Exploring the link between goal congruence and satisfaction in the franchising channel

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Abstract

This paper provides some preliminary research into the interdependent nature of the franchising relationship. The complementary roles that franchisors and franchisees play in the relationship are drawn from existing theory and extended to incorporate desired competencies and qualities of each channel member. A link between these roles and satisfaction with the franchising relationship is proposed. A series of preliminary interviews with franchisors and high, medium and low performing franchisees is conducted to refine aspects of the model prior to undertaking further case studies.
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Introduction

Many researchers such as Gauzente (2003), Hing (1997) and Morrison (1997) agree that satisfaction with the franchising relationship is essential for a franchise network’s continuation over the years. However, franchise satisfaction has not been previously assessed as a two-way process on a robust scale. Like most business relationships, the franchisor-franchisee relationship is interdependent (Justis and Judd 2002, Mendelsohn 1999), and satisfaction should ideally be experienced by both parties, in order to build and maintain a mutually beneficial, long-term relationship. Franchisors and franchisees seek to achieve both individual and mutual goals and hence satisfaction with the franchising relationship may be linked to several factors.

This paper views franchising as a channel-member relationship, because it is essentially a method of distribution of goods and services through a vertically integrated network (McCosker 1998). This view supports the theory that a high level of satisfaction between channel members increases morale amongst those involved, encouraging greater co-operation while reducing conflict and breakdowns in relationships, and at the same time resulting in better overall business performance (Lusch 1976, Hunt and Nevin 1974). This theory is supported by previous studies which link failure of franchise businesses to factors such as inadequate franchisee selection procedures, unsuitable personalities and differences in opinions on important issues between franchisors and franchisees, including support services and communications (Frazer 2002).

The Model and Theory

Incentives for franchisors to franchise. In order to increase the chances of high levels of satisfaction, it is crucial to ensure compatibility and a congruency in goals among the parties concerned. That is, both franchisors and franchisees must attempt to select partners with similar goals. Firstly it is important to understand why franchisors choose to expand via franchising as opposed to corporate store growth, as well as why franchisees choose to be part of a franchise system rather than to set up their own independent businesses.

Early research suggests that franchisors choose to expand their businesses via franchising to enable faster growth (Justis and Judd 2002, Emerson 1998, Fried and Elango 1997) as franchisees are able to provide the necessary financial and human
capital for expansion (Coughlan, Anderson, Stern and El-Ansary 2001, Bercovitz 1999). In this sense, franchising also provides a reduction of risk in expansion for franchisors (Bercovitz 1999, Sen, 1993) since franchisees share the business risk. In addition, because franchisees have vested interests in the business, they are assumed to be motivated and hardworking (Mendelsohn 1999, Fladmoe-Lindquist and Jacque 1995), thus allowing franchisors to expend less monitoring effort (Combs and Castrogiovanni 1994, Bergen, Dutta and Walker 1992). Furthermore, franchisees are also sources of information for franchisors since they tend to be more familiar with local trends and information (Nathan 2000, Mendelsohn 1999). In brief, previous research relies on a mixture of capital scarcity and efficiency reasons to explain why franchising occurs.

Incentives for franchisees to franchise. On the other hand, franchisees choose to join a franchise rather than operate independently because of the support services provided by franchisors (Justis and Judd 2002). Many aspiring business owners do not have prior business or management experience, and therefore rely on franchisors to provide guidance and training. Franchisors are able to provide comprehensive support services for franchisees, from prior to start-up and throughout the duration of the business. Before start-up, franchisors need to ensure that they have a well-established business or brand name (Coughlan, et al 2001, Kaufman 1999). During the start-up stage, franchisors assist franchisees with selection of the territory or site (Justis and Judd 2002, Mendelsohn 1999), as well as the acquisition of necessary equipment and inventory (Coughlan, et al 2001, Mendelsohn 1999). Many franchisors also assist or train franchisees in the recruitment and selection of employees (Williamson 1995), provide training in the technical and management aspects of the business (Kaufman 1999), as well as organise the business launch for franchisees (Justis and Judd 2002). In addition, franchisors often provide ongoing assistance and support (Fried and Elango 1997, Kaufmann and Stanworth 1995), research and development (Mendelsohn 1999) and marketing (Howard 1996). Most franchisors also provide an operations manual to guide franchisees (Williamson 1995) as well as having field support staff to visit franchisees regularly to monitor compliance and to understand their problems and needs (Justis and Judd 2002, Williamson 1995).

