Mendelsohn, 1999).

It is pertinent to note that none of the previous authors (Hall and Dixon, 1988; Jambulingam and Nevin, 1999; Mendelsohn, 1999; Koslow, 1996) discuss the impact of trust, commitment and good manners of the partners on the franchise selection process. However, Altinay (2006, p125) suggests that:

*The interactions and the attempts to create a co-operative environment between the partners do not become established overnight. Instead, a significant part of the relationship develops before an agreement is struck and there is in fact a ‘mutual evaluation’ between the partners to assess whether there is a room for a long and happy commercial marriage.*
Furthermore, Wang and Altinay (2008) reveal that the franchise partners’ selection is vital and has a direct effect on the brand quality. This is due to the fact that the hotel guest is dealing with the franchisees rather than franchisors. Therefore, if the guest receives a bad impression about a hotel brand, he will not return again to this brand anywhere (Buttle, 1997).

### 2.8.3 Services provided by the franchisor

Not only does franchise satisfaction lie in the careful selection of franchise partners, but also the services provided by the franchisor have a huge impact on satisfaction (Powers and Barrows, 2005). Services provided by the franchisor range from pre-opening services, initial services and on-going support (Mendelsohn, 1999). Regarding initial services or pre-opening services, Powers and Barrows (2005) declare that most franchisors may provide practical support to franchisees in terms of site selection, general business start-up assistance, pre-opening training and operations manual. Stutts and Wortman (2006) indicate that the franchisor should help the franchisee to understand everything about the operating procedures. A further service which many franchisors offer to franchisees is giving advice and assistance in the selection of the equipment at the most economic price and the franchisor should give assistance to the franchisee in relation to the design/remodelling of the hotel (Housden, 1984).
With regards to the on-going services from the franchisor to the franchisee, Stutts and Wortman (2006) declare that franchisor inspectors should visit hotels periodically to ensure the quality of hotels and to give valuable advice to the franchisee about food and beverage, operating supplies and marketing techniques.

The fundamental service which should be provided by the franchisor is training which should include training in staff selection and the operational functions (Monroy and Alzola, 2005). Additionally, part of these services also includes marketing and promotional assistance (Taylor, 2000). The Franchise Business Director (FBD) is a representative of a franchisor who interacts directly with a hotel franchisee (Hayes and Ninemeier, 2006).

*The franchisor offers the franchisee a package of successful operational know-how, including a successful operation system (product or service, trade mark, corporate image, reservation system) and essential assistance (locating, financing, pre-opening preparation, equipment, training, management and techniques), which brings the franchisee easier market access* (Pine *et al.*, 2000, p 305)

Figure 2.3 which is based on literature (Housden, 1984; Pine *et al.*, 2000; Powers and Barrows, 2005; Stutts and Wortman 2006), illustrates the franchise phases as a flowchart. The first phase of the relationship, called the application
phase in which the selection process goes through many phases. This is followed by the pre-opening phase which incorporates three essential issues: pre-construction; financial assistance and design, development and construction. At the opening phase, the franchisee will be more familiar with the system of the brand. Finally, the on-going franchise support phase consists of operations support; reservation system support, training and quality assurance.
Figure 2.3 Hotel Franchise Phases

[Adapted from Housden, 1984; Pine et al., 2000; Powers and Barrows, 2005; Stutts and Wortman 2006]
Frazer et al. (2007) suggest that the relationship between the franchisee and franchisor is more complex than a dyad between the two parties and effective business relationships within a franchise system contribute to more effective franchise systems. Franchising relationships have been compared to a marriage (Munn, 2001; Nathan 2007; Seda, 2007). There are courtship stages, honeymoon stages and stages of solid commitment, in which both parties are dedicated to ensuring their relationship is successful (Munn 2001; German, 2002). The franchisees are diverse in their backgrounds, capabilities and needs and the franchisor should turn in to it at the very start of the franchisee lifecycle (Frazer et al., 2007). As a result, there will be some sort of conflict and to manage that conflict in a healthy and constructive manner; it should be good relationships which are built on trust and honest communication (Shay, 2007). “The glue that keeps franchisors and franchisees working together is not always their profits, but their communications, and their respect to each other” (Modell, 2005, p77).

It is important to recognize that trust or distrust are established at a very early stage, often before the parties enter into the agreement and as a result, many potential franchise relationships may never come to fruition (Munn 2001).

There is no one relationship model that fits all situations and the franchisor should work harder to understand franchisee needs exactly (Frazer et al., 2007). The capabilities and resources of the franchisor also change over time. The primary customers for hotel franchisors are their franchisees. However, the
relationship between them is especially critical and the effective relationships between hotel franchisors and their franchised hotels are really partnerships that benefit both parties, not just one (Shay, 2007). As a result, building marketing partnerships between hotel franchisors and their franchisees should lead to a high level of performance (Brown and Dev, 1997).

The franchise relationship is a growing relationship. However, it is also like a parent-child relationship because of the initial dependence of the franchisee on the franchisor (Mendelsohn, 1999). Therefore, as the franchisee becomes significantly more self-confident, the franchisor must be careful to manage the relationship by adding value to the franchise system. Furthermore, continuing commitment to the relationship will contribute to a building of trust and good communication (Munn, 2001). It is important that the franchisor has solid ongoing training programmes in order to build a good relationship with the franchisee (Modell, 2005). Nathan (2007) assert that a good way to have a good relationship with the franchisee is to measure this relationship periodically at least every two years by arranging interviews with them or by asking them to complete a survey.

A parent/child relationship analogy can be used with regards to the franchise relationship. In its early stages the franchisee is dependent upon the franchisor for their sources of information and an understanding of how to apply the standards required. As the franchisee gains practical experience, he/she
becomes less dependent and he/she thinks that there is no value for the franchisor. The important factors for franchise success are good communications, co-operation, respect and trust between them (Mendelsohn 1999). Nathan (2007) highlights some points which can strain the franchise relationship such as stress, macro environment changes in the world, law of perception, incompetent support and insensitivity to the feeling of others.

Hall and Dixon (1988) report that many of the problems which develop in the franchise relationship between the franchisee and franchisor are related to the level of psychological satisfaction experienced by the franchisee. The ideal franchisee from the psychological theory viewpoint is an individual who has moderate needs for security, affiliation, esteem and autonomy and psychological contracts help the relationship in some issues such as commitment and job satisfaction (Guest, 1998). The roles of the psychological contract are work satisfaction, organizational commitment (Guest and Conway, 2004). However, there is some sort of violation might be happened in the psychological contract when an employee experiences a discrepancy between the actual and fulfilment of the organization, and promises made about these obligations (Rousseau, 1995). Hall and Dixon (1988) identify many factors influencing the motivation of franchisees:

1- Satisfaction of running of his/her own business in the form of franchising and avoiding the risk of insecurity associated with going it alone.
2- To what extent the franchisor gives the franchisee the opportunity to feel a part of a team.

3- Feeling of self-esteem and achievement provided by the work situation. The franchisee does not want to feel that he is a small cog in a large machine and their efforts are not necessary.

4- The franchisor can constantly remind the franchisee of the importance of the continuing role which he plays in the overall franchisee’s success.

5- The franchisor may attempt to offer the franchisee the opportunity to open a second franchise once he has fully mastered the operation of his first outlet. Modell (2005) indicated that the franchisee needs some recognition programs and award programs motivation.

The literature on franchise lifecycle and the franchise relationship (Housden, 1984; Hall and Dixon, 1988; Pine et al., 2000; Munn, 2001; Powers and Barrows, 2005; Stutts and Wortman 2006; Nathan, 2007) can be unified. The proposed theoretical model explains that trust comes at very early stage in the relationship even before the application phase. From pre-opening phase to opening phase, the franchisee satisfaction will be at the highest level as they become familiar with the franchisor systems and they get training and support during these stages. During the on-going franchise support phase, some franchisors support the franchisees with motivation which enhances the franchisees intention to stay with the franchisee system. On the other hand, some franchisors do not provide the appropriate motivation for their franchisees,
which leads to their intention to quit the franchise system. Figure 2.4 illustrates this approach.
Figure 2.4 Integrating model of the hotel franchise lifecycle with hotel franchise phases

[Adapted from (Housden, 1984; Hall and Dixon, 1988; Pine et al., 2000; Munn, 2001; Powers and Barrows, 2005; Stutts and Wortman 2006; Nathan, 2007;)]
From the previous research on the franchise lifecycle and franchise phases (Housden, 1984; Hall and Dixon, 1988; Munn, 2001; Powers and Barrows, 2005; Stutts and Wortman 2006; Nathan, 2007), the following issues can be summarized with regards to the hotel franchising relationship:

- Application phase: It is the honeymoon period of the relationship. It is a balance between initial learning period and familiarity with the system.

- Pre-opening phase: The relationship should be still in constant level when the franchisor provide the best delivery system to the franchisee.

- Opening phase: The franchisor still assists the franchisee. The franchisee feels the importance of the franchisors services. The franchisee is at the glee phase.

- On-going franchise support: A problem in this phase in which the franchisee resents continuing franchisor control and royalty payment. The franchisee may go quickly to decline. After decline phase, the franchisee may begin to recognize the importance of the franchisor and he think about cooperation with the franchisor finally the relationship should settle down to a constant level.
2.9 Conceptual framework

The aim of this thesis is to develop a model relating to the relationship between franchisor and franchisee in order to ensure success of hotel franchising relationship. Such a relationship includes tangible and intangible issues which may positively or negatively affect both parties. A conceptual framework (Figure 2.5) has been created to illustrate factors influencing the success of hotel franchising relationship to achieve a constant level of satisfaction between franchise partners. This framework consists of two major parts; tangible and intangible relationship issues. This framework suggests that tangible and intangible relationship issues are considered as motivators for building success between franchise partners.

With regards to the tangible issues in the hotel franchising relationship, the hotel franchise phases of the conceptual framework represents the tangible issues. This model suggests the success factors relating to hotel franchise phases. It starts with agency theory and resource scarcity theory as triggers for the hotel franchise relationship. This framework highlights the importance of the application phase as the franchisor should pay attention towards; location, franchisee financial capability and experience. On the other hand, the franchisee should look at franchisor support and quality. In addition, this conceptual framework suggests that in pre-opening phase, the franchisor should pay attention towards hotel design and construction, equipment selection and training whereas the franchisee should focus on using and
understanding all franchisor services. The hotel franchise relationship should last for years. During the long journey, the franchisor should provide the franchisee with training, consultation on operations, reservation and marketing services and training. The franchisee should also protect brand image, follow standards and paying fees.

The other side of this framework presents the intangible relationship through the lens of psychological contract. It starts with background factors as the experience and education level of franchisees and the franchisor business strategy could affect the relationship. This framework suggests that franchisors and franchisees intangible policies and practices affect partners’ relationship. Promises and obligations of both parties in the hotel franchise relationship play a significant role in the success of the relationship. Finally, this framework suggests that trust plays a vital role in the relationship as both franchise partners should try to build trust from the early phase of the relationship.

This framework suggests attitudinal and behavioural outcomes from the interaction between tangible and intangible relationship. The attitudinal outcomes can be summarized as the intention of both parties to stay in the relationship. This framework suggests that intention could be affected by the interaction between the franchise psychological contract and hotel franchise phases. However, the behavioural outcomes are commitment and satisfaction.
This is also affected by the extent of the interaction between tangible and intangible relationship.
Figure 2.5 The conceptual framework
CHAPTER THREE: RESEARCH APPROACH

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3.1 Introduction

The research approach is essential as it provides a framework for establishing and interpreting the research (Lincoln and Guba 1985). Therefore, this chapter presents the epistemological and theoretical perspective of the research. In addition, it provides a justification of the research procedures and therefore the research findings (Crotty 1998). This chapter focuses on two issues. First, it discusses the research approach, including: theoretical and epistemological perspective, methodology and methods. Second, it describes the methods used to support the development of a model. This phase includes two research methods to develop the model; (1) semi-structured interviews with franchisor and their franchisees to explore their opinions towards the franchise relationship (2) document analysis to support the data from the interviews.

3.2 Research approach

3.2.1 Qualitative versus quantitative research approach

The distinction between qualitative and quantitative research is a methodological issue. The decision to choose a specific methodology should be based on its suitability to answer the research questions (Bryman, 1988). Denzin and Lincoln (1998) asserted that qualitative research emphasizes the process of discovering how social meaning is constructed and stresses the relationship between the investigator and the topic studied. Conversely,
quantitative research is based on the measurement and the analysis of causal relationships between variables. Berg (2001) discriminated between qualitative and quantitative research arguing that qualitative research referred to the meanings, concepts, definitions, characteristics, metaphors, symbols and descriptions of things, while quantitative research referred to the measures and counts of things.

Qualitative and quantitative research approaches differ basically in some major areas, including: their analytical objectives; the types of questions posed; the types of data collection methods used; the types of data produced; the degree of flexibility in study design (Mack et al., 2005). Snape and Spencer (2003) indicated that qualitative research is a naturalistic/interpretative approach concerned with understanding the meaning people give to the phenomena within their social settings. They outlined a number of key elements which distinguish the qualitative approach, among these: it is the approach which provides a deeper understanding of the social world; it is based on a small-scale sample; it uses interactive data collection methods, i.e. interviews; it allows new issues and concepts to be explored.

A number of authors have written about the two different types of research. i.e. “qualitative and quantitative” (e.g. Yin, 1994; Creswell, 1998; Silverman, 2000). According to Creswell (2003, p18), a quantitative approach can be defined as follows:
A quantitative approach is one in which the investigator primarily uses postpositivist claims for developing knowledge (i.e., cause and effect thinking, reduction of specific variables and hypotheses, and questions, use of measurement and observation, and the testing of theories).

Strauss and Corbin (1998) identified that qualitative research can be used with any type of research that produces findings not arrived by statistical procedures. It can refer to research about experiences, behaviours, emotions, and feelings. Moreover, Strauss and Corbin (1998) highlight that qualitative methods can be used to understand any phenomenon about which little is yet known and they can also be used to gain new perspectives on concepts which much is already known, or to gain more in-depth information that may be difficult to convey quantitatively. Therefore, researchers adopt a qualitative approach to examine an issue related to individuals or phenomena (Strauss and Corbin, 1998).

This research will use a qualitative approach to accomplish the overall aim of the study as most of the franchising literature has largely focused on quantitative studies that lack deeper theoretical analyses (Young et al., 2000). The need for more qualitative approaches in franchising research is reflected in the statistics provided by (Young et al., 2000). They explained that over the period between (1986-1999) the percentage of qualitative research in franchising has been 7.7%. These researchers observed that the presence of qualitative research was almost non-existent. The knowledge about franchise is almost never fleshed out with franchisees’ (or franchisers’) genuine
experiences. This lack of qualitative franchising research appears as a motivation for this research particularly when exploring the franchisee/franchisor relationship issues.

The qualitative approach has helped the research to get a deeper understanding of the issues being investigated. It is an approach that has enabled the research questions to be answered by providing a rich picture on the actual conditions surrounding franchising relationship in hotels. As Gray (2004) showed, qualitative research is distinguished as a highly-contextual approach where data is gathered over long periods and in natural real life settings. It can answer how and why questions rather than giving a brief view about the phenomenon studied.

In terms of current research on the psychological contract, most psychological contract research is in the form of quantitative analysis and there is little qualitative research at present (Conway and Briner, 2005). This study believes there is a need for additional research to understand the nature of psychological contract through qualitative approach as part of an ongoing process to improve theoretical utility. Such qualitative assessments of psychological contracts were used in the foundational work of Argyris (1962) and provide a basis for rich description that is useful in understanding how contracts link to organizational culture as well as to the psychodynamics of individuals. Semi-structured assessments are represented in the focus groups employed by Herriot and
Pemberton (1996), where groups of people are asked to describe their obligations to their employer in the context of on-going and anticipated future changes in the firm. Participants were asked to describe in their own words their obligations to their employer and what they owed in return, three years ago, today, and three years from now. Qualitative measures typically assess respondent interpretations of parts of the contract including discrete obligations and perceived promises (Rossueau and Tijoriwala, 1998).

This study concludes that qualitative methods are important in research regarding psychological contracts. Rossueau and Tijoriwala (1998) highlighted that qualitative assessment of psychological contract is important to aid in interpretation of this theory.

In order to develop the model for the franchise relationships, the researcher needed to get in-depth information on the relational context and aspect of the hotel franchise lifecycle and hotel franchise phases. With support of Crotty’s view on the qualitative and quantitative research debate, and as stated by (Creswell, 1998) about using qualitative research in exploring experiences, behaviours, emotions, and feelings, the research approach adopted for this study is geared more towards qualitative rather than quantitative in order to generate rich descriptions from interviewees regarding franchising relationships and psychological contract. Additionally, the researcher already had experience of qualitative research from his Master’s thesis through undertaking interviews.
and observations. Consequently, the qualitative approach was the preferred approach as it would allow more creativity.

The research process started by identifying the research problem, setting out the aim and objectives of the study, developing two research questions, selecting the research methodology and the methods that will be effective in answering the research questions, reviewing the related literature, gathering the data from the field using qualitative methods and finally analyzing the data. This research tried to understand the data collected in which a model for the success of the hotel franchise relationship have been drawn based on the participants’ views regarding the issues being investigated.

3.2.2 Inductive versus deductive research approach

It is important also to classify the research approach in terms of whether it is inductive or deductive. Saunders et al. (2007) differentiated between these two types of the research design. First, the deductive approach – known as testing a theory, in which the researcher develops a theory or hypotheses and designs a research strategy to test the formulated theory, second, the inductive approach – known as building a theory, in which the researcher starts with collecting data in an attempt to develop a theory. A researcher should explain clearly which approach is being followed in his or her research project.
In a qualitative study, one does not begin with a theory to test or verify. Instead, consistent with the inductive model of thinking, a theory may emerge during the data collection and analysis phase of the research or be used relatively late in the research process as a basis for comparison with other theories. In Figure 3.1, one needs to use inductive thinking as detailed information is gathered until a theory pattern emerges (Creswell, 1998).

**Figure 3.1 The inductive model of research in a qualitative study**

1. Researcher gathers information
2. Researcher asks questions
3. Research looks for theories
4. Research develops a theory or a model

[Adapted from Creswell, 1998]
The current study is shaped with using inductive research design. Saunders et al. (2007) noted that the inductive approach gives the chance to have more explanation of what is going on. This research has started by exploring and collecting the data from different sources and by using two sources of evidence: semi-structured interviews and document analysis in an attempt to develop a model for the success of franchising relationship in hotels. The secondary sources of data used in this research, involved critically reviewing previous research, reports, records and documents on franchising. Primary data was collected by interviewing franchisors and franchisees in the hotel industry. Easterby-Smith et al. (2002) and Gray (2004) indicated that qualitative research is often associated with inductive research designs in which a range of methods are used to collect the data and explore the problem from different perspectives.

3.3 Thesis epistemology and theoretical perspectives

Crotty (1998) argues that, any attempts to distinguish approaches to research should instead be preoccupied with epistemology and theoretical perspectives. Therefore, Crotty (1998) defined four different levels of consideration for research design: Epistemology; Theoretical Perspective; Methodology, Methods. He asserts that setting out the research in the right sequence should support the research process and therefore determine the status of the findings.

Every research project has to answer the question of how its specific research subject relates to the world of theory and knowledge in terms of epistemology
Chapter Three: Research Approach

and theoretical perspective. Bounds et al. (1994, p.233) defined epistemology as "the branch of philosophy which studies the nature, origin and scope of knowledge. The word "epistemology" originated from the Greek words episteme [knowledge] and logos [word/speech]."

Epistemology is:

*The theory of knowledge embedded in the theoretical perspective and thereby in the methodology. It is the way of understanding and explaining how we know what we know.*

(Crotty, 1998, p 3)

The previous definition of Crotty shows that the term epistemology is used in conjunction with justification and knowledge. In contrast, and according to Miller and Brewer (2003), the term ontology is used in order to explore the nature of social reality and what kinds of facts can be said to exist. In fact, they concluded that social research and sciences rely on empirical knowledge when they aim to make deep observations.

In this thesis, the experiences of the hotel franchisor and their franchisees towards the franchise relationship and the franchise lifecycle were explored via a research approach of constructionism - interpretivism – phenomenology (see figure 3.2). A discussion of the epistemological choice and the theoretical approach for this research that justifies this combination follows.
3.3.1 Constructionism as an epistemological approach

The epistemological choice for this research is rooted in constructionism. Constructionism provides a methodology for investigating the beliefs of individual respondents rather than investigating an external reality, such as the tangible and comprehensible economic and technological dimensions of management (Hunt, 1991). It rejects the objectivist view of human knowledge and holds that there is no objective truth waiting to be discovered (Crotty, 1998). Truth, or meaning, comes into existence in and out of people’s engagement with the realities in the world (Crotty, 1998). Thus, meaning is not discovered but constructed. Interpretive researchers are less likely to be narrow and restrictive and they usually use more flexible methods (usually qualitative) within an inductive methodological approach (Veal, 1997). In contrast to the deductive
methodological approach adopted mainly by natural science researchers, an inductive approach tends to derive theories or models from the data gained from the field without trying to test previously-prepared hypotheses. In this respect, the induction process begins with defining the researched phenomenon (Hotel franchise relationship model) and generating ideas about it (derived from the literature) (Veal, 1997).

As explained, constructionists believe that reality is constructed and there is no truth without mind. Constructionism was adopted as an epistemological stance to allow engagement with the social world of hotels franchising relationship trying to understand and construct the reality from the perspective of different participants who experienced or lived the phenomenon being studied. All participants were carefully selected.

3.3.2 Interpretivism as a theoretical approach

Interpretivism is the “systematic analysis of socially meaningful action through the direct detailed observation of people in natural settings in order to arrive at understandings and interpretations of how people create and maintain their social worlds” (Neuman, 2000, p71). However, interpretive research is fundamentally concerned with meaning and it seeks to understand social members’ definition of a situation (Schwandt, 1994).
CHAPTER THREE: RESEARCH APPROACH

It is important for interpretivists to find out the subjective meanings or realities which stimulate people’s actions in order to understand and make sense of these actions in a way that is meaningful for the research participants (Saunders et al., 2007). A researcher perceived the data, which he collected with his own sense and interpreted himself.

So any researcher could not be certain that he realized the reality properly or his understanding was more valid than the others (Schutt, 2006). Thus, there is not only one reality in social world but researchers understand issues in different meanings (Rubin and Rubin, 1995). Through adopting an interpretivism paradigm, this study entered the social world of hotel franchising partners to engage with them and collect in-depth information regarding their relationships and to understand what stimulated their behaviours.

3.3.3 Phenomenology as a theoretical perspective approach

In this study, the researcher will use phenomenology as a theoretical perspective as phenomenology focuses on exploring how human beings make sense of experience into consciousness, this requires methodically, carefully, and thoroughly capturing and describing how people experience the hotel franchise relationship, how people perceive it, describe it, feel about it, judge it, remember it, make sense of it, and talk about it with others (Patton, 2002). One way of gather of such data, would be to undertake in-depth interviews with people who have directly experienced the phenomenon of interest, as
phenomenology aims to gain a deeper understanding of the nature or meaning of our experience (Patton, 2002).

Titchen and Hobson (2005) identified two different approaches to look at the phenomenon. Firstly, a direct approach, in which the phenomenon can be investigated by exploring human consciousness in a direct way, the researcher conducts interviews with the interested participants to reach their experiences of the phenomenon. Secondly, an indirect approach, in which the observer gets into the social context of the phenomenon to live it personally with the participants in order to notice and identify the common meaning and practices. Phenomenology relies on personal experiences to explore and understand the existing issue. This inductive approach tries to find the internal logic of the subject (Gray, 2004). In this respect, the issues of hotel franchising were treated as a phenomenon and investigated from different perspectives, including franchisors and franchisees. The phenomenon of the hotel franchising relationship was investigated in a direct way using two-qualitative research methods to explore and understand people’ experiences regarding the issues being investigated, these include: semi-structured interviews, and document analysis. Using such qualitative methods allowed the researcher to interact effectively with the participants and to obtain in-depth views from different angles regarding the hotel franchising relationship. The study then attempted to form a meaning of such views and find out common perspectives from which a conclusion and a model could be made to add a contribution to hotel franchising literature.
3.4 Research methodology

Methodology is:

\[ \text{The strategy, plan of action process or design lying behind the choice and use of particular methods and linking the choice and use of methods to the desired outcomes.} \]

(Crotty, 1998, p.3)

The choice of the research methodology is influenced by the researcher’s theoretical perspective and also his attitude towards the ways in which the data will be used (deductive or inductive approach) (Gray, 2004). It should also explain the rationale behind the selection of the methods adopted (Crotty, 1998). The present study has undertaken a multiple case study as a research methodology to reach the overall aim of the research. The justifications for the selection of case study methodology and the research methods are explained in detail in the research.

3.4.1 Case study

The objectives of case study along with the procedures and the methods used to fulfil such objectives are summarized in figure 3.3 and 3.4.
Figure 3.3 Stages of conducting case study methodology

[Adapted from: Yin, 1994]

Figure 3.2 highlights the main four stages required for carrying out a case study. Stage one is concerned with defining and designing a case study by determining the required skills and developing the protocol; in stage two, one may begin to conduct the case study by preparing for the data collection and conducting interviews; stage three is concerned with analyzing the evidence and adopting a strategy and stage four is about developing a model based on conclusions and recommendations (Yin, 1994).
A key strength of case study methodology involves using multiple sources and techniques in the data gathering process, consequently, providing researchers with opportunities to triangulate data in order to strengthen the research findings and conclusions (Yin, 1994). Various data collection methods adopted may be adopted including interview and document analysis (Yin, 2003) (see figure 3.4).
Yin (2003) describes a case study as being an empirical inquiry that investigates contemporary phenomenon within its real-life context; when the boundaries between the phenomenon and context are not clearly evident; and when multiple sources of evidence are used. Bell (1993) indicated that the most important power of the case study is that it allows concentrating on a specific instance or situation and to attempt to identify, the various interactive processes at work. Yin (2003) highlighted that using the case study approach helps to not only understand the particular and unique features of the case but also to draw out analysis that has a wider applicability.

This study has used case study as a research strategy to explore hotel franchising relationship practices. The choice of a case study research strategy had been attributed to a number of reasons. Case study has a distinctive advantage over other research strategies when “how” or “why” questions are being posed to discover a current phenomenon and when the researcher has little or no control over the events (Yin, 2003). It offers the opportunity to “explain why certain outcomes may happen – more than just find out what those outcomes are” (Denscombe, 1998:31). This is actually very important for the present study to identify why franchisor/franchisees may or may not engage in proactive hotel franchising relationships behaviours. Gray (2004) confirmed that a case study approach is particularly useful in revealing the casual relationships between the phenomenon and the context in which it takes place. Moreover, the case study enables the researcher to use multiple sources of data and two methods to explore the research questions which, in turn, foster the validation of
data through triangulation (Denscombe, 1998). Thus, any findings or conclusions are likely to be more compelling and accurate (Yin, 2003). This has also supported the use of case study as a research strategy for the current study. The case study strategy is best for gaining a deeper understanding of the research being investigated (Morris and Wood, 1991). However, the case study approach has not been widely accepted as a reliable, objective and legitimate research strategy. One of the most critical criticisms directed to this approach related to the difficulty in generalizing the findings to a larger population (Yin, 1994; Thomas, 2003).

It is essential to define a boundary around the phenomenon – what to include and what to exclude (Stark and Torrance, 2005).

This research were conducting through two stages (see chapter 4 for stage one and chapter 5 for stage two). At the first stage, the Integrated model of the hotel franchise lifecycle with hotel franchise phases were discussed with the FBD in two major hotel groups and four franchisees (one of them is a franchisee of one of these two hotel groups and the other three are franchisees of the other hotel group) about their relationships at various phases of the hotel franchise relationship. At the second stage, this study was developed the hotel franchise psychological contract through interviewing six franchisors and six franchisees and their responses were then analyzed. The interview process itself addressed the issues related to the psychological contract and its relation to the hotel franchise relationship.
Yin (2003) proposed four different types for case study designs based on a 2×2 matrix. These types include: single-case (holistic) designs; single-case (embedded) designs; multiple-case (holistic) designs; multiple-case (embedded) designs. A major distinction has been made between single and multiple case study designs. It is important to note that holistic designs are based on single unit of analysis whereas embedded cases include multiple unit of analysis. The undertaking of multiple-case study designs is expensive and time consuming (Yin, 2003). However, this study adopted multiple case (embedded) designs to investigate hotel franchising relationships practices in six different hotel chains and six hotel franchisees (Figure 3.5). This can be justified using two main reasons. First, the evidence and conclusions coming out from multiple designs are more reliable and convincing than those based on single-case designs and thus the findings are more likely to be generalized (Yin, 2003). Second, the assumptions that there are different types of conditions surrounding hotel franchising relationships and there is a need to have sub-units of cases to cover all different conditions and practices.
According to the purpose of the research, Gray (2004) explained three different forms of study: exploratory, explanatory and descriptive. Robson (2002) indicated that the purpose of the enquiry may change over time. This reflects that the research project may have more than one purpose at the same time.

An exploratory study intends to explore “what is happening; to seek new insights; to ask questions and to assess the phenomena in a new light” (Robson, 2002:59). It is valuable particularly when there is very little information
known about the phenomenon. On the other hand, an explanatory study aims to find out the causal relationships between variables (Saunders et al., 2007). Finally, a descriptive study seeks to provide a clear picture about the phenomenon as it already occurs (Hedrick et al., 1993). The current research is based on two case studies of hotel franchisors and another case study of hotel franchisees. This study also conducted on two phases. The first is exploratory, seeks to discover hotel franchising relationships practices in the written agreement. The second, explanatory, intends to identify the psychological relationships and the motivations which make hotel franchisors/franchisees committed to the success of their relationship.

3.4.1.1 Multiple case studies: Hotel franchisors and franchisees

A multiple case study of hotel franchisors was developed to investigate in-depth the challenges facing franchisors in their relationship with franchisees. Using such strategy had enabled to use two research methods, including: semi structured interviews and document analysis, and thus looking at the problem from different perspectives. Denscombe (1998) reported that the case study approach is characterised by its ability to focus on relationships and processes, which is of great importance to the current research. He added that it can be effective in analysing the complexity of the situation better than other research strategies. The main rationale behind selecting hotel industry, the main focus of the study, to develop a case study of franchisors is attributed to a number of factors, including: as services, hotel chains are a powerful international force
and continue to internationalise at rapid pace (Wood and Brotherton, 2008). In addition, managing hotel chains entails balancing tensions involved in complicated relationships with even more parties e.g., franchisees (Brookes and Roper, 2008). This study therefore seeks to examine the franchise relationship in hotel industry.

