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A Study of Relationship of Franchisor and Franchisee

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Abstract

In the relationship of franchisor and franchisee, the franchisor relies heavily on the franchisee for the financial information and information of the consumers to access local markets, and the franchisees are dependent on the trademarks and know-how and other support of the franchisors. Franchises always have a desire for autonomy to run their business, but franchisor don't want to give the franchisee more autonomy because he thinks that if he give more autonomy to the franchisee then franchisee can compromise on the quality to save the cost and this can damage the reputation of the entire franchise system of franchisor but on the other hand if franchisor give less autonomy to the franchisee this may result in non satisfied franchisee. Therefore, the challenge in managing the franchising is to balance franchisor desire of maintaining brand image on the one hand and franchisee desire of autonomy on the other hand. This article examines the impact of relational governess, success, competition and Brand name as determinants to determine the level of autonomy and control of the franchisee. For this study Primary Data is collected through Structured Questionnaire for fast-food restaurants employees. The data were collected on a five-point Likert-scale. We had collected Secondary Data through various Journals and Reports and various websites. The data will be tabulated and reviewed methodically with the help of suitable tools and techniques such as regression etc.

Key Words: Franchisor, Franchisee, Autonomy, Relationship.

Introduction

Franchising is an agreement between the franchisee and the franchisor, where the franchisee gets the license from the franchisor in order to get the utilization of his trademarks, unique ideas and patent for royalty or some other forms of payments. Franchising is amongst the most favored mode of business in worldwide advancement as it gives flexibility with

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economies of scale to overall operations. International franchising is considered as low risk mode of entry for most of the services-based sectors. This ability to get to the local knowledge of the franchisees is another preferred advantage.

The major difficulty in the franchisor- franchisee- model is that, that they are promoted on the base, that after taking a franchisee, one can be his or her own boss, however in actual after taking a franchisee the person has to work according to the terms and conditions and there are not many exits from this standard franchise agreement tolerated by the franchisors. Most of the studies on these franchisees' motivation for choosing these franchise options reveal a different story (Kaufmann and Stanworth 1995; Dant 1995; Peterson and Dant 1990; Stanworth 1995). "The charm of franchising has attracted high numbers of prospective franchisees with prior experience of self-employment, and these individuals are likely to exhibit a strong desire for autonomy in the operations of their franchised outlets. In addition, franchisees may enjoy considerable independence because contracts can never foresee probable contingencies" (Stanworth and Kaufmann 1996). It is not possible to fully control the franchisee behaviour because of the costs incurred and also because of the imperfections created by human error in controlling the behaviour. Some of these activities of the business certainly require decentralization and many a times the franchisors' on their own do not take any interest in doing these activities , so they decentralize the authority and also sometimes the franchisors decentralize some of the activities of their business model since they need to grow and want to keep their trust with the franchisees.

In other words "the challenge in the franchisee relationship is the maintaining a balance between the franchisor's desire for the protection of its brand, and the franchisee's wish for more autonomy" (Stanworth 1995). In fact, "the Autonomy is an essential component of the organizational design of franchise chains, Excessive restraints on franchisee autonomy may lessen motivation of franchisees" (Dant and Gundlach, 1999). "In addition, excessive centralization may prevent leverage of franchisee outlet related knowledge" (Windsperger, 2004). But if we are giving more autonomy to the franchisees it can lead to an increase in the problems of agency for free-riding in the franchise model. A balance between the control and the autonomy within the franchising, is definitely required for creating a long run viability of these franchise systems, for a proper management of a franchisor-franchisee relationship. In this study, we have empirically tested the effect of brand name, success, competition and the relational governance on the franchisee autonomy as well as control. The objectives of this research is to first study the relationship between franchiser and franchisee in terms of need for autonomy and control. Second objective is to find out the factors affecting the need for balancing control and autonomy in relationship of franchiser and franchisee. And third objective is to understand the implications of having sustainable long terms relationship between franchisor and franchisee.

