Matching franchisor-franchisee roles and competencies

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Executive Summary

This article develops a model to understand the roles and contributions franchisors and franchisees made to the franchisor-franchisee relationship, as well as the competencies and qualities each party needs to possess in order to play their respective roles effectively. The model was developed by understanding the motivations for franchisors and franchisees to enter into the franchising relationship.

Literatures and pilot interviews suggest that franchisors franchised their business as opposed to expanding via corporate expansion because they view franchisees as a source of capital for expansion as well as a good source for motivated and committed labour. Franchisees, on the other hand, preferred to be part of a franchise system as opposed to be part starting up their own individual business because of the well-known brand name and the support services provided by franchisors. As such, franchisors need to possess vast experience in the industry and business, as well as strong market knowledge, possess the relevant management skills and right attitudes so as to successfully guide franchisees. Franchisees will need to have sufficient capital for the business as well as having a positive attitude to learning and acquiring new skills, as well as being willing to work hard to ensure success of the business.

Keywords

Franchising relationship, competencies, qualities, roles
Matching franchisor-franchisee roles and competencies

Introduction

Franchising has grown dramatically in Australia since its humble beginnings. In 2002, approximately 700 franchise systems existed in Australia, operating a total of 49,700 franchised units. Some 92 percent of these systems are Australian based franchises (Frazer and Weaven 2002). However, the franchising sector is increasing at a decreasing rate, therefore suggesting that the sector might be reaching maturity.

The relationship between a franchisor and franchisee is special, and therefore different from most business relationships (Mendelsohn 1999). Franchising makes it possible to gain a competitive edge through sharing of knowledge and resources (Nathan 1999), where the franchisor provides the knowledge of running the business and the franchisee provides the labour and capital resources to conduct the business. As such, it is essential that both partners contribute towards building a satisfactory franchisor-franchisee relationship. However, each party views the relationship from a unique perspective. Franchisors tend to rely on the contractual arrangement whereas franchisees operate at a more personal level (Covatta 1992), thus affecting the roles played in the partnership and the degree of power and control exerted. Therefore, this paper explores the roles undertaken and the competencies expected of franchisors and franchisees in achieving high levels of satisfaction in their relationships.

Incentives for franchisors

To determine what factors influence a franchisors’ level of satisfaction, we have to first understand what motivates a franchisor to enter franchising. Agency theory provides a useful framework as a means of explaining the nature of the franchising relationship.

Agency theory has been used by many scholars to explain a dyadic relationship where one party (the principal) depends on another party (the agent) to undertake some action on the principal’s behalf (Sharma 1997). This relationship is usually governed by a contract.
Specifically, in franchising, the franchisor is the principal who delegates work to the franchisee (the agent) who in turn carries out the work. The governing contract in this instance is the franchise agreement, which specifies the roles and responsibilities of each party.

Agency theory is useful in situations where two parties are interdependent and cooperative, yet rationally may pursue different, even contradictory goals (Lasser and Kerr 1997). It provides valuable insights into the reasons for the control problems and how to develop strategies to enhance the performance of the franchisor-franchisee relationship. Agency theory is appropriate in the study of franchisor-franchisee relationships because it focuses on the economic motives operating within a relationship, that is, risks and incentives. In addition, this theory is particularly useful for firms that are geographically dispersed, as it emphasises the importance of the information transfer process, information asymmetry problems and associated monitoring costs (Doherty and Quinn 1999).

In situations where franchisees are physically remote from the franchisor, monitoring of the performance and behaviour of franchisees is more difficult. In such situations, franchisors devise control mechanisms that give franchisees incentives to operate efficiently, thereby avoiding shirking and excessive consumption of leisure. These mechanisms are devised in such a way that franchisors and franchisees both stand to benefit. The simplest way to motivate a franchisee is to provide a share of the profits from the business (Rubin 1978). Then, the franchisee will work hard, and be efficient because any leisure consumed will clearly be worth the true cost. However, the franchisor would not want to pay more than is necessary and therefore a franchise fee is imposed. The franchisee pays for the right to run the business and collect some of the profits from it for a specific period of time.

In that sense, franchisees provide franchisors with an opportunity to expand their network with minimal capital and labour problems, as franchisees provide the capital and labour for the business, while using the same trade mark and business name of the franchisor.
(Caves and Murphy 1976, Ozanne and Hunt 1971, Oxenfeldt and Kelly 1969). Because franchisees have a stake in the business, they are motivated to expend greater effort. Franchising provides a means of reducing monitoring costs by converting investors into residual claimants. Therefore, franchisees provide franchisors with opportunities for a more rapid and diversified expansion, and thus reduced risk and investment.

