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THE FRANCHISEE LIFE CYCLE CONCEPT - A NEW PARADIGM IN MANAGING THE FRANCHISEE-FRANCHISOR RELATIONSHIP

By

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SUMMARY

This dissertation explores the relationship between franchisees and franchisors with the aim of modelling the franchisee life cycle. It is proposed that distinctive phases (with a certain duration) in the relationship between franchisees and franchisors exist, and that there are significant differences in the commitment-trust dimensions and relationship quality index levels representing the franchisee-franchisor relationship between each life cycle phase. It is also proposed that franchisees can move through the life cycle stages at different speeds and that the speed of movement influences their relationship quality levels.

Computer Aided Telephonic Interviews were conducted with 652 randomly chosen franchisees from 27 different franchise systems. A multi-stage sampling design was used to ensure representivity.

The measurement instrument consisted of, amongst other, scales from the Disenchantment Curve (Nathan 1993) and the Commitment-Trust theory (Morgan and Hunt 1994). Specific questions were also asked pertaining to franchisee satisfaction levels as well as various classification questions such as the relationship duration. Highly satisfactory reliability and validity results were obtained using the Cronbach Alpha-coefficient and principal component factor analysis. Correspondence analysis revealed that a four stage life cycle concept provided a better fit with regards to the duration of the relationship than proposed in the six stage life cycle originally suggested by Nathan (1993). Further analysis was done on the four-stage life cycle solution, which lead to the creation of the Franchisee Life Cycle Concept (FLC). Directions for further research, limitations to the research and managerial implications are also provided.

OPSOMMING

Hierdie verhandeling ondersoek die verhouding tussen vergunningsooreenkomsgewers en vergunningsooreenkomshouers met die doel om die vergunninghouer se lewenssiklus te modeleer. Daar word voorgestel dat unieke fases (met 'n spesifiek durasie) in die verhouding tussen vergunningsgewers en vergunningshouers bestaan en dat daar betekensivolle verskille tussen die toegewydheid (commitment) en vertrouens dimensies en verhoudingkwaliteits-indeksvlakke van die verskillende fase bestaan. Daar word ook voorgestel dat vergunningshouers teen verskillende tempos deur die lewensfases kan beweeg en dat die spoed van beweging 'n invloed op die verhoudingskwaliteitsvlakke het.

Rekenaar Ondersteunde Telefonies Onderhoude is met 652 ewekansig gekose vergunningsooreenkomshouers van 27 verskillende vergunningsgroepe voltooi. 'n Meervoudige stadium steekproefontwerp is gebruik om verteenwoordiging te verseker.

Die meetinstrument bestaan uit onder andere skale van die "Disenchantment Curve" van Nathan (1993) en die "Commitment-Trust" teorie van Morgan en Hunt (1994). Spesifieke vrae oor vergunningshouers se tevredenheidsvlakke asook klassifikasievrae soos die verhoudingslewensduur is ondersoek. Hoogs bevredigende betroubaarheids- en geldigheidsresultate is verkry met die gebruik van beide die Cronbach Alpha-koëffisient en 'n faktor analise. Die "correspondence" analise het 'n vier fase lewenssiklus ontbloot wat 'n beter passing met die lewensduur van die verhouding gelewer het as die ses fase lewenssiklus soos oorspronklik voorgestel deur Nathan (1993). Verdere analises is op die vier fase lewenssiklus gedoen, wat gelei het tot the ontwikkeling van die "Franchisee Life Cycle Concept (FLC)." Aanduidings vir verdere navorsing, die gebreke en tekortkominge van die huidige navorsing asook bestuursimplikasies word gegee.

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BACKGROUND TO THE PROBLEM

1.1 BACKGROUND

Franchising has shown significant growth and tremendous economic benefits not only in the United States of America, Britain and Australia, but also in South Africa (Gordon 1998-1999; Maitland 1991; The Franchising Handbook 1993).

Owing to the growth and opportunities created by franchising, it has become a much talked about subject. One of the aspects that are talked about frequently in franchising circles is the relationship between franchisees and franchisors and the most effective methods of managing the relationship. There has been a great deal of speculation regarding the aspects that influence relationships and the role that franchisors play in managing these aspects. There seems to be a certain mystique surrounding the behaviour (and the reasons for behaviour) of both franchisees and franchisors. Franchisors frequently wonder why franchisees behave in a certain fashion, for example, why they rebel against the relationship after a few years and why they suddenly want more independence from the franchisor. They wonder why relationships that started out in a very positive manner sometimes end up with a great deal of conflict and unhappiness.

A need to better understand the franchisee-franchisor relationship, especially the life cycle of franchisees (with the management implications that life cycle phases might have), lead to a literature study which showed a general lack of empirical research available in this field (not just in South Africa, but on an international level).

The franchising industry in South Africa is one in which not much research has been done nor are reliable industry statistics available. Considerably more research on franchising has been done internationally. Most of the body of franchising research focus on aspects such as the nature of franchising (Elango and Fried 1997), reasons for franchising (Oxenfeldt and Kelly 1968-69; Carney and Gedajlovic 1991), power (Sibley and Michie 1982; Hunt and Nevine 1974), conflict, motivation (Stanworth and Kaufman 1996; Knight 1986; Peterson and Dant 1990), failure rates (Boe, Ginalski and Henward 1987; Castorgiovanni, Justis and Scott 1993) and co-operation (Sibley and Michie 1982).

Elango and Fried (1997: 68-82) also identified the need for empirical studies relating to the relationship between franchisees and franchisors. They suggest that possible future research should examine the stability of the franchisee-franchisor relationship and more particularly: "*changes in the relationship between the franchisee and the franchisor have been largely ignored by researchers.*"

Owing to the increasingly important role of franchising, the apparent lack of scientific and empirical research in this field, and the need for relationship research that has been identified by fellow scholars, the researcher decided to investigate the franchisee-franchisor relationship in an empirical research study.

1.1.1 Definition of the research problem

The suggested study of the relationships that exist between different franchisors and their franchisees will attempt to model the life cycle of franchisees from the perspective of the franchisee-franchisor relationship. This will be done by determining the correlation between the life cycle stages of a franchisee and the effective management of the franchisee–franchisor relationship.

1.1.2 Research objectives

In order to obtain satisfactory answers to the research problem, the following research objectives will have to be achieved. In order to do so, it will be necessary to determine:

- which aspects influence the relationship quality between franchisees and their franchisors.

- the commitment-trust scores for franchisees
- franchisee satisfaction levels
- the relationship quality index levels of franchisees.
- the evolution of a typical franchisee relationship (life cycle).
- the franchisee life cycle stages.
- the duration of the relationship between a franchisee and a franchisor.
- how the relationship quality of a franchisee differs between different life cycle stages.

1.1.3 Research propositions and hypotheses

The research proposition and hypotheses will only be mentioned in the next section and will be discussed in more detail in the chapter on methodology.

Table 1.1 – Summary of Research Proposition and Hypotheses

P_1 =	There are distinctive phases in the relationship between franchisees and the franchisor that follow a typical life cycle format.
H_1 =	There are significant differences in the commitment-trust dimensions representing the franchisee-franchisor relationship between each life cycle phase.
H_2 =	There are significant differences in the relationship quality index levels representing the franchisee-franchisor relationship between each life cycle phase.
H_3 =	Franchisees in the first life cycle phase will have significantly higher commitment–trust dimension scores than franchisees in the successive life cycle phases.
H_4 =	Franchisees in the first life cycle phase will have significantly higher relationship quality index levels than franchisees in the successive life cycle phases.
H_5 =	There are significant differences in the commitment-trust dimensions of each life cycle fit category.
H_6 =	There are significant differences in the relationship quality index levels between each life cycle fit category.
H_7 =	Franchisees that move through the life cycle phases in the expected time (exact fit) will have significantly higher relationship quality levels than those that move slower or faster.

1.1.3.1 The existence of distinct life cycle phases

The development of the relationship between franchisees and the franchisor has distinctive phases that follow a predictable pattern (cycle). Identification of these distinct phases will have a significant effect on the management of franchisee-franchisor relationships based on the different needs of franchisees in the differing phases.

Proposition 1 = There are distinctive phases in the relationship between franchisees and the franchisor that follow a typical life cycle format.

1.1.3.2 Significant differences between life cycle phases

Each of the identified (distinct) life cycle phases will yield significantly different commitment-trust dimension scores based on the progress of the relationship. It is suggested that the commitment-trust dimension scores will be the most positive in the beginning of the life cycle with a decrease in the dimension scores as the relationship continues.

H_1 = There are significant differences in the commitment-trust dimensions representing the franchisee-franchisor relationship between each life cycle phase.

H_2 = There are significant differences in the relationship quality index levels representing the franchisee-franchisor relationship between each life cycle phase.

H_3 = Franchisees in the first life cycle phase will have significantly higher commitment–trust dimension scores than franchisees in the successive life cycle phases.

H_4 = Franchisees in the first life cycle phase will have significantly higher relationship quality index levels than franchisees in the successive life cycle phases.

1.1.3.3 Varying speed of movement through life cycle phases

Franchisees can move through the life cycle phases at different speeds. Franchisees can either move through the life cycle phases slower than expected (lagged fit), faster than expected (pre-mature fit) or at an expected rate (exact fit). The speed of movement will have a significant effect on the relationship quality levels.

H_5 = There are significant differences in the commitment-trust dimensions of each life cycle fit category.

H_6 = There are significant differences in the relationship quality index levels between each life cycle fit category.

H_7 = Franchisees that move through the life cycle phases in the expected time (exact fit) will have significantly higher relationship quality levels than those that move slower or faster.

1.1.4 Operational Definitions

In the previous sections, a number of terms and concepts were introduced that were not defined. This section will clarify some of these terms by stating operational definitions.

- **Distinctive life cycle phase:**

A phase in the existence of a franchisee's business, that has significant differences with other phases with regards to the relationship duration.

- **Typical life cycle format:**

A predictable / characteristic series of events that is regularly repeated in the same order. In this case, used with specific reference to the relationship between franchisees and franchisors.

- **"Expected" speed of movement through life cycle stages:**

The "expected" speed was ascertained through modelling of the research results and it was found that the expected duration of a phase (or speed of movement through the phase) is approximately one year.

1.2 LITERATURE REVIEW OF THEORETICAL MODELS

In order to better understand the nature of this study a brief conceptual framework is discussed after which the planned methodology is reviewed.

This study has three distinct concepts that need to be understood in order to grasp the nature of this study. These concepts are franchising, life cycles and relationship management. Each of these concepts is discussed in detail in chapters 2 – 4. A short overview of these issues, discussed in each of the chapters, will now be given.

1.2.1 Franchising

The franchising concept and supporting literature is discussed in chapter 2. The aspects mentioned below are all dealt with in detail and provide valuable insight into the franchising domain.

The fact that different types of franchising exist creates a problem when a singular definition of franchising is sought. It is therefore much easier to define franchising in terms of shared characteristics that franchise businesses should have in common (Maitland 1991). Differing perspectives on the concept of franchising are considered (Brown and Dev 1997; Kirkham and McGowan in

The Franchising Handbook 1993; Mendelsohn 1992; Fulop and Forward 1997; Stanworth and Kaufmann 1996; Elango and Fried 1997).

The parties involved in franchising are defined, and specific attention is given to different types of franchisees (Maitland 1991; The Franchising Handbook 1993; Hall and Dixon 1993; Elango and Fried 1997).

The different types and definitions of first generation franchising such as licenses, distributorships / dealerships, right to use a trade mark and concession as well as second generation franchising such as business format franchising and conversion franchises are discussed (Hall and Dixon 1988; Nathan 1993; Fulop and Forward 1997; Goncalves and Duarte 1994; Maitland 1991; Mendelsohn 1992; Friedlander and Gurney 1990).

The benefits and drawbacks of franchising for both franchisors and franchisees are highlighted (Maitland 1991; Hall and Dixon 1988).

It is not clear, exactly where and when franchising started, and some of the differing opinions on the history of franchising are acknowledged (The Franchising Handbook 1993; Hall and Dixon 1988; Goncalves and Duarte 1994; Mendelsohn 1992).

The different perspectives on franchising such as franchising as a business strategy, a marketing system, a distribution network and a method of expansion are described (Brown and Dev 1997; The Franchising Handbook 1993; Friedlander and Gurney 1990; Mendelson 1993; Fulop and Forward 1997; Oxenfelt and Kelly 1969; Hunt 1972; Caves and Murphy 1976; Combs and Castrogiovanni 1994; Sen 1998)

The current state of franchising is also discussed on both an international and national level and the importance of franchising for the economies of many countries is shown.

The growth, importance and future of franchising on an international level are firstly reviewed. Statistics for the growth and economic impact of franchising and the employment created by franchising are given (The Franchising Handbook 1993; Maitland 1991; Mendelsohn 1992; Stanworth 1995; Fulop and Forward 1997).

The South African franchise situation is discussed with reference to growth of franchising, employment created by franchising, reasons for growth, and the future of franchising in SA with specific reference to aspects that might hinder the growth of franchising in SA (Gordon 1998-1999; Scholtz 1996; Zeidman and Feirman 1995).

Numerous articles have been written on franchising. Topics usually refer to aspects such as the nature of franchising, reasons for franchising, growth rates, failure rates and reasons for failure. Other aspects frequently researched are franchisee co-operation, the role and types of power in franchising, conflict and franchisee satisfaction (Elango and Fried 1997; Oxenfeldt and Kelly 1968-69; Carney and Gedajlovic 1991; Combs and Castrogiovanni 1994; Fulop and Forward 1997; Stanworth 1995; Lafontaine and Shaw 1998; Connell 1997; Stanworth, Purdy, Price and Zafiris 1998; Boe, Ginalski and Henward 1987: Castorgiovanni, Justis and Scott 1993; Sibley and Michie 1982; Hunt and Nevine 1974; Strutton, Pelton and Lumpkin 1995; Schul, Little and Pride 1985; Knight 1986; Mendelsohn 1992; Spinelli and Birley 1996; Gaski 1984; Hing 1996; Lewis and Lambert 1991; Gassenheimer, Baucus and Baucus 1996; Peterson and Dant 1990). The research done in these areas is briefly mentioned and reviewed in chapter 2.

1.2.2 Life cycles as a business phenomenan

Chapter 3 introduces the phenomenan of life cycles and the following aspects are reviewed:

After considering the meaning and definition of life cycles and defining the scope of life cycles that were considered in this study, a closer look is taken at different life cycle concepts and the research that has been done on life cycle concepts. It is important to note that there are differences between life cycle concepts and curves and these differences are dealt with in the discussion (vide page 46).

The discussion on life cycle concepts started with the diffusion curve and how it relates to the product life cycle, which is probably the most well-known life cycle concept in the economic sciences literature. The product life cycle concept describes and models the stages through which a product passes (Kotler 1984; Hisrich and Peters 1991; Harrel and Taylor 1981; Rosenbloom 1991). The stages of the product life cycle and some alternative curves are discussed in depth in chapter 3.

Other life cycles such as industry life cycles (De La Mare 1982) and corporate life cycles (Adizes 1988; Smith, Mithchell and Summer 1985) are also discussed.

Various authors have studied the life cycle of franchising systems. In this thesis the contributions of these authors are discussed. The discussion starts with the franchising concept life cycle (Fulop and Forward 1997) that summarises the historical development of franchising and divides the franchising life cycle into three stages.

Secondly, the life cycle model of franchising (also called resource scarcity model) developed by Oxenfelt and Kelly (1968) is stated. This model attempts to explain the reasons for franchising. Differing opinions on the resource scarcity model as stated by other authors (Carney and Gedajlovic 1991; O'Hara and Musgrave 1990; Lafontaine and Shaw 1999; Lafontaine and Kaufmann 1994) are cited and explained.

The abovementioned is followed by a discussion of the franchise life cycle model by Lillis, Narayana and Gilman (1976). The model explains the differences in importance of competitive advantages in the different stages of the franchise life cycle.

The last model to be discussed in this section is the corporate evolutionary and growth process of a franchise company or franchisor (Slavin in The Franchising Handbook 1993). Slavin (in The Franchising Handbook 1993) states that companies and people follow a predictable course of evolution with distinct stages of growth. He identified five stages of growth, which are discussed in more detail in the chapter in question.

Various authors have also completed research on the life cycles of franchises. Achrol, Etzel and Gundlach (1995) studied a franchise unit's life cycle of evolution and the environmental conditions faced by those units from a product life cycle perspective.

The franchisee failure continuum (Holmberg and Morgan 1996) is also discussed since it suggests a possible progress of events that might be considered part of a franchisee life cycle.

Very little attention has been given to franchisee developmental life cycles from a franchisor-franchisee relationship perspective. In this section of chapter 3 the various speculated stages of the franchisor-franchisee life cycle as suggested by authors, are described (The Franchising Handbook 1993; Maitland 1991; Mendelsohn 1992; Stanworth and Kaufmann 1996).

Only a few authors, amongst which, Nathan (1993) as well as Hall and Dixon (1988) have proposed a specific relationship life cycle of franchisees. The views of these authors are provided. Hall and Dixon's (1988) franchisee life cycle is stated first, and is then followed by Nathan's (1993) franchisee curve of disenchantment (also called the E-Factor). Although none of the published work on franchisee life cycles has been empirically tested, it forms the basis of the current research study and were used as the point of departure.

1.2.3 Relationship management

Chapter 4 provides some insight into relationship management and the concepts that form part of this construct.

The nature of relationships are defined by Liljander and Strandvik (in Ewing 1996:63) as consisting of episodes. Miettila and Tornroos (in Ewing 1996) indicate various conditions that must be present for a relationship to exist. Hutt and Speh (1995) describe various types of relationships ranging from pure transactional exchanges to pure collaborative exchanges. The contributions of these authors are described in depth in chapter 4.

Relationship management is a broader term than relationship marketing and this aspect is shortly touched upon in this section in chapter 4.

The concept of relationship marketing encompasses many aspects such as relational exchange (Morgan and Hunt 1994; Dwyer, Schurr and Oh 1987), relational contracting (MacNeil 1980), relational marketing (Dwyer, Schurr and Oh 1987), working partnerships (Anderson and Narus 1990), symbiotic marketing (Varadarajan and Rajaratnam 1986), strategic alliances (Day 1990), co-marketing alliances (Bucklin and Sengupta 1993) as well as internal marketing (Berry and Parasuraman 1991; Iverson and McLeod 1996).

Various authors have provided their views on the nature of relationship marketing. Sheth and Parvatiyar (1995) state that the main focus of traditional marketing was on transactions and exchanges, but that this orientation is changing from transactions to relationships which, gives rise to the concept of relationship marketing. Various other authors agree that a paradigm shift away from a transactional approach towards a relationship oriented approach has occurred (Morgan and Hunt 1994; Berry and Parasuruman 1991; Grönroos 1994; Gruen 1995).

The axioms of transactional marketing and relationship marketing (Sheth and Parvatiyar), the six markets model of relationship management (Payne et al 1995) and the different relational exchanges in relationship marketing (Morgan and Hunt 1994) are considered.

Relationship marketing theories are also described, of which the most important marketing theory discussed is the commitment-trust theory of relationship marketing (Morgan and Hunt 1994), which formed one of the key building blocks for the current research.

This model states that commitment and trust is central to successful relationship marketing efforts because they encourage marketers to work at preserving relationship investments and resist attractive short-term alternatives. The model with antecedents and outcomes are discussed in depth.

The relevance of relationship marketing and the commitment trust theory in franchising is described in detail. The exchange relationship between franchisees and franchisors can be compared to exchange relations found in relationship marketing literature. The relationship marketing concept is therefore very relevant to the franchising industry with specific reference to the relationship management between the franchisor and the franchisee. The works of various authors are cited to prove the relevance of relationship marketing in the franchising context (Hall and Dixon 1988; Nathan 1993; The Franchising Handbook 1993; Morgan and Hunt 1994).

The relationship marketing model of Gruen (1995) and the reasons for not using this model are discussed. Although Gruen's model was not used for the research in question, he did however make a very compelling argument for the inclusion of satisfaction in relationship marketing research, which lead to the inclusion of satisfaction measures in the questionnaire.

The importance of relationship quality in relationship marketing is discussed in this section of chapter 4 (Crosby et al 1990; Hutt and Speh 1995; Liljander and Strandvik 1994; Bejou et al 1996). Different views and definitions of relationship quality are cited and the difference between relationship quality and relationship satisfaction is discussed in detail (Crosby and Stephens 1987; Bejou et al 1998; Dwyer 1980).

A closer look is taken at where franchising "fits into the picture" of relationship marketing. Vertical marketing systems are defined, classified and discussed in terms of their implications in channel management (Kotler 1996; Bowersox and Cooper 1992; Rosenbloom 1991). The reasons for failure of vertical marketing systems are also discussed in detail.

The aspects discussed in this section, again confirm the relevance of the commitment-trust model of relationship marketing (Morgan and Hunt 1994) in the study of relationships between franchisees and franchisors.

Franchising and the type of relationships that exist between franchisees and franchisors are mentioned. The role of satisfaction in the relationship between franchisees and franchisors are also discussed and clarified (Hall and Dixon 1988; Hing 1996). The last part of chapter 4 focuses on the link and integration of relationships and life cycles (Dwyer et al 1997; Nathan 1993).

1.3 RESEARCH DESIGN AND METHODOLOGY

The research methodology is discussed in more detail in Chapter 5. A detailed discussion of the research problem, research objectives, hypothesis testing theory and hypotheses formulation is done in the first part of chapter 5. This is then followed by a discussion on research design issues. The research design was executed in two broad phases, namely the exploratory phase (literature and qualitative phase) and the descriptive-empirical phase.

1.3.1 Exploratory phase

The literature study provided a background on all related theories and information that are relevant to the study in question. Aspects relating to franchising, life cycles and relationship management were investigated.

Apart from an extensive database search for relevant literature on franchisee relationships, the exploratory phase of the project involved in-depth personal interviews with franchising consultants, opinion leaders in the franchising industry as well as selected franchisors. The information obtained in the exploratory phase of the research process was used to design the research instrument (questionnaire / measure).

This phase of the research also involved an extensive process of sourcing franchisor and franchisee information. The reason for this process is the fact that no reliable comprehensive database of franchises exists in South Africa, despite the fact that various separate databases seem to exist.

1.3.2 Descriptive empirical phase

After completion of the exploratory phase the next step of the research process could be undertaken. The descriptive empirical phase of the research pertains to the measurement instrument, the sampling frame of the research and the physical data collection.

1.3.2.1 Measures

The design of the measurement instrument is based on two basic foundations, namely franchisee life cycles and franchisee-franchisor relationships.

Firstly, the measurement of the franchisee life cycle was operationalized using Nathan's (1993) Disenchantment Curve (E-factor approach). Descriptors of the different stages proposed by Nathan were presented to franchisees. Franchisees were then required to choose the stage which best described their state of mind and attitude and the relationship they have with their franchisor.

The second foundation of the measurement is the relationship between franchisees and the franchisor. In this case the Commitment-Trust theory of Morgan and Hunt (1994) was used as a model by customizing the instrument for the franchising industry. The instrument was also pre-tested to determine if the constructs were sufficiently operationalized and whether franchisees understood what was being asked. Changes to the instrument were made based on the pilot tests that were done.

Various other questions pertaining to relationships (relationship continuation, continuation of use of products and services, use of additional products and services and recommendation rate) and satisfaction levels (relationship, service quality, products, personnel, agreements and the franchisor organization) were also included as overall measures. The overall franchisee satisfaction level was also measured using a Customer Satisfaction Index.

Various other classification questions such as the duration of relationship, the number of stores owned by a franchisee, the brand strength and profitability, age of franchisee and gender (to mention a few) were also measured.

1.3.2.2 Sample design

The selected sample design was based on the need for a representative, national perspective on franchisee-franchisor relationships that cover the whole spectrum of different franchise systems. A multistage sample design was used. Firstly, a proportional number of FASA (Franchising Association of Southern Africa) affiliated franchisors and non affiliated franchisors were selected. Secondly, the number of franchisors selected was made proportional to criteria such as size of the franchisor (small, medium and large), different franchise systems and available contact details for the particular franchisor. Individual franchisees (of the chosen franchisors) were selected at random from the contact database (supplied by the franchisors) for inclusion in the study.

1.3.2.3 Data collection and processing

The data was collected using Computer Aided Telephonic Interviewing (CATI). A sample of franchisees of various franchise systems (in different industries, of various sizes, etc) was interviewed. The research was aimed at franchise owners (franchisees) and company owned outlets and their managers were not included in the research.

Thanks to the CATI system used, no coding or data capturing was necessary. The data file was exported to a statistical software package (Statistica) and the data cleaned and analysed. Reliability analysis, validity analysis, correspondence analysis and cross tabulations were performed on the data.

1.4 DATA ANALYSIS, STATISTICAL ANALYSIS AND INTERPRETATION

The study used scientifically acceptable methods to ensure reliability and validity. These methods are briefly discussed below.

1.4.1 Reliability analysis

Reliability pertains to consistency and the extent to which the same results would be obtained if the measure were repeated. According to Cooper and Emory (1995:148) reliability has to do with the accuracy and precision of a measurement procedure.

The Cronbach's Alpha reliability test was used to determine the internal consistency of the measurement instrument. The Cronbach's Alpha was used because Cooper and Schindler (1998:173) suggests that this technique is best suited to multi-item scales at the interval level of measurement.

1.4.2 Construct validity analysis

Internal validity is the extent to which a measurement instrument actually measures what it intends to measure. According to Cooper and Emory (1995:149) validity is the extent to which differences found in the research reflect true differences among respondents.

A principal component factor analysis was performed on the results obtained in order to determine to what extent the instrument measured what it was supposed to.

1.4.3 Correspondence analysis

In order to overlay / match the franchisee life cycle stages and the duration of the relationship it was necessary to find a technique that would allow this type of data manipulation. Correspondence Analysis was chosen because it is a descriptive/exploratory technique designed to analyse measures of correspondence between the rows and columns of tables. The results, which are similar in nature to factor analysis, allow one to explore the structure of categorical variables (StatSoft 1995).

1.4.4 ANOVA and MANOVA

ANOVA is used to determine if there are significant differences between two or more means at a selected probability level and is useful for studies involving two or more groups (Gay and Diehl 1992). MANOVA is an extension of ANOVA and is used when more than one dependent variable and one or more independent variables are involved in a study. These techniques were used to determine if significant differences existed between variables and were used for hypotheses testing purposes.

1.5 SUMMARY AND OUTLINE OF CHAPTERS

This dissertation consists of six chapters. Chapter 1 shortly introduced the main subject and extent of the study, including the research problem, goals of the study, hypotheses and methodological considerations.

The following three chapters (Chapters 2 – 4) describe the theoretical background and relevant literature pertaining to this study in great detail. Chapter 2 is devoted to Franchising and aspects such as definitions of franchising, the parties involved in franchising, the types of franchising, the history, statistics and benefits of franchising.

Life cycles receive attention in Chapter 3. Life cycle concepts from various disciplines are discussed as well as life cycle concepts mentioned in the franchising literature. The last literature chapter, Chapter 4, takes a closer look at relationship marketing, and aspects such as relationship quality and relationship management are investigated.

The research methodology is discussed in detail in Chapter 5 and the research results are reported in Chapter 6. Chapter 6 also contains the conclusions, suggestions for further research and limitations of this research project.

CHAPTER 2

FRANCHISING

2.1 INTRODUCTION

"*The word franchise means privilege or freedom and in this sense it offers people the freedom to own, manage and to direct their own business. It means being in business for yourself but not by yourself*" (FASA franchising brochure).

This chapter will provide an overview of franchising. The aspects that will be discussed are the definition of franchising, the parties involved in franchising, the types of franchising, the history and meaning of franchising, international and national statistics as well as the benefits, disadvantages and literature available on the subject.

2.2 DEFINITION OF FRANCHISING

It is not an easy task giving a single definition of franchising. There are many different types of franchising, each with its own unique qualities, benefits and characteristics (which will be discussed later in the chapter).

Stanworth and Kaufmann (1996:57) try to explain what differentiates franchising from other business forms by stating that the ingredient that separates franchising from most other forms of business activities is the symbiotic relationship of inter-dependence which exists between legally distinct economic entities.

Elango and Fried (1997:68) state that "*franchising is an organisational form in which a company grants an individual or another company the right to do business in a prescribed manner over a certain period of time in a specified place in return for royalties or the payment of other fees*"

Various other authors try to explain franchising by the common characteristics that franchising businesses possess and that separate this type of business from any other form of business.

2.2.1 The characteristics of a franchise

Franchise businesses usually have the following three aspects in common:

- *"The franchisor is in the business of selling franchises to independent third party local operators to market a product or services under a method created by the franchisor;*
- *The business is based upon a common method or approach, that relies on a combination of techniques or products plus the franchisor's special trademark, service mark, trade name, logotype, advertising, or other symbol that designates the franchisor; and*
- *The franchisee is required to pay fees and conduct its local business in a manner meeting the franchisor's requirements* (Anon, Franchise Law at FreeAdvice.com 1998).

According to Maitland (1991:1) all ethical franchises should have the following distinguishing characteristics:

- The business format is comprehensive and complete.
- The business format is established and has been proven successful.
- The franchisor offers help, advice and support to the franchisee to start the business in accordance to the business format.
- The franchisee pays an initial fee to the franchisor.
- The franchisor gives continuous support and guidance to the franchisee.
- The franchisee receives an operating manual from the franchisor.
- The franchisee pays a royalty fee or management service fee on a continuous basis to the franchisor in return for back up services.
- A binding franchise agreement should be drawn up and signed by both the franchisor and franchisee.

- The franchisor and franchisee are legally independent of each other, owning their own businesses, which they are free to sell as and when they want (subject to contractual obligations between them).

Mendelsohn (1992:16) summarizes the basic elements as follows: There must be:

- A contract
- A system developed
- Training
- Continuing support
- The grant of the right to operate a business using the systems and branding
- Substantial capital investment from the franchisee
- Ownership of the franchise by the franchisee
- Payment for rights

2.3 THE MAIN PARTIES IN FRANCHISING

Maitland (1991: 1) states that "*franchising involves one party developing a successful business format, which is then licensed to another party to set up and run a wholly identical venture in a particular area for a specific period of time. The party granting the licence is known as the franchisor. The licence is called the franchise.*"

A **franchisor** is a company or person that owns a brand name, trademarks, operating systems and support systems and that grants an independent operator the right to distribute its trademarks, products, services and techniques (http://www.FreeAdvice.com/law/515us.htm 1998).

The **franchisee** is the independent business person that distributes the franchisor's products or services through retail or service outlets (http://www.FreeAdvice.com/law/515us.htm 1998).

"The franchisee is delegated the right to use the brand name in a defined market, for a designated period of time, to develop a market share for the franchise system" (The Franchising Handbook 1993).

Franchising is an interdependent relationship where responsibility is shared between the franchisee and the franchisor. Franchisees are usually close to the final customer, which would make the franchisee better suited to specific types of jobs than the franchisor. The franchisor on the other hand is usually much larger and can therefore make use of economies of scale and pass the benefits obtained to franchisees in the system (The Franchising Handbook 1993:67).

It is important to realize that a franchisor cannot "sell" a franchise to a franchisee, but rather "grant a license" to the franchisee (The Franchising Handbook 1993:11). If a franchise is sold, it would mean that a franchisee could change any part of the concept, operating procedures etc, because he/she would "own" the business. This statement is supported by the following facts:

- *"A franchisee cannot incorporate using the franchisor's name because the franchisee does not own the name.*
- *Should the franchisee want to exit the business, the franchise license is not sold: rather, the franchise license is transferred upon approval of the franchisor. The franchisee enters into a separate transaction to sell her assets.*
- *The franchise agreement has a stated term and must be renewed if the franchisee is to continue in business under the franchisor's brand name. If a franchisee owned the license, it would not need to be renewed."* (The Franchising Handbook 1993).

The **outlet / establishment** where the franchising operation is conducted is called a franchised unit. A franchisor usually has a number of franchised units, some which are owned by franchisees and others which are owned by the franchisor and run by its employees (called company-owned units). A "franchising system" refers to the franchisor and both franchised outlets and company-owned outlets (Elango and Fried 1997:69).

Different types of franchisees also seem to exist and in the following section the types of franchisees are briefly described.

2.3.1.1 Types of franchisees

- **Single franchisee**

  This refers to an individual businessman (franchisee) that owns and runs a single small outlet on a day-to-day basis. This franchisee can however also own more than one outlet.

- **Multi-unit Franchisee**

  Companies that own many franchised outlets without being actively involved in their day-to-day management are called multiple franchisees. These companies (franchisees) will hire managers to handle the daily management of the outlet. The multiple franchisee will have other business interests besides the franchises although the multiple franchisee will have a large financial investment in the franchise system as a whole.

- **Area Franchisees / Master franchise rights**

  The franchisor sells the exclusive franchise rights in a given territory to an "area franchisee" also called a master franchisee / developer. The area franchisee can then either sub-franchise to other franchisees or open and run franchises in this area himself (Hall and Dixon 1988; Turner in the Franchising Handbook 1993:461).

Just as there are different types of franchisees, there are also different types of franchising. The next section attempts to shed more light on the different types of franchising.

2.4 TYPES OF FRANCHISING

There are numerous types of franchising which will be discussed in this section, although only one of these types (namely "business format franchising") is really relevant for our study (because our study was confined to franchise systems that qualified as being "business format franchises"). The other types of franchising and there definitions are included for the sake of completeness.

It is important to note that in all types of franchising the two parties involved are legally independent of each other. Hall and Dixon (1988:13) state that a fundamental requirement of a franchise is that the franchisee and franchisor are legally independent. They further state that most franchise agreements clearly affirm that franchisees are not agents or partners of the franchisor and therefore have no authority to represent themselves as being the franchisor's agent. The franchisor can therefore not be held responsible for the actions of the franchisee.

2.4.1 First Generation (Also called Traditional Franchises / Product and Trade name franchising)

2.4.1.1 Licenses

Hall and Dixon (1988) define a licensing agreement as "*....one which confers on the licensee the right to manufacture, sell, or use something which is the exclusive property of the licensor.*" A license agreement usually lasts for a specific period and pertains to a specific territory. The licensee pays the licensor a royalty fee for the right to manufacture, sell and use the licensors property. According to Mendelsohn (1992:37) this type of franchising involves a transaction between a manufacturer and a wholesaler, for example, a bottling company.

Although licensing and distributorship arrangements are usually included under the concept of franchising (and sometimes even used interchangeably with the term franchising) there are subtle differences. Licensing tends to be more "clear cut" with fewer conditions placed on the arrangement, while "business format franchising", places more controls on both the franchise and the franchisor (Nathan 1993).

2.4.1.2 Distributorship (or dealership)

In a distributorship agreement the *"...manufacturer grants the distributor the right to sell the manufacturer's products within a given area."* (Hall and Dixon 1988:12). Distributors are usually required to maintain specified standards and the corporate image of the manufacturer. Minimum stock levels and the exclusive sale of the manufacturers products are sometimes also required.

These types of transactions are usually formed between manufacturers and retailers (Mendelsohn 1992:38).

2.4.1.3 Right to use a trade mark

The franchisor (also the owner of a trademark) grants the right of use of the trademark to a franchisee in return for the payment of fees. The trademark remains the property of the franchisor (Hall and Dixon 1988).

2.4.1.4 Concessions

According to Hall and Dixon (1988) there are two types of concessions, namely:

- The right to trade in a given location. An example of this is catering rights in an airport. Franchisees obtain the right of trade in return for an initial fee as well as royalty fee payments.
- The right to sell a product (s) within an existing retail outlet.

2.4.2 Second generation franchises

2.4.2.1 Business Format Franchising

The International Franchise Association defines a full "business format franchise" as follows: "*A franchise operation is a contractual relationship between the franchisor and the franchisee in which the franchisor offers or is obliged to maintain continuing interest in the business of the franchisee in such areas as know-how and training, wherein the franchisee operates under a common trade mark, format or procedure owned or controlled by the franchisor, under which the franchisee has or will make a substantial capital investment in his business from his own resources.*"

According to the International Franchise Association Educational Foundation and Horwath International, business format franchising is characterized by "*an ongoing business relationship between franchisor and franchisee. This includes the product, service and trademark, as well as the entire business concept itself – a marketing strategy and plan, operating manuals and standards, quality control, and a continuing process of assistance and guidance*" (Goncalves and Duarte 1994:30; Friedlander and Gurney 1990:3). Fulop and Forward (1997:603) agree with this and state that business format franchising entails a more integrated relationship between parties compared to other forms of licensing.

Typically "business format franchising" includes granting the use of a name or logo, maintenance and continuing control over the manner in which the business is run as well as an obligation for the franchisor to provide ongoing assistance to the franchisee. The franchisee in turn is responsible for the payment of fees to the franchisor for goods or services and the use of the name and image (Nathan 1993).

Hall and Dixon (1988) agree with the above-mentioned statements by saying that most "business format franchise" provides the franchisee with a total package including training, trade marks, logos, design and layout of premises, standard furnishings, colour schemes, marketing plans, operating systems and continuous advice. The franchisor therefore has control over every single aspect of the franchise from pricing, to quality of services and even hiring and training practices.

2.4.2.2 Types of Business Format Franchising

Maitland (1991:3) suggests that there are three types of "business format franchise" categorised according to the size or level of investment needed to establish the operation. The types of franchises are detailed below:

- **A job franchise**

  This is a small franchise ideal for a person who wants to start a business on their own. It is usually run from home or a van and the capital investment is relatively low. Minimal stock and equipment is needed and a modest income is usually derived.

- **A business franchise**

  This type of franchise is popular with husband –and – wife teams (or their equivalent). Products and services are sold from commercial premises such as a shop or office and this franchise is therefore a more costly and substantial concern. The rewards (income) from the business franchise should be higher than from the job franchise.

- **An investment franchise**

  A company looking for a long-term return on investment would most likely purchase this type of franchise. The capital expenditure is astronomical and the financial returns are usually very lucrative.

Stecker (in The Franchising Handbook 1993:466) state that the simplest form of a "business format franchise" is that of direct franchising of individual outlets across different regions.

2.4.2.3 Characteristics of business format franchises

Hall and Dixon (1988:18) state that the following are the basic elements of a "business format franchise" agreement:

- A detailed contract will contain all terms, conditions and responsibilities of the parties that are involved.
- The franchisee will have a defined territory for a specified period of time.
- The franchisor will provide an entire business concept.
- The business concept will have been tested and proved to be successful.
- The franchisee will be trained by the franchisor on all aspects of running the business.
- The franchisor will provide continuous support to the franchisee.
- The franchisee will benefit from the goodwill, which has been built up by the franchisor.
- The franchisee will pay an initial fee as well as royalty fees.
- The franchisee will make a financial investment in the business and also be involved in the day to day managing of the business.
- The franchisee will own the business and is legally independent of the franchisor.
- Franchised units will be identical as far as possible in terms of appearance and services offered.

2.4.2.4 Conversion franchises

This type of franchise occurs when the franchisor convinces an independent business-person that owns a business in the same industry, to convert their current business into a franchise. The business person contributes by investing their property and expertise, while the franchisor contributes by providing the trade mark and operating procedures (Hall and Dixon 1988).

2.5 BENEFITS AND DRAWBACKS OF FRANCHISING

Franchising a business has definite advantages and disadvantages for both the franchisor and the franchisee. This section is aimed at clarifying the benefits and drawbacks for both parties.

2.5.1 Benefits for franchisors

According to Maitland (1991:13) the benefits of franchising for a franchisor is:

- **Low capital expenditure**

  The franchisors initial expenses should only include the organizing and marketing of the franchise system, thereafter the set up and running of the operations is done with the franchisee's money.

- **Personal commitment and motivation**

  Franchisees invest time, money and dreams in the franchise. Franchisees usually have a lot at stake when obtaining the rights to a franchise and they often have loans to re-pay and failure would mean bankruptcy. This makes franchisees have a high degree of commitment and motivation, as well as harder working than any manager that might be appointed.

- **Reduced daily involvement**

  Franchisees are responsible for the daily management and running of a franchise business. The franchisor is therefore free to give attention to the growth of the franchise system by attracting and selecting new franchisees and improving the business concept.

Hall and Dixon (1988:40) identify the advantages of franchising for franchisors as follows: Franchisor can achieve rapid expansion of their distribution system while spreading the risk of a major expansion programme through franchising. Franchisors are also able to compete on equal terms with larger rival companies and franchisors are therefore able to use their negotiating strength to the benefit of franchisees. Franchisees are responsible for the daily management of the franchise (which reduces the burden of the franchisor) and because franchisees make a financial investment in the franchise they are usually highly motivated and operate / manage the outlet for a longer period of time than hired managers would. Franchisees usually have a better knowledge of the local market than hired managers, which would make the business more profitable. Franchising also reduces the problem of managing outlets in remote areas and franchised outlets may also be more viable in "marginal" areas / locations where company owned outlets would be uneconomic.

2.5.2 Drawbacks for franchisors

Maitland also identified various drawbacks of franchising for franchisors. The three main drawbacks according to Maitland (1991:16) are:

- **Loss of ownership**
  Eventhough the business concept belongs to the franchisor, the concern itself belongs to the franchisee. The franchisor-franchisee relationship is therefore different from that of the employer-employee relationship.

- **Low profits**
  A franchisor will usually receive a lower income from a franchised outlet than from a self-owned unit.

- **Interdependence**
  Both the franchisee and franchisor have certain responsibilities. The franchisor should provide a tried and tested business system with continuous help and support for franchisees. Franchisees should follow the operating manuals, maintain the good name of the franchise and pay royalties on time. If either of the parties does not honour their respective responsibilities, the whole franchise system will suffer.

Further drawbacks of franchising for franchisors are that the objectives of franchisees regarding profit, turnover and corporate image may not correspond to those of the franchisor. The franchisee might also become resentful of the controlling nature of the franchisor, which will lead to a break-down in the relationship. The franchise contract only allows the franchisor to end the relationship in certain circumstances and changing a franchisee is a very difficult exercise. Franchised outlets may also be less profitable than company owned outlets in certain circumstances (Hall and Dixon 1988).

2.5.3 Benefits for franchisees

Maitland (1991:69) states that the major advantage of franchising for franchisees is the fact that franchises usually have a proven track record with an established name, which leads to immediate goodwill. Help and support is also available with the launch of the business and ongoing support is provided. This help and support leads to fewer mistakes, less time being wasted on finding the best way of running the business and therefore, lower costs. Franchisees can also make use of group research, buying and advertising arrangements.

Hall and Dixon (1988:36) recognize the benefits mentioned by Maitland as well as the following; franchisees usually don't require previous experience, the chances of success are higher than with an independent business and the chances of raising finance is therefore also much higher. Franchisees are protected from competition with other franchisees and site selection is done by the franchisor. Start-up cost and operating costs of franchises are also lower than independently owned businesses.

2.5.4 Drawbacks for franchisees

There are also drawbacks for franchisees when considering the franchising option. A franchise business is hard work and effort and should not be seen as a get-rich-quick scheme. Constant franchise fee payments must be made to the franchisor in return for advice and support. A franchise is also based on rules and procedures that must be followed and sometimes this can lead to frustration on behalf of the franchisees. The franchisee and franchisor are dependant on each other and if the franchisor doesn't perform the required tasks, the franchisee will suffer (Maitland 1991:73).

A further drawback of franchising for franchisees is the high degree of control that is exerted over the franchisee by the franchisor. Although this control is necessary for the survival of the franchise, it may lead to power struggles in the relationship between franchisees and franchisors. The franchisees' business might also suffer because a franchisee is unable to make adaptations to the operation as local tastes and circumstances change. Bad publicity surrounding a franchisor will also have a negative impact on the franchisee. Furthermore, the franchisee is obligated (and contractually bound) to continue to operate the outlet and termination of the relationship may be very restrictive (Hall and Dixon 1988:39).

2.6 HISTORY OF FRANCHISING

According to Cherkasky (in The Franchising Handbook 1993:1) the modern concept of franchising emerged in the USA after the Civil War with the Singer Sewing Machine Company being the first to establish a network of salesmen and dealers to distribute its sewing machines. Mendelsohn (1992:19) agrees that the modern concept of "business format franchising" started with the Singer Sewing Machine Company.

Hall and Dixon (1988:4) however state that franchising emerged in Britain during the Middle Ages when church officials would pay the government for the right (i.e. the franchise) to collect local taxes. This form of franchising ended in 1562 when the tax collection procedures were reformed.

Franchising resurfaced again in the eighteenth and nineteenth century when a legislative body or "royalty" would grant the right to a long-term monopoly in some form of trade or commerce to a franchisee. The franchisee paid royalty fees and had certain obligations to fulfil. The next step in the development of franchising came with the "tied house" agreements between breweries and landlords. Breweries would purchase premises with and alcohol license and then lease these to landlords; in exchange the landlords would only sell beer from the specified brewery (Hall and Dixon 1988:4).

