

Towards an understanding of the nature of the breakdown  
in relationship between a franchisee and franchisor: an  
approach using psychological contract theory.

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## Abstract

The ability of a franchisor to sustain a harmonious relationship with their franchisees, over a period of time, has been shown to ensure a sustainable relationship and continued success of the franchise system. Franchising is necessary to further economic growth, as well as to create employment, develop skills and empower individuals. It is, therefore, necessary for the relationships that underpin franchising to be successful and sustainable. The psychological contract is an unwritten agreement that exists between a set of individuals and goes above and beyond the written contract. It represents a set of beliefs or perceptions with regards to what each party owes to one another. This study uses the perspective of the psychological contract to scrutinise the relationship between a franchisor and a franchisee to ensure a lasting and mutually beneficial exchange.

A multiple case study approach was used, along with elements of action research, as the methodological framing for the current study. The sample group consisted of de-franchised franchisees and franchisors who had prematurely cancelled a franchise contract. A snowball sampling technique was used and information was gathered using semi-structured and in-depth interviews, and analysed using ATLAS.ti. The validity and reliability of the study, as well as the limitations, are addressed below.

Seven themes - industry fit, brand and marketing, finance, relationship, operations, customers and alignment - were found and analysed from a franchisee and franchisor perspective. A model for the overall success of a franchise system was created by linking these themes based upon their importance from the viewpoint of a franchisee and franchisor. Depicted within this model is the flow of these themes into one another and it has been suggested which elements result in a successful relationship for franchisees and franchisors by linking it to the theory of the psychological contract. Areas for future research have also been delineated.

## Keywords

Franchise

Psychological Contract

Relationships

South Africa

## Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

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9 November 2015

## Contents

Abstract.....	i
Keywords .....	ii
Declaration.....	iii
List of Figures.....	vi
List of Tables.....	vi
1. Introduction to Research Problem .....	1
2. Literature Review .....	8
2.1. Chapter introduction .....	8
2.2. Psychological contract .....	8
2.3. Relational psychological contract.....	9
2.4. Psychological contract breach .....	10
2.5. Making sense of a psychological contract breach .....	11
2.6. Relationship, trust and communication .....	12
2.7. Conflict and unfairness .....	14
2.8. Standardisation, compliance and agency theory.....	15
2.9. Selecting the right partners.....	19
2.10. Franchising.....	20
2.11. Franchise systems.....	21
2.12. Franchise equity .....	22
2.13. Chapter summary .....	23
3. Research Question and Proposition .....	24
4. Research Methodology .....	25
4.1. Chapter introduction .....	25
4.2. Case study .....	25
4.3. Action research.....	26
4.4. Research design.....	27
4.5. Universe, sample and sampling method .....	27
4.6. Data gathering and analysis .....	28
4.7. Validity and reliability .....	29
4.8. Limitations .....	31
4.9. Chapter summary .....	32
5. Results.....	33
5.1. Introduction.....	33
5.2. Themes .....	37
5.2.1. Industry fit.....	37
5.2.2. Brand and marketing .....	40

5.2.3. Finance.....	42
5.2.4. Relationship.....	45
5.2.5. Operations.....	47
5.2.6. Customers.....	48
5.2.7. Alignment.....	49
5.3. Chapter summary.....	51
6. Discussion of Results.....	52
6.1. Chapter introduction.....	52
6.2. Franchisees.....	52
6.3. Franchisors.....	59
6.4. Franchisees and franchisors.....	64
6.5. Psychological contract.....	65
6.6. Factors to prevent the breakdown.....	67
6.7. Chapter summary.....	71
7. Conclusion.....	72
7.1. Chapter introduction.....	72
7.2. Findings.....	72
7.3. The research question.....	73
7.4. Implications for management.....	73
7.5. Implications for academics.....	74
7.6. Limitations.....	75
7.7. Future research.....	76
7.8. Chapter summary.....	76
8. References.....	77
9. Appendices.....	85
Appendix 1: Ethical clearance letter.....	85
Appendix 2: Interview guide - franchisee.....	86
Appendix 3: Interview guide - franchisor.....	88
Appendix 4: Invitation to participate in research study.....	90
Appendix 5: Interview consent form.....	91
Appendix 6: Code definitions.....	92

## List of Figures

Figure 1: How a psychological contract emerges. ....	9
Figure 2: Making sense of the psychological contract breach process.....	12
Figure 3: Format components versus centrality. ....	18
Figure 4: Action research. ....	26
Figure 5: Infinity model displaying the 6 most important factors: A Franchisee perspective.....	59
Figure 6: Infinity model displaying the 6 most important factors: A Franchisor perspective.....	64
Figure 7: Model displaying the factors which are important to franchisees and franchisors and the key attributes of a successful relationship that if broken will result in a psychological contract breach. ....	70

## List of Tables

Table 1: List of interviews and interview times.....	34
Table 2: Top ten codes found for franchisees and franchisors.....	35
Table 3: Code families.....	36
Table 4: Code families' frequency. ....	37

## 1. Introduction to Research Problem

The ability of a franchisor to sustain a harmonious relationship with their franchisees, over a period of time, has been shown to ensure continued success of the franchise system, as well as a sustainable relationship going forward. In addition, this affiliation can also form part of a strategic capability for the franchise (Blut et al., 2011; Diaz-Bernardo, 2013; El-sayed, Tang, & Jones, 2015; Grace, Weaven, Frazer, & Giddings, 2013; Saraogi, 2009). According to El-sayed et al., (2015) psychological dissatisfaction experienced by franchisees may result in problems between franchisees and franchisors. Essentially, satisfied franchisees represent those individuals who receive an adequate amount of security, affiliation and respect from their franchise partners. Previous studies appertaining to the psychological contract have predominately been focused upon quantitative exploration and there is a need for rich qualitative research to further understand this contract (El-sayed et al., 2015).

Due to the nature of the franchise arrangement the franchisee and franchisor may have conflicting goals; therefore, it is imperative to understand and manage this relationship to ensure it remains healthy and mutually beneficial (Grace et al., 2013; Winsor, Manolis, Kaufmann, & Kashyap, 2012). Any conflict within this affiliation can have detrimental effects, and parties often seek to avoid or prevent conflict, rather than to try and resolve a conflict situation that may have already occurred (Samaha, Palmatier, & Dant, 2011; Winsor et al., 2012). It is for this reason that determining the breaking point of this relationship, often resulting in de-franchising, and gaining an understanding, through the theory of the psychological contract, of the nature of franchise relationships, is pertinent for any franchise-oriented business.

The franchise model is such that the franchisor provides the necessary expertise to a franchisee and, in turn, the franchisee provides finance and management to the franchisor, thereby setting up an interdependent relationship. A franchisee will also enter into an agreement to be able to use a specific brand name; this is further enforced by means of a written franchise contract to ensure both parties fulfil their responsibilities (Leslie & McNeill, 2010; Paswan & Wittmann, 2009; Zachary, McKenny, Short, Davis, & Wu, 2011).