3.4.1.2 Sampling for case study (hotel franchisors)

Whether probability or non probability sampling strategy is chosen, the sampling frame should be relevant, complete, precise and up-to-date (Denscombe, 1998). Probability sampling implies that each one in the population has an equal chance to get involved in the sample (Schutt, 2006). While a non-probability/purposive approach reflects that the chances of each person to be chosen in the sample is unknown but the features of the population are used as the main measure for selection. A purposive approach is well-suited to in-depth studies (Ritchie et al., 2003). Four common methods can be used to identify a non-probability sampling: availability sampling, quota sampling, purposive sampling and snowball sampling. These methods are extremely useful under certain conditions, particularly when the research question seeks an in-depth investigation of a small population or when the researcher is performing a preliminary, exploratory study (Schutt, 2006). This research adopted a non probability sampling strategy using purposive techniques to choose hotel franchisors which enabled to select and study cases that would serve the purpose of the study and answer the research questions.
A purposive sampling approach was used to identify a sample from hotel franchisor chains. With the purposive sampling the researcher has to use personal judgement to select cases that will best meet the research questions and objectives (Saunders et al., 2007). Rubin and Rubin (1995) named three main guidelines for selecting a purposive sample. The researcher should select the informants who are knowledgeable about the issues being investigated, willing to talk and representative of the range of points of view. As Schutt (2006:155) asserted about purposive sampling:

> Each sample element is selected for a purpose, usually because of the unique position of the sample elements. Purposive sampling may involve studying the entire population of some limited group (directors of shelters for homeless adults) or a subset of a population (mid-level managers with a reputation for efficiency). Or a purposive sample may be a “key informant survey”, which targets individuals who are particularly knowledgeable about the issues under investigation.

The study used the Hotel Giant Survey (2008) to understand more about the hotel chains which franchise their brands. This survey (see figure 3.6 and table 3.1) indicates the top ten hotel chains in the world. Figure 3.6 reported the hotel chain that franchises the most hotels. The researcher conducted six interviews with hotel franchisors. It was recognized that getting access to hotel franchisors was very difficult as this research had targeted those top ten hotel groups which franchise the most hotels in the world (Hotels Giant Survey, 2008) but,
unfortunately, some of them refused to be interviewed because they were not interested in helping the research. Consequently, of the ten hotel franchisors, five participants were interviewed which represented 50% of the targeted population (IHG; Wyndham Hotel Group; Marriott Hotels; Hilton Hotels; Choice Hotels). In addition, this study chooses Easy Hotels’ chain as a hotel franchisor which represents the only UK franchisor in this study. So it will be useful to identify the point of weaknesses and strengths of the franchise relationships at those chains, describing how people experience the hotel franchise relationship, how people perceive it, describe it, feel about it and judge it.

This research selected the hotel franchise service director of each chain as a representative of the franchisor. However, this is due to the fact that the Franchise Business Director is the director who deals with the franchisees directly in most of the franchise phases, and the job of FBD is to monitor the franchisee’s compliance with the franchise agreement (Hayes and Ninemeier, 2006). This research conducted on two stages (Figure 3.7). At the first stage, interviews were conducted with the FBD in two major hotel groups (IHG, Choice Hotels) and at the second stage, those two FBDs were re-interviewed in addition to another four franchisors (Wyndham Hotel Group; Marriott Hotels; Hilton Hotels; Easy Hotels). ‘Ethical standards’ were adopted in this research through coding all respondents’ names. This coding was done to respect the confidentiality of the respondents’ answers. The coding names used in the discussion chapters depend on the initials of Franchise Business Director. For
Example, (FBD1, FBD2, FBD3, etc...). Table 3.2 illustrates the hotel franchisors which chosen for the research purposes.

Table 3.1 Top ten hotel chains in the world

<table>
<thead>
<tr>
<th>Range</th>
<th>Group</th>
<th>Hotels 2008</th>
<th>Hotels 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>IHG</td>
<td>3949</td>
<td>3741</td>
</tr>
<tr>
<td>2</td>
<td>Wyndham Hotel Group</td>
<td>6544</td>
<td>6473</td>
</tr>
<tr>
<td>3</td>
<td>Marriott Hotels</td>
<td>2901</td>
<td>2775</td>
</tr>
<tr>
<td>4</td>
<td>Hilton Hotels</td>
<td>2959</td>
<td>2901</td>
</tr>
<tr>
<td>5</td>
<td>Accor Hotels</td>
<td>3857</td>
<td>4121</td>
</tr>
<tr>
<td>6</td>
<td>Choice Hotels</td>
<td>5516</td>
<td>5316</td>
</tr>
<tr>
<td>7</td>
<td>Best Western</td>
<td>4035</td>
<td>4164</td>
</tr>
<tr>
<td>8</td>
<td>Starwood Hotels and Resorts</td>
<td>897</td>
<td>871</td>
</tr>
<tr>
<td>9</td>
<td>Carlson Hotels</td>
<td>971</td>
<td>954</td>
</tr>
<tr>
<td>10</td>
<td>Global Hyatt</td>
<td>720</td>
<td>733</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>32 349</td>
<td>32 040</td>
</tr>
</tbody>
</table>

[Source, Hotel giant survey, 2008]
Figure 3.6 Franchised hotel chains in the World

### Table 3.2 Respondents used as hotel franchisors for the research

<table>
<thead>
<tr>
<th>Company</th>
<th>Hilton</th>
<th>Marriott</th>
<th>Easy Hotels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wyndham Hotel Group</td>
<td>6,544</td>
<td>6,544</td>
<td></td>
</tr>
<tr>
<td>Choice Hotels International</td>
<td>5,570</td>
<td>5,570</td>
<td></td>
</tr>
<tr>
<td>IHG (InterContinental Hotel Group)</td>
<td>3,949</td>
<td>3,949</td>
<td></td>
</tr>
<tr>
<td>Hilton Hotels Corp.</td>
<td>2,463</td>
<td>3,000</td>
<td></td>
</tr>
<tr>
<td>Marriott International</td>
<td>1,922</td>
<td>2,999</td>
<td></td>
</tr>
<tr>
<td>Accor</td>
<td>1,089</td>
<td>3,871</td>
<td></td>
</tr>
<tr>
<td>Carlson Hotels Worldwide</td>
<td>929</td>
<td>929</td>
<td></td>
</tr>
<tr>
<td>Vantage Hospitality Group (Americas Best Value Inn)</td>
<td>798</td>
<td>798</td>
<td></td>
</tr>
<tr>
<td>Hyatt Hotels &amp; Resorts</td>
<td>417</td>
<td>721</td>
<td></td>
</tr>
<tr>
<td>Starwood Hotels &amp; Resorts Worldwide</td>
<td>408</td>
<td>897</td>
<td></td>
</tr>
</tbody>
</table>

Source: HOTELS Giants Survey 2008

### 3.4.1.3 Sampling for case study (hotel franchisees)

A non-probability approach using a purposive and snowballing technique was used to choose the sample of hotel franchisees. Patton (2002) describes the snowball sampling technique as method which builds upon information provided by respondents in initial sampling techniques to form a chain or network to the point whereby information becomes repetitive, thereby suggesting an exhaustion of further possible networks. The snowball technique, as Patton (2002) notes, consequently helped narrow the sample into the key cases thus
ensuring the quality of data collected. With the snowballing technique, the sample is formed as a referral in which each participant is asked to suggest other people who could potentially take-part in the study. Also, this type of sampling is often used with very small-sized samples such as case study or if there is a need to choose participants that are well-informed (Neuman, 2000).

The selection of franchisees to be interviewed was straightforward – once a hotel owner in a particular hotel agreed to be interviewed, the researcher asked him to recommend another franchisee who would be willing to be interviewed. Moreover, in an attempt to encourage hotel franchisees participation in the case study, the researcher asked his supervisors and the interviewed hotel franchise service directors if they could help to get access to hotel franchisees and this technique was successful in reaching them. Six hotel owners were interviewed using a set of semi-structured questions relating to hotel franchise relationship issues (See table 3.3). One of them owns four hotels in Cardiff and Bristol and he had a four year relationship with IHG at that time. The second one had more than eight sites in the UK and he was a franchisee with IHG for more than ten years. The third one had one franchise hotel and had been with IHG for less than 2 years. The fourth one had only joined IHG in 2007. The fifth one owned hotel franchised to Choice Hotels. The sixth one had multiple hotels (approximately 50 hotels) with multiple brands (IHG, Choice, Easy hotels).
This study was conducted on two phases (Figure 3.7). At the first stage, four franchisees (one of them is a franchisee of one of hotel groups and the other three are franchisees of another hotel group) were interviewed. At the second stage, those four franchisees were re-interviewed in addition to another two franchisees. ‘Ethical standards’ were adopted in this research through coding all franchisees’ names. This coding was done to respect the confidentiality of the respondents’ answers. The coding names used in the discussion chapters depend on the word (Franchisee). For example, (Franchisee1A, Franchisee1B and Franchisee1C) are refer to three different franchisees within the same franchised hotel chain, etc).

Franchisors and franchisees respondents were contacted using two different means: First, a fax letter was organized giving a brief introduction about the researcher (i.e. name and organization), describing the aim of the research, showing the importance of the study to the franchising and finally asking the respondent to take part in the case study (see appendix 1). The letter was printed on Cardiff School of Management headed paper and authorized with my signature. Within 24 hours of sending the letter to the targeted person the hotelier was contacted by telephone to arrange a time for interview, if accepted.
Figure 3.7 The research process phases

Phase one
Analysing hotel franchise relationships using semi-structured interviews 2007 - 2008

Case study: Hotel franchisors
- IHG
- Choice Hotels

Case study: Hotel franchisees
- Franchisee 1A
- Franchisee 1B
- Franchisee 1C
- Franchisee 2

Initial model for the success of the hotel franchise relationship

Phase two
Hotel franchising through the lens of the psychological contract using semi-structured interviews 2008 - 2009

Case study: Hotel franchisors
- IHG (Re-interviewed)
- Marriott
- Hilton
- Choice Hotels (Re-interviewed)
- Wyndham Hotels
- Easy Hotels

Case study: Hotel franchisors
- Franchisee 1A (Re-interviewed)
- Franchisee 1B (Re-interviewed)
- Franchisee 1C (Re-interviewed)
- Franchisee 1D (Re-interviewed)
- Franchisee 2 (Re-interviewed)
- Franchisee 3 (Re-interviewed)

Model of the relationship between the psychological contract and hotel franchising

Cross-case analysis between the case study of hotel franchisors and the case study of hotel franchisees

The final model of hotel franchise relationship success
3.4.2 Methods

A key strength of the case study method involves using two techniques in the data gathering process (Yin, 2003). Evidence for case studies according to Yin (2003), come from six sources which he lists as: documents, archival records, interviews, direct observation and participant-observation. Therefore, this study will use semi-structured interviews and document analysis in order to develop the model of the success of hotel franchising relationship.

3.4.2.1 Semi-structured interviews with hotel franchisors and franchisees

Yin (1994) described interviews as one of the most valuable sources of case study. There are many types of interviews (Yin, 1994; Saunders et al., 2007): unstructured, structured and semi-structured. Concerning unstructured interviews, research participants are asked to comment about certain events, where, they may provide insight into events. The interviewer needs to have a clear idea about the aspects that he wants to investigate, since there are no determined questions to work through (Saunders et al., 2007). In contrast, the questions in structured interviews are detailed and developed in advance, much as they are in a survey (Yin, 1994). These interviews are based on a pre-determined and standardized or identical set of questions (Saunders et al., 2007). Between those two meanings, in semi-structured interviews, Mason (2000) identified that semi-structured interviews are a relatively informal discussion rather than formal question and answer format; so there is no need
for the researcher to have a structured list of questions, the researcher could have a range of topics, themes or issues to cover.

Semi-structured interviews can provide uniform information similar to that provided by structured interviews without missing the flexibility and freedom encountered with structured interviews through pre-determined set of questions prepared by interviewer (Saunders et al., 2007). Also, semi-structured interviews can be most appropriate for situations where the questions are either complex or open-ended or where the order and logic of questioning may need to be varied from one interviewee to another (Saunders et al., 2007).

Interestingly, semi-structured interviews give the researcher the opportunity to ‘probe’ for more detailed information by asking the respondent to give more clarification to his answer. This is significant for those who adopt a phenomenological approach because a prime concern is focused on understanding the meanings that the respondents ascribe to various phenomena (Saunders et al., 2007). However, the interview is influenced by the level of awareness and the emotional state of the interviewee, so that a possible distortion to data may occur as a result of the interviewee being anxious or annoyed at the time of the interview (Patton, 2002). To avoid having biased data, the researcher should maintain his own knowledge and let the interviewee ‘flow’ (May, 1997).
To reach the second and third objective of the present study, a series of interviews were held with hotel franchisors and franchisees as shown below.

First, six interviews were conducted with hotel franchisors to identify their practices towards the written and unwritten franchise agreement. A list of questions was developed in advance to explore the franchising relationship from franchisors point of view and determine their attitudes towards franchisor-franchisee experience, size of the franchisor organization, maintaining the quality of the brand, phases of hotel franchise relationship, hotel franchise lifecycle, and exiting the hotel franchise system. Furthermore, the questions attempted to find out the barriers to the success of hotel franchise relationship. The interviews were concerned also with identifying what could psychological contract affects the hotel franchise relationship. A schedule of the interview questions is included in the thesis (Appendix 2). Second, six interviews were conducted with hotel franchisees to identify the factors affecting the franchise relationship either written or unwritten in the franchise agreement which represented in the conceptual framework. A pattern of questions was developed in advance to guide the conversation with the respondents.

This research was conducted in two phases (Figure 3.7). In the first stage, the integrated model of the hotel franchise lifecycle with hotel franchise phases were discussed with the franchisors and franchisees through interviews (see appendix 2). In the second stage, this study developed the hotel franchise psychological contract through interviewing franchisors and franchisees (see
appendix 3). At the beginning of each interview, the researcher introduced himself to the interviewee stating name, position, institution and then explained the aim of the research to formalize the interviewee with the research topic. This brief introduction was followed by asking the interviewee about responsibilities as a way of collecting more detail about him/her and at the same time creating a good atmosphere to conduct the interview and facilitate the interaction with the interviewee.

Most of the questions asked were open-ended in nature. The questions were formulated based on varied sources, including: hotel franchise literature, the participating hotel chain websites, along with my background on the topic studied. All respondents exhibited diverse experience in the research topic. All interviews took place within the interviewees’ organization and lasted between 45 – 90 minutes. To remember the conversation, all interviews were recorded with a permission of each participant. Also, hand-written notes of the interviewees’ responses were taken throughout the interview. This research has assured all interviewees about the confidentiality of the information given. All of franchisors allow me to write their brand names but keeping their information collected from the interviews anonymous.

This study employed the use of assumption cards mainly with the interviews. This card comprised various factors that the interview sought to address, namely: pre-application phase, application phase, pre-opening phase, opening
phase and on-going franchise support (see appendix 4). After the card had been selected and discussed in detail, the respondents were then further asked to add any other factors they felt had been omitted, and to give a detailed explanation for their logical framework. Assumption cards were used to extract more information from them and encourage them to contribute.

Finally, all participants were thanked deeply and promised to be supplied with a report of the research results. All interviews were transcribed, analyzed and discussed in the next chapters.

3.4.2.2 Document analysis

A document is any substance that gives information about the investigated phenomenon and exists independently of the researcher’s actions. It is normally produced for specific purposes other than those of the research but it can be used by the researcher for cognitive purposes, e.g. letters, newspapers, diaries and websites (Corbetta, 2003). Yin (2003:87) asserted that “For case studies, the most important use of documents is to corroborate and augment evidence from other sources”. Corbetta (2003) identified a number of advantages of the documents over other research methods. (a) It is a non-reactive technique where the information given in a document is not subject to a possible distortion as a result of the interaction between the researcher and the respondent, e.g. as in interviews; (b) it helps the researcher to study the past; (c) it is a cost-effective method as the information has already been produced (Denscombe,
1998). However, documents may have some limitations in terms of the accuracy and completeness of the data (Patton, 2002).

The document sources used in this study were virtual outputs represented on internet websites. The documents included hotel chain policies in franchising and their disclosure documents, which were downloaded from the websites of the hotels involved in the case study. Such documents were of great value to examine the study from different angles and enrich the researcher’s knowledge about the hotel franchising relationship strategies. This method enabled the researcher to highlight any contradictions in the evidence emerging as a result of the inconsistencies between the data cleared in the documents and the interviews with the associated participants.

### 3.5 Data analysis

In this research, the case study was built on more than one case study as the aim of the study involved investigating the current issues facing hotel franchising relationship to develop a model for the success of the hotel franchising. Analyzing qualitative data should be conducted through a set of procedures according to Saunders et al. (2007). Those procedures include four main activities: categorization, unitizing data, recognizing relationships and developing categories, and developing and testing theories to reach conclusions.
In terms of categorization, the study classified the collected data into meaningful categories. Those categories have been derived from the conceptual model that was developed from the literature review. In terms of utilizing data, this research assigned relevant pieces of information of the collected data to the appropriate category of the model. This research did not conduct this phase using any Computer Assisted Qualitative Data Analysis Software (CAQDAS). Manual qualitative data analysis was more useful as the researcher was more involved in it and got ‘closer’ to the data, becoming used to the participants’ words and using the analysis to build ideas and themes. Qualitative data analysis software was more time consuming as the researcher had to draw nodes with different themes and sub-nodes with related themes on paper then he had to put them on NVIVO7. Instead, this research conducted this activity manually. This approach enabled the researcher to immerse himself in his data and to engage with it in a more comprehensive way. In terms of recognizing relationships and developing categories, the researcher used a simple matrix to sort the data and make it easy to understand (Table 3.3). In this matrix, collected data was placed within the cells of the matrix. This activity enabled the researcher to identify key aspects regarding the implication of each element in the franchising model.
Table 3.3 Sample of recognizing relationships and developing categories with regards to data analysis

<table>
<thead>
<tr>
<th>Aspects</th>
<th>Franchisor</th>
<th>Franchisee</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Franchisors want to reduce their</td>
<td>Franchisees want tapping into franchisor system, having</td>
</tr>
<tr>
<td></td>
<td>monitoring costs by rewarding a</td>
<td>access to the franchisor marketing and purchasing system and</td>
</tr>
<tr>
<td></td>
<td>franchisee’s efficiency with profit.</td>
<td>having access to a specific franchisor experience.</td>
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<tr>
<td>Pre-</td>
<td></td>
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<tr>
<td>application</td>
<td></td>
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<tr>
<td>phase</td>
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<tr>
<td></td>
<td>There are five groups which</td>
<td>There are four aspects of psychological contract which might</td>
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<td></td>
<td>could be used from franchisor to</td>
<td>be applied to the application phase. These contents are:</td>
</tr>
<tr>
<td></td>
<td>select his proposed franchisees.</td>
<td>promises, obligations, trust and experience.</td>
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<tr>
<td></td>
<td>These groups include: location,</td>
<td></td>
</tr>
<tr>
<td></td>
<td>size, ownership structure, type</td>
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<tr>
<td></td>
<td>and financial capability of the</td>
<td></td>
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<tr>
<td></td>
<td>proposed franchisee</td>
<td></td>
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<tr>
<td>Application</td>
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<tr>
<td>phase</td>
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<tr>
<td></td>
<td>There are four aspects of</td>
<td>There are six groups which affect franchisees’ choice when</td>
</tr>
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<td></td>
<td>psychological contract which might</td>
<td>they select their franchisor. These groups include franchisor</td>
</tr>
<tr>
<td></td>
<td>be applied to the application</td>
<td>delivery system, franchisor support, franchisor</td>
</tr>
<tr>
<td></td>
<td>phase. These contents are:</td>
<td>quality and experience, location of the proposed hotel</td>
</tr>
<tr>
<td></td>
<td>promises, obligations, trust and</td>
<td>and franchisor fees.</td>
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<td></td>
<td>experience.</td>
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<tr>
<td>Pre-</td>
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<td>opening</td>
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<td>phase</td>
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<tr>
<td></td>
<td>There are six factors affect this</td>
<td>The finding obtained revealed that continuing building a good</td>
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<td></td>
<td>phase. These factors include: pre-</td>
<td>level of trust and</td>
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<td></td>
<td>construction</td>
<td>The franchisees concern in this phase about the services</td>
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<td></td>
<td></td>
<td>provided from</td>
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<tr>
<td></td>
<td></td>
<td>Communication found to be the most important factor to</td>
</tr>
<tr>
<td></td>
<td></td>
<td>franchisees.</td>
</tr>
<tr>
<td><strong>Opening phase</strong></td>
<td>The findings obtained supported previous research (Hall and Dixon, 1988) and identified that the most important factor in opening phase is training.</td>
<td>The findings obtained found that incorporating both cognitive and affective trust in opening phase will add a value to the franchise relationship and will lead to communication</td>
</tr>
<tr>
<td><strong>On-going franchise support</strong></td>
<td>The findings obtained showed that franchisors support obligations relate to (a) training and (b) consultation on operations (c) reservation and marketing (d) quality assurance (e) equipment and supplies assistance.</td>
<td>The findings obtained revealed some factors affect the franchise relationship. These factors are: trust, motivation, commitment, communication, understandings, fairness and respect.</td>
</tr>
</tbody>
</table>
In terms of developing and testing theories to reach conclusions, this research used the analyzed data to develop a final version of the hotel franchising success model (Figure 6.1) based on the practical views of the field study respondents and the theoretical models in the literature.

As explained earlier in the chapter, a multiple case study was conducted in this research in order to help achieve the research objectives. To analyze the data obtained from the case study, this research also used cross-case analysis. Assumption cards were used to develop the cross case analysis (Appendix 4). According to Yin (2003), cross-case analysis is an approach that is specifically suitable for analyzing multiple cases of study and explores the congruence and dissonance between cases.
There are two important reasons for adopting cross-case analysis according to Miles and Huberman (1994). First, this approach enhances the generalizability of the research. Second, cross-case analysis enables the researcher to deepen the understanding and explanation. This study aimed to explore the factors affecting the success of the hotel franchise relationship. The cross-case analysis was developed between all case studies. This analysis was essential to develop a model of success factors in the hotel franchise relationship.

3.6 Validity, reliability, and triangulation

Validity of the research refers to the accuracy and trustworthiness of instruments, data and findings in the research. The validity of data is tied up with the validity of instruments so if instruments are valid then data should be valid (Bernard, 2000). Research validity is related mainly to the data collection instruments used in it (Coolican, 1999). Coolican (1999) stated that validity of research can be tested using at least one out of four methods. Those methods are face validity, construct validity, content validity, and criterion validity. This research used face validity to ensure the validation of data collection instruments. The researcher was able to match the questions of the designed research interviews with its objectives.

Creswell (2008) approached research validity using a different methodology. He stated that the validity of a research can be achieved by the use of several requirements. The first requirement is triangulation. This research achieved
data triangulation using different approaches of franchise partners (franchisees and franchisors) towards franchising relationship issues. Triangulation is explained in detail further on in the chapter. The second requirement is using member checking to determine the accuracy of the findings. This research met this requirement as two professors in University of Wales Institute, Cardiff supervised it. They were keen to check upon the research findings after each phase. They also used to match the findings with the research objectives to ensure that the research process is going to the right direction. The third requirement is using rich and thick description to convey the findings. This research met this requirement through the use of cross-case analysis, which reinforced the study with in-depth analysis about hotel franchising relationship.

The reliability of a research study, on the other hand, is achieved if the method used to collect data can produce similar results each time it is used (Coolican, 2004). Reliability refers to the dependability, stability, consistency, predictability, and accuracy of a research (Burns, 2000). Coolican (2004) highlighted two main types of reliability: external and internal. External reliability is concerned with the consistency and stability of the tests involved in a research that is conducted on several occasions (longitudinally). Here the study seeks to determine if the data collection instrument would produce similar results if the research is conducted on several occasions and administered to the same respondents. This type of reliability does not apply to this research as it wasn’t highlighted in the research objectives. Internal reliability is concerned with the consistency and stability of the data collection instrument used in the research. In this type, the study seeks
to determine whether the data collection instrument is consistent within itself through checking that all respondents answered each question in the same way that they answer the rest of them. In this research, the interview questions were designed to help achieve the research objectives. The researcher also explained each question to each respondent in order to ensure that all questions are answered in the same way.

Triangulation is the strategy that allows different qualitative research methods to be combined (Yin, 1994). An increasing number of researchers are using triangulation as a multi-method approach to achieve broader and often better results. It allows researchers to use different methods in different combinations as the more methods used to study humans; the better chances will be to gain some understanding of their behaviours (Fontana and Frey, 2005). According to Seale et al. (2007), the idea of triangulation derives from the measurement by quantitative methodologies. Denzin’s 1978 version outlines four types of triangulation (Denzin and Lincoln, 2005). The first type is data triangulation where one seeks out instances of a phenomenon in several different points in time or space. The second type is investigator triangulation. It involves team research; with multiple observers in the field engaging in continuous discussion of their points of difference or similarity. The third type is theory triangulation. It suggests that researchers approach data with several hypotheses in mind, to see how each one fares in relation to the data. The fourth type is methodological triangulation, which is widely used and understood. It involves a multi-method approach, which can take several forms. In this research, the
study used the methodological triangulation as this research used two methods of data collection: semi-structured interviews and document analysis. In this research, triangulation was achieved also through employing data triangulation through investigating the same phenomenon from a multiple case study of hotel franchisors and franchisees and with two different perspectives, i.e. hotel franchisors and hotel franchisees.

3.7 Generalizations of the results

Generalisation can be defined as “the assertions of enduring value that are context-free” (Lincoln and Guba, 1985:110). For qualitative researchers, generalizability can be perceived as the “fit” between the cases studied and the other situations to the extent that make it possible to generalise the findings of the research (Schofield, 1993). Ritchie and Lewis (2003) named this type of generalisation as ‘representational’. It can be assessed based on two main issues: firstly, the precision of interpreting and capturing the phenomenon, i.e. quality of field work, analysis and interpretation. Secondly, the extent to which the sample studied is representative to the original population.

Schofield (1993) identified two ways for increasing generalizability of the findings based on very small-sized sample (qualitative research), these include: studying a typical case and investigating multiple case studies. In both situations, the resulted evidence is more powerful and credible than those coming out by studying a single case or because it is convenient. Both
techniques are applied in the present research and thus enhancing the
generalizability of the findings. The study is based on two case studies of hotel
franchisors and another case study of hotel franchisees in which the evidence
generated will be more convincing. The thesis produced a model for the
success of the hotel franchising relationship to enable franchise partners to
manage their relationship effectively.

Kalof et al. (2008) added two ways to achieve the generalizability of the
research findings: clear description of the sample selection criteria and rich
description of the research site. Both tactics had been used in the current study
where a description of sampling procedures and selection criteria had been
provided. This chapter also provided detailed information about the research
site in terms of the procedures undertaken to achieve the aim and objectives of
the research, the research methods used along with the data analysis
techniques.

This does not mean that there are no limits to generalization but what is
proposed here is that the generalizations made in interpretive research need to
be moderate generalizations. The limits of generalization are the limits of
interpretivism. Williams (2000) argues that making statistical generalization has
never been part of the agenda of interpretivism and it should not be regarded in
methodological isolation of other strategies, such as the survey. Thus,
interpretivism:
Can make clear the meaningful experiences of actors and specifically why they believe the world the way it is and if these experiences can become moderator generalizations then they can form the basis of theories about process or structure.

(Williams, 2000:221).

At the outset of this research, the limitations and context of the present study were established. The units of analysis and the research models clearly defined the scope of this study to generate a generic model for success of hotel franchising relationship.

3.8 Summary

This chapter has presented the epistemological and theoretical perspectives of the research. It has described its methodology, data collection techniques and methods of data analysis. A research string of constructionism (epistemology) – interpretivism (theoretical perspective) – phenomenology (methodology) is appropriate for this study as it is concerned with understanding the different perspectives of hotel franchise lifecycle. In developing the objective, qualitative technique enabled the evaluation of the hotel franchise relationships and hotel franchise lifecycle. The methodological choice of the multiple case studies was justified as the best approach to investigate the dynamics of hotel franchise relationships.
CHAPTER FOUR: ANALYSING HOTEL FRANCHISE RELATIONSHIPS

4.1 Introduction

4.2 Franchisors' perspectives
   4.2.1 Application phase
   4.2.2 Pre-opening phase
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      4.2.4.1 Franchisor perceptions and expectations
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4.3 Franchisees' perspectives
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   4.3.7 Maintaining the brand quality

4.4 An integrated model of hotel franchise lifecycle with hotel franchise phases

4.5 Towards a model for success of the hotel franchise relationship

4.6 Summary
CHAPTER FOUR: ANALYSING THE HOTEL FRANCHISE RELATIONSHIP

4.1 Introduction
This chapter uses the elements of the conceptual framework developed in chapter two to explore and understand the hotel franchising lifecycle and hotel franchise phases. Analysis of the transcribed interviews resulted in the identification of a number of themes which will be explained later in this chapter. The chapter provides a detailed discussion of the results from interviews conducted with two major hotel groups as hotel franchisors and their franchisees in relation to the relationship issues facing the hotel franchise lifecycle. These themes include: franchisor-franchisee experience, size of the franchisor organization, maintaining quality of the brand, phases of hotel franchise relationship, hotel franchise lifecycle, and exiting the hotel franchise system. Section 4.2 presents the perspective of the franchisor towards the previous issues. On the other hand, section 4.3 shows the franchisee perspective towards the same issues. Document analysis was undertaken on major franchised hotel groups (Choice Hotels, Hilton, Holiday Inn, Marriott and Wyndham Hotels) to support the interviewees’ opinions. Section 4.4 suggests an integrated model for the hotel franchise relationship and life cycle. Finally, section 4.5 identifies an initial model for the success of the hotel franchise relationship.
4.2 Franchisor’s perspective

At this stage, this study concentrated on the opinions of Franchise Business Directors (FBD) in two major hotel groups about their dealings with franchisees at various stages of the hotel franchise relationship.

4.2.1 Application phase

Franchisee/franchisor satisfaction depends upon the careful initial selection of franchisees (Mendelsohn, 1999). FBD1 indicated that this is the role of the development director to assess the franchisee based upon the following criteria:

- Stable and valid company;
- Feasibility study;
- Location;
- Construction of the hotel and how many rooms will be built;
- The impact on any other related franchisor hotels in that location.

This is in agreement with Altinay (2006) who adds strategic rationale and the market as points to be considered when selecting the franchisee.

FBD1 reported that the application phase comprises a number of stages. First, it can be concluded that the franchisee receives and reviews the franchise agreement at this phase. Second, the franchisee should support the application
with a feasibility study and financial statements. Third, the package goes to the divisional executive committee. Fourth, once it is approved it goes to the FBD to prepare for pre-opening the hotel. The application for a franchise will be reviewed by the Franchise Review Committee.