Mendelsohn (1992:19) however states that the pub-tied house agreements were merely "exclusive purchasing agreements" and could thus not be seen as true franchising agreements.

According to Hall and Dixon (1988:4-6) franchising in the United States started in the automotive industry with the granting of exclusive territories to franchisees. Car dealership franchises were fully established in the United Stated by 1910. The soft drinks bottling industry followed by granting the right to use the packaging and brand name of the franchisor to a franchisee (bottling plant). The third major industry to use franchising was the petrol industry. The abovementioned types of franchises have become known as traditional or first generation franchises.

Goncalves and Duarte (1994:30) state that product and trademark franchising were the first types of franchising to gain acceptance as being viable. The real franchise boom however, started in the 1950's with the appearance of business format franchising (also known as second generation franchising).

2.7 PERSPECTIVES ON FRANCHISING

There are many perspectives on franchising and this section will aim to inform the reader of some of these perspectives.

Brown and Dev (1997:37) state that the basic premise of franchising systems is the fact that they enable member firms to perform at otherwise unachievable levels.

2.7.1.1 Franchising as a business strategy and marketing system

Kirkham and McGowan in The Franchising Handbook (1993:10) state that franchising is a business strategy with the aim of attracting and retaining customers, and a marketing system that creates an image of the company in the mind of customers. They conclude that it is also a method of distributing products or services that satisfy customer needs.

Friedlander and Gurney (1990:20) agree and state that "*franchising is a system or method of marketing a product or service.*"

Mendelsohn (1992:1) feels that franchising is a method of marketing goods and services and should not be seen as an industry.

2.7.1.2 Franchising as a distribution network or channel

Franchising is seen by some as a distribution network. A franchise business is a method of distribution used by companies to distribute their products and services through retail outlets owned by independent third party business operators (Anon, Franchise Law at FreeAdvice.com, 1998). According to Fulop and Forward (1997:603) business format franchising has become an alternative method of distribution and business development.

Fels in (Friedlander and Gurney 1990:21) also says: "*Franchising today is one of the most innovative, dynamic and effective systems for distribution of goods and services the world has ever know.*"

Williamson, Stern and El-Ansary (in Fulop and Forward 1997:603) identify franchising as a hybrid form of "vertical marketing system" and therefore a method of marketing goods and services dependent on complex contractual agreements. The view and implications of franchising as a vertical marketing system is discussed in more detail in chapter 4.

2.7.1.3 Franchising as a method of expansion

One of the most debated topics in franchising literature is the reason why firms choose to franchise rather than expand through company owned units. There are three main theories that attempt to answer this question and these theories will now be addressed.

The first theory is that of "resource scarcity" in which franchising is used to access resources needed for growth. Oxenfelt and Kelly (1968-1969) were the first to propose a life cycle model of franchising. In this theory, a young company, with limited capital, becomes a franchisor in order to use a franchisees capital to expand. As the franchisor acquires more capital, the franchisor might start to take back some of the larger units of franchisees. This view has become known as the "resource scarcity" theory (Fulop and Forward 1997; Hunt 1972; Caves and Murphy 1976; Combs and Castrogiovanni 1994; Sen 1998). Although this theory sheds some light on the question, it doesn't explain why companies with sufficient capital would still franchise their businesses (Elango and Fried 1997:69).

"Agency theory" is the second theory which attempts to explain the reason for franchising. This theory is based on the comparison between the cost of monitoring a franchisee and the cost of monitoring hired managers (Combs and Castrogiovanni 1994). The theory suggests that franchisee-owned outlets will perform better than company-owned outlets. According to Lillis, Narayana and Gilman (1976) the most important advantage offered by franchising is the high level of motivation of franchisees compared to paid employees. Fulop and Forward (1997:608) state that the "Agency theory" views franchising as a form of channel management which attempts to gain the advantages achieved by the corporate marketing vertical system (such as standardisation, economies of scale and control) as well as the advantages associated with independent businesses such as motivation, personal service and flexibility.

Risk spreading is another theory that has received some attention in literature. This theory proposes that franchisors give more risky locations to franchisees while maintaining ownership of less risky locations (Combs and Castrogiovanni 1994).

Although these theories are the most widely discussed, they raise many questions and counter arguments. Combs and Castrogiovanni (1994:41) state that none of these models have been able to account for a large portion of variance.

2.8 CURRENT STATE OF FRANCHISING

Now that the concept of franchising is understood (definitions, types of franchising, parties involved and the history of franchising) it is also necessary to know what the current state of franchising is on a national and international level. As will be shown in the next sections, franchising plays a very important role in the economy of several countries and has the potential to play an even greater economic role in the future.

2.8.1 International franchising situation

Franchising has played a significant role in the development of the economy of the United States and Britain (and many other countries), creating employment for millions of people. The contribution of franchising to economic growth, and the future growth of franchising is considered in the following section.

2.8.1.1 Growth and Importance of franchising

According to Mendelsohn (1992:20) when one examines the growth of franchising, the USA must be the starting point because the USA is the centre of modern franchise development and also provides the best statistics.

In 1993, franchising in the United States already accounted for 35 percent of all retail sales in the United States, which is more than $758 billion. More than 7.2 million people were employed by 542 000 franchised businesses from sixty different industries. It was calculated that a new franchise opened in the United States every sixteen minutes and that this growth rate was six times faster than the growth rate of the US economy as a whole (The Franchising Handbook 1993:4-6). Franchising also accounts for 10 percent of the Gross National Product in the United States and expanded by around 300 percent between 1975 and 1990 according to Horwarth International (in Fulop and Forward 1997:604; Stanworth 1995:3). Stanworth (1995:13) states that these figures are misquoted and that the inflation adjusted figures are more correct. If the inflation-adjusted figures are used, the average annual growth rate drops from 9.4 percent to 3.1 percent and the overall growth figure declines from 284.6 percent to 58.5 percent.

In Britain, the number of franchise systems rose from 170 in 1984 to 253 in 1987 and then to 379 in 1990. This meant that franchised units increased from 7,900 (1984) to 15,000(1987) to 18,620 in 1990. The gross turnover of the franchising industry also increased from £0.85 billion in 1984, to £3.1 billion in 1987 and then to £5.24 billion in 1990 (Maitland 1991:5-7). Fulop and Forward (1997:604) state that (according to the British Franchise Association) approximately 396 "business format franchises" existed with 24,000 outlets employing 185,000 people and generating an annual turnover of approximately £5 billion in 1993. An attempt was made by the BFA to compare US and UK statistics. From this comparison it was estimated that the franchising sector in the UK accounted for 29 percent of total retail sales (although various other authors suggested estimates ranging from one to ten percent).

2.8.1.2 Future growth of franchising

The franchise industry shows no signs of slowing down. According to Cherkaksy (The Franchising Handbook 1993:5) the following six trends will influence the growth and expansion of franchising:

- Sales growth of franchise outlets in the traditional franchising fields such as fast food, convenience stores, hotels and rental companies will slow down.

- Service type businesses / franchises will experience continuous, rapid growth and expansion and will become dominant in the marketplace.
- Large chains will continuously merge with and acquire smaller chains.
- Independent businesses will convert to franchise businesses.
- Globalisation of franchising.
- Ownership and management of franchise companies will be increasingly mature and diversified. As franchise companies grow the management style will become more corporate and less entrepreneurial.

Stanworth (1995:22) also identifies a number of factors that are likely to promote the growth of franchising such as the decline of traditional manufacturing industries and their replacement with service industries which are more suited to franchising, the increase in popularity of self-employment, higher employment rates for females increasing the need for home services (cleaning, domestic household services, house-and garden care) which is also very well suited to franchising.

2.8.2 National franchising situation

The concept of franchising is also well established and accepted in South Africa and has had a significant impact on the economy (as will be shown in the next paragraphs). The potential for franchising to have an even greater impact on the economy is also a possibility with the government considering to use franchising as a method of empowering previously disadvantaged individuals.

2.8.2.1 Growth and Importance of franchising

According to Gordon (The Franchise Factor 1998-1999) the franchising industry in South Africa grew from 173 systems in 1994 to 236 systems in 1995 to 398 systems in 1998, which equates to an increase of 162 franchise systems since 1994. The annual growth of franchising systems in South Africa according to Gordon (1998-1999) since 1994 was 32.5%.

Approximately 11 new outlets per franchised system were opened in 1998 with an estimation of the number of outlets in operation in South Africa calculated at 20,885. The average annual increase in the number of outlets since 1995 was calculated at 39.25% (The Franchise Factor 1998-1999).

The largest business categories (in South Africa for 1998) in terms of the number of franchised systems are automotive products and services (11.1%), education and training (11.5%), fast food (15.1%) and retail (15.9%) (The Franchise Factor 1998-1999).

The total turnover of the South African Franchise sector increased from R9,278 billion in 1994 to R21,791 billion in 1995 to R39, 969 billion in 1998 (excluding petroleum retail). This translates to an average annual growth rate of 54.6% since 1994. The franchising sector also provides jobs to a total of 266,104 people. (The Franchise Factor 1998-1999).

According to Ian Lourens (Chairman of FASA) the franchise growth rate in South Africa is 39,4 percent per annum, which translates to 12 percent of retail sales and close to R40 billion (IFE 2000 Visitors guide 23-25 March 2000).

According to Scholtz (1996:4) there are numerous reasons for the continuous growth of franchising in South Africa (from 1994 onwards) including the South African economy (which showed the lowest inflation rate, the highest business confidence index and a high economic growth rate for the 1994 – 1995 period). Other factors that played a positive role in the development of franchising are said to be the population composition (number of households belonging to the middle and upper middle class), the growth and role of FASA (Franchising Association of South Africa), the regulatory environment (few laws to regulate franchising for example the registration of a franchise is not compulsory and neither is disclosure documents) and sufficient patent and trade mark protection (adequate legislation is provided to protect franchising companies).

The lifting of international sanctions probably also had an effect in the growth of franchising in South Africa, with companies such as McDonalds and Sweet

Factory opening franchises in South Africa and some South African franchise systems (Nando's, Steers Fast Food, Spur Family Restaurants) expanding internationally.

Zeidman and Feirman (1995:50) agree that the South African business climate has been very inviting to franchisors with the abolition of apartheid, the lifting of economic sanctions, political reform and the development of a program aimed at black entrepreneurs.

2.8.2.2 Future of franchising in SA

As indicated by the research done by Gordon of Franchize Directions (in the Franchise Factor 1998-1999) the number of franchise systems, outlets and contribution to South Africa's turnover is likely to increase as the popularity of franchising increases in South Africa.

There are however a few aspects that should be addressed in the near future to ensure the prosperous future of franchising in South Africa. One of these aspects relates to a report from the Competition Board of the South African Ministry of Trade and Industry, which identified possible restrictive practices contained in franchise agreements. According to Zeidman and Feirman (1995:50) the following items may constitute restrictive practices;

- A franchisee may purchase stock only from the franchisor or from a supplier indicated by the franchisor,
- A franchisee may only stock or deal in certain types of products or services,
- A territorial restriction on the franchisees right to trade,
- A restriction on the franchisee dealing with customers outside a particular area etc.

It is clear that the aspects mentioned above are essential to running a successful "business format franchise". If the franchisor cannot prove that there are "overriding public interest considerations" to allow the restrictions mentioned above, the restrictions will be declared unlawful and will become unenforceable

(Zeidman and Feirman 1995:53). This could have a serious impact on the franchisor and the running of the franchise business. The uncertainty created in the franchising industry by this report and the implications thereof could have a detrimental effect on the growth of franchising in South Africa.

Another aspect that should be addressed is the Code of Ethics and Business Practices that has been adopted by FASA. The code is a mechanism for self-regulation with the basis of the code being a pre-sale disclosure document with a seven-day "cooling-off" period following the disclosure. Although the aim of the code is a noble one, a problematic aspect surrounding the code is that "*it appears to grant franchisees a private right of action for damages or annulment of the franchise agreement if the disclosure document is inaccurate or incomplete or the waiting period is not observed*" (Zeidman and Feirman 1995:53). Franchisors might start to ask how the code (which is meant to be self-regulatory) gives a private right of action to franchisees, which could again negatively influence the whole industry if this aspect isn't addressed and rectified.

It is evident that franchising has played a major role in the economies of many countries and that the future of franchising in South Africa has tremendous potential if managed correctly.

2.9 REVIEW OF OTHER FRANCHISING RESEARCH

Research on franchising has focused on aspects such as the nature of franchising and the reasons for franchising. This includes the existing theories related to the subject namely, the "resource scarcity theory", the "agency theory" as well as "risk spreading theories" (Elango and Fried 1997; Oxenfeldt and Kelly 1968-69; Carney and Gedajlovic 1991; Combs and Castrogiovanni 1994; Fulop and Forward 1997).

Research focusing on the growth rates of franchising (and the apparent creation of unattainable expectations based on misquoted information) was done by Stanworth (1995). Lafontaine and Shaw (1998) also did research on this topic.

The role and impact of international franchising strategies have also received attention in franchising research (Elango and Fried 1997; Connell 1997)

A considerable amount of research on the perceptions (and misconceptions) as well as statistics regarding failure rates of franchise systems and the reasons for failure have been completed (Stanworth, Purdy, Price and Zafiris 1998; Boe, Ginalski and Henward 1987: Castorgiovanni, Justis and Scott 1993).

A number of studies have tried to determine the "how" of obtaining the franchisee co-operation, or the factors that influence this co-operation. Various possibilities of obtaining co-operation have been tested, for example, the use of power, convincing franchisees of the benefit of the relationship and the use of other non-coercive sources of power (Sibley and Michie 1982; Hunt and Nevine 1974; Strutton, Pelton and Lumpkin 1995).

Conflict in the franchisee-franchisor relationship has also been studied by various researchers. Conflict is influenced by the type of leadership style that a franchisor uses, the degree of freedom that a franchisee perceives themselves to have and the financial dependence of a franchisee to name but a few (Schul, Little and Pride 1985; Knight 1986; Mendelsohn 1992; Strutton, Pelton and Lumpkin 1995; Spinelli and Birley 1996; Gaski 1984)

Hunt and Nevine 1974; Hing 1996; Knight 1986; Lewis and Lambert 1991; Gassenheimer, Baucus and Baucus 1996; Spinelli and Birley 1996 have studied franchisee satisfaction and the factors that influence franchisee satisfaction. Schul, Little and Pride (1985) have found that the franchisee's perception of the quality of the interaction with the franchisor, the quality of the operational support, the reward structure, autonomy and the fairness of the relationship all influence franchisee satisfaction.

Research on franchisee motivation and specifically the aspects that attract individuals to becoming franchisees, were researched by Stanworth and Kaufmann (1995; 1996) as well as Knight (1986). Peterson and Dant (1990) obtained results in their research on this topic supporting the fact that previous self-employment, the number of years operating a franchise business and the level of sales achieved in the franchise business would influence perceptions of the franchise and therefore franchisee motivation. Higher or more positive evaluations on each of these aspects would lead to an increasing perception of power, therefore reducing perceptions of dependence. This in turn will lead to the need for different management strategies by franchisors to keep franchisees motivated. "*...as the level of the franchise relationship and the sales levels of franchisees increase, different advantages may need to be stressed to keep franchisee motivations high*" (Peterson and Dant 1990:59).

2.9.1 Suggestions made in the research literature for future research

Elango and Fried (1997:76) make numerous suggestions for future research in the franchising field. The first suggestion is to pay more attention to implementation issues such as training, cooperative advertising and communication. They also state that franchisee's should be viewed as intelligent players in the industry and should be consulted more often and that the stability of the franchisee-franchisor relationship should be explored.

All of these suggestions where considered when this research project was undertaken and the result of these suggestions can be seen in the choice of research topic, the questionnaire design and the sampling procedure.

2.10 SUMMARY

This chapter provided an overview of franchising. The importance, growth and future of franchising in South Africa and the rest of the world was discussed as well as other aspects such as the definitions of franchising, the parties involved in franchising, the types of franchisees, the types of franchising, the benefits and drawbacks of franchising. A short literature review of franchising research and some suggestions made by other authors were also given in this chapter.

The next chapter will focus on life cycles and will attempt to provide the reader with sufficient information to understand the concept in question.

CHAPTER 3

LIFE CYCLES AS A BUSINESS PHENOMENAN

3.1 INTRODUCTION

"*We know that living organisms – whether they are plants, animals or people – are subject to a phenomenon called life cycles. Organisms are born, grow, age and die. As they change along the life cycle, these organic systems have predictable patterns of behaviour. At each stage, the behavioral patterns manifest themselves as a certain struggle, as difficulties or transitional problems which the system must overcome*" (Adizes 1988:xiii).

This chapter will strive to understand the phenomenon of life cycles and will specifically consider life cycles in the franchising context and even more so life cycles from a franchisee-franchisor relationship perspective.

3.2 DEFINITION OF A LIFE CYCLE

According to the Concise Oxford Dictionary (1999) "life" is "*the condition that distinguishes animals and plants from inorganic matter, including the capacity for growth, functional activity and continual change preceding death*". According to the same source, "cycle" means "*a series of events that are regularly repeated in the same order*". "Life cycles" would therefore be, a series of events that are regularly repeated in the same order in the period between life and death.

In the consulted literature, numerous references to "life cycles" where found not only in the biological and natural sciences, but also in the economic sciences literature and even the theological sphere to mention but a few. A multitude of literature is available on this subject since any organism, whether it be a person, animal, plant, company, market or religion, that has the ability to function and grow (i.e. live) will go through a series of events that will repeat themselves in the same order within this growth and developmental process.

Because there is such a wide variety of work on life cycles, it was decided to focus on the life cycles that are found in economic and business sciences literature. Probably one of the most well known life cycles is that of the product life cycle. The product life cycle and various other life cycles will be discussed in the following sections. Life cycles as found in franchising literature will then also be considered with specific focus on life cycles pertaining to the franhcisee-franchisor relationship.

3.3 RESEARCH ON THE LIFE CYCLE CONCEPT

It is necessary to understand the difference between a "concept" and a "curve" before continuing with the discussion of life cycles in order to minimize confusion.

3.3.1 Operational Definitions

Cooper and Schindler (1998:35) define a concept as "*a bundle of meanings or characteristics associated with certain events, objects, conditions, situations, and the like*". They state that concepts are created by "*classifying and categorizing objects or events that have common characteristics beyond the single observation.*" A "concept" is therefore an aggregate of observations i.e. an average.

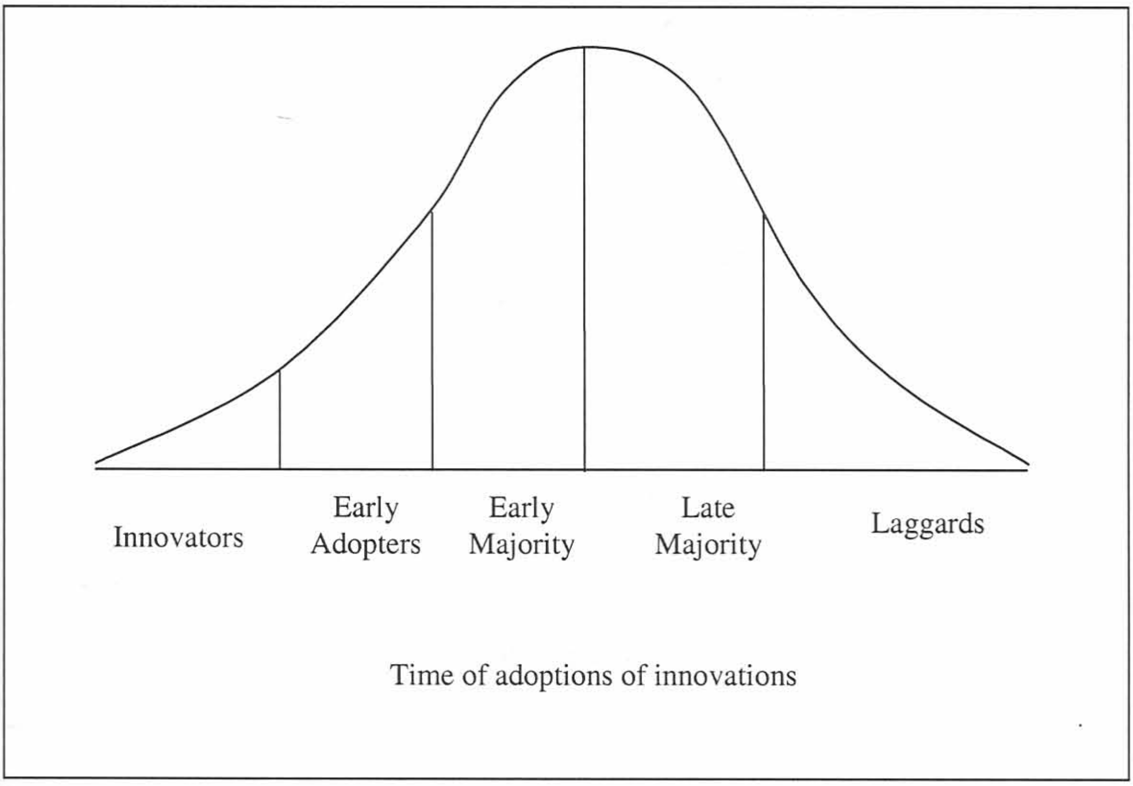
A "curve" is defined as a line or outline which gradually deviates from being straight for some or all of its length (The Concise Oxford Dictionary 1999). When using the term "curve" reference is made to a curved line or shape based on a single observation.

3.3.2 The Diffusion Curve

The product life cycle concept (which will be discussed in the next section) is based on the adoption of innovation and the diffusion process. According to Kotler et al (1996:297) the adoption process can be defined as "*the mental process through which an individual passes from first learning about an innovation to final adoption*". The adoption process is the development of a consumer's awareness regarding a product up to the point of using or adopting the product on a regular basis, while the diffusion process is the process by which an innovation develops from "inception" to "use" by the consumer. The diffusion process is the aggregate of all individual adoptions over time (Hisrich and Peters 1991:282).

It has been found that there are different "adopter categories" based on the speed at which consumers adopt a new product or concept, and that the distribution resembles that of a normal distribution (Kotler et al 1996:298; Hisrich and Peters 1991:282). The diffusion curve is shown in Figure 3.1

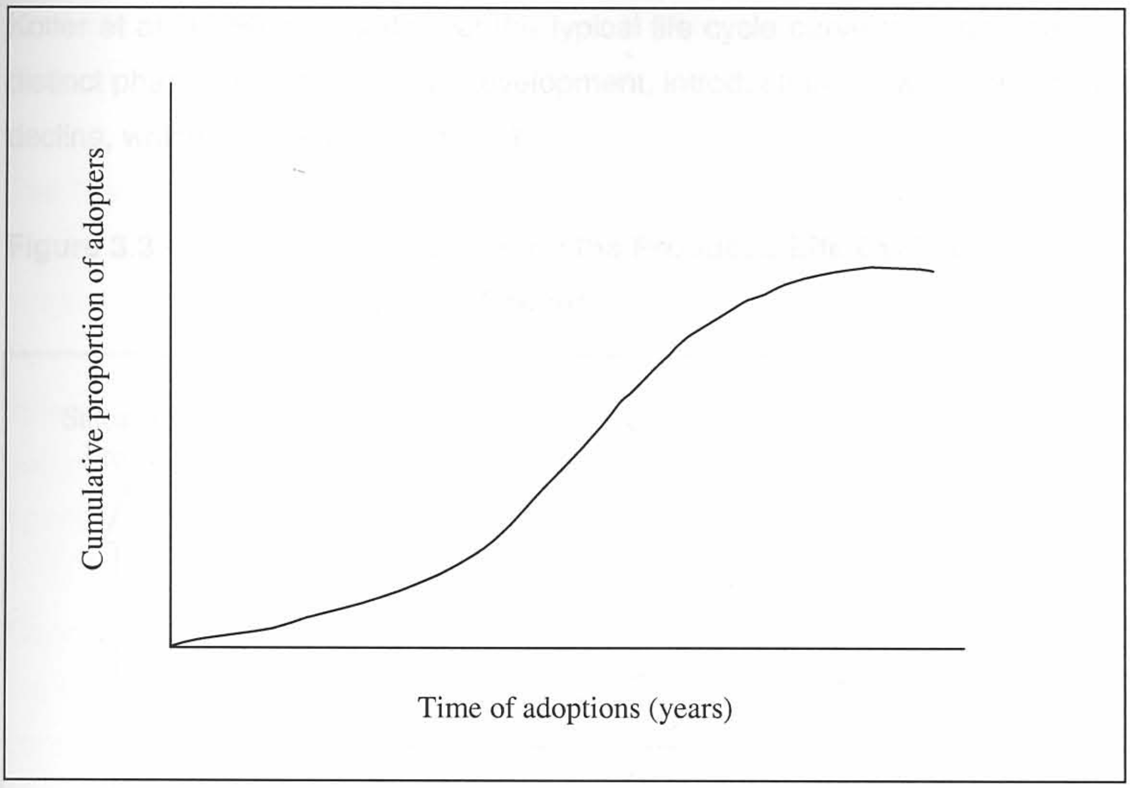
Figure 3.1 – Market Segments Identified by Time of Adoption of New Product



Adapted from: Hisrich RD and Peters MP. 1991. Marketing Decisions For New And Mature Products. Second Edition. Macmillan Publishing Company: New York. p 285.

The diffusion process can also be depicted as a cumulative curve, which is very similar to the product life cycle. The cumulative diffusion curve is shown in Figure 3.2

Figure 3.2 – Cumulative Diffusion Curve



Adapted from: Hisrich RD and Peters MP. 1991. Marketing Decisions For New And Mature Products. Second Edition. Macmillan Publishing Company: New York. p 286.

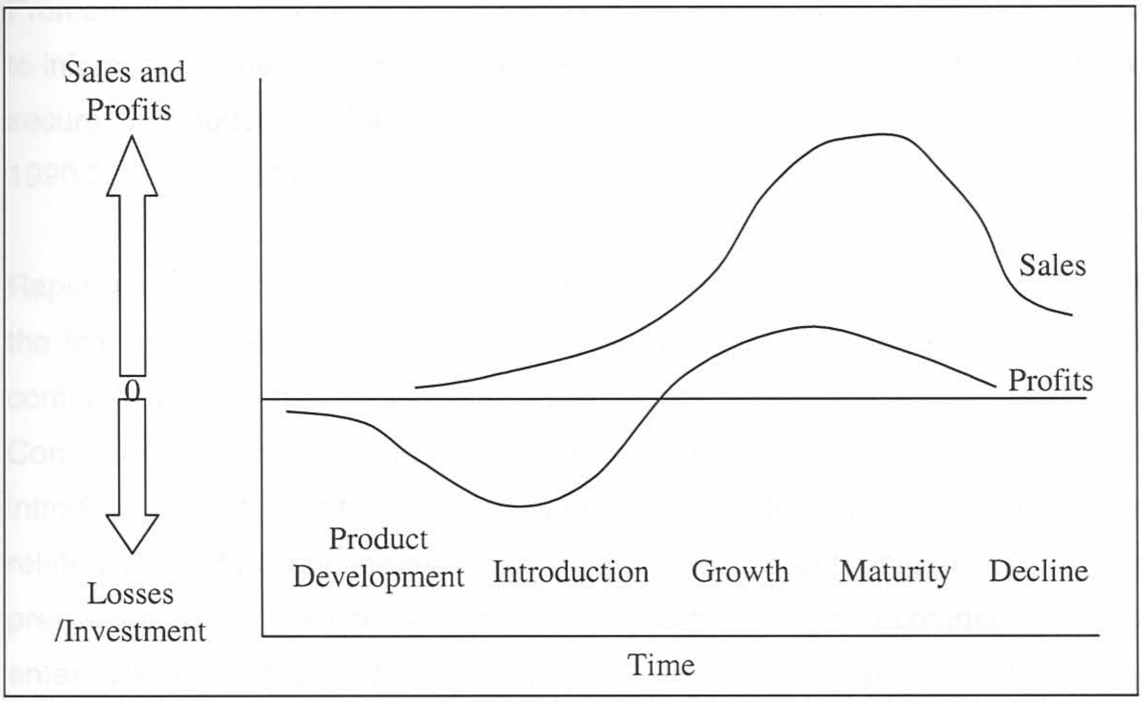
The difference between the "diffusion curve" (cumulative) and the "product life cycle" curve is that the "diffusion curve's y-axis" represents the proportion of consumers in a market that adopt the product or innovation, while the "product life cycle curve's y-axis" represents absolute rand value of sales.

3.3.3 The Product Life Cycle Concept (PLC)

The product life cycle describes and models the stages through which a product passes (Rosenbloom 1990:318). According to Harrell and Taylor (1981:70) "*the product life cycle is a quantitative expression of unit sales volume of a specific product category or class from introduction to market demise.*" Perreault et al (1999:272) state that the product life cycle describes *industry sales* and profits of a product idea within a particular product-market. An individual product or brand may therefore not follow a typical life cycle pattern.

Kotler et al (1996:531) state that all products have a life cycle, although the shape and the length of the life cycle curve are not easily known in advance. Kotler et al (1996) also state that the typical life cycle curve (concept) has five distinct phases, namely product development, introduction, growth, maturity and decline, which are shown in Figure 3.3.

Figure 3.3 – Sales and Profits over the Product's Life Cycle from Development to Decline



Adapted from: Kotler P, Armstrong G, Saunders J and Wong V. 1996. Principles of Marketing. Prentice Hall: Europe. p 532.

The time progression, represented on the horizontal axis, can vary from days to years, depending on the nature of the market. The marketing mix of the product will also vary during each of the stages due to changes in consumer tastes and attitudes, cultural changes, competition, government influence and economic conditions (Hisrich and Peter 1991:9). Each of these life cycle stages (which will be discussed shortly), therefore reflects different opportunities and threats which require appropriate marketing and management strategies.

The product development phase is not always included as part of the product life cycle concept. This is evident in works by authors like Walker et al

(1998:147) and Perreault et al (1999). Kotler et al (1996:531) however, include this phase and define it as the time when a company finds and develops a new product idea. During this phase the company only has investment costs and no sales.

The "introduction stage" is a period of slow sales growth since the product has just been introduced onto the market. There are little profits (if any) during this stage due to the expenses incurred in the phase of product introduction. Promotion expenses are at their highest in this phase. This is due to the need to inform consumers of the product, the need to induce consumer testing and to secure distribution (Kotler et al 1996:532; Kotler 1984:225-229; Rosenbloom 1990:320; De La Mare 1982:51).

Rapid market acceptance and increasing profits occur in the "growth phase" of the life cycle when the new product satisfies the market. Early adopters will continue to buy the product and conventional consumers follow their lead. Competition will increase, and to combat possible sales losses the company will introduce new product features and improve the product quality. Prices remain relatively constant and promotional expenditure is slightly higher than in the previous stage to balance out the effect of competition. The company will also enter new market segments and new distribution channels to sustain rapid market growth. Other strategies to increase rapid market growth include changing advertising that is focused on "awareness" to advertising aimed at "convincing consumers to buy". Lowering prices at the right time to attract more customers can also achieve success. The company also has to ensure that the product availability provided to the market is adequate and they have to monitor "channel member actions" regarding the handling of competitive products (Kotler et al 1996:532; Kotler 1984:225-231; Rosenbloom 1990:320; De La Mare 1982:51).

"Maturity" is a period where the sales growth declines because the product has achieved acceptance from most potential buyers. The profits stabilize or decline due to expenses incurred to defend the product from competition. Competitors use "price" in the form of "markdowns" to convince consumers to buy their products. The advertising, trade deals, consumer deals as well as research and development budgets all increase in an effort to increase the sales growth. Weaker competitors fall to the wayside and only the well-entrenched competitors survive. The company should put extra emphasis the product, making it more desirable for the consumer and possible channel structure changes should also be considered in this phase (Kotler et al 1996:532; Kotler 1984:225-232; Rosenbloom 1990:323; De La Mare 1982:51).

In the "decline phase", sales plummet and profits erode. Some companies might withdraw from the market at this time, while those remaining might reduce their number of product offerings, drop smaller market segments, reduce their promotion budget and further reduce their prices (Kotler et al 1996:532; Kotler 1984:225; Rosenbloom 1990:324; De La Mare 1982:51). Table 3.1 gives a summary of the PLC characteristics, objectives and strategies in each of the life cycle stages.

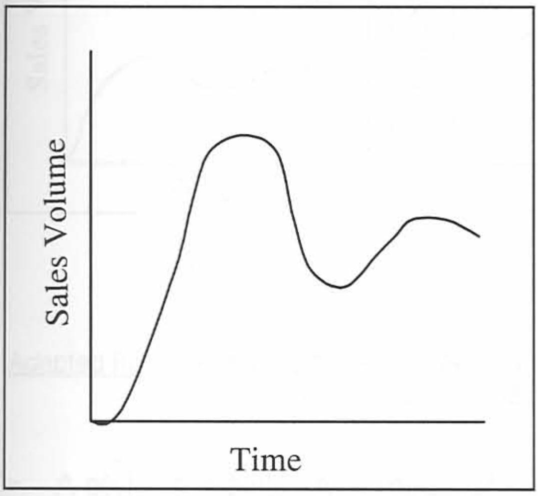
Table 3.1 – Product Life Cycle: Characteristics and Responses

Characteristics	Introduction	Growth	Maturity	Decline
Sales	Low sales	Rapidly rising sales	Peak sales	Declining sales
Costs	High cost per customer	Average cost per customer	Low cost per customer	Low cost per customer
Profits	Negative	Rising	High	Declining
Customers	Innovative	Early adopters	Middle majority	Laggards
Competitors	Few	Growing	Stable	Declining number
Marketing objective	Create product awareness and trial	Maximize market share	Maximize profit while defending market share	Reduce expenditure and milk the brand
Strategies	**Introduction**	**Growth**	**Maturity**	**Decline**
Product	Offer a basic product	Offer product extensions, service, warranty	Diversify brand and models	Phase out weak items
Price	Use cost-plus	Price to penetrate market	Price to match or beat competitors	Cut price
Distribution	Build selective distribution	Build intensive distribution	Build more intensive distribution	Go selective: phase out
Advertising	Build product awareness among early adopters and dealers	Build awareness and interest in the mass market	Stress brand differences and benefits	Reduce to level needed to retain hard-core loyals
Sales promotion	Use heavy sales promotion to entice trial	Reduce to take advantage of heavy consumer demand	Increase to encourage brand switching	Reduce to minimal level

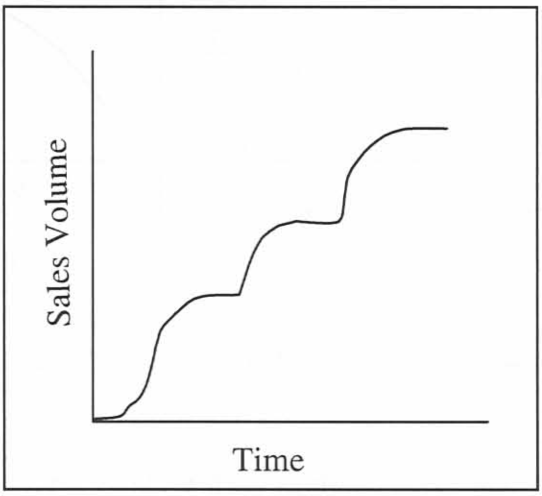
<u>Adapted from</u>: Kotler P, Armstrong G, Saunders J and Wong V. 1996. Principles of Marketing. Prentice Hall: Europe. p 532.

Although the life cycle curve (concept) is typical, not all curves follow this typical pattern (Kotler et al 1996:532; Kotler 1984:226). He identifies various situations of variation, which will be briefly illustrated and explained.

Figure 3.4 – Other Possible Product Life Cycle Patterns



"Cycle-recycle" pattern



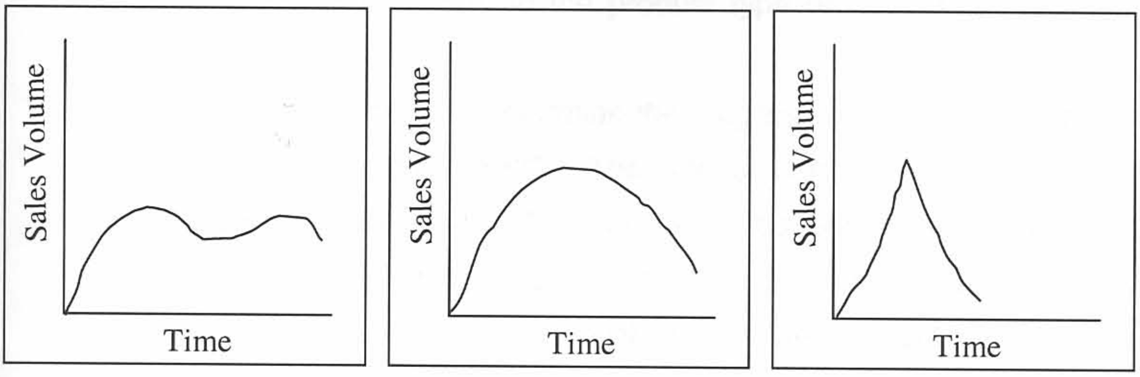
"Scalloped" pattern

Adapted from: Kotler P. 1984. Marketing Essentials. Prentice Hall: Engelwood Cliffs. p 227.

- The "cycle-recycle" pattern occurs when a second promotional push is embarked upon in the decline stage of the life cycle.
- The "scalloped" pattern consists of a succession of life cycles and is based on the discovery of new product characteristics, new uses and new users.

The product life cycle concept can also be applied to styles, fashion and fads. The special life cycle curves are shown in Figure 3.5.

Figure 3.5 – Life Cycle for Style, Fashion and Fads



Style Fashion Fad

Adapted from: Kotler P, Armstrong G, Saunders J and Wong V. 1996. Principles of Marketing. Prentice Hall: Europe. p 532.

- A style is a distinctive mode of expression. A style may last for generations and come in and out of vogue. A cycle for style will show several periods of renewed interest.
- A fashion is a popular style in a given field and has four stages. The four stages are: distinctiveness stage (only the early adopters will be buying the product), copying stage (others start copying the fashion leaders), mass fashion stage (the fashion has become extremely popular and mass production is starting) and lastly the decline stage (consumers start following other fashion trends).
- Fads are fashions that are accepted, adopted and discarded by consumers very quickly. The product life cycle for fads is relatively short in comparison to other life cycles.

According to Day (1981:60) there is tremendous ambivalence with regards to the product life cycle concept. On the one hand the PLC has appeal because of its intuitive logic, but its simplicity also makes it vulnerable to criticism. He identifies five basic issues that underlie the criticisms and that must be faced for meaningful application of the concept:

1. *"How should the product-market be defined for the purpose of life cycle analysis?"* – A variety of levels of aggregation range from the generic product class and industry to the product type or form down to brand level.
2. *"What are the factors that determine the progress of the product through the stages of the life cycle?"* – The rate of diffusion or adoption are influenced by a multitude of factors such as perceived comparative advantage of the product relative to the best alternative, perceived risk, information on the product, availability of the product, government regulations and policies, substitute products, competitors, influence of repeat buying and buyer learning to mention but a few.
3. *"Can the present life cycle position of the product be unambiguously established?"* – The choice of measures (unit volume, current dollar value, per capita consumption) and the variety of life cycle patterns complicate the identification of the product's position in the life cycle.
4. *"What is the potential for forecasting the key parameters, including the magnitude of sales, the duration of the stages, and the shape of the curve?"* – Various diffusion models exist that focus on the rapid growth stage, however, little work has been done on the maturity and decline stages.
5. *"What role should the product life cycle concept play in the formulation of competitive strategy?"* – The formulation of general strategic instructions for each life cycle stage has been widely criticized because they are misleading in terms of assuming a single role for the life cycle. In terms of the above, the life cycle is seen as merely a determinant of strategy, structure and performance. However the life cycle serves several different roles in strategy formulation, for example, an enabling role, a moderating variable or a consequence of strategic decision.

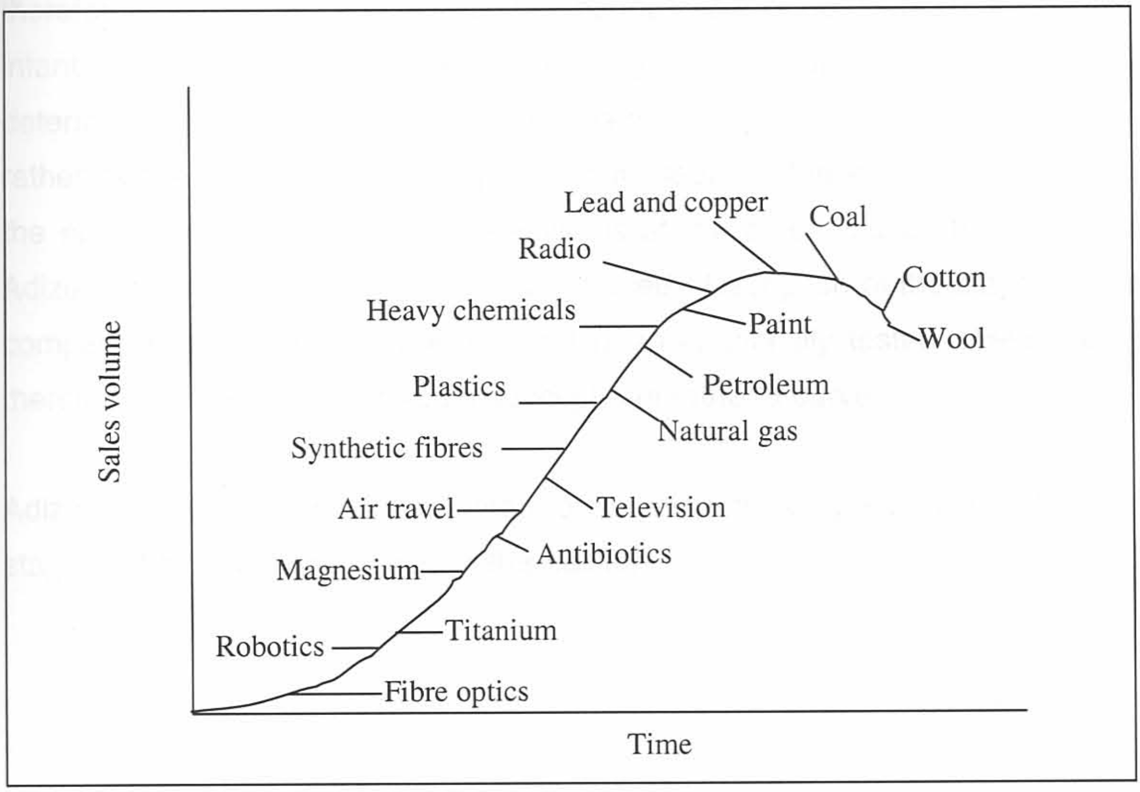
The abovementioned criticisms should also be considered in this research study because the same criticisms could also hold true.

3.3.4 The Industry Life Cycle

According to De La Mare (1982:59) the product life cycle concept also applies to complete industries (since they are comprised of the aggregation of the sale of individual products and firms).

The following figure indicates the positioning of various industries in terms of a life cycle curve. Sales volume, profitability and time are considered to be the main influencing factors in the progression on the life cycle curve.

Figure 3.6 – A Schematic Presentation of the Relative Positions of Several Products in their Life Cycles



Adapted from: De La Mare RF. 1982. Manufacturing Systems Economics. The Universities Press: Northern Ireland. p 60.