In order to accomplish the goals of the research, the article is divided into following sections. Section 1 gives the introduction of the study. Section II includes review of literature. Section III describes about data and methodology, followed by Section IV which gives detailed analysis and interpretations of results Section V includes concluding remarks and limitation and section VI gives References.

Review of Literature

Franchisee Autonomy

"Autonomy means the extent to which a party, here a franchisee, is unconstrained to independently make decisions" (Feldstead, 1991). "Autonomy is defined as the capacity of using independent thoughts and actions" (Dant and Gundlach, 1999). Hence, "we submit to independence as the range for 'entrepreneurial freedom' the franchisees have to work the associated units according to own decisions. Autonomy is defined as the capacity or the will for independent thought and action. Basically, four structural sources of entrepreneurial autonomy can be identified by the contractual incompleteness, allotment of contractual rights, control costs and limited monitoring capacities, and direct acceptance of unusual franchisee behavior by the franchisor" (Dant and Gundlach, 1999: 37).

Franchisee Control

Based on Emerson's (1962) work, "two major approaches are used to explain control of a target firm's on a source firm". "The control of a target firm, on a source firm, refers to the need of the firm to sustain the channel association in order to achieve desired goals" (Frazier, Gill, and Kale 1989). In "sales and profit approach, higher the percentage of sales and earnings contributed by the basis firm to the target firm greater the target's control on the source. The target's (franchisee) commitment to the source's (franchisor) marketing programs and the difficulty of replacing the source also were considered to contribute to control levels". Developed by Frazier, based on former study hard work by Brown, J.R., Lusch, R.F., and Muehling, D.D. 1983, the "role presentation policy is the other main approach used in the channels literature to explain the basis for control stages. A corporate task performance describes how well it carries out its role in a channel relationship with another firm. How well role performance reflects the difficulty of replacing a firm in terms of availability of alternatives & change expenses is a subject for future study", as suggested by (Frazier, Gill, and Kale 1989). Frazier and Summers (1986) and Skinner and Guiltinan (1985) also use the "role performance approach".

Going with Emerson (1962) and Dant and Schul (1992) "we define control to be a function of (1) the attractiveness of the present relationship, and (2) the availability of alternate coalition. Both these foundation ideas are well described in our 5-item measurement of control, and the scale items attempted to tap the extent of non replace ability of franchisor and the significance of the perceived losses associated with the scenario of channel dissolution".

Control Versus Autonomy In Franchise Relationships

The low autonomy and high control to the franchisees have been theoretically checked in a methodical manner within the literature. The relationship between Control and the autonomy are based on situations and are not mutually exclusive against each other. In a very distinct situation, one of the persons is in a profitable position over the other to induce unilateral dependency structure. Presently most of the "situations favouring one party are counterbalanced by situation favouring other party. Such setting, in turn, allows the appearance of relationships illustrated by high stages of source and field specific independence and concurrently high level of control outlooks on other resources and domains. This conceptualization appears especially applicable to the franchising context where both franchisor & franchisee are expected to contribute distinct proficiencies to the achievement of their mutual enterprise in the spirit of distribution of labour" Dant & Peterson 1990, Stanworth 1995). In this way we can see that there is co-existence of independence & control that is more significant theory in case of franchised channel as both the franchisor and franchisee have discrete knowledge and authority which is essential for the success of this common endeavor, so the hypothesis is

H1: The combination of autonomy and control is high autonomy and high control.

Determinants Of Control And Autonomy

Theoretically, a "huge quantity of variables can affect the desire for autonomy and the perception of control within principal-agent dyads" (Frazier, Gill, and Kale 1989). "Competition, success, franchisor's brand name, relational control variables are selected on the basis of their recognized implication inside the channels literature" (Kaufmann and Kim 1995; Pfeffer and Salancik 1978; Peterson and Dant 1990).

Franchisor's Brand Name At Stake

"Under conditions of strong brand name, the franchisor must provide substantial financial and human resources to franchisee activities to facilitate value formation" (Tallman and Madhok, 1998, Pg 332). Under this model, the franchisor is relatively under more risk as he has invests more funds in comparison to the local partners who have free-rides because they have not invested that much funds. In addition to the above, the more the value of brand, the fewer are the benefits of assigning decision rights to franchisees. Thus, the hypothesis is:

H2: Higher the value of franchisor's intangible assets (brand name) at stake lower is theutonomy for the franchisee.