Roles played by the franchisor. In providing these support services, franchisors are indeed playing various roles for franchisees. For instance, by providing advice and guidance to franchisees, franchisors are in reality playing the role of a consultant and mentor to franchisees, guiding them and allowing them to learn and grow. Franchisors also play the role of an employer when they provide franchisees with guidelines and policies to work within, as well as the role of a SME entrepreneur by providing franchising resources.
**Competencies of franchisors.** To carry out their roles effectively, franchisors need to possess certain competencies and qualities. For instance, to be an effective consultant and mentor, franchisors need to have excellent management skills (Justis and Judd 2002, Mendelsohn 1999), operational skills (Coughlan, et al 2001), technical skills (Weinranch 1986) and business skills (Joseph 1996), allowing them to train and guide franchisees in the day-to-day operations of the business. Franchisors also need to possess sound research and development skills (Morrison 1996, Williamson 1995) so as to constantly renew and launch new products and services as required by the changing needs of customers. Communication skills (Hill and McGowan 1999) are also desirable as franchisors need to liaise with franchisees, suppliers, customers and the media. Similarly, to be an effective consultant, mentor and employer, franchisors need also to possess strong market and competitor knowledge (Zackrison 2003, Joseph 1996), business and industry knowledge (Mendelsohn 1999), together with sufficient industry, business and managerial experience (Zwisler III 2002) in order to provide sound advice and guidelines to franchisees. These skills, knowledge and experience are also important for franchisors to be an effective SME entrepreneur. Finally, in order to be a competent mentor and consultant, franchisors require appropriate attitudes. Since franchisees are essentially the owners of their own businesses, franchisors who adopt an autocratic management style might find it difficult to communicate with their franchisees. Besides using a participative management style (Nathan 2000), franchisors must be willing to trust and respect their franchisees (Zackrison 2003, Zwisler III 2002), and be open to ideas and suggestions (Nathan 2000).

**Competencies of franchisees.** Since franchisors provide the relevant skills, knowledge and sharing of experience, there is little need for franchisees to possess these competencies. Rather, it is more crucial for franchisees to possess the right attitudes of being motivated to achieve success (Bourque 2003, Justis and Judd 2002), and be willing to learn and accept training (Justis and Judd 2002, Nathan 2000), as well as most importantly, be willing to comply with the system (Frazier 2002). Franchisees should ideally possess a strong work ethic (Frazier 2002, Lombardi 1990) and display qualities such as initiative (Bourque 2003), commitment (Coughlan, et al 2001, Poe 1991), and trustworthiness (Nathan 2000).

**Roles played by franchisees.** Possessing the above qualities would facilitate the process whereby franchisees carry out corresponding roles to those of the franchisor. For instance, the roles of franchisee client and protégé to the franchisor consultant and mentor will allow franchisees to learn and receive advice and directions from their more experienced franchisor. Having the right attitude will allow franchisees to be model employees and successful corporate entrepreneurs, able to comply and work within set guidelines.
The above theories are expected to allow franchisors and franchisees to achieve a high level of satisfaction within the franchisor-franchisee relationship.

**Research Methodology**

A multi-case study approach was employed to investigate and describe the roles and competencies of franchisors and franchisees (Yin 1994). This is because, evidence from multiple cases was considered more compelling, robust and rigorous than that from a single case study, due to the opportunity multiple cases provide for triangulation of evidence (Yin 1994, Parkhe 1993, Eisenhardt 1989, Bonoma 1985). Secondly, multiple case studies provide greater potential for generalisability of findings to theory (Bonoma 1985). Thirdly, multiple case studies selected on a basis of appropriate replication logic provide a sound basis for theory development (Yin 1994, Parkhe 1993, Eisenhardt 1989, Bonoma 1985).

The retail and service industries were selected for this study because business format franchising has fostered rapid expansion in these industries (Justis and Judd 2002). For instance, retail is a prime area for growth in business-format franchising, and an increasing number of retailers have turned to franchising (Justis and Judd 2002, Alon 2001, Rubel 1995). Furthermore, we have transitioned from a manufacturing-based economy to a service-based economy (Justis and Judd 2002).

Interviews, questionnaires and investigators’ observations were used to facilitate an understanding of contextual conditions and dynamics present in the franchising settings (Eisenhardt 1989). A case study protocol sets out general rules and procedures to be followed in collection of case study data (Yin 1994). It is a particularly important document in multi-case research, to help ensure consistency and reliability in collection of case data. The case study protocol is important for a number of reasons. Firstly, it is critical to establishing reliability and trustworthiness in the research process (Perry & Coote 1994, Yin 1994). A case study protocol also helps a researcher anticipate problems in the field and minimise the impact of unforeseen circumstances and it assists other researchers to reproduce phenomena under study (Yin 1994). An interview instrument was the primary data collection mechanism used in this research. The interview instrument acted as a checklist of substantive questions reflecting scope of the research, which had to be addressed to the extent they were not covered during open-ended discussion with interviewees (Yin, 1994).