Essentially, the franchisor provides intellectual property in the form of, for example, manuals. There is, however, little incentive for the franchisee to share knowledge in return. Regardless of this, a franchisee is naturally expected to share such knowledge with the franchisor to enable them to maximise their marketing efforts. The franchisor is expected to provide operational support, policies and procedures, as well as marketing tools for the franchisee. In turn, the franchisee is expected to comply with and adhere to these policies and procedures. Compared with a traditional business relationship, this is one that is comprised of complex and unique attributes (Paswan & Wittmann, 2009; White, 2010). Sharing and developing knowledge are imperative qualities which are required in order to ensure a successful franchise system. This knowledge sharing, however, is only advantageous if both parties are working towards a common goal (Okoroafor, 2014). Lack of trust is one barrier to knowledge transfer. Maturation also plays a role and Okoroafor (2014) indicates that some franchisees are more willing to disseminate information than other ones. This also applies with respect to the adoption of new ideas. Communication, culture and competition are also barriers (Okoroafor, 2014).

Little is known as to how the franchisor-franchisee relationship develops over time. If the relationship is broken down to the point of a franchisee de-franchising or a franchisor cancelling a franchisee contract this process is often costly to both parties. This is due to the franchisee having invested financially in a business and the franchisor having invested in both time and money through the selection process of identifying the ideal franchisee and providing the necessary training (Blut et al., 2011). Disgruntled franchisees may also attempt to tarnish the reputation of the franchisor causing irreversible damage (Blut et al., 2011).

Franchisees are independent traders who undertake a personal risk when investing in a franchised business: the objective is for these franchisees to operate their own stores and maximise their profit. Due to this, franchisees believe they are on the same level as their franchisor (Ekelund, 2014; King, Grace, & Weaven, 2013). Many theories exist which can be linked to explaining relationships within organisations, nevertheless, given the unique nature of the franchisee-franchisor relationship, these theories cannot be replicated to describe this inimitable relationship (Blut et al., 2011).

A recent news article published that the “Fishy” franchise (a South African fast food franchise) was in line to be liquidated due to angry franchisees and suppliers. The franchise had approximately 400 stores that have now decreased to nearly 250, allegedly due to mismanagement (Speckman, 2015, 29 March). Often franchisees invest their life savings into the system as a way to change their career paths; it follows that it is necessary for their venture to be successful (Rose, 2011, September 19). In a 2006 survey carried out in Australia, 35% of franchisors were involved in disputes with franchisees (Giddings, Frazer, Weaven, & Grace, 2009).

“Steers”, a South African burger franchise, which is a fully franchised group with no company owned stores, has become a successful franchise over the years and they currently have 522 operating stores (Boucher, 2011, December 14). Steers believes that profitable and satisfied franchisees produce a profitable and satisfied franchisor. Furthermore, they believe respect and true partnership is the key to success (Boucher, 2011, December 14). A successful partnership, however, is not created after a franchise agreement is signed, according to J’Arlette-Joy (2013, August 5). The notion is not only about buying into a specific brand: it is important to consider the relationship as well. The policies and procedures for the franchise are written in manual format and transferred via training sessions; a relationship, however, is not accompanied with a guide. J’Arlette-Joy (2013, August 5) also believes that trust and respect, open communication and rapid conflict management are the keys to this relationship succeeding. A franchise relationship is normally a long term commitment and needs to be resilient and able to withstand a clash. J’Arlette-Joy (2013, August 5) believes that even after a conflict the relationship can be rebuilt if both parties are willing to work through it.

Aspiring entrepreneurs often explore various franchising opportunities as an initial venture, as a way to avoid the risk of commencing a new venture, given that franchises have a general overall higher success rate, even though they fail at times. This has been highlighted by Nyembe (2015, July 9), in an article written in a business management magazine, *Business Brief*, as well as by Rose (2011, September 19) in *Entrepreneur*, another South African business magazine. Nyembe (2015, July 9) also points out that franchisees often rely too much on the franchise structure. This is often the primary reason for failure. The concept of franchises has proven to be successful, although some franchises seem to fail due to the implementation process. It is

essential to develop financial skills in order to run an efficacious operation. Nyembe (2015, July 9) also states that being a franchisee you have to be competent in human resources, marketing and operation skills (Nyembe, 2015, July 9; Rose, 2011, September 19).

Franchises fail for a few reasons some of which include not enough working capital, lack of franchisor support, personal characteristics, underestimating the amount of work required, badly managing staff, lack of commitment and unrealistic expectations (Nyembe, 2015, July 9; Rose, 2011, September 19). For some franchisees joining a franchise is a foot in the door yet their intentions are to ultimately “do their own thing”. Franchisors should take note of this. In selecting the right franchisee it is imperative to ensure their intentions and find the right culture fit for the franchise (Rose, 2011, September 19).

In a recent article in *Entrepreneur* magazine, Rose (2011, September 19) states that a franchisee must be willing to enter the franchise culture and brand wholeheartedly. A franchisee consultant, Elgin (2012, May 2), recently wrote an article in *Entrepreneur* saying there is often a misconception by the franchisee of what is expected from a franchisor. He believes that a franchisor should provide support for a store that runs into a cash flow problem or that has experienced a decline in customers. A franchisor should assist in marketing as well as negotiating along the supply chain (Elgin, 2012, May 2).

The psychological contract in this respect does not fall under a standard supervisor/subordinate environment which, therefore, makes it dynamic and unique (Chanut & Paché, 2011). There is an abundance of literature available which links relationships between employers and employees to their respective psychological contracts. Nonetheless, there is restricted information and limited research has been conducted pertaining to the franchisee/franchisor association, highlighting the academic need for this research. Chanut and Paché (2011) appear to have been the first to investigate this relationship utilising the psychological contract in a study conducted in France.

The current research is the first to be undertaken within the South African environment, and, therefore, indicates that a business need exists which infers that it is imperative for franchisors and franchisees to avoid destructive relationships to guarantee continued business success. Both parties need to work together to develop and maintain their relationship in order to sustain a competitive advantage (Davies, Lassar, Manolis, Prince, & Winsor, 2011; Rahatullah & Raeside, 2008).

From the researcher's perspective, there have been changes observed over the years within a franchised organisation. The objective of any business is to ensure sustainability and it is, therefore, imperative for a franchise to remain successful. The researcher has been made aware of the existence of the psychological contract as well as the need for understanding why these relationships progress to a destructive state. It is imperative to avoid this damaging relationship. Hence it has become essential to understand the affiliation in order to ensure a successful relationship between franchisee and franchisor.

The current study presents untouched pertinent information which alludes to the notion of how to ensure a fruitful affiliation between a franchisor and franchisee. Previous literature has suggested the importance of understanding the substance of a strong relationship or partnership as well as the importance of a psychological contract, whereby the foundation forms the basis of trust and, therefore, transforms into a successful business.

By adopting the psychological contract as an underpinning theory, the associated breakdowns of the franchisor/franchisee relationship can be explained and better understood, as well as future failures being prevented from occurring which, in effect, will ensure the success of the franchise as a whole. By adopting the fundamentals of the psychological contract, which include trust, one is able to understand the importance of continuously building and moulding the affiliation to safeguard against reaching a tipping point where the damage will be difficult, if not impossible, to repair (Samaha et al., 2011).

In the 1980s franchising gross revenue in the USA was approximately \$350 billion, \$529 billion in 1985 and \$1.3 trillion as of today's date according to Kaufmann, Soler,

Permesly and Cohen (2015). More than 897 franchise systems existed in the United Kingdom in 2010, and these outlets employed more than 521 000 people (Okoroafor, 2014). In 2000 Malaysia franchising contributed 12% to Gross Domestic Product (Kumar, Ramendran, & Yacob, 2012). In Australia there are 62 000 franchise units affiliated to 960 franchise systems and in 2005 they experience a turnover of over \$128 billion (Giddings et al., 2009).