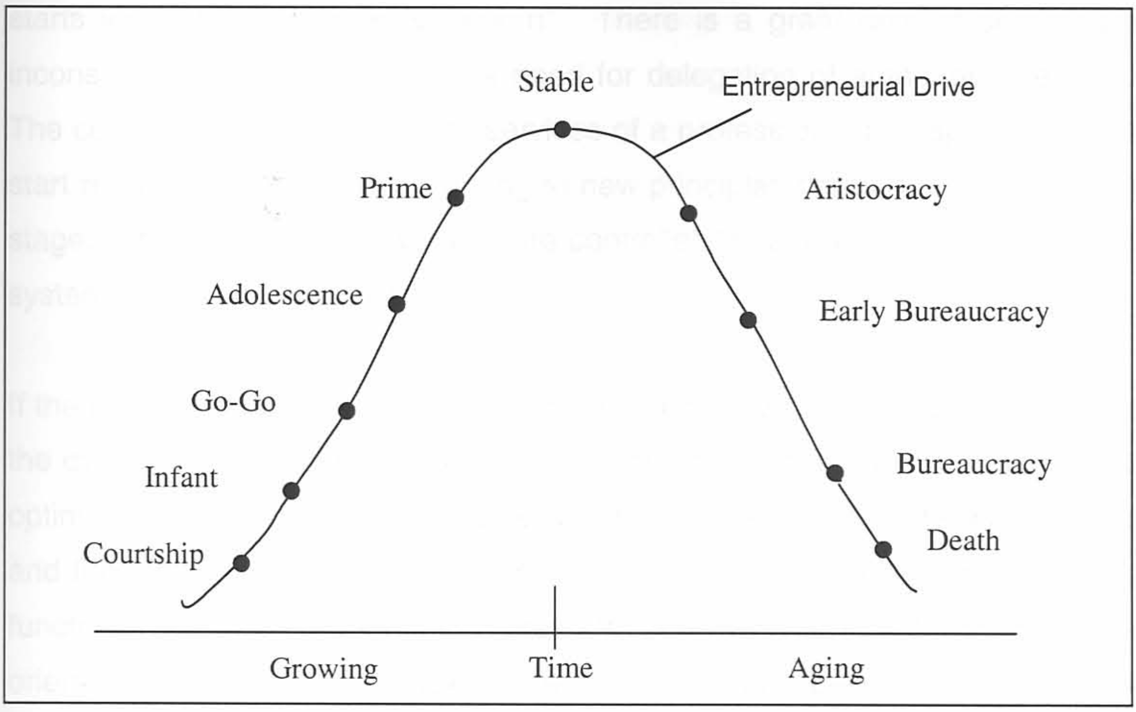
De La Mare (1982: 88) further suggests a formula to determine the economic implications of a capital project across its life cycle. The basic formula would read as follows: the project's net present value is equal to the life-cycle benefits minus the life-cycle costs. Although the purpose of this formula is an economic outcome, the basic philosophy behind this formula might be a valuable input into the research. If the net present value is equated with franchisee satisfaction, a hypothesis can be made that the relationship benefits minus the relationship costs might give an indication of the franchisee satisfaction in the different life cycle stages of a franchisee.

3.3.5 The Corporate Life Cycle

Adizes (1988) state that the growth and aging of organisations is key to understanding the corporate life cycle. According to him, the “age” (maturity) of a company is determined by two factors: the flexibility and controllability of the organisation and not necessarily size and time. He states that a company can therefore be 1 year old and already be nearing death or 50 years old and still an infant. The actual age or rather “maturity” of a company is therefore not determined by the number of years that the company has been in existence, but rather by the balance of flexibility and controllability. Flexibility has to do with the ease of change, while controllability is at the other end of the spectrum. Adizes's corporate life cycle is a “reality based” description of the stages that a company passes through, and has not been empirically tested. He's theory therefore cannot be considered a concept, but rather a curve.

Adizes (1988: 11) identified a number of stages in the corporate life cycle. The stages will briefly be discussed in this section.

Figure 3.7 – Corporate Life Cycle Stages



Adapted from: Adizes I. 1988. Corporate Lifecycles: How and Why Corporations Grow and Die and What to Do About It. Prentice Hall: New Jersey. p 88.

The first stage of the corporate life cycle is that of "courtship". The business is not in existence yet, and only exists as an idea. The founder is building commitment for the concept by talking to others and thereby obtaining the necessary thrust to move to the next stage of the life cycle.

The second stage is "infancy". This phase starts when some form of risk has been taken by the founder. In this phase the focus shifts from "ideas" to "results". This stage is typified by long working hours, lack of systems, little delegation and management that is a one-man show. Corporate flexibility is very high and changes in corporate strategy are easily made.

The infancy stage is followed by the "go-go" stage where the original business idea is actually "working" and the business has started stabilising, which makes the founder of the organisation and the organisation arrogant. There is a drive for administrative subsystems and the company / management oscillates between delegation and decentralisation.

The next stage of the corporate life cycle is called adolescence. This stage starts when the company is "reborn". There is a great deal of conflict and inconsistency in this phase and a need for delegation of authority is required. The company often acquires the services of a professional manager in order to start running the business according to new principles needed for this life cycle stage. There is a drive towards more controllability and the implementation of systems and controls receive attention.

If the new principles are successful, and administrative systemisation succeeds, the company will move into the fifth life cycle stage called "prime". This is the optimum point on the life cycle curve (where there is a balance between control and flexibility). Companies in this phase of the life cycle are characterised by functional systems and organisational structure, results orientation, customer orientation, planning and following the plans to name but a few. One of the major problems in this stage of the life cycle is a shortage of well-trained personnel. The aim should be to keep an organisation in "prime" for as long as possible, because all the stages after prime are part of a process of deterioration.

The next stage is called "stable" which signifies the end of growth and the beginning of decline. These types of organisations are less flexible and significant changes occur in terms of budget considerations (short term in favour of long term) and power (finance becomes more important than marketing).

"Aristocracy" is the seventh stage, and is identified by the fact that more money is spent on control systems, benefits and facilities. There is more emphasis on **how** things are done rather than on **what** is done. The company has lost its client focus and looses market share. In an effort to solve the problem prices are raised instead of reviewing client needs and adapting the market offer (as well as cutting cost). The company becomes more "formal" (in terms of dress code, address and tradition), the organisation is "cash rich" and employees as a group try "not to make any waves", although employees as individuals are concerned about the company's vitality. There is no desire for change or a "results orientation". The controllability of the system is now higher than the flexibility of the system.

In "early bureaucracy" a focus is placed on **who** caused the problems rather than on **how to solve** the problems. The price increases made in the previous life cycle phase has reduced total revenues and the market share of the company have steadily shrunk. There is a lot of conflict, backstabbing and infighting. Paranoia reigns in the organisation and employees trying to protect their positions. A negative spiral ensues with employees being fired or leaving and if this situation continues the company will go bankrupt.

They only way that the life of the company can be extended is if the company is subsidised or nationalised. This phase is called a "full bureaucracy" and usually the only type of people left in the organisation at this point are administrators. The sole emphasis of the company will be compliance with rules and policies with no obvious orientation towards results or satisfying customer needs.

Using Adizes theory to "add value" in this study is difficult due to the underlying principle of "flexibility" versus "controllability" that is used to define the age (maturity) of a system (if a franchisee owned outlet is considered as the focus). One of the key aspects of franchising is the fact that the business is "controllable" and that franchisees cannot easily change the franchise concept. A successful franchise business will have standards, manuals and operating procedures in place specifying exactly what **can** and **cannot** be done (i.e. highly controllable). In Adizes's theory all franchise businesses would therefore be aging because the "controllability" is much stronger than the "flexibility" and most franchise businesses would probably be classified as "stable" or "aristocracy". If this were so, most franchise businesses would not survive for long (they would age and die) and as we know, this is not the case. The truth is that if franchise businesses do not have all the controls and systems, they are unsuccessful and die (Hall and Dixon 1988).

Applying Adizes theory to the franchisor rather than the franchisee, makes more sense. The stage in the corporate life cycle in which the franchisor is situated can have significant implications on the relationship between franchisees and the franchisor and therefore also on the franchisee life cycle concept. Slavin (in The Franchising Handbook 1993) discuss the corporate evolutionary process of a franchise company in more detail, which illustrates this point effectively. Slavin's research on life cycles in franchising is discussed in section 3.4.4 (vide page 67).

One of the similarities between the corporate life cycle of Adizes and this study is the researchers hypothesis that the franchisee life cycle will follow the same trend as Adizes corporate life cycle, namely, the beginning of the process or life cycle is very positive (growth, enthusiasm, i.e. high commitment and trust), but the "end" (last phase of the life cycle) is negative with much conflict, backstabbing, unhappiness, i.e. lower commitment and trust.

Smith, Mitchell and Summer (1985) also did research on corporate life cycles and the management priorities that are important in each of the life cycle phases. They identified three types of management priorities namely technical efficiency priorities, organizational coordination priorities and political support priorities.

Technical efficiency priorities are concerned with the maximization of organizational efficiency and are more short term oriented. Organizational coordination priorities are concerned with the integration of the total organization and are more long term oriented. Political support priorities focus on maintaining individual power, support and commitment of employees.

Smith, Mitchell and Summer (1985) propose a three stage corporate life cycle. The first stage is called "inception/mobilization" and occurs when managers start thinking about building support from suppliers. "Growth", which is the second stage, occurs when managers start to concentrate on the demands that expansion brings and "maturity" occurs when managers start obtaining support for restructuring the organization to allow growth or to appeal for keeping the status quo. This life cycle model and some of the characteristics of the stages are depicted in Table 3.2.

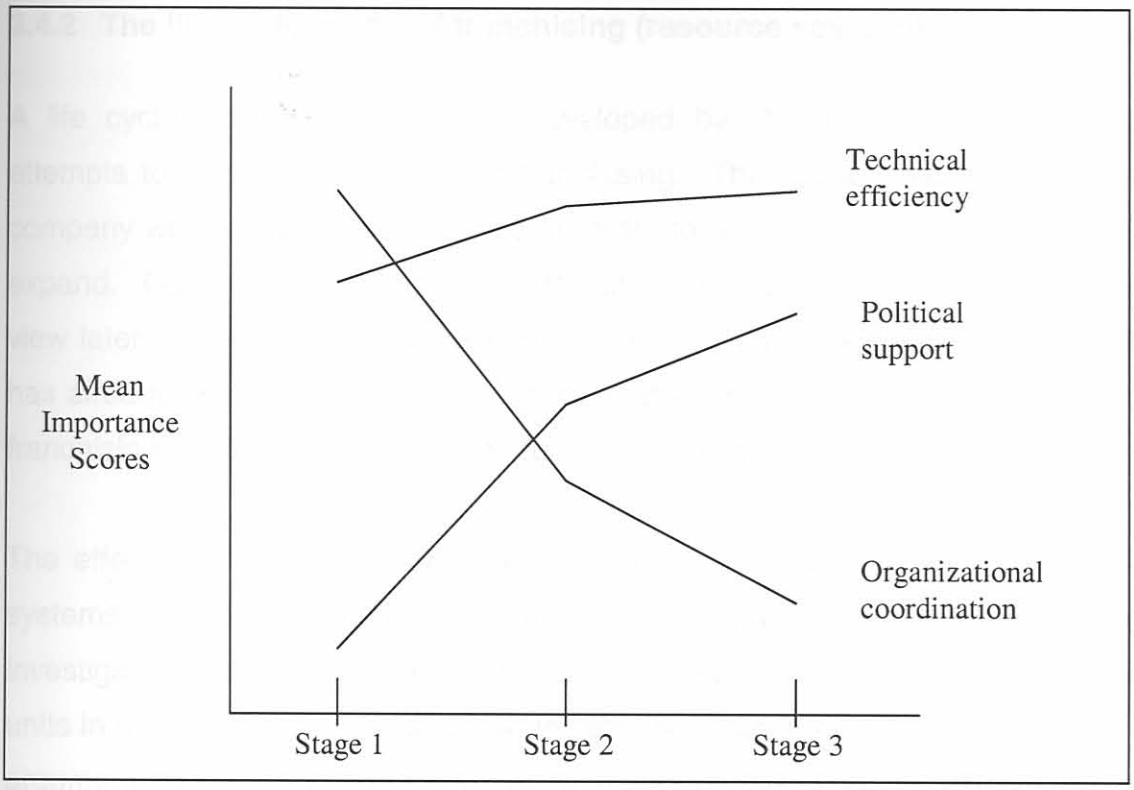
Table 3.2 – Three Stages in Organizations' Life Cycles

Characteristics	Stage 1 - Inception	Stage 2 - High-Growth	Stage 3 - Maturity
Type of organizational structure	No formal structure	Centralized, Formal	Decentralized, Formal
Reward system	Personal subjective	Systematic, Impersonal	Impersonal, Formal, Totally objective
Communication process and planning	Informal, Face-to-face, Little planning	Moderately formal budgets	Very formal, Five-year plans, Rules and regulations
Formalization adherence	Low adherence	High adherence	High formalization but low adherence
Method of decision making	Individual judgement, Entrepreneurial	Professional management, Analytical tools	Professional management, Bargaining
Make-up of top level management staff	Generalist	Specialist	Strategists, Planners
Organizational growth rate	Inconsistent but improving	Rapid positive growth	Growth slowing or declining
Organizational age and size	Young and small	Larger and older	Largest or once large and oldest

Adapted from: Smith KG, Mitchell TR and Summer CE. 1985. *Top Level Management Priorities in Different Stages of the Organizational Life Cycle.* Academy of Management Journal, 28(4):802.

The authors found that managers indicated significantly different importance values to priorities based on the life cycle stage of the company. They found that technical efficiency was important in all three life cycle stages, but increased in importance with "maturity". The coordination priority decreased in importance from the "inception" to "maturity" stages, while the political support priority showed a significant increase from "inception" to the "maturity" stages. They therefore showed that different priorities have different importance levels in each of the life cycles stages. The results are shown in Figure 3.8.

Figure 3.8 – Mean Importance Scores for the Three-Priority Model by the Three Life Cycle Stages



Adapted from: Smith KG, Mitchell TR and Summer CE. 1985. *Top Level Management Priorities in Different Stages of the Organizational Life Cycle.* Academy of Management Journal, 28(4):810.

3.4 RESEARCH ON LIFE CYCLES OF FRANCHISING SYSTEMS

Various authors have studied the life cycle of franchising systems and the contributions of these authors will be discussed in this section.

3.4.1 Fulop and Forward's franchising concept life cycle

One of the approaches to studying the life cycle of franchising systems is found in the study of Fulop and Forward (1997). This study summarizes the historical development of franchising (franchising concept life cycle). They divided the cycle into three stages namely "license/franchise-like" arrangements of the mid nineteenth century, "license/franchise-like" arrangements of the 1920's and 1930's and lastly "business format franchising" (1940's onward).

3.4.2 The life cycle model of franchising (resource scarcity)

A life cycle model of franchising developed by Oxenfelt and Kelly (1968) attempts to explain the reason for franchising. They suggested that a young company would become a franchisor in order to use the franchisee's capital to expand. Carney and Gedajlovic (1991) also did research in this field and this view later became known as "resource scarcity". The "resource scarcity" view has already been discussed in chapter 2 in the section on the perspectives on franchising and will therefore not be further discussed.

The effects of "ownership" and "investment" on the performance of franchise systems were investigated by Thomas, O'Hara and Musgrave (1990). They investigated the performance of company owned units and franchisee owned units in an attempt to prove/disprove the theory of resource scarcity ("life cycle " argument of franchise development) as proposed by various other authors. They rejected the theory and stated that franchise systems do not necessarily become company owned chains as the system matures, but rather that franchisors adjust the proportional percentage of operating units to attain a balance of company and franchisee owned outlets that maximizes franchisor performance.

Lafontaine and Shaw (1999) explored company-ownership over the life cycle of franchised chains by modelling the evolution of company ownership over time. They found that company-ownership was negatively related to the age of the system because most companies start with 100% company owned units. This percentage can therefore only decrease if a company decides to franchise. They also found that after approximately 6 years the balance between "company owned" and "franchisee owned" units stabilize. They concluded that companies actively work towards and manage their systems in order to obtain a balance in the percentage of company owned units versus the percentage of franchisee owned units. According to them, most franchisors are also able to indicate the optimal proportion of company owned units that a franchisor should own. In most cases the proportion is not zero.

Lafontaine and Kaufmann (1994) did further research regarding the evolution of ownership patterns in franchise systems based on the competing theories of resource scarcity and incentives issues. They reported results on franchise system evolution (with reference to the structural evolution of an individual franchise system as it moves from the first stage in the life cycle to maturity). They found that franchisors desire a "mix" of both "company-owned" and "franchisee-owned" units in the same system.

3.4.3 The franchise life cycle model

Another approach to the studying of life cycles focuses on franchise systems from a contractual agreement perspective. Lillis, Narayana and Gilman (1976:77) attempt to explain the differences in importance of competitive advantages (associated with franchising) in the different stages of the franchise life cycle. In order to do this, they specified a franchise life cycle model. The franchise life cycle consists of four stages, (penetration, growth, maturity and late maturity) and is described in terms of two parameters namely size of the franchise in terms of the number of outlets and the number of years that the franchise has been in business (Lillis et al 1976). The franchise life cycle stages and parameters are shown in Table 3.3.

Table 3.3 – Franchise Life Cycle Stage Parameters and Critical Values

Stage	Age	Size
Penetration	0 – 5 years	0 – 10 outlets
Growth	6 – 8 years	11 or more outlets
Maturity	9 – 13 years	30 or more outlets
Late Maturity	14 years or more	50 or more outlets

Adapted from: Lillis CM, Narayana CL and Gilman JL. 1976. *Competitive Advantage Variation Over the Life Cycle of a Franchise*. Journal of Marketing, 40(4):78.

Lillis, Narayana and Gilman (1976:79) found that the perceived importance of the advantages of franchising vary across the life cycle of a firm and that franchisee motivation is the most important advantage across all stages, with exception of the penetration stage, of the life cycle.

3.4.4 The corporate evolutionary and growth process of a franchise company

Slavin (in The Franchising Handbook 1993:489) discusses the corporate evolutionary and growth process of a franchise company. He states that both companies and people follow a predictable course of evolution with distinct stages of growth. He identifies five stages of growth namely the "Entrepreneurial stage", the "Management discipline stage", the "Delegation specialization stage", the "Bureaucracy stage" and lastly the" Intrapreneurial stage".

The first stage of the business is said to be very entrepreneurial with the founder of the business making all decisions relating to the business. The success of the business is therefore directly linked to the abilities of the founder. Companies in the first stage of evolution are not suitable for franchising because, in most cases, the original entrepreneur does not have the ability to transfer the necessary methodologies and specifications of the business to others (franchisees). Until the founder can define, refine, document and even computerize the business, the transference of the necessary information will not take place.

In stage two, the founder decides to build systems to achieve a more structured and disciplined business environment. This means that the business becomes more vertical (bureaucratic) and horizontal (specialized) with objectives and standards being communicated. According to Slavin (in The Franchising Handbook 1993:490) franchising in this stage of a companies life cycle is still premature due to the conflict caused by the company's need to build systems and the founder's inability to let go.

The company's organizational structure becomes even more horizontal in the third stage with a collaborative and decentralized management style being incorporated into the business. This stage is said to be ideal for the emerging company to begin franchising. Middle-level managers are recruited to manage new departments and are responsible for internal and external communication. These middle-level managers are also responsible for the further defining and specifying of the business to be franchised as well as the controls that should be implemented. Senior management focuses on long-term strategic issues (products and services, acquisitions, franchising) and the development of human resources (internal employees, external franchisees and business affiliates). The company should have two management structures to deal with both franchisees and company-owned units. The conflict in this phase deals with the constant transition that the company faces.

The fourth stage of the growth of a franchise company is that of bureaucracy caused by a continuous addition of layers within divisions. This causes the company to become slow moving, rigid and passive, which will make this company less responsive to the needs of franchisees and therefore impacting on its ability to grow. This stage should be avoided if possible.

The intrapreneurial stage is characterized by a company that can integrate different personalities, disciplines, environmental issues, political issues, franchising principles and issues of business management into a cohesive organization. Both employees and franchisees are asked to participate in teams to discuss organizational problems and are compensated on overall productivity and profitability of the company rather than on their own hard work. Entrepreneurialism has been internalized within the company and so intrapreneurialism enters the organization.

Although the corporate life cycle stage of the franchisor can play an important role in the relationship between franchisees and franchisors, the aim of this study was not to explain this correlation, and the researcher/author suggests that this aspect should be further investigated in the future.

3.5 RESEARCH ON LIFE CYCLES OF FRANCHISEES

3.5.1 The franchise unit's life cycle

Achrol, Etzel and Gundlach (1995) studied a franchise unit's life cycle of evolution and the environmental conditions faced by those units from a product life cycle perspective with specific attention to how these factors would influence the importance of goals and utilization of franchisor services by franchisees. The authors felt that franchisors would be better able to identify which services are most valuable for franchisees at certain times, if the motivations, goals and needs of franchisees are better understood.

Etzioni (in Achrol, Etzel and Gundlach 1995:2) states that goals are intertwined with organizational effectiveness and the authors therefore feel that in order to understand "goals", effectiveness needs to be addressed. They therefore used four effectiveness models as a basis for the rest of their discussion. The four models as well as their functional imperatives, the corresponding franchisee goals and franchisor services are illustrated in Figure 3.9.

Figure 3.9 – Franchisee Goals and Franchisor Services

Effectiveness model ⇨	Functional imperative ⇨	Franchisee goals ⇨	Franchisor services
Rational system	Goal attainment	Productivity Cost efficiency Financial performance	Personnel training Accounting services Managerial training / consulting
Open system	Adaptation	Survival Growth Adaptation Differentiation	Financial services Marketing services New product development
Internal process	Integration	Cooperation Quality assurance Information	Managerial access Standardize equipment and supplies Market research services
Behavioural system	Pattern maintenance	Commitment Customer satisfaction	Conflict resolution Marketing services

Adapted from: Achrol RS, Etzel MJ and Gundlach GT. 1995. *Franchiee Goals and Franchisor Services: Implications of Life-Cycle Evolution and Environmental Conditions.* Society of Franchising Conference Proceedings, 17-18 Feb 1996:21.

Achrol, Etzel and Gundlach (1995:2) identified the stages of franchise market evolution as market entry, market development, market maturity and market decline. These concepts (stages) are borrowed from the product life cycle as discussed earlier in this chapter, the only difference is that they refer to a "market" and not just a product in their discussion of the life cycle. Table 3.4 illustrates what "effectiveness model" would apply in each of the market evolution stages.

Table 3.4 – Franchisee Goals and Effectiveness Models Per Market Stage

Stages of market evolution	Effectiveness model	Franchisee Goals
Market entry	Open system and Rational system	Survival goals Creating a operating system Learning to become viable Maintain cash flow and revenue stream Productivity, cost efficiency Financial performance
Market development	Open system	Market information / understanding Positioning Adaptation
Market maturity	Open system and Internal system	Achieving uniqueness Adaptability Domain expansion Differentiation of image and product Information sharing with franchisor (cooperation and commitment) Quality assurance programs
Market decline	Rational system	Efficiency Productivity Minimizing waste Controlling cost Rationalize market offerings Maximizing operating efficiencies

Adapted from: Achrol RS, Etzel MJ and Gundlach GT. 1995. *Franchiee Goals and Franchisor Services: Implications of Life-Cycle Evolution and Environmental Conditions.* Society of Franchising Conference Proceedings, 17-18 Feb 1996:21.

3.5.2 The franchisee failure continuum

The "franchisee failure continuum" as suggested by Holmberg and Morgan (1996) is also included in this discussion, because it suggests a possible progression of events that might be considered part of a franchisee life cycle. The failure continuum starts with franchisee discontent and ultimately ends in closure of the franchise unit. The franchisee failure continuum consists of six elements that will be briefly discussed.

- **Franchisee discontent**

This aspect relates to franchisee attitudes that are difficult to measure because these attitudes might change as the circumstances surrounding the franchisee change. In research done by the Gallup organization, four main areas of franchisee disillusionment could be identified. They are summarized in the table below.

Table 3.5 – Main Areas of Franchisee Disillusionment

Type of problem / Disillusionment	Solvability	Effect on attitude
Disillusioned due to problems with franchise outlets and support provided by the franchisor	Problems can be addressed by immediate action	If the situation improves, the attitude of franchisees also improve
Disillusioned due to problems that are outside the direct control of the franchisor e.g. sudden increase in competition in the market or geographic region, etc.	Not easily resolved	If the situation improves, the attitude of franchisees (that survived) will most likely improve
Disillusioned for business reasons that is unchangeable e.g. franchisor bankruptcy, franchisor discontinues franchising, etc.	Not solvable	The negative attitude is likely to worsen
Disillusioned for personal reasons e.g. franchisees didn't realize that owning and running their own business would mean more work, longer hours, more stress, etc.	Not easily resolved	The negative attitudes may fester (though the unit may never turnover or close)

Adapted from: Holmberg SR and Morgan KB. 1996. *The Franchisee Failure Continuum.* Society of Franchising Conference Proceedings, 17-18 Feb 1996.

- **Royalty delinquency, etc**

According to Holmberg and Morgan (1996:8) late payments and nonpayment of royalties are at the top of the list of danger signals of troubled franchisees. If this occurs, a franchisor must aggressively address the situation in order to avoid further problems.

- **Lawsuits and complaints to the Federal Trade Commission**

Holmberg and Morgan (1996:9) propose that the number of complaints lodged with, for example the FTC and other organizations, be used as an indication of the failure rates of franchisees. They further state that franchise litigation can also be used as an indicator of failure rates. They however also discuss the complex issues surrounding using all of the above-mentioned methods for research purposes, especially the availability – or rather unavailability of data.

- **Turnover / Termination**

Both turnover and termination should be considered when franchisee failure rates are discussed. Turnover means that a franchise outlet changes ownership to either the franchisor or another franchisee, but continues to operate in the current location. A franchisee may move to another location or the franchisee's relationship with the franchisor might be permanently terminated.

- **Default/other losses to creditors**

Losses to creditors can also be used to determine the franchisee failure rate and the results obtained in such analyses would be very valuable to lending institutions such as banks when making their policy decisions regarding financing.

- **Closure**

Closure is the final point in the failure continuum. It should however be remembered that franchise businesses might close for other reasons than "failure" for example retirement of the franchisee, mergers or more profitable use of the location.

3.6 RESEARCH ON LIFE CYCLES FROM A FRANCHISOR-FRANCHISEE RELATIONSHIP PERSPECTIVE

Although various works on life cycles in a franchising context have been published, very little attention has been given to franchisee developmental life cycles from a franchisee-franchisor relationship perspective. Elango and Fried (1997:68-82) suggest that possible future research should examine the stability of the franchisee-franchisor relationship. Elango and Fried (1997:68-82) state: "*changes in the relationship between the franchisee and the franchisor have been largely ignored by researchers.*"

Various authors have speculated on the progress and stages that the franchisor-franchisee relationship follows. These speculative opinions will be discussed in the next section.

3.6.1 Speculated stages of the franchisor-franchisee "life cycle"

Kirkham and McGowan in The Franchising Handbook (Sherman 1993:10) describe a sequence of events that mold a franchisor-franchisee relationship. Their "life cycle" starts with the franchisee recruitment and selection process. They state that most problems with the relationship start with the choice of words that the franchisor uses. The franchisor tells the franchisee that he is "buying" a franchise and that he has an "independently owned and operated" business. The franchisee assumes that because he/she "**owns**" the business, he/she is **free** to change the business as he/she sees fit. As time passes, the franchisor realizes that the business is not being managed in accordance with the franchise agreement and the franchisor then takes action. Field support staff are deployed and sent to franchisees that are not in compliance with the franchise agreement. The field support staff informs the franchisee on how he/she should be running the business, but this only makes franchisees resentful because they believe that they own the business and that no one should tell them how to run their own business. This leads to an adversarial relationship, which is devoid of commitment and trust.

Maitland (1991:134) states the following pertaining to the franchisee-franchisor relationship "*...your relationship will almost inevitably still evolve along familiar (and possible destructive) franchising lines.* Maitland (1991) compares the relationship between the franchisor and franchisee to that of a parent and child. The parent nurtures the child who changes into an unhappy and rebellious teenager and then matures into a responsible adult.

At the beginning of the relationship, the franchisor **leads** the franchisee and does almost everything **for** the franchisee. The franchisor helps, supports, suggests and coaxes the franchisee, while the franchisee follows, listens and learns along the way. Time passes and the franchisee gains more experience and starts running the business on his/her own, while the role of the franchisor becomes less prominent. The more experienced the franchisee becomes, the more ideas, suggestions and criticisms the franchisee has. If these are not heard and acted upon, the franchisee can become angry, bitter and frustrated. The franchisee might also start feeling unhappy about the royalty payments because of his/her hard work and effort and the belief that he/she is solely responsible for the success (Maitland 1991:135).

Mendelsohn (1992: 142) draws a very similar parent-child and franchisee-franchisor analogy and says that as the franchisee moves through the stages he will move from being very dependant, to becoming totally independent. Mendelsohn (1992:142) further states that it is an essential element in the skill of a franchisor to recognize and respond to the changing nature of the relationship between himself and the franchisee.

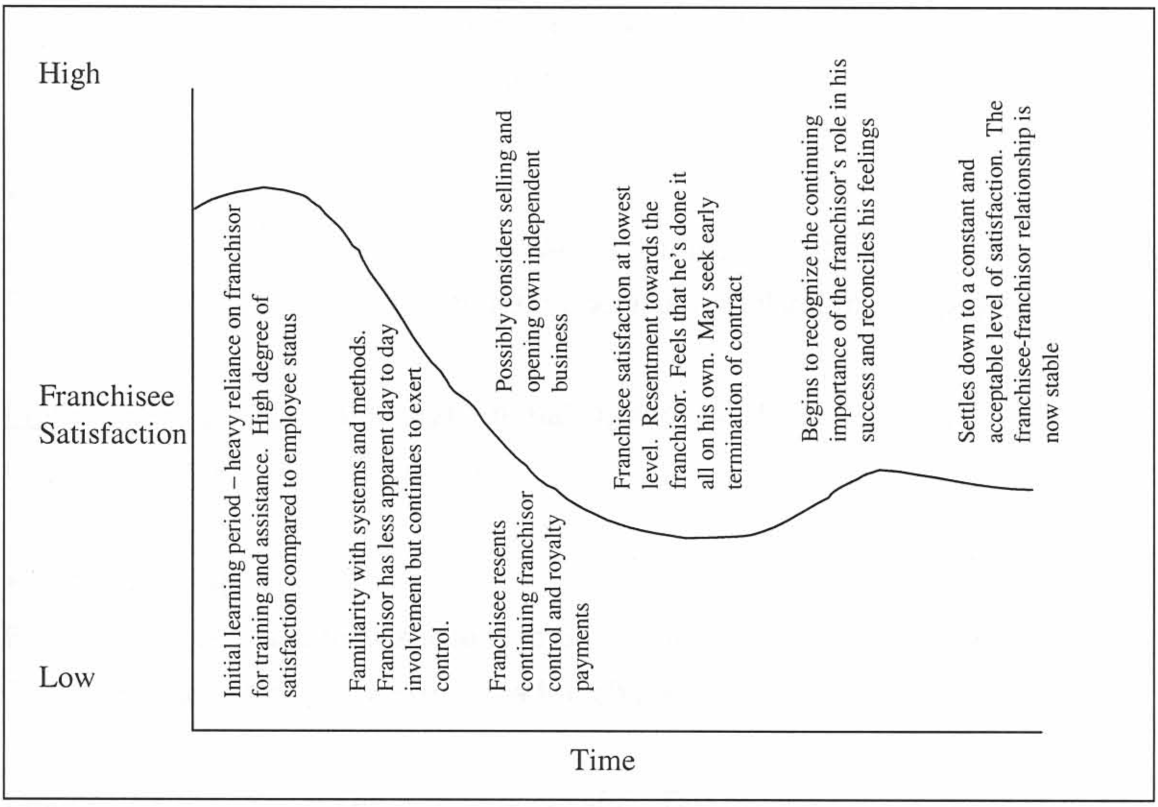
Stanworth and Kaufmann (1996:59) found that franchisees perceive themselves to have higher personal power and independence if they have had prior self employment experience, higher levels of sales and a higher number of years spent operating as a franchise within the current franchise. The franchisee will therefore move from being **dependent** to being more **independent**. Peterson and Dant in Stanworth and Kaufmann (1996:59) also agree that franchisors need to understand the changing relationship. They state: "*...as the level of the franchise relationship and the sales levels of franchisees increase, different advantages may need to be stressed to keep franchisee motivations high*"

Only a few articles were found that specifically discuss the life cycle of the relationship of franchisees with franchisors. The articles found will now be discussed.

3.6.2 Franchisee dissatisfaction and the franchise relationship life cycle

The franchise relationship life cycle of Hall and Dixon (1988:82) starts with a period of extreme contentment and satisfaction on the side of the franchisee. This satisfaction decreases as the franchisee becomes more experienced and starts to resent the control exerted over the business and the continuous payment of royalty fees. Franchisees might start to feel that their success is due to their own efforts and forget the help and support that the franchisor provided in the beginning. In some cases the franchisees might seek to terminate the relationship with the franchisor and in other cases the franchisee will accept the control of the franchisor and realize that the control is in both the franchisor and his/her best interest. Figure 3.10 gives a visual presentation of the life cycle as suggested by Hall and Dixon.

Figure 3.10 – Franchisee Satisfaction and the "Life Cycle" of the Franchisee Relationship



Adapted from: Hall P and Dixon R. 1988. Franchising. Pitman Publishing: London. p 83.

3.6.3 The franchisee curve of disenchantment – The E-Factor

Nathan (1993:12) identified a franchisee curve of disenchantment (life cycle also called the E - Factor) for franchisees consisting of six stages. Nathan's curve of disenchantment follows the same pattern and has many similarities with the one suggested by Hall and Dixon (1988:82).

Nathan (1993:12) defined the life cycle stages as follows;

- **The Glee stage**

Franchisees are excited and nervous about their new business acquisition. They are filled with anticipation and hope to make a lot of money in the future. Franchisees are very satisfied with the relationship between themselves and the franchisor.

Franchisee thinking: "I am very happy with the relationship, you obviously care about my success and you have delivered all you said. I am excited about my new business and full of hope for the future."

- **The Fee stage**

Franchisees become more sensitive to profitability and financial issues. Franchisees might start resenting the franchisor for taking royalty payments.

Franchisee thinking: "Although I'm making money, these royalty payments are really taking the cream off the top."

- **The Me stage**

Franchisees perceive their success to be due to their own hard work and effort. They start questioning the role of the franchisor.

Franchisee thinking: "Yes, I am successful. But my success is a result of my hard work. I could probably be just as successful without you."

- **The Free stage**

Franchisees become frustrated by the interference of the franchisor in the running of their business and they start to rebel against the restrictions placed on them. Franchisees might start to test the system and because of this, the Free stage has the highest incidence of conflict.

Franchisee thinking: "I really don't like all these restrictions you are putting on the way I run my business. I feel frustrated and annoyed by your constant interference. I want to be able to do my own thing and express my own ideas."

- **The See stage**

Franchisees in this phase realize that conformity to the policies and standards leads to a successful franchise.

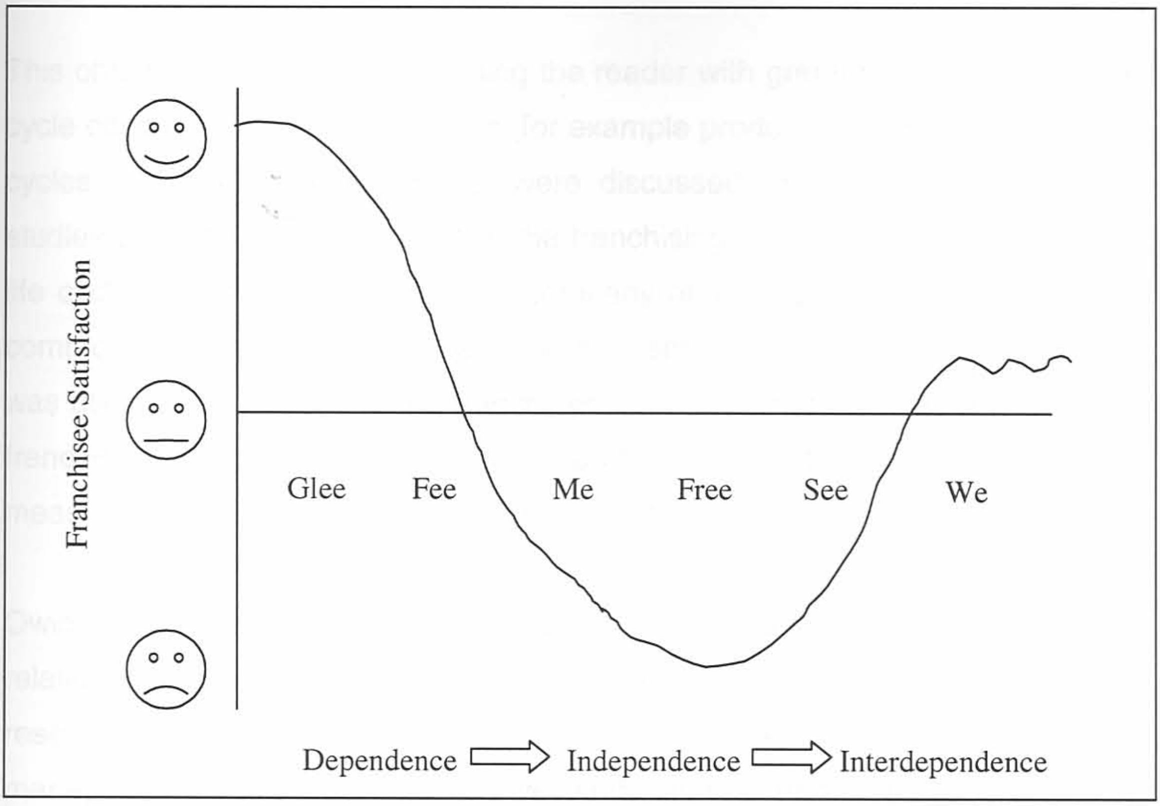
Franchisee thinking: "I guess I can see the importance of following the system and I do acknowledge the value of your support services. I can see that if we all did our own thing standards would drop and we would lose the very thing which give us our competitive edge."

- **The We stage**

Franchisees recognize that working **with**, instead of **against** the franchisor, provides higher satisfaction levels and a more successful business.

Franchisee thinking: "We need to work together to make the most of our business relationship. I need some specific assistance in certain areas to develop my business but I also have some ideas, which I want you to consider."

Figure 3.11 – The E Factor



Adapted from: Nathan G. 1993. Managing the Franchisor/Franchisee Relationship. Franchisors Associations of Australia and New Zealand Limited. Fitzgerald Publishing Pty Ltd, p 15.

All of the works on life cycles from a franchisor-franchisee relationship perspective discussed in the previous section have been theoretical and conceptual in nature with no empirical substantiation of the theories. Elango and Fried's (1997:68-82) statement that, changes in the relationships between franchisees and franchisors have been largely ignored by researchers, therefore seem to hold true and again confirms the necessity of an empirical study on this topic.

The work of Nathan on franchisee life cycles is the most relevant and recent that the researcher could find and his work served as the basis for the development of the measurement instrument used in the research.

3.7 SUMMARY

This chapter was aimed at providing the reader with greater insight into the life cycle concept. Different life cycles (for example product life cycles, industry life cycles and corporate life cycles) were discussed with specific reference to studies completed on life cycles in the franchising industry (franchising system life cycles, life cycle of a franchise company and franchisee life cycles). The common factor in all of these life cycle concepts is the passage of time, which was utilized in our study of the franchisee life cycle concept. Nathan's work on franchisee life cycles, which was used as the basis of the development of the measurement instrument, was also discussed.

Owing to the relatively small number of articles available on the life cycle of the relationship between franchisees and franchisors, it is suggested that further research and a literature review are required on relationships and relationship management. This aspect will be investigated in the chapter 4.

CHAPTER 4

RELATIONSHIP MANAGEMENT

4.1 INTRODUCTION

There is wide spread confusion surrounding relationship marketing and relationship management and in many cases these terms are used interchangeably. This chapter will attempt to clarify the difference between these aspects and indicate why these aspects are important to the current study.

Hutt and Speh (1995:84) state that the global competitive environment has changed the nature of managerial work and has created new ways of structuring organizations and buyer-seller relationships. New organizational forms emphasize partnerships with other firms, teamwork between the organization and suppliers, responsibility sharing for developing converging technologies and less reliance on formal contracts. These new organizational forms imply different types of relationships that would require different relationship management skills and different relationship marketing strategies.

4.2 NATURE OF RELATIONSHIPS

According to the Concise Oxford Dictionary (1999) a "relationship" pertains to "*the way in which two or more people or things are connected, or the state of being connected*".

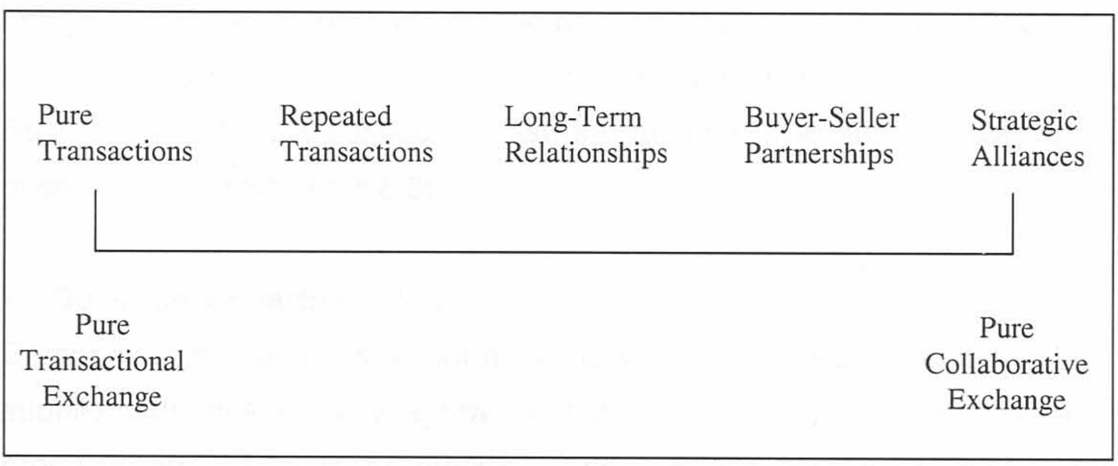
According to Liljander and Strandvik (in Ewing 1996:63) relations consist of a number of episodes. An episode is defined as "*an event of interaction that has clear starting and ending points*". Although a first purchase from a service provider would not represent a relation, it is a necessary starting point for a relation. If a service is of a discrete type, a relation is established when a second purchase is made. If a service is of a continuous type, a relation is formed when a contract is signed e.g. club membership. Commitment and choice influences the relationship strength. Therefore, a customer that has purchased from a company twice, and has a positive commitment towards that company will have a stronger relationship (bond) with the company than a customer that has purchased twice from the company but has no commitment to the company.

Miettila and Tornroos (in Ewing 1996:64) indicate three conditions that must be present in order for a relation to exist:

- Interaction is mediated through human actors, which means that their perceptions, beliefs, attitudes and behaviour are central;
- Interaction implies mutual dependability, problem solving and adaptation;
- Relationships evolve over time and include the present situation, future goals and past histories.

Hutt and Speh (1995) describe different types of relationships that are shown in Figure 4.1.

Figure 4.1 – Types of Relationships (The Spectrum of Buyer-Seller Relationships)



Adapted from: Hutt MD and Speh TW. 1995. Business Marketing Management: A Strategic View of Industrial and Organizational Markets, Fifth Edition. The Dryden Press: USA, p13.

Pure transactional exchanges focus on the exchange of products and services for highly competitive prices, while pure collaborative exchanges focus on a process where customers and firms form strong ties over time in order to lower cost, increase value and thereby achieve mutual benefits (Anderson and Narus in Hutt and Speh 1995:84).

The five relationship types are described in the following paragraphs:

- **Pure transactions**

This refers to a one-time exchange between the company and a customer with no previous or subsequent interaction between the parties (Hutt and Speh 1995:85)

- **Repeated transactions**

Frequent purchases of the same item reflect the preference and loyalty that a customer has towards a product or service. If trust and credibility is present, it signals the possibility of developing a long-term relationship (Hutt and Speh 1995:85).

- **Long-term relationships**

Long-term relationships involve long-term contractual commitments although the relationship is managed at an arms-length in an adversarial manner. Buyers and sellers are pitted against one another in a battle focused on low prices (Hutt and Speh 1995:86).

- **Buyer-seller partnerships**

Companies that emphasize partnerships will usually reduce their number of suppliers (to one or only a few) and the chosen suppliers will deliver the products and services at precise times. Prices are determined through negotiations based on mutual dependence. Quality, delivery, technical support and an open exchange of information are important aspects in partnerships (Hutt and Speh 1995:86).

- **Strategic alliances**

This is a form of inter-firm cooperation with the intent to move the partners toward the attainment of a strategic, long-term goal.

4.3 NATURE OF RELATIONSHIP MANAGEMENT

"Management" has to do with control and being in charge of something (Concise Oxford Dictionary 1999). Relationship management therefore has to do with controlling or being "in charge" of how people get on with each other or how people and things are related or connected to one another.

Dwyer, Schurr and Oh (1987:13) state that the difference between discrete transactions, which have a "*distinct beginning, short duration and sharp ending by performance*," and relational exchange, which "*traces to previous agreements (and) is longer in duration, reflecting an ongoing process*" must be fully appreciated in order to understand relationship management. In relational exchange, "*dependence is prolonged, uncertainty leads to deeper communication, the rudiments of co-operative planning and anticipation of conflict arise and expectations of trustworthiness may be cued by personal characteristics*" (Dwyer, Schurr, and Oh 1987:12).

"Relationship management" is a much broader term than "relationship marketing" and would encapsulate an aspect such a relationship marketing, which is discussed in the next section.