Ten franchises were anticipated to be studied in order to ensure rich data were collected for the study (Yin 1994). However, at the time of writing this paper, only four preliminary case studies had been conducted. Although four cases may seem limited, Eisenhardt (1989) suggested that the number of case studies should ideally be between 4 and 10, because less than 4 cases would make theory generalisation difficult while more than 10 cases would cause difficulty in the process of data
analysis. As such, four cases satisfy the minimum case criteria required for generalisation. In addition, efforts have been taken to ensure that these four cases are representative of the whole sample. That is, two franchise systems were from the retail industry while the other two were from the services industry. Each case consisted of the franchisor and three franchisees (one top, one medium and one low-performing franchisee to enable a comparison of satisfaction level with level of performance), resulting in a total of 16 interviews.

**Preliminary Data Analysis**

The four franchisors interviewed listed their reasons for franchising to be as a means of accessing capital and reducing business risk, while most agreed that franchisees provide local market knowledge. Although the franchisors agreed that most franchisees are motivated and hardworking managers, they nevertheless felt that franchisees need to be monitored regularly, both to ensure compliance, and to maintain contact and regular communication.

The top three support services listed by the franchisees interviewed were established brand name, training, and advertising and promotions. Most of the franchisees interviewed expressed that these were the main attractions for them to be involved in franchising. Additional support services which lured franchisees into franchising were assistance in locating premises and ongoing support and guidance provided by franchisors. Other support services, such as accounting systems, were ranked less highly.

Interestingly, interviewees viewed specific industry knowledge and experience to be more important competencies required of franchisors, rather than the more generic management and operational skills. Communication skills were ranked as the most important competency for franchisors, closely followed by commitment and research and development skills. Most respondents agreed that franchisors should be approachable and understanding. Only franchisees from a conversion franchise felt that the franchisor should have a good rapport with suppliers, as these more experienced franchisees joined the franchise system mainly for the purpose of economies of scale and brand unity.

On the other hand, compliance and interpersonal skills were ranked the highest competencies for franchisees. Being financially stable and possessing strong communication skills were also important. Other qualities included motivation to learn and achieve success, ethics, hard work and commitment. Consistent with theory, most of the interviewees felt that potential franchisees do not necessarily need to have the relevant skills, knowledge and experience to run the business, although it was felt that some management skills would be beneficial.
When asked to describe their relationship and level of interaction with the franchisor, it became evident that franchisees view franchisors as a mentor and consultant. It was also revealed that in some circumstances franchisees perceive their franchisors as performing the role of a policeman, monitoring franchisee behaviour and encouraging compliance. In keeping with this, franchisees see themselves as team players who follow guidelines and provide balance amongst fellow franchisees. Moreover, most see themselves as partners in the relationship, with each party contributing to the partnership’s success.

Conclusion

Based on the data collected to date, the proposed model has been developed as shown in Figure 1. The role of SME entrepreneur has been omitted as little evidence was offered that the entrepreneurial qualities of franchisors affect the franchising relationship. It has been substituted with the franchisor role of policeman (that is, compliance seeking behaviour) and matched with the franchisees’ perceptions that the are team players who comply with the system. The remaining roles and competencies have been retained until further confirmation or disconfirmation is received in the next stage of the research.

Further exploration of the theoretical model will be pursued by employing critical case sampling to choose information-rich cases (Patton 1990) until saturation of data is achieved. The use of multiple data sources (franchisor and franchisee perspectives) will allow triangulation of data to be obtained and cross-checking of concepts to be performed. Following this exploration, measures of franchisee and franchisor satisfaction with the relationship will be included in the model to examine the effect of role competencies on franchisor-franchisee satisfaction.
Figure 1  Model based on outcomes of preliminary interviews

Prior to start-up
- Reputable brand name
- Well-established product or services

Start-up
- Premise
- Equipment and inventory
- Recruitment
- Initial training
- Business launch

On-going
- Guidance and support
- On-going training
- Administration and technical support
- Finance and accounting
- Research and development
- Advertising and promotions
- Store visit and monitoring
- Operations Manual

Franchisees provide franchisors with
- Financial capital
- Motivated workforce
- Reduced risk in expansion
- Faster expansion
- Reduced monitoring
- Local information

Source: developed for this research
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