Franchising dominates many industries including real estate, quick service restaurants, pest control, convenience stores, to name a few, and generates almost 12.5% of South African GDP (Gross Domestic Product) (FASA, 2015). Results from a survey carried out by FASA (2015) in 2014 on South African franchising indicate that franchises employ 323 519 individuals within 600 franchises in 31 050 outlet brands all across South Africa. Moreover, according to statistics, 26% of franchise chains are owned by previously disadvantaged individuals (FASA, 2015). Essentially, this shows that franchising is necessary to further the economic growth of the South African economy, as well as to create employment, develop skills and empower individuals who were previously disadvantaged in a country with an unemployment rate that exceeds 25%. It is, therefore, necessary for these franchising relationships to be successful and sustainable. This study addresses the crucial rudiments from a psychological contract perspective to ensure a lasting relationship between franchisor and franchisee. With globalisation and increasing competitiveness, franchising is a way to augment job creation as well as self-employment (Tariq Anwar, 2011).

A multiple case study methodology was implemented to carry out this research. In addition, a qualitative exploratory research was conducted using a cross-sectional inductive bottom up approach. In conjunction, a snowball sampling technique was adopted to interview franchisees that had de-franchised as well as franchisors that had prematurely cancelled franchisee's contracts. The interview process consisted of semi-structured and in-depth interviewing. A limitation to the study is that the data collected for the research was obtained in a short time frame. Moreover only franchisees and franchisors within South Africa as well as within the restaurant industry were interviewed which provided an additional limitation to the research. Future research has been discussed in the conclusion of this research to address these limitations.

A model has been created by the researcher using the elements which were identified within the findings of the study, and these can be used by franchisees when joining a new franchise or to aid them in strengthening their relationship with their franchisor. Franchisors can use the model to ensure all the elements of the franchisee / franchisor relationship are being considered to guarantee that the affiliation is fruitful. Furthermore, the model can be adopted within academia for further research in the field of both franchisee and franchisor relationships, as well as with regards to the psychological contract.

The findings have been used to suggest changes in order to prevent future breakdown or de-franchising between franchisor and franchisee. The current research was conducted as the researcher believes it has added value to current academic research while concurrently presenting problem solving techniques for the real world environment (McKay & Marshall, 2001).

## 2. Literature Review

### 2.1. Chapter introduction

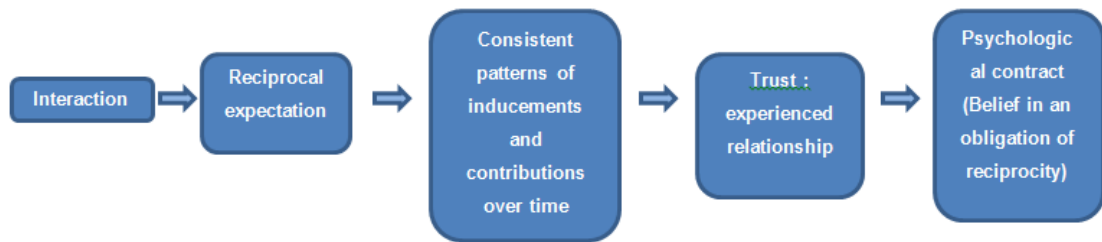
The literature review commences with an introduction to the psychological contract, which essentially is the approach contained within this research. It explains how the contract emerges and how it can be breached; thereafter, the psychological contract breach is elucidated. Trust, communication, shared values and the power of feedback are also introduced in terms of explaining the franchise relationship. Furthermore, conflict and unfairness are discussed as to how they impact upon the relationship. Compliance is discussed as a challenge in the relationship and the franchise system and a link to agency theory is compiled. Literature on selecting the correct partners is discussed, aligning this with the values and goals of the organisation. Franchising and franchise equity is debated with regards to business value and a business system. Finally, the chapter concludes with a chapter summary.

### 2.2. Psychological contract

The notion of a psychological contract has been in existence since the 1960s, which Rousseau (1989) presented in a seminal reading. It is an unwritten agreement that exists between a set of individuals, and goes above and beyond the written contract (El-sayed et al., 2015; Robinson, 1996). This refers specifically to when an individual believes his/her actions necessitate reciprocity from the organisation or vice versa. It specifically refers to individuals and not organisations, and is a contract that is implicit or presumed. It is a set of beliefs or perceptions of what each party owes to one another. A traditional contract is no longer sufficient in today's changing world (Botha & Moalusi, 2010; Hill, Eckerd, Wilson, & Greer, 2009; Robinson, 1996). This process can be seen in Figure 1. The individual believes that the psychological contract will develop in specific cases where more explicit and mutual promises and expectations are prevalent.

**Figure 1: How a psychological contract emerges.**

(Rousseau, 1989).



Beyond the formal contract between an organisation and employee, buyer and supplier or franchisor and franchisee, implied expectations can exist and these underlying unwritten agreements have an important function within these relationships. This psychological contract is comprised of mutual requirements, values, expectations and objectives (Chanut & Paché, 2011).

The psychological contract is reciprocal, and this reciprocity is dependent on the willingness of the other party's contribution towards the contract. The contract defines the relationship between the parties and manages the shared expectations (Chaudhry, Wayne, & Schalk, 2009; Conway & Coyle-Shapiro, 2012). The psychological contract is dynamic and may change depending upon one's perception of the expected rights and obligations. It is generally unspoken (Parzefall & Coyle-Shapiro, 2011). Trust is an important element of the psychological contract, and one's perceptions of the contract are strengthened over time (Rousseau, 1989).

### 2.3. Relational psychological contract

There are many forms of the psychological contract, however, the two most common are transactional and relational (Rousseau, 1989). Transactional is more reflective of self-interest and the short term that can be monitored easily. Relational psychological contracts are more group orientated and long term and rely on trust between both parties (Chanut & Paché, 2011; Vantilborgh et al., 2014). The current research will specifically focus on the relational psychological contract.



## 2.4. Psychological contract breach

A breach of the psychological contract is when the franchisor fails to fulfill an obligation and a breach of the psychological contract is considered an out of the ordinary happening (Parzefall & Coyle-Shapiro, 2011). It has, however, been found that the outcome of or reaction to a breach is different depending upon if the breach was intentional or an honest misunderstanding (Chaudhry et al., 2009; Parzefall & Coyle-Shapiro, 2011). The term “breach” can be in the form of a novelty, an uncommon event or a discrepancy which is non-conventional from the norm, a deliberate act, uncertainty or personal impact (Chaudhry et al., 2009). Betrayal of the psychological contract does not necessarily mean that opportunistic behaviour was displayed, but simply that there was a lack of understanding of the relationship expectations (Chanut & Paché, 2011).

A violation of the psychological contract is caused by two contributing factors, namely, reengaging and incongruence (Hill et al., 2009). The former involves an intentional failure to meet obligations: this may be due to financial or physical inability or a decisive decision not to fulfil the obligation. The latter can arise from three possibilities: differing cognitive schema, ambiguity or a lack of communication (Hill et al., 2009). Previously employees were content with the security of a job and ultimately resided in the same occupation for many years. However, today employees and employers now expect more in terms of their relationships. This change has increased the likelihood of a psychological contract breach, given the constantly fluctuating nature of the contract which could increase the scope of misunderstanding of the contract between the parties (Robinson, 1996).