4.4 NATURE OF RELATIONSHIP MARKETING

The concept of relationship marketing encompasses relational exchange (Morgan and Hunt 1994; Dwyer, Schurr and Oh 1987), relational contracting (MacNeil 1980), relational marketing (Dwyer, Schurr and Oh 1987), working partnerships (Anderson and Narus 1990), symbiotic marketing (Varadarajan and Rajaratnam 1986), strategic alliances (Day 1990), co-marketing alliances (Bucklin and Sengupta 1993) as well as internal marketing (Berry and Parasuraman 1991; Iverson and McLeod 1996).

4.4.1 The difference between traditional marketing and relationship marketing

The American Marketing Association defines marketing as "*the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchange and satisfy individual and organizational objectives.*" This definition is based on the marketing mix and the four P model that has become the basic model of marketing (Grönroos 1994:1).

Traditional marketing focuses on attracting customers without any attempt to develop strategies for customer retention (Payne, Christopher, Clark and Peck 1995:ix). Sheth and Parvatiyar (1995:401) disagree and state that traditional marketing has always been concerned with the retention of profitable customers and with the corresponding future marketing activities, although the marketing practices used to achieve these goals have changed over time.

In the pas, the main focus of traditional marketing was on transactions and exchanges (Sheth and Parvatiyar 1995:1). However, the traditional marketing orientation is now changing from "transactions" to "relationships". This shift gives rise to the concept of relationship marketing.

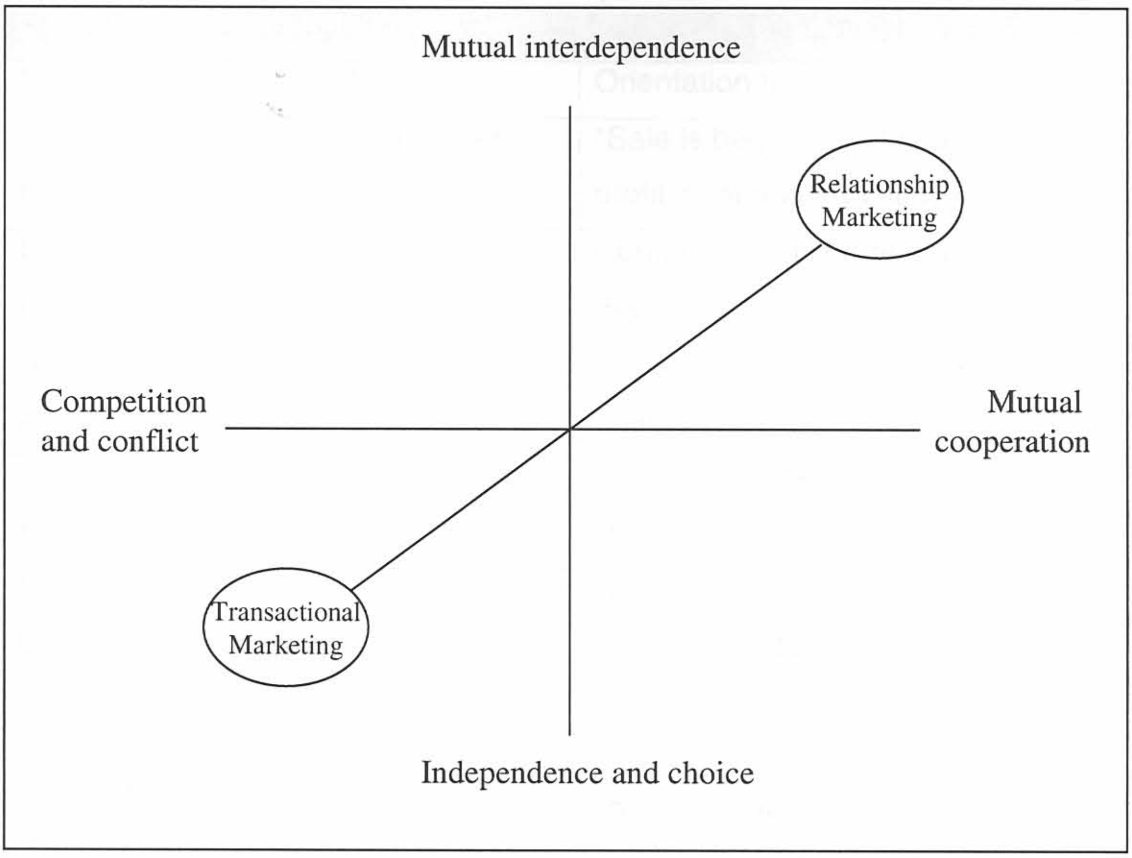
Relationship marketing is a refocusing of traditional marketing on the creation of customer value. Customer value refers to all the positive effects that a supplier has on a customer's business or his/her personal satisfaction (in the case of an end user). Relationship marketing is founded on the principal that a greater level of customer satisfaction with the relationship, will lead to a higher likelihood of customer retention (Payne, Christopher, Clark and Peck 1995:vii; Sheth and Parvatiyar 1995:413).

Morgan and Hunt (1994:22) propose the following definition of relationship marketing: "*Relationship marketing refers to all marketing activities directed toward establishing, developing, and maintaining successful relational exchanges.*"

Various other definitions of relationship marketing can also be found in literature. Berry and Parasuruman (1991:133) state that "*relationship marketing concerns attracting, developing, and retaining customer relationships.*" Berry (1993:25) states that "*relationship marketing is attracting, maintaining and – in multi –service organizations – enhancing customer relationships.*" Grönroos (1994:9) defines relationship marketing as follows: "*Marketing is to establish, maintain and enhance relationships with customers and other partners, at profit, so that the objectives of the parties involved are met.*" The building and management of relationships can therefore be broadly classified as relationship marketing (Gruen 1995:449).

The concept of relationship marketing has led to a significant shift in the axioms of marketing with a change from **competition and conflict** to **mutual cooperation** and **choice independence** to **mutual interdependence** as shown in Figure 4.2 (Sheth and Parvatiyar 1995:399).

Figure 4.2 – Axioms of Transactional Marketing and Relationship Marketing



Adapted from: Sheth JN and Parvatiyar A. 1995. *The Evolution of Relationship Marketing*. International Business Review, 4(4):400.

Other differences between the traditional marketing approach (transactional approach) and relationship marketing are presented in Table 4.1.

Table 4.1 – The Traditional Marketing Approach Versus Relationship Marketing

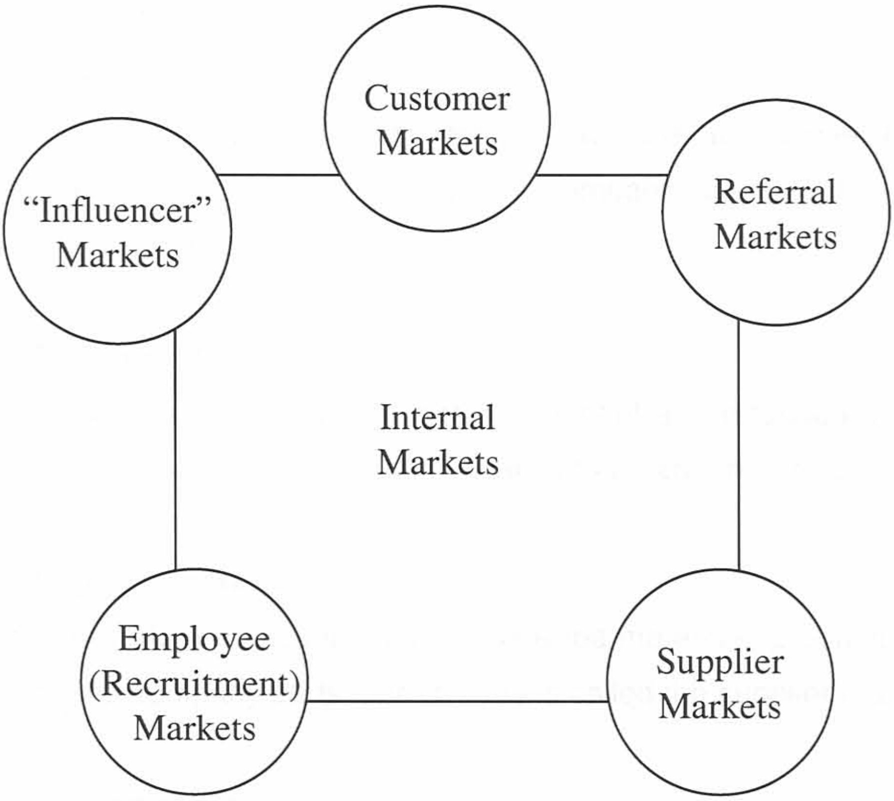
Transactional focus	Relationship focus
Orientation to single sales	Orientation to customer retention
*Sale is the result and measure of success	*Sale is beginning of relationship; profit is measure of success
Discontinuous customer contact	Continuous customer contact
Focus on product features	Focus on customer value
*Business is defined by its products and factories	*Business is defined by its customer relationships
Short time scale	Long time scale
Little emphasis on customer service	High customer service emphasis
Limited commitment to meeting customer expectations	High commitment to meeting customer expectations
Quality is the concern of production staff	Quality is the concern of all staff
*Price is determined by competitive market forces; price is an input	*Price is determined by negotiation and joint decision making; price is an outcome
*Communications are aimed at aggregates of customers	*Communications are targeted and tailored to individuals
*Marketer is valued for its products and prices	*Marketer is valued for its present and future problem solving capability
*Objective: To make the next sale; find the next customer (value exchange)	*Objective: To satisfy the customer you have by delivering superior value (value creation)

Adapted from: Payne P, Christopher M, Clark M and Peck H. 1995. Relationship Marketing for Competitive Advantage – Winning and Keeping Customers. Published on behalf of The Chartered Institute of Marketing. Butterworth-Heinemann Pty Ltd, p viii. And
*Hutt MD and Speh TW. 1995. Business Marketing Management – A Strategic View of Industrial and Organizational Markets, Fifth Edition. The Dryden Press: USA, p13.

Payne, Christopher, Clark and Peck (1999) also identified some differences between the traditional marketing approach and relationship marketing. Payne, et al (1999:1) state that a broader view of customer markets is taken in relationship marketing than in the traditional marketing approach (where only end users are considered).

They identify six markets (including the more broadly defined customer market) and stated that in order to add customer value, relationships would have to be built with the important markets shown in Figure 4.3.

Figure 4.3 – The Six Markets Model



Adapted from: Peck H, Payne P, Christopher M, and Clark M. 1999. Relationship Marketing - Strategy and Implementation. Published in Association with The Chartered Institute of Marketing. Butterworth-Heinemann Pty Ltd, p 5.

The six markets as identified by the authors are shortly discussed:

- **Internal markets**

Internal markets represent all the individuals and groups in an organisation that determine the culture of the organisation through their actions and beliefs.

- **Referral markets**

The referral market constitutes all sources of professional advice (doctors, lawyers, bank managers, accountants) and existing satisfied customers that promote the company through word-of-mouth recommendations.

- **Influence markets**

Companies, individuals and entities that have the power to influence the marketing environment in which the company operates (either positively or negatively) are called influence markets.

- **Employee markets**

Employee markets pertain to the recruitment and retention of employees that will fit into the company and will advance the company's goals and aims.

- **Supplier markets**

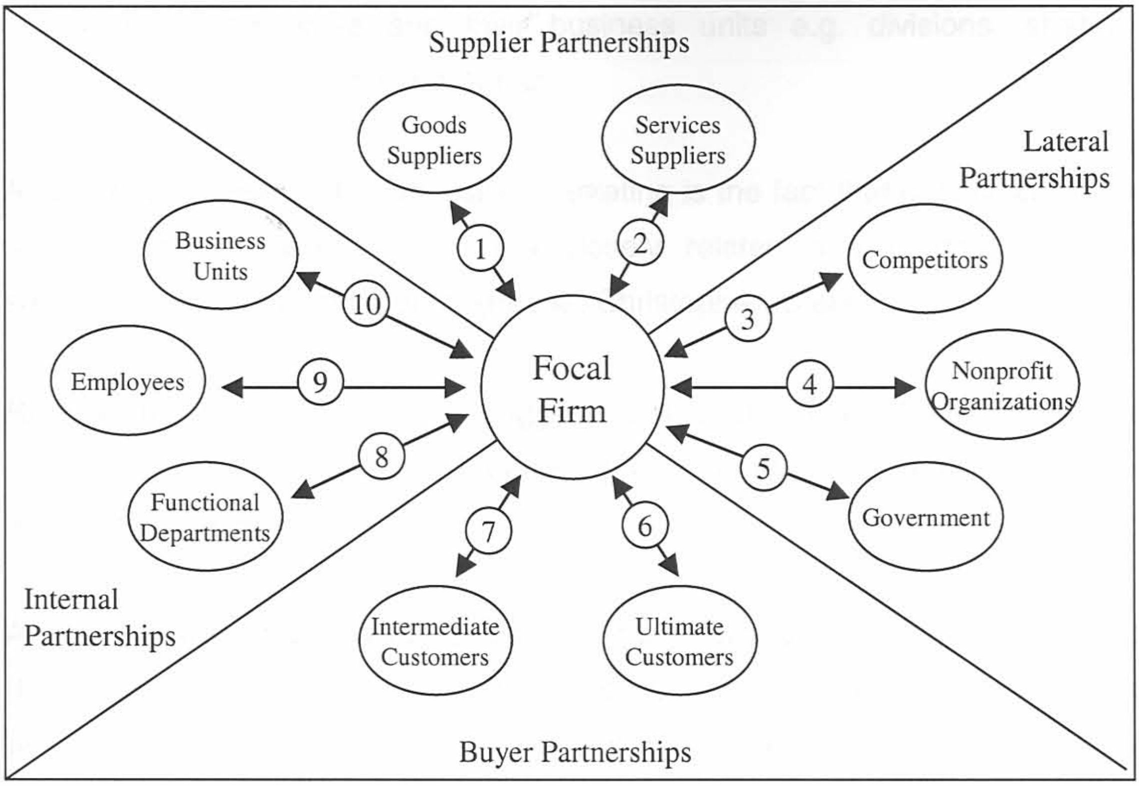
The network of companies that provide the materials, products and services to which the company adds further value is called the supplier market.

- **Customer markets**

This market refers to all individuals and companies (both end users and intermediaries) that purchase products and services from the company.

Morgan and Hunt (1994:21) identify numerous "markets" that have similarities with those identified by Peck et al (1999). The relational exchanges in relationship marketing are shown in Figure 4.4 and then described.

Figure 4.4 – The Relational Exchanges in Relationship Marketing



<u>Adapted from</u>: Morgan RM and Hunt SD. 1994. *The Commitment-Trust Theory of Relationship Marketing*. Journal of Marketing, July 58:21.

This figure shows ten forms of relationship marketing categorized in terms of a focal firm and internal, supplier, lateral and buyer partnerships. The relational exchanges with examples are as follows:

Relational exchanges:

1. between manufacturers and their goods supplier e.g. just in time procurement.
2. involving service providers e.g. advertising agency and the client.
3. between company and competitors e.g. technology alliances.
4. between a company and a nonprofit organization e.g. public purpose partnership.
5. for joint research and development between company and local, regional or national government.
6. between ultimate customers and the company.
7. of working partnerships e.g. channels of distribution.
8. involving functional departments.

9. between a company and its employees e.g. internal marketing.
10. within companies and their business units e.g. divisions, strategic business units and subsidiaries.

Another key element of relationship marketing is the fact that quality, customer service and marketing (which are closely related and usually managed separately) are brought together (Payne, Christopher, Clark and Peck 1999:4).

Relationship marketing therefore suggests that organizations should focus more on building relationships with all markets rather than on a short term, one-sale-at-a-time considerations.

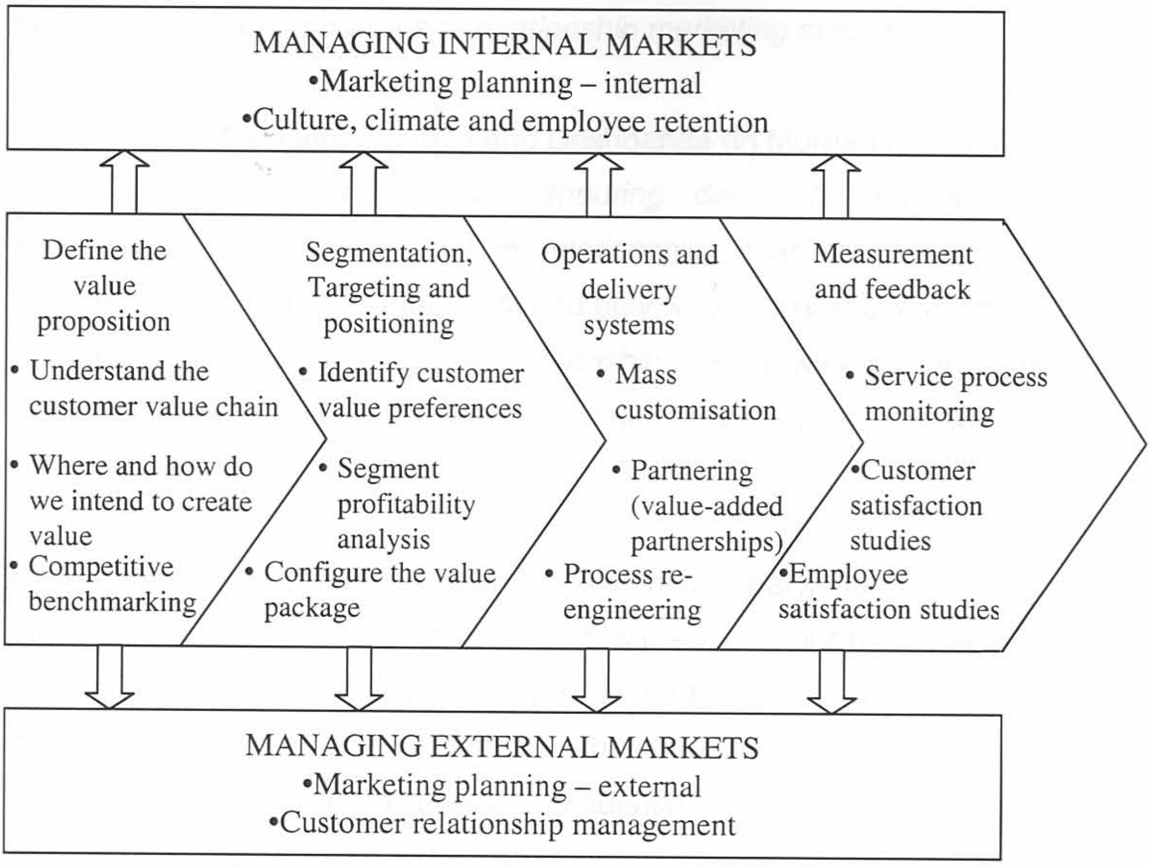
A sale therefore signifies the beginning of a relationship. According to Levitt (Payne et al 1995:21) *"a sale, then, merely consummates the courtship, at which point the marriage begins."* The success of the "marriage" is determined by how well the seller manages the relationship, while the quality of the "marriage" determines if there will be a continued business relationship or not.

4.5 RELATIONSHIP MARKETING THEORIES

4.5.1 The relationship management chain

Payne et al (1995:6) suggest the use of the relationship chain in order to create and sustain mutually advantageous relationships throughout the chain that will also enhance customer value. In Figure 4.5 a strategy for the management of relationships is suggested:

Figure 4.5 – The Relationship Management Chain



Adapted from: Payne P, Christopher M, Clark M and Peck H. 1995. Relationship Marketing for Competitive Advantage: Winning and Keeping Customers. Published on behalf of The Chartered Institute of Marketing. Butterworth-Heinemann Pty Ltd, p 7.

4.5.2 Commitment trust theory of relationship marketing

This model states that the presence of relationship commitment and trust (and not power) is central to successful relationship marketing efforts. Morgan and Hunt (1994:22) argue that "*what should be central to understanding relationship marketing is whatever distinguishes productive, effective, relational exchanges from those that are unproductive and ineffective.*"

Morgan and Hunt (1994:22) also state that "*commitment and trust are 'key' because they encourage* marketers [and in this case franchisees] *to (1) work at preserving relationship investments by co-operating with exchange partners, (2) resist attractive short-term alternatives in favor of the expected long-term benefits of staying with existing partners and (3) view potentially high-risk* *actions as being prudent because of the belief that their partners will not act opportunistically. In short, commitment and trust lead directly to cooperative behaviors that are conducive to relationship marketing success."*

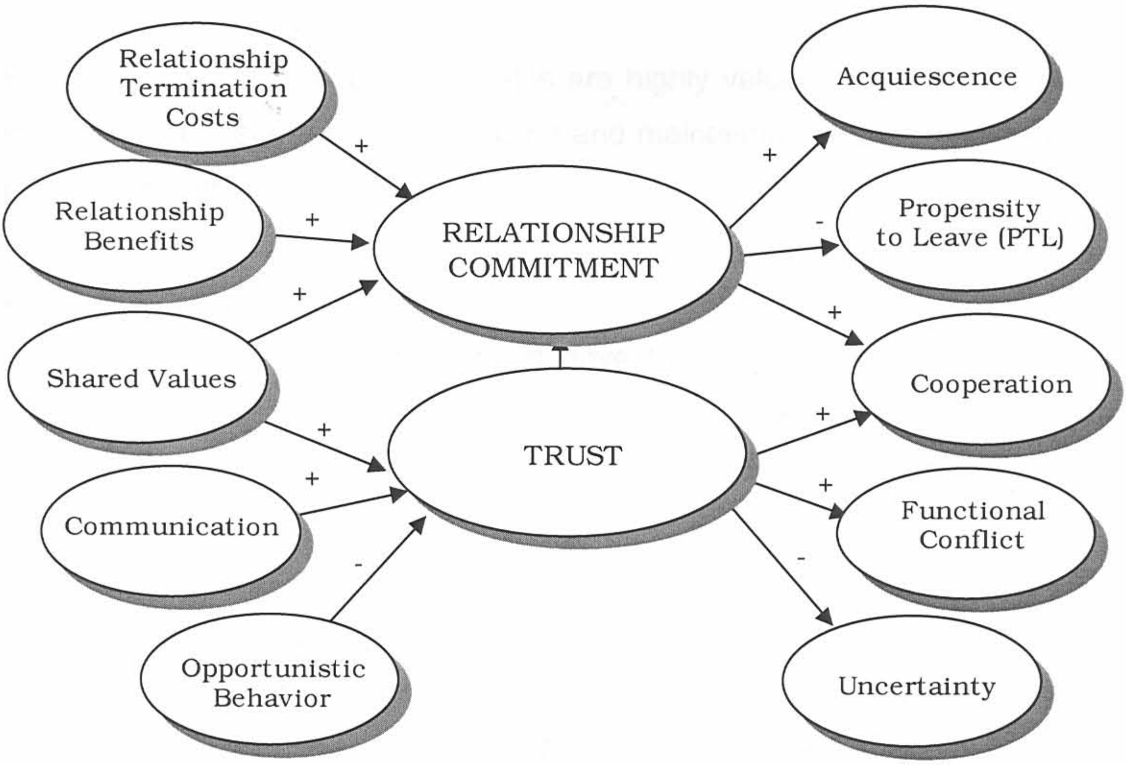
According to Moorman, Zaltman and Deshpandè (in Morgan and Hunt 1994:23) relationship commitment is *"an enduring desire to maintain a valued relationship."* Therefore, only in relationships that are considered to be important, will there be commitment and only when there is commitment, will the parties work at maintaining the relationship. Shemwell, Cronin and Bullard (1993:60) agree, and state that commitment results in a greater intention to continue a relationship.

Morgan and Hunt (1994:23) state that when one party has confidence in the other party's reliability and integrity, trust will exist. Moorman, Deshpandè and Zaltman (in Morgan and Hunt 1994:23) define trust as *"a willingness to rely on an exchange partner in whom one has confidence."* Gruen (1995:455) conceptualised trust as *"a level of confidence that the other party's expected behaviour will result in valued outcomes."*

According to Morgan and Hunt (1994:24) trust also influences relationship commitment. Trust is therefore a major determinant of commitment.

The "commitment-trust" model (Morgan and Hunt 1994:22) consists of various drivers, which are briefly mentioned after Figure 4.6:

Figure 4.6 – The KMV (Key Mediating Variable) Model of Relationship Marketing



Adapted from: Morgan RM and Hunt SD. 1994. *The Commitment-Trust Theory of Relationship Marketing*. Journal of Marketing, July 58:22.

The aspects on the left side of the figure are antecedents to trust and commitment, while the aspects on the right are outcomes for changes in either commitment and/or trust. The plus and minus signs indicate that either a positive or negative relationship exist between the aspect and trust or commitment. For example, **expected termination cost** leads to a relationship being viewed as important, thus generating **commitment** to that relationship (positive relationship).

- **Termination cost:**

"*Termination costs are all expected losses from termination and result from the perceived lack of comparable potential alternative partners, relationship dissolution expenses, and/or substantial switching costs*" (Morgan and Hunt 1994:24). Expected termination cost leads to a relationship being viewed as

important, thus generating commitment to that relationship (positive relationship).

- **Relationship benefits:**

Partners that deliver superior benefits are highly valued and firms will commit themselves to establishing, developing and maintaining relationships with such partners (positive relationship).

- **Shared values:**

This is the extent to which partners have the same beliefs in terms of the importance and appropriateness of behaviours, goals and policies. When exchange partners share values, they will be more committed to their relationships.

- **Communication:**

Communication can be defined as the "*formal as well as informal sharing of meaningful and timely information between firms*" (Anderson and Narus 1990). A major precursor of trust is communication. Communication is positively related to trust.

- **Opportunistic behaviour:**

When partners believe one another to be "engaging in opportunistic acts / behaviours", such perceptions will lead to decreased trust (negative relationship) (Morgan and Hunt 1994:25). Opportunistic behaviour is defined as follows: "*the essence of opportunistic behaviour is deceit-oriented violation of implicit or explicit promises about one's appropriate or required role behaviour*" (John in Morgan and Hunt, 1994:25).

- **Acquiescence:**

Acquiescence is "*the degree to which a partner accepts or adheres to another's specific requests or policies*" (Morgan and Hunt 1994:25). The question might be asked why companies would comply with the desires of their exchange partners. The traditional marketing answer would be that compliance is due to the use of power. Morgan and Hunt (1994:33) propose that acquiescence (compliance) is (and should be) due to the partner's commitment to the relationship. They state that the long-term success of the relationship is more likely to be associated with commitment and trust than with the use of any form of power. The commitment –trust model states that relationship commitment positively influences acquiescence.

- **Propensity to leave (PTL):**

PTL is the perceived likelihood that a partner will terminate the relationship in the near future (Morgan and Hunt 1994:26). There is a strong negative relationship between commitment and PTL.

- **Co-operation:**

Partners that are committed to the relationship will co-operate in order to make the relationship work. Co-operation refers to situations in which parties work together to achieve mutual goals (Anderson and Narus 1990).

- **Functional conflict:**

Problems and disputes that are not resolved amicably can lead to hostility and bitterness that could result in the dissolution of the relationship. When problems and disputes are resolved amicably, such agreements can be referred to as "functional conflict. Trust leads partners to perceive that future conflictual episodes will be functional.

- **Decision-making uncertainty:**

"*Trust decreases a partner's decision-making uncertainty because the trusting partner has confidence that the trustworthy party can be relied on*" (Morgan and Hunt 1994:26).

Morgan and Hunt (1994:31) found that commitment and trust are key mediating variables that contribute to relationship marketing success and they stated that this model should apply to all relational exchanges (see Figure 4.4).

According to Morgan and Hunt (1994:34), companies that would like to compete effectively in the marketplace would have to be an effective co-operator in a network of organizations. They state that networks characterized by commitment and trust, would engender cooperation as well as acquiescence, a low propensity to leave, functional conflict and reduced uncertainty. Shemwell, Cronin and Bullard (1994:58) propose that trust and commitment would lead to a higher likelihood of relationship continuation. Kumar (1996) confirm this by empirically proving that higher levels of trust will lead to higher commitment, better performance, higher likelihood of relationship continuation and higher sales levels. All of these aspects contribute to overall network (manufacturer-retailer relationships) performance.

Morgan and Hunt (1994:34) further state that commitment and trust develop when firms attend to and manage relationships with their exchange partners.

4.6 THE RELEVANCE OF RELATIONSHIP MARKETING AND THE COMMITMENT TRUST THEORY IN FRANCHISING

From the discussions in this chapter, as well as the discussions in chapter 1 (franchising), it is clear that the unique owner-franchisor relation and buyer-seller exchange relation that exist between franchisees and franchisors can be compared to exchange relations and buyer-seller relations found in the relationship management/marketing literature.

The relationship marketing concept is therefore very relevant to the franchising industry with specific reference to the relationship management between the franchisor and the franchisee. Franchisors should not just attract new franchisees, but also maintain and enhance their relationships with current franchisees to achieve success in their business ventures.

The commitment-trust theory of relationship marketing is also very relevant for the franchising industry and various authors in franchising literature have mentioned aspects used in the KMV model of Morgan and Hunt as important aspects of the relationship between franchisees and franchisors.

Hall and Dixon (1988:33) state that franchisee-franchisor relationship relies heavily on mutual "trust" between the parties. The franchisee must trust that the franchisor will provide support and assistance when this is needed, while the franchisor must "trust" that the franchisee will run the franchise according to the correct procedures. Hall and Dixon (1988:33) further state that "*the relationship will turn sour as soon as either party begins to mistrust the other.*"

Franchising is not just a commercial transaction, and to have an accurate picture of franchising there is also a need to look at the quality of communication. It has been found that the quality of communication is largely dependent on the quality of relationships between the people involved in the relationships (Nathan 1993: 7).

Halford (in Nathan 1993:25) reviewed nearly 100 research studies into marriage and partnership breakdowns, which provided useful insights into understanding the franchisee-franchisor relationship. The following aspects were found to play a significant role in relationships and these issues are also encompassed in the commitment-trust theory:

- Inability to deal with conflict,
- poor communication skills,
- unrealistic expectations and
- lack of supportive networks.

Turner in The Franchising Handbook (1993:172-178) recognises the key aspects in the managing of the franchisor-franchisee relationship over the long term and mentions aspects such as shared goals and communication, which coincide with the commitment-trust theory of Morgan and Hunt. Turner further states that franchising is based on a unique set of relationships because it is based on both business and human relationships and would therefore require a unique relationship management approach.

4.6.1 Other theories and models on relationship marketing

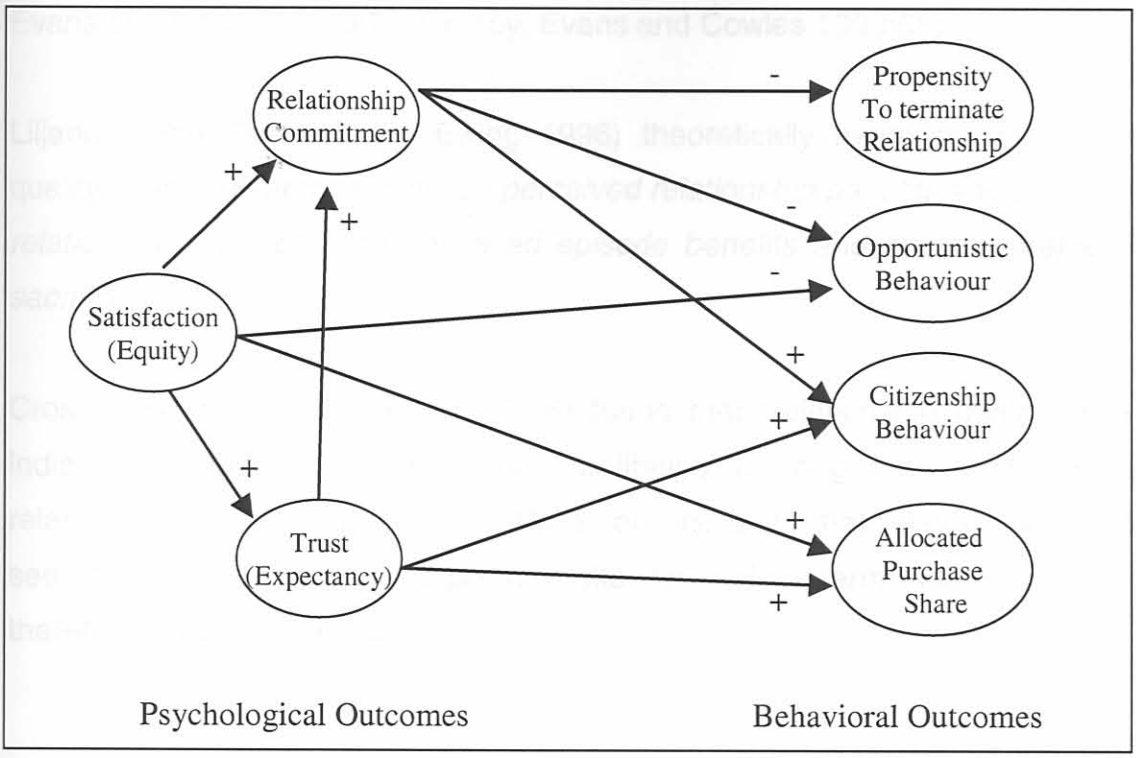
Gruen (1995) furthered the commitment-trust model of relationship marketing as proposed by Morgan and Hunt by including satisfaction into the proposed conceptual model. Satisfaction can be defined as "*a positive affective state resulting from the appraisal of all aspects of a firm's working relationship with another firm*" (Anderson and Narus 1990:45). Gruen (1995:456) defines satisfaction as "*the extent to which benefits actually received, meet or exceed the perceived equitable level of benefits.*" The term equitable relates to fairness, and therefore satisfaction responses represent judgments of fairness.

Satisfaction influences behaviour through the fact that exchange parties will modify their inputs into a relationship if the perceived benefits that they receive are not equitable. Satisfaction is also a more volatile construct than both "trust" and "commitment" because it develops more quickly than commitment (Gruen 1995:457).

The inclusion of satisfaction in the relationship marketing model is very important because it has been found that satisfied customers purchase more and are more likely to remain customers (Berry in Gruen 1995:456).

The focus of Gruen's study was on "business-to-consume"r relationships and not "business-to-business" relationships as Morgan and Hunt's study. This is one of the reasons that the KMV model of Morgan and Hunt was used in the study in question instead of Gruen's model. Gruen's model was also a conceptualization without quantitative research results (empirical testing) to prove the model. Gruen (1995) did however make a valuable statement regarding the inclusion of satisfaction in relationship marketing research and for this reason a relationship satisfaction measure was also included in the questionnaire (vide page 137 for more detail). Gruen's (1995) model of business to consumer relationships is shown in Figure 4.7.

Figure 4.7 – Outcome Set of Business to Consumer Relationship Marketing



Adapted from: Gruen TW. 1995. *The Outcome Set of Relationship Marketing in Consumer Markets.* International Business Review, 4(4):453.

4.7 NATURE OF RELATIONSHIP QUALITY

According to Bejou, Wray and Ingram (1996:137) relationship quality is an important component of relationship marketing.

Crosby, Evans and Cowles (1990:70) define relationship quality as when "*the customer is able to rely on the salesperson's integrity and has confidence in the salesperson's future performance because the level of past performance has been consistently satisfactory.*

"Trust" and "satisfaction" with the salesperson are two of the dimensions that form part of the relationship quality construct (Hutt and Speh 1995:509; Crosby, Evans and Cowles 1990:70). Other dimensions of relationship quality such as seller's expertise, seller's ethical orientation, relationship duration, customer orientation, selling orientation and service quality have also been said to influence relationship quality (Bejou, Wray and Ingram 1996:138; Crosby, Evans and Cowles 1990:70; Crosby, Evans and Cowles 1990:68).

Liljander and Strandvik (in Ewing 1996) theoretically modelled relationship quality as the "*difference between perceived relationship benefits and perceived relationship sacrifice, and perceived episode benefits and perceived episode sacrifice.*"

Crosby, Evans and Cowles (1990:76) found that "relationship quality" is an indicator of the health and future wellbeing of long-term service sales relationships. Bejou et al (1996:142) agree and state that relationship quality seems to be an important pre-requisite for a long-term relationship and therefore also for relationship marketing.

4.8 NATURE OF RELATIONSHIP SATISFACTION

Bejou, Ennew and Palmer (1998:170) state that relationship satisfaction is a multi-dimensional construct that is a prerequisite of relationship quality.

Based on the discussions in the previous paragraph on relationship quality and the statement just mentioned on relationship satisfaction, it is clear that "relationship quality" and "relationship satisfaction" cannot be a similar construct. For the purpose of this study, relationship quality and relationship satisfaction are operationalised as two distinctly different constructs. Relationship satisfaction is only one of the dimensions that form part of relationship quality and there are a number of dimensions that work together to form the relationship satisfaction construct.

Crosby and Stephens (1987) suggested that the relationship satisfaction construct consists of three dimensions, namely:

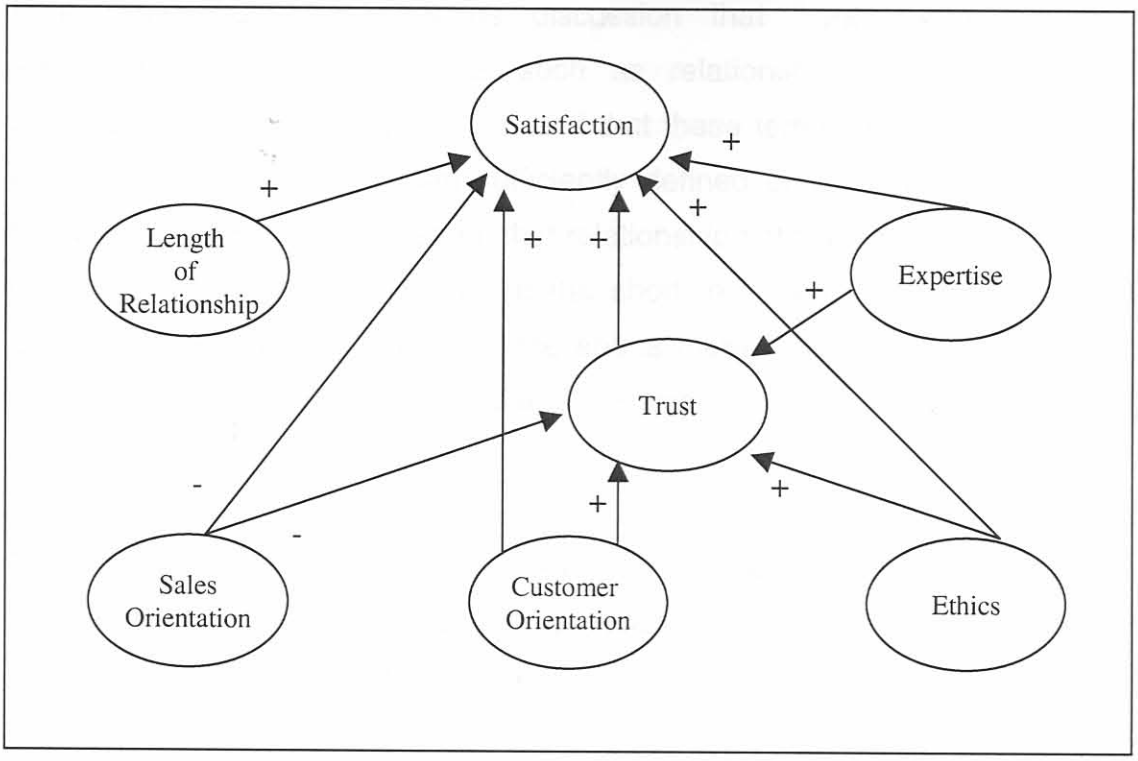
- satisfactory interactions with personnel,
- satisfaction with the core service (needs satisfying) and
- satisfaction with the organization

Bejou et al (1998:171) state that the quality of the relationship will be dependent on the quality of the interaction between a consumer and the company, the quality of the core service or product and the quality of the interaction with the organization.

Bejou, Ennew and Palmer (1998:174) found that customer orientation and trust significantly influence relationship satisfaction, but they found no significant contribution towards relationship satisfaction from the ethics of sales personnel or the duration of the relationship. They state that "*while is has been hypothesized that buyer-seller relationships – like other human relationships – go through some form of life cycle, this study has shown that relationship satisfaction did not increase in a straightforward linear manner with respect to relationship duration.*" They suggest further research on this topic.

Bejou, Ennew and Palmer's (1998) model is shown in Figure 4.8. Their model "talks about" the interactive dimensions of relationship quality. Based on the operational definitions that have been made in the study so far (and works of other authors cited in this regard), the concept that they discuss would pertain and could more easily be classified as "relationship satisfaction" rather than relationship quality. The figure has therefore been adapted to fit into this framework of thinking.

Figure 4.8 – Interactive Dimensions of Relationship Satisfaction



Adapted from: Bejou D, Ennew CT and Palmer A. 1998. *Trust, ethics and Relationship Satisfaction.* International Journal of Bank Marketing, 16(4):172.

Confirmation / Disconfirmation theory state that satisfaction is achieved when expectations are fulfilled. If expectations are **negatively disconfirmed** the result will be **dissatisfaction** and if it is **positively disconfirmed** the result will be **enhanced satisfaction** (Selnes 1996:307).

Dwyer (1980:45) states that perceived self control and cooperativeness of partners in a channel influences channel member satisfaction.

Selnes (1996) found that satisfied customers are more likely to continue a relationship with a focal supplier and enhance the scope of the relationship than dissatisfied customers. It was further stated that "*managing customer satisfaction and trust are key variables in both relationship maintenance and enhancement.*"

4.9 RELATIONSHIP MARKETING SYNOPSIS

It is clear from the previous discussion that "relationship marketing" encompasses various concepts such as relationship quality, relationship satisfaction, commitment and trust, and that these terms and the relationships between them have not been sufficiently defined or researched. From the literature available, it would seem that relationship satisfaction is a concept that could more easily be influenced in the short term, while relationship quality develops over a longer period of time and is more stable. It is however clear that all of these aspects play a role in developing and maintaining successful and profitable relationships.

Now that relationship marketing and the concepts that are involved in relationship marketing have been discussed, the question might arise as to where franchising fits into the picture.

4.10 PERSPECTIVES ON THE FRANCHISEE-FRANCHISOR RELATIONSHIP / NATURE OF RELATIONSHIP BETWEEN FRANCHISOR AND FRANCHISEE

Channel classifications are based on the acknowledgement of the dependence of participants and range from single transaction channels to conventional channels to vertical marketing systems (from least- to most open acknowledgment of dependence) (Bowersox and Cooper 1992:102).

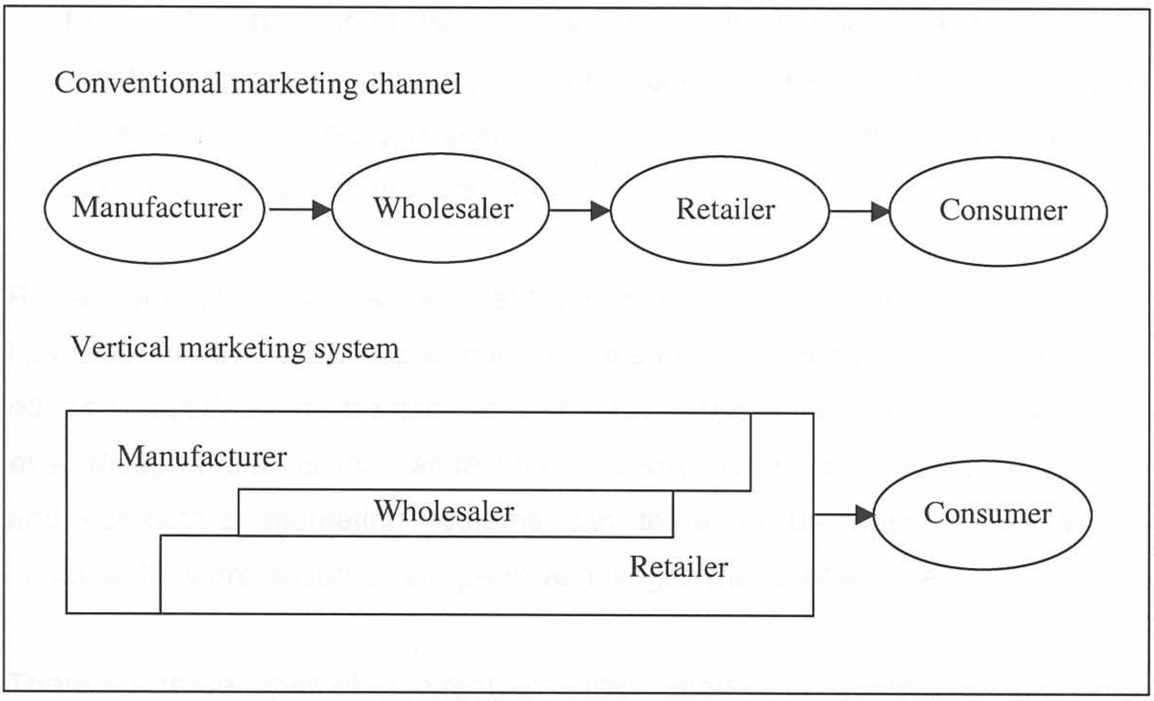
4.10.1 Vertical Marketing Systems (VMS)

This type of channel (VMS) has emerged to challenge the conventional distribution channels. A conventional distribution channel consists of independent producers, wholesalers and retailers each owning separate businesses and trying to maximize their own profits (even if it is at the expense of the profits of the whole system). In a conventional distribution channel, no member has complete or substantial control over the other members (Kotler et al 1996:817).