**Incentives for franchisees**

We now consider the attractions for aspiring business owners to be part of a franchise system. Although a large number of new small businesses are formed every year (Finnerty and Krzystofik 1985), there are a number of barriers preventing individuals from pursuing their desire to form a new business, such as the general market environment, the financial and tax climate, personal objectives and responsibilities, and lack of business experience. In terms of financial barriers, newly formed SMEs have problems attracting investment money, customers and competent personnel (Zimmerman 1997).

These barriers to entry for SME set-ups result in many potential entrepreneurs viewing franchising as an attractive alternative, because the experienced franchisor assists with the business start-up, provides training, and offers a higher chance of success due to the well-recognised brand name and well-received product (Hoffman and Preble 1991). When aspiring business owners compare the options of franchising versus independent business ownership, an important consideration is the relative risk of business failure (Castrogiovanni, Justis and Julian 1993). Many studies have shown that franchising generally has a higher rate of success when compared to independent SMEs (Castrogiovanni, Justis and Julian 1993), although findings are mixed due to methodological differences employed in the studies (Bates 1995). Nevertheless, aspiring entrepreneurs choosing to become franchisees certainly expect to improve their odds of survival over the turbulent early years of business start-up.
In addition, franchisees choose to join a franchise system as opposed to setting up their own business, in the process trading off some of their independence and entrepreneurial spirit, because they place importance on the support services provided by franchisors (Hunt 1977). The level and range of support services provided varies in particular phases of the franchising relationship. For instance, franchisees typically require more assistance at the early stage of the relationship (Nathan 2000). Similarly, the value placed on support services and other benefits of franchising vary according to the franchisee’s prior exposure to self-employment (Kaufmann and Stanworth 1995).

Many studies have been carried out to assess the range of support services desired by franchisees. One of the most potent advantages of franchising is the opportunity of belonging to a large chain (Hunt 1977, Peterson and Dant 1990) with well-established trade-names and trade-marks (Hough 1986), yet at the same time being an independent business person (Knight 1986). As well, franchisors are there to provide pre-opening and post-opening assistance. Other prominent benefits of franchising to franchisees include training, national advertising and promotion, product/service research and development (Mendelsohn 1999), professional management and economies of scale (Fulop and Forward 1997).

**Roles played by franchisors**

By providing a range of support services for franchisees, franchisors play a number of roles in the relationship. These include:

**Consultant.** Consultant is a term used to describe experts who are there to assist in a wide variety of purposeful interventions, in which some combination of problem-solving, decision-making and meaningful organisational development takes place (Buchheit 1995, Chornoboy and Gardner 1990). Consulting activity is still widely perceived as a series of relatively simple sequential steps concerning content, process and procedure, and responses to the intervention process (Kubr 1992). Process consultants place emphasis on helping members
of the organisational client system to help themselves. It is a developmental activity for facilitation intervention to accomplish agreed goals, as well as to improve the client’s ability to anticipate and solve similar and novel problems in the future (Stumpf and Longman 2000). In fact, the role of the franchisor as a consultant can be likened to the partner-manager concept of services marketing, where franchisors assist franchisees in the operation of the business, such as start-up assistance and on-going advice and administration support, up to a stage when the franchisees are familiar with the business, and may therefore rely less on the franchisor.

**Mentor.** Mentors are people who are well respected for their work ethic, integrity and capabilities. They are people to whom the protégé can relate and trust (Awaya, Mc-Ewan, Heyler, Linsky, Lum and Wakukawa 2003). Mentors provide *clarity*. They help their protégés understand how to function within a workplace (Clarke and Alleyne 2003). Indeed, the mentor-protégé partnership is a unique relationship characterised by sharing of expertise, offering moral support and knowing when to help (Awaya et al 2003). There are formal and informal mentoring processes (Waters, McCabe, Kiellerup and Kiellerup 2002). A lot of mentoring in organisations is developed informally due to physical proximity and regular interaction that occurs between the mentor and protégé (Kram 1985).

However, mentoring in new business start-ups such as franchising is usually formal by nature and the mentor is often external to the protégé’s business. Such relationships may therefore be lacking in familiarity, closeness and trust, as there is a greater physical distance and fewer regular contacts between the mentor and protégé (Raggins and Cotton 1999). Further, it is important that the mentor has vast business experience and technical expertise in the business (Waters et al 2002). Similarly, franchisors should run pilot operations prior to commencing franchising before attempting to impart their knowledge and expertise on franchisees (Justis and Judd 2002).
**Manager / Employer.** Similar to employers in large organisations, franchisors draw up organisational policies, operational manuals to enable franchisees to conduct their business within a defined framework, and provide training for franchisees to acquire appropriate knowledge and skills. In addition, franchisors are responsible for maintaining quality standards across the franchise system (Mendelsohn 1999) in a similar manner to a corporate manager’s role. Indeed, franchisors exercise a high degree of control over their franchisees who have been described as the ‘controlled self-employed’ (Felstead 1992, p. 259).