When an employee believes that an employer has not delivered on a responsibility a breach of the psychological contract would occur. This results in anger, disappointment, resentment, feelings of betrayal, a sense of injustice and frustration (Botha & Moalusi, 2010; Kumar et al., 2012). Psychological contract breach is typically associated with a negative outcome that includes reduced commitment and satisfaction from an employee and may even result in opportunistic behaviour. Trust plays a major role in the psychological contract and is challenging to analyse due to its subjective nature (Robinson, 1996).

## 2.5. Making sense of a psychological contract breach

When there is a breach in the contract individuals often resort to making sense theory to try and explain the event that has occurred that is not a normal occurrence. A process of making sense can be seen in Figure 2 which illustrates that when there is a trigger event - which may be a single event, a series of events, a secondary breach or an everyday breach – one's emotions come into play. These emotions, therefore, label the breach in an attempt to clarify, contextualize or transfer responsibility, after which the individual will react either by using emotions, changing in reciprocity or reframing the trigger event, and this ultimately leads to further exchange or an intention to exit from the relationship (Parzefall & Coyle-Shapiro, 2011). Individuals will revert back to their engrained habits to try and understand and make sense of the event (Chaudhry et al., 2009). Initially an individual will try and protect their self-identity by reverting back to the events that may have prompted the breach and try to understand why the breach occurred by asking various questions and discussing the happenings with others (Chaudhry et al., 2009; Parzefall & Coyle-Shapiro, 2011).

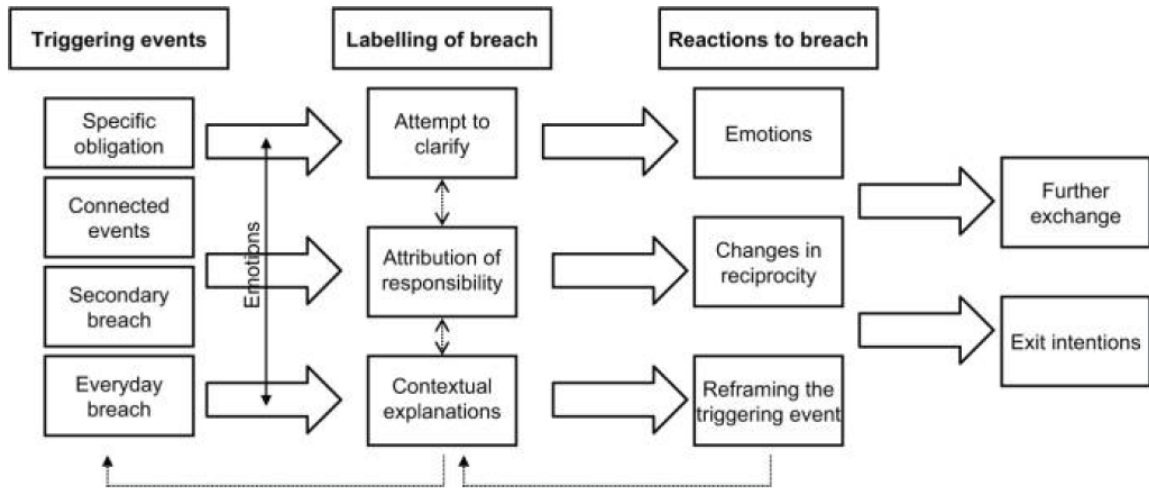
The study by Parzefall and Coyle-Shapiro (2011) showed that a breach may not come about from a singular event but may be from a series of events. This brings back the zone or buffer in which employees accept these behaviours from their superiors until they reach a breaking point where the actions are no longer accepted as they are now considered a breach. After the employee has been through the sense making process he/she will then decide what the course of action will be. The breach normally results in changes of attitudes and behaviours, and subsequently interlinking these with cognitive acknowledgement of the breach (Chaudhry et al., 2009; Parzefall & Coyle-Shapiro, 2011). As the contract is implied and assumed, when there is a breach both parties may not necessarily agree that a breach has taken place, given that it is usually a subjective view based on an emotional event that occurs. This event is normally followed by frustration and anger (Hill et al., 2009).

Chanut and Pache (2011) identified two forms of betrayal of the psychological contract: not taking the franchisee's individual interests into consideration and ignoring the franchisee's need for independence. An interesting analogy is that the outcome of the psychological contact breach is dependent on the strength of the initial relationship, displaying an area of acceptance from the franchisee (Parzefall & Coyle-Shapiro,

2011). The cost of de-franchising is customarily incurred by the franchisee in terms of contract restrictions and quasi rent. Franchisors may incur legal costs and income lost from disruptions in operations, as well as brand damage (Watson & Johnson, 2010).

**Figure 2: Making sense of the psychological contract breach process.**

(Parzefall & Coyle-Shapiro, 2011).



## 2.6. Relationship, trust and communication

If the franchisee deems the alleged value of the partnership between the franchisee and franchisor to be unequal conflict, reduced performance and discontent could result (Lewin, Harmon, & Griffiths, 2008). The interaction and collaboration between the franchisor and franchisee is more complicated than a common supplier-buyer relationship. Specifically, with regards to the franchisee-franchisor relationship there is interdependence in terms of gaining experience from the franchisee's perspective and receiving effectiveness from the franchisor's perspective (Ekelund, 2014; Winsor et al., 2012; Zachary et al., 2011). Furthermore, the franchisee has to comply with certain rules and regulations. Both franchisee and franchisor are required to work together in order to maximise their performance, thus resulting in maximised profits.

Maintaining a good business relationship aids in the performance of this partnership (Ekelund, 2014; Saraogi, 2009). Franchisees and franchisors work together and are focused on a common goal; however, conflicts in this affiliation cannot be ignored.

Hundreds of franchisees fail each year due to conflicts which include lack of support, compliance, fees, communication, marketing, profit and breach of agreements (Clauson, 2013; Winsor et al., 2012). King et al., (2013) believe that an effective franchisor/ franchisee relationship is one that exhibits high levels of trust, satisfaction, cooperation and commitment. They further conclude that by achieving this in a relationship, fewer problems will result down the line because ultimately the franchisee would have been controlled.

Shared values reflect the common beliefs and practices of two parties, as well as emphasising what is important or not to individuals within a relationship. This in turn will affect the trust and commitment in an affiliation. In a study carried out by Watson and Johnson (2010) they identified that when the founder of a specific franchise left the organisation, some of the franchisees also absconded, as they did not accept the new “family” (Watson & Johnson, 2010).

Research shows that trust is an important factor in any relationship (Dickey, Harrison McKnight, & George, 2008; Ekelund, 2014; King et al., 2013; White, 2010). Croonen, (2010) suggests that trust should not be looked at in isolation, but rather along with fairness and justice. An important aspect of trust is that both parties assume they will treat each other fairly. In addition, they distinguish between system trust as well as personal trust. System trust is based on institutional structures whereas personal trust is developed from face to face contact (Croonen, 2010). If a franchisee anticipates a protracted term commitment with a franchisor, trust is naturally built. The “H” factor as described by King et al., (2013) is the way an organisation treats its employees with respect and as human beings in terms of communication, trust and goal alignment. They say that without taking cognisance of the relationship any other efforts to push other outcomes will be pointless (King et al., 2013).

Dickey et al., (2008) found that trust in the franchisor’s competence results in a relationship with the compliance of a franchisee; in addition, they found that perceived mutual commitment influences the trust relationship. Moreover, they alluded to the fact that the length of time of an affiliation does not appear to have an impact. Rahatullah and Raeside (2008) contradict this by saying that trust is developed over time in various stages from pre-relationship to partnership. At this stage both parties feel they

are in a mutually beneficial relationship leading to benefits to both franchisee and franchisor (Rahatullah & Raeside, 2008).

