

International Franchise or Local Brand Management? A Comparative Analysis of Strategic Partnership Models for Three- and Four-Star Hotels in Indonesia

¹Dino Gustaf Leonandri , Institute Pariwisata Trisakti , Indonesia

²Wala Erpurini, Universitas Jenderal Achmad Yani, Indonesia

³Nuralamsyah, Universitas Informatika & Bisnis Indonesia, Indonesia

Email: walaerpurini@mn.unjani.ac.id

Keywords:

International franchising; Local brand management; Hotel partnership models; Strategic decision-making; Three- and four-star hotels

Abstract

Purpose: This study aims to comparatively analyze the strategic partnership models of international franchising and local brand management contracts in three- and four-star hotels in Indonesia. The research seeks to examine which model provides greater strategic, financial, and operational advantages from the perspective of hotel owners. The study is guided by the assumption that different branding partnerships generate distinct implications for performance, cost structure, market positioning, and long-term sustainability. **Methods:** This research employs a qualitative comparative design. Data were collected through in-depth semi-structured interviews with hotel owners and executive managers of three- and four-star hotels operating under international franchise agreements and local brand management contracts in major Indonesian cities. The sampling technique used purposive sampling to ensure participants had direct decision-making authority regarding partnership selection. Data were analyzed using thematic analysis, involving coding, categorization, and cross-case comparison to identify patterns in strategic considerations, financial performance perceptions, brand leverage, operational autonomy, and contractual risk. **Results:** The findings reveal that international franchise models tend to provide stronger brand recognition, standardized operational systems, and broader access to global distribution networks, but involve higher fees and reduced managerial flexibility. Conversely, local brand management contracts offer greater operational autonomy, lower financial obligations, and better adaptation to domestic market characteristics, although brand equity and international market penetration are comparatively limited. The choice of partnership model is strongly influenced by ownership objectives, capital structure, target market segmentation, and long-term growth strategy. **Implications:** The study provides practical insights for hotel owners, investors, and policymakers in evaluating strategic partnership options within Indonesia's mid-scale hospitality sector. The findings suggest that partnership decisions should align with the hotel's strategic orientation, financial capacity, and competitive positioning. Future research is recommended to incorporate quantitative performance indicators and longitudinal analysis to measure the long-term financial and operational impact of each partnership model.

INTRODUCTION

The rapid expansion of Indonesia's mid-scale hospitality sector has intensified competition among three- and four-star hotels. In this competitive environment, hotel owners face a strategic dilemma in selecting the most appropriate partnership model to enhance competitiveness, operational efficiency, and financial sustainability. The primary practical problem lies in determining whether international franchising or local brand management contracts provide

superior strategic value for hotel owners. While international franchises are often associated with strong brand equity, standardized systems, and global distribution networks, they also involve high royalty fees and strict operational controls. Conversely, local brand management contracts may offer greater flexibility and cost efficiency but may lack global recognition and standardized quality assurance. This strategic choice has significant implications for profitability, brand positioning, and long-term growth.

From a theoretical perspective, partnership strategy in the hospitality industry is frequently examined through resource-based theory and transaction cost economics. International franchising is commonly viewed as a mechanism to leverage brand reputation, operational know-how, and global reservation systems, thereby reducing market uncertainty. Meanwhile, management contracts—particularly under local brands—emphasize relational governance, contextual adaptation, and cost efficiency. However, the effectiveness of these models remains contingent upon market characteristics, ownership objectives, and institutional conditions.

Recent studies have explored franchising strategies and hotel performance across various countries, highlighting the advantages of global brand affiliation in increasing occupancy rates and revenue per available room (RevPAR). Other studies emphasize that management contracts provide operational flexibility and stronger local market adaptation, particularly in emerging economies. In Southeast Asia, research indicates that brand reputation significantly influences customer trust and booking behavior. Nevertheless, empirical findings remain inconclusive regarding whether international branding consistently results in superior financial outcomes for mid-scale hotels.

Furthermore, prior research tends to focus predominantly on large-scale or luxury hotels, with limited attention to three- and four-star segments in emerging markets such as Indonesia. Many quantitative studies emphasize financial performance indicators while overlooking qualitative strategic considerations from the owners' perspective. There is also a tendency to analyze franchising and management contracts separately rather than comparatively. As a result, existing literature does not fully capture how hotel owners evaluate trade-offs between global brand advantages and local brand flexibility within the specific institutional and market context of Indonesia.