Bowersox and Cooper (1992:308) use the term "vertical marketing systems" *"to encompass all cooperative relationships designed to facilitate either selling or delivery of products in a timely manner."*

In a vertical marketing system (VMS) the producer, wholesaler and retailer act as a unified system. One channel member owns or franchises the other members and therefore has power to influence them to co-operate. Vertical marketing systems have the benefit of bargaining power, elimination of duplicated services and economies of scale (Kotler et al 1996:817, Kotler 1984:280). Figure 4.9 gives a visual presentation of the differences between a conventional distribution channel and a vertical marketing system.

Figure 4.9 – Comparison of a Conventional Distribution Channel With a Vertical Marketing System



Adapted from: Kotler P, Armstrong G, Saunders J and Wong V. 1996. Principles of Marketing. Prentice Hall: Europe. p 817.

A feature of vertical marketing systems is that parties acknowledge and desire interdependence, and that firms entering into vertical marketing systems focus on developing long-term relationships (Bowersox and Cooper 1992).

There are three types of vertical marketing systems namely corporate, contractual and administered. Although only the contractual vertical marketing system is relevant to this study a short explanation of the three types of VMS's will be given.

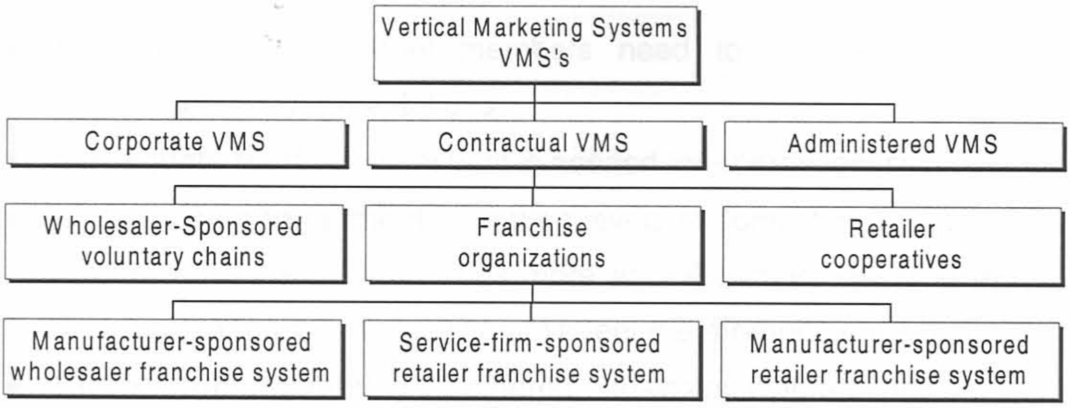
- *"A corporate VMS combines successive stages of production and distribution under single ownership"* (Rosenbloom 1991:443).
- *"A contractual VMS consists of independent firms linked by contracts, and that coordinate their programs to obtain more economies and/or sales impact than they could achieve alone"* (Rosenbloom 1991:443).
- *"An administered VMS coordinates successive stages of production and distribution* ***not through*** *common ownership* ***but through*** *the size and power of one of the parties"*, for example, manufacturers of a top brand are able to gain strong cooperation and support from resellers *(Kotler et al 1996:818).* This type of VMS is closest to a conventional marketing channel and the feature distinguishing this from a conventional channel is the degree of effective inter-organisational management rather than structural differences (Rosenbloom 1991:443).

Rosenbloom (1991:442) states that the term value-added partnerships (VAP's) has recently been used to describe "*arrangements among firms linked together either vertically or horizontally in a mutually supportive cooperative network even though the firms still maintain their independent ownership.*" Administered and contractual marketing systems can therefore be classified as VAP's because they are based on cooperative linkages (horizontal or vertical).

There are three types of "contractual" vertical marketing systems namely, retail cooperative organizations, wholesaler-sponsored voluntary chains, and the one that is of interest in this research, franchise organisations / systems.

Franchising and its definition, types, parties involved etc. has already been discussed in chapter 1 and will therefore not be discussed again.

Figure 4.10 – Types of Vertical Marketing Systems



Adapted from: Kotler P, Armstrong G, Saunders J and Wong V. 1996. Principles of Marketing. Prentice Hall: Europe. p 817.

4.10.2 Contractual Vertical Marketing Systems and Channel Management

According to Rosenbloom (1991:455) power shifts in the channel which results from the growth of contractual VMS's, will have an important influencing role on the structure and management of marketing channels. In the next paragraph the influence of "power shifts" on management and structure of marketing channels will be discussed for franchise systems. Retail cooperatives and wholesaler voluntary chains will however not be considered.

Owing to the contractual basis of the relationship between franchisors and franchisees in a VMS, franchisors usually have a basis for exercising channel control (legal), which provides an important source of power to the franchisor. Government intervention in franchising and their view on limiting the powers of franchisors could play a significant role in the development of new strategies for franchisors with which to influence and control franchisees. The government's intervention in franchising reflects a trend of lessening the franchisor's legal capacity to exercise control over franchisees, which implies that franchisors will increasingly have to look to other power sources to control franchisees (Rosenbloom 1991:456-457).

4.10.3 Contractual Vertical Marketing Systems and the Reason for Failure

Bowersox and Cooper (1992:316) give six reasons why vertical marketing system arrangements fail:

- **Fuzzy goals** – channel members need to understand each other's requirements and expectations.
- **Inadequate trust** – mutual trust is needed for operational success.
- **Lip-service commitment** – uneven levels of commitment is created by the fact that one party usually has more at stake, more risk and more power than another party. Without commitment the arrangement will not succeed.
- **Human incompatibility** – different business cultures and values might make it difficult for companies to work together.
- **Inadequate operating framework** – clear role definitions and responsibilities need to be given to all parties.
- **Inadequate measurement** – the performance of parties in a VMS arrangement have to be measured in order to succeed in business.

Many of these aspects are present in the KMV model and the relevance of this model in the current study is therefore confirmed once again.

4.11 FRANCHISING AS A BUSINESS RELATIONSHIP / EXCHANGE RELATIONSHIP

Franchising can be described as a "business relationship" based on a legal structure. A franchisor grants a franchisee the right to use the franchisor's brand name, operating systems, etc. with the business purpose of getting and keeping customers (The Franchise Handbook 1993:11).

Turner (in The Franchising Handbook 1993:175) feels that franchisees are the most important customers that franchisors have in both the short and long term.

Because both the franchisor and franchisee have responsibility for the direction and development of the business, the relationship is interdependent (The Franchise Handbook 1993:11).

4.11.1 Franchising relationships and satisfaction levels

Hall and Dixon (1988:80) feel that problems experienced in the franchisee-franchisor relationship are related to the level of psychological satisfaction experienced by the franchisee. The factors that are said to influence the degree or level of satisfaction of a franchisee are:

- a balance between the psychological need for security and stability and the degree to which the business concept chosen fulfils that need. An individual that is prepared to take a limited risk will for example be better suited as a franchisee than an individual who has a very high need for security and stability (as offered by a secure job when working for someone else).
- the extent to which a person can feel part of a team. Some people derive great satisfaction from working in a team, while others prefer to keep to themselves. Between these extremes lies an individual that can derive satisfaction from working in a small team, or by working on their own as long as they feel a sense of belonging. The last type of individual would be best suited to running a franchise.
- a feeling of self esteem and achievement provided by the work situation. Some individuals (usually employees) will feel that they are just a number and that they aren't given the recognition that they need. These individuals might be attracted to the idea of owning their own business that would increase their autonomy, power and recognition. The move from an employee to an owner usually proves to be a satisfying experience.

Hing (1996:28) empirically identified why franchisee satisfaction is important in the relationship between franchisees and franchisors. Hing (1996) found that satisfied franchisees are more likely to:

- recommend the franchise to other potential franchisees.
- attribute the success of their outlet to their franchisor rather (than to themselves
- renew their contracts on expiration
- oppose governmental involvement in the legislation of franchise systems.

4.12 THE INTEGRATION OF RELATIONSHIPS AND LIFE CYCLES

Dwyer, Schurr and Oh (1997:15) suggest that buyer-seller relationships evolve through five general phases namely: Awareness, exploration, expansion, commitment and dissolution.

Awareness refers to exchange party's recognition of the feasibility of relational exchange possibilities.

Exploration refers to the search and trail that takes place in relational exchange and the fact that exchange partners will consider the obligations, benefits, burdens and possibilities of entering into an exchange relationship. The exploration phase contains five sub-processes namely attraction, communication and bargaining, development and exercise of power, norm development and expectation development.

Expansion is the third phase and refers to the increasing interdependence of parties as well as the increasing benefits obtained as a result of the exchange relationship. The fourth phase is commitment and refers to the pledge (implicit or explicit) of relational continuity between exchange partners. The last phase is that of "dissolution", and refers to the possibility of withdrawal from the exchange relationship.

Dwyer, Schurr and Oh's (1997:22) state that trust, commitment and disengagement are critical in understanding the development of a buyer-seller relationship.

The last two phases of Dwyer, Schurr and Oh's (1997:15) evolution process has aspects in common with Nathan's "Free" and "We" life cycle stages, which was discussed in the previous chapter.

4.13 SUMMARY

This chapter considered relationships, relationship management, relationship marketing and aspects such as relationship quality and satisfaction. Different models and theories of these aspects were discussed and the relevance of these aspects to franchising also received some attention.

The "commitment-trust" theory of relationship marketing was also discussed in detail because this theory forms the methodological foundation of this research study.

From this chapter as well as the previous chapters, it is clear that the relationship between franchisees and franchisors have much in common with exchange relationships and buyer-seller relationships found in the relationship marketing literature. Very little research has however been done specifically on the relationships between franchisees and franchisors and the life cycle that exist in this relationships. These facts lead to the research problem, which is discussed in the following chapter along with the rest of the research methodology.

CHAPTER 5

RESEARCH DESIGN AND METHODOLOGY

5.1 INTRODUCTION

This chapter aims to systematically describe the procedures and methodology used to achieve the goals and research objectives that were established for this study. The research objectives and hypotheses are first considered, followed by a description of the research design and the measures used, sample design, data collection and statistical analysis of the research results.

5.2 DEFINITION OF RESEARCH PROBLEM AND RESEARCH OBJECTIVES

The research problem, objectives and hypotheses were briefly discussed in chapter one and will be discussed in more detail in this chapter.

5.2.1 Research problem definition

Although numerous research studies in the franchising domain have been completed (as discussed in chapter 1), very few studies have focused on the relationship between franchisees and franchisors. A number of authors have speculated about the relationship between franchisees and franchisors and some authors have even proposed life cycles (although these weren't empirically tested) as shown in chapter 3.

The need for research on this aspect is very clear and authors such as Elango and Fried (1997: 68-82) have stated that future research should examine the stability of the franchisee-franchisor relationship and more particularly: "*changes in the relationship between the franchisee and the franchisor have been largely ignored by researchers.*" The comments of Elango and Fried, combined with the fact that no empirical research could be found on the franchisee-franchisor relationship life cycle inspired the research in question.

This research explores the relationship between franchisees and franchisors with the objective to model the franchisee life cycle. This will be done by determining the correlation between the life cycle stages of a franchisee and the effective management of the franchisee–franchisor relationship as operationalised by the commitment-trust model of Morgan and Hunt (1994).

5.2.2 Research objectives

In order to obtain satisfactory answers to the research problem, the following research objectives were stated. In order to do so, it will be necessary to determine:

- which aspects influence the relationship quality between franchisees and their franchisors.
- the commitment-trust scores for franchisees
- franchisee satisfaction levels
- the relationship quality index levels of franchisees.
- the evolution of a typical franchisee relationship (life cycle).
- the franchisee life cycle stages.
- the duration of the relationship between a franchisee and a franchisor.
- how the relationship quality of a franchisee differs between different life cycle stages.

5.3 HYPOTHESIS TESTING THEORY

According to Gay and Diehl (1992:72) *"a hypothesis is a tentative explanation for certain behaviours, phenomena, or events that have occurred or will occur."* There are two approaches towards hypothesis testing namely classical statistics and Bayesian statistics. Classical statistics have a more objective view of probability than Bayesian statistics and rely solely on the analysis of available sampling data to make a decision. Bayesian statistics also use available sampling data, but would go a step further and consider all other available information in order to make a decision (Cooper and Schindler 1998:467).

In classical statistics, where sampling data alone is used to make a decision, the question of statistical significance becomes very important. Because a sample will almost always vary from the population from which it was drawn, the researcher needs to determine if the differences are significant or insignificant. "*A difference has statistical significance if there is good reason to believe the difference does not represent random sampling fluctuations only*" (Cooper and Schindler 1995:467).

Two kinds of hypotheses are used in classical tests of significance namely the "null hypothesis" and an "alternative hypothesis". The null hypothesis states that no differences exist between the parameter and the statistic being compared to it, while the alternative hypothesis is the opposite of the null hypothesis (Cooper and Schindler 1995:468). Alternative hypotheses can be **non-directional** or **directional**. Non-directional hypotheses indicate that a relationship exist, while directional hypotheses indicate the nature of the relationship or difference. Both directional and non-directional hypotheses were stated for this particular study (Gay and Diehl 1992:72).

It is argued that a null hypothesis can never be proved and can therefore never be accepted. It can only be rejected (or **not** accepted). Statistical tests therefore only give a chance to disprove (reject) or fail to reject a hypothesis. If a null hypothesis is rejected, then the alternative hypothesis is therefore "accepted" (Cooper and Schindler 1995:470).

5.3.1 Statistical testing procedures

Cooper and Emory (1995:441) suggests the following procedure for statistical significance tests:

- State the null hypothesis (the null hypothesis is always used for statistical testing)
- Choose an appropriate statistical test (based on the criteria of power efficiency, the sample, the nature of the population and type of measurement scale)
- Select the desired level of significance
- Compute the calculated difference value by using the formula of the appropriate test
- Obtain the critical test value from the appropriate table
- Make the decision to reject the null hypothesis and to support the alternative hypothesis.

5.3.2 Tests of significance

There are two classes of significance tests namely parametric tests and nonparametric tests. Parametric tests derive their data from interval and ratio data and are therefore more powerful (although they also have more stringent assumptions). Nonparametric tests have fewer and less stringent assumptions and can be used on nominal and ordinal data. Cooper en Schindler (1998:477) state that nonparametric tests can also be used for interval and ratio data.

Table 5.1 contains the recommended statistical techniques:

Table 5.1 – Recommended Statistical Techniques

			Two-Sample Case		k-Sample Case	
Tests of significance	Measurement level	One-Sample Case	Related Samples	Independent Samples	Related Samples	Independent Samples
Non-parametric	Nominal	Binomial $\aleph^2$ one-sample	McNemar	Fisher exact test $\aleph^2$ two-sample	Cochran Q	$\aleph^2$ for k samples
	Ordinal	Kolmogorov-Smirnov one-sample test Runs test	Sign test Wilcoxon matched pairs	Median test Mann-Whitney U test Kolmogorov-Smirnov Wald-Wolfowitz	Friedman two-way ANOVA	Median extension Kruskal-Wallis one-way ANOVA
Parametric	Interval and ratio	t test Z test	t test Z test	t test Z test	ANOVA	One-way ANOVA

Adapted from: Cooper DR, Schindler PS. 1998. Business Research Methods. Sixth Edition. Irwin: USA, p 480.

5.4 RESEARCH HYPOTHESES FORMULATION

In the next few paragraphs a detailed discussion regarding the formulation of the different research hypotheses as well as the research proposition will be given. The six hypotheses, the one research proposition, as well as the reasons for using a "proposition" instead of a hypothesis are discussed in detail in this section.

5.4.1 The existence of distinct life cycle phases

5.4.1.1 Motivation behind the research proposition

Proposition 1 = There are distinctive phases in the relationship between franchisees and the franchisor that follows a typical life cycle format.

Please note that a proposition was stated instead of a hypothesis. The reason for this is the fact that correspondence analysis was used to determine the existence of distinct life cycle phases (vide page 153). Correspondence analysis is best suited for exploratory data analysis and is not appropriate for hypothesis testing (Hair et al 1995:516). (For more information on correspondence analysis vide page 163).

The question might then be asked why a different statistical technique was not used, perhaps one suitable for hypothesis testing. The reason is that it is later hypothesised that franchisees can move through the life cycle stages at different speeds (see section 5.4.3 vide page 122). This would mean that although franchisees are classified into a specific life cycle stage that usually corresponds with a specific number of years (the duration of their relationship), there might be exceptions where franchisees have moved slower (lagged) or quicker (pre-mature) through the life cycle, i.e. a franchisee might be classified as being in the "Courting" phase, but have been in the relationship for 4 years. If a test is done to determine whether there are significant differences between the different franchisee life cycle concept (FLC) stages and the relationship duration, no significant differences would be calculated because of the issue just mentioned.

The life cycle stages are however later tested for significant differences with dependent variables such as commitment, trust, communication etc and the hypotheses relating to this issue will be discussed in the following section.

Before continuing, the motivation behind the formulation of the research proposition is discussed.

It has been suggested by Adizes (vide page 45) that all living organisms (plants, animals, people) are subject to a phenomenon called life cycles. Numerous references to life cycles were found in literature related to the biological sciences, natural sciences, economic sciences and even in a theological context. This indicates that any "living organism" (including companies, markets, plants, animals and relationships) go through a series of events that repeat themselves in the same order. Most of the discussions pertaining to life cycles had one thing in common namely, the fact that time played a role in the evolution of the life cycle and that time could be used to determine in which part of the life cycle a "organism" was.

Various authors have speculated on the different stages that a relationship between a franchisee and franchisor undergoes. Only a few authors (Nathan and Hall and Dixon) however sketched a typical franchisee-franchisor life cycle, which was discussed in detail in chapter 3 (vide page 73 - 77). These authors suggest specific life cycle stages in the relationship between franchisees and franchisors, each with unique, distinct phases that evolve over time. These authors did not complete empirical research to substantiate their suggestions that distinct phases exist in the relationship between franchisees and franchisors and various other authors have stated that this issue is in need of research (vide page 73).

It is therefore the belief of the researcher (based on the speculations made by other researchers) that the development of the relationship between franchisees and the franchisor has distinctive phases that follow a predictable pattern (cycle). Identification of these distinct phases will have a significant effect on the management of franchisee-franchisor relationships based on the different needs of franchisees in the differing phases. These facts therefore lead to the formulation of the research proposition as stated in the beginning of this section.

Before continuing to the discussion on the motivation of the research hypotheses it is necessary to clarify some of the terms used in this section and to define some operational definitions:

- **Distinctive life cycle phase:**

A phase in the existence of a franchisee's business that has significant differences with other phases with regards to the **relationship duration**.

- **Typical life cycle format:**

A predictable / characteristic series of events that is regularly repeated in the same order. In this case, used with specific reference to the relationship between franchisees and franchisors.

5.4.2 Significant differences between life cycle phases

5.4.2.1 Motivation of hypotheses 1 – 4

H_1 = There are significant differences in the commitment-trust dimensions representing the franchisee-franchisor relationship between each life cycle phase.

H_2 = There are significant differences in the relationship quality index levels representing the franchisee-franchisor relationship between each life cycle phase.

H_3 = Franchisees in the first life cycle phase will have significantly higher commitment–trust dimension scores than franchisees in the successive life cycle phases.

H_4 = Franchisees in the first life cycle phase will have significantly higher relationship quality index levels than franchisees in the successive life cycle phases.

Numerous authors have described the changes that occur in the relationship between franchisees and franchisors as time passes. Kirkham and McGowan (1993) describe the stages in the franchisor–franchisee relationship from the recruitment and selection of the franchisee, where the "misunderstanding" begins, to the point where the long-standing relationship has deteriorated to an adversarial situation devoid of commitment and trust.

Maitland (1991) describes the franchisor-franchisee relationship as evolving along familiar and destructive lines and likens the relationship to that of a parent and child. The relationship is described as progressing from being very "dependent" to being very "independent" in nature as franchisees become more self-reliant and self-confident. This move from dependence to independence leads to franchisees becoming more rebellious over time because they feel that they can manage their own business and that they have learned what it takes to be successful. This is in line with the suggestions made by Hall and Dixon (1988) and Nathan (1993), as well as other authors mentioned (vide page 74).

Franchisees are therefore not seeing the importance of the franchisor, and this could lead to a deterioration in the "commitment trust" levels and the "relationship quality" levels. It is therefore suggested that each of the identified (distinct) life cycle phases will yield significantly different "commitment-trust" dimension as well as "relationship quality" index scores based on the progress of the relationship.

It is suggested that the "commitment-trust" dimension scores will be the most positive in the beginning of the life cycle with a decrease in the dimension scores as the relationship continues.

5.4.3 Varying speed of movement through life cycle phases

5.4.3.1 Motivation of hypotheses 5 – 7

H_5 = There are significant differences in the commitment-trust dimensions of each life cycle fit category.

H_6 = There are significant differences in the relationship quality index levels between each life cycle fit category.

H_7 = Franchisees that move through the life cycle phases in the expected time (exact fit) will have significantly higher relationship quality levels than those that move slower or faster.

In the previous paragraphs it was hypothesized that there are distinct life cycle phases (with a specific duration) and varying levels of commitment, trust and relationship quality in the franchisee-franchisor relationship life cycle.

It is however suggested that due to various factors, franchisees can move through the life cycle phases at different speeds. A franchisee might not be suited to a specific franchise, or franchisors might manage franchisees in inappropriate of ineffective ways and franchisees will therefore become dissatisfied very quickly. A franchisor might also be very lenient and just keep giving franchisees more and more and this might cause franchisees to stay in a state of happiness much longer than "normal".

Franchisees can therefore move through the life cycle phases slower than expected (lagged fit), faster than expected (pre-mature fit) or at an expected rate (exact fit). The speed of movement will have a significant effect on the commitment trust levels and relationship quality levels. It is suggested that franchisees that move through the life cycle at the expected rate will have the highest relationship quality levels.

- **Operationalisation of expected speed of movement**

The "expected" speed of movement through "life cycle stages" were ascertained through the modelling of the research results. It was found that the expected duration of a phase (or speed of movement through the phase) is approximately one year.

Table 5.2 – Summary of Research Hypotheses

P_1 =	There are distinctive phases in the relationship between franchisees and the franchisor that follow a typical life cycle format.
H_1 =	There are significant differences in the commitment-trust dimensions representing the franchisee-franchisor relationship between each life cycle phase.
H_2 =	There are significant differences in the relationship quality index levels representing the franchisee-franchisor relationship between each life cycle phase.
H_3 =	Franchisees in the first life cycle phase will have significantly higher commitment–trust dimension scores than franchisees in the successive life cycle phases.
H_4 =	Franchisees in the first life cycle phase will have significantly higher relationship quality index levels than franchisees in the successive life cycle phases.
H_5 =	There are significant differences in the commitment-trust dimensions of each life cycle fit category.
H_6 =	There are significant differences in the relationship quality index levels between each life cycle fit category.
H_7 =	Franchisees that move through the life cycle phases in the expected time (exact fit) will have significantly higher relationship quality levels than those that move slower or faster.

5.5 RESEARCH DESIGN

Cooper and Schindler (1998:130) state that the research design should explain exactly what will be done in a specific study in technical terms. They state that "*research design is the plan and structure of investigation so conceived as to obtain answers to research questions.*"

Research design is therefore said to be:

- "*A plan for selecting the sources and types of information used to answer the research questions*
- *A framework to specify the relationships among the study's variables*
- *A blueprint that outlines each procedure from the hypotheses to the analysis of data*" (Cooper and Schindler 1998:130).

The following sections attempt to explain the procedures, techniques and methods chosen and the reasons why they were chosen.

The research process was executed in two broad phases namely an exploratory phase and an empirical phase. The phases will now be discussed in detail.

5.5.1 Exploratory Phase

The aim of this phase was to uncover all the relevant information regarding the subject in question.

Dillon et al (1990:98) writes that "*the examination of available secondary data is a prerequisite to the collection of primary data; indeed, it can help the researcher to define the parameters of the primary research.*" The first step in the process was therefore a literature study (desk research on secondary data) on the theories and information available on franchising, relationships, relationship marketing and life cycles (Chapter 2 - 4 gives a summary of the relevant information that was obtained during the desk research process). The information that was obtained (and the information gaps that were identified) was used as an input into the design of an exploratory questionnaire (In-depth discussion guideline).

The second step of the exploratory phase of the research was the completion of in-depth personal interviews with franchising consultants, opinion leaders in the franchising industry as well as selected franchisors. In-depth interviews were chosen as the qualitative interviewing method (rather than focusgroups) because of the following:

- The schedules of the individuals that needed to complete the interview are nearly impossible to co-ordinate. The individuals in question are all very busy and finding a date and time that would suite everybody for a focusgroup discussion would be difficult (Dillon et al 1990:161).
- Focusgroups would be more costly because individuals would have to be recruited (and incentivised / compensated), a focusgroup venue would have to be arranged including light snacks and drinks.

The information obtained from the desk research and in-depth interviews was used to design the research instrument (questionnaire). (The questionnaire design will be discussed in more detail later in this chapter). This questionnaire was re-submitted to the client that commissioned the research (franchising consultant with expert knowledge) and suggested changes were made. The instrument was then pre-tested with franchisees and further changes were made in order to avoid any confusion or misinterpretation.

The exploratory phase of the research also involved the sourcing of franchisor and franchisee information. No comprehensive South African franchise database was available, although various separate databases seemed to exist. All available databases and information of franchisor information was collected and combined into one comprehensive database. Various sources were used such as the Franchising Association of Southern Africa's members list, a Deloitte and Touche Franchising Database as well as published information in printed media such as magazines and newspapers. The franchise groups that were chosen to participate in the research (see discussion of sampling procedures later in this chapter) were contacted to obtain lists of their franchisee contact details and a franchisee database was then constructed.

After completion of the exploratory phase the next step of the research process, namely the empirical phase, was undertaken. This phase will now be discussed.

5.5.2 Descriptive Empirical Phase

Dillon et al (1990) state that various data collection methods are available to researchers including mail surveys, mail panels, telephone surveys, personal in-home surveys, mall-intercept interviewing and new technology approaches (such as computer assisted telephone interviewing, self-administered computer interviewing and web-based research). They state that the choice of data collection method is dependant on the following criteria:

- Complexity and versatility (the degree to which the data collection format must be simple / straightforward and the degree to which different question formats can be used).
- Quantity of data that can be collected (the amount of information that can be collected with a particular data collection method).
- Sample control (the degree to which an individual in the target population can be identified and persuaded to respond to the research).
- Quality of data (the accuracy of the data collection method).
- Response rate (the percentage of people contacted that cooperate in the research).
- Speed (the time it takes to complete the data collection process).
- Cost (the expenditure required to collect the information).
- Uses (the type of study necessitates a certain type of data collection method).

Table 5.3 – Comparison of Major Data Collection Methods

Criteria	Direct / Cold Mailing	Mail Panels	Telephone	Personal In-home	Mall Intercept
Complexity and versatility	Not much	Not much	Substantial but complex or lengthy scales difficult to use	High flexibility	Most flexible
Quantity of data	Substantial	Substantial	Short, lasting typically between 15 and 30 minutes	Greatest quantity	Limited 25 minutes or less
Sample control	Little	Substantial, but represen-tativeness may be a question	Good, but non-listed households can be a problem	In theory, provides greatest control	Can be problematic; representa-tiveness may be questionable
Quality of data	Better for sensitive or embarrassing questions, no interviewer present to clarify what is being asked	Better for sensitive or embarrassin g questions, no interviewer present to clarify what is being asked	Positive side, interview can clear up an ambiguities – negative side, may lead to socially accepted answers	There is a chance of cheating	Unnatural testing environment can lead to bias
Response rate	In general, low (as low as 10%)	70% – 80%	60% - 80%	Greater than 80%	As high as 80%
Speed	Several weeks	Several weeks with no follow up mailings, longer with follow-up mailings	Large studies can be completed in 3 to 4 weeks	Faster than mail but typically slower than than telephone surveys	Large studies can be completed in a few days
Cost	Inexpensive	Lowest	Not as low as mail; depends on incidence rate and length of questionnaire	Can be relatively expensive, but considerable variability	Less expensive than in-home, but higher than telephone
Uses	Executive, industrial, medical and readership studies	All areas of marketing research	Particularly effective in studies that require national sample	Still prevalent in product testing and other studies that require visual cues or product prototypes	Prevasive concept tests, name tests, package tests, copy tests

Adapted from: Dillon WR, Madden TJ, and Firtle NH. 1990. Marketing Research in a Marketing Environment. Second Edition. Irwin: USA, p 200.

Mail panels were immediately discarded as a choice of data collection method because no franchisee mail panel exists in South Africa. Mall intercepts were also not considered because a very specific group of individuals (franchisees) were targeted for this research. Personal in-home (or in store) interviews would have been very difficult and costly because interviewers would have to drive to different locations across the country to complete interviews with franchisees. They would first have to schedule interviews with franchisees because these individuals would typically be very busy running their franchise business. The logistics surrounding this would have been tremendous.

The only two real options were mail or telephonic interviews. The low response rates associated with mail questionnaires and the low control with respect to sampling made telephonic interviewing the best method of data collection for this project.

Computer Aided Telephonic Interviewing (CATI) was used as the data collection method. The benefits of this method include all those obtained by telephonic interviewing with added benefits such as the fact that skipping instructions are programmed into the computer-based questionnaire, which minimizes mistakes. The data is also available for analysis much quicker because the information provided by respondents are captured in an electronic format (and no further coding is therefore necessary).

5.6 QUESTIONNAIRE DESIGN

Many authors suggest that the research problem be translated into research objectives before even considering how questions should be asked (Dillon et al 1990; Cooper et al 1998). Once the research objectives had been identified, the considerations shown in Table 5.4 were taken into consideration when designing the questionnaire.

The guidelines given by Dillon et al (1990) were used in the design and finalisation of the questionnaire and the last column in Table 5.4 indicates the way in which these guidelines were used.

Table 5.4 – Questionnaire Design Considerations

Aspect	Design Considerations	Incorporation of Design Considerations
Preliminary considerations	* What information is required? * Who are the target respondents? * What data collection method will be used to survey these respondents?	* The information required is derived from the management problem, the research problem and is summarised in the formulation of the research objectives (page 2) * The target respondents were identified as franchisees within South Africa * Telephonic interviews were chosen as the data collection method (as discussed in section 5.5.2)
Asking questions	* Why am I asking this question? * Be clear and concise. * Response choices should not overlap. * Use natural and familiar language. * Do not use words or phrases that show bias. * Avoid double-barrelled questions. * State explicit alternatives. * Questions should be reliable and valued.	* Each of the questions included in the instrument were tested against these guidelines. * Questions were worded in clear, concise english and the terms used were put in familiar language that would be easily understandable for franchisees. * Various standardised instruments were used in this study and a degree of customisation was necessary to make the instrument relevant to the target respondents
Constructing the questionnaire	* Decide whether a question should be couched in terms of an open-ended or closed-ended format. * If closed-ended, decide on the appropriate number of response categories and category descriptions. * The questionnaire should flow from evaluative questions to diagnostic questions to finally classification-type questions. * The questionnaire should be designed so as to avoid confusion and minimizing recording errors.	* It was decided that most of the questions should have a close-ended format, which would minimize errors and very long responses (that would make the duration of the questionnaire even longer). * The questionnaire was structured in such a way the evaluative questions were asked first and classification type questions last. * The CATI questionnaire design was done in such a manner that interviewers could not continue if a question was not answered or an illegal response was captured in the software.

Aspect	Design Considerations	Incorporation of Design Considerations
Pre-testing the questionnaire	* All aspects of the questionnaire should be pre-tested. * The pre-test should be conducted in an environment and content identical to the one that will be used in the final survey. * A debriefing procedure should be used.	* The questionnaires were pre-tested with franchisees as well as franchising consultants with expert knowledge. * All changes and suggestions were incorporated into the questionnaire.

Adapted from: Dillon WR, Madden TJ, and Firtle NH. 1990. Marketing Research in a Marketing Environment. Second Edition. Irwin: USA, p 378.

A closer look will now be taken at the questionnaire / measurement instrument.

5.7 THE MEASUREMENT INSTRUMENT - OPERATIONALIZING THE MEASUREMENT CONSTRUCTS

A structured questionnaire consisting of nine sections (relating to different models) was constructed. The complete questionnaire will not be discussed because some of the sections fall outside the scope of this study - only the relevant sections are discussed in detail.

5.7.1 The measurement of relationships

Three approaches were used to measure relationships between franchisees and franchisors. These approaches, their scientific basis and the way in which they were customised for this study, will be discussed in the following paragraphs.

5.7.1.1 Section B of questionnaire – Commitment - trust model (KMV-Model)

The foundation of this section is the relationship between franchisees and the franchisor. The KMV-model of relationship marketing (Morgan and Hunt 1994) was used to determine commitment and trust levels of different franchisees. (The KMV - Model was discussed in chapter 4).

This model was used because it is scientifically founded and has been tested for reliability and validity. The KMV-model was analysed for validity and reliability according to Anderson and Gerbing's, as well as Joreskog and Sorbom's, guidelines. The resulting measurement model $\aleph^2(406)$ was 588.33 (p=.000) (Morgan and Hunt 1994:28). Twelve of the thirteen hypothesized paths of the model were also supported by the results and the comparative fit index (CFI) of the model was 0.890, which is a good fit. Morgan and Hunt (1994:30) further found a total coefficient of the determination for the structural equations of 0.810. Reliability scores (Cronbach alpha) are also shown for termination cost (0.893), shared values (0.868), commitment (0.895) and trust (.947).

Morgan and Hunt (1994: 28 - 29) consulted the works of various other published scientists when designing the measurement instrument. They used items from scales developed by Meyer and Allen (1984), Mowday, Steers and Porter (1997) to measure relationship commitment. Trust was measured by adapting a scale developed by Larzelere and Houston (1980). The scales used for the measurement of relationship commitment and trust, were adapted from the works of the following authors: **termination cost** (Meyer and Allen 1984); **relationship benefits** (Anderson and Narus 1990), **communication** (Anderson, Lodish and Weitz 1987), **opportunistic behaviour** (John 1984), **shared values** (Enz's 1988). The consequences of relationship commitment and trust were measured by adapting scales developed by the following authors: **co-operation** (Brown 1979), **propensity to leave** (Bluedorn 1982) and **uncertainty** (Achrol and Stern 1988).

The constructs and a sample of items used in the KMV model are briefly summarised in Table 5.5.

Table 5.5 – KMV Measures Used By Morgan and Hunt (1994)

Construct	Number of items	Sample items	Anchors 7-Point scale
Acquie scence	1	In the future, my firm will likely comply with the policies that this supplier establishes for the marketing of its products by its distributors	Strongly agree / Strongly disagree
Communica tion	4	In our relationship, my major supplier… 1. …keeps us informed of new developments	Strongly agree / Strongly disagree
Co-operation	5	How would you characterize the cooperation between you and your supplier regarding the following activities? 1. Local / regional cooperative advertising	Not at all cooperative / very cooperative
Functional conflict	2	In the future, differences of opinion between my supplier and me will probably be viewed as "just a part of doing business" and will likely results in benefits to both of us.	Strongly agree / Strongly disagree
Opportunistic behaviour	3	To accomplish his own objectives, sometimes my supplier…. 1. …alters the facts slightly	Strongly agree / Strongly disagree
Propensity to leave	3	What do you think are the chances of your firm terminating this relationship…. 1. …within the next six months?	Very high / very low
Relationship benefits	4	If you could not buy your stock from your present major supplier, you would likely be purchasing from some other major supplier. Please compare your major supplier with this alternate supplier concerning the following items: 1. Gross profit provided by a product line common to both suppliers	Presents supplier is much better / much worse
Relationship commitment	7	The relationship that my firm has with my major supplier… 1. …is something we are very committed to	Strongly agree / Strongly disagree
Relationship termination cost	5		Strongly agree / Strongly disagree
Shared values	5	Please indicate the degree to which you believe that (1) your supplier would agree with the following statements, and (2) you would agree with the following statements: 1. To succeed in this business, it is often necessary to compromise one's ethics	Strongly agree / Strongly disagree
Trust	7	In our relationship, my major supplier… 1. …cannot be trusted at times	Strongly agree / Strongly disagree
Uncertainty	10	To what extent do you now have adequate information for making future decisions regarding … 1. …the amount you should spend on local sales promotions and advertising?	Information is very adequate / information is very inadequate

Adapted from: Morgan RM and Hunt SD. 1994. *The Commitment-Trust Theory of Relationship Marketing*. Journal of Marketing, July 58:34 - 35.

The KMV - model was customised for the franchising industry amongst others by changing any references of "suppliers" and "firms" to "franchisor" and "franchise". The "original relationship benefits statements" were also completely changed to more appropriate benefits for franchisees (such as support, co-operative advertising, group buying power, training and motivation).

The co-operation statements were also changed to more appropriate statements for the franchising industry and an 11 - point scale with the anchors being "not co-operative at all" to "very co-operative" were used for these statements.

An 11 - point interval scale (ranging from 0-10) were used for all the remaining statements with these statements having "do not agree at all" and "strongly agree" as anchors.

The number of statements used in the research were reduced from 56 to 36 due to time constraints (some statements were discarded and others were combined).

The "shared value statements" had two questions per statement namely the degree to which the franchisor would agree or disagree with the statement and the extent to which the franchisee would agree or disagree with the statement (similar to the original KMV model of Morgan and Hunt).

The changes that were made to the KMV – model are detailed in Table 5.6.

Table 5.6 – Statements Used In This Study (Adapted KMV –Model)

Construct	Number of items	Items	Anchors 11-Point scale
Acquiscence	1	**ACQUI1:** In the future, my franchise will comply with the policies that the franchisor establishes	Do not agree at all / Strongly agree
Communication	2	**COMM1:** My franchisor always keeps me informed of any new developments – new products, new prices, etc. **COMM2:** My franchisor communicates his expectations well for my franchises performance	Do not agree at all / Strongly agree
Co-operation	2	To what extent is your franchisor co-operative with regard to … **COOP1:** …the swift settlement of enquiries. **COOP2:** …the swift settlement of problems / disputes	Not at all cooperative / Very cooperative
Functional conflict	2	**FCONFL1:** In the future, differences of opinion between my franchisor and me will be viewed as "just a part of doing business" **FCONFL2:** In the future, differences of opinion between my franchisor and me will result in benefits to both of us.	Do not agree at all / Strongly agree
Opportunistic behaviour	2	**OPPBE1:** My franchisor never promises to do things without actually doing them. **OPPBE2:** My franchisor never alters the facts to accomplish his own objectives.	Do not agree at all / Strongly agree

Construct	Number of items	Items	Anchors 11-Point scale
Relationship benefits	11	**RELBEN1:** My franchisor goes out of its way to serve my needs (will do anything to satisfy my needs) rather than focusing on short term profits **RELBEN2:** My franchisor and its personnel are proactive – they often identify and correct faults even before I notice them. **RELBEN3:** The trust between myself and my franchisor is the result of my previous experience with my franchisor. **RELBEN4:** I receive personal attention from my franchisor – they care about me as an individual. **RELBEN5:** My franchisor delivers consistent service that meets and even exceeds my expectations. **RELBEN6:** My franchisor gives enough franchise set-up support (site selection, store design) **RELBEN7:** My franchisor does enough co-operative advertising and marketing (high marketing spend, strong brand, name recognition) **RELBEN8:** My franchisor uses group buying power to it's fullest potential to the benefit of franchisees **RELBEN9:** My franchisor has a strong focus on training **RELBEN10:** My franchisor has operations manuals for all procedures and standards of my business **RELBEN11:** My franchisor has a strong focus on motivation of franchisees (creating of supportive networks, giving recognition and respect and acceptance)	Do not agree at all / Strongly agree
Relationship Commitment	2	**COMT1:** I am committed to the relationship between myself and my franchisor. **COMT1:** The relationship between myself and my franchisor is something that derserves maximum effort to maintain indefinitely	Do not agree at all / Strongly agree

Construct	Number of items	Items	Anchors 11-Point scale
Shared Values	3	Please indicate the degree to which you believe that (1) your franchisor would agree with the following statement and (2) you would agree with the statement ... **SV1:** To succeed in this business, it is often necessary to compromise one's ethics **SV2:** If any of the franchisees or their personnel compromises the integrity of the brand, they should be reprimanded **SV3:** In order to be successful in the franchising industry, it is sometimes necessary to make compromises in terms of standards	Do not agree at all / Strongly agree
Termination cost	1	**TCOST1:** The costs of terminating the franchising relationship are too high to consider terminating the relationship	Do not agree at all / Strongly agree
Trust	3	**TRUST1:** All transactions between me and my franchisor are conducted with a high degree of integrity. **TRUST2:** I receive enough information from my franchisor to feel secure with my current franchising position. **TRUST3:** I fully trust my franchisor to do what is right.	Do not agree at all / Strongly agree
Uncertainty	3	**UNCERT1:** I have adequate information to make informed decisions about the spending on local sales promotions and advertising **UNCERT2:** I have adequate information to make informed decisions about the managing of my franchise **UNCERT3:** I am confident enough to make informed decisions on what products or brands to carry in stock	Do not agree at all / Strongly agree

5.7.1.2 Section C of questionnaire – Relationship issues

The statements used in this section of the questionnaire are shown in Table 5.7. The first question in this section replaced the "propensity to leave" statements that are normally part of the KMV model. This statement was therefore used to determine the "propensity to leave" construct and will further be referred to as "PTL". The anchors for these statements were "not likely at all" and "extremely likely" and were measured on an 11-point scale ranging from 0 to 10. (All these questions were however not used for analysis for the study in question).

Table 5.7 – Relationship Statements Used In This Study

Items
How likely …
… would you be to continue your relationship with your franchisor, if you were in the situation to reconsider your relationship with them? (PTL)
… are you to continue using your franchisor's services that you are currently using?
… would you be to use additional services from your franchisor in the future?
… would you be to recommend your franchisor to a friend, colleague, acquaintance or potential new franchisee?

5.7.1.3 Section D of questionnaire – Overall relationship satisfaction levels

A number of items were measured in this section of the questionnaire as shown in Table 5.8. This section of the questionnaire was asked in order to evaluate the overall relationship satisfaction levels between franchisees and their franchisors. The anchors for the statements were "not satisfied at all / completely satisfied" and was measured on an 11- point scale (0 to 10).

Table 5.8 – Relationship Satisfaction Statements Used In This Study

Items
How would you rate your overall satisfaction with the …
… quality of the relationship between you and your franchisor?
… service quality you receive from your franchisor?
… products supplied to you by the franchisor (quality, value for money)?
… personnel working for the franchisor?
… franchising agreement between you and your franchisor?
… franchisor organization in total?

5.7.1.4 Combination of section B, C and D of questionnaire – Relationship quality index levels

The questions discussed in section 5.7.1 were included in the questionnaire in order to measure the relationship quality between franchisees and franchisors. If the section on relationship quality and satisfaction (vide page 93 - 105) are studied again, it will become clear that the dimensions of the "commitment-trust" model along with other aspects such as "satisfaction with personnel", "service quality", "satisfaction with core product" and "satisfaction with the organisation in total" are all aspects that influence the relationship quality between parties.

The satisfaction statements (in section 5.7.1.3 vide page 137) are however not mutually exclusive and therefore all of the statemtents cannot be used in a single relationship quality index due to their possible multicolliniarity. "*Multicolliniartiy is the extent to which a variable can be explained by the other variables in the analysis*" (Hair et al 1995: 2). Hair et al (1995:276) state that "*the dependent variables should not have high multicollinearity, because this indicates only redundant dependent measures and decreases statistical efficiency.*"

It was decided not to include all the satisfaction statements in a relationship quality index score (along with the KMV model statements), but to only include the first five statements. The question pertaining to "satisfaction with the franchisor organisation in total", was not included because this question encapsulates the rest of the questions already included. Only the KMV statements that were not discarded due to low reliability and validity were included in the calculation of the relationship quality index (the statements that were discarded due to reliability and validity issues are shown in section 6.2.2 to section 6.2.3 (vide page 177 - 179). The specified statements in sections 5.7.1.1 - 5.7.1.3 (vide page 130 - 137) were therefore combined into one relationship quality index score for analysis purposes.