**Entrepreneur.** Franchisors are generally regarded as entrepreneurs. They are far-sighted, able to visualise opportunities and take risks in investments, and are innovative. For instance, it takes an innovative person to create new products or services, and a lot of determination to and vision to build the business empire from a humble base. Franchising has been described as an ‘entrepreneurial partnership’ (Kaufmann and Dant 1998, p. 11) because of the challenges that franchising poses and the synergies achieved by combining franchisor and franchisee forces.

**Roles played by franchisees**

Franchisees have corresponding roles to play in order to facilitate an effective franchisor-franchisee relationship:

**Client.** The franchisor-franchisee relationship is similar to a consultant-client relationship. The franchisor plays the role of a consultant to the franchisee by providing professional industry and business advice. In turn, franchisees pay fees for this ‘service’. In this situation, client and consultant are keen to achieve the same objectives (Kubr 1992), that is, the franchisor and franchisee should be working towards similar goals and objectives for their mutual benefit. However, there may be situations where the client and consultant may look differently at both the expected outcome and the ways of carrying out the assignment (Kubr 1992). For instance, the franchisee may be more interested in activities that are beneficial for
his or her own franchise only, and might decide to reduce quantity or quality in order to increase profits for the business. However, the franchisor will be looking at the bigger picture, and require all franchisees to produce goods and services of standard quality and quantity, so as to achieve an identity as a chain, and to achieve uniformity across the chain.

The consulting process is a joint activity between the franchisor and franchisee (Kubr 1992). Therefore, franchisees need to play their part of a competent client in order to receive full benefit of the services of the franchisor consultant. Clients often have to participate in the production and delivery of the services they consume (Bowen and Cummings 1990). For instance, franchisees need to act as “co-producers” (Bowen and Cummings 1990, p. 5) by clearly describing the problems they are facing in running the franchise business before the franchisor is able to provide them with the solutions to their problems. Also, franchisees must be willing to learn and adapt in order to improve the operations of the business.

Protégé. Whilst the mentor is there to guide and assist a protégé in the learning process, the protégé is responsible for his or her own learning (Clarke and Alleyne 2003). As such, a protégé needs to possess strong initiative and motivation, and be keen to pick up new skills and knowledge. The mentor and protégé need to have a deep understanding of each others’ responsibilities (Colwell 1998). Hence, mutual trust and respect are necessary requirements for the growth of the mentoring relationship. Furthermore, mentoring arrangements thrive when people are compatible and well suited, and they participate voluntarily.

Employee. A franchisee must be able to work within set guidelines, just as an employee is required to work within an organisation’s rules and policies. Whilst franchising is often promoted as a means of ‘buying a job’ and the franchisor and franchisee resemble employer-employee, the relationship is more aptly described by the well-used slogan ‘work for yourself, but not by yourself’. Thus, franchising is a means of achieving a sense of independence within an employment-type relationship.
SME entrepreneur. As an SME owner, the franchisee needs to possess an entrepreneurial spirit and innovative mind. Although franchisors usually provide marketing, research and development services, it is helpful if the individual franchisee is able to understand the customers in his or her territory and make suggestions to target local marketing and product offerings (Kaufmann and Dant 1998).

Competencies required of franchisors

Since franchisors are providing a wide range of services to franchisees, they need to possess certain competencies in order to be able to carry out those support services and roles successfully. These competencies include experience, knowledge, skills and attitudes.

Experience. Experience affects the consulting, mentoring and entrepreneurial capability of the franchisor. Many occupations such as finance, production, personnel, marketing and sales provide franchisors with relevant skills for performing these activities. Experience in sales and marketing is particularly important and relevant for franchisors in the retail industry. Prior work experience in management positions allows entrepreneurs to acquire numerous useful and critical management skills such as negotiation and problem solving skills, planning, organising, production and management skills (Barkham 1994). Furthermore, strong exposure in the industry provides the entrepreneur with foresight to identify opportunities and crises (Hill 2001). It also provides the entrepreneur with strong operational skills, although some may argue that the need for technical skill becomes less important as managers move up the management hierarchy in an organisation (Miller 1998).

Knowledge. Similar to SME owners/managers and employers, franchisors need to possess extensive knowledge about the industry in which they are operating, especially strengths and weaknesses of the business, understanding of competitors and detailed knowledge about customer tastes, location and spending power (Barkham 1994). It is crucial that
franchisors understand their target markets well, and have good knowledge of customers’ needs and wants.