Application phase is between the development director and the franchisee. The development director should assess the franchisee upon the following criteria: stable company; feasibility study; location; construction and how many rooms; and this hotel will not impact any other related franchisor hotels. This phase depends on developing respect and trust between the franchisor and franchisee. The average length of the application phase is 3-6 months.

(FBD1)

FBD2 explained the importance of location in establishing a hotel franchise relationship. FBD2 stated that “the franchised hotel should meet with the brand standard criteria which each brand has its own regulations as we look at the proposed location to see if this location is able to deliver the business to the franchisee and meet with our brand standards”. The location of the proposed franchised hotel is considered as one of the important factors when selecting franchises as reported by many respondents:

The most important issue is the location. We determine if the location is correct for establishing a franchised hotel brand or not. If the location is not right, we tell the franchisee we can not really do too much for you at this location. However, you can have a franchise if you are confident that you can make the most of this brand at this location.

(FBD2)
In the application phase, the franchisor should evaluate the location based on competition from other hotel brands in order to deliver the business to the franchisee as reported by many respondents. “We always look if we have another brand at the same location or not and if this hotel will affect another brand or not” (FBD2).

Jambulingam and Nevin (1999) suggested that financial capability should also be one of the franchisee selection criteria. Therefore, the franchisor should assess this point carefully in order to prevent any problem in the relationship as reported by some respondents. FBD2 agreed with Housden (1984), saying that there is assistance in financial issues, such as negotiation of the fee at the beginning and access to a bank loan.

Some people want a brand because it gives them an access to have a loan from the bank. The bank needs a franchise business in a place before giving the franchisee finance support. And then, the potential franchisee after he got what he wants, he might be not even working properly with our hotels. So, this relationship might be quite doomed from the beginning.

(FBD2)

Exploration of the application forms for prospective franchisees of Choice Hotels, Hilton and Marriott showed that these hotel chains concentrate on location, size, ownership structure type and financial status of the proposed
project. These application forms support the idea of Hall and Dixon (1988) that the franchisor should have a profile of the ideal franchisee which covers a number of aspects, such as the requisite financial resources and previous experience. It should be noted that all the application forms ask the applicant about their past experience in hotels and about the hotel portfolio they own. FBD2 explained why they needed such information:

> From bad experience in the past, we have to look at his practical experience with running a hotel or if the franchisee has a franchise experience or not as a minimum. I personally would recommend incorporating the academic experience of the franchisee in our initial investigation to make a better relationship in the future.

(FBD2)

From the franchisor perspective of the franchise relationship, FBD2 reported that the actual relationship is with the person who manages the hotel not the owner. Therefore, the application process to start a franchise business should have something about the experience of the proposed manager. This idea was supported in the Hilton application form which asked about the experience of the proposed hotel manager.

> I think at the UK, most of general managers running the hotels and they are our contact because sometimes the franchisee does not have any level of education. He is just a businessman. The real relationship happens with the person who runs the hotel.

(FBD2)

To conclude, the most important point in the application phase is the careful selection of the franchisee (Altinay, 2006). In this respect, Koslow (1996)
indicated that the franchisor should assess the franchisee’s understanding of the value and ability to protect the brand image. “It is a vital issue as there is a positive correlation between the right franchisee selection and the level of trust between franchise partners” (FBD1). “However, building trust at the application phase is considered as an incentive for the franchise partner to remain in the franchise relationship for ever” (FBD2). “The franchisor-franchisee experience is very important for the success of the franchise relationship as they should have appropriate levels of experience” (FBD1). Moreover, there should be some rules in the franchise agreement regarding the education and experience level of the potential franchisee.

Some of the franchisees are multiple franchisees who they have more than one hotel. They might be having not any kind of education. It might be the cultural of the country. However, their children are studying now at the universities (For example, MBA Master of Business Management). Those people now are managing the hotel; they are not involved in the hotel business. They may drag down the organization. The franchise agreement does not look at this eventuality.

(FBD2)

4.2.2 Pre-opening phase

The services provided by the franchisor begin with pre-opening services (Mendelsohn, 1999). Once the franchise agreement is signed, there is help throughout the development and pre-opening process. There is agreement with Powers and Barrows (2005) that most franchisors should provide practical support to franchisees in terms of pre-opening training and operations. As
reported by FBD1, before beginning the actual construction of property, it is important to take into consideration the key points that will help ensure the building process is completed as smoothly as possible. Once all of the pre-construction processes have been completed, the franchisee will be ready to begin developing the property. The average length of this phase is 6-9 months.

A further service which many franchisors offer to franchisees is advice and assistance for the selection of equipment at the most economic price and for the design/remodelling of the hotel (Housden, 1984). This is confirmed by FBD1 who explained that:

*There is very much help in design and construction in the pre-opening phase. We welcome the new franchisee and he meets most of the important directors and we called it a red carpet day. There will be also a library presentation where we give the hotel all the information (reservation systems, marketing systems, what is required legally for them, etc...). After that we have training programmes like quality system, guest satisfaction system and marketing programmes.*

FBD1 indicated that: *“We take royalty fees only from rooms. Therefore, there is little assistance in operating procedures for other aspects in the hotel”*. This approach challenges Stutts and Wortman (2006) who suggested that the franchisor should help the franchisee to understand everything about the operating procedures in the pre-opening phase. However, FBD2 reported that:

*There is other support to the franchisee and it depends on what the franchisee wants. For example, business plan model, supplying equipment and other things, garden design, some arts for the hotel. So, a lot of practical things around the hotel*  

(FBD2)
With regards to design and construction, FBD2 mentioned:

*If we go to our international standards, you can find special criteria for each brand in design. We don’t have a design department in the UK. However, we can call specialist if somebody needs that. We have a design and architect department in America. So, the entire plan that would be submitted to us will be sent to the head office in America to be approved.*

(FBD2)

All respondents reported that they have no responsibility for recruiting hotel staff as this is the role of the franchisee. This might lead to a problem in the franchise relationship due to the fact that some of the franchise relationship problems occurred from simple mistakes by the hotel staff.

*We have an emergency visit if a guest says I’ve stayed in this room and that happened and this happened. Something like that might bring problems to the relationship with the franchisee. However, I go there and I say I want to see this room because then that might be symptomatic of problems that have arisen. I found that it just be that the housekeeper has made a mistake or changed or the general manager has left so the whole thing might fall to pieces.*

(FBD2)

However, there should be more attention given towards the recruitment of franchisee staff by the franchisor. The franchisee has responsibility for employing all of his staff even at managerial level. It is just a consultancy
relationship between the franchisor and franchisee in relation to recruiting staff. “I think there should be more attention towards recruiting hotel’s staff from us” (FBD1).

The following is an analysis of hotel franchisors’ documents concerning their pre-opening services. This research used franchisors’ disclosure documents and websites to assess the hotel franchise relationship. Figure 4.1 illustrates the pre-opening services provided by Choice Hotels and figure 4.2 shows those provided by Wyndham Hotels. It could be concluded from the analysis of these websites that training and education, purchasing of hotel products, assigning a project manager, pre-construction, financial assistance and design, and development and construction support would be the hotel franchisor services provided during pre-opening phase. This is in agreement with FBD1 and FBD2 when they highlighted some of these points.

From analysis of the disclosure documents of Holiday Inn and Hilton, it could be noted that the most important aspect in pre-opening services is training.

*The general manager and entire hotel staff must also attend key programmes pre-opening training at your property, also included in the fee. A Holiday Inn employee will visit your hotel to assist in the hotel becoming a Holiday Inn or Holiday Inn Express brand hotel. The holiday employee may train all hotel management/supervisory staff to deliver information to line-level employees. Generally, training topics include: holiday inn or holiday inn express standards (as appropriate) guest service*
skills, marketing and frequency programmes, service planning, quality measurement and life safety and security.

(Holiday Inn Disclosure, 2009)

We provide required training programmes that you, your management company representative, your general manager and/or other key personnel must complete before certification for opening a new Hilton hotel. We may charge you for the training services and materials. As of the issuance date of this Disclosure Document, the cost of the individual programmes ranges from $150 to $2,500. (See Items 6 and 11). You must also bear the cost of wages, travel, lodging and other expenses of your general manager and any other trainees. Training programme fees are not refundable.

(Hilton Disclosure, 2009)

Figure 4.3 summarizes the steps of pre-opening phase in hotel franchise relationship which should lead to success of the relationship between franchise partners. This figure was adapted based on the previous analysis.
Figure 4.1 Choice Hotels pre-opening services
Step 2 - Pre-Opening Phase

Once the franchise agreement is signed, our team will help you throughout the development and pre-opening process. Each franchise is assigned a team made up of:

- Regional Vice President of Franchise Sales
- Franchise Sales Director
- Director of New Construction Development
- Sr. Project Manager, Design Services

A: Pre-Construction

Before beginning the actual construction of your property, it’s important to take into consideration key points that will help make the building process as smooth as possible. Once your franchise agreement is executed, Wyndham Hotel Group will assist you in the following ways:

- Supply a list of qualified feasibility companies.
- Introduce management companies.
- Introduce construction companies.
- Provide information on national and regional construction costs.
- Attend planning board meetings as needed.
- Attend meetings with other professionals.

B: Financial Assistance

Wyndham Hotel Group will deliver market occupancy percentages and average daily rates, through a third party source – Smith Travel Research – to your lender upon their request.

Wyndham Hotel Group will also help you compile the information required to apply for the financial and banking resources needed to get your property underway. We will:

- List the documentation that lenders will require.
- Provide information to your local bank upon request to facilitate loan procurement.
- Provide assistance to qualified franchisees to find lenders.
- Introduce preferred alliance lenders.

C: Design & Development & Construction Process Support

Once all of the pre-construction processes have been completed, you’ll be ready to begin developing your property. Wyndham Hotel Group will help you through this process. The support package we offer franchisees includes introduction and guidance with the following steps:

Site Development

- Site evaluation and layout studies.
- Architect and contractor selections.
- Brand specific design materials (Intranet).
Figure 4.3 A summary of pre-opening services in hotel franchising

1. Provide access to a bank loan if required
2. Provide access to the manual on the Hotel Chain
3. Assign a project manager to you
4. Hire general manager or have one assigned by management company
5. Review your proposed architect and designer who will prepare the plans and designs for the hotel.
6. Finalize hotel furniture, fixture and equipment
7. Calculate staffing requirement, hire dates and training schedule
8. Train your general manager and your other key personnel.
4.2.3 Opening phase

The franchisor will try to familiarize the franchisee with brand specific tools and resources designed to enhance the value proposition of the business. There will be visits to the property to help the franchisee on rate strategies, reservation system, forecasting, and valuable resources that the brand offers. This phase takes about 3-6 months. The FBD1 states that:

*Franchisees work with the developing architect, engineer and also with the safety team. The FBD has a checklist with all operating standards and physical standards and legal requirements and make sure that 100% everything is correct.*

(FBD1)

On the other hand, FBD2 believes that communication is the most important issue at this stage. This supports the view of Stutts and Wortman (2006) as they suggested that inspectors from the franchisor should visit hotel periodically to ensure its quality and to give valuable advice to the franchisee about food and beverage, operating supplies and marketing techniques. This is supported by analysis of the Wyndham Hotels development website (see figure 4.4) which explains that the opening manager and integration services manager will work closely with the hotel to prepare the property for opening day. This team will familiarize the hotel with the Wyndham programme and system.
CHAPTER FOUR: ANALYSING THE HOTEL FRANCHISE RELATIONSHIPS

Figure 4.4 opening services in Wyndham Hotels

B: Financial Assistance

Wyndham Hotel Group will deliver market occupancy percentages and average daily rates, through a third party source – Smith Travel Research – to your lender upon their request.

Wyndham Hotel Group will also help you compile the information required to apply for the financial and banking resources needed to get your property underway. We will:

- List the documentation that lenders will require.
- Provide information to your local bank upon request to facilitate loan procurement.
- Provide assistance to qualified franchisees to find lenders.
- Introduce preferred alliance lenders.

C: Design & Development & Construction Process Support

Once all of the pre-construction processes have been completed, you’ll be ready to begin developing your property. Wyndham Hotel Group will help you through this process. The support package we offer franchisees includes introduction and guidance with the following steps:

Site Development

- Site utilization and layout studies.
- Architect and contractor databases.
- Hands-on presentation of collateral.
- Brand specific design materials (templates).

Design Review Process

- Project “design” tracking once architect has been chosen.
- Building and FFE design standards.
- FFE guidelines and timelines.
- Preliminary plan review.
- Construction document review.
- Product/FFE submittal review.
- Feedback on conformance of plans with system standards.

Step 3 - Property Opening and Integration

Your Property Opening Manager and Integration Services Manager will work closely with you to help make sure you have what you need to prepare your property for opening day. In addition to introducing you to our various support departments, the opening and integration team will train you on key operational tools, including access to MyPortal (the Wyndham Hotel Group internet site), quality assurance/assistance, and revenue management. To assist in getting your property positioned in the marketplace, this team will also familiarize you with the revenue-generating opportunities from the Wyndham Rewards® loyalty program and with global sales efforts and opportunities.
4.2.4 On-going franchise support

There is a full access to the reservations systems support and marketing and promotional assistance during the on-going franchise support phase (Taylor, 2000). Once the property officially opens, FBD2 indicated that she will periodically visit the site to discuss and help implement brand strategies and to give valuable advice to the franchisee about food and beverage, operating supplies and marketing techniques. This is supported by Stutts and Wortman (2006) as they highlighted the importance of visiting the franchised hotels periodically to keep an eye on what happened on the hotel. FBD1 indicated that:

I visit the hotel once or twice after opening directly because it is obviously the most needed at this time. After that the FBD visits the hotel at least once a year and some times more. The area of checklist includes all parts of business such as: occupancy, rates, reservation, quality, guest satisfaction.

(FBD1)

From FBD1’s point of view, the franchisor training team will provide a comprehensive suite of training sessions designed to help the franchisee to run the business. FBD1 stated that: “We train people from the hotel to train the staff. Then, everything about the training will be on the internet. There is a website on the internet which has all the information on the training. There is no practical training (On-job training)”. This approach is not supported by Pine et al. (2000) or Monroy and Alzola (2005) as they reported that the fundamental service which should be provided by the franchisor is training which should
include practical training. Wyndham Hotels franchising website summarizes all the steps of on-going franchise support (see figure 4.5). It starts with on-going proactive follow-up and troubleshooting support for the general manager and the owner to guidance on participation in regional and national marketing efforts and Wyndham Hotel Group brand programmes and finally with central reservation systems.

Figure 4.5 On-going franchise support for Wyndham Hotels
On the other hand, FBD2 mentioned:

We don’t force hotels to use only our website for reservation. So, at certain times, some people think that they can get their business from other channels of distribution.

(FBD2)

Document analysis of the hotel franchise agreements of Hilton and Holiday Inn confirmed the previous results such as the importance of training, reservation system and quality assurance in on-going franchise support. However, the document analysis also found that the franchisor should pay attention towards supplies and equipment during on-going franchise support. Table 4.1 illustrates the main points in the franchise agreement that should be implicated during this phase. The following table is based on the analysis of those chains franchise agreement.
Table 4.1 On going franchise support in hotel franchise agreement

<table>
<thead>
<tr>
<th></th>
<th>Hilton</th>
<th>Holiday Inn</th>
<th>Choice Hotels</th>
</tr>
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<tbody>
<tr>
<td>Training</td>
<td>Training.</td>
<td>Training and education</td>
<td></td>
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<tr>
<td>Reservation services</td>
<td>Reservation services</td>
<td>Sales and marketing support</td>
<td></td>
</tr>
<tr>
<td>Consultation on operations, facilities and marketing</td>
<td>Consultation.</td>
<td>Quality assurance</td>
<td></td>
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<tr>
<td>Maintenance of standards</td>
<td>Arrangements for marketing, etc.</td>
<td>Franchise support</td>
<td></td>
</tr>
<tr>
<td>Other arrangement of marketing</td>
<td>Inspections/Compliance assistance</td>
<td>Corporate communications</td>
<td></td>
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<tr>
<td>Equipment and supplies</td>
<td>Equipment and supplies</td>
<td>Equipment and supplies</td>
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</tbody>
</table>

4.2.4.1 Franchisor perceptions and expectations

A franchisee's perception of franchisor value, and vice versa, changes over time and has an impact on the hospitality industry (Grünhagen and Dorsch, 2003). The franchisor's perceptions of franchisees may decline if the franchisees do not maintain the quality and standards expected by the franchisor or if the franchisee does not pay their royalty fees on time. One respondent (FBD1) indicated that they have a balance between perceptions and expectations of their franchisees:

_We have numerous franchisees which are repeat businesses. Some franchisees may have great expectations towards our system and we are working hard to meet that expectation._

(FBD1)
On the other hand, if the expectations of the franchisor have not been met by the franchisee, this can lead to serious problems for both parties such as terminating the franchise contract as suggested by one respondent (FBD2). The franchisees should consider their franchisor value and try to maintain their standards to save the image of the brand (Monroy and Alzola, 2004). This is confirmed by FBD2 as she reported:

Potential franchisees may have a lot of expectations which may be false expectations. In a bad way or in a good way, there are a lot of reasons why someone wants to join a franchise system. Some people want a brand because it gives them an access to have a loan from the bank. The bank needs a franchise business in a place before giving the franchisee finance support. And then, the potential franchisee after he got what he wants, he might be not even working properly with our hotels. So, this relationship might be quit doom from the beginning.

(FBD2)

Motivation, trust and commitment can drive the hotel franchise business to the satisfaction of both franchisor and franchisee (Shay, 2007). In this respect, FBD1 reported that trust, commitment, and motivation are the success key factors for success of hotel franchise system. FBD2 highlighted the importance of giving the franchisee a good return on their investment as it is considered as a main duty of the franchisor towards the franchisee.

Motivation, we want to have a good product and to have a successful hotel. From the franchise service director point of view, I am not looking at the franchising fees. However, I am looking at
the relationship. I am trying to motivate them through increasing their revenues, teaching them how to be of high standard, how to be friendly to the customers. There are rewards for the best hotel in the UK, Europe. On the other hand, if we have a hotel not in a good standard, we try to limit the situation because it could have a negative impact on the other hotels. We try to bring them to the standard.

(FBD2)

4.2.5 Franchise lifecycle

When shown the figure of the franchise lifecycle (see figure 2.2), FBD1 commented that: “this model of the life cycle is the same for us. However, it does not reflect all of our franchisees”. FBD1 illustrated this point by indicating that ‘some franchisees may not go through the annoyed phase’. FBD1 reported that small franchisees and individuals have a strong dependence on them for approximately one to five years. In addition, most franchisees will end with an interdependence phase. This supports the view of Munn (2001) and Nathan (2007) who found that the franchising lifecycle can be compared to a marriage or a relationship between a child and parent. There are courtship stages, honeymoon stages and stages of solid commitment. The franchise phases go from dependence on the franchisor to independence and finally to interdependence.

FBD2 mentioned that they maintain a good relationship with the franchisees all through the franchise lifecycle. This is due to the fact that the franchisors should
have a good delivery system which enables them to provide their franchisees with the best return on their investments.

*Overall all our franchisees, they are cooperating with us. The majority of our franchisees understand the business. They understand they will get the best return on the investment from joining our system. I would say they are generally happy.*

(FBD2)

If the franchisee goes into the free phase when he/she really dislikes some of the franchisor restrictions (Munn, 2001), FBD1 stated that they will try to identify what is really the cause of their unhappiness and try to resolve the problem. In order to prevent any problems occurring, they hold briefing days and communications days with their franchisees, during which they can discuss their problems with the franchisor. This is because the franchisees at this phase really dislike all the franchisor restrictions and they are frustrated and annoyed (Seda, 2007).

We try to arrange a series of meetings of the manager and the owner with the FBD, to find out what is really the cause of their unhappiness. We would try to identify this and resolve the problem or we may need to call in a specialist. For example, if their concerns was regarding Sales and Marketing support, we would identify if they are doing all they can themselves in this area, or identify if it is a true concern. If so, we would bring in the right people from the right departments to a second meeting to offer expert advice and to solve the problem.

(FBD1)

During the hotel franchise lifecycle, all respondents reported that trust, honesty, extremely open-mindedness and good communication are the key factors for
franchise relationship success. Also, franchisors have to ensure franchisees get the best return on their investment. Munn (2001) and Modell (2005) assert that the key thing that keeps franchisors and franchisees working together is their communication, and their respect with each other and it is important to recognize that trust or distrust are established at a very early stage, often before the parties enter into the agreement.

FBD2 noted that the main factor which affects the hotel franchise lifecycle is anything which happens with the economy (external factor). When there is a good market, there will be a good relationship with the franchisees and vice versa:

*For example we bought 80 hotels and brought them into the system. This broke down our relationship because people were concerned with the impact on their hotels. However, very quickly, within a year, the relationship was back because the owners saw the additional spend we had on marketing and distribution etc.*

(FBD1)

However, Nathan (2007) pointed out that changes in the macro environment can have serious implications for hotel franchising such as political concerns. FBD1 illustrated such one example:
For example, we opened a hotel in London which has great expectations of what our system would bring them in terms of the reservation system. However, this happened at the time of the London bombings, so their expectations were not met. Therefore, the franchisee goes through the frustrated phase from the early beginning relationship. They thought that we were not supporting them enough. Then, we dealt with this situation very quickly and they quickly came out of this phase and the business returned to the normal.

(FBD1)

4.2.6 Exiting the hotel franchise system

Franchise Classroom (2007) reported that exiting the franchise system may occur because of the environment of the business, the local community, or a conflict between franchise partners. FBD2 reported that:

You cannot throw a franchisee out without warning. We have to deal with them professionally in order to communicate with them. We do our best to resolve these conflicts before terminating the contract.

(FBD2)

This is in agreement with FBD1 when she says that: “exiting the hotel franchise business would be due to problems in industry (economy), lack of franchisor experience and his support, conflict between the parties”. 
FBD1 indicated that they monitor their franchised hotels through having a quality system which consists of audit programmes and guest satisfaction questionnaires which help to avoid any conflicts with their franchisees. Conflicts can be solved through regular meetings with the owners and the franchisees themselves also hold regular meetings through the owners' association.

_In the last 15 years, we experienced two hotels exit from the system in the UK. Not many leave at all. Sometimes the franchisees sell the property and the new owner kept the brand._

(FBD1)

From analysis of the hotel franchise agreements of Hilton and Holiday Inn regarding their termination arrangements, this research found that the agreements are geared towards the sake of the franchisor. The agreements recognize the additional harm and damage to goodwill of the brand that these chains will suffer if the franchisee terminates the agreement before the expiration date.

_If you unilaterally terminate the Franchise License Agreement without cause, which is not authorized and would be a material breach of the Franchise License Agreement, then you must pay us, upon our demand, a Termination Fee (liquidated damages). You must pay us a Special Termination Fee if (i) you or any of your Affiliates cause two or more franchise license agreements with us under the Licensed Brand to be terminated within 12 months (between either you or your Affiliates and us) – and if we terminate those agreements following your breach or default, you (or your Affiliates) will be deemed to have caused the termination; or (ii) your Franchise License Agreement terminates or is terminated by us (or any of our Affiliates) following an unapproved Transfer to either a Competitor (defined in Item 15) or a buyer that_
converts the Hotel to a Competitor hotel within three (3) years from the date the Franchise License Agreement terminates.

(Hilton disclosure, 2009)

Pre-Opening termination fees are one important point that should be highlighted in this analysis. It is noticeable that termination fees are high with regards to Hilton Hotels.

If there is an Event of Default by you before Opening and, as a result of your failure to cure that Event of Default, we terminate this Agreement either:

1. Before you begin the Construction Work, but only if, within one (1) year of such termination you or any guarantor (or your or any guarantor’s Affiliates) then, directly or indirectly: (a) enter into a franchise, license and/or management agreement for; and/or (b) begin construction or commence operation of: a hotel, motel, inn, or similar facility at the Hotel Site under a Competitor brand name; or

2. After you begin the Construction Work, but before Opening (unless the Event of Default is due solely to Force Majeure as provided for in Paragraph F above); then you will be liable to us for a Pre-Opening termination fee equal to One Thousand Two Hundred Dollars ($1200.00), for each of the number of approved Guest Rooms, multiplied by three

(Hilton Disclosure, 2009)

4.2.7 Size of the franchisor and maintaining the brand quality

The question of the size of the franchisor organization is considered to explore the rate of growth of the hotel franchisor company and the ability to deal with all franchisees with fairness (Khan, 1999). Therefore, it could be seen that there is a negative relationship between the size of the franchisor company and the satisfaction of the franchisees.
The rate of growth of our franchised hotels is relatively good. It is a definite increase. We converted some hotels and opened new hotels in the last year. 20 hotels were opened in the last year. Pipeline 25 hotels to be opened in 2007/2008. The number of franchised hotels in the UK is 190 open hotels. We try to treat all of our franchisees fairly but it is not the case.

(FBD1)

Khan (1999) declared that one of the important problems that may face the franchisors is that they expand too quickly and the system is then often unable to handle the strain of the franchised hotels.

We have 68 franchised hotels in the UK. We have obviously a programme of hotel inspections in place, we also follow up when we get guest complaints through the customer service department and if it is a serious issue that will be passed on to us and we might do an inspection out of the blue unannounced and the two annual inspections will also be unannounced. We have a pretty good idea of the standard of our hotels even if we haven’t visited them for a little while because we get the feedback from the guests.

(FBD2)

FBD1 and FBD2 confirmed the work of Monroy and Alzola (2004) who stated that the franchisor has to ensure that all the standards are maintained over his franchised outlets as it may affect the franchisor-franchisee relationship and the brand. For example:

We have a hotel programme inspection in place to maintain the quality across all these hotels. We follow it up with the guest complaints. If there is a problem raised, we do some inspection rather than the regular inspection to solve the problem. We got a
guest satisfaction survey as well. Building trust at this phase is very important.

(FBD2)

FBD1 reported that they have a few ways to ensure that the standards are maintained at a constant level of quality. One way is a Quality Evaluation System (QES) and the FBD is in charge of doing that evaluation. There are two methods used. Firstly, a self-audit system. The hotel goes into this system and it is a web-based system through which the hotel can report its problems and audit itself and after that the results are reported to the FBD. The FBD looks at these results and the action plan that the hotel needs to implement and approves the timescale.

For example, the hotel reported that carpet need to be changed after 5 years. FBD think that carpet should be replaced within 3 months. So, it is a negotiation about timescale of carpet replacement.

(FBD1)

However, the second method for maintaining quality in FBD1 franchised hotels is an audit department which inspects the hotel and re-checks whether the self-audit has been done properly. To make sure that the hotel follows the standards, actions and time scale, a representative from the franchisor will visit the franchised hotel to check that the self-audit system is correct and to identify any discrepancies.
As reported by Mendelsohn (1999), the brand name of the franchisor may become less reputable for reasons beyond the franchisee’s control. Therefore, the FBD should ensure that the quality of his standard is at a high level. On the other hand, Khan (1999) declared that some franchisees are not following the instructions and are neglecting to maintain standards, which may affect the brand and the franchise relationship. However, FBD1 highlighted that there are two actions against the franchised hotels if they are not maintaining the standards of the brand. Firstly, the FBD speaks with the general manager or the owner to solve the problem. Sometimes, the franchisor company uses influence on the owner to perform the required actions. If that does not work, there is a system which looks at the performance of the hotel.

We have bandings; one of them is commendable and the other is acceptable and the third one is failure. If the hotel goes to the failure phase, there will be three chances. Each chance will last for 3 month for the franchisee to correct itself. After 9 months the contract will terminate.

(FBD1)
On the other hand, FBD2 reported:

Some franchisees are aware that if they maintain the quality standards of the brand and that is will give them the best return on their investment. Some of them are not; we have to be very diplomatic in dealing with those people.

(FBD2)

It should be noted that there are some conflicts which may happen between franchisor and franchisee regarding the issue of maintaining the quality of the brand standards (Monroy and Alzola, 2004). Hence, all respondents reported that the FBD should manage the relationship at this stage through implanting audit programmes and dealing diplomatically with the franchisee to maintain brand standards and trust. This is in agreement with what this research found on the IHG franchising website, as it explains what happens with quality assurance (see figure 4.6):

Ensuring our standard through the quality and guest satisfaction reported each month. We use an external company to collect and analyze questionnaires each month. The reported go to the FBD to assess the hotel are then sent to the hotel. However, there may be an early termination from the contract when any conflict happens.

(FBD1)
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Figure 4.6 Quality assurance of IHG

IHG’s quality assurance program provides you with the front line support you need to drive brand integrity and return on your investment. Quality assurance at IHG is measured in several ways: through a visit by your property’s IHG Quality Consultant, through on-line based tools to monitor your investment, and through guest feedback. We assess our hotels on adherence to brand standards, life safety, cleanliness, and property condition. There are three key components to the IHG quality assurance program:

Quality Evaluation

IHG’s quality evaluation software program, QUEST, is accessible via the IHG internet, Hotel Merlin, and delivers real time data. QUEST is an interactive program that allows each hotel to access the progress it has made since the Quality Consultant’s visit and submit raw information.

Self Assessment

The Monthly Quality Self Assessment Tool (MQSAT) is accessible via Hotel Merlin. The tool allows General Managers to demonstrate the effectiveness of their on-property quality management process.

Guest Satisfaction

IHG’s Guest View is a window into the feedback of IHG guests at both a property and brand level. The system helps identify areas of opportunity as well as successes by measuring various product and service attributes about a guest’s experience at an IHG property.
4.3 Franchisees’ perspective

4.3.1 Application phase

Franchisee1A pointed out that this phase would be with the franchisor development director. There are a lot of criteria upon which to select the franchisor. Franchisees1A, B and C asserted that the franchisee chooses the franchisor which has the best delivery system, giving the best return on the investment each year. One of the important criteria to choose a franchisor is the system delivery for this company. For example, what is the return on investment you can get from this brand each year? What are the offers from the franchisor? Such as can you get discounted fees from the franchisor? Can you get shorter license period? Etc…” Franchisee1A. In contrast, Franchisee1B confirmed that the most important criterion in franchisor selection is location.

It does not depend on the brand. It depends on which brand will give you the best return on investment in this location. For example, if you got a Holiday Inn in this location, you can not build another one next door because it will be useless. In the US, you can find a lot of brands in one location and may be related to one owner.

(Franchisee1B)

Similarly, Franchisee1A confirmed that:

There are a lot of criteria to choose the franchisor such as location. For example, if you want to take a Holiday Inn brand in Bristol you can not do this because there are a lot of hotels there under this brand.

(Franchisee1A)
Moreover, Franchisee2 added the following: “However, brand name and the quality of the franchisor are the most important points when you want to choose a franchisor”. This agrees with that previously mentioned by Hayes and Ninemeier (2006) as they indicated that from the perspective of the franchisee on how to select a franchisor, quality and experience of the brand managers and perceived service quality level of the brand could be the most important criteria for choosing the franchisor.