Based on this review, a clear gap emerges between existing international evidence and the contextual realities of Indonesia's mid-scale hotel sector. Few studies provide a qualitative comparative analysis that directly examines international franchising and local brand management contracts from the standpoint of hotel owners as key decision-makers. This study seeks to address that gap by offering an in-depth exploration of strategic considerations, perceived financial implications, operational control, and long-term sustainability associated with each partnership model.

Accordingly, this research asks: (1) What are the strategic and financial considerations influencing hotel owners in choosing between international franchising and local brand management contracts? (2) Which partnership model is perceived to provide greater advantages for three- and four-star hotels in Indonesia? The objective of this study is to comparatively analyze the two partnership models and evaluate their strategic implications for hotel performance and sustainability. The novelty of this research lies in its qualitative comparative approach within Indonesia's mid-scale hotel segment, integrating strategic, financial, and governance perspectives to provide a more comprehensive understanding of partnership decision-making in the hospitality industry.

METHODS

This study employed a qualitative comparative research design to examine the strategic considerations underlying the selection of international franchising or local brand management contracts in three- and four-star hotels in Indonesia. The qualitative approach was chosen because the research seeks to understand decision-making processes, strategic evaluations, and perceived advantages from the perspective of hotel owners, which cannot be adequately captured through purely quantitative indicators. A comparative design was considered appropriate to systematically identify similarities and differences between the two partnership models within a real business context.

The population of this study consisted of three- and four-star hotels operating under either international franchise agreements or local brand management contracts in major Indonesian cities. The research subjects were hotel owners, investors, or top-level executives directly involved in strategic partnership decisions. A purposive sampling technique was applied to ensure that selected participants had relevant experience and authority in determining brand affiliation. The inclusion criteria required respondents to (1) represent independently owned hotels rather than chain-owned properties, (2) have operated under the selected partnership model for at least two years, and (3) be directly involved in contractual or strategic evaluation processes. This sampling approach was deemed appropriate to obtain in-depth and reliable information.

Data were collected through semi-structured in-depth interviews conducted either face-to-face or via online meeting platforms. An interview guide was developed based on key research variables, including strategic objectives, financial considerations (such as fee structures and revenue performance), operational control, brand leverage, market access, risk-sharing mechanisms, and long-term sustainability. The instrument was pilot-tested with two hospitality practitioners to ensure clarity and relevance. Interviews were recorded with participants' consent and transcribed verbatim to maintain accuracy. Supporting documents such as company profiles, partnership contracts (when accessible), and performance summaries were used as supplementary materials to enhance data credibility.

The data recorded consisted primarily of narrative responses describing strategic reasoning, perceived financial impacts, operational experiences, and partnership outcomes. To ensure data precision, follow-up questions were asked to clarify numerical estimates (e.g., approximate fee percentages, occupancy trends, or revenue growth perceptions) where applicable. Field notes were also documented to capture contextual observations.

Data analysis was conducted using thematic analysis. The procedure involved data familiarization, open coding, categorization, theme development, and cross-case comparison

between hotels using international franchises and those using local brand management contracts. Coding was performed systematically to identify recurring patterns related to strategic benefits, financial implications, operational autonomy, and perceived performance outcomes. To enhance reliability, member checking was conducted by sharing summarized findings with selected participants for validation. The analytical process was organized sequentially to allow replication and transparency.

Overall, the research design, sampling strategy, data collection procedures, and analytical techniques were structured to ensure clarity, rigor, and replicability while remaining appropriate for qualitative inquiry in the hospitality business context.

RESULTS AND DISCUSSION

Respondent Characteristics

The study involved 12 key informants consisting of hotel owners and top-level executives from three- and four-star hotels in Indonesia. Six hotels operated under international franchise agreements, while six operated under local brand management contracts. The respondents had between 5 and 18 years of experience in hotel ownership or executive management. All participants were directly involved in strategic partnership selection and contractual evaluation processes.

Geographically, the hotels were located in major tourism and business destinations, including Jakarta, Bandung, Surabaya, Yogyakarta, and Bali. The average operational period under the selected partnership model ranged from 2 to 10 years.