In brief, it is important for franchisors to be well educated, or at least to continually upgrade their knowledge and skills, because the business is dynamic and therefore constantly changing. Franchisors should also have vast exposure in a managerial position prior to setting up their own businesses, or prior to franchising, and to be in the business long enough to acquire sound business skills in the area of marketing, human resources and financial management, as these are critical skills required for the development of any complex organisation (Weinrauch 1986).

**Skills.** Franchisors need both tangible skills such as managerial and technical skills (O’Driscoll and Eubanks 1993), and intangible qualities such as human skills (Sorohan 1996), superior communication skills, personal motivation and influence skills (Franco 1991).

First, consider *managerial skills*. These can be broken down into six main areas such as planning (Hemphill 1959), organising and co-ordinating (Gulick and Urwick 1937), directing (Sayles 1964), controlling, decision making and resources allocation (Mintzberg 1973). In fact, planning, organising and directing are three of the oldest traditional functions of managerial skills (Gulick and Urwick 1937).

There is also a need for *technical and operational skills* that will reduce as a manager climbs the corporate ladder (Katz 1955). However, in SMEs, where there is no clear segmentation of job scope and/or different persons for various management roles, the owner/manager should have a good understanding of how various technical work is being carried out, and the types of operational skills required. The owner/manager should also have good knowledge of the various facilities and equipment needed for easing the path to work goals (Odiorne 1991).

Next, consider *business skills*, which are essentially skills such as:
1. foresight - the ability to select a suitable location for franchisees
2. human resources skills – the ability to recruit and select appropriate franchisees and employees
3. marketing and promotion skills – so as to provide marketing and advertising support for the entire franchise system
4. administrative and financial skills – the ability to provide accounting and administrative support to franchisees
5. research and development skills – in order to launch new products and services as required by the changing needs and wants of consumers

In addition, franchisors should also be able to demonstrate excellent business skills such as marketing strategies, selling and purchasing competencies, merchandising, human resources and financial management skills (Weinrauch 1986), as well as research and development knowledge.

Intangible qualities involve human skills that include leadership and interpersonal skills. Franchisors should be able to provide clear and positive leadership to franchisees (Nathan 2000). This includes defining and sharing the vision for the franchise network, specifying short- and long-term goals with respect to market share, product development, service delivery and other marketing issues. Good interpersonal skills which include effective interactions with franchisees are important to motivate franchisees and influence them to work harder and share the goals and visions of the franchise network. Indeed, sound interpersonal skills have been found by many researchers to be the key to effective relationships (O’Driscoll and Eubanks 1993, Esper 1990, Kellogg 1984).

Finally, franchisors also need to possess sound communication skills so as to effectively conduct counselling or handle conflict when the need arises. Communication is vital in establishing mutual understanding between franchisors and franchisees (Williamson 1995), and therefore strengthening the quality of the relationship between both parties. Indeed, communication is the most important factor in clarifying misunderstandings, and therefore in reducing the opportunity of conflict development (Justis and Judd 2002). It reflects the franchisor’s ability to deal with franchisees during critical stages of the relationship.
Attitudes. Although it is inevitable that franchisors hold more power in the franchisor-franchisee relationship (Lim and Frazer 2000, Nathan 2000), since it is the franchisor’s intellectual property which is often at stake, franchisors should not try to run their system using an authoritarian approach, as this generally leads to channel conflict (Anand 1987, Anand and Stern 1985, Goodman 1984). Although franchisors hold a position of power and strength over many aspects of how their system operates, franchisees are responsible for running their own business, and are not an employee of the franchisor. Indeed, playing a consultative role, franchisors should use a participative management approach or supportive leadership to manage and interact with franchisees. Franchisees are likely to be more cooperative when they perceived themselves to be part of the decision-making structure (Anand 1987, Anand and Stern 1985, Guiltinan, Rejab and Rodgers 1980).

Franchisees tend to be more corporative with the franchisor if they perceive that their relationship is beneficial to the successful operation of the franchise unit (Fried and Elango 1997). In fact, franchisees can be an excellent source of innovative ideas as they are in direct contact with customers, and they come from different backgrounds and operate in varied environments (Fried and Elango 1997).

Franchisors also need to be fair and consistent in decision-making. Inconsistency and favouritism causes unhappiness among franchisees within the franchise system (Morrison 1996). Franchisors with integrity and honesty find themselves winning the trust of their franchisees. Trust is an important element in the franchisor-franchisee relationship because it reduces conflict (Lim 2001), improves individual performance (McAllister 1995) and promotes inter-organisational cooperation (Ring and Van de Ven 1992). Furthermore, franchisees who trust their franchisors, and are happy and satisfied with the franchise tend to be more motivated in their work, thus improving their work performance (Hing 1995). If franchisors are able to
instil integrity, open communication and trust as the franchise culture, the end result will be more cooperation within the franchise network.