*We are paying marketing fees and loyalty fees but in return we are getting a brand who somebody from Australia whose first time it is here in this country sees the Express by Holiday Inn logo and says yes I know this brand. Yes so that’s the main benefit. I mean yes there is a cost involved in getting a brand name for your hotel but there are a lot of benefits with that cost.*

(Franchisee2)

Franchisee1C concluded that many different factors affect franchisee selection for the right franchisor for his business. “*It would also be the agreement terms, the agreement fees, competitors and marketplace*” (Franchisee1C). “*The bank would also want to have a powerful brand to give you an access to a loan*” (Franchisee2). This is confirmed with what has previously been said by the FBD1.

From the franchisee’s perspective, “*this phase is very quick although sometimes government regulations (licences, building requirements, etc) may*”
increase the duration of this phase to a number of years” (Franchisee2). This was confirmed by most of the interviewed franchisees as they indicated that application phase could take a couple of years. “Our franchisor hotels should be opened normally about 12-14 months from the application phase” (Franchisee1C).

On the other hand, Franchisee1B added that it is very important to know every bit of the contract before the franchisee signs it. So, it is advised that the franchisee hires someone to read this contract on behalf of the franchisee before signing it, to explain the long-term effects on the relationship. This approach is confirmed by Murphy (2006) who asserts that the franchisee should hire someone with expertise in franchise law.

At the application phase, the interviewed franchisees reported that prospective franchisees should know what they will be charged with and what they will receive from the franchisor. In this respect, Hall and Dixon (1988) state that before signing the franchise agreement, the appropriate fee, continuing royalties, etc should be determined.

Fairly, this is not happened. When starting the franchise agreement, it starts very polarized. They tell the franchisee you have to sign here or you will get lost. They tell the franchisee you have to sign here without telling the franchisee anything about the agreement. Therefore, it is the responsibility of the franchisee to know every aspect in this agreement. Because if the franchisee sign the contract without understanding it, it will cost him too much over the 20 years of the contract period. (Franchisee1B)
Stephenson and House (1971) highlighted that the franchise contract is the core of the relationship between the franchisor and franchisee. Therefore, “it is very important to understand every aspect in the contract, what could happen after years and try to negotiate with the franchisor company” (Franchisee1C).

Nowadays, the negotiation opportunities are very few. “They tell you that we are cheaper than Hilton, please sign here” (Franchisee1B).

From the perspective of the franchisee on how to select a franchisor, quality and experience of the brand managers could be the most important criteria for choosing the franchisor (Hayes and Ninemeier, 2006). Therefore, the franchisees look at the FBD experiences when they choose a brand (Franchisee2).

\[ FBD\ is\ essential\ to\ work\ in\ the\ hospitality\ industry\ field\ especially\ in\ the\ hotel\ industry.\ It\ is\ preferred\ that\ FBD\ have\ a\ degree\ in\ hospitality\ but\ it\ is\ not\ essential.\ Moreover,\ the\ FBD\ should\ have\ personal\ experience\ at\ general\ manager\ level\ with\ his\ franchisor.\ Furthermore,\ FBD\ should\ also\ act\ as\ an\ area\ general\ manager\ in\ order\ to\ manage\ a\ group\ of\ hotels\ remotely.\ \]

(Franchisee1A)

This confirms the work of Hayes and Ninemeier (2006) who reported that the role of the FBD is to act as the eyes and ears of the franchisor and this job varies from one hotel chain to another. In this respect, FBD1 indicated that “the FBD should have hotel experience, general manager experience and area manager experience”. The analysis of the IHG careers website supports this approach. The job description for a Hotel Communications and Franchise
Support Manager (see figure 4.7) indicated the importance of academic and practical experience of the proposed franchise business director. This is due to the fact that this manager will be the key person between the franchisor and franchisees.
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Figure 4.7 Job description for Manager: Hotel Communications and Franchise Support (IHG)

Manager, Hotel Communications & Franchise Support
- Europe (Job Number: 05000010)

Description

What's your passion? Whether you’re into savvy, tactical savvy, or IHG’s warmest and friendly, we’re interested in you. We live and breathe the same amount of flexibility and drive to new places as they do in their business.

An existing opportunity as Manager, Hotel Communications & Franchise Support - Europe has the same spirit of our global headquarters in Jersey, UK. In this role, you will support and develop IHG’s strong relationships with franchisees through effective team partnerships and the Hotel Performance Support network to leverage key communications. You will proactively manage the escalation and resolution of franchisees’ issues within IHG and ensure that communication standards are high. You will develop and manage hotel learning tools to ensure internal and external requests for Performance Support information on hotel IHG are met. You will develop and deliver all KPI, timeliness and focused management information in a timely manner and improve communications in the European Franchise hotels. You will manage and develop direct reports and ensure ongoing support is provided to all new employees in the department.

Required qualifications:

Qualification: Relevant degree in Hotel Management or a relevant field of study, or an equivalent combination of education and work-related experience.

Experience:

- Minimum of 5 years’ experience in hotel communications and hotel operations, preferably with IHG or multi-brand hotel management experience.
- Excellent knowledge of hotel operations, revenue management and hotel industry sales and training experience.
- Experience working in a branded service delivery environment.

Required skills:

- Self-starter with high drive for results, strong problem-solving and time management skills required.
- Excellent ability to manage multiple tasks and projects with follow-up and attention to detail with a high degree of accuracy.
- Strong communications, presentation, negotiation, and conflict management skills.
- Generalist and service-oriented with excellent analytical, organizational, and written communication skills.
- Experience with Microsoft Office suite and relevant reporting tools and software desirable.

In return, we will give you a purposeful, formal, and service-focused position including hotel management support, personal benefits, access to a gym, hotel discount worldwide, access to a wide variety of discount schemes, and the chance to work with a great team of people. Most importantly, we'll give you the room to be yourself.

If IHG are not a good fit for you, then please don't apply. We encourage you to apply if you are interested in our vision and managing our talent we would encourage internal as well as external candidates to apply for any of our vacancies.
At the application phase, as reported by most of the interviewed franchisees, the franchisees practical experience and/or academic experience in hotels is not required. Practical experience sometimes helps, for example some franchisees are accountants.

*Practical experience or academic experience not affects the relationship between franchisor and franchisee. All the franchisees have to do is taking the franchisor standard and trying to follow these standards. However, if the franchisee is not keeping the standard, it should be lead to problems in the relationship.*

(Franchisee1A)

The franchisee does not require any additional experience and to become a good partner, the principle of creating a good relationship is like a marriage (Munn, 2001). Therefore, Franchisee1A highlighted that the franchisee enters the business to get some technical assistance.

*The franchise relationship can be good or bad regardless of whether you have experience or not*

(Franchisee1B)

On the other hand, Altinay (2006) indicated that the franchisee experience can be the key to success in defining the problem. Therefore, some franchisees try to employ experienced people to manage the hotel. “*I can tell you that I am the owner of a hotel but I could not run a hotel. Therefore, I hire qualified people*” (Franchisee1B).
Today, if you look at us and how we scrutinise the cost of acquisition of the bedroom. You will find that experience can help in a tremendous amount.

(Franchisee1B)

It is not important to have hospitality academic qualifications but it is does happen. From the franchisor point of view, the franchisee is going to put the franchisor logo on their door. Therefore, a qualified franchisee is required to maintain the brand image. It is important for the franchisee to have some practical experience in the hotel field.

(Franchisee2)

It can be noted that the hotel experience of the franchisee is the important theme in building a good franchise relationship from application phase. This approach corresponds with Mendelsohn (1999) as he highlighted that the most important way of avoiding franchisee dissatisfaction lies in the careful initial selection of franchisees who should have adequate levels of academic and practical experience.

Franchisee1A also confirmed what had previously been said by the FBD1 about this phase requiring respect between the two parties, but Franchisee2 added that ‘there should be the same interests and needs for franchisor and franchisee’. To conclude, respect, interest in needs, franchisor/franchisee experiences and negotiation aspects were found to be the most important factors influencing the application phase.
4.3.2 Pre-opening phase

During this phase, Franchisee1B indicated that franchisees can get as much or as little assistance as required. The development team help with construction because they are qualified in this area. There is a relationship with the architectural department to make sure that the brand standards are included. This department can help with the design as suggested by Housden (1984) who reported that the franchisor should give assistance in the selection of the equipment at the most economic price and the design/remodelling of the hotel. They help the franchisee in design and construction because they reduce the cost of building and the cost of time (Powers and Barrows, 2005). At this stage the FBD will help the franchisee get connected to the system, making sure that staff are appropriately trained (FBD1). This in agreement with Stutts and Wortman (2006) as they indicated that the franchisor should help the franchisee to understand everything about the operating procedures:

Two staff from the hotel go to the franchisor’s head office to train them on the reservation system (Hollidex plus) and this is off-site training and there is a two days training or briefing for all the staff on-site, there is a sales induction course, there is a general manager course.

(Franchisee1A)

Powers and Barrows (2005) indicated that most franchisors may provide practical support to franchisees in terms pre-opening training.
Franchisee1C indicated that training is very important at this phase to introduce the hotel staff to the brand standards and system.

The training given to the franchisee varies from off-the-job training to on-the-job training. Mendelsohn (1999) states the franchisee takes some benefits from joining a franchise system such as staff training and this was illustrated by one respondent: “The staff training was there at the pre-opening phase and we had enough training” (Franchisee2).

The financial assistance given to the franchisee during this phase is very limited, except for the reduction of fees in some cases.

There may be some help in financial like giving discounts on fees

(Franchisee1B)

On the other hand, Franchisee2 added, “there is no financial assistance from the franchisor. It is just you can have an access to a bank to have a loan. For this initial stage, I felt that I received appropriate support during that time”.

The interviewed franchisees concluded that there is a lot of support in marketing and training during this phase, so it depends on the franchisee themselves and which type of marketing and advertising they need at this stage. This phase usually takes from 6 to 12 months.
4.3.3 Opening phase

“The FBD should visit the hotel two or three times at this stage to make sure that everything is compatible with the franchisor brand” Franchisee2 and this is in agreement with Stutts and Wortman (2006) as they highlighted that the franchisor should inspect hotels periodically to ensure the quality of hotels.

Training is the important issue at opening phase (Pine et al., 2000). “For example, what is the brand? What about franchisor? How do franchisor systems work (Reservation System, Loyalty Club)? What about quality standards?” (Franchisee1A).

They give us opportunities for training to the extent that the last time my director was here, the franchise director he spent about six hours just telling me about various reported and various policies and all these things so yes that helps me in my day-to-day activities. Both of off-job and on-job training is conducted.

(Franchisee2)

In a comprehensive description, Franchisee1A explained that:

During the opening phase, there is a checklist. This checklist basically comprises of the property being built with the standard of the brand (size of bedrooms and corridors), the architect department sign that the building is ready to have one of the
franchisor brands. The levels of inventory (knives, forks, etc...) being checked as well.

4.3.4 On-going franchise support

The relationship at this phase is between the FBD or the operations director and the franchisee (Franchisee2). “The franchise business director visits the hotel twice a year to make a full business review” (Franchisee1A). “There is an operations director who deal with the hotel manager to help him in running the hotel” (Franchisee1B).

During this phase, there is a lot of marketing assistance from the franchisor, although it depends on the franchisee. “The very experienced manager will use franchisor marketing assistance and the other will not” (Franchisee1A) and this is in agreement with Taylor (2000) when they indicated that part of the on-going services provided to the franchisee is marketing and promotional assistance. “We have Holidex programme for reservation which is very powerful. We got this service at a charge” (Franchisee1C).

The franchisee may feel uncomfortable with the franchisor’s marketing services (Franchisee1A). Therefore, Grünhagen and Dorsch (2003) suggested that advertising costs are one of the most important and most frequent causes of tension and litigation in the franchise relationship. “The problem with the franchisor in marketing is how they distribute this money on each brand as my franchisor for example has 6 or 7 brands” (Franchisee1B).
Stutts and Wortman (2006) state that the franchisor should offer valuable advice to the franchisee about food and beverage, operating supplies and marketing techniques. Franchisee1C reported that:

*The role of the FBD is not to tell us how to run the business but to maximize the use of their system (Websites, GDS, Reservation System) Also, to check the standard and to make sure everything is fine and it is not an inspection. It should be a partnership rather than a police.*

(Franchisee1A)

The franchisor can help in certain circumstances in return for other fees. “*For example, if the franchisee has not a revenue manager, then, the franchisor can hire for him someone to help him in return for extra fees*” (Franchisee1B).

*We can pay for a yield management system to help us with our strategies but that would be an additional expense*”

(Franchisee2)

Monroy and Alzola (2005) assert that the fundamental service which should be provided by the franchisor is training. However, most of the interviewed franchisees reported that there is a good level of training from the franchisor and most of this training is off-site training.

*Your Franchise Business Director will come in and will support you, but if you want training you purchase it additionally.*

(Franchisee1C)
There should be training for the staff. It’s mixed the off-job training for the General Manager needs to go on a course which is about their systems and their processes, but then the Franchise Business Director will be training away from the hotel or in a meeting room. The Franchise Business Director will also do training with the hotel staff.

(Franchisee1C)

Stutts and Wortman (2006) suggested that franchisor inspectors should visit hotels periodically to ensure the quality of hotels and this was confirmed by Franchisee1A when he indicated that “the franchisor should act as a helper rather than an enforcer”.

The franchise business director visits the hotel about three times a year, it all depends if you had problems in your hotel, but also you can phone him up, and say please can you come?

(Franchisee2)

The franchise relationship depends on the relationship between the franchisee and the FBD. Trust and commitment is very important at this stage in order to ensure success in the franchise relationship (Rousseau, 1995). “I believe that franchise relationship is like a marriage. So, if you do not trust your wife, do not get married to her” (Franchisee1B). Motivation is a good chance for the franchisor to ensure the loyalty of the franchisee (Hall and Dixon, 1988). “My franchisor does award ceremony every year” (Franchisee1B).
The franchisee has to trust the franchisor with the franchisor. Trust is the basic of any relationship. They do some motivation for the franchisees such as: briefing days and meeting days for the franchise. They told the franchisee about what will happen in the future. They organize some conferences and seminars

(Franchisee1A)

On the other hand, Franchisee2 added:

At this phase, I got distrust when they converted a very near hotel to the same brand. So, they take my guests. There is no good relationship among the franchisees and the organization. Because, there is competition between the franchisees of the same brand. I can not give you my information. (I decided I do not need the other franchisees). We have an organization under our franchisor umbrella. However, I do not like this organization because we are not really friendly.

The franchisor should be responsive with regards to franchisee problems “when you have a problem, you need a solution now” (Franchisee1B).

I suppose, the franchisor should respond the franchisee problems rather than acting as a police. they’re certainly there to police, they police the brand to make sure that they save their brand standards and it does sometimes feel like that they’re auditing you, but also they should do advise support and direct.

(Franchisee2)

To conclude, the on-going franchise services range from marketing, operations to training support. It is very important to have a reasonable standard to build
the trust and motivation in the franchise relationship. Franchisee1C reported that:

_We’ve got a distribution marketing team, training team, revenue training team; they’re all there for us to support us. We’ve got a very good fire safety team. We wouldn’t have that if we weren’t a franchise, if we didn’t; buy a franchise we’d be out there by ourselves._

**Franchisees’ perceptions and expectations**

A franchisee’s perception of franchisor value is not constant and has an impact on the franchise relationship (Grünhagen and Dorsch 2003). The interviewed franchisees reported that at the beginning, the franchisee wants to make the best possible return on their investment. “*The banks like to lend money to franchisees that are under their brand because they have a strong covenant*” (Franchisee1A). After the franchisees have the franchising experience, they realise that this brand is the best one and they will be aware of what other brands are doing.

_They have changed the business model entirely from a hotel asset holding company to a franchise centric company. 77% of franchisor hotels in the UK are franchised. Therefore, franchisor deals with the franchisee as kings._

(Franchisee1A)
Perceptions of the franchisee may depend on the administration of the franchisor (Mendelsohn, 1999). “If the franchisor give a value to the franchisee, their perceptions will be always good” (Franchisee1B). The franchisees perceptions may decline for a number of reasons such as the expectations of the franchisees are not met by the franchisor (Mendelsohn, 1999)

The franchisor decided new process and new costs without taking the opinion of the franchisee. If new process is approved and franchisees do not know about it, it could make a serious problem between the two parties.

(Franchisee1A)

If the franchisee does something in a reasonable way, it will be approved from the FBD.

(Franchisee2)

Hall and Dixon (1988) reported that many of the problems which develop in the franchise relationship between the franchisee and franchisor are related to the level of psychological satisfaction experienced by the franchisee. Therefore, some franchisees feel that the franchisor is not fair in giving them the best promotional activities:

Because our franchisor has a managed estate, there is some continued feeling that more of sales activity is pushed to the managed estate. Therefore, the franchisees think that they are not getting a fair representation for the franchise fees.

(Franchisee1A)
4.3.5 Franchise lifecycle

‘This model (see Figure 2.2) of lifecycle is exactly right’ (Franchisee2). At the beginning, the franchisee’s satisfaction is high because the franchisee has a lot of contact with the franchisor and the franchisee needs the franchisor especially during the pre-opening and opening phase. For new franchisees, the satisfaction is very high at the beginning. After this phase, the franchisees realize that they can depend on themselves. However, one of the franchisees also said that:

*Sometimes the franchisee says that I am doing all the work and franchisor takes all the money*

(Franchisee1A)

At the “me” stage, the franchisees recognize that they can manage the hotel without the help of the franchisor. “However, they still have the best franchise system delivery all over the UK” (Franchisee1A). Therefore, the franchisee realizes that they cannot achieve the same occupancy levels without the assistance of the franchisor. Then the franchisee realizes that they have to work together. The free phase could happen after 2-3 years from starting a franchise relationship. The franchisor should implement some motivational strategies for the franchisee to prevent them going into the free phase, such as briefing days, meeting days, and conferences and seminars about the future of the brand.
This underpins previous models (Franchise Classroom, 2007; Seda, 2007) of the franchise lifecycle.

In contrast, Franchisee1B reported that this model based on his franchising experience (Figure 2.3) is not exactly right for him. “I do not have a very reliance on my franchisor because I have a good experience before coming to the UK”. He reported that after the decline phase, there will be a variation in the lifecycle and it depends on the relationship:

In my lifecycle as a franchisee in the UK, I have a relationship with my franchisor for more than 11 years and given that I was the first person who bring the brand to the UK market in general this relationship was 70% to 80% good. However there is a period like any other franchisees when I had a bad relationship with my franchisor. The unfortunate thing is your capital is tide up during this period. Therefore, you do not have a choice to have to conform or to find a medium unless you want to be litigious and start a court act.

(Franchisee1B)

Most of the interviewed franchisees were between the “me” and “see” phase. However, if the franchisees do not get the best return on their investment, they go into the decline phase (Franchisee1B). This is in agreement with Munn (2001) who reported that these stages are normal phases for any franchise relationship and it goes from real dependence on the franchisor to independence and finally to interdependence.
Franchisee1A suggested that the franchisor should offer support rather than policing in order to ensure the success of the lifecycle. “A good franchisor knows that we do not want to be told that there are dirty marks on the curtains. And he knows that the only thing we need is how to make the best return on the investment by maximizing the use of the franchisor system” (Franchisee1C).

On the other hand, some franchisees go to the free phase and they feel that they do not want to co-operate with their franchisor as they can depend on themselves with the franchisor assistance or brand name. Franchisee2 explained that:

*We went to the free phase after ten years from the relationship (because we do not see any benefit from this brand after these 12 years as we can fully depend on ourselves. We have our online booking system, we have another channels of distribution for our business rather than this brand.*

### 4.3.6 Exiting the hotel franchise system

There are many reasons which lead to a franchisee exiting the franchise system. Firstly, it could be normal reasons “such as expiration of the licence” (Franchisee1A). Alternatively it could be external factors, such as “problems in the industry or in the economy” (Franchisee1A). Hall and Dixon (1988) reported that many of the conflicts which develop in the franchise relationship between the franchisee and franchisor could lead to termination of the contract.
Therefore, “Conflict between partners would be one of the termination reasons” (Franchisee1A).

Khan (1999) declared that some franchisors try to expand very quickly and therefore the system is unable to handle the strain. “System size and franchisor experience would be factor for exiting the franchise system” (Franchisee1A). There is a process for the franchisee to exit the system if they have not paid their royalty fees. Previous research (Frazer and Winzar, 2005; Frazer et al., 2007) underpins these issues as they highlighted that lack of delivery of the business from the franchisor or changing the owners of the hotel could lead to terminating the franchise contract:

The franchisee wants to change to another group and will be happy to pay the termination fees which may be 3 years of royalty fees if: there is no good delivery from joining this brand, changes of the ownership or conflicts

(Franchisee1B)

Having a system in place for controlling and observing franchisee profitability and introducing a benchmarking programme for the franchisee would help in keeping the franchisee away from going to the free phase and therefore terminating the contract (Nathan, 2007). This is confirmed when Franchisee2 reported that “what I need from my franchisor is giving me the best return on investment. We think now to terminate the relationship as we do that through our team and not through their assistance”.

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Building trust through encouraging franchisees to run their hotels effectively, considering franchisees opinions and understanding their needs would be a reason for a long lasting franchise relationship (Nathan, 2007).

*I have never been to the free phase as I think that they have the enough power to build a high level of trust. I trust my franchisor to the extent that I will not leave it because this organization always considers my opinions and solve my problems*

(Franchisee1B)

4.3.7 Maintaining the quality of the brand

Franchisees are trying to maintain the standards of the franchisor as far as they can as Mendelsohn (1999) identified that the brand name of the franchisor may become less reputable for reasons beyond the franchisee’s control, such as lack of trust in the relationship. Therefore, there is a programme in place where a corrective action can be taken by the franchisor (FBD1). The quality system works on the basis that there are checks at regular intervals and the franchisor classifies the franchisee to some bands (Franchisee 1C). Khan (1999) indicated that this is due to the fact that the operating procedures are not clear to some franchisees even after months of the hotel being in operation.

*Franchisee and franchisor have quality evaluations which are online self-audit system which has a re-inspection after that. The quality standard is maintained through self-audit system which done by the franchisee. There is also something called GSS (Guest satisfaction score) they use that system for exit process. If*
you are from band 1-3, the franchisor does not get involved. If you are in bands 4 or 5, the franchisor gets involved. You have to get out of from 4 or 5 within 90 days. You could get it three times which means within 9 months you may get out of the system.

(Franchisee1A)

Regarding maintaining the quality, there should be regular visits from the franchise business director in order to build the trust relationship and therefore building a good relationship with the franchisee to maintain the quality to a constant level (Monroy and Alazola, 2004). “Within a short period of time, FBD will build a relationship with the manager and the owner and he/she will understand how this hotel is going to run. This may take 2 visits or just one visit to build this trust in the relationship” (Franchisee2).

The Franchise Business Director would come to inspect the hotel, but we also get audited every nine months by representatives. They come as guests and it’s unannounced. They will be a guest at your hotel and then they would do a whole day when they would check through your fire safety standards and also your compliant making sure we’re not in breach of anything.

(Franchisee1C)

The big issue in maintaining the quality of the franchisor’s brand is investing in the right people.

It is very hard to find the right people and to give them the proper training and induction. The problem is having owners with enough foresight to invest money in the product and the physical building rather than investing in people.

(Franchisee1A)
The franchisee should look at any comments openly whether it is a guest or a franchisor a director or whatever it is (Nathan, 2007).

If it’s outside the rules we’ll look at it and we’ll decide whether it’s a benefit, we’ll decide whether we can do it, we’ll decide whether we have to do it and then we’ll make that decision and again FBD understands the way we think here. If it doesn’t benefit and we can’t see any benefits and we don’t take anything lightly, it’s not down to me to say no that’s a load of rubbish, it’s down to us as an organization round a table and we’ll make that decision around the table and there’ll be four or five people around that table saying I think we could do it that way, if we do it that way we can….

(Franchisee2)

I would say to comply with the brand standard, yes they have given us the brand standards but they are very specific this is what it should be this is what it should be and this is what it should be. In fact at no point are they forcing us to do something. this dialogue is nowhere in the brand standards, I’m telling you to do something in a certain way, you say I cannot do it in that way and that help and support that I’m giving you is not in the contract

(Franchisee1B)

There are rules and regulations for the brand but the franchisee should accept franchisor new ideas to comply with the quality of the brand standards (Nathan, 2007). “So if you have to have a tissue box in your bedroom they have to do that. In a way you could say if they had something else in there it might be against the brand actually if that’s what you’re talking about. So we would then
have to say alright, that’s interesting yes we’ll have to look at that because everything moves on and at this point in time I’m actually updating the rules and regulations because things have moved on so much” (Franchisee2).

Some hotel franchisors take their royalty fees from the rooms division only and therefore they neglect the other departments which may lead to lack of maintaining the quality through all departments in the hotel.

In a franchise system, there is no stipulation about the style of service. In the franchise system, there is more freedom. My franchisor take its fees from a percentage from the rooms revenue, therefore, they do not take care of Food and Beverage department. However, there are a lot of restricted standards and training for the housekeeping. (Franchisee1A)

4.4 An integrated model of hotel franchise lifecycle with hotel franchise phases

With regards to the hotel franchise lifecycle, this research used the lifecycle model suggested by Nathan (2007) and tried to adapt it to the hotel industry. This research found that this model of the lifecycle is nearly the same for the hotel industry. However, it does not reflect all the hotel franchisees. For example, some hotel franchisees may not go through the free phase. Small
franchisees have a strong dependence on their franchisors for approximately one to five years. There were no exact time scales for each phase for hoteliers because it depends on each franchisee. However, if the franchisee goes to the free phase, the hotel franchisor should try to explore the cause of their unhappiness and try to resolve the problem.

In order to prevent franchisees from going to the me or free phases, the franchisor should introduce briefing days and communications days with their franchisees, during which they can discuss their problems and suggestions with the franchisor. The franchisees who go to the free or me phases really dislike all franchisor restrictions. Although most of hotel franchisors think that the most important issue to keep the franchisees away from free or me phases is giving them the best return on the investment, it could be noted that trust, respect and good communication are the key factors for franchise relationship success. However, there may be an early termination from the contract when any conflict happens.

Respect, trust and negation aspects were found to be the key success factors at the application phase. Moreover, the franchisor's inspection at the opening phase is considered a vital point. The major problem in the franchise relationship is that the franchisor often acts as an enforcer rather than supporter. The lifecycle of the hotel franchise relationship goes through many phases. It starts from glee, fee, me, free, see and ends with the we phase. If the
franchisee goes into the free phase, the hotel franchisor should find out what is at the root of the unhappiness and try to identify this and resolve the problem. Before having a problem with a franchisee, the hotel franchisor should provide some motivation for the franchisee such as briefing days and communications days with the franchisees which they can discuss their problems. Franchisees exit the franchise system mainly because of conflicts or problems in the economy.

With regards to the on-going franchise support phase, Trust and commitment is very important at this stage in order to ensure success in the franchise relationship. Motivation is a good chance for the franchisor to ensure the loyalty of the franchisee through implementing an awards ceremony every year for the best hotel. The franchisor should be responsive in regards to franchisee problems. Perceptions of the franchisee may depend on the administration of the franchisor. Therefore, the franchisor should add value to the franchisee to keep their perceptions at a high level.

Concerning the hotel franchise lifecycle, most of the franchisees indicated that the franchise lifecycle model (See Figure 2.2) is a good reflection of their experiences. Some franchisees realized that they can depend on themselves when they felt that they were doing all the work and the franchisor was taking all the money. The free phase in the hotel franchise industry could happen after 2-3 years from starting a franchise relationship. In this respect, the franchisor
should implement some motivational strategies for the franchisee such as meetings, conferences and seminars about the future of the brand. However, in the hotel industry, there is a period like any other franchisees when they have a bad relationship with their franchisors. Therefore, the franchisor should offer support rather than policing in order to ensure the success of the lifecycle. System size and franchisor experience would be factors for exiting the franchise system if the franchisor is not able to deal fairly with all of the franchisees. Therefore, the franchisor should observe franchisee profitability to prevent the franchisees from going to the free phase and therefore terminating the contract.

Regarding the maintenance of the quality of the franchisor brand name, there should be communication from the franchise business director in order to build the trust relationship to maintain the quality of the brand. The franchisee should understand franchisor comments openly in order to save the brand image. Finding the right staff to manage the franchised hotel is a challenge for the hotel owners as some of them invest in the product rather than invest in the right people to deliver the product. The franchisee should accept franchisor new ideas to comply with the quality of the brand standards.

From the conceptual framework in chapter two, this study suggests the following model as an integrated model for the franchise lifecycle and the hotel franchise phases depending on the findings from the field study. This model shows that there are some factors affecting the hotel franchise relationship.
during the franchise lifecycle. At the application phase, it can be noted that trust; experience; negotiation aspects and respect are vital. These factors affect the relationship as there is a positive relationship between these factors and the success of the franchise relationship. Regarding the pre-opening phase, as much as the franchisor offers support to the franchisee especially in training, it leads to very high levels of franchisee satisfaction. Concerning the opening phase, this research found that this stage is very critical in the franchise lifecycle as conflicts at this stage may lead to early termination for the franchise contract. During the on-going franchisor, the relationship should have support, trust; motivation; communication and respect between the two parties. In contrast, conflicts may lead to the franchisee exiting the franchise system. The model suggests a time scale for each phase during the franchise lifecycle (see figure 4.8 and 4.9)
Figure 4.8 An integrated model of the hotel franchise lifecycle with hotel franchise phases
Figure 4.9 A model of hotel franchise lifecycle

The hotel franchisor should look at:
Agency theory
Resource scarcity theory
Financial capability
Franchisee experience
Size of property
Ownership structure
Type of property

Note: The franchisor should consider trust, communication and respect to avoid his franchise going to the free phase.

The franchisor supports:
- Training
- Consultation on operations
- Reservation and marketing
- Quality assurance
- Equipment and supplies
- Communication

The franchisee go to these phases when he dislikes all franchisor restrictions and if there is no communication or motivation for the franchisor.
4.5 Towards a model for the success of the hotel franchise relationship

An initial model for the success of the hotel franchise relationship was developed as a result of the conceptual framework and the findings attained from interviewing hotel franchisors and their franchisees. The model captures franchisors/franchisees beliefs towards varied tangible issues in the hotel franchise relationship which are considered as significant factors to the success of the hotel franchise relationship. (see figure 4.10).

Franchisors’ perspectives

In the application phase, the franchisor should evaluate the proposed location of the franchised hotel based on the competition from other hotel brands. Franchisee financial capability, experience, ownership structure and proposed hotel size found to be playing an important role when the franchisor takes a decision to choose a new franchisee. This research insists that the franchisor should look at these points carefully to build a high level of trust between franchise partners from the beginning.