A franchisee's trust in their franchisor is dependent on a few factors. First, there is the amount of interest and concern the franchisor has for the franchisee, as well as their honesty with regards to the happenings of the organisation. A franchisee's trust will also depend on the dependability of the franchisor and if they are forthcoming on their deliverables. Moreover, competence plays a role in the trust of the franchisee (Croonen, 2010). Trust results in a more open relationship leading to an increased appreciation of each partner. According to White (2010), if there is trust in a franchise relationship it leads to increased overall performance as each party is not worried about the other displaying opportunistic behaviours. Research has predominantly focused on economic theories, though as Ekelund (2014) indicated, social science is a key element to understanding the franchise relationship as franchising is certainly a social system.

Feedback from franchisees is required in order for franchisors to improve their processes and procedures. According to King et al., (2013) communication strategies are used in prosperous franchise organisations. This strategy is only successful, however, if the information obtained is full circle and utilised in an appropriate manner (King et al., 2013). Communication needs to be participative, in addition to informal and formal, depending upon the communication needed (Watson & Johnson, 2010). Communication is essential to reduce any misconceptions, decrease conflict, improve cooperation, as well as increase the quality of a relationship. Communication is imperative in order to stimulate a successful franchise relationship (King et al., 2013).

## **2.7. Conflict and unfairness**

Franchising can be compared to a distribution channel which is, therefore, susceptible to conflict (Winsor et al., 2012). Conflict can inflict long lasting damage on the relationship between franchisee and franchisor, resulting in the franchisee being less satisfied and becoming less compliant, as in the case of Windsor et al., (2012). These authors also found that the negative consequences resulting from the conflict linger in the franchisee's perceptions and associated attitudes result in a negative outlook.

Unfairness can contaminate the relationship thereby intensifying these negative effects. It is, therefore, imperative to understand how relationships are damaged to ensure that this situation is avoided in order to sustain a strong long term relationship (Blut et al., 2011; Winsor et al., 2012). When a franchisor provides support to a franchisee, they will believe they are getting value for money and feel the brand is measuring up to their values and expectations (Leslie & McNeill, 2010).

If a franchise provides inadequate service in terms of training, marketing, market research and assistance, which is expected in return for the royalty fee, this could result in the franchisee being despondent and dispirited (Watson & Johnson, 2010). Samaha et al., (2011) state that this destruction is caused from conflict, opportunism and unfairness and, therefore, these undermine the benefits of having a contract in place. These authors believe that unfairness is the most prominent cause of this damage and believe it needs to be addressed promptly to ensure continued success (Samaha et al., 2011; Winsor et al., 2012).

The relationship between the franchisee and franchisor in terms of trust and dependency is further explained. Personal traits and bureaucracy also play an influential role (Giddings et al., 2009). In a study carried out by Giddings et al., (2009) they found that sources of conflict arise from poor selection of franchisees, ineffective training, financial pressures, change and poor communication.

## **2.8. Standardisation, compliance and agency theory**

The franchise model is used to achieve economies of scale through standardisation of operations, marketing, purchasing and product development. It attains this by replicating its business model in new areas. However, there is a challenge with regards to this aspect as the franchisor needs to consider the standardised system as well as considering the independence of the franchisees. There exists a contradiction in the association, as becoming a franchisee is promoted as “being your own boss”, yet one has to conform to the standardised process of the franchise system, as this ultimately is the success of the franchise structure (Chiou & Droge, 2015; Cox & Mason, 2007; Pardo-del-Val, Martínez-Fuentes, López-Sánchez, & Minguela-Rata, 2014). The standardised franchise model is such for three reasons: first, to minimise costs for both

franchisees and franchisors which is achieved through economies of scale, given that franchises have a larger bargaining power with suppliers; secondly, uniformity allows customers to have a perception of expecting a certain product or service thereby establishing brand awareness and reliability; and thirdly, innovation can be adapted throughout the chain if a successful finding has been found by a franchisee (Pardo-del-Val et al., 2014).

Some of the negative costs associated with standardisation are that it does not take into consideration the variation in different markets where the diverse franchisees own businesses. Franchisees act as local entrepreneurs attempting to maximise their profits within their local market. In addition, the store may not be performing to its maximum ability due to the poor fit of the franchise model in that specific area (Chiou & Droge, 2015). There exists a temptation for franchisors and franchisees to deviate from the model due to differentiated local markets, given that the franchisee wants to adapt to the local conditions in order to maximise their performance and profits (Cox & Mason, 2007). The franchisee in this regard has local knowledge as they are more familiar with their environment compared to the franchisor. If a franchisor maintains a healthy relationship with the franchisee and allows them additional flexibility this could benefit the local market as well as the entire franchise chain and allow for future innovation (Pardo-del-Val et al., 2014). The franchisees are focused upon the customer and possess the necessary knowledge giving them the ability to generate ideas and innovate.

Regular communication, training and management by persuasion seem to be solutions for franchisors to address issues regarding standardisation with their franchisees as opposed to coercion and threats. Franchisees that continue to be non-compliant could start with an informal discussion from the franchisor, followed by a formal written warning and the final stage could be termination of the franchise contract (Pardo-del-Val et al., 2014). Trust again plays an important role, especially in the initial stages of the franchisee/franchisor relationship (Chiou & Droge, 2015). The reality, however, is that few franchisors are willing to let their franchisee deviate from the uniform franchise model, thereby hindering their innovative and entrepreneurial flare. The franchisor is the decision maker when it comes to procedures, suppliers, advertising and all other aspects of the business (Cox & Mason, 2007).



Agency theory is the relationship between two groups. The principle (franchisor) who receives a fee from the agent engages with the agent (franchisee) who uses the franchisor business model to perform a task thereby delegating decision making (King et al., 2013; Tariq Anwar, 2011). However, as with any relationship there is misalignment of interests between the groups leading to different ways of obtaining a desired outcome due to varying interests in the outcome of the task. The franchisee operates remotely from the franchisor in terms of location; however, the success of the franchise is dependent on the franchisee performing the tasks which are required of them. Franchisors, therefore, monitor franchisee behaviour to reduce any opportunistic behaviour that may arise so that they can protect their brand value against any practices that may dilute the brand (King et al., 2013). Franchising has been used as a model with the notion of reducing the agency costs using specifically standardisation, economies of scale and leveraging of their network (Pardo-del-Val et al., 2014).

One challenge facing franchisors is the issue of compliance. Even though this is often stipulated in the contract, franchisees deliberately ignore this, thereby diminishing the value of the brand. Opportunistic behaviour is acting in one's own self-interest to the detriment of the relationship. Defiant franchisee behaviour has been shown to develop through the interactions between the franchisee and franchisor; additionally franchisors who act in a dictatorial manner and force a hierarchy also receive resistance (King et al., 2013; Watson & Johnson, 2010).