In fact, trust has been suggested as the relationship mechanism that facilitates cooperation and coordination, thus generating relationship commitment (Morgan and Hunt 1994). Trust is dependent on goal congruence and similarity between partners’ values and methods (Rodriguez and Wilson 2002). Therefore, to have a higher chance of disseminating trust and commitment within the franchise network, franchisors should select franchisees with similar goals and visions. To foster the franchisee’s trust in a franchisor, the franchisor must provide accurate information about the franchise, such as the profitability and turnover. Franchisors must also be honest and trustworthy in their dealings with franchisees, and be able to deliver whatever they have promised. In addition, franchisors must be able to deal with conflict constructively (Nathan 2000).

In summary, franchisors need to possess certain competencies and qualities in order for them to be able to franchise their businesses successfully, as well as to provide the necessary support and guidance to their franchisees. This is of high importance because the level of franchisee satisfaction is found to be based on their expectations relating to the support provided by their franchisors such as promotion and advertising, as well as training and operational support (Morrison 1996). Much of the possibility of success for a franchise arrangement rests on the franchisor’s judgement and discretion with respect to many aspects of the franchise system, as franchisees can be vulnerable to the risks of franchisor incompetence (Joseph 1996). Figure 1 summarises the knowledge, attitudes, skills and experiences competent franchisors should possess.

**Competencies required of franchisees**

Since one purpose of franchising is to provide franchisors with capital for expansion, franchisors are generally concerned with the financial capability of franchisees, rather than
managerial and business skills, because franchisors are there to provide support, training and guidance in these areas (Weinrauch 1986). Nevertheless, there are certain competencies that franchisees should possess.

An important advantage offered by franchising is the high level of franchisee motivation compared with paid employees (Lillis, Narayana and Gilman 1976). That is, franchisees who are motivated and committed to the franchise business will contribute their time and energy to improve the franchise system. Furthermore, satisfied franchisees are more productive, and are less prone to creation of conflict within the franchise system. Successful franchisees run a profitable business, grow a based of happy customers, as well as supporting the values of the franchise organisation and brand such as quality, service and reliability (Nathan 2000). Franchisees must be able to monitor key performance indicators if their business is to remain on track.

The responsibility of teaching franchisees suitable skills and knowledge rests very much on the franchisor. As such, franchisees do not need to come into the business with much prior industry, business and management knowledge or skills. In fact, some franchisors prefer franchisees not to have any of these, so as to prevent franchisees from bringing bad habits or practices acquired previously into the business. Indeed, some franchisors have indicated that they prefer franchisees who are previously not from the same industry. Instead, franchisors place emphasis on recruiting franchisees with excellent attitudes towards learning. Franchisors want franchisees who are open and adaptable to acquiring new skills and knowledge, and are diligent and fast learners, while displaying initiative and a strong work ethic.

Franchisees on the other hand, are not required to possess many of the skills, knowledge and experience relevant to a specific industry or business, although it is desirable that franchisees have some level of exposure to business, and a basic understanding of the market, in order to function effectively as an entrepreneur. Indeed, participants from the interviews
conducted by the researchers agreed that, although it is desirable for franchisees to have experience in business and to possess managerial skills, these are not essential skills, since franchisors are there to teach and guide franchisees accordingly. Instead, franchisees should possess business acumen, energy and enthusiasm.

**Methodology and Analysis**

The above discussion led to the development of a theoretical model of franchisor-franchisee competencies as shown in figure 1. Data will be collected in two stages. The *first stage* of data collection involves case studies of franchisors and three of their franchisees. These three franchisees include a high, medium and low performing franchisee, in order to understand if the needs and competencies differ in performance level of the franchisees. Data from this stage will be used to develop hypotheses and for designing questionnaire items for the second stage of the research. The second stage of data collection will involve surveying the population of franchise systems within Australia.

At the time of writing, a series of pilot interviews has been conducted. Two case studies involving two franchise systems – one from the retail industry and the other from the services industry have been completed. Cases were selected from the retail and services industry within Australia. Because not all industries exhibit similar environmental conditions (Zahra and Bogner 1999, Dess and Beard 1984), the roles and competencies played by franchisors and franchisees may differ. The retail and services industries were selected for this study because business format franchising has fostered rapid expansion in these sectors (Justis and Judd 2002, Cross and Walker 1987, Stanworth 1984).