In the pre-opening phase, pre-construction assistance for new build hotels is important for keeping the hotel from the beginning on the right way. The franchisor will try to give advice and assistance in the selection of the equipment and to the design of the hotel. The franchisor should help the franchisee to understand every bit about the system and standards. The
franchisor should give financial assistance, such as reduction of the fee or help accessing to a bank loan. Moreover, the research suggests including some points in the franchise contract about the recruitment of the hotel staff as it is the responsibility of the franchisee which might lead to a lack in the brand image.

Concerning the opening phase, the franchisor should introduce specific tools and resources to the franchisee to enhance the value proposition of the business. The franchisor should visit the franchised hotel regularly in order to build a high level of communication with the franchisee in order to build the trust relationship. These visits should help the franchisee to understand reservation systems and valuable resources that the brand offers.

During the on-going franchise support phase, the FBD will periodically visit the hotel to check the brand standards at least twice a year. The franchisor should offer full access to reservations systems support, training and marketing and promotional assistance. Some franchisor services are in return for other fees such as hiring an experienced revenue manager. There should be a good level of training from the franchisor. The perceptions of the franchisors may decline towards the franchisees if they are not maintaining the standards expected by the franchisor or if they do not pay the royalty fees on time. However, this can lead to serious problems for both parties such as terminating the franchise contract. Regarding maintaining the quality of franchisor brand name, it could be noted that one of the important problems that may face the franchisors are
that they expand very quickly and the system is often unable to handle the strain of the franchised hotels which they do not maintain the standards of the brand. In this respect, the franchisor has to ensure that all the standards are maintained through the quality and guest satisfaction reported each month.

**Franchisees’ perspectives**

In the application phase, there are many factors to select a franchisor. They range from the franchisor system delivery, agreement terms, fees, location, and brand name to the quality of the franchisor standards. It is important to understand the hotel franchise contract before the franchisee signs it. So, it is advised that the franchisee hires someone to read this contract on behalf of the franchisee before signing it, to explain the long-term effects on the relationship. Experienced franchisees have the ability to define the problems and to deal with it.

During the pre-opening phase, the franchisors help the franchisee in design and construction as they reduce the cost of building and the cost of time. The FBD will help the franchisee understand the system and make sure that staff is appropriately trained to the brand standards. The financial assistance given to the franchisee during this phase is very limited, apart from the reduction of fees in some cases.
In the opening phase, the franchisor should visit the hotel many times to implement the brand standards and to do training for staff and managers in the hotel.

With regards to the on-going franchise support phase, the hotel franchisees should protect the brand image by following the franchisor standards and hiring qualified people. Paying fees in a regular basis is a vital point in building a high level of trust between franchisor and franchisee. Moreover, the hotel franchisees should attend any required training programs applied by the hotel franchisor in order to update the system and protect the brand image. In return of that, there should be marketing assistance and valuable advice to the franchisee from the franchisor about food and beverage, operating supplies and marketing techniques.
Figure 4.10 Initial model for the success of the hotel franchise relationship
4.6 Summary

Franchisor-franchisee practical experience is very important in ensuring the success of a hotel franchise relationship. However, the franchisor’s perception of the franchisee may decline if they do not maintain the quality and standard of the brand or if they do not pay royalty fees on time. The franchisees should invest in the right people to ensure the quality of the brand. In contrast, the franchisee’s perceptions may decline if they do not get the best return on their investment or if the franchisor proposed a new system without first obtaining the opinion of the franchisee. This research found that the franchise relationship depends mainly on trust, honesty, commitment, motivation and good communication. Additionally, all parties must be extremely open-minded and have an interest in each other’s needs. Conflicts between franchise partners may lead to early termination from the franchise system. It could be clearly noted that there are a lot of psychological issues affect the franchise relationship. Therefore, the next chapter will explore these issues through the lens of psychological contract.
5.1 Introduction

The overall objective of this chapter is to explore in-depth the key issues relating to management of the franchisor-franchisee relationship through the lens of the psychological contract. The first part of this chapter analyses components (items) believed to form the content of the psychological contract for franchisors whilst the second part is for analysis of psychological contract of franchisees. A semi-structured interview format was utilised for the collection of data relating to the participants’ perceptions of their psychological contract with the organization. The interview process itself addressed the issues or factors that franchisors-franchisees viewed as being implicitly contractual, including perceptions, expectations, obligations and beliefs that participants held that were not explicitly covered in their formal written legal franchise contract.

As argued by many authors (e.g. Rousseau, 1989; Morrison and Robinson, 1997), the psychological contract is an individual perception. For that reason, individual franchisors and franchisees were asked what they believed formed the content of their psychological contracts based on their own experiences, and these experiences were explored through semi-structured interviews developed for that purpose. Six franchisors and six franchisees were interviewed and their responses were then analysed to develop the franchise psychological contract.
This chapter focuses on the collection of participants' views, the analysis of those views, and the creation of a measure to be subjected to construct the franchise psychological contract. Analysis of the transcribed interviews resulted in the identification of a number of issues will be explained later. Finally, this chapter suggests a model of hotel franchising through the lens of psychological contracts.

5.2 Hotel franchise agreements and the psychological contract

This chapter of the thesis relies on the idea of exploring psychological issues in the franchise relationship. Therefore, this research found it is important to explore in-depth the hotel franchise agreement to know if there is any psychological issues covered in this agreement or not. For that reason, the hotel franchise agreements of Hilton and Holiday Inn were explored. It can be noted that parts concerning the obligations and responsibilities of both franchisor and franchisee were investigated. From analysis of the franchisor responsibilities, it can be noted that the hotel franchise agreement relies mainly on operational requirements, training, reservation services, consultation, compliance the manual and equipment and supplies. From this analysis, it can be seen that there is a lack of attention given to psychological aspects of the relationship. However, these psychological aspects do not exist in the written agreement (Rousseau 1995). This is because of these issues are not easy to capture in written agreements.
With regards to the franchisee’s responsibilities, the following is a summary of these responsibilities from the analysis of hotel franchise agreements of both the Holiday Inn and Hilton Hotel groups:

1- Pay fees to the franchisor
2- Operate the hotel to the chain standards
3- Maintain the hotel in a clean state and in accordance with the provisions of this agreement
4- Provide efficient, courteous and high-quality service to the public
5- Comply with system standards, specifications and requirements
6- Display and maintain signage displaying or containing the licensed brand name
7- Comply with system requirements for the training of persons involved in the operation of the hotel
8- Permit inspection of the hotel by our representatives at any time.
9- Not become a competitor without our prior written consent.
10- Maintain legal possession and control of the hotel and hotel Site
11- Promptly provide all information that is reasonably being requested about you

It is very clear from the previous points that there is nothing about the psychological aspects of the franchise relationship in the franchise agreement.
Hall and Dixon (1988) reported the importance of psychological aspects within the franchise relationship. Therefore, it is important to analyse these issues through understanding the psychological contract of hotel franchising. Therefore, the next part of this chapter will explore that issue through analysis of interviews with both franchisors and franchisees.

5.3 Franchisors and the psychological contract

5.3.1 Promises and obligations

The interviewed franchisors were asked what obligations, promises, and expectations they believed existed between themselves and their franchisees, that were outside the scope of their formal franchise contract. Although these obligations and expectations may not be common to all franchisors, the intention was to determine those that might be shared by franchisors and, from this, to create a measure that was representative of obligations, promises and expectations within the franchise relationship.

The views or perceptions of the expectations and obligations that existed between the franchisor and the franchisees were assessed from the franchisors perspective. Franchisors were asked what elements they believed they were obligated to provide to the franchisees. This view assessed what they believed
the franchisees expected of them. They were also asked what they believed the franchisees were obligated to provide them.

Guest (2004) indicated that the contents of the psychological contract would be the reciprocal promises and obligations implied in this relationship. This is in agreement with most of the respondents as one of them stated that:

*No, no you’ve got to do more than written in the franchise agreement and that’s certainly implying a promise and we follow through on that and that promise is basically saying look we will support you during the pre-opening to help you wrap up quickly, but more importantly once you open we’re still going to be here, that ongoing support is always going to be there, it’s going to be the same person that’s working with you here is going to be the same person coming with you afterwards on a regular basis and review how you are doing*  
(FBD3)

The core of the psychological contract concerns the exchange of unwritten promises as the psychological contract defines what the individual expects from the organization in order to achieve and maintain psychological wellbeing. 
(Guest and Conway, 2001). “You won’t see those promises in the licence agreement, they don’t put it in there and say this is our promise. It just says a very broad general statement that we will provide ongoing franchise support”  
(FBD5)

*The most obvious issue when creating a new brand in an area is our obligation to this hotel. But no, it’s not going to be in writing and so as you’re discussing that that’s sort of a promise that yes you are doing the first but there are going to be more and that’s*
the obligation on our part to come through with that but obviously there are factors that come into play

(FBD3)

On the other hand, one of the franchisors interviewed indicated that they could not understand the meaning of unwritten promises and obligations in the franchise industry. “We are quite prescriptive about any promises we make in franchising as we follow the US law. I am not aware of any unwritten promises that we make to be honest” (FBD4). It could be noted that this franchisor only started his business five years ago and his experience of franchising relationships is still relatively limited compared with other franchisors.

I would say we’re really careful as a franchisor to make promises, we don’t even promise any business because you can’t do that it’s like telling the future. There are a lot of things that are intangible again. We will not cheat you; we will not do anything that harms you willingly, obviously and so on.

(FBD6)

To conclude, it could be noted that most of the respondents do not have a lot of knowledge about unwritten promises. They do not care about it as they should. However, they reported that if these promises are not kept properly, it could lead to problems between franchise partners. This is confirmed by the work of Rousseau (1995) as she reported that there may be some sort of violation in the
psychological contract when an employee experiences a discrepancy between the actual and fulfilment of promises made about these obligations.

The expectations of the franchisee to us are very important. If there is a mis-match between the expectation of either franchisor or franchisee and if either sides have over promised or undelivered deals, so, it will destroy the trust between both sides.

(FBD4)

5.3.1.1 Treating all franchisees fairly

The psychological contract is the unwritten agreement that exists between partners as it binds both sides to act fairly and honestly with the other (Rousseau, 1995). One of the interviewed franchisors stated that “Yes again one of the ways we do that if you like is there’s full transparency we introduce franchisee to franchisee so they can talk, so they will tell us” (FBD6)

Well, we do it but ensuring that they get the same level of support first of all, we don’t treat some franchisees in a good way just because a hotel is performing well or another one performing bad. We don’t ignore the one performing well and give all your attention to the bad one. You’ve still got to give that extra time. For instance our commitment is each hotel is going to get at least visited twice a year by one of my director who is hotel performance support. The other part of treating fairly and equitably goes back to if we’re implementing a new standard or something like that you’ve got to be fair about it. You can’t go and say franchisees you have to do this but some hotels don’t. That’s a problem and that a problem ready to happen. So that’s why I think that’s very important.

(FBD5)
Most of the franchisors interviewed (5 out of 6) indicated that treating franchisees fairly is very hard as there are other variables like franchisees emotions that might affect this factor. Commitment is likely to be strong in organisations where people are kept informed, taken into confidence, feel important, and treated fairly (Lester and Kickul, 2001). However, franchisors should pay more attention towards how they treat their franchisees. For example:

*If I have got 10 hotels and you have got just one hotel, our loyalty fee is likely to be smaller than you. Now is that fair and equitable. For me, yes. You may not see it that way; you can argue that’s being fair and equitable because I am giving franchisor ten times more revenue than you*

(Franchisee3)

### 5.3.1.2 Provide feedback on performance and other issues

One of the basic parts to the psychological contract is giving feedback on performance (Csoka, 1995). Most of the respondent franchisors (4 out of 6) reported that feedback on job performance is an important input to franchisees developmental planning. Without this feedback, assessment of the contribution by individuals to organizational effectiveness is very one-sided. Under the terms of the psychological contract, the provision of this feedback may be viewed by the franchisees as an organizational obligation.

*That’s exactly right. All our brands are doing this now and we can truly help because we have a wealth of information, guest feedback, we have very good periodic inspections by our quality*
assurance people. We have got a variety of different feedback that our customers do as well. we take all that, wrap it all together and we bring it into the hotels on a regular basis and make sure that the franchisees are familiar with what’s going on here, what are you doing to fix these problems. That is a big fundamental part of what we do. But I think that’s our job as a franchisor to do that.

(FBD1)

Furthermore, Franchise Classroom (2007) supports the idea of providing feedback on performance as the franchisee works very hard to develop a strong level of business performance from the feedback gained from the franchisor.

5.3.1.3 Act with integrity, staying true to its values and beliefs

According to Mowday et al. (1979), the concept of commitment can be characterized by at least a strong belief in the organization’s goals and values. This is in agreement with the majority of respondents “Critical, in other words those values and beliefs mean that we are out there to create an image of what the brand is and we need to be doing all we can to get that image out there and then it’s up to the hotel to take advantage of that” (FBD2). Nathan (2007) highlights that checking from time to time the strength of the franchise system to deliver value to the franchisees is very important. Additionally, Rousseau’s (1989) theory of psychological contracts tends to focus on the contract as individual’s belief system, mainly in terms of the employee’s beliefs regarding the obligations of the organization.
If I am staying true to my values and beliefs, provided they fit within the brand standards and the operating of the hotel, you can’t let people go off and do what they like. This obligation is not written in the written agreement but they’re inherent in clauses of the contract.

(FBD5)

5.3.1.4 Provide leadership and motivation

Franchisors have basic tools to ensure franchisee cooperation, such as incentives and motivation to franchisees (Castrogiovanni et al., 2006). Rousseau (1995) also found that motivation and intention to stay with the recruiting organization were factors that shaped employee perceptions of the psychological contract. All of the interviewed franchisors confirmed that they provide motivation to the franchisees as it is important to keep a good relationship with the franchisees.

You’re giving them something to brag about and I think it’s important. So you do it in lots of different ways even subtle psychological things. Like newsletters we come up on a weekly basis and there’s an even more detailed monthly one that comes out. It highlights all the neat things that all the hotels have been doing around the world. Cultural activities, community events, celebrities checking into the hotel, something unique that this hotel group did in going out and helping rebuild houses after hurricanes hit. All those type of things like that. That’s motivational it shows that we’re involved in our franchisees business.

(FBD3)

I think yes, we do motivation in terms of making recommendations. For example the flu virus going around right
now, we’re sending out correspondence to both managers and franchisors giving them direction of these are the steps you should take and I think that’s a professional thing to do. But I think it’s important that we provide the recommendations and the motivation and they have to take it from there.”

(FBD4)

Housden (1984) indicates the importance of the motivation to the franchise relationship. All of the interviewed franchisors confirmed that they cannot provide leadership to the franchisees but they can offer motivation.

Do we provide leadership? It’s not really our role to provide leadership. Motivation of our franchisees to hear about our future plans and we talk about them all the time. Formally a big conference and every time we see our franchisees. We get a lot of properties that come to us which we pass out to our franchisees to go and look at and make recommendations on. We have an awards dinner every year. It’s recognition it’s not motivation.

(FBD3)

5.3.1.5 Express support for franchisees

Herriot et al. (1997) identify twelve organizational obligations, which they can adapt to the franchising relationship and one of them is expressing support to franchisees. It means not only providing support to the franchisee but also expressing the will to provide this support from time to time.

I think this is a key statement from the point of view that so often the franchisees perception is that don’t you always take care of the managed first and then we’re second, you can't have that
attitude, it's very important to keep that in front of them, no we are out there protecting the franchisees interests.

(FBD3)

Nathan (2006) highlights some points which can strain the franchise relationship such as incompetent support and insensitivity to the feeling of others.

But I think it’s important that we provide the recommendations and the motivation and they have to take it from there. But it’s not as strong guess the differences between the franchised versus managed.

Perceptions of the organizational benefit can have powerful effects on franchisees’ overall motivation to contribute and behave proactively (Mayer et al., 1995). On the other hand, one of the franchisors interviewed (FBD6) was not aware of the importance of expressing support to the franchisees as he stated that:

Yes you’re obliged to obey whatever’s in the manual. The issue actually is not the unwritten agreement, the agreement deals with the legal framework with protection issues for the franchisor and some obligations of the franchisor that help the franchisee. The real issue here is the operating manuals because inherent in the agreement would be you must obey the brand standards, so whatever manual you give if you like become… that’s the rules and regulations of the brand. So this is about what appears in the manuals as opposed…. But the agreement says you must obey it, so there are formally obligations ....
5.3.1.6 Provide professional and personal support and keep your franchisee informed and share knowledge

Randall et al. (1999) reported three behavioural expressions of organizational commitment indicating a concern for quality, a willingness to share knowledge, and presence in the workplace. Most of the interviewed franchisors (5 out of 6) highlighted that they take special care towards providing personal and professional support to their franchisees. This is critical, in other words the respondent franchisors indicate that they are trying constantly to coach their franchisees. If franchisees run into financial trouble or if franchisees have something like that, they should at least keep them informed so that the franchisors know about it. “So all we ask is keep us in the loop we’ll help you, we can actually help field those questions” (FBD1)

5.3.1.7 Understanding franchisees needs

The majority of respondents interviewed (5 out of 6) reported that understanding their franchisees' needs is not easy. This is due to the fact that there are many different types of franchisees and the ones that are bad franchisees demand the most attention from the franchisor. Therefore, it is a matter of relationships as there are some people with whom the franchisors have got a good relationship. 

_We talking to our franchisees as individuals, understanding their needs and. That’s the conversation that goes on every two weeks if necessary. Again we do that, we have to, we don’t do it because we have to it comes with the territory if you like. Franchisees are very important to us and we talk to them regularly. So do we respect their wishes, yes provided they’re to a brand standard?_

(FBD3)
Some respondents indicated that there are other types of hotel franchisees where the owners are remote and they have not really involved in running their hotels and therefore they are always complaining.

You’re saying to them; your e-mail doesn’t work, your website looks horrible, and you don’t answer the phone, you’re not giving us any business, your hotel is substandard now you have to clean it up. They do not make the connection at all (FBD2)

5.3.1.8 Building loyalty and commitment with franchisees

Herriot et al. (1997) identified loyalty as an organizational obligation in psychological contract. So yes that’s a big thing we want, we want them to be loyal to us and committed to us (FBD5). Rousseau (1995) revealed employer obligations to include the loyalty factor.

In some ways over the years I think the best way to build loyalty with the franchisee is with delivery, if they get the occupancy and the rate and everything that they want and they’re getting the revenue and it makes sense to them to have a sign on the building, they tend to be very loyal because that’s why we have owners with multiple hotels out there. We’ve got one owner here in the UK you’re looking at 20 properties with us right now, that’s the loyalty. He did one, it worked, and he got another one. (FBD4)

All the interviewed respondents indicated that building franchisee loyalty is a very important factor in the success of the franchise relationship but it requires a lot of effort to achieve it. Mueller et al. (1992) confirmed this view through
highlighting that loyalty itself intervenes in any decision to stay or leave an organization.

You can do it several ways, one is by doing some of the other things that are the engines that help make it happen, like keeping our honours program active and competitive, our frequent guest program so that that program is out there and that’s something tangible it’s not like the hotel has to do anything specifically, it’s our job to get out there and market it, make sure it’s out there doing what it’s supposed to do because then those people go and stay at the hotel and they spend their money at the hotel. I guess that’s the only other way. There is some other small ways we do loyalty in terms of providing owners with special cards with discounts, other franchise hotels it’s a kind of little club so that they can all take care of each other. So if an owner shows up at another hotel he can show that owner card and say I think this entitles me to a free room doesn’t it? And they go yes it does and vice versa, so it’s a way of keeping up, but that’s a minor one I think. The best loyalty is just by if we deliver on what we promised from the beginning with that franchise then they do tend to be loyal.

(FBD3)

5.3.1.9 Respect franchisees

Hutton and Cummins (1997) identified two employer obligations; support and respect. Hall and Dixon (1988) assure that the level of psychological satisfaction experienced by the franchisee may lead to serious problems between franchise partners and the ideal franchisee is an individual who receives a reasonable level of security, affiliation and respect. “Yes, respect is earned, so it comes out of the franchisor” (Franchise E).

This is critical if it gets to a point where owners don’t respect us or if we do not respect them. But that’s critical. When a franchisee
starts losing respect, they start looking for other brands and we can’t have that.

(FBD5)

This is due to the fact that the franchise relationship is focusing on franchisee gains, respect and motivation (Hall and Dixon, 1988; Altinay, 2006). Nathan (2007) adds that the respect and fairness are important to build a good level of satisfaction in the hotel franchisee relationship.

5.3.2 Attitudes

Attitudes and personality would be some of the franchisee selection criteria (Jambulingam and Nevin, 1999). This is in agreement with the all of the respondents “So, I think maybe the intangible part is making sure the attitude is there and we do pull that out of the people with orientation programs that we do” (FBD5)

You can have an owner that signs the agreement has all the best intentions in the world but then he hires a general manager that’s very uncooperative and this general manager’s attitude is I don’t care if you’re? I’m not going to do anything you say, I’ll do it my way, I’ll do it a better way. That’s one of those situations that could be very detrimental

(FBD3)
The majority of the respondents indicated that the level of a good attitude between key members of management in the franchised hotel is one of the important factors which can affect the level of services provided by the hotel.

Now we’ve got to go back to the owner and say Mr. Owner it’s because of this individual and his attitude that’s reflecting badly on everybody else, the service levels are what they are, we’ve got the best comments, we’ve got the quality assurance visits that tell us he’s not doing the job, what are you going to do about that. And we will enforce that... the license agreement does say that we have a right to recommend a change of key management if we feel they are not being productive in their job – obviously a touchy situation. But most of the time that person running that hotel is a partner of the ownership group or a son or daughter and that why it’s always kind of touchy. So I think probably the best of to see it is the tangibles that come into play most often are going to be the more service quality, professionalism that we???

5.3.3 Trust

Rousseau and Robinson (1994) found a negative relationship between satisfaction, trust, and employee’s intentions to remain with the employer and psychological contract violation. This is confirmed by the work of Monroy and Alzola (2004) on franchising as they argue that there may arise a lack of trust between the franchisor and franchisee if the franchisor promises are not kept.

I think we have to trust our franchisees because if we don’t then we’re starting off on a real bad? But most of the time by the time we are trying to build this kind of trust with our franchisees though regular meetings, our job is to help them get open as fast as we can.
All respondents interviewed highlighted that trust in the hotel franchise relationship can lead to franchisee loyalty. “It’s like when you marry somebody you’ve got to form that relationship and then you’ve got to say okay let’s hope that we can marry together without having a divorce. That’s very much the extent I find in this business relationship between the franchisor and the franchisee” (FBD5).

Trust happens when you really have to get that comfort level there that they understand why we’re doing this, we’re helping them, we’re truly helping them during that time, we’re walking through and helping them load the rates in the system and helping them position themselves in market. I think its high it’s probably more so here than it is in the US because franchising is still a new thing here. So I think they have to have enough trust and competence (FBD4)

The relationship between trust and psychological contract fulfilment is high (Conway and Guest, 2004). “You have to trust your franchisee through keeping your promises and obligations. But remember that you trust them to work ethically and work within the rules of the contract that they have signed” (FBD5).

There are other properties where you have to be very diplomatic and careful where maybe you come to the hotel and there are a lot of leaves on the ground and there’s a bus on the car park and you as a guest see that and you think that’s a bad impression. The people in the hotel do not see that anymore because they are always there and I make the relationship between a first bad impression and what else can I expect in the hotel. And you have to diplomatically try to steer them towards having a much higher
expectation of their own product and what the guest then can expect and sometimes this is difficult because they don’t see it or they feel offended, so you have to be careful in order to build the trust. And again sometimes it’s a cultural thing we have a lot of Asian franchisees and I’m a woman so I should be doubly careful because I deal with men, I don’t deal with any women on that level.

(FBD2)

All respondents interviewed reported that building trust is very important from the beginning of the franchise relationship. “I think the trust and fairness is in the fact you’ve got to sign an agreement. You wouldn’t sign an agreement with somebody you didn’t trust” (FBD1).

The most important thing in franchise relationship is the intangible issues. Speed of response from us is very important. There should be the trust element in the franchise relationship. If there is no trust, the relationship is going to break down from the beginning. I am always put trust and fairness together as they affect the relationship with the franchisee.

Obligations of the psychological contract have the capacity to increase trust and commitment and in contrast may engender dispute and disagreement between parties and therefore have the capacity to impact negatively upon relationships (Kingshott and Pecontich, 2007).

Distrust comes if you’re treated unfairly, make an exception for one hotel and now you have to explain to the other hotels why you made that exception, why did they have to do something that I didn’t have to do. Big part of the district is there... Promising and
timing of things and being behind schedule, we promise to launch a new campaign and now it’s six months later and you still haven’t launched it, which forms distrust. I think that’s about the biggest type of things. Not delivering on timing and the promises.

(FBD3)

Applying the idea of trust to business-to-business relationships seems challenging as these relationships are always based on considerations of common interest and risk assessment (Sebenius, 1992). However, the promises and obligations of the psychological contract have the capacity to increase trust and commitment and in contrast may engender dispute and disagreement between parties and therefore have the capacity to impact negatively upon relationships (Kingshott and Pecotich, 2007). “We make promises to increase the level of franchisee trust. For example: we promise our franchisee by high return on his investment through identifying some ways of maximizing his operational performance” (FBD3).

The level of trust between participating franchisors and their franchisees seems to be high. The interviewed franchisors confirmed that high levels of trust existed between themselves and the organization. “If they establish a certain amount of distrust then yes they’re going to be dissatisfied and the only way to fix that is to start delivering on what we promised and obligated” (FBD6).
On the other hand, two respondents interviewed asserted that there is no relationship between the level of the trust and the quality of maintaining brand standards. “This is due to the fact that the franchisee may have a good relationship with the franchisee but he might fail on the guest satisfaction test or with mystery shoppers” (FBD1).

5.3.4 Motivation and commitment

Franchisors have some basic tools to ensure franchisee cooperation: direct observation of franchisee behaviour such as monitoring and incentives and motivation to franchisee outputs (Castrogiovanni et al., 2006).

And this would be the taskforce that I mentioned where sometimes we’ll round up a whole lot of different people and we’ll sit in there with them and we’ll have meetings at different levels, we’ll meet with the ownership, we’ll meet with the management company. There’s been times when we’ve sat down with the ownership and said this management company is not doing you justice and maybe it’s time we started looking for somebody else because we’ve explained this to them a lot of times and they’re just not following what we recommend and we know this would help you, it’s up to you, you have to make the call. But I think a lot of communication has to take place here, that’s the key, sitting down with them and understanding what their concerns are and then coming up with a very specific plan.

(FBD1)

Rousseau (1990) also found that motivation and intention to stay with the recruiting organization were factors that shaped employee perceptions of the
psychological contract. “And if we’re doing active communication that’s what it’s all about” (FBD5).

Again motivation is done in many different ways. Motivation of our franchisees to hear about our future plans and we talk about them all the time. Formally a big conference and every time we see our franchisees. We get a lot of properties that come to us which we pass out to our franchisees to go and look at and make recommendations on. So I guess we would know if we didn’t but again can you define that in words that you can put in any kind of binding legal document, no because they’re subjective values. What motivated you doesn’t motivate me, okay.

(FBD1)

The majority of franchisors interviewed (5 out of 6) declared that they tend to build long-term communications with their franchisees in several ways. “For example, I would tend to make a telephone conversation and really just to see and find out a bit more about the investor, what his aspirations are, if he’s an original hotelier or if he’s just an investor or if he’s doing it just for the glamour” (FBD5).

Yes we do have annual awards there’s going to be a European Convention coming up in May it’s going to be in Prague and then obviously then at these conventions, there’s also one in the States, you do have the Hotel of the Year Award and they will be in the categories of Comfort and this, that and the other, so there would be nominations form the UK in all the brands and that would be based on the relationship, how well do they co-operate with us, are their fees up to date, customer complaints level, quality assurance results, standards.

(FBD2)
Informal discussion between franchisor and franchisee is very important at the early start of the relationship even before signing the written agreement.

(Franchisee3)

The issue of commitment and motivation has a big impact on the franchise relationship and it could be achieved through communication (Hall and Dixon, 1988). “Yes we stay; every time we have an opportunity and we’re travelling we stay. I stay in London hotels twice a month, Mark who is based in the north of England stays three nights a week in our London hotels. So yes we know everybody we’re around them” (FBD6).

The strength of it is on communication now it’s the style of this particular individual which drives what form of communication you take. Now are informal meeting important yes, are they more important that a phone call, no. If I’m in London and I have hotels in London then you’re going to just be able to go in informally far more frequently. Hotels in Dubai, hotels in Mumbai hotel in Cairo we’re a London based company, it doesn’t stop you picking a phone up and there is a quarterly meeting planned anyway, but you’re not going to have informal meetings. There is no excuse for not having informal communication if you’re not going to have informal meetings.

(FBD6)

Altinay (2006) suggests that creating a co-operative environment between the franchise partners creates a long and happy commercial marriage. Therefore,
there should be stages of solid commitment between franchise partners (Munn, 2001).

There is a series of formal meetings that are planned but they generally start once the building work has started, but they're pretty much very formal. There's myself and I have one guy on my team and we split our franchisees so we account manage those franchisees if you like. But we both cross over we're not precious about his and he’s not precious about mine and we talk to them. There is no way we don’t talk to all our franchisees, remember we don’t have many but we have a lot of potential ones, every 14 days…. And there are quarterly meetings that are formally placed as well.

(FBD6)

We can build motivation through many ways. Like newsletters we come up with on a weekly basis and there’s an even more detailed monthly one that comes out, it highlights all the neat things that all the hotels have been doing around the world. Cultural activities, community events, celebrities checking into the hotel, something unique that this hotel group did in going out and helping rebuild houses after hurricanes hit. All those type of things like that. That’s motivational it shows that we’re involved in stuff like that.

(FBD3)

As a result, there will be some sort of conflict and to manage that conflict in a healthy and constructive manner; good relationships should be built on honest communication (Shay, 2007). “There is no big franchisees network in the UK. So, the franchisee can pick up the phone and speak to the senior level in the
company and try to solve the problem. Personal relationships are very important to build the trust relationship with the franchisee” (FBD4).

I always try to build customer relationships because even if there are things the franchisee is not happy with - I’m not getting the business, you’re not coming to see me, you’re not doing this and that, we’re building a personal relationship on some level, we might talk about ??? Ships, holidays anything, always try to find some common path which might not have anything to do with the business. Once you’ve got a relationship then you can build then you can try and get your point across.

(FBD2)

Well yes common sense will tell you that it will. The FBD6xperience…. That doesn’t work because we’re in control of that issue. Or it could just be conflicts between that franchise services manager and that… because they’re different. No everybody gets on with everybody that’s what life’s like. One of my guys has difficulty dealing with one of our franchisees because they’re totally different. They both like each other they’re both fine but they both see business so differently they know that they’re going to end up arguing, not in a negative way but disagreeing which is fine.