It is a delicate balance for a franchisor both to maintain uniformity and to satisfy the local market. Moreover, it is important for a franchise to determine what makes it unique. Evidently, maintaining quality, reducing costs and preserving an image, all at the same time, is a difficult task. Consequently, as franchisees gain additional experience, franchisors tend to experience increased resistance (Kaufmann & Eroglu, 1999). Franchising can be defined as having the licence to copy one system given a unique positioning with the intention of serving a customer segment. According to Kaufmann and Eroglu (1999) these format components can be categorised into four format components. These are evident in Figure 3 hereunder. The first sector is product/service, for example, menu, food quality and franchise format benefits. Benefit communicators are intangible, such as quality or cleanliness (Kaufmann & Eroglu, 1999). System identifiers are visual or acoustic elements that make a franchise unique, for instance the logo, slogan or colour scheme. Finally, system facilitators relate to the



policies and procedures including store layout and financial reporting (Kaufmann & Eroglu, 1999). Standardisation as a strategy is debatable throughout the literature (Kaufmann & Eroglu, 1999). Local markets are becoming more similar making standardisation possible, nevertheless the question remains as to whether this is attractive to the consumer and if the market represents a suitable homogenous state to operate a standardised model. Standardisation has its advantages, which include easy implementation and monitoring and cost reduction gained from economies of scale.

All four components are important in creating the franchise image for the consumer; when used together they reveal a distinct brand image. Franchisors are continuously faced with the challenge of maintaining a standardised and popular image. Furthermore, Kaufmann and Eroglu (1999) further divide these four components into relevance of their centrality in terms of core or periphery. Core elements are vital to the franchise image whereas peripheries are less important. Therefore, if the core elements are in place there can be flexibility in terms of the periphery elements. Examples of these can be seen in Figure 3 (Kaufmann & Eroglu, 1999).

**Figure 3: Format components versus centrality.**  
(Kaufmann & Eroglu, 1999).

	<b>Product / Service Deliverables</b>	<b>Benefit Communicators</b>	<b>System Identifiers</b>	<b>System Facilitators</b>
<b>Core</b>	<ul style="list-style-type: none"> <li>• Basic Menu</li> <li>• Accuracy of Work</li> </ul>	<ul style="list-style-type: none"> <li>• Clean Uniforms / Aprons</li> <li>• Professional Certification</li> </ul>	<ul style="list-style-type: none"> <li>• System Name</li> <li>• Trademark</li> <li>• Logo</li> </ul>	<ul style="list-style-type: none"> <li>• Sales Reporting Procedure</li> <li>• Operation Manuals</li> </ul>
<b>Peripheral</b>	<ul style="list-style-type: none"> <li>• Hours of Operation</li> <li>• Parking</li> </ul>	<ul style="list-style-type: none"> <li>• Mint on Pillow</li> <li>• Display of Professional Certificates</li> </ul>	<ul style="list-style-type: none"> <li>• Colour Scheme</li> <li>• Décor of Unit</li> </ul>	<ul style="list-style-type: none"> <li>• POS Equipment</li> <li>• Local Advertising</li> </ul>

## 2.9. Selecting the right partners

The franchise model can be successfully implemented when a product or service is delivered according to the franchise brand promise (King et al., 2013). An organisation's identity is what makes them unique in the eyes of their customers. Franchisors are aware, though, that delivering this promise ultimately rests with the franchisee (Zachary et al., 2011), and therefore selecting the right partners is imperative to upholding the brand name. Maintaining a standardised look and feel across the board is a challenge to any franchise, despite the written contract in place. Franchisees will display opportunistic behaviour despite this and put in minimal effort, thereby diminishing the brand. Nevertheless, this can be due to poor monitoring from a franchisor's perspective (Brookes & Altinay, 2011; King et al., 2013).

The selection of the right franchisee to partner, whose goals are similarly aligned, is imperative in order for the franchise to succeed. If objectives are not connected franchisees may exhibit opportunistic behaviour in pursuit of their own interest as opposed to those of the franchise as a whole. Hence, selecting the right franchisee initially is a way to eliminate any future problems which may arise; conversely, selecting an incorrect franchisee will drive a personal agenda resulting in a negative outcome (Brookes & Altinay, 2011; Zachary et al., 2011). The franchisee is customer facing making this partner selection important to increase and maximize customer satisfaction. If franchisees do not make decisions in line with that of their franchisors and if they proceed in the opposite direction to their franchisor, the result will be augmented agency costs. The franchisor develops their franchise brand that they market to potential franchisees so that they can further grow their brand. It is important to attract franchisees that identify with the brand and who are aligned in terms of values and beliefs (Zachary et al., 2011). Franchisee branding is focused on franchisees and incorporates the organisation's identity of values through the activities which it displays.

Personality has been clearly identified as playing a role in franchisor-franchisee relationships and personality factors that affect the way an individual acts within certain environments include emotional, interpersonal, experimental, attitudinal and motivational dimensions (Dant, Weaven, & Baker, 2013). Furthermore, Dant et al., (2013) found evidence to support that agreeable, conscientious and emotionally stable franchisees are more likely to develop long term efficacious relationships with their

franchisor, compared with extraverted franchisees who may struggle to accept the dominance of a franchisor, thereby hindering the development of a robust relationship. The success of a franchisee is primarily based upon performance, and personality may be effective in revealing the individuals that add value within the network. Furthermore, this knowledge may be useful in managing the long term relationship by being able to predict future behavioural outcomes based upon personality (Dant et al., 2013).

## **2.10. Franchising**

A franchisor in effect sells a business system to a franchisee, in which this system is comprised of knowledge and the expertise of managing information within and across organisations. Franchisees buy into this system in order to access knowledge with the objective of obtaining a competitive advantage as well as efficiencies (Pardo-del-Val et al., 2014; Paswan & Wittmann, 2009). In return for paying franchise fees, franchisees should receive training, marketing, market research and assistance, amongst others, from their franchisor (Tariq Anwar, 2011; Watson & Johnson, 2010). In order for the franchisee to operate according to the franchisor standards they need to supply franchisees with the correct information and tools to do so (King et al., 2013). It is important for this relationship to be based on strong communication in order to cultivate the knowledge to remain successful. Franchisors need to supply the necessary information to permit franchisees to resourcefully operate their organisations according to the franchise standards. It is important for both the franchisee and franchisor to have shared goals rather than individual benefits (King et al., 2013). One of the reasons the franchise model is deemed to be successful is that franchisees are more motivated than managers as they have a financial investment within the business (Watson & Johnson, 2010). A franchisor will be successful if their franchisees are profitable which emphasises the importance of this relationship's being a success (Pardo-del-Val et al., 2014).

There are a few disadvantages to the franchising model. For example, in the case where bad brand management exists from a franchisor's perspective, this does not live up to a franchisee's expectations, resulting in the franchisee losing faith in the system. Moreover, the volatile arrangement is also open to destruction from a single franchisee: it can take only one to tarnish the name of the brand (Blut et al., 2011; Leslie & McNeill, 2010). Managing finances is also a disadvantage as franchisees may feel that they are

not getting value from the partnership. Marketing and advertising is another disadvantage as the franchisor may not advertise effectively enough for stores in different locations (Leslie & McNeill, 2010).

## **2.11. Franchise systems**

A franchise is a network of independently owned businesses and a franchise is a relationship where a franchisor allows an individual or group of individuals a licencing agreement to use their brand name and expertise in return for a monthly royalty fee (El-sayed et al., 2015). Various franchise models exist and these include joint ventures, area franchising and direct investment (Tariq Anwar, 2011). In addition, a single unit is franchising where a franchise will grant a new outlet to a new franchisee, and multi-unit franchising is where new outlets are given to existing franchisees (Gómez, González, & Vázquez, 2010). According to Gómez et al., (2010) when a new site is granted two problems may arise: adverse selection and moral hazard. The former is selecting the wrong franchisee and the latter is further divided into two parts of opportunistic behaviour of shirking or suboptimal efforts from the franchisee (Gómez et al., 2010).