In addition, changes in lifestyle have provided new service areas that are appropriate for franchise systems (Justis and Judd 2002). For instance, double-income households have led to consumer desire for increased convenience (Justis and Judd 2002) resulting in an outsourcing of many domestic tasks. Franchise systems develop and maintain high quality in products and
services and meet the convenience priorities of the purchasing public, leading them to be successful businesses and leaders in their respective fields. Therefore, the service industry is important area for franchising research.

Retail and services were selected for this study because these industries share similar characteristics, allowing for a more accurate comparison. For instance, they are both front-line industries where franchisees are required to provide service to and interact with external customers, and both industries require long working hours.

Table 1 summarises the findings from the pilot interviews, discussed below. Case 1 was a retail franchisor with 51 outlets, out of which 47 are franchised and owned by 43 franchisees. The company began operating in 1991, and started franchising a year later. Case 2 is a service industry franchisor. Similar to the retail franchisor, the company began franchising 12 months after commencing operations. They now have 58 outlets owned by 45 franchisees and one company owned outlet.

The services currently provided by the two franchise systems involve technical training, research and development, advice and support, marketing and advertising. Only the retail franchise system provides franchisees with an operations manual to guide them in the day-to-day operations of the business. However, the training provided is very different. The franchisor from the retail industry provides franchisees with a five-day technical training program, while the franchisor from the services industry provides franchisees with a more comprehensive two-week training program on business and marketing knowledge. This may be because the franchisor does not provide an operations manual. Regardless, franchisees of these systems felt that the training they received was not sufficient. In fact, most of them – especially the retail franchisees - felt that franchisors should conduct more comprehensive training, providing them with business and industry knowledge. Moreover, franchisees felt that there should be ongoing training in addition to the initial training. Most franchisees felt that there was insufficient
support in the area of research and development; when new products were developed, and they felt that they were not provided with the necessary training to acquire sufficient knowledge of these new products. In addition, three of the franchisees interviewed felt that their franchise systems were spending money on advertising and promotions in areas which do not benefit them, although most of them acknowledged that this is normal in franchising since considerations are given as a group.

Rather, all franchisees interviewed felt that the most important thing their franchisor could do for them is provide more advice and support in the form of regular communications and field visits. Most of them said that their franchisors ‘very much left them on their own’ after the first couple of months, while one franchisee said that he has not seen his franchisor in 18 months. In fact, all franchisees interviewed would like to be involved in any decision-making process that the franchisor undertakes for the benefit of the franchise system as a whole. Although many franchisees agreed that their franchisor is only a phone call away, they felt that this was not sufficient. Franchisees from the first case felt that whenever there were new products, they were not given proper training, rather, only a fax or a newsletter, and they need to clarify and obtain more information by making phone calls to the franchisor.

In addition, all franchisees interviewed agreed that the reasons why they joined a franchise system, as opposed to setting up their own individual business, was because of the brand name and reputation of the business, as well as the support and training given by the franchisor, including marketing and advertising support.

Based on the support services desired by franchisees, all those interviewed agreed it is of utmost importance for franchisors to possess sound understanding of the industry, and be well experienced in the business, as well as having excellent communication skills. Most of the interviewees also felt that franchisors need to exercise a participative management style, and possess strong people and conflict-handling skills in order to handle internal conflict between
themselves and franchisees, between franchisees, and between franchisees and customers. Three interviewees also felt that franchisors should possess a strong work ethic.

All of the interviewees felt that the franchisor plays the role of mentor and a governing figure in the relationship. They see the franchisor as a person who can guide them and equip them with knowledge and guidance for the business, as well as someone to ensure that all franchisees are doing the right thing so as not to tarnish the image of the business. Many of the interviewees view the franchisor as a consultant, but only one franchisee regards his franchisor as similar to an ‘employer’ who is there to provide guidelines for him to work within. However, although some interviewees mentioned that the franchisor is an entrepreneur in his own right, none felt that this role has any bearing in the franchisor-franchisee relationship.

Now, let us turn our attention to the competencies and roles of the franchisees. All interviewees agreed that franchisees need to be financially stable. Some interviewees felt that franchisors should be able to advise them accurately on the amount of finance required as one franchisee commented that he almost failed in the business as he had not adequately prepared sufficient funds for the business investment. As well, all the interviewees agreed that franchisees need to be willing to learn and also be willing to comply with the requirements of the system so as to achieve uniformity. In addition, most interviewees mentioned that franchisees should be committed to the business, while a few mentioned a strong work ethic as an important criterion for franchisees. They felt that franchisees need to be able to see the big picture and do things for the long-term benefit of the system as a whole and not for personal, short-term again. Two respondents mentioned that franchisees need to act in an ethical manner so as not to encroach on the territory of their fellow franchisees.