(FBD3)

5.4 Franchisees and the psychological contract

5.4.1 Promises and obligations

Some of respondents interviewed (2 out of 6) were not aware of the meaning of the unwritten agreement. “I wouldn’t be able to mention if there were any promises rather than a verbal promise” (Franchisee3). On the other hand,
Rousseau (1995) identified psychological contracts as beliefs about obligations and promises based on the exchange of socio-emotional factors such as loyalty and support. Therefore, all the respondents interviewed recognized the importance of promises and obligations as unwritten agreement. “These promises are unwritten. I mean something like this subscribes to the franchisors norms and values, if they have got norms and values agreed with us, yes we have to oblige by it. Be loyal to the franchisor yes, I mean most of them are unwritten ones” (Franchisee1C)

Herriot et al. (1997) identify seven employee obligations, which can be adapted to the franchisee like loyalty, self-presentation, and flexibility. All the respondents interviewed indicated that commitment to the brand is one of the unwritten franchisee obligations. “Therefore, it should be a commitment to the brand” (Franchisee3).

Well, there’s an agreement that’s signed which tells us what we can and can’t do and yes. Perhaps it doesn’t state the loyalty as a written point, but of course we have to be loyal to the franchisor.

(Franchisee1C)

Schein (1965) also suggested that psychological contracts include not only expectations, but involve the whole pattern of rights, privileges and obligations between worker and organizations. “I’m loyal, I’m certainly loyal because I have
a lot of belief, I have a lot of respect, I really like the brand I think it’s a fantastic brand and I think it really, really does work well” (Franchisee3).

All the respondents interviewed confirmed unfair treatment on behalf of the franchisor when dealing with franchised and managed hotels. “My belief confidentiality, I think of course they have managed properties, I do believe the managed properties will get more focus, but of course because they’re paid to manage them” (Franchisee3). This is in agreement with Rousseau (1995) as she reported that the obligations of the two parties are the basis for the beliefs that constitute the psychological contract such as fair and equitable treatment.

On the other hand, all the respondents interviewed reported that respect is one of the most important obligations. “Well, respect my franchisor is basically I agree with them, I follow their instructions; I keep them informed of any problems or whatever I’m facing” (Franchisee1C).

Well yes they do treat everyone fairly I don't think they have favourites and they can't have favourites, so it would be done fairly. If someone came in and we didn't have jams on the breakfast buffet, then we didn't have jams on the breakfast buffet so we failed, they're not going to say well on this occasion we'll pass you, no they do everything fairly they have to.

(Franchisee3)
5.4.2 Communication

All the respondents interviewed confirmed the importance of communication in the success of the franchise relationship. Continuing commitment to the relationship will contribute to a building of trust and good communication (Munn, 2001).

For example, when the bombing happened in London we had a work on something called Advanced Projects, once you book the room at a discounted rate you will not be able to take a refund or cancel the booking you will have to pay for the entire stay. All the owners told the franchisor, listen we are having this problem now people will not be able to travel to London so that will mean we will have to cancel the bookings. So in that case we need authorization form you that we can do that. And they said fine do the cancellation it’s global… it’s a national issue do the cancellations. They listen to you.

(Franchisee1C)

FBD gone through the hotels one by one over the years or months, FBD also has been with the general manager, the owner. And within a very short period of time he/she has also built a relationship with the hotel and the manager and understands how that hotel is supposed to run. And that could take maybe two visits or it may take just one visit and she knows that this hotel is a sound hotel, this hotel … the owners are dedicated.

(Franchisee2)

The bond that makes franchisors and franchisees work together is not always their profits, but their communications, and their respect to each other (Modell, 2005). “Communication, they know what they are doing and we know what they
are doing, that is the gist of trust. They should not be assuming yes we are
doing things like that, we should not be assuming yes that’s what they mean by
that. So yes it’s always communication” (Franchisee1C).

It’s people building relationships with people that are the most
important part. If the link between the FBD5as not a person or
person that you couldn’t communicate very well with, was
dismissive then of course that’s going to be your perception of the
franchisor in general. But when you build a rapport with someone
who is personable who generally does show care and
commitment, then it works well.

(Franchisee3)

The important factors for franchise success are good communications, co-
operation, respect and trust (Mendelsohn 1999).

Of duty hours, phone calls, e-mails yes that happens. Well you’ve
got phone calls obviously apart from e-mails, you’ve got… I mean
whenever I need help I just give them a call and say listen I’m
stick here what shall I do. If anything is happening in this area he
keeps telling me… maybe you need to look at what you’re doing
this way, maybe you can do it that way. So that is definitely
something that builds up the trust.

(Franchisee1C)

Other assistance, yes the biggest part again would be
communication that franchisor would send to us to tell us what’s
going on within the market place

(Franchisee3)
The relationship between the franchisee and franchisor is one of mutual need. Being able to maintain a very good working relationship is an important part of being able to succeed in franchising and franchisees need to be aware that any gaps in mutual communication need to be rectified. To keep the franchise system running smoothly, franchisees need to be kept informed of any changes the franchisor makes, and the franchisor needs to be aware of how things are being run at the franchisees’ end. For example:

*We’ve just recently instituted a form which is a feedback from us on the franchisor’s services team that visits hotels. In terms of giving advice how valuable was the advice, how is the relationship so that the franchisee has a feedback to give. So that would then be measured so there is some kind of… but at the end of the day forms I think it’s very American and it doesn’t actually drill down to the detail and very often they will also hide behind the form and say this is not procedure, you can’t really treat everybody the way they should be treated perhaps because there are so many variables to take into consideration. Now I personally do not do that because I try to do my absolute best and in order to do that I have to look into a very individual situation.*

(Franchisee2)

The franchisor is there to help the franchisee succeed for the most part, and will generally help work to make sure that both are making a profit. Franchisees should always ask the franchisor if they require any help.

*If I see something at a hotel I suggest it. We’ve now got energy conserving measures, if I see something in one hotel I pass it on somewhere else and I co-operate it into the new rules and regulations. So it’s a constantly evolving feedback between us.*

(Franchisee2)
Some franchises have networking options for franchisees to network with other franchisees within the franchise itself, enabling them to further communicate proven techniques, discuss advertising. This further enables many franchisees to feel an overall sense of support and well being as well as a connection to the larger parent franchise that many independent business owners do not have as a benefit.

*I can pick up the phone and ask the FBD something and it will be done one way or another you know and it has been like that for 12 years, it’s never changes in any way, shape or form. But as an organization, we feel we’ve been dumped big time. We don’t feel now that the money we’re paying it’s just not worth it anymore and that is how we feel. There is something like competition between franchisees themselves. Therefore, there is a big gab in the relationship between franchisees in the same organization which affect the whole relationship with the franchisor.*

(Franchisee2)

5.4.3 Understandings

Understanding franchisees’ expectations relating to that social exchange may help identify the factors that shape franchisees’ perceptions of the psychological contract (Coyle-Shapiro and Conway, 2005).

*I need their full support, I need their full understanding. Understanding is something which is not in the contract. Procedures are, policies are, promotions are but understanding flexibility, these factors are not in the contract and that is what I expect from my franchisor.*

(Franchisee1C)
On the other hand the franchisees should understand the franchisor.

\[\text{This hotel we look at everything openly, everything it doesn't matter who says it whether it's a guest or whether it's a franchisor or whether it's a director or whatever it is. If it's outside the rules we'll look at it and we'll decide whether it's a benefit, we'll decide whether we can do it, we'll decide whether we have to do it and then we'll make that decision and again FBD understands the way we think here, we are arrogant} \]

(Franchisee2)

Therefore, there is no one relationship model that fits all situations and the franchisor should work harder to understand franchisee needs exactly (Merrilees et al., 2005). Hall and Dixon (1988) add that the franchisor should have a profile of the ideal franchisee which covers all aspects such as the required financial resources, previous experience and psychological make-up.

\[\text{I think what makes a difference is they really know the brand, they really know the franchisor's strategies and fortunately the people I’ve worked with in the past very much know everything about franchisor and every brand life}\]

(Franchisee3)

### 5.4.4 Trust

Monroy and Alzola (2004) argue that there may be a rise a lack of trust between the franchisor and franchisee. \textit{I think the biggest one to improve the trust would be to waive or to get rid of all the penalty fees that they have} (Franchisee3).
I think it’s about the written agreement someone would only sign an agreement that’s going to last years and years and years and cost potentially millions of pounds to your business if you trust, if you think it’s fair. If you’re not going to, if you not going to trust them you don’t think it’s fair you’re not going to sign you’re going to go out and tender somewhere else.

(Franchisee3)

However, the promises and obligations of the psychological contract have the capacity to increase trust and commitment and in contrast may engender dispute and disagreement between parties and therefore have the capacity to impact negatively upon relationships (Kingshott and Pecotich, 2007). “Trust would be through building up more informal conversation” (Franchisee1C).

I think that it’s integral that you trust them, you have to trust them otherwise it’s going to be a very difficult relationship for many years. I think it’s very important if you don’t trust somebody then of course it’s going to be a very difficult working relationship.

(Franchisee3)

Rogers (1994) discusses two key factors in building trust in an organization which are business competence and people orientation. “As a franchisee I am 110% trust them. Without trust how would I be able to follow their instructions if I don’t trust them?” (Franchisee3).

But again distrust is something when you start assuming things. With me the question is if something is not suitable for me in the brand standard I send them an e-mail, I give them a call and say
listen this is not working out, what do you suggest. And he tells me fine you can go via this way, you can go via this way simple as that. I don’t believe in distrust. If I did not trust them I would not be here.

(Franchisee1C)

I think distrust will stem from not keeping promises or listening to a promise, changing something and then going back on their word and it does happen, it does happen.

(Franchisee3)

5.4.5 Motivation

In agency theory (Vazquez, 2007), franchisors have two basic tools to ensure franchisee cooperation: direct observation of franchisee behaviour such as monitoring and incentives and motivation to franchisee outputs (Castrogiovanni et al., 2006). “For me I’m very motivated by success, I like to see success, a certificate or a plaque or an award would motivate me and they do that” (Franchisee3).

No, they don’t lead, they support. Do they motivate, well no they support. I think that’s the biggest one. No but they’ll support you. If someone’s very good at what they do, they’ll recommend you to another owner who perhaps is looking for somebody in a similar role but bigger hotel yes, a promotion, they’re very good at doing that but only if you’re good, of course.

(Franchisee3)
It is essential to keep all franchisees motivated to maintain the brand image. This will keep the current franchisees and attract new franchisees who see others success in the market place.

(They do motivation and they get satisfaction backing system which is global again tells us what our guests think of us, that’s a great tool to keep us motivated and know what we should be doing, we have best in class so if a hotel is very good at what they do, it would tell all of our colleagues globally a specific hotel is doing very well so yes they do enough to motivate us I suppose.) (Franchisee1C)

The ability to motivate franchisees is one of the most important characteristics that franchisors should seek. Otherwise, there will be a decline in the relationship between franchisor and franchisees.

(We’re not happy to be honest with this franchisor since the Americans have taken over. Previously before the Americans there was an organization that did well. There was a better feeling from the last organization where they were all in it together, it was like a... not a club but it felt like they are all going the same way, wanting to go forward, wanting to get business into the hotels, we had fantastic staff form franchisor that have motivated us to go forward, have got some great initiatives. Now, it doesn’t feel it’s there. We don’t see anybody except FBD.) (Franchisee2)
5.4.6 Respect

Hutton and Cummins (1997) identified that respect is one of the franchisor obligations. “The biggest from respect is to be guided not told, there’s nothing worse than someone coming in and saying your hotel’s not up to standard you need to do this, this and this and this, it’s about someone coming in and saying right we need to work together on improving these areas, it’s about two-way communication not being told what to do” (Franchisee3).

We’ve become a bit too arrogant sometimes and if it benefits us we’re the first to say what a great idea we’ll do that. I it doesn’t benefit and we can’t see any benefits and we don’t take anything lightly, it’s not down to me to say no that’s a load of rubbish, it’s down to us as an organization round a table and we’ll make that decision around the table and there’ll be four or five people around that table saying I think we could do it that way, if we do it that way we can....

(Franchisee2)

Kotter (1973) discussed the psychological contract as a matching of expectations, where matched expectations lead to higher employee satisfaction and less turnover.

Yes definitely I think it does. We all have expectations that are not written, so we might all expect something and if it doesn’t meet our expectations then of course we’re going to believe it’s not working or us or it’ll drop, our commitment to them will drop and our trust in them will drop.

(Franchisee3)
I think what’s good about it – you start to get to know people and you start to network and people start to work for you and you start to work for them and that’s where the respect comes from, everyone’s true to their selves but still true to the brand, to the company, to the franchisor. That’s why I respect it, I respect my Franchise Business Director, FBD a true person, FBD a real person, and of course she has a job to do.

(Franchisee1A)

5.4.7 Experience

There are three particular circumstances in which becoming a franchisee is definitely attractive: firstly, if someone has a recognized skill or trade, but little or no commercial experience; secondly, if someone has the aptitude or inclination to run a particular type of business, of which there is no experience and thirdly, if someone has the desire to run a business, has some capital available but does not know what to do (Fowler and Fowler, 1985).

We have franchise meetings three times a year, during these meetings, you can tell which ones are hoteliers and which ones are property investors and which ones have no interest whatsoever.

(Franchisee2)

Therefore, Rubin (1978) suggests that it is not lack of capital or lack of management resources that explains fully why firms choose to franchise. He contends that a firm could simply hire experienced managers, assuming that the firm had sufficient capital, rather than enter a franchise relationship.
Jambulingam and Nevin (1999) point out that franchisee level of education and experience would be some of the franchisee selection criteria. Therefore, the franchisor should pay extra attention to hotels which have less experienced owners. “The FBD should move on to the next hotel that doesn’t quite have that strong character at the top or the owner is not dedicated to hotels and that becomes one that she will monitor and watch very carefully” (Franchisee2).

There’s a big issue in hotels in this country we have a huge gap and the gap is you’ve got the hotel of general managers coming up through the system where they’ve worked hard to get to the general manager and then you’ve got the ones that go to university. And what happens is, when they come out of universities they consider they’re far superior to the general manager, so they jump this big gap here and they become operations director?? So there’s this huge gap and that’s why that will never work for any hotel franchisee dynamics because it just isn’t there.

(Franchisee2)

Now you’ve got two issues here because you’ve got the general manager and you’ve got the owner. If I am the owner yes you need to be given that trust right from the beginning. There is a gap because the general manager takes over after the owner has signed the contract basically and once an agreement has been signed he then takes over?? Because then the operators work closer together. This is actually a very crucial point which might be overlooked very often in this kind of scenarios because the owners might sign a franchise agreement and the general manager or the operations manager might be against it.

(FBD6)
5.5 Hotel franchising psychological contract measure development

In the traditional conceptual development of the psychological contract, the form of the contract generally refers to the type of relationship an individual perceives they have with the organization (Rousseau, 1995). It could be noted from the hotel franchising agreement analysis and interview analysis that there is no evidence of the psychological contract in the franchise agreement. However, the interviewees highlighted the importance of the psychological contract for the success of the hotel franchise relationship. Therefore, this chapter tried to explore the franchising relationship through the lens of psychological contract. To achieve that, this research tried to develop a measure for the psychological contract which can be applied to hotel franchising. This measure could be used for future researches which exploring psychological contract in franchising agreement. This study used psychological contract measures that developed by Guest and Conway (2002) and Rousseau (2000). Developing a psychological contract through the lens of franchising was created by comparing these measures with the psychological franchise measures identified within the analysis of interviews.

Developing the psychological contract measure involved several steps to ensure an adequate degree of content validity. The first step consisted of detailed document analysis of the obligations and responsibilities of franchisors and franchisees in the hotel franchise agreement. The next step involved semi
structured interviews with franchisors and franchisees to collect their opinions about psychological contract obligations. The interviews illuminated important contextual aspects of psychological obligations of hotel franchising. Following the review of the relevant literature and the development of the interview structure based upon that review, this research argues that the statements derived in the interview process provided a comprehensive representation of the content domain for the psychological work contract and established the boundaries surrounding that construct. To the extent that the items describe similar behaviours, this research argues that such measures, in total, are descriptive of the content domain.

To validate the measure, this research compared the newly-developed measure of the psychological contract of hotel franchising with the measures developed by Guest and Conway (2002), and Rousseau (2000) (see Figure 5.1 and Figure 5.2). A simple visual comparison between their measures and the current measure confirms sufficient similarity in content to suggest that these measures are reasonably representative of the same content domain. This research used Guest and Conway’s measure (2002), because it contains thirteen organizational obligations which they used to determine the organization’s perspective on the psychological contract. Comparing the obligations identified in their measure with the psychological obligations as perceived by franchisors in this research measure reveals some similarity in content although the wording of the obligations differs.
Figure 5.1 Psychological Contract Measure – Rousseau and Guest and Conway’s with Possible Cross-Mappings to the hotel franchising

(Franchisor Obligations)

<table>
<thead>
<tr>
<th>Measure</th>
<th>Suggested measure for franchisor obligations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development and promotion opportunities</td>
<td>Keep your franchisee informed and share knowledge. Accepting franchisees new ideas. Pay extra attention to less experienced hotels.</td>
</tr>
<tr>
<td>Recognition for innovative or new ideas</td>
<td>Provide professional and personal support.</td>
</tr>
<tr>
<td>Feedback on performance</td>
<td>Provide feedback on performance.</td>
</tr>
<tr>
<td>Interesting work</td>
<td>Providing motivation.</td>
</tr>
<tr>
<td>Fair treatment</td>
<td>Treating all franchisees fairly.</td>
</tr>
<tr>
<td>Reasonable job security</td>
<td>Respect franchisees. Act with integrity, staying true to values and beliefs.</td>
</tr>
<tr>
<td>Safe and pleasant working environment</td>
<td>Express support to the franchisees.</td>
</tr>
<tr>
<td>Open two-way communication</td>
<td>Understanding franchisees needs. Building loyalty and commitment with franchisees.</td>
</tr>
</tbody>
</table>
Figure 5.2 Psychological Contract Measure – Rousseau with Possible Cross-Mappings to the hotel franchising

**Franchisee Obligations**

<table>
<thead>
<tr>
<th>Make personal sacrifices for this organization</th>
<th>Be committed to the success of the franchisor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Take this organization's concerns personally</td>
<td>Subscribe to the franchisor norms and values</td>
</tr>
<tr>
<td></td>
<td>Provide support and guidance to fellow franchisees</td>
</tr>
<tr>
<td>Protect this organization's image</td>
<td>be loyal to the franchisor</td>
</tr>
<tr>
<td>Make employee increasingly valuable to this employer</td>
<td>Keep franchisor informed and shared knowledge</td>
</tr>
<tr>
<td>Accept increasingly challenging performance standards</td>
<td>Understand franchisor new ideas</td>
</tr>
<tr>
<td>Take personal responsibility …</td>
<td>Respect other franchisees and franchisor</td>
</tr>
</tbody>
</table>
5.6 Hotel franchising through the lens of the psychological contract

Guest (2004) presents an extended model of the psychological contract to provide an analytic framework within employment relationships. This research used this model as a basis to understand psychological contract in the hotel franchising relationship. It is apparent from Figure 5.3 that the model of Guest (Figure 3.2) can be adapted to the franchising relationship. This is because of similarities between the measures developed in the previous section and Guest’s model.

The proposed model of psychological contract model through the lens of franchising (see figure 5.3) starts with background factors of both franchisor and franchisee which mentioned by (Jambulingam and Nevin, 1999) as they point out that franchisee level of education and experience would be some of the franchisee selection criteria. Interestingly, there is a correlation between the franchisor size and business strategy and the franchisee willing to join the franchisor system (Mendelsohn, 1999). Motivation and building the franchise relationship was found to be one of the best polices and practices to keep the current franchisees and to attract new franchisees (Housden, 1984; Hall and Dixon 1988). The model moves after that to the franchisor obligations which consists of keeping the franchisee informed and sharing knowledge, accepting franchisees new ideas, provide professional and personal support, pay extra attention to less experienced hotel, provide feedback on performance, providing motivation, treating all franchisees fairly, respect franchisees, express support
to the franchisees, understanding franchisees needs and building loyalty and commitment with franchisees.

Figure 5.3 Hotel franchising through the lens of the psychological contract
This model suggests some franchisee obligations which consists of committing
to the success of the franchisor, subscribe to the franchisor norms and values,
provide support and guidance to fellow franchisees, be loyal to the franchisor,
keep franchisor informed and shared knowledge, understand franchisor new
ideas, respect other franchisees and franchisor. Housden (1984) declares the
importance of the trust to the franchise relationship. This model suggests that
effective co-operation between franchisor and franchisee obligations should
lead to trust between franchisor and franchisee.

This study also incorporated the theory of the psychological contract with the
hotel franchise lifecycle. The proposed model through the lens of psychological
contract explains that support and building trust comes at very early stage in the
relationship even before the application phase. From pre-opening phase to
opening phase, the franchisee satisfaction will be at the highest level as they
become familiar with the franchisor systems. During the on-going franchise
support, franchisors obligations should include committing to the success of the
franchisor, subscribe to the franchisor norms and values, provide support and
guidance to fellow franchisees, be loyal to the franchisor, keep franchisor
informed and shared knowledge, understand franchisor new ideas, respect
other franchisees and franchisor. This study emphasizes the importance of
these obligations on the franchise lifecycle as they are playing an important role
in keeping the franchisee satisfaction at high level. Figure 5.4 illustrates this
CHAPTER FIVE: HOTEL FRANCHISING THROUGH THE LENS OF THE PSYCHOLOGICAL CONTRACT

The model suggests a time scale for each phase during the franchise lifecycle. The hotel franchisor should look at:
- Training
- Location
- Financial capability
- Brand image
- Franchisee experience
- Size of property
- Ownership structure
- Type of property

The franchisee go to these phases when he dislikes all franchisor restrictions and if there is no communication or motivation for the franchisor

Note: The franchisor should consider trust, communication and respect to avoid this franchisee going to the free phase.

Figure 5.4 The hotel franchise lifecycle through the lens of psychological contract.
Finally, this chapter ends with a model of success factors of hotel franchise relationship which incorporates the elements of psychological contract (figure 5.5). This model is based on the initial model developed from chapter four. It suggests that interaction between psychological contract part and hotel franchise phase will lead to behavioural and attitudinal consequences.

Behavioural intention to quit the franchise relationship is generally referred to as the feelings of anger that are experienced when a franchisee believes that the franchisor has failed to fulfil one or more of its perceived obligations (Rousseau, 1995). The fundamental premise is that a fulfilled and healthy psychological contract will result in positive individual behaviours, with both being associated with positive outcomes for the franchisor and franchisee. The model suggests that fulfilling franchisor/franchisee obligations may lead directly to the franchisee intention to stay in the franchise relationship.
Figure 5.5 The relationship between the psychological contract and hotel franchising.

Tangible hotel franchise relationship

Agency theory
Pre-application phase
Resource scarcity theory

Franchisor
Location
Franchisee financial capability
Franchisee experience
Size of property
Ownership structure
Type of property

Application phase
Franchisee should look at
Franchisor support
Franchisor quality
Franchisor delivery system
Franchisor fees
Understanding contract terms

Pre-opening phase
Franchisor services

Training
Opening phase
Training

Franchisor
Consultation on operations
Reservation and marketing
Quality assurance
Equipment and supplies

On-going support
Franchisee should look at
Protect brand image
Follow standards
Paying fees
Attend required training programs

Attitudinal consequences
Intention to stay in the relationship
Outcomes
Commitment
Satisfaction

Franchisee
Background factors
Education level
Experience

Policy and practices
Building trust
Motivation

Psychological contract

Franchisor
Intangible obligations
Commitment to success of franchisor
Subscribe to franchisor norms
Be loyal to franchisor
Sharing information and knowledge
Sharing information and knowledge
Understanding franchisee ideas
Respect other franchisees
Respect other franchisees
Provide support to other franchisees

Franchisee
Intangible obligations
Trust
Trust
Fairness
Fairness

State of the psychological contract

Behavioural consequence
5.7 Summary

This chapter has presented different hotel franchising models investigating the relationships between the hotel franchisor and franchisees. It has developed a psychological contract measure with possible cross-mappings to the hotel franchising. Hotel franchising through the lens of psychological contract was developed to be the first hotel franchising psychological contract. This chapter ended with a model of the relationship between psychological contract and hotel franchising.
CHAPTER SIX: MODELLING THE HOTEL FRANCHISE RELATIONSHIP

6.1 Introduction

6.2 Pre-application phase
   6.2.1 Resource scarcity theory
   6.2.2 Agency theory

6.3 Application phase
   6.3.1 Tangible aspects of the application phase
   6.3.2 Intangible aspects of the application phase

6.4 Pre-opening phase
   6.4.1 Tangible aspects of the pre-opening phase
   6.4.2 Intangible aspects of the pre-opening phase

6.5 Opening phase
   6.5.1 Tangible aspects of the opening phase
   6.5.2 Intangible aspects of the opening phase

6.6 On-going franchise support
   6.6.1 Tangible aspects of the on-going franchise support
   6.6.2 Intangible aspects of the on-going franchise support

6.7 Modelling the hotel franchise relationship

6.8 Summary
6.1 Introduction

The aim of this chapter is to develop a model relating to the relationship between franchisor and franchisee to ensure the success of the hotel franchising relationship. This chapter presents a cross-case synthesis of the case studies. The chapter seeks to critically evaluate the conceptual framework through the execution and analysis of in-depth semi-structured interviews with franchisors and franchisees. As explained in chapter three, a multiple case study of hotel franchisors and another multiple case study of hotel franchisees from three different hotel groups in the UK were conducted. The analysis process was approached and designed with the aim of developing a model of hotel franchise relationship success factors (see Figure 6.1).

The process of cross-data analysis involved categorizing the variables into five categories. The categories were derived from the conceptual framework that was developed from the literature review. These categories are pre-application phase (see section 6.2), application phase (see section 6.3), pre-opening phase (see section 6.4), opening phase (see section 6.5) and on-going franchise support (see section 6.6). Each category splits into two main variables which are the tangible agreement and the intangible agreement. The chapter further evaluates the findings in respect of assumption card and ends up with a conclusion.
This section of the chapter combines analyses and discusses relationship issues obtained from the two case studies undertaken in this research involving franchisors and franchisees. It also links with the results obtained from document analysis of five hotel franchisors (Choice Hotels, Hilton, Holiday Inn, Marriott and Wyndham Hotels). This study has revealed significant variations between tangible and intangible issues in the hotel franchise relationship.

Assumption cards were used to develop the cross case analysis. The respondents were presented with an assumption card placed upside down (??), and then asked to study it closely for any clarification. The assumption card (see Appendix 4) is so called as they were based on the assumptions of the theoretical model of hotel franchise relationship and were under the titles of pre-application phase, application phase, pre-opening phase, opening phase and on-going franchise support. The following is a summary of the discussions.

6.2 Pre-application phase

There are different theoretical explanations for the choice of franchising as an organizational form and there are a variety of reasons motivating firms to choose franchising rather than expansion through company-owned units (Mendelsohn, 1999). As explained in chapter two, this research concentrates on two main theoretical approaches namely: resource scarcity theory and agency theory.
6.2.1 Resource scarcity theory

The findings obtained supported previous research (Oxenfeldt and Kelly, 1969; Shane, 1996; Castrogiovanni et al, 2006; Wang and Altinay, 2008) and identified groups of motivations which could be used to influence the decision of perspective franchisees and drive them to enter a franchise relationship. For example: tapping into the franchisor’s system, having access to the franchisor’s marketing and purchasing systems and having access to a specific franchisor’s experience.

The driver for franchisees to take up a franchise system is certainly the power of the brand. “It is brand awareness, it’s the quality of the brands and of course it’s the support that the franchisor offers” (Franchisee1B). Some franchisees wanted to tap into the franchisor’s knowledge systems and technical know-how and they are trying to overcome the limitations of their resources. “It certainly is, they know-how to build a brand, the model works very well. The business works extremely well and the power of their reservation system is second to none globally” (Franchisee3).

That’s correct, that’s what they want to do. Their logic is that we have some proven success we’ve got the inroads into those, that’s a true statement absolutely.

(FBD3)

It was apparent from interviews that most franchisees highlighted other resources that franchisees need from their franchisor. For example: “That is
again important, back up on the human resource system is very importance, the knowledge the purchasing department is very important because... and then the experience of the sales department is again very important and that all comes together under one umbrella” (Franchisee2).

Some other franchisees need a specific experience in franchisor. For example: we have expertise in specific areas such as golf hotels as we have recently signed a franchise agreement to build a golf hotel in the UK. This owner does not choose us because of the brand name but due to our experience in operating golf hotels as we have 12 golf hotels in the UK.

(FBD4)

On the other hand, Rubin (1978) suggests that it is not lack of capital or lack of management resources that fully explain why firms choose to franchise. He contends that a firm could simply hire experienced managers, assuming that the firm had sufficient capital, rather than enter a franchise relationship. This idea was only supported by one interviewed franchisee.

No I wouldn’t say that’s the case because ultimately we still have to operate the building. The franchising I think this is what people confuse – between the franchisee and the franchisor, the franchisor is there to police the brand it will certainly guide and give support in order for us to do things well, but we still need to have the resources inside the hotel in order for us to do it. The franchisor won’t do it for us.

(Franchisee1C)

Resource scarcity theory highlights the role of resources in franchise relationships (Carney and Gedajlovic, 1991). “Yes that’s basically right, the
franchisor resources are playing an important role in my decision before joining a franchise system” (FBD2). To conclude, resource scarcity theory is suggested to be a trigger for hotel franchisees to grow rapidly because this theory explains that franchising helps new hoteliers in the following which is supported by (Oxenfeldt and Kelly, 1969, Shane, 1996; Castrogiovanni et al, 2006; Wang and Altinay, 2008):

1- To face pressures and constraints, such as advertising and purchasing

2- The franchisee’s need for a ready supply of management labour and talent

3- Overcoming shortage of the necessary resources required for its expansion

Oxenfeldt and Kelly (1968), Carney and Gedajlovic (1991) and Shane (1996) argued that franchisors expand through franchising to get access to the franchisees’ capital in a cost-effective way. Furthermore, franchisees may be able to provide capital to the franchisor at a lower cost than passive investors (Combs and Ketchen 1999). Low-cost capital, motivated managerial expertise, and better local market knowledge are three key resources that should reduce a franchisor’s overall risk and have a significant, positive impact on a franchisor’s performance (Carney and Gedajlovic 1991; Shane, 1996). “The franchisee’s managerial system and financial capability are the most important issues in choosing a franchisee” (FBD4).
6.2.2 Agency theory

Many franchisor-franchisee relationships can be characterised as agency relationships which defined as “an agency relationship exists in any joint effort in which one party (the principal) delegates the authority to as a second (agent)” (Vazquez, 2007, p908). Hopkinson and Scott (1999), Soriano (2005), Castrogiovanni et al. (2006) and Vazquez (2007) suggested that the franchise agreement is designed to:

1- Maximize the relational qualities of exchange, and the contract clauses are the means to ensure unity

2- In franchising relations, franchisors act as principals, giving some resources and authority to employee-managers or franchisees.