5.7.2 The measurement of franchisee life cycles

5.7.2.1 Section F of questionnaire – The measurement of franchisee life cycles

A scientifically proven instrument could not be obtained (as discussed in chapter 3 page 73 - 80) and the Disenchantment Curve (Nathan 1993) was therefore used (after modification) to measure the franchisee life cycle stage /

phase. Descriptors of different stages were presented to franchisees and they were then required to indicate the stage that best described their relationship with their franchisor. The descriptors of the different stages are shown in Table 5.9.

Table 5.9 – Life Cycle Stage Items

Original labels	Items
Glee	I am very happy with the relationship between myself and the franchisor, The franchisor cares about my success, I am excited about my new franchise
Fee	The royalty payments are taking the cream off the top
Me	My franchise success is the result of my hard work, I could probably be just as successful without the franchisor
Free	I don't like all the restrictions that the franchisor places on the way I run my franchise, I feel frustrated at the constant interference of the franchisor, I want to be able to do my own thing, I want to express my own ideas
See	I can see the importance of following the rules of the system (franchisor), I can see the value of the standards placed on me by the franchisor
We	We (franchisor and franchisee) need to work together to make the most of our business relationship, I need specific assistance in certain areas to develop my business, I have ideas that I want the franchisor to consider

5.7.2.2 Section I of questionnaire – Classification questions

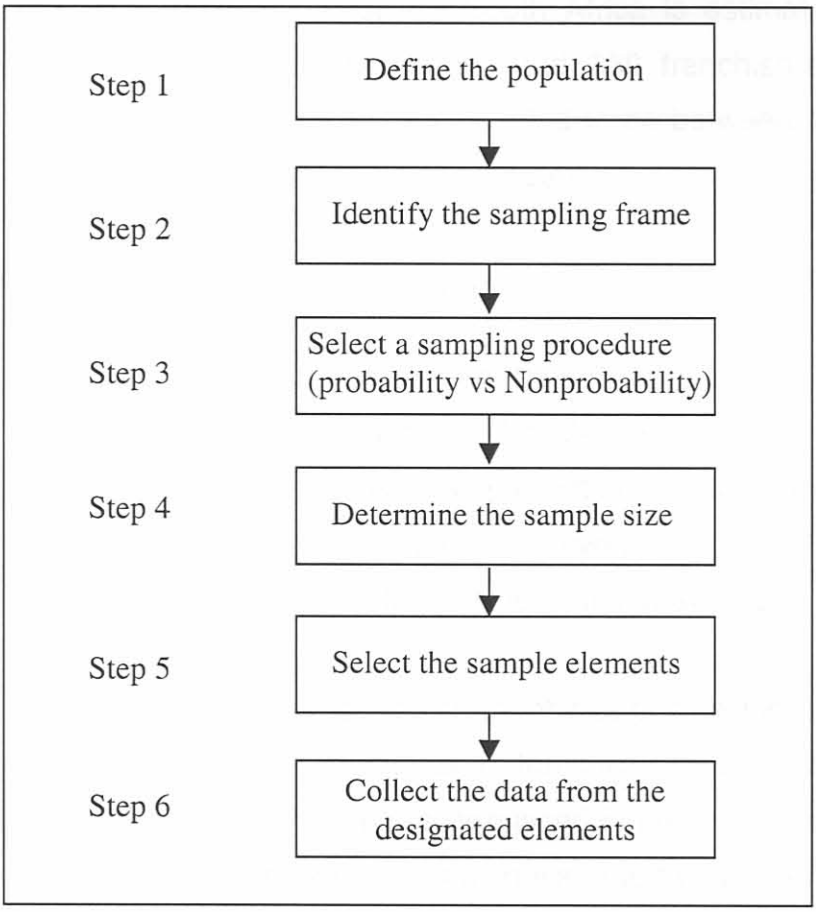
Various classification questions were asked to respondents. The most important classification question asked to respondents for the purposes of this study referred to the years that the respondents have been operating the franchise business. This was an open question and respondents were asked to indicate the number of years that they have been operating the franchise business.

5.8 SAMPLING METHOD, SAMPLE SIZE AND DATA COLLECTION

Gay and Diehl (1992:126) define sampling as "*the process of selecting a number of units for a study in such a way that the units represent the larger group from which they were selected .... with the purpose to gain information* *about a population.*" Individuals who are selected form the "sample", while the larger group, from which they were selected, form the population.

Gilbert and Churchill (1995: 575) suggest the following six steps when drawing a sample:

Figure 5.1 – Six-Step Procedure for Drawing a Sample



Adapted from: Gilbert A, Churchill Jr. 1995. Marketing Research: Methodological Foundations, sixth edition. The Dryden Press: USA. p 575.

5.8.1 Define the population

The first step in sampling is the definition of the population. A "target population" is the population that the researcher would like to generalize to, while the "accessible population" is the population from which the researcher can realistically select (Gay and Diehl 1992:126).

In this study the target population can be defined as "all franchisees within South Africa." Owing to the fact that a franchisee list was not readily available, a sample was first drawn from franchise systems and this can therefore be considered as the "accessible population." Once the franchisee information was received from the selected franchisors, the franchisee information became the "accessible population".

The total franchisor base for South Africa is estimated to be between 442 franchisors (Consulta Database) and 358 franchisors (Gordon 1998-1999), while the franchisee base is estimated to be between 18 442 franchisees and 20 885 franchisees (Gordon 1998-1999).

5.8.2 Identify the sampling frame

Identifying the sample frame was the second step in the sampling process. A sampling frame is the listing of the elements from which the sample will be drawn (i.e. telephone book, customer list etc). Gilbert and Churchill (1995) state that one of the researcher's more creative tasks is developing a sampling frame when such a list of population elements is not available.

No comprehensive database of franchises or franchisees exists in South Africa and a process of sourcing both franchisor and franchisee information was therefore embarked upon (as discussed in previous chapters). The reason for first sourcing franchisor information was the fact that only the franchisor would hold a detailed and comprehensive list of all franchisees in the franchise system. The sampling procedures used, were chosen based on the fact that franchisor details were first sourced, and the implications of this are discussed in the next paragraph.

5.8.3 Select a sampling procedure and select the sample elements

There are two main categories of sampling procedures namely probability and nonprobability procedures.

In probability samples, each element of the population has a "*known, nonzero chance*" of being included in the sample. In nonprobability samples there is no way of determining the likelihood that any population element will be included in the sample. There is therefore no way of ensuring that the sample is representative of the population. In a nonprobability sample there is no way of evaluating the adequacy of the sample (Gilbert and Churchill 1995:578).

Each of these sampling procedure categories have different types or methods of sampling which are shown in Table 5.10.

Table 5.10 – Classification of Sampling Techniques

Sampling Techniques	
Nonprobability samples	Probability samples
Convenience	Simple random
Judgmental	Systematic
Quota	Stratified (Proportionate or disproportionate)
Snowball	Cluster sampling (Systematic or Area)

Adapted from: Malhotra NK. 1996. Marketing Research: An Applied Orientation, Second Edition. Prentice Hall International: USA. p 365.

5.8.3.1 The sampling procedure used in this study

Owing to the fact that no single, complete sampling frame for franchisees exist in South Africa, a more complex sampling approach had to be followed in order to reach a representative spread of franchisees in South Africa. This entailed the use of various sampling procedures and a multi-stage sampling procedure was therefore employed.

As a first level of sampling, proportionate stratified probability sampling was chosen. According to Gilbert and Churchill (1995: 603) this sampling procedure produces sample statistics that are more precise and that have smaller sampling errors than simple random samples. Another benefit of stratified sampling is that this method allows the investigation of characteristics of specific subgroups. Stratified probability sampling has a two-step process that must be followed:

- The population must be divided into mutually exclusive and exhaustive subsets (also called strata) and
- A simple random sample of elements is then chosen from each subset (strata)

The first stage of the sampling process entailed the compilation of a list of franchise systems in South Africa (for more details on this process refer to the exploratory phase of the research starting from page 124). The franchise systems on the list were numbered and classified according to their FASA membership status (FASA members vs. Non-FASA members). The information pertaining to FASA membership status was obtained from the Franchising Association of Southern Africa's members list.

Franchise systems were then classified into small, medium and large based on the number of outlets that a specific franchise system had. Franchise systems with less than 40 outlets were classified as small systems, medium systems were those that had between 41 and 80 outlets and large systems would be those having more than 81 outlets. The decision on the number of outlets that would signify a small, medium and large system were based on a subjective judgment made after consultation with various specialist, franchising consultants. Owing to the fact that information on outlet numbers for all the franchising systems was not available, a process of subjectively classifying systems into small, medium and large categories was done in consultation with franchising consultants (as a starting position). In a few cases the income generated by a franchise system or association with a group would have been used as a size qualifier, rather than the number of outlets. The reason for this was the fact that certain franchises such as MacMunch (which only have 8 franchisees) form part of a group named Pleasure foods and classifying them as small would not be appropriate because their relationship with their franchisor would be the same as the relationship that larger franchises would have with their franchisor.

After categorizing and classifying the franchise systems, a calculation was made to determine the proportional split between FASA and Non-FASA members. As shown in Table 5.11 it was calculated that 56.8% of franchise systems were Non FASA members and only 43.2% were FASA members. It was therefore determined that if a sample size of 800 was used, 346 interviews should be completed with franchisees (FASA members) and the franchisees should represent at least 12 different franchise systems.

Table 5.11 – Sampling Stage 1 (Proportional split between FASA and Non-FASA members - before database cleaning)

	N outlets	Relative %	N franchisees (Proportional)	N - franchisors
FASA	7976	43.2%	346	12
NON FASA	10466	56.8%	454	15
Total	18442	100.0%	800	27

The proportional split was then further re-fined to include the size classifications as shown in Table 5.12. This table therefore suggests the completion of (for example) 56 interviews with "small FASA member" franchisees representing 2 different systems.

Table 5.12 – Sampling Stage 1 (Proportional split between FASA and Non-FASA members and size - before database cleaning)

	N outlets	Relative %	N franchisees (Proportional)	N- franchisors
FASA - Small	1296	16.2%	56	2
FASA - Medium	1820	22.8%	79	3
FASA - Large	4860	60.9%	211	7
Total	7976	100%	346	12
NON FASA - Small	3728	35.6%	162	5
NON FASA - Medium	1716	16.4%	74	3
NON FASA - Large	5022	48.0%	218	7
Total	10466	100%	454	15

A simple random sample of franchise systems was then drawn (based on the calculations as described in the previous paragraphs) from each of the different sub-sets / strata. Therefore, 2 franchise systems classified as small FASA members, 3 classified as medium FASA and 7 classified as large FASA were drawn using a random number generator.

Each of the randomly selected franchise systems was telephonically contacted in order to obtain their support for the process as well as their franchisee contact names and telephone numbers. Franchisors were also asked to verify the number of outlets in their franchise system. This lead to the discovery that many of the franchise systems were classified incorrectly in terms of their size. A substantial percentage of franchise systems thought to be large, were in fact medium sized and a number of systems thought to be medium were in fact small. Many of the "franchise systems" contacted were not franchising anymore or had never franchised and this information was substituted back into the database. All incorrect information was corrected and companies that did not belong on the franchise database were deleted.

Owing to the large number of changes and mistakes on the database, it was decided to re-calculate the sampling based on the new, correct information that was obtained. The same process discussed in the previous section was repeated (Sampling stage 2). The sampling (after database cleaning) is shown in Table 5.13 - Table 5.15.

Table 5.13 – Sampling Stage 2 (Number of Franchise Systems- After database cleaning)

	Small	Medium	Large	Total
FASA	76	31	40	147
Non-FASA	118	19	13	150
Total	194	50	53	

* Average number of outlets per small franchises = 16, medium = 52 and large=162

If the number of franchise systems is multiplied with the average number of outlets in each of the size categories, an estimation of the number of outlets can be made as shown in Table 5.14. A proportional split now indicated that 521 FASA franchisees (representing 17 franchise systems) and 279 Non FASA members representing 9 franchise systems had to be included in the study, which is significantly different from the first round of sampling. The number of franchise systems included in the research was determined by dividing the number of franchisees by 30 (which was calculated as the average number of outlets per system).

Table 5.14 – Sampling Stage 2 (Number of Outlets- After database cleaning)

	Small	Medium	Large	Total	Percentage	N franchisees	N franchisors
FASA	1216	1612	6480	9308	65.1%	521	17
Non-FASA	1888	988	2106	4982	34.9%	279	9
Total	3104	2600	8586	14290	100.0%	800	26

The following table gives a breakdown of the sampling for each of the size categories.

Table 5.15 – Sampling Stage 2 (Number of Outlets, Franchisees and Franchisors - After database cleaning)

	N Outlets	Percentage	N franchisees	Suggested N franchisors
FASA - Small	1216	13.1%	68	2
FASA - Medium	1612	17.3%	90	3
FASA - Large	6480	69.6%	363	12
Total	9308	100%	521	17
NON FASA - Small	1888	37.9%	106	3
NON FASA - Medium	988	19.8%	55	2
NON FASA - Large	2106	42.3%	118	4
Total	4982	100%	279	9

The suggested number of FASA (17) and Non FASA (9) franchisors were randomly selected for inclusion in the study. Franchisors that agreed to participate in the study, forwarded their franchisee information to the researcher and all information was captured in electronic format to make the data collection process easier. The contact lists provided by franchisors were cleaned so that a franchisee's name would appear on the contact list only once (even if a franchisee owned multiple outlets). This was done to ensure that a franchisee would not be contacted more than once for an interview.

Stage 1 and 2 of the sampling process was based on the number of franchise systems as well as the number of outlets. The fact that some franchisees owned multiple outlets (but could only be interviewed once because they could only have one relationship with their franchisor irrespective of the number of outlets that they own) necessitated another sampling calculation. The third sampling stage could now be completed.

The sampling per franchise system was now done based on the number of franchisees in order to meet mimimum cell size criteria as shown in Table 5.16. For example, the Non-FASA medium category consists of two franchise systems, which have 84 franchisees in total (42 franchisees each). The 84 franchisees make up 3.9% of the total population and would only receive 25 interviews if a proportional split were done. A minimum cell size of 30 was however suggested so that the results could be reported to the client for each of the different categories. Therefore, a total of 15 interviews per each of these franchises were suggested for completion. A simple random sampling procedure was used in selecting the 15 respondents from the 42. (In most cases all franchisees of a specific group were contacted in order to fill the proposed sample quotas. Many franchisees were not available and/or not interested and therefore, the next franchisee on the list was contacted, until such time as the list was totally exhausted. The fact that many franchisees were not available or not interested led to the fact that some of the quotas for the different franchise systems could not be filled as shown in Table 5.17. Substitutions were made where possible with franchisees from another franchise group in the same category in order to meet the 650 sample size).

Table 5.16 – Sampling Stage 3 (Number of interviews per franchise system)

Segment	N franchisees (per selected franchisors)	% of total	N interviews (proportional)	Suggested N interviews	Allocation basis
FASA small	49	2.3%	15	30	Suggested to meet minimum cell size criteria
FASA medium	204	9.5%	62	83	Suggested to meet minimum cell size criteria
FASA large	1344	62.9%	409	363	Proportionally allocated based on the number of interviews available
Non-FASA small	109	5.1%	33	50	Suggested to meet minimum cell size criteria
Non-FASA medium	84	3.9%	25	30	Suggested to meet minimum cell size criteria
Non-FASA large	348	16.3%	106	94	Proportionally allocated based on the number of interviews available
Total	2138	100.0%	650	650	

It is important to note that a sample size of 800 was originally suggested for this research project. The duration (length) of the questionnaire increased from a 15 minute interview to a 35 minute interview, which had significant cost implications. In order to keep within the agreed budget, the number of interviews had to be reduced to 657.

The following table gives a summary of the franchise systems that agreed to participate in the research. Although 12 large FASA members should have been included in the research (as suggested in round two of the sampling), only 11 large franchisors agreed to participate in the research. No other large franchisors could be convinced to participate although all other large franchise systems were contacted. A substitution was therefore made and another medium FASA member was included. Substitutions were also made with some of the other categories. This was done due to the fact that the client (for which the research was done) required a minimum number of franchise systems in the research in order to do follow-up work with these systems. The number of franchisees per franchise system and the proposed sample size are shown in Table 5.17.

Table 5.17 – Proposed Sample Sizes per Franchise System and the Corresponding Response Rates per Franchise System

No.	Franchise group	N franchisees	Proposed sample
	FASA - small		30
1.	Beaux Arts	18	11
2.	Shine master	11	7
3.	Trappers franchising cc	20	12
	FASA - medium		83
1.	Coastal tool hire network	32	13
2.	Master Maths	39	16
3.	Re/max of Southern Africa	45	18
4.	Something fishy	88	36
	FASA - large		370
1.	7 Eleven Suprettes (Cape)	162	44
2.	Battery Centre	129	35
3.	Mr Exhaust Mr Tyre	76	21
4.	Pleasure foods (Mac Munch)	8	8
5.	Pleasure foods (Wimpy)	229	62
6.	Postnet SA	126	34
7.	Silverton radiators	115	31
8.	Spec-savers SA	86	23
9.	Spur	113	31
10.	Steers	122	33
11.	Supa-Quick	178	48
	NON-FASA - small		50
1.	Annique	31	14
2.	Barotti Stationers	19	9
3.	Gino's	11	5
4.	Lumber city	26	12
5.	Trellidor	22	10
	NON-FASA - medium		30
1.	Dream nails	42	15
2.	Harvey World Travel (Rennies Travel)	42	15
	NON-FASA - large		94
1.	King Pie	218	59
2.	Mica Hardware	130	35
	TOTAL		**657**

5.8.4 Determine the sample size

The sample size is determined by aspects such as the type of sample, the statistics in question, the homogeneity of the population, time, money and personnel available for the study (Gilbert and Churchill 1995:628).

Gay and Diehl (1992:140) suggest that the type of research plays a major role in the sample size. They give some basic guidelines in terms of sample size and state that: "*for descriptive research, a sample of 10% of the population is considered a bare minimum, ..., for correlation studies at least 30 subjects are needed to establish the existence or nonexistence of a relationship, ..., and for causal-comparative studies .... a minimum of 30 subjects per group is generally recommended.*"

The study in question is a combination of descriptive research and correlation research. Cooper and Schindler (1998:10) state that descriptive research attempts to describe or define a subject and answers questions such as who, what, when, where and how (and sometimes leads to the creation of a profile of people). Gay and Diehl (1992:15) define correlation research, as research that attempts to answer "whether" and "to what degree" a relationship exists between two or more quantifiable variables. Correlation research **does not** establish a cause-effect relationship, **but only** that a relationship exists. The existence of a strong relationship permits prediction.

If the basic guidelines offered by Gay and Diehl (1992:140) are followed, a sample of between 1844 (10% of franchisees) and 30 interviews would be sufficient for this type of research.

Dillon, Madden and Firtle (1990:279) also give basic guidelines for sampling and they state that for market studies a minimum sample of 500 is suggested. They further state that the typical range of sample sizes varies from 1000 to 1500 for market studies.

Another sample calculator (http://researchinfo.com/calculators) indicated that at a 99% confidence level and a 4% confidence interval the approximate sampling size should be 642. (This calculation is based on proportions)

Based on the discussions above, a sample size of 652 franchisees (from 27 different franchise systems) is sufficient. This study represents 3,12% of the total franchisee population and 7,54% of all franchise systems (franchisors) based on the published database sizes.

5.8.5 Collect the data from the designated elements

A well-equipped call-center with experienced staff was used for the data collection process. All call center personnel working on the campaign underwent comprehensive training on the questionnaire and received information pertaining to the background and reasons for the study. Various sessions of role-playing also took place to ensure that the call center personnel maintained a professional approach and knew the questionnaire by heart. All the call center personnel were familiar with the CATI software that was used in this research process and no additional training on the software package itself was necessary. Call center personnel were constantly monitored to ensure a high standard of interviewing.

Franchisees from the 27 specified franchise systems were contacted for a telephonic interview. Only franchisees within South Africa were included in this study. The data collection process lasted from 19 April to 7 May 1999 (3 weeks) and a total of 6786 telephone calls were made to obtain the 652 responses. At the end of the data collection process, the call centre exported the data from the CATI software package to an excel worksheet and this document was e-mailed to the researcher for data processing.

5.9 DATA PROCESSING

5.9.1 Check-in and editing procedure

This procedure involves the checking of all returned questionnaires for completeness and a count of the usable questionnaires. According to Churchill and Gilbert (1995:736) *"the basic purpose of editing is to impose some minimum quality standards on the raw data."*

All questionnaires were complete because the CATI software required an answer before continuing with the rest of the questionnaire and no questionnaires were therefore discarded. Respondents were able to indicate "don't know" as an answer and this was handled as a non-response. The occurrence of "don't know's" was very low and constituted the exception to the rule. Mean substitution was not used in cases where "don't know" was indicated and if a respondent had a "non-response" for a certain statement, that respondents statement would not be included in the analysis process.

A quality check was performed on the data by calculating a minimum and maximum value for each of the statements in the datafile to ensure that no values were outside the acceptable range.

5.9.2 Coding

Coding was not necessary for this project because a computer-based questionnaire was used and the answers given by respondents were captured as the questions were asked to them.

5.9.3 Data transformations

All the items in the questionnaire that had 11-point scales (from "0" to "10") were re-coded to index values (out of a 100). This was done because index values are easily understandable and make the results more easily interpretable.

Some of the questions were negatively worded and it was necessary to reverse-score these items.

5.10 HYPOTHESES (AND PROPOSITION) OPERATIONALISATION

In this section the operationalisation of the proposition and research hypotheses are discussed. A consistent format of discussion is used:

- The proposition or hypothesis is stated first,
- A summary of information is then given in table format and lastly
- The statistical notation of the hypothesis is given.

The table format contains information such as the number of variables, a description of the variables, the data types, the aspects that are measured, the method of measurement and the statistical technique used. A more detailed discussion of the statistical techniques are done in section 5.11 (vide page 161). The operationalisation is done in this manner because a clear picture of exactly what is done and how it is done can be obtained at a glance.

5.10.1 Operationalisation of the first proposition

Proposition 1 = There are distinctive phases in the relationship between franchisees and the franchisor that follow a typical life cycle format.

Table 5.18 – Proposition 1 - Operationalisation

Number of variables	1 (independent)	1 (dependent)
Variables	Phases – Self identification of life cycle stages according to re-classified Nathan phases (FLC phases)	Duration of franchisee relationship (measured in years and re-coded into nominal categories)
Data type	Non-metric Nominal	Non-metric Nominal
Measurement	"Distinctiveness"	
Method of measurement	Use Nathan's phases and thorough a process of combination, try to identify distinctive phases. Correspondence analysis was used to plot the different phases and years on a dimensional map	
Technique used	Correspondence analysis	

5.10.2 Operationalization of hypothesis 1

H_1 = There are significant differences in the commitment-trust dimensions representing the franchisee-franchisor relationship between each life cycle phase.

Table 5.19 – Hypothesis 1 - Operationalisation

Number of variables	10 (dependent)	1 (independent)
Variables	Commitment-trust dimension index scores	The 4 FLC life cycle phases
Data type	Metric Ratio	Non-metric Nominal
Measurement	Significant differences in commitment-trust index scores	
Method of measurement	The commitment – trust dimensions scores were analyzed with the FLC life cycle phases as identified in the correspondence analysis	
Statistical test	MANOVA	

Table 5.20 – Hypothesis 1 Stated in Statistical Notation

$$H_1 \quad \begin{bmatrix} \mu_{d1p1} \\ \mu_{d2p1} \\ \mu_{d3p1} \\ \mu_{d4p1} \\ \mu_{d5p1} \\ \mu_{d6p1} \\ \mu_{d7p1} \\ \mu_{d8p1} \\ \mu_{d9p1} \\ \mu_{d10p1} \end{bmatrix} \neq \begin{bmatrix} \mu_{d1p2} \\ \mu_{d2p2} \\ \mu_{d3p2} \\ \mu_{d4p2} \\ \mu_{d5p2} \\ \mu_{d6p2} \\ \mu_{d7p2} \\ \mu_{d8p2} \\ \mu_{d9p2} \\ \mu_{d10p2} \end{bmatrix} \neq \begin{bmatrix} \mu_{d1p3} \\ \mu_{d2p3} \\ \mu_{d3p3} \\ \mu_{d4p3} \\ \mu_{d5p3} \\ \mu_{d6p3} \\ \mu_{d7p3} \\ \mu_{d8p3} \\ \mu_{d9p3} \\ \mu_{d10p3} \end{bmatrix} \neq \begin{bmatrix} \mu_{d1p4} \\ \mu_{d2p4} \\ \mu_{d3p4} \\ \mu_{d4p4} \\ \mu_{d5p4} \\ \mu_{d6p4} \\ \mu_{d7p4} \\ \mu_{d8p4} \\ \mu_{d9p4} \\ \mu_{d10p4} \end{bmatrix}$$

Notation used:

μ = Mean of variable (sample mean)

d= Commitment – trust dimensions (ranging from 1 – 10)

p = FLC life cycle phases (ranging from 1 – 4)

5.10.3 Operationalization of hypothesis 2

H_2 = There are significant differences in the relationship quality index levels representing the franchisee-franchisor relationship between each life cycle phase.

Table 5.21 – Hypothesis 2 - Operationalisation

Number of variables	1 (dependent)	1 (independent)
Variables	Relationship quality index levels	The FLC life cycle phases
Data type	Metric Ratio	Non-metric Nominal
Measurement	Significant differences in the relationship quality index levels	
Method of measurement	The relationship quality index was calculated using specific commitment-trust statement scores and the satisfaction statements as discussed earlier in this chapter vide page 137. This relationship quality index was then analysed at all the FLC life cycle phases.	
Statistical test	ANOVA	

Table 5.22 – Hypothesis 2 Stated in Statistical Notation

$$H_2 \quad \boxed{\mu_{r1p1}} \neq \boxed{\mu_{r1p2}} \neq \boxed{\mu_{r1p3}} \neq \boxed{\mu_{r1p4}}$$

Notation used:

μ = Mean of variable (sample mean)

r= Relationship quality index levels

p = FLC life cycle phases (ranging from 1 – 4)

5.10.4 Operationalization of hypothesis 3

H_3 = Franchisees in the first life cycle phase will have significantly higher commitment–trust dimension scores than franchisees in the successive life cycle phases.

Table 5.23 – Hypothesis 3 – Operationalisation

Number of variables	10 (dependent)	1 (independent)
Variables	Commitment-trust dimension index scores	The FLC life cycle phases
Data type	Metric Ratio	Non-metric Nominal
Measurement	Significantly higher commitment-trust dimension scores	
Method of measurement	A Scheffè test was performed to determine if the differences on each dimension score for each life cycle phase was significant and it was then determined if the dimensions scores were higher or lower.	
Statistical test	Scheffè test	

Table 5.24 – Hypothesis 3 Stated in Statistical Notation

$$H_3 \quad \boxed{\mu_{d1p1}} > \boxed{\mu_{d1p2}} > \boxed{\mu_{d1p3}} > \boxed{\mu_{d1p4}}$$

Notation used:

μ = Mean of variable (sample mean)

d= Commitment-trust dimensions

p = FLC life cycle phases (ranging from 1 – 4)

5.10.5 Operationalization of hypothesis 4

H_4 = Franchisees in the first life cycle phase will have significantly higher relationship quality index levels than franchisees in the successive life cycle phases.

Table 5.25 – Hypothesis 4 - Operationalisation

Number of variables	1 (dependent)	1 (independent)
Variables	Relationship quality index levels	The FLC life cycle phases
Data type	Metric Ratio	Non-metric Nominal
Measurement	Significantly higher relationship quality scores	
Method of measurement	The results obtained in hypothesis 2 were used to show that significant differences did occur. The relationship quality index was then further analysed with the FLC life cycle phases (with a Scheffè test) to determine if the differences on the relationship index for each life cycle phase was significantly higher.	
Statistical test	Scheffè test	

Table 5.26 – Hypothesis 4 Stated in Statistical Notation

$$H_4 \quad \boxed{\mu_{rp1}} > \boxed{\mu_{rp2}} > \boxed{\mu_{rp3}} > \boxed{\mu_{rp4}}$$

Notation used:

μ = Mean of variable (sample mean)

r= Relationship quality index levels

p = FLC life cycle phases (ranging from 1 – 4)

5.10.6 Operationalization of hypothesis 5

H_5 = There are significant differences in the commitment-trust dimensions of each life cycle fit category.

Table 5.27 – Hypothesis 5 - Operationalisation

Number of variables	10 (dependent)	1 (independent)
Variables	Commitment-trust dimension index scores	The FLC life cycle fit categories
Data type	Metric Ratio	Non-metric Nominal
Measurement	Significant differences of commitment-trust dimension index scores	
Method of measurement	The life cycle fit categories were calculated by assigning a fit code (exact, premature and lagged) to a franchisee, based on the phase of the relationship that a franchisee was classified into and the duration of the relationship. If for example, a franchisee was classified as belonging to the "Courting" phase and the relationship duration was 5 years, the franchisee would have been classified as premature fit. The duration of a phase was operationalised as 1 year. The life cycle fit categories and the commitment-trust dimension index scores were then used in the statistical analysis.	
Statistical test	MANOVA	

Table 5.28 – Hypothesis 5 Stated in Statistical Notation

$$H_5 \quad \begin{bmatrix} \mu_{d1f1} \\ \mu_{d2f1} \\ \mu_{d3f1} \\ \mu_{d4f1} \\ \mu_{d5f1} \\ \mu_{d6f1} \\ \mu_{d7f1} \\ \mu_{d8f1} \\ \mu_{d9f1} \\ \mu_{d10f1} \end{bmatrix} \neq \begin{bmatrix} \mu_{d1f2} \\ \mu_{d2f2} \\ \mu_{d3f2} \\ \mu_{d4f2} \\ \mu_{d5f2} \\ \mu_{d6f2} \\ \mu_{d7f2} \\ \mu_{d8f2} \\ \mu_{d9f2} \\ \mu_{d10f2} \end{bmatrix} \neq \begin{bmatrix} \mu_{d1f3} \\ \mu_{d2f3} \\ \mu_{d3f3} \\ \mu_{d4f3} \\ \mu_{d5f3} \\ \mu_{d6f3} \\ \mu_{d7f3} \\ \mu_{d8f3} \\ \mu_{d9f3} \\ \mu_{d10f3} \end{bmatrix}$$

Notation used:

μ = Mean of variable (sample mean)

d= Commitment – trust dimensions (ranging from 1 – 10)

f = life cycle fit categories (ranging from 1 – 3)

5.10.7 Operationalization of hypothesis 6

H_6 = There are significant differences in the relationship quality index levels between each life cycle fit category.

Table 5.29 – Hypothesis 6 - Operationalisation

Number of variables	1 (dependent)	1 (independent)
Variables	Relationship quality index levels	The FLC life cycle fit categories
Data type	Metric Ratio	Non-metric Nominal
Measurement	Significant differences between relationship quality index scores	
Method of measurement	The life cycle fit categories and the relationship quality index scores were used in the statistical analysis.	
Statistical test	ANOVA	

Table 5.30 – Hypothesis 6 Stated in Statistical Notation

$$H_6 \quad \boxed{\mu_{rf1}} \neq \boxed{\mu_{rf2}} \neq \boxed{\mu_{rf3}}$$

Notation used:

μ = Mean of variable (sample mean)

r= Relationship quality index levels

f = life cycle fit categories (ranging from 1 – 3)

5.10.8 Operationalization of hypothesis 7

H_7 = Franchisees that move through the life cycle phases in the expected time (exact fit) will have significantly higher relationship quality levels than those that move slower or faster.

Table 5.31 – Hypothesis 7 - Operationalisation

Number of variables	1 (dependent)	1 (independent)
Variables	Relationship quality index levels	The FLC life cycle fit categories
Data type	Metric Ratio	Non-metric Nominal
Measurement	Significantly higher relationship quality index levels	
Method of measurement	The life cycle fit categories and the relationship quality index scores were used in the statistical analysis. The differences between each of the phases were tested in order to see franchisees in exact fit had a significantly higher relationship quality index.	
Statistical test	Scheffè test	

Table 5.32 – Hypothesis 7 Stated in Statistical Notation

$H_7 \quad \boxed{\mu_{rf1}} < \boxed{\mu_{rf2}} > \boxed{\mu_{rf3}}$

Notation used:

μ = Mean of variable (sample mean)

r= Relationship quality index levels

f = life cycle fit categories

(ranging from 1 = lagged, 2 = exact and 3 = premature)

5.11 DATA ANALYSIS AND STATISTICAL TECHNIQUES

After the editing and data transformation process, the data file was ready to important into Statistica for Windows, which was used for data analysis purposes. The research findings and results will be discussed in chapter 6. Before discussing the research findings, the statistical techniques that were used in chapter 6 will be briefly discussed.

5.11.1 Reliability analysis

According to Cooper and Emory (1995:148) "*reliability has to do with the accuracy and precision of a measurement procedure.*" Cooper and Schlinder (1998:171) state that "*reliability is concerned with estimates of the degree to which a measurement is free of random or unstable error.*" Gay and Diehl (1992:164) concur and state that reliability "*is the degree to which a test consistently measures whatever it measures.*"

There are three perspectives on reliability namely stability (test-retest reliability), equivalence and internal consistency. Internal consistency uses only one administration of a test or instrument to determine the consistency or homogeneity among the items, and is the relevant approach to use for determining the reliability of this study.

Cronbach's Alpha is a frequently used technique used to determine internal consistency and according to Cooper and Schindler (1998:173) it has the most utility for a multi-item scale at the interval level of measurement. This is the reason why Cronbach's Alpha was used rather than the Kuder-Richardson Formula 20, which is more suitable for dichotomous items.

Malhotra (1993:305) state that Cronbach's Alpha (coefficient alpha) "*is the average of all possible split-half coefficients resulting from different ways of splitting the scale items.*" The Cronbach Alpha value can vary from "0" to "1", with values below 0.6 indicating unsatisfactory internal consistency reliability.

(The higher the coefficient, the higher the reliability of the instrument. A coefficient of 1.00 therefore being perfectly reliable).

5.11.2 Validity analysis

"*Validity refers to the extent to which a test measures what we actually wish to measure*" (Cooper and Schindler 1998:166). There are various types of validity namely content, criterion-related (concurrent and predictive) and construct validity.

Construct validity was used in this study because it is the most sophisticated type of validity measure (Malhotra 1993:307). According to Malhotra (1993:307) construct validity addresses the question of what construct the scale is measuring.

The technique used to measure construct validity is called factor analysis, which is a general name used to identify a class of procedures primarily used for data reduction and summarization. There is no distinction between dependent and independent variables in factor analysis and the whole set of interdependent relationships between variables is examined to identify underlying dimensions or factors (Malhotra 1993:643).

The specific type of factor analysis that was used in this study is called "principal components analysis". This type of factor analysis is recommended when the main concern is to determine the minimum number of factors that will account for maximum variance in the data for use in subsequent multivariate analysis (Malhotra 1993:643). Cooper and Schindler (1998:577) state that principal component analysis transforms a set of variables into a new set of principal components (composite variables) that are not correlated with one another. These linear combinations of variables (factors) account for the variance in the data as a whole. The first factor is a combination of the variables that provides the best linear combination of variables for explaining the variance in the whole dataset. The second factor is the best linear combination of variables for explaining of the variance that was not explained by the first factor. There might be several factors and this process continues until all the variance is explained.

When a factor analysis is performed, the results are given in a table containing correlation coefficients, commonly referred to as loadings. Correlation coefficients are discussed in more detail in section 5.11.6 page 172 and will therefore not receive more attention here. Another term used in factor analysis is called an Eigenvalue. The Eigenvalue is the sum of the variances of the factor values and when this value is divided by the number of variables, it gives an indication of the amount of total variance explained by the factor (Cooper and Schindler 1998:577).

If a factor analysis is performed and many cross-loadings are obtained, (meaning that one variable has high correlation coefficients with more than one factor) a rotation can be done. Rotation tries to secure a less ambiguous condition between factors and variables so that only one variable loads with one factor. The rotation technique used in this study is called Varimax normalized.

5.11.3 Correspondence analysis

According to Malhotra (1996:696) correspondence analysis is a multidimensional scaling technique used for scaling qualitative data. Multidimensional scaling (MDS) is the name given to a class of procedures used to represent perceptions or preferences of respondents spatially by means of a visual display, usually called a spatial map.

Hair et al (1995:17) state that correspondence analysis differs from other interdependence techniques because of it's ability to accommodate non-metric data and non-linear relationships and it provides a multivariate representation of interdependence for non-metric data not possible with other methods.

Correspondence analysis is therefore an exploratory technique that can be used to analyze simple cross tabulation tables. It assumes that the analyst wants to investigate some measure of correspondence between the rows and columns of a table (Greenacre 1984: 35 in Statistica).

Relationships among stimuli are represented as geometric relationships among points in a multidimensional space. The axes of the spatial map represent the dimensions that respondents use to form perceptions or preferences for certain stimuli (Malhotra 1996:696). The spatial maps are interpreted in terms of proximity, and categories that are grouped closer together than others are more similar in their underlying structure.

There are a few terms (and specific statistics) used in correspondence analysis that need clarification. These terms will be mentioned and shortly discussed in the next few paragraphs (Statistica help file):

- **Dimensions and coordinates.**

The number of dimensions (that are chosen by the researcher) and coordinate values for each dimension will be shown.

- **Judging the quality of a solution.**

This aspect pertains to the evaluation of the quality of representation of the respective chosen numbers of dimensions. "*The general concern here is that all (or at least most) points are properly represented by the respective solution, that is, that their distances to other points can be approximated to a satisfactory degree.*"

A low quality means that the current number of dimensions does not represent the respective row (or column) very well. If the quality level is less than 0.1, it indicates that this row (or column) point is not well represented by the one-dimensional representation of the points. The quality of a point is similar in its interpretation to the communality for a variable in factor analysis.

- **Mass**

The term "mass" is used to indicate entries in the two-way table of relative frequencies (i.e. each entry is divided by the sum of all entries in the table). The sum of all entries in the table of relative frequencies is equal to 1.0 and it can be said that the table of relative frequencies shows how one unit of mass is distributed across the cells of the table. The row and column totals of the table of relative frequencies are called the row mass and column mass, respectively.

- **Inertia**

"*The term inertia is used by analogy with the definition in applied mathematics of "moment of inertia," which stands for the integral of* ***mass*** *times the* ***squared distance*** *to the centroid (Greenacre in Statistica). Inertia is defined as the total Pearson Chi-square for a two-way frequency table divided by the total sum of all observations in the table.*"

- **Relative inertia.**

"The relative inertia represents the proportion of the total inertia accounted for by the respective point, and it is independent of the number of dimensions chosen by the user. Note that a particular solution may represent a point very well (high quality), but the same point may not contribute much to the overall inertia" (Greenacre in Statistica).

- **Relative inertia for each dimension.**

This is the relative contribution of the respective (row) point to the inertia "accounted for" by the respective dimension. This value will therefore be reported for each (row or column) point, for each dimension.

The information provided by MDS techniques (such as correspondence analysis) has been used for a number of applications such as:

- Image measurement
- Market segmentation
- New product development

- Assessing advertising effectiveness
- Pricing analysis
- Channel decisions
- Attitude scale construction

Correspondence analysis was used in this study for market segmentation purposes, because the franchisee life cycle stage and the number of years that the franchisee has been in operation can be positioned in the same space and respondents with relatively homogeneous perceptions can be identified.

5.11.4 Simple analysis of variance (ANOVA) / One-way analysis of variance

This technique is useful for studies involving two or more groups. ANOVA is used to determine if there are significant differences between two or more means at a selected probability level (Gay and Diehl 1992:513). Cooper and Schindler (1998:492) state that ANOVA "*uses a single-factor, fixed effects model to compare the effects of one factor on a continuous dependent variable.*" A "fixed-effects" model means that the factors are specified in advance and the results are therefore not generalizable to other levels of treatment that were not specified in advance.

In order to use ANOVA the following conditions must be met:

- Samples must be randomly selected from normal populations with equal variances,
- The distance from one value to its group's mean should be independent of the distances of other values to that mean,

If the "F" ratio (which is the test statistic for ANOVA) is determined to be significant in the analysis, it is necessary to complete a multiple comparison technique in order to determine which means are significantly different from which other means.

There are two types (classes) of tests that can be used to determine which means differ from which other means. The first type is called a "priori contrasts." This type of test is used if the decision was made in advance that a comparison of specific populations was important. The other class of test is called "multiple comparison" tests or "post hoc" tests. This type of test is used when there is no theoretical reason for a priori contrast, but on examination of the data it is revealed that further tests would be necessary. One of the tests that could be used (post hoc) is called the Scheffé test. This test provides the researcher with tests of each combination of groups and indicates which comparisons across groups are significant. This test is conservative and robust to assumption violations and was used in this study (Gay and Diehl 1992:513, Cooper and Schindler 1998:497, Hair et al 1995:282).

5.11.5 Multivariate analysis of variance (MANOVA)

This technique is an extension of ANOVA and is used when more than one dependent variable and one or more independent variable is involved in a study (Gay and Diehl 1992:513). Hair et al (1995:14) describe MANOVA as *"a statistical technique that can be used to simultaneously explore the relationship between several categorical independent variables and two or more metric dependent variables."* According to Cooper and Schindler (1998:567) MANOVA "*examines similarities and differences among the multivariate mean scores of several populations."*

The process of performing a multivariate analysis of variance is further discussed in the this section:

The **first** step in the process is to specify the research problem. There are three categories of multivariate problems, of which each employs different aspects of MANOVA. The categories are as follow (Hair et al 1995:268):

- **Multiple univariate questions:**

A number of separate dependent variables (e.g age, income, etc) are analysed separately. MANOVA is used to determine if there are overall differences between groups and then separate univariate tests are employed to address the individual differences for each dependent variable. This is the question used in the present study.

- **Structured multivariate questions**

Two or more structured dependent measures that have a specific relationship between them are analysed. (usually used in repeated measures).

- **Intrinsically multivariate questions**

This question involves a set of dependent measures. The question asked is how these dependent measures differ as a whole across the groups.

According to Hair et al (1995:268) the **second** stage in the process is to consider issues relating to the research design. There are several issues that must be considered such as sample size requirements, factorial designs and the use of covariates.

- **Sample size requirements**

MANOVA requires minimum sample sizes for each group included in the analysis. The sample for each group (cell) must be greater than the number of dependent variables included. In this study 10 (ten) dependent variables were used and the sample size per group included in the analysis was never smaller than 27, which is therefore sufficient.

- **Factorial design**

When a researcher wants to examine the effects of several independent variables or treatments a factorial design is needed. This is however not the case in this research and this issue will therefore not be discussed any further.

The **third** stage of the MANOVA decision process considers the assumptions on which MANOVA analysis is based. These assumptions are briefly discussed (Cooper and Schindler 1998, Hair et al 1995):

- **Assumption 1: Independence:**

There should be independence between observations and respondents. This was largely ensured by the random sampling plan and the fact that no group completion questionnaires were used (respondents were therefore not placed in the same setting where a common experience could lead to their answers being correlated).

- **Assumption 2a: Homogeneity of variance - Univariate assumption of homogeneity of variance:**

The results of analysis are only valid if the dependent variable is normally distributed and the variances of groups are equal. This assumption is tested by using significance levels of the Cochran and Bartlett-Box F tests (done on dependent variables). If the methods have equal variances in each dependent variable (and therefore a significant p-level) then the univariate assumption of homogeneity is fulfilled. In the Statistica help file it is stated however, "*that the consequences of even quite major violations of the homogeneity of variances assumption are not that critical.*"

Table 5.33 – Univariate assumption of homogeneity of variance test

	Hartley F-max	Cochran C	Bartlett Chi-sqr	df	p
COMG	3.3	0.3	39.4	3	0.000
COMTG	3.0	0.4	34.4	3	0.000
OPPBEG	1.6	0.3	4.4	3	0.218
TRUSTG	4.4	0.4	54.9	3	0.000
ACQUI1	5.1	0.5	52.7	3	0.000
RELBENG	2.2	0.4	19.7	3	0.000
FCONFL1	1.5	0.3	3.1	3	0.378
UNCERTG	1.9	0.3	8.6	3	0.035
COOPG	2.0	0.3	17.9	3	0.001
PTL	1.4	0.3	2.8	3	0.417

Three of the dimensions did not conform to the univariate assumption of homogeneity of variance, but it was decided that these dimensions would be included in the rest of the analysis based on the fact that (as stated in the previous paragraph) even major violations of this assumption are not that critical.

- **Assumption 2b: Homogeneity of variance - Multivariate assumption of homogeneity of variance**

The variances and covariances must be considered simultaneously with Box's M, to satisfy the multivariate assumption of homogeneity of variance. This Box M was calculated and a significant p-value was obtained, indicating that this assumption has been fulfilled.