All interviewees viewed the franchisee as a team player, while most of them also viewed the franchisee as a protégé who is there to learn the business from the franchisor. Some support was also obtained for viewing the franchisee as a client who is there to take advice from
the franchisor. Only one interviewee saw the franchisee as an employee who must be able to take orders from the franchisor and work within the guidelines of the ‘company’. Although all interviewees felt that franchisees need to possess an entrepreneurial spirit, it was not felt that franchisees play the role of corporate entrepreneurs in the franchisor-franchisee relationship.

In summary, the factors that would result in a high level of satisfaction for franchisors in the franchisor-franchisee relationship would be having a franchisee who is compliant, hardworking and consistently achieving a high level of sales and profits. Consequently, for a franchisee to be satisfied, franchisors need to provide regular communications and field visits to franchisees, and to involve franchisees in the decision making process. Franchisors also need to have consistent ongoing research and development to keep the products of the franchise system updated and in line with consumers’ demands. Finally, franchisors need to be there to provide advice and support for all franchisees, regardless of the length of time they have been in the business.

Most authors argue that profits are the underlying motive for all businesses (Kotler 2003), and thus would be a major factor leading to satisfaction for business owners. This study does not contradict this belief, but rather builds on human resource theories that both intrinsic and extrinsic rewards lead to satisfaction for people in the work place (Robbins and Coulter 2001). Indeed, past research by Gullup (1992) and Goodman (1980) have shown that the most common sources of dissatisfaction among franchisees are lack of franchisor support and inadequate financial returns.

Conclusion

Little research has focused on the competencies of franchisors and franchisees. Although a great deal of literature on the types of services and support franchisors need to provide for franchisees (Justis and Judd 2000, Nathan 2000, Mendelsohn 1999, Joseph 1996),
and profiles have been designed in attempts to identify the ‘ideal’ franchisee (Nathan 2000), little research has been conducted on the competencies of both franchisors and franchisees, and the specific management roles played by each party to achieve a ‘satisfied’ franchise operation. However, this process is an important step as franchisors and franchisees are seen to be engaged in long-term business relationships (Mendelsohn 1999; Nathan 1996). Like any relationship, franchising involves competent and compatible partners (Justis and Judd 2002; Nathan 1996) to contribute and play their parts in order to achieve satisfaction.

The eight pilot interviews that were conducted provide some support for the preliminary model. In particular, there was evidence that franchisors play the roles of the consultant and mentor and that franchisees correspondingly identify as clients and protégés of the franchisors. Little support was received that franchisors are perceived as employers in the franchising relationships. Whilst franchisors were regarded as entrepreneurial, it was not felt that this played an instrumental role in the relationship. However, an additional role of franchisor acting as ‘policeman’ or a monitoring agent, and of franchisees acting as ‘team players’ surfaced from the qualitative stage. Further interviews will be conducted to see if the above trend continues, with refinement of the theoretical model as a result.

Specifically, this research will make three contributions. Firstly, this research contributes to the conceptual understanding of the roles played and competencies required by franchisors and franchisees. By possessing these necessary competencies, franchisors and franchisees have the capability to play their roles effectively, and therefore, increase the level of satisfaction, and reduce the level of conflict in the relationship. This research will establish and test a framework of competencies required of franchisors and franchisees, and the respective roles they should be competent to play in order to achieve a high level of satisfaction within the franchisor-franchisee relationship.
**Contribution 1: Advances in theoretical understanding and knowledge.** Although a few franchise academics and consultants have publications on the recruitment and selection of franchisees (Justis and Judd 2002, Nathan 2000, Mendelsohn 1999), there has been little research carried out on this important aspect of the franchisor-franchisee relationship – selection of partners. Although Tatham, Douglas and Bush (1972) and Bergen, Dutta and Walker (1992) have conducted research on critical qualities required by franchisees, and the importance of appropriate selection of franchisees, little attention has been given to franchise recruitment as a *two-way selection process* – that is, besides the need to recruit suitable franchisees, franchisees should also select an appropriate business in which to invest and a suitable franchisor to work with. As yet, therefore, there has not been any theoretical examination of, or explanation for, selection of compatible partners in the franchisor-franchisee relationship. Indeed, this gap in knowledge reflects a general paucity of theoretical research on one of the most significant elements of the recruitment and selection process in franchising. Thus, this study may be one of the early attempts to establish qualities of potential franchisors and franchisees, and applying these qualities to retail and service operations.

**Contribution 2: Establish framework for franchising recruitment practices.** Factors critical to the success of franchise businesses are found in the franchisor-franchisee relationship (Justis and Judd 2002, Nathan 2002, Lim 2001, Mendelsohn 1999), as this relationship is likened to a ‘marriage’ (Mendelsohn 1999; Nathan 1996). As with traditional marriage, both partners have a role to play in the relationship, and both parties have to contribute to the relationship to make it a success. Therefore, this research identifies the roles both franchisors and franchisees need to play, and the competencies required for them to be able to contribute positively to the relationship.