3- Franchisors have two basic tools to ensure franchisee co-operation:
   direct observation of franchisee and motivation to franchisee

4- Franchisors want to reduce their monitoring costs by rewarding a franchisee’s efficiency with profit.

There are fees in there and as you know... and I’m sure we’ll cover that a little bit... the fee structure of everybody is usually similar, program fees, marketing fees, sometimes it’s lumped together, and sometimes it’s broken up separately. Yes truly if the franchisee is doing what it’s supposed to do then yes, we will be able to expand quickly as a company with little cost.

(FBD3)

On the other hand, Carney and Gedajlovic (1991), Khan (1999), Mendelsohn (1999), Pine et al. (2000) and Monroy and Alzola (2004) found two problems with agency theory as they observed that this theory ignores the fact that
franchisees engage in creative problem-solving and tactical decision-making and that is also assumes that the franchisor has unlimited control over the franchisee as they state that the franchisor may propose new systems without taking the franchisee opinion and the franchisee is not satisfied by the franchisor control and he/she trying to resist this control. This research argues that incorporating the psychological contract into franchising will solve those problems.

_They don’t come down to your hotel every day and say listen you can’t do this, you can’t do that, so they should be a very open minded approach and listen to their owners. They should listen to you if you have any problems to suit your particular need. This is for me the most important franchise strategy._

(Franchisee1C)

This study argues that incorporating the elements of resource scarcity theory and agency theory as triggers for hotel franchising will have an impact on the future success of the relationship between franchise partners.

### 6.3 Application phase

#### 6.3.1 Tangible aspects of the application phase

In terms of application phase in the hotel franchise relationship, the literature highlighted that the franchise partners’ selection is vital and has a direct effect on the brand quality and this is due to the fact that the hotel guest is dealing with the franchisees rather than franchisors (Wang and Altinay, 2008).

Therefore, if the guest receives a bad impression about a hotel brand, he will not return again to this brand anywhere (Buttle, 1997).
Both the franchisor and franchisee respondents reported that the application phase is a vital element in making a continuous strong franchise relationship. The findings obtained supported previous research (e.g. Buttle, 1997; Wang and Altinay, 2008) and identified five key issues could be used by franchisors to select his proposed franchisees. These include: location; size; ownership structure; type; financial capability of the proposed franchisee.

Well yes I think probably the most obvious one deal with when you’re rolling out a new brand in an area, for example when you’re creating the first Hilton Inn in the country or the first Double Tree in the country that owner’s taking kind of a leap of faith, because we’re going to be the first but we’re assuming there’s going to be more coming along. But the benefit is you don’t want to be the only hotel in a country, your own brand, you want to have a multiple brand. Because obviously the more that are launched the more benefit you get here. We have to look at their financial resources, location and make sure they working out; we don’t need economic crisis with our brand name.

(FBD3)

Analysis of the semi-structured interviews with franchisors and the document analysis supported previous research (Hall and Dixon, 1988; Jambulingam and Nevin, 1999) as they confirmed that franchisees’ financial capability, location and managerial factors would be some of the key franchisee selection criteria.

The major issue for us is when we do franchise; we should do it with the correct partners. We don’t have franchised hotels in the UK at the moment. We used to have a lot of franchised hotel. We are looking to do that with the qualified companies only.

(FBD4)
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It could be noted that hotel franchisee case studies highlighted six groups which affect their choice when they select their franchisor. These groups include franchisor delivery system, franchisor support, franchisor quality and experience, location of the proposed hotel and franchisor fees.

*For me the most important factor with the franchisor is the franchisor delivery system because if I am starting up my own business, starting up my own hotel I need that brand which gives you specifications, they give you brand standards and they give me parameters in which I have to operate and that’s about it.*

(Franchisee3)

This is supported by previous literature (e.g. Mendelsohn, 1999; Hayes and Ninemeier, 2006) as they reported that from the franchisee perspective on how to select a franchisor, quality and experience of the brand managers, the franchisor profit margins and perceived service quality level of the brand could be the most important criteria for choosing the franchisor.

*The brand name is the driver for me to choose a franchisor. Obviously if I’m going with a country house hotel, a small country house hotel, for example there’s a hotel in??? This is outside London a small hotel. If I’m opening a big branch there’s hardly any point, I will not get any support, any marketing, people don’t know that brand. Express by Holiday Inn for example, people know this brand. Size of the franchisor would be a factor. Definitely if I’m opening up a franchise I will go with somebody who’s got a global reach.*

(Franchisee1A)

### 6.3.2 Intangible aspects of the application phase

Most of the literature reviewed has not highlighted the intangible issues in the franchise application phase except authors, such as Altinay (2006) when he
indicated that creating a co-operative environment between franchise partners does not happen overnight.

The findings obtained from franchisor and franchisee case studies concluded four contents of the psychological contract which might be applied to the application phase. These contents are: promises, obligations, trust and trust.

This result agreed with previous research (e.g. Guest and Hall and Dixon, 1988; Jambulingam and Nevin, 1999; Conway and Briner, 2005; Kingshott and Pecotich, 2007) which showed that promises and obligations are the core of the psychological contract and trust is an essential part of the formation of the psychological contract.

Franchise unwritten promises and obligations explored through the psychological contract concept as Guest (2004) indicated that the contents of any unwritten contract would be the reciprocal promises and obligations implied in this relationship. Most the respondents from the franchisor case studies highlighted the importance of the unwritten promises and obligations in the franchise relationship.

No, no you’ve got to do more than that and that’s certainly implying a promise and we follow through on that and that promise is basically saying look we will support you during the pre-opening to help you wrap up quickly, but more importantly once you open we’re still going to be here, that ongoing support is always going to be there, it’s going to be the same person that’s working with you here is going to be the same person coming with you afterwards on a regular basis and review how you are doing, look for ways of maximising your operational performance, that’s
exactly what the model is. And you’re right again you won’t see those in the licence agreement, they don’t put it in there and say this is the???. It just says a very broad general statement that we will provide ongoing franchise support, I think it says something like that.

(FBD3)

The findings of respondents from the franchisor case studies indicated five franchisor obligations regarding the application phase. These obligations are: express support for franchisees, keeping franchisees informed and sharing knowledge, understanding franchisees needs, building loyalty and paying more attention to new franchisees.

The franchisor has a difficult role to play during application phase as he should work with the franchised hotel closely in a regular basis. He should be honest as he has to prepare the integrity of the brand in order to build franchisees loyalty. Informal discussion between franchisor and franchisee is very important at the early start of the relationship even before signing the written agreement to order to understand franchisees needs especially if they are new to the franchising world.

(FBD3)

On the other hand, the findings from the franchisee case studies found four franchisee obligations in the application phase. These obligations include: be committed to the success of the franchisor; subscribe to the franchisor norms and values; be loyal to the franchisor; keep the franchisor informed and share knowledge. Evidently, the findings obtained supported the presence of unwritten obligations in the franchise agreement. These findings are supported by Guest and Conway (2001) as they reported that the core of the psychological contract concerns the exchange of promises and obligations.
However, the promises and obligations of the psychological contract have the capacity to increase trust between partners (Kingshott and Pecotich, 2007). Both respondents of franchisor and franchisee case studies showed the importance of trust in the application phase of the franchise relationship. They asserted that distrust might happen in any other phase of the relationship if they do not build a good level of trust from the beginning of the franchise relationship. These findings are supported by Kingshott and Pecotich (2007) as they highlighted that trust is a fundamental cornerstone of co-operation in the business relationship.

*If you’re into that sort of relationship you’re going to have some distrust I agree. But it’s likely to be very clear and cut and gone. It might be happened if you have not built it from the beginning of the relationship.*

(FBD3)

The findings obtained from all case studies supported the findings of previous research (Hall and Dixon, 1988) that suggesting that the franchisor should assess the prospective franchisees experience to avoid any problems in the relationship. However, the franchisee’s level of education and experience would be part of the franchisee selection criteria (Guest, 1998; Jambulingam and Nevin, 1999). Therefore, education level and experience of the franchisees is important in the selection process to avoid any gaps in the franchise relationship.

*So I think without the franchisee experience you wouldn’t have a successful franchise business. If you didn’t have enough experience to make it work, so I don’t think that works. I think systems can be relevant if the franchisor asks about franchisee experience from the beginning and we do.*

(FBD4)
6.4 Pre-opening phase

6.4.1 Tangible aspects of the pre-opening phase

The findings obtained from all cases agreed with previous research (Housden, 1984; Mendelsohn, 1999; Powers and Barrows, 2005) which similarly found that the pre-opening phase is present in all hotel franchise relationships. The findings revealed six factors affecting this phase. These factors include: pre-construction assistance, design and construction assistance, Equipment selection, financial assistance, hiring staff and training. “Upon the signing of a franchise agreement, a specialist project team is assigned to the franchisee for the pre-opening period” (FBD1).

In terms of design, construction and equipment selection, the findings obtained highlighted that there should be an appropriate level of assistance from the franchisor in this area. This is supported by previous research (e.g. Housden, 1984) which showed that franchisors should offer franchisees assistance in the selection of the equipment at the most economic price and assistance in relation to the design of the hotel.

As a result of the Pre-Opening Meeting, follow-up action plans are constructed. A Pre-Opening Action Plan will provide a Critical Path to follow in the final phase of Pre-Opening. A Pre-Opening plan provides detailed requirements and recommendations for pre-opening priorities, design, construction, rate and revenue maximization, internal procedures, training, marketing, advertising and equipment selection. Upon successful completion of required training – and assuming that the hotel and its databases are built into all systems – your hotel property will open under the Brand. Your hotel’s timeline may vary based on construction schedules. (FBD5)
However, all franchisor case studies reported that there is no financial assistance to the franchisee except some discounted fees. This is in agreement with Hall and Dixon (1988) who suggested that the franchisor should have a profile of the ideal franchisee which covers all aspects such as the required financial resources as there is no help from the franchisor to the franchisee in this issue. “There may be some help in financial like giving discounts on fees” (Franchisee1B)

With regards to hiring staff and training, Rubin (1978) highlighted the importance of hiring experienced managers to the new franchised firms. The results obtained revealed the importance of franchisor help in hiring experienced managers for the new franchisees. Moreover, Shane (1996) indicated the importance of franchisor help to small firms especially in training. This is confirmed through the findings from all case studies explored as they indicated the vital role of training for them as some of them tapped in the franchising system because of the training provided from the franchisor

*One of the first communications your hotel will receive is a Pre-Opening checklist. The checklist provides an overview and guideline of major items for your team to be aware of prior to opening such as training*

(FBD6)

*So once it’s been confirmed, prior to opening we send down a brand orientation programme, they’re there for like a week, they go through the whole series of training and everything else to learn some of the aspects of brand standards.*

(FBD2)
6.4.2 Intangible aspects of the pre-opening phase

Pine et al. (2000) and Monroy and Alzola (2004) highlighted the risk of a lack of trust between the franchisor and franchisee. For example, findings revealed that continuing to build a good level of trust and communication between franchise partners should lead to a healthy franchise relationship. To illustrate, trust and communication was found to play a vital role in making a good franchise relationship in the pre-opening phase.

No, no you’ve got to do more than that in the agreement. And that’s certainly implying a trust and communication and we follow through on that and that trust and communication are basically saying look we will support you during the pre-opening to help you wrap up quickly

(FBD3)

Branes (2001) stressed that one of the most interesting features of the business relationship is trust and motivation. This is in agreement with Guest (1988) which suggested that the psychological contract is based on the partners’ sense of fairness and trust. Modell (2005) confirms that franchise partners’ communication and trust is the connector that guarantees that they will work together. Furthermore, continuing to maintain motivation in the relationship will contribute to a building of trust and good communication (Munn, 2001).

I think the dip in trust is what we talked about first; if the expectation is not met in the pre-opening phase and that’s what I’m thinking. But if you want to build up a relationship I think the dependence is there because you want to keep good franchisees, you want to work with them. Then you have to have good level of communication with the franchisees.

(FBD2)
6.5 Opening phase

6.5.1 Tangible aspects of the opening phase

Previous research on franchising (Hall and Dixon, 1988) showed that the franchise contract refers to a variety of aspects, such as the franchisee training provided by franchisors. The findings obtained supported previous research (Hall and Dixon, 1988) and identified that the most important factor in the opening phase is training. Franchisee training is important to the success of the franchise relationship. Some new franchisee’s may have worked for years in the hotel industry and already know about the business; whilst others have not. Therefore franchisees may know nothing of "how to run" the hotel business, and therefore, would probably fail if they were not taught about the business management side of running a hotel.

I think there is an interesting statement here. I think a lot of franchisees do expect to be to have access to all kinds of training. Because they figure we’ll tap into training programmes you’ve already established, we’ll take advantage of it. This is a fine line because a typical franchisor is going to offer a training and extend this offer to the franchisee; maybe at a cost and stuff like that but it’s not necessarily the full mode of what they’re going to get if it was a managed hotel.

(FBD3)

All franchisor-franchisee case studies revealed that in order for franchisees to be successful at running their business, they need to go on well-organized and correctly structured training programmes. Therefore, it comes down to the quality of training on offer. In addition, the initial training needs to be long enough to give people sufficient time to learn the necessary business methods and requirements. Potential franchisees are advised to obtain more detailed
information than this so that they can be confident the training available will give
them every chance of doing well. These findings are supported by Hall and
Dixon (1988) who explained that franchisee satisfaction relies on initial learning
training as there is heavy reliance on franchisors for training and assistance.

\[ I \ think \ that \ the \ initial \ training \ that \ they \ offer \ is \ superb. \ It \ is \ long 
\text{enough} \ to \ know \ all \ bits \ about \ the \ brand. \ I \ really \ do \ I \ just \ think \ it's 
a \ little \ bit \ expensive. \]  
(Franchisee1B)

\textbf{6.5.2 Intangible aspects of the opening phase}

Atkinson (2007) incorporated cognitive and affective trust as a basis for the
business relationship and confirms that these concepts are related to the nature
of the psychological contract. Cognitive trust is a partner's confidence or
willingness to rely on a service provider's competence and reliability (Moorman
\emph{et al.}, 1992). It arises from an accumulated knowledge that allows one to make
predictions, with some level of confidence, regarding the likelihood that a focal
partner will live up to his/her obligations.

\begin{quote}
A tactic used by franchisors to gain the trust is to recommend a
product, programs, training that save franchisee fees. The
franchisor informs us of this act of benevolence, which elicits an
emotional bond of trust in the franchisor.
\end{quote}  
(Franchisee1A)
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However, the findings obtained found that incorporating both cognitive and affective trust in the opening phase will add value to the franchise relationship. This is due to the fact that the franchise relationship is focusing on a franchisee gains, respect and motivation which lead to a good level of communication between franchise partners (Hall and Dixon, 1988; Altinay, 2006).

We trust our franchisor based on specific instances of brand reputation and I think this is what you called it (Cognitive). We also trust them based on affect experienced from interacting with the franchisor and I think this is (Affective). However, I think we should receive a good knowledge about the franchisor from the beginning and after that the franchisor should motivate and respect us during the relationship to gain the trust. I think the most important point in this phase is communication through gaining that trust in the relationship (Franchisee2)

6.6 On-going franchise support

6.6.1 Tangible aspects of the on-going franchise support

The relationship between a franchisor and its franchisees, including the level of support to be provided to its franchisees, is primarily governed by the terms of the franchise agreement (Mendelsohn, 1999). The franchise agreement should contain specific sections whereby the franchisor's "support" obligations are identified and defined (Altinay 2006). The findings obtained showed that franchisors support obligations relate to (a) training and (b) consultation on operations (c) reservation and marketing (d) quality assurance (e) equipment and supplies assistance.

As a franchisor, we are committed to supporting each franchisee and continue to evolve the brand. Franchisees will be part of a larger corporate culture that is growing a national network. Our on-
Effective franchisor support helps both the franchisee and the franchisor. For hotel franchising organizations to do well, the findings revealed that they should ensure the success and profitability of as many of their franchises as possible. Franchise success brings in revenue for the franchisor and makes the franchise brand more attractive to future investors. However, Monroy and Alzola (2004) argue that the franchisor may prepare a future competitor by training the franchisee. Therefore, the franchisor should take care of this point.

*Crucial to any successful franchised operation is the level of support a franchisor gives to its franchisees in its operation of its franchised business. The level of support required will vary from one franchisee to another. We are aware of the fact that a line needs to be drawn between supporting franchisees in genuine need of support and those who, for reasons best known to themselves, are so demanding of their franchisor's support as to substitute it for their own efforts so that they eventually, if not quickly, become reliant upon it for the success of their businesses.*

**Training**

The fundamental service which should be provided by the franchisor is training (Monroy and Alzola, 2005). A number of franchising organizations offer support in the form of training and training assistance. The findings found that franchisors will train new franchisees in-depth regarding franchise management and even in general business tactics, to help them succeed. Most franchisors...
will also provide training material to assist in training staff members to meet the brand standards.

As mentioned in the previous sections the training should be provided during pre-opening and opening phases. It is known that franchisors must have an obligation to train franchisees in how to operate the franchised business and this obligation to train must continue beyond initial training so that franchisors are obliged to provide continuing and further training to franchisees during the subsistence of the franchise agreement. With regards to on-going franchise support, the findings from all case studies indicated the importance of training during this phase to keep the franchisee up-to-date with the system. This is supported by Altinay (2007) as he pointed out that the annual practical training for the entire franchisor management team is important to keep the business strategy healthy.

*When you first begin your franchise business, the franchisor should provide training on the main aspects of running the business. The training program should be quite comprehensive. During on-going franchise support, franchisors should be diligent about ensuring that franchisees feel comfortable operating the business through regular training. Unfortunately, we should pay fees for any training that we need.*

(Franchisee1B)

**Equipment and supplies assistance**

It is very important for the franchisee to receive help from the franchisor to get any supplies or equipment in order to have the best chance of success (Mendelsohn, 1999). The franchisor should work closely with the franchisee in
selecting the best equipment or at the least recommending suppliers for the franchisee (Pine et al., 2000). The findings obtained from some franchisor cases found that the franchisor may have already performed the research necessary to find suitable equipment and suppliers within the franchisee location.

For example, “we are very keen about suppliers of our franchisees. We do a research to find the suitable suppliers for our franchisees” (FBD5). This supported by previous research (Housden, 1984) which showed franchisor services should include giving advice and assistance in the selection of the equipment and suppliers at the most economic price.

**Marketing and Advertising**

Part of the franchisor services also includes marketing and promotional assistance (Taylor, 2000). The most visible means of support lies in the area of marketing (Pine et al., 2000). The findings obtained identified that franchisors run large-scale marketing campaigns on behalf of their franchisees to maximize their ability to reach customers. Moreover, franchisors also often assist franchisees with developing local marketing strategies and tactics.

As a franchisee you should receive a comprehensive marketing plan for your business for the time period from the grand opening through the following 3-6 months. Although it will be necessary for you to contribute to a national or regional advertising fund, the
franchisor should also guide you regarding the local marketing efforts that would be beneficial.

(Franchisee3)

The findings obtained from the franchisor case studies illustrated that many franchisors undertake an obligation to provide franchisees with artwork, bromides, flyers, leaflets, point of sale material etc. thereby ensuring quality, standardisation and economies of scale for its franchisees. This is agreed by Mendelsohn (1999) and Monroy and Alzola (2004) who stated that the franchisee should receive assistance in site selection, staff training, equipment purchase, and getting the business open and running smoothly and reducing start-up risks.

*Due to the high level of interest in your success as a franchisee, the franchisor may also supply you with customized professional marketing materials. These could include posters, brochures, banners, direct mail postcards and many others.*

(Franchisee2)

**Operations support**

The franchisor offers the franchisee a package of successful operational know-how, including a successful operation system (Pine *et al.*, 2000). This is supported by the findings obtained as it revealed that day-to-day operations assistance is fundamental for a healthy franchise relationship.

*A good franchisor will always provide operations support. Part of the guidance includes a comprehensive operation manual. Although the manual should outline all aspects of running your business, there is always a chance that you will have other questions as you go along.*

(Franchisee2)
Quality assurance

Stutts and Wortman (2006) declared that franchisor inspectors should visit hotels periodically to ensure the quality of hotels and to give valuable advice to the franchisee about food and beverage, operating supplies and marketing techniques. The findings obtained highlighted that different franchisors have different methods of ensuring that quality is maintained throughout their franchised network but before franchisors can do this they must be sure of the quality of their own system and products. The franchisor must then provide sufficient mechanisms in the franchise agreement to enable it to ensure that franchisees operate to the same standards. Strictly speaking, although not an obligation on the part of a franchisor, the nature of this obligation is such that it is mutual in that it is as much in the franchisee's interest to maintain quality as it is in the franchisor's interest to ensure that quality is maintained in order to maintain business levels and market share. The previous findings are supported by Monroy and Alzola (2004) as they argued that a franchisor has to ensure that all the standards are maintained over his franchised outlets.

Franchisees

Khan (1999) and Mendelsohn (1999) reported that the brand name of the franchisor may become less reputable for reasons beyond the franchisee’s control. Therefore, the findings obtained showed that franchisees pay franchisors for the right to use the franchisor's intellectual property, such as the trade name, trade marks, know-how, copyright, business system. Franchisees should do whatever they can to protect the brand image through following
franchisor standards. “Franchise agreements should contain provisions relating to this so that prospective franchisees can take it as an obligation” (Franchisee2). Moreover, the franchisees should follow the franchisor standard, paying fees and attend any required training programs.

6.6.2 Intangible aspects of the on-going franchise support

In terms of psychological contract and on-going franchise support, the findings obtained supported Lee (1999) and Altinay (2006) arguing that the quality of the franchise relationship directly increases job satisfaction and performance; and the quality of the relationship increases the franchisee’s commitment to stay in the relationship. It is well recognized that the quality of the relationship plays a central role in initiating and managing the franchising relationship (Pine et al., 2000). The results of this study strongly support the psychological contract model presented in the literature (see Figure 2.1).

The respondents of franchisor case studies included seven franchisor obligations regarding on-going franchise support. These obligations are: building trust; accepting new ideas; provide professional support; motivation; fairness; respect; act with integrity.

The FBD should provide professional support during on-going phase as he should work with the franchised hotel and to be honest and prepared to accept franchisees opinions. This could be achieved by informal discussion between franchisor and franchisee.

(FBD1)
On the other hand, the findings from the franchisee case studies found five franchisee obligations in on-going franchise support phase. These obligations include: building trust, understanding franchisor ideas, respect franchisor, respect other franchisees and express support to other franchisees. These findings are supported by Guest and Conway (2001) as they reported that the core of the psychological contract concerns the exchange of promises and obligations.

This research tried to explore those psychological obligations in detail. Therefore, those findings obtained converted into six groups of factors affecting the franchise relationship namely: trust; motivation; commitment; communication; understandings; respect. These factors will be discussed in detail:

**Trust**

It was apparent that most of the franchisor case studies highlighted that trust should be in all phases of the franchise relationship. This is agreed with Justis and Judd (1989) who revealed that the ideal franchisor-franchisee relationship is one built on mutual trust, consideration, and cooperation, and is vital for the success of both parties. For some of the franchisor case studies where a business relationship is highly legalistic (such as in franchising, with more than 20 years of franchise agreements and extensive laws regulating franchising), trust played a more significant role than the formal relationship.
Franchise relationships are generally structured to extend over a long period of time, with 10 years being typical and up to 20 or more years. In any relationship, more (and more significant) issues will develop as the relationship extends over time and a "bank account" of trust that has been established will allow the participants in the relationship to successfully navigate those issues, while maintaining the relationship.

(FBD1)

Both legally and psychologically, the franchisor cannot adopt a purely "top-down" management model for requiring the franchisee to follow the franchisor's wishes or to "firing" the franchisee for anything other than a breach of the agreement. A relationship based on trust allows mutual accommodation and a highly-useful alternative to a legalistic approach to strategic planning and day-to-day management.

(FBD6)

It is stated in the findings obtained from all the case studies that trust is a vital element in a successful relationship between a franchise system and its franchisees, whether on an individual level or between the franchisor and its franchisees as a whole.

Distrust happens if the franchisees do not comply with the franchisor brand standards. And the relationship might be quite difficult. Or the franchisor does not come up with the franchisees expectations.

(FBD2)

The previous findings supported by Kaufmann and Rangan (1990) who indicated that the interrelated goals of the franchisor and franchisee tend to generate high degrees of trust in the relationship. “This is because; trust in the franchise relationship would lead to a high level of commitment to stay in the relationship” (Franchisee1B)
Commitment

The franchisee’s satisfaction has a direct influence on commitment (Lee, 1999). The findings in this study concerning commitment to remain in the franchise relationship are also noteworthy. The findings obtained revealed that the franchisor should have policies which aim at developing effective interpersonal relations with their franchisees and providing a business environment conducive to work satisfaction. “These actions may encourage a sense of belonging and identification with the values and goals of the organization, as well as decreasing potentially costly turnover” (Franchisee2).

These findings were supported by previous research (e.g. Mowday et al., 1982) which identified that franchisees may not only remain with the franchise system, but also work towards its success and franchisors should pay attention to providing work experiences associated with confirming expectations, organizational support, and fair treatment. Commitment to an organization is a vital factor, and includes its effect on turnover and intentions to remain in or leave the relationship (Shore and Martin, 1989).

There is some other small ways we do loyalty in terms of providing owners with special cards with discounts, other franchise hotels it’s a kind of little club so that they can all take care of each other. So if an owner shows up at another hotel he can show that owner card and say I think this entitles to a free room doesn’t it? And they go yes it does and vice versa, so it’s a way of keeping up, but that’s a minor one I think. The best loyalty is just by if we deliver on what we promised from the beginning with that franchise then they do tend to be loyal.

(FBD3)
Motivation

Franchisee motivation is the reason why franchisees would like to stay in the relationship and why he/she would prefer to stay in a franchise rather than operating an independent business (Lee, 1999). The findings obtained illustrated that the motivation to stay in a franchise system can be addressed as effect of the quality of the relationship. “Motivation is the big concern after signing the contract” (Franchisee3).

The findings obtained recognized that the most important motivation for the franchisees is giving them the best return on the investment. Moreover, the findings concluded that franchisee motivation is driven by financial success, satisfaction and less restrictions. “I think I will be motivated if I am satisfied and I can manage my hotel without a lot of restrictions” (Franchisee3).

Communication

Monroy and Alzola (2004) highlighted that some serious problems might happen in the franchise relationship because of a lack of communication between the franchisor and franchisee. For example, the findings revealed that continuing to build a good level of communication between franchise partners should lead to a healthy franchise relationship. To illustrate, communication was found to play a vital role in making a good franchise relationship in the franchise relationship.

Yes, communication in the safe practical tool to avoid any problems in the franchise relationship. And could be done through informal visits and calls between franchise partners. The
important issue here is keeping these informal visits in a regular basis. On the other hand, no communication equals distrust which means bad intentions towards the franchisor. But if you want to build up a communication, you should do it in a proper way which means that you should treat your franchisees as a part of your family.

(FBD5)

These findings are supported by previous research (e.g. Jambulingam and Nevin, 1999) who clarified that when entering into a franchise relationship, prospective franchisees must recognize that the franchisor's on-going franchisee support obligations may not be clearly defined. Accordingly, franchisors should reach franchisees and engage them in regular meetings that should include contacting and speaking with them in a regular basis to increase their commitment. “The success of a franchising business relies on the franchisee/franchisor relationship and the relationship itself rests on two pillars: trust and communication” (FBD2).

Understandings and respect

Hall and Dixon (1988) assured that the ideal franchisee is one who receives a reasonable level of security, affiliation and respect. “Yes, respect is earned, so it comes out of the franchisor” (Franchise E).

We are required to make sure that we are always available to the franchisees. Keep all lines of written and unwritten communication open like. We should understand and respect our franchisees. For example, we do not discourage a franchisee, if he has some suggestions for running up the business; as he can know more about the local market than the franchisor does.

(FBD1)
Nathan (2007) clarified that respect and understandings are very important to healthy franchise relationships. Understanding franchisees’ expectations relating to that social exchange may help identify the factors that shape franchisees’ perceptions of the psychological contract (Coyle-Shapiro and Conway, 2005).

You’ll have some owners like for instance the owner in Cambridge, let’s go back to that one, he went from an independent hotel to our brand, he was already the leader in the market but he still felt about putting the brand name there but having our engine he could command a higher rate. He told us the he choose us because he knows from our existence franchisees that we are open-minded and we understand our franchisees’ needs

(FBD3)

Our goal is to walk in here and say you paid a lot of money to put that sign on the building; you might as well get all you can. And here are all the tools and recourses available to you. That is all what we do. So this is a big part of what we do but I think there are still important issues like we will respect your ideas and understand all your needs

(FBD4)

6.7 Modelling hotel franchise relationship

The aim of this thesis is to develop a model relating to the relationship between franchisor and franchisee in order to ensure success of hotel franchising relationship. A final model (Figure 6.1) has been created to illustrate factors influencing the success of hotel franchising relationship in each phase of the relationship to achieve a constant level of satisfaction between franchise partners. This model links each of the tangible phases of the franchise relationship with the aspects of the psychological contract that influences it. This
model suggests that tangible and intangible relationship issues are considered as motivators for building success between franchise partners.

In the pre-application phase, this model suggests incorporating agency theory and resource scarcity theory as motivators for entering a franchise relationship. From a psychological point of view, this phase could be affected by the brand image and culture. Therefore, the franchisor should try always to build up a good image and reputation for his brand through maintaining the quality of the relationship with his franchisees. Hence, the success of a franchise relationship relies on these factors even before starting the real relationship.

Regarding the application phase, this model suggests tangible and intangible factors which franchisors/franchisees should follow in order to gain success in the relationship. With concern to the tangible factors, the franchisor should look at franchisee experience, franchisee financial capability, location, size of property, ownership structure and type of property. On the other hand, the franchisee should look at franchisor fees, franchisor delivery system, franchisor quality, franchisor support and location. With regards to the intangible factors, the franchisor should share information and knowledge, express support, building loyalty, understand franchisees needs and paying a special attention to new franchisees. The franchisee should share information and knowledge, subscribe to franchisor norms, be loyal to franchisor and committed to the success of the franchisor. If franchise partners understand, analyse and
implement these factors during this phase, it will provide them with good levels of satisfaction during this phase and afterwards. Moreover, trust is considered as a vital element to build with both franchise partners in this phase to enable them to achieve the previous points.

Concerning the pre-opening phase, this model suggests tangible and intangible factors which franchisors/franchisees should follow in order to have a good relationship. With regards to the tangible factors, the franchisor should provide franchisees with help in design and construction, equipment selection, pre-construction assistance and financial assistance if possible. On the other hand, the franchisee should understand the services provided by the franchisor in this phase. With concerns to the intangible factors, the franchisor should motivate, communicate and build trust with franchisees. The franchisee should keep a good level of intangible communication with the franchisees at this phase.