Relational Control

In relational control we depend very less on whatsoever is printed in the agreement and the disagreement is settled with suggesting informal or social norms. The franchisors will use less formal control over the decision making procedures when there are well-organized means for controlling these free-riding hazards of the franchisees, granting them greater franchisee autonomy". Thus, hypothesis is

H3: Franchisee entrepreneurial autonomy is positively related to the relational governance.

Competition

According to the prose of the company as well as inter-company, ecological uncertainty and its proportions are critically incoherent for accepting conclusion, procedure, and the process of the firms". Nasr & Dant {1998}shows "that the franchisees facing a competitive souk have incentives to share more information than normal with their franchisors, and effectively accepting control of their principals and showing less desire for autonomy. That is, if franchisee thinks that low levels of competition is the cause of a franchisee's success, than franchisee would conceal such information from its franchisor. On the contrary, when confronted with high levels of competition, the franchisees will forward the information about the market to the franchisor in an effort to clarify its poor show. The implication of this behaviour is to propose a wish for less independence on the part of franchisees that face conditions of high competition". So the hypothesis is

H4: Higher the level of competition, lower is the level of desire for autonomy by the franchisees.

Success

"Franchisors are ready to give adequate control to the franchisees, in order to get the regular support of successful franchisees. It is natural that successful franchisees are likely to get more charge of actual autonomy in comparison to the non successful franchisees and these experiences may build up those franchisees' need for autonomy. "However, the opposite theoretical linkages amongst success and autonomy are presumed by the resource-dependence theory. According to this theory, victorious franchisees are expected to interpret their profitable business because successful control of the forces of market uncertainty by franchisor" (Pfeffer and Salancik 1978). Hence, although a few point of views can be argued for an encouraging relationship between aspiration for the autonomy and success, constant with our arguments implied in the resource study", we can expect the success to reduce the need for autonomy:

H5: Higher the level of success, lower is the state of desire for sovereignty by the franchisees.

Section Iii: Data And Methodology

This section looks at the data and methodology used in the study. The area of study is Delhi. "Data includes the franchised fast food restaurant channel that has been used for the experimental component of this study. This industry has been chosen principally since it displays substantial variety in operational strategies across various firms (e.g. disparity in the control measures that have been utilized). In addition to that, this is one of the most commonly examined channels of distribution (Dant and Young 1989); Accordingly, we can get advantage from the existing literature during the study of the blueprint phases of this assignment (e.g., in separating variables of the related impact). People of the management are taken in the sample study, from each organization". Fast-food restaurants managers are used for Primary Data Structured Questionnaire and the questionnaire also includes a cover letter that describes the purposes of the study that guarantee the anonymity to participants.

The questionnaire developed includes the following :

1. Section A includes general questions about the companies name, name, etc.
2. Section B has questions that are based on Control and Autonomy.
3. Section C has questions based on the Relational Governance and about the Brand name.
4. Section D has questions that are based on Success and Competition.

Personal visits have been used in this study. All measures that have been used in this study have been drawn from well-known literature resources (these have been tested for their trustworthiness), even though wordings of the articles have been modified to represent the framework of the franchised fast food channel under examination. The items have been calibrated on a Likert scale of five-point i.e a) Agree b) Strongly Agree c) neutral d) Disagree e) Strongly Disagree as response group. The data that has been collected from the various resources is tabulated and analyzed methodically with the help of apt tools such as correlation & regression in order to conclude about the hypotheses devised for the study.

Table A Distribution of Franchisees In The Sample

S.no.	Name Of The Company	No. Of Franchise In The Sample
1	Dunkin donuts	10
2	Pizza Hut	15
3	Domino's	10
4	Subway	12
5	KFC	13
6	Mcdonalds	11

This table shows that number of the franchisee of different companies in this sample. We have collected data from 71 franchisees in this study.