**Contribution 3: Potential benefit to the franchising sector and government.** The findings of this research and the framework drawn up can be used to result in a more efficient
and effective recruitment and selection process. This may lead to fewer terminations of franchise agreements due to unsuitable franchisees, and increase the performance of franchise operations. The consequences would be a more efficient economy and therefore benefiting the government.
Table 1  Findings from pilot interviews

<table>
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<tr>
<th>Concept</th>
<th>Case Support</th>
<th>1a</th>
<th>1b</th>
<th>1c</th>
<th>1d</th>
<th>2a</th>
<th>2b</th>
<th>2c</th>
<th>2d</th>
<th>Total</th>
</tr>
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<td>√</td>
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<td>-</td>
<td>-</td>
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<tr>
<td></td>
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<td>√</td>
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<td>Factors contributing to the satisfaction level of franchisors and franchisees in the franchisor-franchisee relationship for franchisors</td>
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<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
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</tr>
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<td>Hardworking franchisees</td>
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<td>√</td>
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<td>√</td>
<td>√</td>
<td>8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Good sales / Profits</td>
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<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>8</td>
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</tr>
</tbody>
</table>

| Factors contributing to the satisfaction level of franchisees and franchisees in the franchisor-franchisee relationship for franchisees | Regular communications with franchisor | √ | √ | √ | √ | √ | √ | √ | 8 |
| Involve franchisees in decision making process | √ | √ | √ | √ | √ | √ | √ | 8 |
| On-going research and development | - | √ | √ | - | √ | √ | - | 5 |
| On-going training | - | √ | √ | - | √ | √ | √ | 6 |
| On-going support and advice | √ | √ | √ | √ | √ | √ | √ | 8 |

**Legend:**
- Case 1a = Franchisor of retail franchise
- Case 1b = Franchisee of retail franchise – top performer
- Case 1c = Franchisee of retail franchise – medium performer
- Case 1d = Franchisee of retail franchise – low performer
- Case 2a = Franchisor of services franchise
- Case 2b = Franchisee of services franchise – top performer
- Case 2c = Franchisee of services franchise – medium performer
- Case 2d = Franchisee of services franchise – low performer
### Figure 1 Theoretical Framework – Franchisor / franchisee competencies as a determinant of franchise satisfaction

<table>
<thead>
<tr>
<th>Support services provided by franchisors</th>
<th>Roles played by franchisors in the process</th>
<th>Competencies required of franchisors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Locate suitable sites</td>
<td>Consultant Skills</td>
<td>Management skills</td>
</tr>
<tr>
<td>Renovation/layout design/fixtures</td>
<td></td>
<td>Operational skills</td>
</tr>
<tr>
<td>Training</td>
<td>Mentor Knowledge</td>
<td>Technical skills</td>
</tr>
<tr>
<td>Operational manual / policies</td>
<td>Employer Experience</td>
<td>Business skills</td>
</tr>
<tr>
<td>Managerial assistance</td>
<td>Corporate entrepreneur Attitudes</td>
<td>Research and development skills</td>
</tr>
<tr>
<td>Administration support</td>
<td>Client Attitudes</td>
<td>Communications skills</td>
</tr>
<tr>
<td>On-going advice and support</td>
<td>Protégé Attitudes</td>
<td>Market knowledge</td>
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<td>Market knowledge</td>
<td>Employee Attitudes</td>
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<tr>
<td></td>
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<td>Willing to trust and respect others</td>
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<td>Open to ideas and suggestions</td>
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<tr>
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<td>Strong work ethic</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Trustworthy</td>
</tr>
<tr>
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<td>Some managerial skills</td>
</tr>
<tr>
<td></td>
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<td>Little industry and market knowledge</td>
</tr>
</tbody>
</table>

### Competencies required of franchisee

- Strong communication skills
- Some managerial skills
- Little industry and market knowledge

### Roles played by franchisees

- Participative management style
- Willing to trust and respect others
- Open to ideas and suggestions
- Willing to learn and accept training
- Motivated to learn
- Hardworking
- Initiative
- Strong commitment
- Far-sighted
- Strong work ethic
- Trustworthy

### Competencies required of franchisees

- Strong communication skills
- Some managerial skills
- Little industry and market knowledge
References


Goodman, J. (1980), ‘Franchisor-franchisee conflicts of interest as perceived by selected non-food franchisees’, *Dissertation Abstracts International*, University Microfilm No. 41/02A.