In the opening phase, this model suggests that training is a vital factor. Franchisors and franchisees should do their best to get all the training required for the opening of the hotel. If the franchisees understand this training, they should be able to manage the hotel in the best way. On the other hand, building trust and communication at this phase is important to the success of the relationship.
This model illustrates that on-going franchise support would be affected by critical tangible and intangible factors. The franchisor should provide his franchisees with training, consultation on operations, reservation and marketing, quality assurance and help in equipment and supplies. On the other hand, the franchisee should pay their fees, follow standards, protect brand image and attend required training programmes. This model suggests that psychological contract factors have an impact on the success of the relationship. The franchisor should continue building trust, accepting new ideas, provide personal support and motivation, treat franchisees fairly, respect franchisees and act with integrity. The franchisee has some intangible obligations, such as building trust, understanding franchisor ideas, respecting franchisor, respecting other franchisees and providing support to other franchisees.

This model suggests attitudinal and behavioural outcomes from the interaction between tangible phases and psychological contract in each phase. The attitudinal outcomes are summarized as the intention of both parties to stay in the relationship. This framework suggests that intentions could be affected by the interaction between the franchise psychological contract and hotel franchise phases. However, the behavioural outcomes are commitment and satisfaction. This is also affected by the extent of the interaction between tangible and intangible relationships.
This study also developed a model of hotel franchise lifecycle through exploring the tangible and intangible aspects of the hotel franchise relationship. The proposed model suggests three stages of lifecycle namely: Glee, Me and We. The Glee phase represents the dependence of the franchisee on the franchisor. It combines the pre-application phase, application phase, pre-opening phase and opening phase. Each phase contains the previously mentioned tangible and intangible aspects. The Me phase starts with on-going franchise support. The franchisees go to this phase when they dislike all the franchisor restrictions and if there is no communication or motivation for the franchisor and if the franchisor did not keep their promises at the Glee phase. The final phase of the franchise lifecycle is the We phase. At this phase, the franchisor should fulfil their tangible and intangible obligations to keep franchisee satisfaction at a high level. Therefore, this study emphasizes the importance of these obligations on the franchise lifecycle as they are playing an important role in the franchise lifecycle. Figure 6.2 illustrates this lifecycle and suggests a time-scale for each phase during the franchise lifecycle.
Figure 6.1 A model of hotel franchise relationship success
CHAPTER SIX
MODELLING THE HOTEL FRANCHISE RELATIONSHIP

Figure 6.2 The final model of the hotel franchise lifecycle

The franchisee go to this phase when he dislikes all franchisor restrictions and if there is no communication or motivation for the franchisor and if the franchisor did not keep his promises at the Glee stage at constant level.
6.8 Summary

This chapter aimed to analyse and compare the written and unwritten agreements in the hotel franchise relationship. This research used a cross-case synthesis to analyze data obtained from the multiple case studies. This chapter revealed the importance of both intangible and tangible issues in the success of hotel franchise relationship. Franchisors and franchisees recognized that incorporating both groups will relate to the commitment to stay in the franchise relationship. The chapter explained great variations between franchisor and franchisees tangible and intangible issues through a cross-case analysis. The analysis process has led to the development of a model for the hotel franchise relationship (see Figure 6.1).
## 7.1 Introduction

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CHAPTER SEVEN: CONCLUSIONS

7.1 Introduction

This study has investigated the issues facing the relationship between franchisors and franchisees to develop a model of successful hotel franchise relationships. This chapter reviews the different objectives and how each objective was achieved through the use of different research methods. The major findings are summarised in section 7.2 which is followed by the main contribution of the research to theory and practice (section 7.3). Limitations of the research are identified in section 7.4 and future research opportunities in section 7.5. Personal reflections are presented in section 7.6. The chapter ends with the researcher’s personal reflections on the research process.

7.2 Review of objectives and major findings

The aim of this study was to develop a model relating to successful hotel franchising and the relationship between franchisors and franchisees in the hotel industry. Such relationships include tangible and intangible issues (Psychological contract) which may positively or negatively affect both parties. In order to achieve this aim, four research objectives were targeted (figure 7.1).
The aim of this study is to develop a model relating to the relationship between franchisor and franchisee to ensure the success of hotel franchising relationships. Such relationships encompass operating procedures, technical assistance and marketing assistance. The study will focus particularly on the unwritten promises and obligations between franchise partners which may positively or negatively affect both parties throughout the lens of psychological contract.

**Objective one**
To undertake a critical review of relevant literature on hotel franchising to develop a theoretical framework integrating the hotel franchise relationship with agency theory, resource scarcity theory and the psychological contract.

**Objective two**
To develop a multiple case study of franchisors-franchisees to explore the hotel franchise relationship and develop a model identifying key issues relating to success of the hotel franchise relationships.

**Objective three**
To explore in depth the key issues relating to the unwritten franchise agreement underpinning the franchisor-franchisee relationship in the hotel industry through the lens of the psychological contract.

**Objective four**
To present a model relating to the relationship between franchisors and franchisees in order to ensure the success of hotel franchising relationships.

Figure 7.1 Research aim and objectives
7.2.1. Objective 1

The first objective in this study was to undertake a critical review of relevant literature on hotel franchising to develop a theoretical framework integrating the hotel franchise relationship with agency theory, resource scarcity theory and the psychological contract. In order to achieve this objective, this research had to implement a rigorous systematic search of the literature using keywords, such as franchising, hotel chains, franchise lifecycle, franchise phases, psychological contract, agency theory and resource scarcity theory. This research used several information sources that can help construct the literature review. For example, electronic databases including Business Source Premier, Swetswise and Emerald, printed journals, conference papers and books.

Various issues relating to definitions of hotel franchising and the management of hotel franchise relationships were presented. In some cases, working definitions were developed (e.g. hotel franchise relationship) to achieve a better understanding of these terms. In addition, triggers for hotel franchising were identified as agency theory and resource scarcity theory. A model of hotel franchising phases was identified to illustrate the different phases of hotel franchise relationship (figure 3.2). The franchise lifecycle theory (Nathan, 2007) was adapted in relation to the hotel franchising relationship. Moreover, the psychological contract concept was used to understand different aspects of the hotel franchise relationship. A theoretical framework for hotel franchising relationships, including a summary of the major elements of franchise phases, was drawn from the literature and presented at the end of chapter three (see figure 7.2).
Figure 7.2 Conceptual framework presented at the end of chapter three
7.2.2 Objective two

The second objective in this study was to develop a multiple case study of franchisors-franchisees to explore the hotel franchise relationship and develop a model identifying key issues relating to success of hotel franchise relationships. In order to achieve this, the researcher adapted a multiple case study approach. The researcher conducted semi-structured interviews with franchisors and a sample of their franchisees incorporating document analysis. In order to achieve this objective, the researcher aimed to explore the nature of the relationship between franchisor and their franchisees in each phase of the hotel franchise relationship.

The research findings were summarised in the initial hotel franchise lifecycle model (see figure 7.3). This model further develops the conceptual framework (figure 7.2) and explains how the franchisees’ feelings change at each phase. This is related to the franchisor practices towards their franchisees at each phase. The findings illustrated the important aspects which franchisors and franchisees should follow in each phase in order to have a successful hotel franchise relationship. However, these points should not just consider the tools that can help to achieve success in the relationship without taking into consideration the intangible part of the relationship. The findings identified a range of tools that could be used from the psychological point of view of the franchisor and their franchisees. The next objective will deal with this point in more detail.
Figure 7.3 Initial model for the success of the hotel franchise relationship
7.2.3 Objective three

The third objective was to explore in-depth the key issues relating to the unwritten franchise agreement underpinning the franchisor-franchisee relationship in the hotel industry through the lens of the psychological contract. The researcher conducted semi-structured interviews and document analysis to identify these issues. The researcher used the conceptual framework as a tool to achieve this objective. The researcher aimed to explore how the respondents approach the psychological contract factors identified in the model. These psychological factors were identified as inputs and outcomes which have an impact on the hotel franchise relationship phases.

Different sets of questions were designed in this phase using semi-structured interviews with franchisors and sample of their franchisees to get the required information. At the same time different issues relating to the psychological contract impact on the hotel franchise relationship were asked. In order to understand the role of the psychological contract in the hotel franchise relationship, a model of psychological contract in the hotel franchising industry was presented. Additionally the findings stressed the necessity of developing polices and practices used by the psychological contract to be more helpful for the success of hotel franchise relationships (see figure 7.4). This model builds on the previous model (figure 7.3) to incorporate the psychological contract issues.
CHAPTER SEVEN: CONCLUSIONS

Figure 7.4 The relationship between psychological contract and hotel franchising
7.2.4 Objective four

The fourth objective was to present a model relating to the relationship between franchisors and franchisees in order to ensure the success of hotel franchising relationships. The researcher conducted cross-case analyses to identify the gaps between cases; and the gaps between franchisors and their franchisees. The researcher also made comparisons between literature and case study results, to identify the gaps between theory and practice. The conceptual framework was used as a tool to structure the layout of the analysis. This led to the development of a success model for the hotel franchise relationship. The researcher developed the final model based on the way franchisors and franchisees approach hotel franchising relationship aspects.

According to the findings of chapter six, exploring psychological contract issues parallel with the tangible issues was a necessity to fulfil the requirements for the success model of the hotel franchise relationship to be useful for different types of franchisors and franchisees. The final model suggested for hotel franchise relationship success represents an amalgamation of theory (figure 7.2), findings on hotel franchise relationship phases (figure 7.3) and psychological contract findings (figure 7.4). The final model (figure 7.5) comprises of two main sections, tangible relationship and intangible relationship. This model tries to make a relationship between tangible and intangible issues in each phase of the hotel franchising relationship in order to achieve the research aim. This strategy resulted in the identification of success factors affecting the hotel franchise
relationship. The final model should be used by franchisors and franchisees to develop their own relationship management model which addresses their own needs since it can vary from one hotel to another (El-Sayed et al., 2009).

7.3 Research contribution

7.3.1 Contribution to theory

The study has contributed an enhanced understanding of hotel franchising relationship issues in the hotel industry. The study has added to the growing hotel franchising literature through its review of previous research, generation of new ideas and interpretation of rich data collected from a range of resources in respect of hotel franchise relationships in the hotel industry.

Moreover, the study has provided empirical evidence relating to tangible and intangible issues which ensure the success of hotel franchise relationships. Overall, the study grounded the theoretical base for hotel franchising relationships using a phenomenological approach which would undoubtedly help any researcher who wants to investigate further in this field. The study has contributed to knowledge through reviewing relevant literature and empirical research related to franchising, hotel franchising, hotel chains, franchise lifecycle, agency theory and resource scarcity theory. Reviewing the previous points results in understanding the hotel franchise phases which summarize the relationship between franchisors and franchisees.
Figure 7.5 The final model of hotel franchise relationship success factors
The most significant contribution of this thesis is the application of the psychological contract to understand and explore more in-depth perceptions about the attitudes and behaviours of franchisors and franchisees during the franchise relationship. To date, most of the studies on the psychological contract have used it to understand the employment relationship (Rousseau, 1995). However, this study showed that the psychological contract and its main components were useful in understanding hotel franchise relationships. The study proposed that the model of the psychological contract which was adapted to the hotel franchise relationship. This study was the first to introduce a model of psychological contract to the consideration of hotel franchising agreements. This is supported by a number of authors (e.g. Gartner, 1989; Pavlou and Gefen, 2005; Kingshott, 2006; Croonen, 2007) who have highlighted that the psychological contract could be used to understand other relationships rather than just employment relationships. For example, Pavlou and Gefen (2005) and Kingshott (2006) dealt with the psychological contract in marketing as they justified the extension of the psychological contract concept into marketing theory.

A major contribution of this study to knowledge was made by presenting a conceptual framework of success factors of hotel franchising relationships. The model was developed based on the key issues arising from critically reviewing a wide range of related literature taking into consideration a number of previous models. The proposed model integrates the main components of the psychological contract to understand franchisors’ and franchisees’ intangible
beliefs along with the tangible phases of the hotel franchise relationship (see Figure 7.5). This model was formed as a result of exploring the beliefs, attitudes and opinions of franchisors and franchisees in multiple case studies. It also considered document analysis of hotel franchisor websites which identify important factors in the hotel franchise relationship.

### 7.3.2 Contribution to practice

The proposed model identified critical success factors which will serve as an effective tool to assist hotel franchisors and franchisees to manage their relationship effectively. It covered five main phases which were essential to optimize hotel franchise relationship (see Figure 7.5). The successful implementation of the proposed model will undoubtedly have its positive effect on hotel franchise relationship.

The study contributed to practice through exploring how franchisors and franchisees approach tangible issues in hotel franchise relationship. The study explored tangible factors affecting the relationship in each phase of the hotel franchise relationship. The study explored the factors affecting the relationship during the franchise lifecycle. The study also explored success factors in each phase of the relationship. For example, in the application phase, the franchisor should pay attention towards the franchisees financial capability. Finally, the study suggested a flowchart which illustrated the factors affecting the hotel
franchise lifecycle. This flowchart could be used by franchisor and franchisees to manage the relationship during the franchise lifecycle.

Another contribution to practice was through exploring the success factors relating to the psychological contract in the hotel franchise relationship. To date most of the studies which used the psychological contract in the social sciences had used quantitative methods. However, this study also contributed to practice through using a qualitative approach to understand the psychological contract formation in the hotel franchising. The study found that psychological contract factors should be of concern to franchisors and franchisees in order to ensure the success of their relationship. The study also found that incorporating written agreement with unwritten agreement would lead to success in the hotel franchise relationship. The study also contributed to practice through identifying major gaps between theory and practice.

Indeed, the factors in the developed model in this study are going to contribute to the UK’s hotel franchising industry in achieving the success in the hotel franchise relationships if they are properly implemented. This model can also be applied specifically in other countries as it can be updated and new elements can be added to suit different countries’ context. This model links each tangible phase of the franchise relationship with the psychological contract formation that influences it and suggests that link in the relationship is considered as motivators for building success between franchise partners. For example, in the
application phase, with regards to the tangible factors, the franchisor should look at the franchisee experience, franchisee financial capability, location, size of property, ownership structure and type of property. With regards to the intangible factors, the franchisor should share information and knowledge, express support, building loyalty, understands franchisees needs and paying a special attention to new franchisees. If franchise partners understand, analyse and implement these factors during this phase, it will provide them with a good level of satisfaction during this phase and afterwards.

This research has a major contribution to the practice through exploring satisfaction and commitment of both franchise partners during the hotel franchise relationship. However, this research suggests that the extent of the interaction between tangible and intangible relationship would lead to behavioural outcomes which are commitment and satisfaction. On the other hand, it could be concluded that the attitudinal outcomes from interaction between franchise psychological contract and hotel franchise phases would be summarized as intention of both parties to stay in the relationship.

7.4 Limitations of the research

This study comprised a comprehensive multiple case study that was conducted with hotel franchisors and a sample of their franchisees. The case studies included interviewing franchise service directors as a franchisor and the owners
as a franchisee. To achieve the second and third objectives, the franchise service directors and hotel owners were interviewed.

The first and most obvious limitation of this research is that due to temporal constraints (the research has already taken four years and has challenged the timescales allowed by the sponsors of the research); it is limited to a qualitative research approach. Many hotel franchisors and franchisees were not interested in participating in the research process. The research was limited to a sample of hotel chains which originate in the UK and US, therefore, the research was limited to an in-depth study of a relatively small number of franchisors and a sample of their franchisees as it was very difficult to get meetings with franchise service directors or hotel owners.

Although this thesis is based on multiple case studies, caution must be taken into account when generalising the findings of this research to other incidents as generalisation in qualitative research still an area of great debate. Therefore, there are still some issues which need to be investigated to enable generalisation of the model. For example, USA and other country hotel franchisor-franchisee case studies need to be investigated. In addition, the final model was proposed but does not test the appropriateness of its generalisation. A larger survey to test the generalizability of the model would be a proposed future research.
The research is limited to studying franchise relationship issues in the hotel industry only. In addition, the research had some limitations because of the data. There is still a lack of literature on the psychological contract and its implications for business relationships. Therefore, the research depends in many points on psychological contract literature in the employment relationship. The research tried to overcome on this problem through linking the psychological literature on franchising with psychological contract literature.

7.5 Opportunities for further research

Further research could examine and expand the findings of this study by conducting quantitative research. Although the qualitative approach was extensive and informative, in a field where there is a lack of literature, a quantitative component could have been beneficial to the study as it would have extended the research findings in some areas. Also, this study used the psychological contract approach with qualitative research methods. Possibly, further research could use the psychological contract model with quantitative research by using hotel franchising psychological contract measures, along with the main issues which arose in this study to build up a comprehensive questionnaire to assess franchisor and franchisee opinions regarding varied relationship issues. This would provide the opportunity to survey a large population and thus enhance the potential for generalisation.
An initial opportunity for further research would be to test the proposed model of hotel franchise relationships with franchisors and franchisees across the UK. In addition, future research could also explore other hotel chain which has different cultural origins rather than the UK and US, such as European and Asian hotel chains and thus achieve the potential for generalisation. As cultural issues in different countries may positively or negatively affect the hotel franchise relationship, the generalizability of the model from the UK context to other contexts, e.g. Egypt; Oman, is also something that can be tested.

One exciting area for further research is to build on this thesis and subject the results for critical comparisons via investigating the issue of psychological contract and tangible relationships in different situations. For instance, future research can focus on trust and its impact on each phase of the hotel franchise relationship. In addition, future research can explore the impact of competition on the hotel franchise relationship. Moreover, future research should explore the psychological contract model in other franchising businesses e.g. fashion and the fast-food industry. Future research could also use the psychological contract measure to further understand the hotel franchise lifecycle.

There is an opportunity for further in-depth research to investigate the relationship between owners and managers in franchised hotels in relation to the hotel franchise relationship. This relationship has an impact on the overall franchise relationship as indicated in the result chapters.
7.6 Personal reflections

Several issues reflected on my four year journey during the research period. It is my aspiration that the developed model for success of franchise relationships in the hotel industry, in addition to the proposed psychological measures influencing the franchise relationship, will result in implementing appropriate relationship practices specifically in the hotel industry and help in resolving relationship problems between franchise partners. I hope also that this study through its rich data will provide a valuable source for those who will carry on undertaking further research in the field of franchising in the hotel industry.

This research has really added to my knowledge and contributes effectively in developing my research skills. I have acquired knowledge which I find interesting, especially those that came up while developing the model, conducting the interviews and the search for appropriate methodology and theoretical perspective. In terms of the research theoretical stance, I learnt that franchising is a critical issue to study, especially in the hotel industry. This is because franchising had several aspects that originated from the different perspectives of authors.

I am looking forward to sharing my experiences as the knowledge and skills which I have acquired through the development of this thesis with my colleagues and students when I return back to my position as a staff member in the Faculty of Tourism and Hotels in Helwan University in Egypt.


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Appendix 1

(A letter used in the research asking the respondent to take part in the case study)
To: Sylvia Rust

Franchise Services Director
Choice Hotels International

I am a researcher at Cardiff School of Management at University of Wales Institute, Cardiff supervised by Professor Eleri Jones and Dr Claire Haven-Tang. I am researching what makes a good hotel franchisor-franchisee relationship. My research explores the hotel franchising relationships and the psychological contract and tries to develop a model of success factors of hotel franchising relationships.

I would very much like to use your hotel group as one of the case studies of my work. I need to interview you for not more than one hour to explore your experience with Choice Hotels. I would be pleased to share my results with you. All the data I collect will be anonymised and it will be handled confidentially.

I hope that you will agree to be one of my case studies and that you will let me know by replying by email (k.a.el-sayed@outlook.uwic.ac.uk). This interview will last for about 60 minutes.

Thank you for the time taken to read this letter. I look forward with anticipation to your reply.

All best wishes

Khaled El-Sayed
PhD researcher, Cardiff School of Management
University of Wales Institute, Cardiff
Appendix 2

(Semi structured interview questions with regards to hotel franchise phases)
1. What are the business background of you and the other directors of your company?

2. How many franchised hotels do you have at the moment in the UK?

3. What is the rate of growth in relation to its franchise operations?

4. What are the challenges relating to maintaining quality standards across the hotel group? How do you manage its franchise operations to protect its image?
4- How does the franchise relationship get established? What are the steps of beginning a franchise business?

5- How do they apply? How long does it take? What criteria are used to assess a potential franchisee? On what basis do you choose your franchisees-how selective are you?

6- At pre-opening phase, what support do you offer to franchisee at each stage (pre-construction assistance, financial assistance and design, development and construction assistance)? How long does it take?

7- What are IHG procedures with franchisee in opening phase? What type of assistance do you offer to the franchisee during this period? How long does it take?

8- What are your services to the franchisee after beginning the franchise? Do you offer assistance to the franchisee regarding purchasing? How can you motivate your franchisee? How do you train your franchisee? What types of training do you provide to the franchisee? To what extent do you help your franchisee in marketing?
The franchising relationship has been compared to a marriage or the child and his parent. There are courtship stages, honeymoon stages and stages of solid commitment (Nathan 2007 and Moon 2001).

Regarding the life cycle of franchise relationship, what is your opinion?

9. What makes a good relationship between franchisor and franchisee?
10. To what extent do the perceptions of you change over time? Why?
11. To what extent do the perceptions of your franchisees change over time? Why?
Does it reflect your experience with IHG with its franchisees? How long does it take between these phases?

Glee:

The franchisee is very happy with the relationship

Fee:

Although the franchisee making money, the royalty payments taking the cream off the top

Me:

The franchisee is successful, and his success is a result of his own hard work and the franchisee would be successful without franchisor help

Free:

The franchisee really don't like all these restrictions by the franchisor .the franchisee is frustrated and annoyed

See:

The franchisee guess that he can see the importance of following the system of the franchisor and he acknowledge the value of franchisor support services

We:

Franchisor and franchisee need to work together to make the most of their business relationship. The franchisee needs help in certain areas, but he also has some ideas that he wants the franchisor to consider

13- Does this life cycle reflect your experience with IHG? Could you give me a nearly scale for this life cycle?
12-What is experience do you have of hotel franchisees exiting the IHG contract?

13-What are the major reasons for a hotel leaving IHG?

14-What is your plan if the franchisees are not paying royalty or are refusing to do so?

15-What happened if the franchisees are not following your standards such as the purchase specifications?

16-How many hotels failures have been experienced by your franchisees? What steps did you take to try to solve their problems?

17-Have your company been involved in any material litigation with franchisees? If so, please provide details?

18-What about the trust, commitment and conflicts between you and your franchisee?

19-Franchisors do not want to change and is unwilling to accept new systems. What are your strategies towards this issue?

20-What are the challenges relating to maintaining quality standards across IHG? How do you manage your franchise operations to protect the IHG image?

21-Franchisee is concerned with financial issues and do not pay any attention to building good relationship with the franchisor
22-How many problems arise during this period and what are the types of these problems
23-What is the motivation from the franchisor to enter the system? And what is the motivation after entering the system
24-Franchising is a protective relationship in which the franchisor looks out for the best interests of the franchisee
25-How would you describe your overall franchisor/franchisee relationship?
26-Do you have any issues or concerns with the franchise agreement? Were there any clauses that stuck out over others that may impact your relationship with the franchisor?
27-Are you pleased with the quality of ongoing support, mentorship, and advertising campaigns provided by the franchisor?
28-Was the training the franchisor offered helpful in getting the business off the ground?
29-Is the franchisor responsive to your needs?
30-What things do you enjoy most about owning a NFWC franchise? What do you enjoy least?
31- Why you choose IHG to Join
32-How long have you been with IHG
33- Why not choosing managing your hotels by yourself
34- Under what circumstances can you end the franchise contract, and at what cost to you?
35-Did you encounter any problems with the franchisor, the site, or establishing your business and how did the franchisor respond to problems?

36- Has the franchisor responded to any of your own ideas about improving the franchise system?

37-Are there any other franchisees or former franchisees you recommend I contact?

38-Are the advertising fees reflected in the marketing support (for example, local advertising or in-store signage) that you receive?

39- Knowing what you know now, would you make this investment again?
Appendix 3

(Semi structured interview questions with regards to hotel franchise agreements and psychological contract)
1- What do you believe your franchisee is obliged to provide to you that is not covered in your formal franchising contract?
To what extent do you believe your franchisee is fulfilling this obligation?
How important do you believe this obligation is to your franchisee?
Should this obligation be recorded in your formal franchising contract?

2- What do you believe you are obliged to provide to your franchisee that is not covered in your formal franchising contract?
To what extent do you believe you are fulfilling this obligation?
How important is this obligation to you?
Should this obligation be recorded in your formal franchising contract?

3- To what extent do you believe you as a franchisor have an obligation to the following and how important is it to you personally for your franchisee to:

1. Communicate franchisor knowledge
2. Fulfil the formal franchising contract
3. Treat all franchisees fairly and equitably
4. Provide feedback on performance and other issues
5. Apply franchisor policy consistently
6. Act with integrity, staying true to its values and beliefs
7. Provide leadership and motivation
8. Express support for franchisees
9. Manage change and provide strategic direction
10. Provide professional and personal support

11. Provide personal growth and development opportunities

12. Treat franchisees with respect

4- To what extent do you believe that there is an obligation upon the franchisee to the following and how important is it to you personally:

1. Keep your franchisor informed and share knowledge

2. Stay true to your own values and beliefs

3. Be committed to the franchisor

4. Be loyal to the franchisor

5. Be committed to the success of the franchisor

6. Subscribe to the franchisor’s norms and values

7. Meet franchisor goals and performance objectives

8. Respect your franchisor

9. Maintain a balance between join and non-join activities

5- Did ___ make any promises to you when it employed you that it hasn’t kept? What were those promises? How important is that promise to you? Do you believe the promise should have been recorded in your formal franchising contract?
6- What commitments has your franchisee made to you that are not covered in your formal franchising contract?
To what extent do you believe your franchisee is honouring this commitment?
How important do you believe this commitment is to your franchisee?
Should this commitment be recorded in your formal franchising contract?

7- What commitments did you make to your franchisees that are not covered in your formal franchising contract?
To what extent do you believe you are honouring this commitment?
How important is this commitment to you?
Should this commitment be recorded in your formal franchising contract?

8- Would you be very happy to spend the rest of your business with your current franchisees?

9- Do you feel as if this franchisee’s problems are your own?

10- Do you feel like “part of the family” with this franchisee?

11- Would it very hard for you to leave this franchisee right now, even if you wanted to. Or one of the few negative consequences of leaving this franchisee would be the scarcity of available alternatives.
12- Is the franchisee offers complete systems, training, services, and technical expertise to its franchisees.

13- To what extent do you think that?

1. Is the initial training was very useful?
2. Is the amount of franchise fees/royalties was not high?
4. Is the on-going service provided by is very good?
5. Are there few franchisor restrictions?
6. are the marketing fees and advertising fees were not too much.

2. Is this support strongly considers franchisee goals and values?
4. Is this support cares about franchisee opinions?
5. Is this support is willing to help franchisees if they need a special favour or problem?

14- The following questions were designed to measure the franchisee’s perceptions of franchisor value. What do you think about the following statements?

1. Most people feel that brand name goods are usually worth the money.
2. Most people feel that well-known national brands are best.
3. Most people don’t pay much attention to brand names.
4. Most people try to stick to certain brands.
5. It is important to have well-known brands for business.

15- What do you believe your franchisee expects of you that is not written into your formal franchising contract?
To what extent do you believe you are meeting this expectation?
How important do you believe this expectation is to your franchisee?
Should this expectation be recorded in your formal franchising contract?

16- What do you expect from your franchisee that is not written into your formal franchising contract?
To what extent do you believe your franchisee is meeting this expectation?
How important is this expectation to you?
Should this expectation be recorded in your formal franchising contract?

17- What do you believe your franchisee needs from you that are not covered in your formal franchising contract?
To what extent do you believe you are meeting this need?
How important do you believe this need is to your franchisee?
Should this need to be recorded in your formal franchising contract?
18- What do you need from your franchisee that is not covered in your formal franchising contract?
To what extent do you believe your franchisee is meeting this need?
How important is this need to you?
Should this need to be recorded in your formal franchising contract?

19- These points designed to highlight the quality of the relationship. What do you think about the following?

1. I understand my franchisee problems and needs very well.
2. My franchisee recognizes my potential.
3. I have a very good joining relationship with my franchisee.
4. My franchisee is satisfied with how I operate my business.
6. I consider my opinion before making decisions that affect my area.
7. My franchisee helps me to be more effective in my franchise system

20- Some statements were modified to reflect the franchisee environment. What do you think about the following?
1. I think the territorial restrictions set in the contract agreement are reasonable.
2. The termination/renewal terms of my franchise contract are fair.
3. I often ignore my suggestions and complaints.
4. My franchisees are satisfied with my franchisee’s training program.
6. My franchisees are satisfied with the relevance of my brand name.
7. The overall relationship between franchisee and me is very satisfying.
8. I feel very little loyalty to my franchisee.
9. I would comply with almost any type of request from my franchisee in order to keep my contract.
10. I am proud to tell others that I am part of this franchise system.
11. There is not too much to be gained by sticking with my franchisee indefinitely.
12. Often, I find it difficult to agree with my franchisees polices on important matters relating to its franchisees.
13. I really care about the fate of my franchisee.
14. I am willing to put in a great deal of effort beyond that normally expected in order to help this franchisee be successful.
15. Do you trust your franchisee?
16. How important is it for you to trust your franchisee?
17. Do you believe your franchisee trusts you?
18. How important do you believe it is for your franchisee to trust you?
19. What would improve the level of trust between you and your franchisee? On your part? On franchisee’s part?
20. Do you look for a new franchisee in the near future? Or it is unlikely that you will look for a different franchisee to join for in the next year.
21. How Satisfied You Are With Your Current Franchisees?
22- If you had an opportunity to add anything to your formal franchising contract that we haven’t already discussed what would that be? How important is this to you?
Appendix 4

Assumption card used in this research
<table>
<thead>
<tr>
<th>Intangible</th>
<th>Tangible</th>
<th>Drivers for Developing a Franchise Relationship</th>
<th>Pre Application</th>
<th>Criteria for Franchise Selection</th>
<th>Application Phase</th>
<th>Pre-opening Support</th>
<th>Opening Support</th>
<th>Psychological Support</th>
<th>On-going Franchise Support</th>
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<tbody>
<tr>
<td>Education and level of experience</td>
<td>Promises</td>
<td>Obligations</td>
<td>Organisational climate</td>
<td>Location</td>
<td>Size of the franchise</td>
<td>Franchise strategy</td>
<td>Brand name</td>
<td>Trust</td>
<td>Fairness</td>
</tr>
</tbody>
</table>