Analysis and Interpretation of the Results

Data gathered by questionnaire was coded and transcript into SPSS 22.0. Various statistical techniques like ANOVA, Reliability Test and regression were used to derive at the results.

Dependent Variables

This study aims to evaluate the effect of 'brand name, relational governance, competition and success on franchisee autonomy and control individual. So autonomy and control are our dependent variables. Autonomy refers to as the scope for 'entrepreneurial freedom' franchisees possess to operate affiliated units according to own decisions. Basically, five structural sources of entrepreneurial autonomy can be identified as the allocation of contractual rights, contractual incompleteness, control costs as well as limited monitoring capacities, and direct acceptance of deviant franchisee behavior by the franchisor. By adding up the scale values for the five items, we obtained a summated index for the level of franchisees' autonomy within each chain. Another dependent variable is control. To measure this we have used Emerson's definition of control. He defines control to be a function of (1) the attractiveness of the present relationship, and (2) the availability of alternate coalitions'. Both of these basics have been well defined in our five items of the measurement of control and these scale items attempt to tap the extent of non restore capacity of the franchisor" and the impact of the apparent losses related with the circumstances of the channel dissolution.

Independent Variables

The relational form of governance is" the importance of the hypothetical descriptive variables of this study of the franchisor-franchisee relationship, Brand Name of the franchisees, success level and competition. These are operational as follows. Firstly, H2 is there to record the effect of Brand name at stake, to identify its effects, we have incorporated the assessment of other knowledge and intangible assets given by the franchisors but have not been included in the brand name. Secondly H3 records the effects of the relational governance on franchisor and franchisee relationship. To measure "the relational governance, it is categorized in two theoretical sections: harmonization of conflict and intensity of cooperation. The questions relating to the harmonization of conflict norm evaluated to which degree partners engaged in problem solving as opposed to cultivating disputes" (Dant and Schul, 1992). "Cooperative behavior is measured the extent to which mutual inter-control was appreciated by the channel members in their respective business processes" (Anderson and Narus, 1990).

To Measures the competition for H4 we have used the scale given by Moores and Duncan (1989). "We measure two different scales given to the contest in terms of two proportions: (1) other alternatives open to customers, and (2) current attempt requisite for market-share maintenance in the face of marketplace rivalry. The chosen scales also mirror the concept of demand insecurity and inter-channel rivalry identified as key aspects of environmental hazard as they tapped different scope of rivalry, the two scales were separately entered into the inferential analyses" Etgar (1977).

Franchisee's success, or the degree of satisfaction with the past performance, has been measured by four different questionnaire items for H5. "The questions asked respondents to evaluate their recent performance relative to different comparison levels. Comparison levels included 1) alternative activities 2) average industry sales growth 3) own income expectations & 4) personal sales goals". Affixing accomplishment by reference to comparison stages is in line with Anderson and Narus (1990).

RELIABILITY TEST- can reflect the internal consistency of the indicators measuring a given construct. Therefore, previous to the theories are checked the trustworthiness of the measurement scales should be checked. So the information given below is giving dependent and independent variables and calculations of their reliability coefficient that is cronbanch alpha. Table 1 report the cronbach alpha value for the various variable used in this study. The value of cronbach alpha of all the variables exceeds the limit of acceptability for newly-developed scales set at 0.6 (Hair et al., 1998).

Table 1: Reliability-Statistics

Variable	Cronbach's-Alpha	Cronbach's-Alpha Based-on Standardized-Items	No.of Items
Control	.806	.807	4
Autonomy	.886	.917	5
BRAND NAME AT STAKE	.621	.725	4
RELATIONAL GOVERNANCE	.789	.756	6
COMPETITION	.789	.756	6
SUCCESS	.857	.858	4

Table 2: Give below shows descriptive statistics on the variables used in this study (only arithmetic means and standard deviations are reported).

TABLE 2: Descriptive Statistics

	Mean	Std. Deviation	N
Autonomy	3.53	.63	70
Brand Name At Stake	4.00	.41	70
Relational Governance	3.60	.48	70
Competition	4.05	.33	70
Success	3.14	.44	70

Regression Results

To know how the level of autonomy and control given to franchisee is affected by relational governance, Brand name, competition and success we used linear regression and calculate it with the help of SPSS in this paper. Below we have given finding of regression analysis.