Table 1
Respondent Profile

Code	Hotel Category	Partnership Model	Position	Years of Operation
IF1	4-Star	International Franchise	Owner	8
IF2	3-Star	International Franchise	Director	5
IF3	4-Star	International Franchise	Owner	10
IF4	3-Star	International Franchise	GM/Owner Rep.	6
IF5	4-Star	International Franchise	Investor	7
IF6	3-Star	International Franchise	Owner	4
LB1	4-Star	Local Brand Management	Owner	9
LB2	3-Star	Local Brand Management	Director	6
LB3	4-Star	Local Brand Management	Owner	12
LB4	3-Star	Local Brand Management	GM/Owner Rep.	5
LB5	4-Star	Local Brand Management	Investor	18
LB6	3-Star	Local Brand Management	Owner	7

Source: Data processed by author

Strategic Considerations in Partnership Selection

The analysis identified four major themes influencing partnership selection: brand

leverage, financial structure, operational control, and market access.

Hotel owners choosing international franchises emphasized global brand recognition and standardized operational systems. Several respondents stated that international brands facilitated stronger trust among corporate clients and online travel agents. One respondent explained:

“With an international brand, the market already recognizes the name. It reduces our effort in building credibility from zero.” (IF3)

In contrast, owners choosing local brand management highlighted adaptability and contextual flexibility. A respondent noted:

“Local brands understand domestic traveler behavior better. We can adjust pricing and promotions more freely.” (LB2)

Operational autonomy emerged as a significant distinction. International franchise operators reported stricter compliance requirements related to service standards, procurement systems, and reporting procedures. Meanwhile, local brand management allowed more discretion in staffing, supplier selection, and marketing strategy adjustments.

Financial Implications of Partnership Models

Financial considerations were central in decision-making. International franchise agreements typically required royalty fees, marketing contributions, and system fees ranging from approximately 5.00% to 10.00% of gross revenue, depending on contract structure. Respondents acknowledged that while these fees were substantial, they were perceived as justified by higher occupancy stability and stronger average daily rates (ADR).

One owner stated:

“The fees are high, but occupancy is more stable, especially from international segments.” (IF1)

Conversely, local brand management contracts involved lower fixed fees and more negotiable revenue-sharing schemes. Owners reported reduced financial pressure during low seasons. However, several respondents admitted that brand-driven pricing power was relatively limited compared to international chains.

Perceived Performance Outcomes

Regarding performance outcomes, international franchise hotels reported stronger access to global distribution systems and loyalty programs. This was perceived to increase repeat bookings and international guest proportions. However, some respondents expressed concerns about reduced flexibility in responding to local market fluctuations.

Hotels under local brand management reported stronger domestic market penetration and greater agility in promotional strategies. Respondents indicated quicker decision-making processes and lower bureaucratic constraints.

Overall, cross-case comparison shows that partnership effectiveness depends on ownership objectives. Owners prioritizing brand prestige and global exposure tended to favor international franchises, while those emphasizing cost efficiency and operational flexibility preferred local brand management.

DISCUSSION

The findings of this study demonstrate that the choice between international franchising

and local brand management contracts in three- and four-star hotels in Indonesia is primarily contingent upon strategic alignment rather than a universally superior model. The claims presented in this section are grounded in the empirical themes identified in the results, including brand leverage, financial structure, operational control, and market access.

From a Resource-Based View (RBV) perspective, international franchising enables hotel owners to access intangible strategic assets such as brand equity, standardized operating procedures, and global reservation systems. These resources are valuable, rare, and difficult to imitate, thereby strengthening competitive positioning. (Ghantous & Das, 2018). This finding is consistent with (Rezaei, 2025) who argue that global hotel alliances facilitate the transfer of strategic capabilities across borders. Similarly, (O'Neill & Xiao, 2006) find that brand affiliation positively influences hotel market value. The present study supports these arguments, particularly in relation to occupancy stability and international market penetration.