Franchises use franchisees as a way to expand their operations in the case where they do not have the initial capital to outlay. In the case where this is successful, the overall franchise will increase in profitability and the intangible value will augment substantially. A study carried out by Hsu and Jang, (2009) discovered that franchised businesses experienced higher profits than non-franchised businesses (Hsu & Jang, 2009).

Franchisor actions in terms of support contribute to franchisee confidence, effectiveness and satisfaction; however these are affected at different stages throughout the franchise relationship. Satisfaction is generally evident at early stages of the relationship, whereas commitment takes more time to develop as the relationship flourishes (King et al., 2013). It remains difficult for franchisors to understand the behaviour of franchisees and identify ones who are in line with their brand and franchise model. Most strategies which are adopted ignore the relational or psychological elements that can be used and which have a superior desired effect (King et al., 2013).

## 2.12. Franchise equity

Franchisee equity can be measured in four categories, namely financial, growth and survival, innovation and coordination, and conflict. However, brand perception also needs to be taken into consideration (Leslie & McNeill, 2010).

The brand plays an important role and often it is not given the attention it deserves. According to Leslie and McNeill (2010) it is a symbol of trust, reliability and quality. Essentially, brand recognition, trust and reputation all form part of the franchise equity. A franchisee may also feel secure in having a trusted brand name. Another advantage of being a part of a franchise is the lifestyle, as it allows one to own one's own business under the guidance and support of a franchised system (Leslie & McNeill, 2010). According to Watson and Johnson (2010) franchisees may not have a beneficial interest in safeguarding the equity of the brand if they are not compensated for it. Franchisees may be tempted to conduct activities that compromise the brand for short term gain, which is evident in businesses that do not have repeat customers.

The suggestions which franchisees provide to the franchisor are essential in order for the franchisor to make improvements to their franchise model. King et al., (2013) articulate that certain suggestions from franchisees are not validated by the franchisors and these include propositions that exhibit good communication strategies and encourage knowledge exchange which will ultimately result in a more successful organisation. If a franchise has a high brand equity this can translate into direct benefits to the franchisee in terms of reputation, enabling brand extension and brand building. The higher the brand recognition, the more attractive the business will be to a potential franchisee, and franchisees are attracted to a particular brand (Nyadzayo, Matanda, & Ewing, 2011). The brand may not directly benefit the franchisee financially but can indirectly assist them in terms of customer perception and attitude towards the brand (Calderon-Monge & Huerta-Zavala, 2014).

## 2.13. Chapter summary

The literature review commenced with an introduction to the psychological contract and proceeded to clarify how the psychological contract emerges, followed by an explanation of the breaching process. The franchisee/franchisor relationship was explained using trust, communication, shared values and the power of feedback. Conflict and unfairness were also discussed and how they impact upon the relationship. Agency theory was linked to compliance and standardisation and explained the challenge with regards to the relationship and franchise system. Literature on selecting the correct partners was mentioned and the importance of aligning this partnership with the brand, values and goals of the organisation. Finally franchising was discussed as a whole and franchise equity was introduced as a value to the franchise brand.

### 3. Research Question and Proposition

This research aims to answer one specific research question. The question will seek to identify the factors responsible for the breakdown in relationship between franchisees and franchisors viewed from the perspective of the psychological contract. The research question will further aim to link the importance of the identified factors to both the franchisee and franchisor and establish which factors are more important to these parties in ensure a lasting and mutually beneficial relationship.

Research question: What are the factors that lead to a breakdown in the relationship between franchisees and franchisors?

Proposition: There is an underlying, unwritten contract that exists between a franchisee and franchisor which occurs in conjunction with the formal contract. The elements that form part of this relationship, between the franchisees and franchisor, can be linked to the theory of the psychological contract and can be used to determine the contributing factors which result in the breakdown in the relationship between the parties.

## 4. Research Methodology

### 4.1. Chapter introduction

This chapter outlines the methodology used and commences with the introduction of a multiple case study, followed by a short section on action research. The use of exploratory research will be discussed, in addition to the adoption of a cross-sectional inductive bottom up approach. The population, which is discussed hereunder, was a selection process from franchise organisations in the restaurant industry and it included a sample of de-franchised franchisees and franchisors who in effect had de-franchised their franchisees or who de-franchised themselves. Further highlighted herein is the snowball sampling technique which was used. Subsequently, the chapter addresses the fact that the information was gathered using semi-structured and detailed interviews with various franchisees and franchisors, and analysed using ATLAS.ti. The section summarises the validity and reliability of the study, as well as the limitations, and is concluded with a chapter summary.

### 4.2. Case study

A multiple or collective case study approach was chosen as the methodology for the current research as it fits in with the exploratory research outlined above. This method allowed the researcher to compare various cases. By using multiple cases the researcher was able to draw a cross case conclusion from the findings of the research (Yin, 2013). Gerring (2006) describes case study research as an intensive study of a small number of units or a single unit and it is traditionally associated with qualitative research methods (Bryman, 2012; Gerring, 2006). He goes on to say that when several cases are researched this leads to a multiple case study situation. When the research emanates from a sample of cases, as opposed to a single case, the research then becomes a cross case. This is a comparative design whereby utilising multiple cases allows for a better understanding (Bryman, 2012; Gerring, 2006). This technique was utilised in an attempt to better understand how one can incorporate the psychological contract to better understand the breakdown in relationships between franchisor and franchisee. This method allowed for understanding a real life phenomenon in depth (Crowe et al., 2011; Yin, 2013). An embedded approach was taken, as various units will be studied within cases identified (Yin, 2013).



Two methods of data collection were used including interviews, as mentioned above, as well as personal observations from within one of the organisations. The attractiveness of a case study method was being able to view the cases through multiple lenses allowing for a thorough understanding of the research conducted (Baxter & Jack, 2008; Crowe et al., 2011; Yin, 2013). This method was chosen as it allowed for an in-depth discovery of the topic linking it to the exploratory research desired (Kumar, 2011; Saunders & Lewis, 2012).

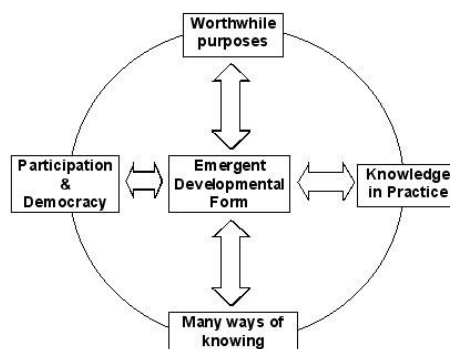
### 4.3. Action research

Action research was also used to inform the current study, as it involves both action and research and is centred on finding solutions or areas that could be improved and related to real life situations. The researcher is situated within the organisation which is being researched and, therefore, there is an element of self-involvement (McKay & Marshall, 2001). Action research is not without limitations, which include the risk of the researcher's being biased or subjective and the degree of validity of the research conducted (McKay & Marshall, 2001).

Action research has different ways of displaying knowledge. Reason and Bradbury (2001) believe that the features of action research can be summarised into the categories which are displayed in Figure 4 below. The aim is predominantly to work towards practical outcomes, in addition to improving a personal or social situation through the researcher's understanding (McNiff & Whitehead, 2009; Reason & Bradbury, 2001).

**Figure 4: Action research.**

(Reason & Bradbury, 2001).