- **Assumption 3: Sphericity / Linearity of dependent variable:**

Bartlett's test of sphericity is used to determine if a researcher should continue to use MANOVA for data analysis or return to separate univariate tests. The test tries to determine if one or more dependent variables are a linear function of another. If a significant p-value is obtained, then it means that there are dependencies among the dependent variables and this assumption has therefore been fulfilled.

Data analyses using MANOVA should only proceed if the assumptions are all met.

Stage **four** of the MANOVA decision process is the estimation of the MANOVA model and the assessing of the overall fit. The most important aspect in this stage is therefore the criteria and tests used for significance testing. Hotellings, Pillais and Wilks's tests are used to determine the equality of means (of different groups). These tests are similar to t or F tests for multivariate data. A significant p-value indicates that the independent variables do not provide equal results (therefore the groups are considered different across the mean vectors). The most commonly used test statistic for overall significance is called Wilks' Lambda and this statistic was used in the current study. The smaller the value of Wilks' Lambda, the greater the implied significance (Hair et al 1995).

Interpretation of the MANOVA results takes place in stage **five** of the process. Once statistical significant results have been obtained with the analysis, a researcher might want to examine the results further. This can be done using three methods:

- **Interpreting the effects of covariates employed**

Owing to the fact that no covariates were employed in this study, this aspect will not be discussed.

- **Assessing which dependent variables showed differences across groups**

The dependent variate must be assessed in order to determine which of the dependent variables contribute to the overall differences indicated by the statistical tests. Some of the tests that can be used to better understand the data are shown in table Table 5.34.

Table 5.34 – Additional Tests To Understand MANOVA Data Better

Type of tests to consider	Used on the following variables
Univariate F tests	Dependent variables
Simultaneous confidence intervals tests	All the variables
Step-down analysis (e.g. stepwise regression)	Successive F values - each value is computed after the effects of the previous dependent variable is eliminated
Multiple discriminant analysis	

Adapted from: Cooper DR, and Emory CW. 1995. Business Research Methods. Irwin: USA. p. 527.

- **Identifying which groups differ on a single dependent variable or the entire dependent variate**

"Post hoc" methods and a "priori" (or planned comparisons) methods can be used to determine which groups differ from other groups. These methods have already been discussed in section 5.11.4 (page 166), and will therefore not be discussed again.

5.11.6 Other terms and definitions used:

- **Correlation coefficient**

In correlation research, a correlation coefficient is used to determine **whether or not,** and **to what extent** a relationship exists between variables. When two variables are correlated, the result is a correlation coefficient. Correlation coefficients range from .00 to +1.00 (positively correlated) or .00 to –1.00 (negatively correlated). A correlation coefficient squared indicates the amount of common variance shared by the variables. Therefore a correlation coefficient of .5 would mean that a $(.5)^2$ or (.25) or 25% common variance exists. If variables are not related to one another (i.e. no relationship between variables) then the variability of one set of scores has nothing to do with the variability of the other set. This would lead to a low percentage common variance. The inverse is also true, if there is a relationship between variables, this would lead to a higher common variance. The higher the common variance, the stronger the relationship between variables. The common variance therefore gives an indication of the strength of the relationship (Gay and Diehl 1992:320 - 324).

Interpretation of the significance of correlation coefficients depends on the required confidence level and the degrees of freedom (The degrees of freedom is calculated by subtracting "2" from the sample size i.e. "N" – 2). With this information the required correlation coefficient to indicate significance can be obtained from a table (Gay and Diehl 1992:320 - 324). The level of significance only indicates the probability that a given relationship is a true one, but it does not indicate whether the relationship is strong or weak (Gay and Diehl 1992:320 - 324).

Table 5.35 – Commonly Used Techniques To Determine Correlation Coefficients:

Technique	Also know as …	Appropriate / Applied when …
Pearson *r*	Product moment correlation coefficient	The variables are expressed as interval or ratio data
Spearman rho	Rank difference correlation coefficient	The variables are expressed as ordinal data

Adapted from: Gay LR, and Diehl PL. 1992. Research Methods for Business and Management. Macmillan Publishing Company: USA. p 326.

- **Standard deviation ("σ")**

This is an index of variability. A small standard deviation indicates that scores are close together and a large standard deviation indicates that the scores are more spread out. The importance of knowing the standard deviation is that it gives a very good indication of the distribution of the data (Gay and Diehl 1992:473).

- **Standard error of measurement (sem)**

The standard error of measurement allows a researcher to determine how much difference there probably is between a person's "obtained score" and "true score." The size of the difference is a function of the reliability of the test. To determine the standard error of measurement, the reliability coefficient and standard deviation of the test scores are needed. Less error is indicated by a low standard error of measurement and low standard errors of measurement are therefore preferred (Gay and Diehl 1992:171).

- **Confidence limits (intervals)**

An estimation can be made of the probable limits within which a population mean would fall.

- **Confidence level / Significance level / Probability level ("α")**

The significance level chosen, has an effect on the probability of making an error. If a significant level of 0.05 is chosen, there is a 5% probability of making an error, while if 0.01 is chosen, there is only a 1% chance of making an error. A confidence interval of 0.05 (in other words 95%) has been chosen for the study in question and this confidence level will be used in our statistical process of hypothesis testing.

- **Degrees of freedom**

According to Gay and Diehl (1992:506) degrees of freedom "*are a function of such factors as the number of subjects and the number of groups.*" Each of the different significance tests has it's own method of determining the degrees of freedom.

5.12 SUMMARY

This chapter aimed at giving a description of the methodology used in the execution of this study in order to show the scientific basis on which the research was founded. Aspects such as the research problem, research objectives and hypotheses, theory on hypothesis testing, instruments used, sampling design, data collection and various statistical techniques and terms were discussed.

Chapter 6 will discuss the research findings and conclusions, using the statistical techniques that were discussed in chapter 5.

CHAPTER 6

RESEARCH RESULTS / FINDINGS

6.1 INTRODUCTION

This chapter can be seen as the "grand finale" because it is the culmination of all the information that was reported and discussed in the previous chapters. The results shown in this chapter are based on the theoretical foundations that were build in chapters 2 – 4 and the methodological foundation that was built in chapter 5.

This chapter presents the response rates, research validation, descriptive results and cross tabulated research findings, as well as the results of the hypothesis testing. The limitations of the research, possible areas of future research as well as suggestions and recommendations are also given in this chapter.

6.2 GENERAL RESEARCH FINDINGS

6.2.1 Response rates

The following table presents the proposed sample sizes for each of the participating franchise groups as well as the number of interviews that were completed. In the last column the response rate is expressed as a percentage. The very satisfactory response rate of 99% that was obtained, can be ascribed to the data collection method used namely telephonic interviews. Some of the response rates exceed 100% due to substitution that took place when it was found that the quotas for some of the franchise groups could not be filled.

Table 6.1 – Proposed Sample Sizes per Franchise System and the Corresponding Response Rates per Franchise System

No.	Franchise group	Proposed sample	Realised Interviews	Response rate
	FASA - small	30	26	86.7%
1	Beaux Arts	11	8	72.7%
2	Shine master	7	6	85.7%
3	Trappers franchising cc	12	12	100.0%
	FASA - medium	83	69	83.1%
1	Coastal tool hire network	13	13	100.0%
2	Master Maths	16	16	100.0%
3	Re/max of Southern Africa	18	14	77.8%
4	Something fishy	36	26	72.2%
	FASA - large	370	383	103.5%
1	7 Eleven Suprettes (Cape)	44	44	100.0%
2	Battery Centre	35	36	102.9%
3	Mr Exhaust Mr Tyre	21	21	100.0%
4	Pleasure foods (Mac Munch)	8	8	100.0%
5	Pleasure foods (Wimpy)	62	64	103.2%
6	Postnet SA	34	34	100.0%
7	Silverton radiators	31	31	100.0%
8	Spec-savers SA	23	23	100.0%
9	Spur	31	31	100.0%
10	Steers	33	41	124.2%
11	Supa-Quick	48	50	104.2%
	NON-FASA - small	50	39	78.0%
1	Annique	14	4	28.6%
2	Barotti Stationers	9	9	100.0%
3	Gino's	5	5	100.0%
4	Lumber city	12	13	108.3%
5	Trellidor	10	8	80.0%
	NON-FASA - medium	30	29	96.7%
1	Dream nails	15	14	93.3%
2	Harvey World Travel	15	15	100.0%
	NON-FASA - large	94	106	112.8%
1	King Pie	59	63	106.8%
2	Mica Hardware	35	43	122.9%
	TOTAL	**657**	**652**	**99.2%**

6.2.2 Reliability Analysis

6.2.2.1 Commitment – trust instrument reliability analysis

The Cronbach Alpha-coefficient was used to perform a reliability analysis on the adapted commitment-trust relationship instrument (including all the dimensions discussed on page 130 and the propensity to leave statement). The reliability analysis resulted in a coefficient of 0.938 (before statement deletion), which is highly satisfactory compared to statistical benchmarks of 0.70 given in the literature. Gay and Diehl (1992:170) state that a coefficient of over 0.90 is acceptable for any instrument, while a researcher can be very satisfied with reliability levels in the 0.80's and levels in the 0.70's can also be accepted.

Owing to the high Cronbach Alpha coefficient obtained in the first round of testing, it was decided not to delete any statements that would lead to an increase in the Cronbach Alpha coefficient, because the deletion of these statements would only lead to a marginal improvement. The "item–to-total" correlations were however checked and statements with low item-to-total correlations (below 0.3) were deleted due to their lack of stability. (The shared value dimension and termination cost dimension were deleted and will therefore not be included in any of the descriptive or statistical analysis in the rest of this research / dissertation).

The reliability scores for the commitment-trust instrument are shown in Table 6.2.

Table 6.2 – Cronbach Alpha Reliability Coefficients for the Commitment-Trust Instrument

Cronbach Alpha-coefficient (before statement deletion)	Statements deleted (due to low item-to-total correlations)	Cronbach Alpha-coefficient (after statement deletion)
0.938	24, 28 –33	0.945

Table 6.3 – Item-Total Correlations of the Commitment-Trust Instrument

Statement no	Variable	Item-total correlation	Alpha if deleted
1	COMM1	0.587	0.944
2	COMM2	0.730	0.942
3	COMT1	0.620	0.944
4	COMT2	0.387	0.946
5	OPPBE1	0.564	0.944
6	OPPBE2	0.340	0.947
7	TRUST1	0.678	0.943
8	TRUST2	0.787	0.942
9	TRUST3	0.782	0.942
10	ACQUI1	0.601	0.944
11	RELBEN1	0.773	0.942
12	RELBEN2	0.691	0.943
13	RELBEN3	0.472	0.945
14	RELBEN4	0.758	0.942
15	RELBEN5	0.787	0.942
16	RELBEN6	0.700	0.942
17	RELBEN7	0.608	0.944
18	RELBEN8	0.598	0.944
19	RELBEN9	0.600	0.944
20	RELBEN10	0.512	0.945
21	RELBEN11	0.718	0.942
22	FCONFL1	0.405	0.945
25	UNCERT1	0.595	0.944
26	UNCERT2	0.597	0.944
27	UNCERT3	0.477	0.945
34	COOP1	0.657	0.943
35	COOP2	0.688	0.943
36	PTL	0.393	0.947
Cronbach's Alpha: 0.945			

The previous table (Table 6.3) shows the item-to-total correlations and Cronbach Alpha if deleted for all of the statements that were not discarded in the reliability analysis.

6.2.2.2 Commitment – trust instrument dimension reliability analysis

The Cronbach Alpha-coefficient was also used to perform a reliability analysis on some of the dimensions of the adapted commitment-trust relationship instrument. The Cronbach Alpha coefficients obtained for the dimensions are shown in Table 6.4.

Table 6.4 – Cronbach Alpha Reliability Coefficients for Commitment-Trust Instrument Dimensions

Dimension	Cronbach Alpha-coefficient
Relationship benefits	0.906
Trust	0.855
Uncertainty	0.735

The coefficients obtained are within the accepted norms and the relationship benefit and trust dimensions received very satisfactory Cronbach's Alpha coefficients.

6.2.3 Validity analysis

As part of the statistical validation of the findings a principal component factor analysis was performed on the commitment-trust statements. Please remember that the shared value dimension and the termination cost dimension are not included, because these dimensions were discarded in the reliability analysis process. The "commitment statements" and "trust statements" are also not included because they are the key mediating variables and have an influence or are influenced by all the other variables in the instrument.

A satisfactory factor solution resulted in an cumulative explained variance of 61.2% - which means that the instrument developed to measure the relationship between franchisors and franchisees explains nearly 62% of all variability between different relationships. The Eigenvalue for this analysis was dropped slightly below the normal guideline of "1.00" and factors with an Eigenvalue of above "0.97" were included.

The explained cumulative variance, factor loadings and correlation matrix of the factor analysis is shown in Table 6.5 - Table 6.7.

Table 6.5 – Factor Analysis Results

Factor	Eigenvalue	% Total variance	Cumulative Eigenvalue	Cumulative % variance
1	9.804	42.6%	9.804	42.6%
2	1.247	5.4%	11.051	48.1%
3	1.071	4.7%	12.122	52.7%
4	0.992	4.3%	13.115	57.0%
5	0.970	4.2%	14.085	61.2%

Table 6.6 – Factor Loadings

St no	Variable	Factor 1 (Relationship benefits and communication)	Factor 2 (Co-operation)	Factor 3 (Opportunistic behaviour)	Factor 4 (Acquiscence)	Factor 5 (Uncertainty)
19	RELBEN9	0.727				
20	RELBEN10	0.708				
2	COMM2	0.703				
21	RELBEN11	0.682				
1	COMM1	0.634			0.416	
16	RELBEN6	0.573				
12	RELBEN2	0.538				
15	RELBEN5	0.531	0.401		0.422	
17	RELBEN7	0.529				
11	RELBEN1	0.488	0.432		0.518	
14	RELBEN4	0.480			0.467	
26	UNCERT2	0.432				0.713
34	COOP1		0.755			
35	COOP2		0.751			
36	PTL	0.620				
18	RELBEN8		0.501			
6	OPPBE2			0.899		
5	OPPBE1			0.573		
13	RELBEN3				0.745	
10	ACQUI1				0.555	
22	FCONFL1				0.417	
27	UNCERT3					0.708
25	UNCERT1					0.639

The coefficients and the statements on which the coefficients loaded, were used as the basis for naming the various factors. Factor 1 for example received the highest loadings on statements relating to relationship benefits and communication. Some of the statements however received a number of cross loadings that complicated the process. Factor 4, for example, was very troublesome because it received two high coefficients for statements regarding relationship benefits. Owing to the fact that a relationship benefit factor had already been named, the next highest statement loading (which was acquiescence) was used to name the factor. (The naming process is therefore subjective).

The large amount of cross loadings in Table 6.6 indicates that there are correlations amongst the different variables. A correlation matrix was calculated to give a clearer indication of the correlations that exist between the variables in question and is shown in Table 6.7.

Table 6.7 – Correlation Matrix of Dimension Averages

	Communication	Opportunistic behaviour	Acquiscence	Relationship benefits	Functional conflict	Uncertainty	Co-operation	PTL
Communication	1 p= ---							
Opportunistic behaviour	0.384 p=.000	1 p= ---						
Acquiscence	0.482 p=0.00	0.337 p=.000	1 p= ---					
Relationship benefits	0.726 p=0.00	0.487 p=0.00	0.541 p=0.00	1 p= ---				
Functional conflict	0.271 p=.000	0.233 p=.000	0.263 p=.000	0.369 p=.000	1 p= ---			
Uncertainty	0.529 p=.000	0.355 p=.000	0.397 p=.000	0.665 p=0.00	0.302 p=.000	1 p= ---		
Co-operation	0.462 p=0.00	0.413 p=.000	0.416 p=.000	0.667 p=0.00	0.303 p=.000	0.481 p=0.00	1 p= ---	
PTL	0.235 p=.000	0.197 p=.000	0.254 p=.000	0.373 p=.000	0.160 p=.000	0.298 p=.000	0.348 p=.000	1 p= ---

The correlation matrix (Table 6.7) shows that the dimensions are not entirely independent and that they are correlated in some way. The relationship benefits dimension is shown to correlate with the communication dimension, the opportunistic behaviour dimension as well as the acquiescence dimension. The uncertainty dimension is correlated with the communication dimension and the relationship benefits dimension to highlight but a few.

6.2.4 Sampling error estimation

Dillon, Madden and Firtle's (1990:289) sample size calculator was used to determine the sampling error. A sample size of 652 was specified, with a 10% favourable response rate (calculated by dividing the number of calls that had to be made in order to complete 652 interviews). With the inputs just mentioned, a 3.5% percent sampling error in favourable responses was obtained at a 99.7% confidence level.

According to Sudman and Blair's (1998) sample calculator, with a sample size of 652, the researcher can be 95% confident of getting a sample result that fall within 1.257 of the actual population figure (this calculation is based on means) or within .038 of the actual population figure (calculation based on proportions).

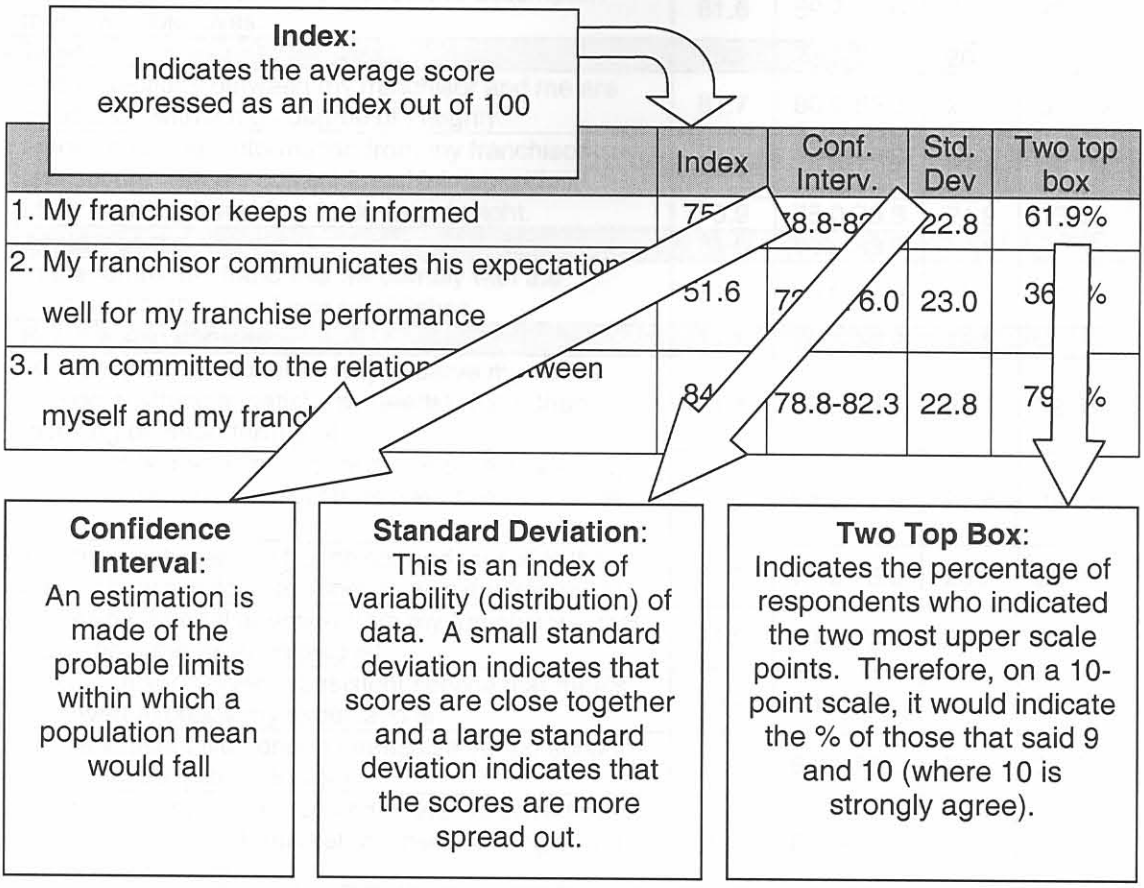
6.3 DESCRIPTIVE STATISTICS

In this section, the general descriptive results will be presented and discussed. The statistical significance testing of the results follows in later sections of this chapter.

6.3.1 Explanation of tables

The format of discussion, used for the results, is shown in Table 6.8. The index value will always be shown in the first column, followed by the confidence interval, the standard deviation and lastly the two top box scores.

Table 6.8 – Explanation of tables



6.3.2 The commitment-trust relationship instrument (Section B of instrument)

Table 6.9 – The Commitment-Trust Relationship Instrument

	Index	Conf. Interv.	Std. Dev.	Two top box
Communication	77.4	75.8-79.0	20.6	
My franchisor always keeps me informed of any new developments – new products, new prices, etc.	80.5	78.8-82.3	22.8	52.1%
My franchisor communicates his expectations well for my franchises performance	74.3	72.5-76.0	23.0	36.2%
Commitment	81.4	79.8-82.7	19.0	
I am committed to the relationship between myself and my franchisor.	85.0	83.4-86.5	19.8	60.7%
The relationship between my franchisor and myself is something that deserves maximum effort to maintain indefinitely.	77.9	76.0-79.8	24.9	48.3%
Opportunistic behaviour	64.8	62.7-66.5	25.2	
My franchisor never promises to do things without actually doing them.	68.0	65.8-70.2	28.7	33.3%

	Index	Conf. Interv.	Std. Dev.	Two top box
My franchisor never alters the facts to accomplish their own objectives.	61.6	59.2-64.0	31.3	27.2%
Trust	78.2	76.5-79.6	20.6	
All transactions between my franchisor and me are conducted with a high degree of integrity.	81.7	80.0-83.3	21.4	51.5%
I receive enough information from my franchisor to feel secure with my current franchising position.	75.9	74.1-77.7	23.6	41.7%
I fully trust my franchisor to do what is right.	76.9	75.0-78.8	24.9	46.6%
Acquiescence	81.5	80.0-83.0	19.8	
In the future, my franchise will comply with the policies that the franchisor establishes	81.5	80.0-83.0	19.8	50.3%
Relationship benefits	71.8	70.3-73.2	18.5	
My franchisor go out of its way to serve my needs (will do anything to satisfy my needs) rather than focusing on short term profits	71.4	69.5-73.2	24.1	32.4%
My franchisor and its personnel are proactive – they often identify and correct faults even before I notice them.	70.5	68.5-72.4	25.8	34.2%
The trust between my franchisor and myself is the result of my previous experience with my franchisor.	73.2	71.2-75.2	26.2	38.3%
I receive personal attention from my franchisor – they care about me as an individual.	71.0	69.0-73.0	25.9	33.7%
My franchisor delivers consistent service that meets and even exceeds my expectations.	70.2	68.4-72.0	23.4	26.5%
My franchisor gives enough franchise set-up support (site selection, store design)	71.2	69.1-73.2	26.1	34.2%
My franchisor does enough co-operative advertising and marketing (high marketing spend, strong brand, name recognition)	70.6	68.5-72.7	27.6	36.5%
My franchisor uses group buying power to it's fullest potential to the benefit of franchisees	67.9	65.8-70.1	28.5	32.8%
My franchisor has a strong focus on training	73.2	71.2-75.2	25.9	36.8%
My franchisor has operations manuals for all procedures and standards of my business	78.1	76.0-80.1	26.4	52.2%
My franchisor has a strong focus on motivation of franchisees (creating of supportive networks, giving recognition and respect and acceptance)	72.6	70.8-74.5	24.2	33.4%
Functional conflict	71.8	70.0-73.6	23.1	
In the future, differences of opinion between my franchisor and me will be viewed as "just a part of doing business"	71.8	70.0-73.6	23.1	29.1%
Uncertainty	74.8	73.3-76.2	19.5	
I have adequate information to make informed decisions about the spending on local sales promotions and advertising	67.5	65.4-69.6	27.0	28.1%
I have adequate information to make informed decisions about the managing of my franchise	76.0	74.2-77.8	23.6	41.8%
I am confident enough to make informed decisions on what products or brands to carry in stock	80.9	79.2-82.5	21.4	49.4%

- On average, most of the index values are relatively high with only a few of the statements (and dimensions) receiving values below 70. This indicates that franchisees are relatively satisfied with these aspects with regards to their franchisor.

- Commitment and Acquiescence received the highest dimension index scores of above 81.0 for this section, indicating that these are the two aspects that franchisees are most satisfied with.
- The lowest index values, were obtained by the opportunistic behaviour dimension (with both of the statements in this dimension receiving relatively low index scores). The other lowest scoring items were the statement pertaining to the group buying power of franchisors and the adequacy of information to make informed decisions on local sales promotions and advertising.
- The standard deviations are relatively large for these questions, which are to be expected because franchisees from different franchises, from different industries, across the country where questioned about their specific relationship with their franchisor. It is expected that the range of answers would therefore vary considerably from franchisee to franchisee.

Table 6.10 – The Commitment-Trust Relationship Instrument (Co-operation)

	Index	Conf. Interv.	Std. Dev.	Two top box
Co-operative	74.0	72.2-75.6	22.2	
... the swift settlement of enquiries.	74.8	73.0-76.5	22.9	37.7%
... the swift settlement of problems/ disputes	73.2	71.4-75.0	23.7	35.7%

- Franchisees perceive franchisors to be slightly more co-operative with regards to enquiries than with the settlement of problems / disputes.
- 37.7% of franchisees see their franchisors as being very co-operative with regards to the settlement of enquiries, while 35.7% of franchisees see their franchisors as being very co-operative with regards to settlement of problems.

6.3.3 Relationship issues (Section C of instrument)

Table 6.11 – Relationship Issues

	Index	Conf. Interv.	Std. Dev.	Two top box
... would you be to continue your relationship with your franchisor, if you were in the situation to reconsider your relationship with them?	72.2	69.8-74.6	31.2	44.9%
... are you to continue using your franchisor's services that you are currently using?	81.3	79.4-83.1	24.0	54.9%
... would you be to use additional services from your franchisor in the future?	78.5	76.5-80.5	25.1	47.7%
... would you be to recommend your franchisor to a friend, colleague, acquaintance or potential new franchisee?	77.6	75.6-80.0	28.2	52.6%

- The index scores for this section are relatively good.
- More than half of the respondents (52.6%) would be extremely likely to recommend their franchisor to others, while an even bigger percentage (54.9%) of franchisees are extremely likely to "continue using the services of their franchisor that they are currently using".

6.3.4 Overall satisfaction levels (Section D of instrument)

Table 6.12 – Overall Satisfaction Levels

	Index	Conf. Interv.	Std. Dev.	Two top box
... quality of the relationship between you and your franchisor	76.4	74.8-78.2	22.1	41.2%
... service quality you receive from your franchisor	76.7	75.2-78.3	20.0	38.3%
... products supplied to you by the franchisor (quality, value for money)	78.9	77.5-80.7	20.5	44.4%
... personnel working for the franchisor	77.8	76.4-79.4	19.6	40.9%
... franchising agreement between you and your franchisor	72.8	71.0-74.7	24.1	34.3%
... franchisor organisation in total	78.3	76.8-79.9	19.9	42.5%

- The overall satisfaction levels are fairly good, but none of the statements have an exceptionally high index score (above 80).
- The highest satisfaction index score was obtained by the statement regarding the products supplied to franchisees by their franchisors, which received an index score of 78.9.
- The franchising agreement received the lowest index score (72.8) indicating that this is the aspect that franchisees are least satisfied with. It also received the lowest two top box score in this section, indicating that only 34.3% of respondents were completely satisfied with their agreement.

6.3.5 Relationship quality index (Combination of specified parts in Section A, C and D of instrument)

Table 6.13 – Relationship Quality Index

	Index	Conf. Interv.	Std. Dev.
Relationship quality index	74.3	73.1 - 75.5	15.8

- This index was calculated by using the commitment-trust dimensions (all except termination cost and shared values) and the overall satisfaction levels (all except the statement pertaining to the franchisor organisation in total) as discussed in the previous chapter (vide page 137).
- The relationship quality index is fairly good, with a relatively low standard deviation when compared to the previous tables.

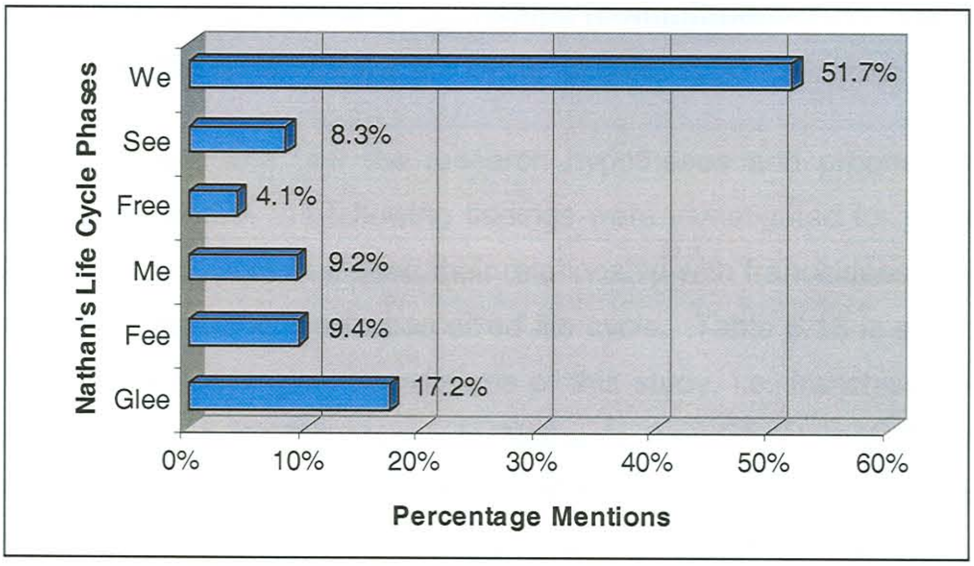
6.3.6 Franchisee life cycle (Section F of instrument)

Table 6.14 – Franchisee Life Cycle

Phase	Phase name	Description	N	Percentage mentions
1	Glee	I am very happy with the relationship between myself and the franchisor, I am excited about my new franchise	112	17.2%
2	Fee	The royalty payments are taking the cream off the top	61	9.4%
3	Me	My franchise success is the result of my hard work, I could probably be just as successful without the franchisor	60	9.2%
4	Free	I don't like all the restrictions that the franchisor places on the way I run my franchise	27	4.1%
5	See	I can see the importance of following the rules of the system and the franchisor	54	8.3%
6	We	We (franchisor and franchisee) need to work together to make the most of our business relationship	337	51.7%
		Non Response	1	0.2%
		Total	652	100.0%

- The largest percentage (51.7%) of franchisees classified themselves into phase 6 (We-phase) of their life cycle.
- The second largest percentage (17.2%) of franchisees considers themselves to be in phase 1 (Glee) of the life cycle.
- Figure 6.1 gives a graphical representation of Table 6.14.

Figure 6.1 - Franchisee Life Cycle



6.3.7 Years operating as a franchise business (Section I of instrument)

Table 6.15 – Age of franchise (years operating as a franchise)

	N	Percentage Mentions
1 year	144	23.1%
2 years	99	15.9%
3 years	67	10.7%
4 years	61	9.8%
5 years	48	7.7%
6 - 10 years	116	18.6%
11 - 15 years	50	8.0%
16 - 20 years	23	3.7%
21 - 25 years	6	1.0%
26 - 30 years	3	0.5%
31 - 35 years	1	0.2%
36 - 40 years	4	0.6%
41 - 45 years	0	0.0%
46 - 50 years	1	0.2%
51 - 55 years	1	0.2%
Non Response	28	-
Total	652	100%

- A fairly good spread of franchisees with different relationship durations was obtained.

6.4 CROSS TABULATION STATISTICS

6.4.1 The integration of relationships (commitment-trust model) and Nathan's franchisee life cycle stages

To investigate and test the research hypotheses and propositions stated in chapters 1 and 5, the following findings were investigated for potential links in the way franchisors managed their relationship with franchisees and the current stages of the franchisee's perceived life cycle. Table 6.16 is a combination of the two methodological foundations of this study, i.e. franchisee life cycle (as operationalized by the stages in Nathan's Disenchantment Curve - E-factor 1993) and the different dimensions of the Morgan-Hunt (1994) commitment-trust theory. The index scores are an expression of the degree of satisfaction with the relationship.

Table 6.16 – Index Scores on Commitment – Trust Dimensions with Nathan's E-Factor

	Glee	Fee	Me	Free	See	We
Commitment	87.4	76.4	76.1	69.3	79.2	82.2
Trust	89.9	70.7	69.4	54.6	80.6	78.4
Relational benefits	83.7	66.6	63.6	56.7	71.3	71.4
Communication	88.5	72.0	73.7	63.7	75.7	76.7
Lack of Opportunistic behavior*	72.3	61.1	58.6	50.9	63.9	64.9
Acquiescence Bias	90.5	76.2	73.7	60.0	80.6	82.7
Propensity to Leave measured as Retention Index*	79.6	66.9	64.8	47.4	78.3	73.0
Cooperation	86.7	69.7	69.2	55.4	72.9	72.8
Functional conflict	78.3	71.1	67.7	60.0	72.4	71.3
Lack of Uncertainty*	85.0	70.1	67.5	66.4	75.1	74.1

*In the commitment trust model of Morgan and Hunt (1994: 22) these items were negatively worded and therefore had negative relationships with commitment and trust. These items were however positively worded (or reverse-scored) in this study and the relationships would therefore be positive. The dimension names have also been adapted to reflect the changes made.

- Franchisees in the Glee phase scored the highest index values across all dimensions indicating that this group is the most satisfied with their relationship.

- Franchisees in the fourth life cycle phase (**Free**) are the most unhappy with their relationship and the commitment-trust dimensions are consistently very low across all the dimensions.
- The index values for the **Fee** and **Me** stages were very similar for all dimensions, while the **See** and **We** stages' index values were very similar to one another for the different dimensions.

6.4.2 The integration of relationship issues and Nathan's franchisee life cycle stages

A similar cross-tabulation (as in the previous section) was also done with Nathan's life cycle stages and the different statements in section C of the questionnaire which deals with various relationship issues such as recommendation rates, likelihood of use of additional services etc. The results of this cross tabulation are shown in Table 6.17.

Table 6.17 – Index Scores on Relationship Issue Statements with Nathan's E-Factor

	Glee	Fee	Me	Free	See	We
… would you be to continue your relationship with your franchisor, if you were in the situation to reconsider your relationship with them?	79.6	66.9	64.8	47.4	78.3	73.0
… are you to continue using your franchisor's services that you are currently using?	91.8	74.4	73.7	58.9	83.1	81.9
… would you be to use additional services from your franchisor in the future?	88.3	67.5	73.5	60.4	78.7	79.4
… would you be to recommend your franchisor to a friend, colleague, acquaintance or potential new franchisee?	90.6	65.7	66.5	44.4	82.8	79.2

- The same trend as in the previous section is also visible. Franchisees in the **Glee** phase are the most positive, while franchisees in the **Free** stage are the most negative. There are great similarities between the **Fee** and **Me** stage and the **See** and **We** stage.

6.4.3 The integration of overall satisfaction levels and Nathan's franchisee life cycle stages

A cross tabulation between the overall satisfaction levels as well as the relationship quality index and the life cycle stages were also done and is shown in tables Table 6.18 - Table 6.19.

Table 6.18 – Index Scores on Overall Satisfaction Level Statements with Nathan's E-Factor

	Glee	Fee	Me	Free	See	We
... quality of the relationship between you and your franchisor	89.8	67.0	66.3	54.4	79.8	76.6
... service quality you receive from your franchisor	87.5	68.7	67.0	61.2	79.6	77.0
... products supplied to you by the franchisor (quality, value for money)	86.5	75.1	71.0	62.8	78.9	79.7
... personnel working for the franchisor	86.7	73.5	69.5	65.6	78.9	77.9
... franchising agreement between you and your franchisor	86.3	62.1	63.3	47.2	75.4	73.5
... franchisor organization in total	89.6	71.0	71.8	57.2	77.8	78.7

Table 6.19 – Index Scores of Relationship Quality Index with Nathan's E-Factor

	Glee	Fee	Me	Free	See	We
Relationship Quality Index	85.0	69.0	67.0	58.3	74.5	74.2

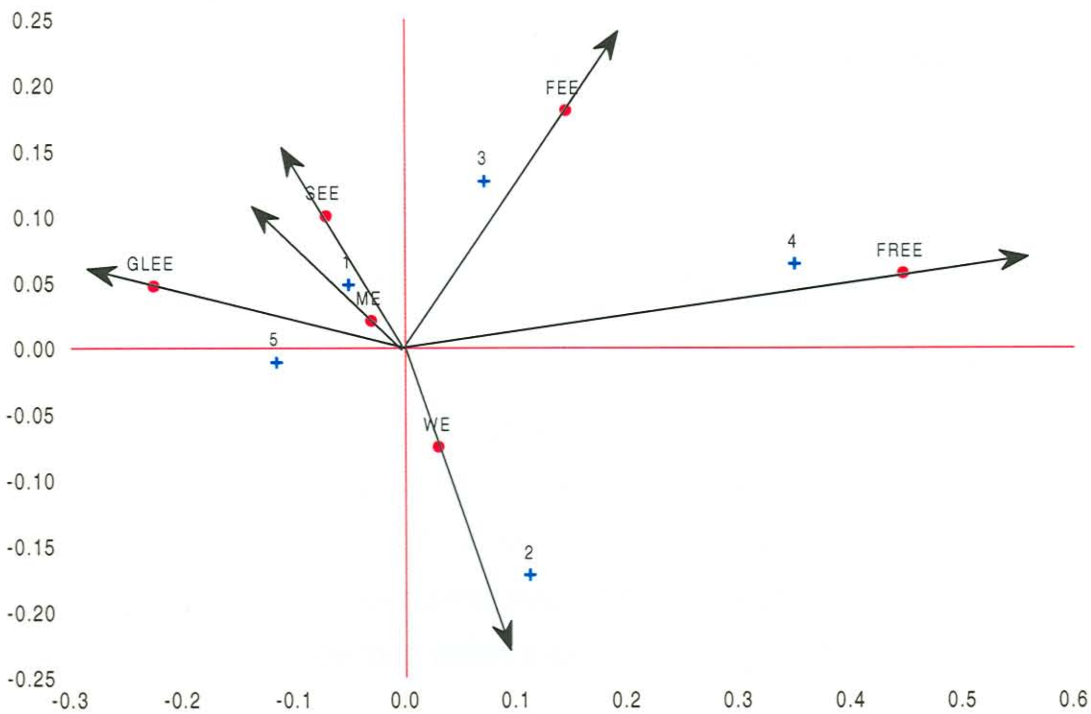
Owing to the similarities between the **Fee** and **Me** Stages as well as the **See** and **We** Stages (as seen in the previous three cross tabulations), it was necessary to focus on the apparent similarities that existed between the different stages in Nathan's Disenchantment Curve (e-factor). The similarities or differences were found by fitting the Disenchantment Curve stages (Nathan's E-factor) to the duration of franchisee relationships. A multivariate tool was required to assist in investigating the correlation between relationship length of the franchisee relationship and Nathan's Disenchantment Curve stages. It was decided to perform a correspondence analysis in order to determine if a "fit" could be found between length of relationship and life cycles measured with Nathan's Disenchantment Stages. The fist correspondence solution is illustrated in Figure 6.2.

6.5 CORRESPONDENCE ANALYSIS

6.5.1 Correspondence map of Nathan's disenchantment curve and relationship duration

It is clear from Figure 6.2 that some stages are very similar, whilst others are clearly different, which consequently did not represent a satisfactory fit. Also note that 89.17% of the total inertia was explained by this two dimension correspondence analysis, which at first glance would seem to be very satisfactory, but when compared to the second correspondence analysis is less than satisfactory.

Figure 6.2 – Correspondence Map of the Disenchantment Curve (Nathan's E Factor) and Relationship Duration



+ Relationship duration expressed in years
• Stages of the Disenchantment Curve

Horizontal Intertia = 65.52% and Vertical Inertia = 23.65%

The life cycle stages as classified by Nathan were subsequently re-grouped and combined in order to test whether a clearer picture could be obtained. The "**Fee**" and "**Me**" phases (of Nathan's E-factor / Disenchantment Curve) were grouped and named the "**Me"** phase", while the "**See**" and "**We**" phases were grouped and classified as the "**We**" phase. The first ("**Glee**") and fourth ("**Free**") phases were also re-named to the "**Courting**" phase and "**Rebel**" phase respectively. These changes are shown in the following table.

Table 6.20 – Re-Classification of Nathans Life Cycle Stages

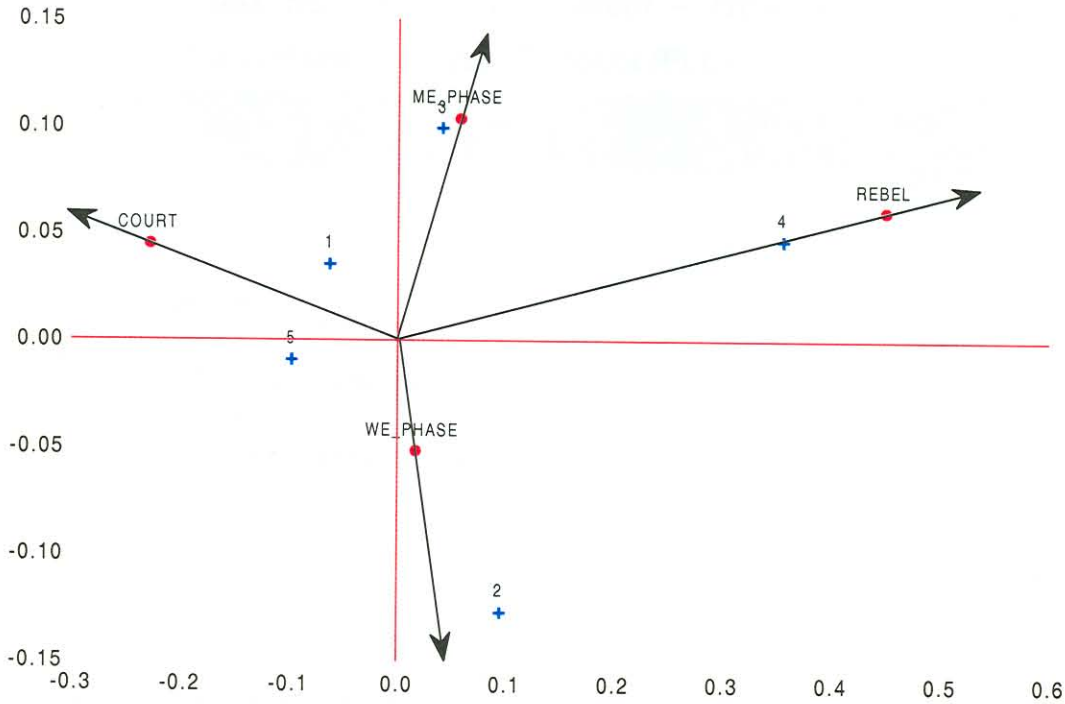
<table>
<tr><th>Nathan's Original Life Cycle Stages</th><th>Re-Classified Life Cycle Stages (FLC)</th></tr>
<tr><td>Glee</td><td>Courting</td></tr>
<tr><td>Fee</td><td rowspan="2">Me</td></tr>
<tr><td>Me</td></tr>
<tr><td>Free</td><td>Rebel</td></tr>
<tr><td>See</td><td rowspan="2">We</td></tr>
<tr><td>We</td></tr>
</table>

A correspondence analysis was then performed on the new proposed life cycle stages with the four stages called **Courting-Phase**, **We-Phase**, **Me-Phase** and **Rebel-Phase**. This new classification model will be referred to as the Franchisee Life Cycle Concept (FLC) from now on.

6.5.2 Correspondence map of Franchisee Life Cycle Concept and relationship duration

The new correspondence map is shown in Figure 6.3 and shows a better fit between the duration of the relationship and identification of franchisee life cycle stages than in Figure 6.2. Also note that more than 96% of the inertia is explained by this correspondence map, which is significantly more than the previous correspondence map which explained 89.17% of the total inertia.

Figure 6.3 – Correspondence Map of Franchisee Life Cycle Concept (New Life Cycle Stages) and Duration of Relationship



+ Relationship duration expressed in years

• New Life Cycle Stages (Franchisee Life Cycle Concept – FLC)

Horizontal Intertia = 78.84% and Vertical Inertia = 17.48%

6.6 FRANCHISEE LIFE CYCLE CONCEPT CROSS TABULATION STATISTICS

6.6.1 The integration of relationships (commitment-trust model) and the Franchisee Life Cycle Concept (FLC)

Hypotheses 2 to 4 stated that there would be significant differences in the commitment-trust dimensions and the relationship quality levels of each of the life cycle phases. In Table 6.21 - Table 6.24 these hypotheses are investigated by cross tabulating the commitment-trust dimension scores, the overall satisfaction levels and the relationship quality levels for each of the FLC phases. The deteriorating trend across all of the FLC phases is clearly evident (in all of the commitment-trust dimensions as well as the other dependent variables used for cross tabulation purposes), and the significance of these differences will later be tested (hypothesis testing).

