

Service Quality Comparison of Franchising and Licensing Units within the Same Brand from the Customer Perspective

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Abstract

Service quality has received increasing attention over the years. Service quality is crucial for service organizations, which directly leads to customer satisfaction, customer retention, and positive word of mouth. Comparing to the robust research in service quality, little research has been shown regarding different forms of management. This research is an empirical study on the impact of different forms of management on the outcome of service quality. This study reviews the literature of service quality as well as management forms (Franchising and Licensing), and then examine how customers perceive the service quality of different management forms and how each management form affect the service delivery. In addition, if the results show differences, the study also discusses the reasons of these differences. The first section introduces the academic background describing the possible service problems have been discussed among scholars. In the second section, methodology is presented, including the 5-point Likert scale based on SERVQUAL technique. The third section presents the data; explaining the method of data collection and the significant differences in service quality between two management units: franchising and licensing. The analysis process discusses possible reasons for these differences. Lastly, some recommendations and limitations are provided to help guide for the future research.

Key Words: Service Quality; Franchising; Licensing

Introduction

Service quality has received increasing attention in both the areas of academic research and practical implementation, and it has become a strategic issue for hospitality organizations (Buttle, 1996). It is an abstract and elusive construct with four characteristics unique to services: intangibility, heterogeneity, inseparability of production and perishability (Parasuraman, Zeithaml, & Berry, 1985). Service industries are developing throughout the world, and their share of the economy is increasing every year. Studies show that service has become the leading element of the global economy over the last three decades, and most importantly service quality is a precondition for survival and success in today's increasingly heightened competitive environment (Jin, 1999). These phenomena attract new competitors to each type of service industry. Improvements in service quality will lead to customer satisfaction, customer retention, and positive word of mouth. Therefore it has become more important to assess how customers evaluate service quality.

Despite the fact that service quality has been intensively studied over the years, little empirical research has been performed on service quality regarding different management forms. The aim of this empirical study is to assess the operational performance of service quality delivery from the customer perspective and explore the reasons for the differences in the outcome of service quality between two forms of management: franchising and licensing, both under a same brand restaurant chain.

Literature Review

Service Quality and Measurement

Service quality is an abstract and elusive construct with four characteristics unique to services: intangibility, heterogeneity, inseparability of production and perishability (Parasuraman, Zeithaml, & Berry, 1985). Service quality is an overall attitude exhibited by a service firm, and customer satisfaction is specific to an individual service encounter (Parasuraman et al., 1988). Experts disagree to the role of expectation in service satisfaction. Parasuraman et al. (1988) suggest that the service quality derives from a comparison of expectations with performance perceptions. Other researchers, however, believe that SERVPERF is an effective measurement. They argue that service quality stems from perceptions of performance with ideal standards (Teas, 1993). All agree, however, that it is the customer's perception of the service that is the final determinant of success.

Though SERVQUAL received considerable criticism, it is perhaps the most often used technique; it has a significant impact on both hospitality organizations and academic research. One of the main benefits of the SERVQUAL measurement is the ability of researchers to examine numerous service industries such as healthcare, banking, financial services, and education (Nyeck, 2002). SERVQUAL provides analysis of customers' reactions in order to maximize satisfaction, and it identifies customers' priorities through use of individual dimensions. Moreover, SERVQUAL aids hospitality organizations in setting performance standards that can be clearly communicated to staff and patrons. Last but not least, SERVQUAL

helps identify discrepancies between customers' expectations and providers and their product, which can help organizations to enhance their gaps (O'Neill, 2001).

Different Forms of Management

Franchising is a hybrid form of hierarchical organization, and it is the most common governance form. This form of management contains the local units that are owned by local managers or franchisees. For the service industry, this form of management has perfect monitoring, which to great extent guarantees the service quality (Knott, 2008).

Licensing, on the other hand, is an "open loop" type of governance, which means that "a central headquarters licenses the use of priority technology or equipment to local units but does not monitor or control the behavior of these units" (Knott, 2008, p100). When problems arise, the headquarters literally does not have the right to monitor or control the behavior of the licensed stores. Therefore, service quality is hard to guarantee in licensing units. However, since there are no clear rules for which type of management forms should be appropriate; licensing is a common governance form in restaurant chains. Examples are the licensing of restaurants in places such as airports, university dining houses, and hospitals.

This study will examine the service performance of the two differently managed stores under a same restaurant chain. Based on the previous discussion, a hypothesis is as follows: there are no statistically significant differences between two forms of management in terms of service quality.

Methodology

A restaurant chain with two management forms, franchising and licensing will be selected to serve the objective of this study. Because two kinds of units share much in common such as similar menu concepts, outlook designs, and production functions; at the same time the units vary in terms of management forms, ownerships, recruitment procedures, and monitoring systems; all these comprise the variations in the outcomes of service quality.

The questionnaire will be developed using two sources: interview responses of the managers and the literature review on service quality evaluations. Specifically, based on the findings from the interviews, a questionnaire will be developed in order to examine the gap between what the company promised and how they actually performed. The survey instrument will extract the information about how customers perceive service quality from two different management types of stores based on SERVQUAL dimensions along with demographic information. The survey instrument will adopt the 5 point-Likert Scale. Then the questionnaires will be mailed to the customers, and after collect the data from the respondents, this study will analyze the data by using the inferential statistical method. The final results from this study will be discussed during the graduate conference.

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