Table 3 given below depicts modal summary which tells us how good our modal is to predict the relationship between the level of autonomy given to franchisee and relational governance, Brand name, competition and success.

TABLE 3-Model-Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.618a	0.382	0.343	0.4502123
a. Predictors: (Constant), Success, Relational Governance, Brand Name At Stake, Competition				

Table depicts value of R square is 0.382 which shows that the modal is good and these variables, relational governance, brand name, competition and success; explain 38.2 percent variability in the autonomy. Here R square is 0.382 and adjusted R square is 0.343 which means that predication power of this modal is good.

The next table is the ANOVA table. The chart shows that the regression form predicts the outcome variable significantly well

TABLE 4-ANOVA[a]

Model.		Sum-of-Squares	Df.	Mean-Square	F	Sig.
1	Regression.	8.103	4	2.026	9.994	0.000b
	Residual.	13.175	65	.203		
	Total	21.278	69			
a)Dependent Variable-Autonomy						
b)Predictors-Constant, SUCCESS, RELATIONAL GOVERNANCE, BRAND NAME AT STAKE, COMPETITION						

The Table 5 given below is coefficient table of regression it contains the coefficient for the least square (fitted) line and other relative information about the coefficient.

TABLE 5-Coefficients[a]

Model.		Unstandardized-Coefficients.		Standardized-Coefficients.	T	Sig.
		B	Std. Error	Beta		
1	{ Constant. }	5.888	.961		6.128	.000
	RELATIONAL GOVERNANCE	.836	.151	.735	5.534	.000
	BRAND NAME AT STAKE	-.686	.152	-.512	-4.507	.000
	COMPETITION	-.735	.206	-.444	-3.570	.001
	SUCCESS	.188	.128	.152	1.465	.148
a. Dependent Variable: Autonomy						

For the overall significance of this modal, look at ANOVA Table (Table 4). In this table F value is 9.994 and p value is .000 which shows that these variable, Brand name, relational governance, competition and success are jointly significant in predicting how much autonomy should be given to the franchisee. Now the p values given in Table 5 shows that all of these factors except success are significant.

The coefficients that are un-standardized show the degree of the independent variable (relational governance or success) varies with dependent variable (autonomy), when all the other independent variables remain constant. Value of un-standardized coefficient (B) of relational governance is 0.836(see the table 5 above). In other words if relational governance increase by 1 percent then autonomy will increase by 0.836 and For every one percent increase in brand name 0.686 percent decrease in autonomy for every one percent increase in competition 0.735 percent decrease in autonomy because of negative sign. So we can say that our Hypothsis are proved.

Table 6 given below depicts modal summary which tells us how good our modal is to predict the relationship between the level of Control given to franchisee and relational governance, Brand name, competition and success.

TABLE 6-Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.780a	0.633	0.600	0.45372
a.Predictors- { Constant }, Success, Relational Governance, Brand Name At Stake, Competition				

Table depicts value of R square is 0.633 which shows that the modal is good and these variables, relational governance, brand name, competition and success; explain 63.3 percent variability in the Control. Here R square is 0.633 and adjusted R square is 0.600 which means that predication power of this modal is good.

Given below is the ANOVA table. ANOVA table shows that the regression model predicts the outcome variable significantly well

TABLE 7-ANOVA[a]

Model.		Sum-of-Squares	Df.	Mean-Square	F	Sig.
1	Regression.	22.141	4	5.535	26.888	.000b
	Residual.	13.381	65	.206		
	Total	35.521	69			
a) Dependent Variable: Dependnece						
b) Predictors: (Constant), Success, Relational Governance, Brand Name at Stake, Competition						

The Table 8 given below is coefficient table of regression it contains the coefficient for the least square (fitted) line and other relative information about the coefficient.