However, the findings also reveal that higher royalty fees and strict operational controls may reduce managerial flexibility. (Islam, 2024) This observation aligns with Transaction Cost Economics (TCE), which emphasizes that franchising involves formal contractual governance to mitigate opportunistic behavior but increases monitoring and compliance costs (Tsai, Kuo, & Lin, 2020) In this regard, the study neither fully contradicts nor fully confirms previous theories; rather, it contextualizes them within Indonesia's mid-scale hospitality segment. (Kilson, 2025)

Conversely, local brand management contracts were found to provide greater operational autonomy and financial flexibility. (Zhang, Lawrence, & Anderson, 2015) This result supports A (Toylan, Semerciöz, & Hassan, 2020), who emphasizes the importance of relational governance and local adaptation in hospitality partnerships. The flexibility to adjust pricing, staffing, and promotional strategies reflects lower hierarchical control mechanisms and stronger contextual embeddedness. (Santangelo, Dellestrand, & Andersson, 2019) In emerging markets, adaptability can serve as a strategic advantage, especially during demand fluctuations. (Ze & Loang, 2025)

Interestingly, the findings challenge the assumption that international branding automatically guarantees superior performance. (Pecotich & Ward, 2007) While respondents acknowledged global visibility advantages, they also emphasized that profitability depends on market segmentation and ownership objectives. (Tojiri, 2023) This nuance extends earlier studies that predominantly highlight the performance benefits of global brands (Gerschewski, Rose, & Lindsay, 2015) In the Indonesian context, cost efficiency and agility appear equally critical in sustaining mid-scale hotel performance. (Salam, Raharjo, Arifin, & Iqbal, 2026)

Overall, the study advances scientific knowledge by integrating RBV and TCE perspectives within a qualitative comparative framework. Rather than treating franchising and management contracts as isolated governance structures, this research demonstrates that partnership effectiveness is relational and context-dependent. The findings suggest that governance choice in hospitality management should be analyzed as a strategic fit between resource access, control mechanisms, and market orientation.

Strategic Trade-Offs in Partnership Models

A key synthesis emerging from the analysis is the presence of strategic trade-offs. International franchising offers stronger brand signaling and access to loyalty programs, which enhance trust and international bookings. However, these benefits are accompanied by higher fixed financial commitments. Local brand management reduces financial rigidity but requires stronger internal marketing capabilities to build brand recognition.

As one respondent noted:

“The international brand gives us immediate credibility, but we sacrifice some flexibility in pricing and procurement.” (IF4)

Meanwhile, a local-brand operator stated:

“We can move faster with local management because decisions do not require approval from a regional office.” (LB5)

These narratives reinforce that governance structure directly influences decision-making speed and cost allocation. The claims are supported by cross-case comparisons and align with theoretical expectations that centralized governance increases standardization while decentralized governance increases adaptability (Gheduzzi, Cui, Picco, Segato, & Osborne, 2025)

Theoretical Implications

The study contributes to hospitality governance literature in three main ways. First, it contextualizes global franchising theory within Indonesia’s mid-scale segment, which has received limited empirical attention. Second, it demonstrates that brand equity alone does not determine partnership superiority; instead, financial structure and managerial control significantly shape outcomes. Third, it highlights that governance decisions in emerging markets must account for domestic consumer behavior and cost sensitivity.

Thus, the discussion confirms certain aspects of previous international findings while extending them through contextual and qualitative depth. The evidence suggests that partnership strategy should be evaluated through a multidimensional lens integrating resource access, transaction costs, and market adaptability.

CONCLUSION

This study comparatively examined international franchising and local brand management contracts in three- and four-star hotels in Indonesia from the perspective of hotel owners. The findings indicate that the selection of partnership models is contingent upon strategic priorities, financial capacity, and target market orientation. International franchise agreements tend to provide stronger brand equity, standardized operational systems, and access to global distribution networks, which contribute to perceived occupancy stability and international market reach. However, these advantages are accompanied by higher royalty fees and stricter operational controls.

Conversely, local brand management contracts offer greater operational flexibility, lower financial obligations, and stronger adaptability to domestic market conditions. While brand recognition and international exposure may be relatively limited compared to global chains, local models enable quicker decision-making and cost efficiency, particularly in fluctuating market conditions.

The study contributes to the hospitality management literature by providing a qualitative comparative perspective focused on the mid-scale hotel segment in an emerging market context. Unlike prior studies that predominantly emphasize quantitative performance indicators or luxury hotel chains, this research integrates strategic, financial, and governance considerations from the owners’ standpoint. Therefore, the findings extend existing knowledge on partnership strategy by demonstrating that the superiority of a particular model cannot be universally generalized but depends on ownership objectives and contextual alignment.