Table 6.21 – Index Scores of Commitment – Trust Statements with the Franchisee Life cycle Concept (FLC)

	Courting-Phase	"We"-Phase	"Me"-Phase	Rebel-Phase
N	112	121	27	391
Commitment	87.4	81.8	76.2	69.3
Trust	89.9	78.7	70.1	54.6
Relational benefits	83.7	71.4	65.1	56.7
Communication	88.5	76.6	72.9	63.7
Lack of Opportunistic behavior*	72.3	64.8	59.8	50.9
Acquiescence Bias	90.5	82.4	75.0	60.0
Propensity to Leave measured as Retention Index*	79.6	73.7	65.9	47.4
Cooperation	86.7	72.8	69.4	55.4
Functional conflict	78.3	71.5	69.4	60.0
Lack of Uncertainty*	85.0	74.3	68.8	66.4

*In the commitment trust model of Morgan and Hunt (1994: 22) these items were negatively worded and therefore had negative relationships with commitment and trust. These items were however positively worded (or reverse-scored) in this study and the relationships would therefore be positive.

Table 6.22 – Index Scores on Relationship Issue Statements with the FLC

	Courting-Phase	"We"-Phase	"Me"-Phase	Rebel-Phase
... would you be to continue your relationship with your franchisor, if you were in the situation to reconsider your relationship with them?	79.6	73.7	65.9	47.4
... are you to continue using your franchisor's services that you are currently using?	91.8	82.1	74.0	58.9
... would you be to use additional services from your franchisor in the future?	88.3	79.3	70.5	60.4
... would you be to recommend your franchisor to a friend, colleague, acquaintance or potential new franchisee?	90.6	79.7	66.1	44.4

Table 6.23 – Index Scores on Overall Satisfaction Level Statements with the FLC

	Courting-Phase	"We"-Phase	"Me"-Phase	Rebel-Phase
… quality of the relationship between you and your franchisor	89.8	77.0	66.7	54.4
… service quality you receive from your franchisor	87.5	77.3	67.9	61.2
… products supplied to you by the franchisor (quality, value for money)	86.5	79.6	73.1	62.8
… personnel working for the franchisor	86.7	78.0	71.5	65.6
… franchising agreement between you and your franchisor	86.3	73.7	62.7	47.2
… franchisor organization in total	89.6	78.5	71.4	57.2

6.6.2 The integration of relationship quality index levels and the Franchisee Life Cycle Concept (FLC)

Table 6.24 – Index Scores of Relationship Quality Index with the FLC

	Courting-Phase	"We"-Phase	"Me"-Phase	Rebel-Phase
Relationship quality index	85.0	74.3	68.0	58.3

In the previous four tables the trend is consistently the same. The courting phase consistently has the highest index values and the index values decrease for each consecutive phase thereafter. In the next section each of the hypotheses are statistically tested to ascertain whether the differences are statistically significant.

6.7 HYPOTHESES TESTING RESULTS

In the following sections, each of the research hypotheses are re-stated. The hypotheses are stated in the alternative form, although the null hypothesis was tested. The alternative hypotheses are stated in order to simplify the discussion.

6.7.1 The existence of distinct life cycle phases

6.7.1.1 Proposition 1

P_1 = There are distinctive phases in the relationship between franchisees and the franchisor that follows a typical life cycle format

A detailed discussion of this proposition (and its outcomes) were done in section 5.4.1 (vide page 118) and section 6.5 (vide page 193). A brief summary is offered in the following paragraphs.

A correspondence analysis was performed on the duration of the franchisee relationship and the phases of Nathan's (1993) disenchantment curve to determine if a good "fit" could be obtained. A less than satisfactory "fit" was obtained and the phases of Nathan's disenchantment curve were re-grouped and re-classified. Another correspondence analysis was then performed on the new re-classified stages (called the FLC) and a very satisfactory fit of data was obtained.

Based on the correspondence analyses (Figure 6.3) shown previously, a qualitative judgement can be made that there are distinctive phases in the relationship between franchisees and the franchisor that follow a typical life cycle format. (A test of significance cannot be performed when using correspondence analysis as discussed on page 118 and this is the reason for making a qualitative judgement).

The correspondence map of the relationship duration and the FLC clearly indicate that there are four distinct life cycle phases corresponding with relationship durations of 1 year, 2 year, 3 years, 4 years and 5 or more years.

6.7.1.2 Implications of the existence of distinct life cycle phases

The fact that there are distinctive life cycle phase has implications on various levels:

Firstly, it has modelling implications. The fact that there are distinct phases means that franchisees can be classified into distinct phases. These phases can however not be modelled and monitored unless other characteristics, influencing factors, parameters and factors that determine progression through the phases are investigated and scientifically tested.

Secondly, it has implications for management of franchisee-franchisor relationships, because it means that franchisees in different life cycle phases would have different needs and would therefore require different management approaches.

Thirdly, it has industry implications because franchisors would be able to manage their franchisees more effectively and efficiently based on the specific life cycle phase that a franchisee is situated in. Franchisors could therefore use the knowledge or franchisee life cycles to better manage the relationship between themselves and franchisees.

6.7.2 Significant differences between life cycle phases

6.7.2.1 Hypothesis 1

H_1 = **There are significant differences in the commitment-trust dimensions representing the franchisee-franchisor relationship between each life cycle phase.**

Table 6.25 – Data Used For Hypothesis 1

Dimension	Variable name	Courting-Phase	"We"-Phase	"Me"-Phase	Rebel-Phase
Communication	COMG	88.5	76.6	72.9	63.7
Commitment	COMTG	87.4	81.8	76.2	69.3
Lack of Opportunistic behavior*	OPPBEG	72.3	64.8	59.8	50.9
Trust	TRUSTG	89.9	78.7	70.1	54.6
Acquiescence Bias	ACQUI1	90.5	82.4	75.0	60.0
Relational benefits	RELBENG	83.7	71.4	65.1	56.7
Functional conflict	FCONFL1	78.3	71.5	69.4	60.0
Lack of Uncertainty*	UNCERTG	85.0	74.3	68.8	66.4
Cooperation	COOPG	86.7	72.8	69.4	55.4
Propensity to Leave measured as Retention Index*	PTL	79.6	73.7	65.9	47.4

Table 6.26 – MANOVA Test For Hypothesis 1

Wilks' Lambda	df 1	df 2	p-level
0.796	30	1873	0.000

Table 6.27 – Dimensional Significance (Mean Effects Test) For Hypothesis 1

Dimension	Variable name	Mean sqr Effect	Mean sqr Error	F(df1,2) 3,647	p-level
Communication	COMG	7236.9	392.7	18.4	0.000
Commitment	COMTG	3765.0	345.5	10.9	0.000
Lack of Opportunistic behavior*	OPPBEG	4829.5	616.8	7.8	0.000
Trust	TRUSTG	12855.5	368.5	34.9	0.000
Acquiescence Bias	ACQUI1	9046.8	353.9	25.6	0.000
Relational benefits	RELBENG	9156.1	302.9	30.2	0.000
Functional conflict	FCONFL1	3073.5	522.4	5.9	0.001
Lack of Uncertainty*	UNCERTG	5998.2	353.5	17.0	0.000
Cooperation	COOPG	10116.1	447.3	22.6	0.000
Propensity to Leave measured as Retention Index*	PTL	9464.4	934.6	10.1	0.000

The Wilk's Lambda test (Table 6.26) provided a p-level, which indicates that there are significant differences between the commitment-trust dimensions of the franchisee life cycle stages. The null hypothesis can therefore be rejected and the alternative hypothesis (as stated above) can be "accepted".

A further analysis was done to determine which dimensions showed significant differences and as shown in Table 6.27, all the dimensions have a p-value of below 0.05 indicating significant differences.

6.7.2.2 Hypothesis 2

H_2 = **There are significant differences in the relationship quality index levels representing the franchisee-franchisor relationship between each life cycle phase.**

Table 6.28 – Data Used For Hypothesis 2

Dimension	Variable name	Courting-Phase	"We"-Phase	"Me"-Phase	Rebel-Phase
Relationship Quality Index	RELQUALI	85.0	74.3	68.0	58.3

Table 6.29 – ANOVA Test For Hypothesis 2

Variable name	F	p
RELQUALI	38.6	0.000

A statistical significant p-value was obtained indicating that there are significant differences in the relationship quality index levels representing the franchisor-franchisee relationship between each life cycle phase. The alternative hypothesis can therefore be accepted.

6.7.2.3 Hypothesis 3

H_3 = **Franchisees in the first life cycle phase will have significantly higher commitment–trust dimension scores than franchisees in the successive life cycle phases.**

A visual comparison of the data used in hypothesis 1 was done in order to determine whether the commitment-trust dimension scores in the first life cycle stage were lower or higher than the scores in the other stages. A Scheffè test was then performed to determine whether the differences were significant. The results of the Scheffè test are shown in Table 6.30.

Table 6.30 – Scheffe Test For Hypothesis 3

Dimension	Variable name	Stage 1 vs. Stage 2		Stage 1 vs. Stage 3		Stage 1 vs. Stage 4	
		Higher/ Lower	p-value	Higher/ Lower	p-value	Higher/ Lower	p-value
Communication	COMG	Higher	0.000	Higher	0.000	Higher	0.000
Commitment	COMTG	Higher	0.049	Higher	0.000	Higher	0.000
Lack of Opportunistic behavior*	OPPBEG	Higher	0.047	Higher	0.002	Higher	0.001
Trust	TRUSTG	Higher	0.000	Higher	0.000	Higher	0.000
Acquiescence Bias	ACQUI1	Higher	0.001	Higher	0.000	Higher	0.000
Relational benefits	RELBENG	Higher	0.000	Higher	0.000	Higher	0.000
Functional conflict	FCONFL1	Higher	0.052	Higher	0.033	Higher	0.003
Lack of Uncertainty*	UNCERTG	Higher	0.000	Higher	0.000	Higher	0.000
Cooperation	COOPG	Higher	0.000	Higher	0.000	Higher	0.000
Propensity to Leave measured as Retention Index*	PTL	Higher	0.365	Higher	0.009	Higher	0.000

Although the commitment-trust dimension scores are higher (visual comparison) in the first life cycle stage than in all other stages across all the dimension scores, not all of the differences are significant.

Only two dimensions have p-values that are not significant namely the propensity to leave dimension (PTL) and the functional conflict dimension (FCONFL1).

It was decided not to reject the alternative hypothesis (although purists would state that the alternative should be rejected and the null accepted) based on two non-significant p-values. What is important, is the fact that only **two** out of **thirty** p-values indicated non-significance.

The alternative hypothesis is therefore accepted which means that the first life cycle phase has significantly higher commitment-trust dimensions scores than the following life cycle phases. The only exception is the propensity to leave dimension (PTL) and functional conflict dimensions (FCONFL1), which did not show significant differences between life cycle stage 1 and life cycle stage 2, although they did show significant differences between stages 1 and 3, and 1 and 4.

6.7.2.4 Hypothesis 4

H_4 = **Franchisees in the first life cycle phase will have significantly higher relationship quality index levels than franchisees in the successive life cycle phases.**

A visual comparison of the data used in hypothesis 2 was done (to determine whether the relationship quality index levels in the first life cycle stage are lower or higher than the scores in the other stages). A Scheffè test was then performed to determine whether the differences were significant.

Table 6.31 – Scheffè Test For Hypothesis 4

Dimension	Variable name	Stage 1 vs. Stage 2		Stage 1 vs. Stage 3		Stage 1 vs. Stage 4	
		Higher/ Lower	p-value	Higher /Lower	p-value	Higher/ Lower	p-value
Relationship Quality Index	Relqual	Higher	0.000	Higher	0.000	Higher	0.000

The p-values indicate statistically significant differences between the life cycle stages and the visual comparison indicated that franchisees in the first life cycle stage have higher "relationship quality" index levels than those in the following stages. The alternative hypothesis is therefore accepted.

6.7.2.5 Implications of significant differences between life cycle phases

All four of the hypotheses relating to significant differences between life cycle phases were accepted (although hypothesis 3 was accepted with exclusions).

It was found that there are significant differences between the commitment - trust dimensions and the relationship quality index levels for the different FLC stages. It was also determined that the first FLC stage has higher relationship quality levels and higher commitment - trust dimension scores (with the exception of PTL and FCONFL1) than all of the following life cycle stages.

These findings hold important implications.

Firstly, the fact that commitment-trust dimensions and relationship quality index levels are significantly different and significantly higher in the first life cycle stage than the following stages implies that the changes can be modelled and a curve representing, for example relationship quality, can be drawn across the distinct life cycle phases. (This curve could actually be called a "concept" because it is an aggregate of observations and complies with the operational definition given to a concept as discussed in section 3.3.1 vide page 46).

Secondly, the fact that a life cycle concept can be modelled, means that a clearer indication of the different characteristics of the life cycle stages can be obtained and therefore a specific management style and philosophy can be determined for each life cycle stage.

Thirdly, franchisors should realize that the relationship between themselves and franchisees goes through various stages and that the franchisee satisfaction levels decrease in a constant manner from the first stage to the last stage of the life cycle. Franchisors should be aware of the stages that each of their franchisees are currently in, and have a specific strategy to manage franchisees based on the life cycle stage of the franchisee. This is comparable to parents realizing that their daughter is entering her teenage years and that her needs and motivations are about to change. If these parents want to effectively manage their relationship with their daughter, they must change the way in which they communicate (as an example). The franchisor should therefore have a specific strategy or plan of action for franchisees in specific stages of the life cycle.

6.7.3 Varying speed of movement through life cycle phases

6.7.3.1 Hypothesis 5

H_5 = There are significant differences in the commitment-trust dimensions of each life cycle fit category.

Table 6.32 – Data Used For Hypothesis 5

Dimension	Variable name	Lagged Fit	Exact Fit	Pre-Mature Fit
Communication	COMG	75.8	81.7	74.5
Commitment	COMTG	82.8	82.1	75.3
Lack of Opportunistic behavior*	OPPBEG	65.1	66.6	60.2
Trust	TRUSTG	78.3	81.8	71.4
Acquiescence Bias	ACQUI1	80.9	84.0	79.1
Relational benefits	RELBENG	71.2	75.2	67.7
Functional conflict	FCONFL1	72.5	72.3	69.7
Lack of Uncertainty*	UNCERTG	75.7	77.3	69.1
Cooperation	COOPG	74.3	76.6	68.5
Propensity to Leave measured as Retention Index*	PTL	72.5	75.0	67.4

Table 6.33 – MANOVA Test For Hypothesis 5

Wilks' Lambda	df 1	df 2	p-level
0.924	20	1222	0.000

Table 6.34 – Dimensional Significance (Mean Effects Test) For Hypothesis 5

Dimension	Variable name	Mean sqr Effect	Mean sqr Error	F(df1,2) 2,620	p-level
Communication	COMG	2510.1	418.3	6.0	0.003
Commitment	COMTG	2815.4	360.2	7.8	0.000
Lack of Opportunistic behavior*	OPPBEG	1696.0	623.6	2.7	0.067
Trust	TRUSTG	4187.0	413.2	10.1	0.000
Acquiescence Bias	ACQUI1	959.0	395.0	2.4	0.089
Relational benefits	RELBENG	2160.4	335.8	6.4	0.002
Functional conflict	FCONFL1	402.0	536.3	0.7	0.473
Lack of Uncertainty*	UNCERTG	2914.6	372.0	7.8	0.000
Cooperation	COOPG	2637.4	481.0	5.5	0.004
Propensity to Leave measured as Retention Index*	RELRECON	2259.5	978.7	2.3	0.100

The Wilk's Lambda test showed a significant p-value, indicating that there are significant differences in the commitment-trust dimensions of the life cycle fit categories. The alternative hypothesis is therefore accepted.

A further test was also done to determine which specific dimensions showed significant differences and these results are shown in Table 6.34. Six of the ten dimensions showed significant differences across the life cycle fit categories. Propensity to leave (PTL), functional conflict (FCONFL1), acquiescence bias (ACQUI1) and lack of opportunistic behaviour (OPPBEG) did not show significant differences across the different fit categories.

6.7.3.2 Hypothesis 6

H_6 = **There are significant differences in the relationship quality index levels between each life cycle fit category.**

Table 6.35 – Data Used For Hypothesis 6

Dimension	Variable name	Lagged Fit	Exact Fit	Pre-Mature Fit
Relationship Quality Index	RELQUALI	74.4	77.3	69.5

Table 6.36 – ANOVA Test For Hypothesis 6

	Sum of Squares	df	Mean Square	F	p-level
Effect	4581.0	2	2290.5	9.4	0.000
Error	150562.1	620	242.8		

The results show a statistically significant p-value, indicating that the alternative hypothesis can be accepted. The results therefore show that there are significant differences in the relationship quality index levels between each life cycle fit category.

6.7.3.3 Hypothesis 7

H_7 = **Franchisees that move through the life cycle phases in the expected time (exact fit) will have significantly higher relationship quality levels than those that move slower or faster.**

The data used in **hypothesis 6** were visually compared and then statistically analysed. The results are shown in the Table 6.37.

Table 6.37 – Scheffe Test For Hypothesis 7

Dimension	Variable name	Fit 1 vs.Fit 2		Fit 2 vs. Fit 3	
		Higher/ Lower	p-level	Higher/ Lower	p-level
Relationship Quality Index	RELQUALI	Lower	0.163	Higher	0.009

Fit category 2 are the franchisees that moved through the life cycle in the expected time (exact fit). In the visual comparison of data, it was shown that franchisees in **fit category 1** received lower index values than those in **fit category 2** and franchisees in **fit category 2** received higher index values than those in **fit category 3**.

The p-values shown in the previous table indicate that there are no significant differences between the relationship quality levels of **fit category 1** and **fit category 2**, but there are significant differences between **fit category 2** and **3's** relationship quality levels. Franchisees that move through the life cycle stages in the expected time would therefore have higher relationship quality index levels than those that move through the stages faster than expected.

The alternative hypothesis can therefore not be accepted and is rejected in favour of the null hypothesis.

6.7.3.4 Implications of varying speed of movement through life cycle phases

There are significant differences between the index scores for: communication, commitment, trust, relationship benefits, lack of uncertainty, co-operation and relationship quality between the different life cycle fit categories.

Franchisees that move through the life cycle faster than expected have significantly lower relationship quality levels than those that move through the life cycle at the expected speed. Franchisors should therefore manage franchisees in such a manner that they will move through the life cycle stages at the expected speed. Franchisors can do this by focusing on aspects such as those identified in the testing of **hypothesis 5**. It is clear from the results obtained in the hypotheses testing that aspects such as communication with franchisees and the relationship benefits received by franchisees should be a priority aspect for franchisors to increase the commitment, trust and satisfaction of franchisees. This in turn will lead to an increase in relationship quality. These aspects all deal with management techniques and aspects that franchisors should give attention to.

It is also important that franchisors screen potential franchisees very thoroughly to ensure that unsuitable franchisees (those that do not fit in with the culture of the franchise group) are not appointed, because an unsuitable franchisee would in all likelihood progress through the life cycle stages faster than the expected speed of movement.

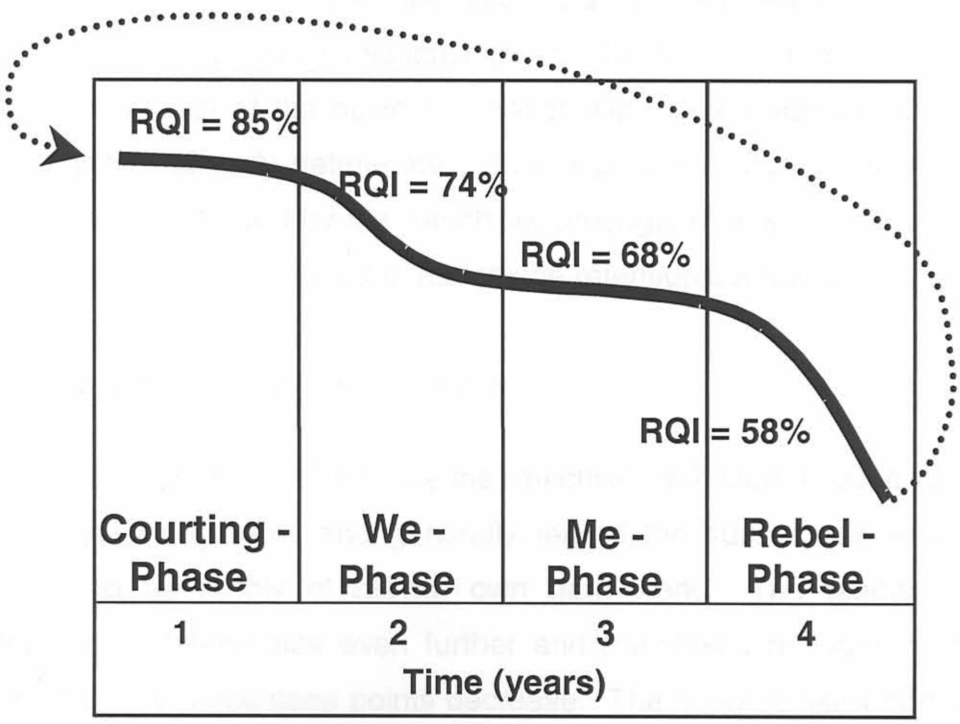
The speed of movement through the life cycle can be used by franchisors to determine how effectively they manage their franchisees. Franchisors can model each of their franchisees' progression through the different life cycle stages by comparing individual relationship quality levels and the duration of the relationship of each franchisee. If all of a franchisor's franchisees go through the life cycle much faster than expected, it might be a sign of ineffective management techniques, which the franchisor should then correct as a matter of urgency.

6.8 CONCLUSIONS

6.8.1 The Franchisee Life Cycle Concept (FLC)

Based on the findings of the correspondence analysis and the results of the hypothesis testing, a model for managing the relationship with franchisees is proposed with four distinctive life cycle phases. The model is illustrated in Figure 6.4.

Figure 6.4 – The Franchisee Life Cycle Concept (FLC)



RQI Relationship Quality Index
Copyright: Consulta Research

A most exciting correlation was found within the domain of the management of the franchisor/ franchisee relationship, which shows strong deteriorating levels of franchisee satisfaction and relationship quality as the franchisee progresses through four life cycle phases. The phases are called the following:

6.8.1.1 Phase 1: The Courting Phase

The first phase in the franchisee life cycle is like the honeymoon period for a couple that has courted each other and just got married. It is exciting; both parties are very happy with the relationship and are excited about the future. The typical duration of this phase is about one year. The highest levels of franchisee commitment, trust, satisfaction and relationship quality are recorded in this phase. The average likelihood of franchisee retention in this stage is 80%.

6.8.1.2 Phase 2: The "We"-Phase

In the second year of the franchisees' existence the "**We**"-phase will be entered and will typically last for another year. During this phase the franchisee will still value the co-operative relationship with the franchisor and will work hard to make the most of the business relationship. It is evident that the franchisee satisfaction already deteriorates, due to possible doubts, relationship conflict, restrictions enforced by the franchisor amongst others. It is significant to note that the average likelihood of franchisee retention decreased to 73%.

6.8.1.3 Phase 3: The "Me"-Phase

After approximately 24 months the franchisee will start to question the reasons for royalty payments and generally regard the success achieved up to that stage to be purely of his/her own hard work. The relationship with the franchisor deteriorates even further and franchisee relationship quality takes another few percentage points decrease. The average likelihood of franchisee retention now stands on a very low level of 66%.

6.8.1.4 Phase 4: The Rebel Phase

In year four of the franchisee life cycle, the **Rebel** phase, is characterized by further questioning of the restrictions placed on them by the franchisor and a need for more independence. A more entrepreneurial franchisee will end up in this phase much quicker than he/she is supposed to and most likely start his "own thing" (approximately 5% of franchisee will definitely end the relationship). If the progress to Phase 4 is on its natural duration, the average likelihood of franchisee retention now decreases to the lowest level of 47%. Most franchisees that made it after four years are now preparing for contract renewal in year five, where the courtship of contract renewal will again take the relationship back to Phase 1 of the FLC.

6.9 RECOMMENDATIONS AND MANAGERIAL IMPLICATIONS

A strong relationship exists between high levels of relationship quality and resisting attractive short-term alternatives in favor of the expected long-term benefits of staying with existing franchisors.

Franchisors should take note of the important role of commitment and trust in the franchisor / franchisee relationship.

Strong support has been found for antecedents that drive franchisee commitment and trust to the franchisor, i.e. clear relationship benefits, effective two-way communication, etc. Pro-active management of these antecedents will result in positive outcomes in relationship quality and subsequently a prolonged and successful franchisee-franchisor relationship.

Higher levels of relationship commitment, trust and relationship quality lead to a lower propensity-to-leave (PTL), increased co-operation and less uncertainty.

Various authors (Crosby, Kenneth, Cowles 1990; Bejou, Wray, Ingram 1996; Bejou, Ennew and Palmer 1998) have researched the impact of relationship duration on relationship quality and satisfaction and have found differing results. The current study found that there is a direct link between the relationship duration and the relationship quality. This study has shown that the relationship quality of franchisees decreases in a constant manner with respect to the relationship duration.

The relationship quality between franchisees and franchisors decreases as the relationship duration increases. Therefore:

- Specific management techniques and approaches should be used in each of the life cycle stages.
- Franchisors should pay more attention to the management of the antecedents of commitment and trust.

6.10 LIMITATIONS OF THE STUDY

In any research there are limitations and these are discussed in this section. The limitations in the literature review as well as the empirical investigation are discussed separately.

6.10.1 Limitations in the literature review

Although the researcher conducted an extensive literature search (with the aim of including all relevant literature on the topics discussed in this study), it is possible that some of the relevant literature may have been excluded.

The researcher also attempted to find the original sources of all literature used, but in some cases this was impossible to do and references had to be taken from the "secondary source". For example the article by Liljander and Strandvik could not be obtained in South Africa and so they were quoted from the work of Ewing (1996).

There is a definite lack of empirical research information regarding the relationship between franchisees and franchisors which, will hopefully be addressed in the future.

6.10.2 Limitations in the empirical investigation

Limited interview time is available for telephonic interviews. Respondents are becoming more reluctant to spend time on questionnaires and research. Questionnaires must therefore be kept as short as possible to motivate respondents to participate.

The length of the questionnaire used for this study was very long. The interview duration ranged from about 25 - 35 minutes and respondent fatigue could have had a negative effect on the research.

The lack of a comprehensive database of industry contact details was another limitation of the research. Considerable effort and time was invested into building a database of franchisor and franchisee details. The lack of such a database complicates the research and sampling process to a considerable degree.

In the second week of the data collection process, an investigative journalism programme broadcast a story about a specific franchise group in South Africa. The story had a very negative content relating to the fact that it was alleged that the franchisor had not fulfilled his role and was "ripping off" the franchisees. This had a negative effect on the data collection process because the franchisees's first reaction when they were contacted for a telephonic interview was: "Are you from Carte Blanche?" The franchisees were however provided with the name of the individual at their franchisor head-office that gave permission for the research to take place. In some instances, franchisees asked to be contacted at a later stage in order to verify that the research was in fact legitimate. This meant that additional calls had to be made which had cost implications.

6.11 FUTURE RESEARCH AREAS

The following are possible areas for future research:

A similar study focusing on specific industries (franchising) in South Africa to determine if the results are similar across all franchising industries.

A similar study in another country to determine if the results are comparable across different countries.

Longitudinal tracking studies should be undertaken to see the effects of time duration on relationship life cycles and to investigate the life cycle development after the first five years to determine if the same progression is followed.

A causal model of behavior / relationship management model should be investigated (i.e. combination of life cycle stages, commitment-trust, satisfaction measures, relationship quality)

6.12 RESEARCH CONSIDERATIONS

The criticisms mentioned on the PLC (vide page 56) would also apply when the franchisee life cycle concept is researched. The problematic issues can be re-stated (in terms of the current study) and would read as follows:

1. How should the franchisee-market be defined for the purpose of life cycle analysis? Should the whole franchising industry be considered or only a specific category of franchises (such as fast food) or should only franchisees of a specific franchise group be used as the basic aggregation level.
2. What are the factors that determine the progress of the franchisee through the stages of the life cycle?
3. Can the present life cycle position of the franchisee be unambiguously established?

4. What is the potential for forecasting the key parameters, including the duration of the stages and the shape of the curve?
5. What role should the franchisee life cycle concept play in the formulation of competitive strategy and relationship management?

Although all of the issues might not be addressed in this study, their importance cannot be ignored and future research on these issues is suggested.

6.13 FINAL COMMENTS

This final chapter brought the literature and research methodology together as a unified whole. Many important conclusions and recommendations for future research and the management of relationships between franchisees and franchisors were made. The research results obtained are very satisfactory and the research goals were met in all cases.

I would like to conclude this study with the following:

According to Adizes (1988:3) the function of leadership is to manage the organization in such a way that it is able to move to the next stage of the life cycle. Success in management is therefore not to eliminate all problems, but to focus on current problems in the present life cycle stage in order for the organization to grow and deal with problems of the following stages.

It should be remembered that all companies have problems, but there is a difference between normal and abnormal problems. Adizes (1988:5) uses the example of an individual that cries a lot, sleeps a lot and drinks a lot of milk and asks if this individual has a problem. If the individual is a baby, the behaviour is obviously not a problem, but if the individual is a 45-year-old executive, the answer will be totally different. Therefore, whether behavioural patterns are a problem or not depends on whether the behaviour is normal or abnormal for that particular stage in the life cycle.

APPENDIX A

THE MEASUREMENT INSTRUMENT

FRANCHISEE RELATIONSHIP QUESTIONNAIRE

When completing the questionnaire, the term "franchisor" would refer to the franchisor organization and the entrepreneur (and not only the individual, start-up entrepreneur).

SECTION A: GAPS 1 & 2

I will give you a number of statements intended to measure your perceptions about your Franchisor's management style and philosophy. Please indicate the extent to which you agree or disagree with each statement. If you do not agree at all with a statement, choose **0.** If you strongly agree, choose **10.** If your feelings are not as strong, choose one of the numbers in the middle.

My franchisor has.....	Do not agree at all									Strongly agree
1. a marketing research orientation (collect and use information about the needs and expectations of franchisees)	0	1	2	3	4	5	6	7	8	9	10
2. Adequate upward communication between franchisees and the franchisor	0	1	2	3	4	5	6	7	8	9	10
3. A bureaucratic organisational style (too many managerial levels)	0	1	2	3	4	5	6	7	8	9	10
4. Management commitment to service quality	0	1	2	3	4	5	6	7	8	9	10
5. An attitude of unattainability ("It can't be done",)	0	1	2	3	4	5	6	7	8	9	10
6. Task standardisation (programs and technology to improve operating procedures to provide consistent service)	0	1	2	3	4	5	6	7	8	9	10
7. Goal integration (formal processes for setting of service standards)	0	1	2	3	4	5	6	7	8	9	10

SECTION B: TRUST & COMMITMENT

In this section of the questionnaire you have to indicate how strongly you agree or disagree with a list of statements intended to measure the quality of the realtionship between yourself and the franchisor. If you strongly agree with a statement you will choose 10 or if you do not agree at all you will choose 0. You can also choose any number in between to indicate the strength of your feelings.

	Do not agree at all										Strongly Agree
Communication											
My franchisor always keeps me informed of any new developments – new products, new prices, etc.	0	1	2	3	4	5	6	7	8	9	10
My franchisor communicates his expectations well for my franchises performance	0	1	2	3	4	5	6	7	8	9	10
Commitment											
I am committed to the relationship between myself and my franchisor.	0	1	2	3	4	5	6	7	8	9	10
The relationship between myself and my franchisor is something that derserves maximum effort to maintain indefinitely.	0	1	2	3	4	5	6	7	8	9	10
Opportunisticbehaviour											
My franchisor never promises to do things without actually doing them.	0	1	2	3	4	5	6	7	8	9	10
My franchisor never alter the facts to accomplish their own objectives.	0	1	2	3	4	5	6	7	8	9	10
Trust											
All transactions between me and my franchisor are conducted with a high degree of integrity.	0	1	2	3	4	5	6	7	8	9	10
I receive enough information from my franchisor to feel secure with my current franchising position.	0	1	2	3	4	5	6	7	8	9	10
I fully trust my franchisor to do what is right.	0	1	2	3	4	5	6	7	8	9	10
Acquiscence											
In the future, my franchise will comply with the policies that the franchisor establishes	0	1	2	3	4	5	6	7	8	9	10
Relationship benefits											
My franchisor go out of its way to serve my needs (will do anything to satisfy my needs) rather than focusing on short term profits	0	1	2	3	4	5	6	7	8	9	10
My franchisor and its personnel are proactive – they often identify and correct faults even before I notice them.	0	1	2	3	4	5	6	7	8	9	10
The trust between myself and my franchisor is the result of my previous experience with my franchisor.	0	1	2	3	4	5	6	7	8	9	10
I receive personal attention from my franchisor – they care about me as an individual.	0	1	2	3	4	5	6	7	8	9	10
My franchisor delivers consistent service that meets and even exceeds my expectations.	0	1	2	3	4	5	6	7	8	9	10
My franchisor gives enough franchise set-up support (site selection, store design)	0	1	2	3	4	5	6	7	8	9	10
My franchisor does enough co-operative advertising and marketing (high marketing spend, strong brand, name recognition)	0	1	2	3	4	5	6	7	8	9	10
My franchisor uses group buying power to it's fullest potential to the benefit of franchisees	0	1	2	3	4	5	6	7	8	9	10
My franchisor has a strong focus on training	0	1	2	3	4	5	6	7	8	9	10
My franchisor has operations manuals for all procedures and standards of my business	0	1	2	3	4	5	6	7	8	9	10
My franchisor has a strong focus on motivation of franchisees (creating of supportive networks, giving recognition & respect & acceptance)	0	1	2	3	4	5	6	7	8	9	10

	Do not agree at all										Strongly Agree
Functional conflict											
In the future, differences of opinion between my franchisor and me will be viewed as "just a part of doing business"	0	1	2	3	4	5	6	7	8	9	10
In the future, differences of opinion between my franchisor and me will result in benefits to both of us.	0	1	2	3	4	5	6	7	8	9	10
Termination cost											
The costs of terminating the franchising relationship is too high to consider terminating the relationship	0	1	2	3	4	5	6	7	8	9	10
Uncertainty											
I have adequate information to make informed decisions about the spending on local sales promotions and advertising	0	1	2	3	4	5	6	7	8	9	10
I have adequate information to make informed decisions about the managing of my franchise	0	1	2	3	4	5	6	7	8	9	10
I am confident enough to make informed decisions on what products or brands to carry in stock	0	1	2	3	4	5	6	7	8	9	10

Please indicate the degree to which you believe that (1) your franchisor would agree with the following statement and (2) you would agree with the statement (on a scale of 0-10, where 0 means that you strongly disagree and 10 means that you strongly agree)

Shared Values	Extent to which your **FRANCHISOR** would agree/disagree	Extent to which your **YOU** would agree/disagree
To succeed in this business, it is often necessary to compromise one's ethics		
If any of the franchisees or their personnel compromises the integrity of the brand, they should be reprimanded		
In order to be successful in the franchising industry, it is sometimes necessary to make compromises in terms of standards		

To what extent is your franchisor co-operative with regard to...

Co-operation	Not at all co-operative										Very co-operative
...the swift settlement of enquiries.	0	1	2	3	4	5	6	7	8	9	10
...the swift settlement of problems/ disputes	0	1	2	3	4	5	6	7	8	9	10

SECTION C: RELATIONSHIP ISSUES

In the following section we will ask a few questions about your future intentions on an overall perspective.

How likely ……..	Not likely at all										Extremely likely
… would you be to continue your relationship with your franchisor, if you were in the situation to reconsider your relationship with them?	0	1	2	3	4	5	6	7	8	9	10
… are you to continue using your franchisor's services that you are currently using?	0	1	2	3	4	5	6	7	8	9	10
… would you be to use additional services from your franchisor in the future?	0	1	2	3	4	5	6	7	8	9	10
… would you be to recommend your franchisor to a friend, colleague, acquaintance or potential new franchisee?	0	1	2	3	4	5	6	7	8	9	10

SECTION D: OVERALL SATISFACTION LEVELS

How would you rate your overall satisfaction with the…..	Not satisfied at all										Completely satisfied
… quality of the relationship between you and your franchisor	0	1	2	3	4	5	6	7	8	9	10
… service quality you receive from your franchisor	0	1	2	3	4	5	6	7	8	9	10
… products supplied to you by the franchisor (quality, value for money)	0	1	2	3	4	5	6	7	8	9	10
… personnel working for the franchisor	0	1	2	3	4	5	6	7	8	9	10
… franchising agreement between you and your franchisor	0	1	2	3	4	5	6	7	8	9	10
… franchisor organization in total	0	1	2	3	4	5	6	7	8	9	10

SECTION E: SKILL AND CHALLENGE SECTION

In this section of the questionnaire we would like to gauge your opinion on the skill and challenge applicable in the managing of various aspects of your franchise. For each of the statements below you are required to indicate two aspects

- Firstly, indicate <u>your level of skill</u> relating to the management of each of the aspects mentioned. If you believe that you are very skilled, if you consider yourself knowledgeable and believe that you know more than most people about a specific aspect you will choose a 10. If you feel that you don't have the necessary skills and knowledge and that you don't know more than most people you will choose a 0. You can also choose any number in between to indicate your level of skill. (10= extremely high level of skill, 0=No skill at all).
- Second, indicate <u>the level of challenge</u> that this aspect provides to you. If the aspect challenges you to perform to the best of your abilities, is a good test of your skills and stretches your capabilities to it's limits, you will choose a 10. If the aspect doesn't challenge and stretch you capabilities to the limits at all, you will choose a 0. You can also choose any number in between to indicate you opinion. (10=Extremely high level of challenge, 0 = no challenge at all

	Column 1	Column 2
When it comes to the managing of....	LEVEL OF SKILL	LEVEL OF CHALLENGE
... my franchise in general		
... the financial (accounting / cash flow / gross profit) side/aspects of my franchise		
... the operations side/aspects of my franchise		
... the IT (technology) side/aspects of my franchise		
... the marketing side/aspects of my franchise		
... the administration side/aspects of my franchise		
... the personnel (labour / people) side /aspects of my franchise		
... the stock taking side/aspects of my franchise		

SECTION F: FRANCHISEE LIFE CYCLE

Which of the following terms best describe the relationship you have with your franchisor. Choose only the **ONE** that best describes **YOU**.

Phase	Description	Choose only one
1	I am very happy with the relationship between myself and the franchisor, The franchisor cares about my success, I am excited about my new franchise	
2	The royalty payments are taking the cream off the top	
3	My franchise success is the result of my hard work, I could probably be just as successful without the franchisor	
4	I don't like all the restrictions that the franchisor places on the way I run my franchise, I feel frustrated at the constant interference of the franchisor, I want to be able to do my own thing, I want to express my own ideas	
5	I can see the importance of following the rules of the system (franchisor), I can see the value of the standards placed on me by the franchisor	
6	We (franchisor & franchisee) need to work together to make the most of our business relationship, I need specific assistance in certain areas to develop my business, I have ideas that I want the franchisor to consider	

SECTION G: FRANCHISOR LIFE CYCLE

Which of the following terms best describe your relationship with your franchisor. Choose only the **ONE** that best describes **YOUR FANCHISOR**.

Phases	Description	Choose only one
Excitement	Your franchisor is full of enthusiasm and hope for the future. Lots of confidence and strength. He's very proud and provides encouragement and support. Will make statements like: "We will always be here for you, you are the reason for our existence, if you have any problems at all you can call and we will be here".	
Reckless optimism	Your franchisor gets carried away with he's promises and overpromises. Your franchisor has a strong sales mentality & inflated optimism. Will make statements like "That won't be a problem, we can deal with that, our system is so sophisticated an easy to follow it virtually operates itself etc."	

Phases	Description	Choose only one
Action	Your franchisor has various tasks to perform like setting up new franchisees, supporting already set franchisees and maybe expanding own operations. There is lots of activity and action.	
Confusion	Franchisees ask more from the franchisor, so the franchisor gives more. Because the franchisor wants to keep everyone happy, he becomes confused about what his obligations really are.	
Doubt	Your franchisor is in doubt because franchisees ask: "What are we getting for our royalties, why are we paying you, who gives you the right to tell us what to do")	
Fear	The doubt that your franchisor experienced in the previous phase in now turning into fear.	
Re-affirmation	Your franchisor has reviewed all the benefits that his franchise gives to franchisees and has a new conviction towards the franchise. He knows that franchisees are getting good value for money	
Revenge	Your franchisor is experiencing anger and annoyance towards those who questioned the system in previous phases.	
Commit-ment	Your franchisor has high energy levels and is commited to making it work. Often speaks about: "we"	
Greed	Your franchisor wants to get a bit more out of the system.	

SECTION H: PLAYERS IN FRANCHISING INDUSTRY

For each of the statements below you are required to indicate to what extent FASA (Franchising Association of South Africa) should be fulfulling each specific role in terms of franchising and the franchising industry. If FASA should definitely (completely) be fulfilling a specific function you will choose a 10. If FASA should not get involved in a specific aspect you will choose a 0. You can also choose any number in between.

To what extent should FASA be a:	Not at all										Completely
Watchdog for the franchising industry	0	1	2	3	4	5	6	7	8	9	10
Self-regulatory body for the franchising industry	0	1	2	3	4	5	6	7	8	9	10
Information giving body	0	1	2	3	4	5	6	7	8	9	10
Training body	0	1	2	3	4	5	6	7	8	9	10
Financing body for set-up	0	1	2	3	4	5	6	7	8	9	10
Financing body for expansion	0	1	2	3	4	5	6	7	8	9	10

To what extent should FASA be a:	Not at all									Completely
Representative of franchisors	0	1	2	3	4	5	6	7	8	9	10
Representative of franchisees	0	1	2	3	4	5	6	7	8	9	10
Facilitator between franchisors and franchisees	0	1	2	3	4	5	6	7	8	9	10
Accreditation body	0	1	2	3	4	5	6	7	8	9	10

For each of the statements below you are required to indicate to what extent the GOVERNMENT should be fulfulling each specific role in terms of franchising and the franchising industry. If the GOVERNMEMT should definitely (completely) be fulfilling a specific function you will choose a 10. If the GOVERNMENT should not get involved in a specific aspect you will choose a 0. You can also choose any number in between.

To what extent should GOVERNMENT be a:	Not at all										Completely
Watchdog for the franchising industry	0	1	2	3	4	5	6	7	8	9	10
Information giving body relating to franchising	0	1	2	3	4	5	6	7	8	9	10
Training body for the franchising industry	0	1	2	3	4	5	6	7	8	9	10
Financing body for set-up	0	1	2	3	4	5	6	7	8	9	10
Financing body for expansion	0	1	2	3	4	5	6	7	8	9	10
Representative of franchisors	0	1	2	3	4	5	6	7	8	9	10
Representative of franchisees	0	1	2	3	4	5	6	7	8	9	10
Facilitator between franchisors and franchisees	0	1	2	3	4	5	6	7	8	9	10
Accreditation body	0	1	2	3	4	5	6	7	8	9	10
Giving tax breaks to the franchising industry	0	1	2	3	4	5	6	7	8	9	10

Are there any problems that you are experiencing that needs government involvement?	Yes	No

If yes, specify:____

SECTION I: DEMOGRAPHICS (NATURE OF FRANCHISEE)

Name of franchise	
Name of franchisee	
Number of stores owned by franchisee?	

Age of franchise (years operating as a franchise)	years
Length / term of franchising contract	years

Ownership type	self-owned	company owned	Partnership (both franchisee and company)

Who does the daily running and managing of the franchise business?	Franchisee self	Manager

Number of employees	

How strong is your current brand in your opinion on a scale of 0 – 10?

Not strong at all										Very strong
0	1	2	3	4	5	6	7	8	9	10

How would you rate your franchises' profitability for the last year (on a scale of 0 – 10 where 0 is very low and 10 is very high.

Very low										Very high
0	1	2	3	4	5	6	7	8	9	10

Start up cost (Capital intensity)	R
Licensing / royalty fees per month	R
What % of sales is payble as royalties per month?	%
Sales / Income per month	R
Profit per month (average)	

Where did you obtain financing for your franchise?

Formal education of franchisee

Lower than Std 10	Std 10	Technikon Diploma	Technikon Higher Diploma
University degree	University (postgraduate)	Other: specify:	

Age of franchisee years

Gender of franchisee Male Female

Do you have any prior experience of self-employment? Yes No

If yes, specify…____

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