TABLE 8 - Model

		Unstandardized-Coefficients		Standardized-Coefficients	t	Sig.
		B	Std.Error	Beta		
1	(Constant.)	-4.888	.968		-5.048	.000
	BRAND NAME AT STAKE	1.499	.153	.867	9.779	.000
	RELATIONAL GOVERNANCE	-.613	.152	-.417	-4.026	.000
	COMPETITION	.585	.207	.273	2.818	.006
	SUCCESS	.679	.129	.425	5.251	.000
a. Dependent Variable: Dependnece						

For the overall significance of this modal, look at ANOVA Table (Table 7). In this table F value is 26.888 and p value is .000 which shows that these variable, Brand name, relational governance, competition and success are jointly significant in predicting how much control is there of the franchisee. Now the p values given in Table 8 shows that all of these factors are significant.

Consider the effect of relational governance. The un-standardized coefficient (B) for relational governance is equal to -.613(see the table 5 above). In other words if relational governance increase by 1 percent then control will decrease by 61.3% and For every one percent increase in brand name more then one percent increase in control and for every one percent increase in competition .585 percent increase in control and for every one percent increase in success .679 percent increase in control because of positive sign. So we can say that our Hypothesis are proved.

Conclusion And Limitation

Conclusion

There is a good potential in India for franchising however managing relationships with franchisees involves balancing the competing forces of control and autonomy which is the major "challenge for franchisors. more autonomy to the franchisee then franchisee can compromise on the quality to save the cost and this can damage the reputation of the entire franchise system of franchisor but on the other hand if franchisor give less autonomy to the franchisee this may result in non satisfied franchisee. The motivational and morale problems among franchisees can also precipitated by them. In this paper we analyze how the allocation of control and autonomy in franchise chain is affected by the Brand name at stake, success, relational governance and competition of the franchisee. For the analysis, we have taken the above four factors as most of these factors have been checked by the writers. On the whole we can state that this data supports our second hypothesis that states that the higher the brand name at stake the lower is the autonomy given to it. Our third hypothesis has been proved as the data illustrates a positive relationship between relational governance and autonomy since franchisor can give more autonomy to the franchisee if the franchisor uses relational governance to control the franchisee. Our sixth hypothesis proves that higher the competition, lower is the autonomy required since the franchisee wants to be secure. Therefore our result has met with our expectation however this data does not support our seventh hypothesis as it shows success and is not at all essential in establishing, as to how much autonomy is required to be given to the franchisee however this relationship is still supported by some of the writers For eg. according to Paik, Choi, Dwyer & Oh in the international franchisee requires greater autonomy with higher success" so even though H2 is not supported by the data but it is still supported by the literature.

The outcome we got supports the ideology that "relational governance can be a substitute for the formal mechanisms of governance. Thus this theory leads us to the conclusion that the franchise organisations would use the relational forms of the governance to compensate their loss in the control associated with the allocation of decision making in control to the individual outlets. Based on German franchisees, these outcomes form an empirical analysis that strongly supports this presumption. This study also confirms the results by checking it taking control as dependent variable. This time results shows that higher the control lowers the relational control and brand name, competition and success are positively related with control. These results of success shows that success is important in determining the control but not significant in determining the autonomy so we can say that relationship between autonomy and control are not either or but they based on situation. Though this study is concerned with the franchising but its implications may be extended to other inter organizational and intra organizational relationships for example, between sales manager and sales force agents. Most of the organizations use formal control mechanisms but some degree of organizational goal conflicts often remains. Because of this conflict we will nt be able to use agents' specific knowledge fully. So, by using Relational forms of governance we can reduce the costs from trading hazards thereby we can successful decentralized decision structures in an organisation". This study helps us to understand the relationship of authority and informal control and efficiency.

Limitations

This study has some limitations. Firstly, Vagueness of questions and common methods of variance apply from the regular criticisms of data from measures of survey type. Guarantee of anonymity was provided to the respondents so that they can understand the common method variance. Secondly, the results from Cronbach's alpha accommodated concerns about reliability issues. Third is sample is too small to generalize the results. Last is we have taken only four factors into the consideration but through the literature review we come to know that there are other factors also which effect the extent of autonomy and control given to franchisee.

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