Nevertheless, this study has several limitations. First, the sample size was limited to 12 hotels, which restricts broad generalization. Second, the findings rely primarily on perceptual and experiential data rather than audited financial performance metrics. Third, the research focuses solely on Indonesian cities and may not fully represent other emerging markets with different institutional environments.

Recommendations

Based on the findings, hotel owners and investors are advised to align partnership decisions with long-term strategic orientation, capital structure, and target market segmentation rather than relying solely on brand prestige considerations. Policymakers and tourism authorities may also consider supporting capacity-building programs for local brands to enhance competitiveness within the mid-scale hotel sector.

For future research, it is recommended to incorporate quantitative financial indicators such as occupancy rate, ADR, RevPAR, and profitability ratios to measure performance differences more objectively. Longitudinal studies are also suggested to assess the long-term sustainability of each partnership model. Additionally, comparative research across multiple Southeast Asian countries may provide broader regional insights into governance structures and brand strategies in emerging hospitality markets.

REFERENCE

- Gerschewski, S., Rose, E. L., & Lindsay, V. J. (2015). Understanding the drivers of international performance for born global firms: An integrated perspective. *Journal of World Business*, 50(3), 558–575.
- Ghantous, N., & Das, S. S. (2018). International franchising and performance: a resource-based perspective. *International Journal of Retail & Distribution Management*, 46(8), 744–763.
- Gheduzzi, E., Cui, T., Picco, M., Segato, F., & Osborne, S. (2025). What Drives the Centralization or Decentralization of Network Governance? A Configurational Analysis in Different Health and Social Care Networks. *Public Administration*.
- Islam, M. R. (2024). How to achieve financial flexibility: The role of corporate governance. *Journal of the Knowledge Economy*, 15(2), 6541–6577.
- Kilson, G. A. (2025). Optimizing Employee Attraction and Retention in Hospitality and Tourism: A Systematic Review of Employer Branding Research. *Administrative Sciences*, 15(5), 153.
- O'Neill, J. W., & Xiao, Q. (2006). The role of brand affiliation in hotel market value. *Cornell Hotel and Restaurant Administration Quarterly*, 47(3), 210–223.
- Pecotich, A., & Ward, S. (2007). Global branding, country of origin and expertise: An experimental evaluation. *International Marketing Review*, 24(3), 271–296.
- Rezaei, M. (2025). Unlocking knowledge transfer dynamics across borders: key drivers in international strategic alliances. *Journal of Knowledge Management*, 29(8), 2497–2517.
- Salam, R., Raharjo, K., Arifin, Z., & Iqbal, M. (2026). Antecedents of business resilience in hospitality industry: the role of organizational learning and innovation capability. *Cogent Social Sciences*, 12(1), 2603573.
- Santangelo, G. D., Dellestrand, H., & Andersson, U. (2019). Institutional antecedents of subsidiary external embeddedness: Coping with regulatory competitive constraints. *Long Range Planning*, 52(4), 101851.
- Tojiri, Y. (2023). Product Differentiation Strategy for Organizational Financial Profitability: Enhancing Market Share and Profitability-A Comprehensive Literature Review. *Atestasi:*

Jurnal Ilmiah Akuntansi, 6(2), 856–876.

- Toylan, N., Semerciöz, F., & Hassan, M. (2020). Knowledge sharing in strategic alliance relationships: An empirical research on hotels in Turkey. *European Journal of Tourism Research*, 24, 2403.
- Tsai, F.-S., Kuo, C.-C., & Lin, J. L. (2020). Knowledge Heterogenization of the Franchising Literature Applying Transaction Cost Economics. *Economies*, 8(4), 106.
- Ze, Y., & Loang, O. K. (2025). Strategic Flexibility in Investment Portfolios: Adapting to Technological Advancements and Market Volatility in Emerging Economies. In *Unveiling Investor Biases That Shape Market Dynamics* (pp. 251–272). IGI Global Scientific Publishing.
- Zhang, J. J., Lawrence, B., & Anderson, C. K. (2015). An agency perspective on service triads: Linking operational and financial performance. *Journal of Operations Management*, 35, 56–66.