#### **4.4. Research design**

The research was conducted using a qualitative approach. Qualitative research identifies the meaning and form of a relationship by utilising non-numerical analysis; in addition, it focuses upon the process and significance of the research question at hand and does not include a test (Saunders & Lewis, 2012). Data was collected via semi-structured and in-depth interviews.

The above research question was that of unexplored territory, therefore, exploratory research was necessary (Saunders & Lewis, 2012). As Saunders and Lewis (2012) emphasise, exploratory research is adopted when a new and unexplained area has been selected. The cross-sectional study adopted an inductive bottom-up approach. It was conducted using semi-structured and detailed interviews with various franchisees and franchisors.

Semi-structured interviews are a flexible approach which enabled the researcher to have a list of questions that acted as a guide during the interview process. The questions are open-ended which permitted the interviewee to answer each question as they desired. The list of questions adopted ensured all themes were covered during the interview (Bryman, 2012; Saunders & Lewis, 2012).

#### **4.5. Universe, sample and sampling method**

The population consisted of a selected number of franchise organisations in the restaurant industry. Franchisees that had been through a de-franchising process and franchisors that had also been through the process of cancelling a franchise contract prematurely were selected. Given the sensitivity of these situations and often individuals not sharing their personal experiences, a sampling technique of non-probability sampling was adopted, using convenience and snowball sampling, using referrals to franchisees and franchisors that have had these experiences. The ones that offered the most information were selected and interviewed. The sample size was kept to a minimum due to the nature of adopting multiple case study, qualitative research in order to obtain a detailed understanding. In total four franchisors and four franchisees were interviewed in depth.

## 4.6. Data gathering and analysis

Ethical clearance was applied for and approved by the GIBS ethical administrator and the clearance letter is presented in Appendix 1. A set of questions were constructed to provide guidance for the researcher during the interview processes. Two sets of questions were constructed for both franchisees and franchisors and can be found in Appendix 2 and Appendix 3 respectively. Interviewees were sent a letter of invitation to take part in the research, which has been exhibited in Appendix 4. Furthermore, the interviewees were asked to sign a consent form, as seen in Appendix 5, which assured them that the interview would be confidential and that comments would remain without identifiers.

The data was collected by interviewing the selected franchisees and franchisors at their various locations. The interviews were face to face and semi-structured using predetermined questions which acted as a guide to ask any additional questions in order to gain relevant information to answer the research question. According to Myers (2013) semi-structured interviews are frequently used in business research. These interviews allowed for flexibility within the interview thus permitting questions to be added or removed as the interview progressed. Interviews were recorded and transcripts produced. Thereafter, themes and trends from these interviews were analysed using two methods. To avoid misinterpretation of questions and to ensure relevant data, a pilot interview was conducted with a franchisee (Saunders & Lewis, 2012).

ATLAS.ti was used whereby codes were imputed, using an inductive approach, into the software and reports from the codings were created. The outcomes are presented within the results section hereunder. Coding is the creation of categories that links to the data (Gibson, 2006; Hwang, 2008). ATLAS.ti is a computer assisted qualitative data analysis software (CAQDAS) that is used in qualitative research to assist in analysing the collected data. Using CAQDAS allows one's research to be more transparent and replicable making the research more credible. As with any tool there are risks, which include losing data and eternal coding (Hwang, 2008; Rosenfeld, Gatten, & Scales, 2013).

Thematic analysis was then applied from the codes created in ATLAS.ti. Codes were also grouped together to create code families. The codes and code families were then used to develop themes and a relationship of how they all linked was established (Gibson, 2006). The problem associated with thematic analysis is related to how one interprets the data depending on one's understanding (Gibson, 2006). Qualitative analysis involves searching for occurrences of themes and words. Word frequency counts are also used. Counting allows for the researcher to identify patterns and themes from the data and to contextualize the codes, allowing for the data to be understood (Hsieh & Shannon, 2005). Thematic analysis is used to present patterns from the data gathered. It allows the researcher to associate an analysis of the frequency of a theme, allowing for accuracy to enhance the research meaning (Alhojailan, 2012). Codes developed for themes are applied to the data as markers and used to analyse by using frequencies of themes in the data. Thematic analysis allows the researcher to determine the relationship between concepts (Alhojailan, 2012).

#### **4.7. Validity and reliability**

Validity is concerned with whether the findings are related to what they appear to be. Factors that can affect validity have been noted as a limitation within the research. The validity indicates if the research document has actually measured what it was intended to measure. To ensure the validity of the research a pilot interview study was conducted to ensure the right and appropriate questions were being asked in order to answer the proposed research question. As the research being conducted was of a qualitative nature the elements of validity and reliability were more difficult to define due to the flexibility and freedom of the research conducted (Kumar, 2011; Saunders & Lewis, 2012).

Reliability refers to the degree to which a test or process produces similar results under constant conditions on all occasions. The ultimate goal is to minimise the errors and biases within the research. Reliability refers to the consistency of the outcomes that were obtained from the interviews conducted, with the overall objective of minimising the biases in the study (Kumar, 2011; Saunders & Lewis, 2012).

Due to the delicate nature of validating qualitative research, often trustworthiness and authenticity are used to judge the validity and reliability of a qualitative study (Kumar, 2011). Trustworthiness can be determined by credibility, transferability, dependability and conformability. These four indicators can be used to evaluate the validity and reliability in a qualitative study (Kumar, 2011). Credibility can be linked to internal validity and transferability is linked to external validity; dependability is linked to reliability and confirmability is linked to objectivity (Kumar, 2011).

In quantitative research external validity refers to the extent to which research findings can be induced and generalised beyond the research conducted and the degree to which the research findings can be inferred on the population. Internal validity infers the causes that have been found which produce the responses and confirms if the correct cause and effect relationship has been recognised, thus ensuring consistency (Amaratunga, Baldry, Sarshar, & Newton, 2002).

Credibility is if the research conducted is believable and if the findings accurately portray the feelings of the individuals being interviewed. This will be judged by the concordance of the individuals who have been interviewed (Kumar, 2011). These individuals will be asked whether they agree with the findings from the study to ensure congruence, authentication and acceptance. By carrying out this concordance the validity of the study will be strengthened.

Transferability refers to the degree to which the findings can be inferred on the general population (Kumar, 2011; Yin, 2013). With this proposed research, the ability to infer the findings on the general population will be difficult, as there may be an element of sampling bias, due to the non-probabilistic sampling technique that will be used, as well as using franchisors and franchisees from the region of Gauteng South Africa only.

Dependability is if one could replicate the study and obtain the same results as would be for a quantitative study (Yin, 2013). Due to the nature of the proposed research dependability will be difficult to verify as the candidates will be from the restaurant industry and only from South Africa.

Confirmability is if the results from the research can be confirmed by other researchers (Kumar, 2011). Again, due to the nature of the study this will be difficult unless the researcher tracks and records every process followed in the interview procedure.

Many biases were present including interviewer bias, subject error, subject bias, observer error and observer bias and they need to be considered at all times to avoid distorting the data obtained (Saunders & Lewis, 2012).

#### **4.8. Limitations**

Due to the nature of the study the interviewee may have been open to social desirability bias in their responses in order to gain prestige from the occurrence. Volunteer bias was also at play as only franchisees and franchisors that were willing to participate in the study were interviewed. The limitations of the researcher are also noted. The interviewer was not skilled in this process which may have led to amateur mistakes, thus resulting in skewed data. Availability bias is also considered as a possible limitation due to the time constraints and, thus, bias may become a possibility (Saunders & Lewis, 2012).

The non-probability snowball and convenience sampling technique is a subjective approach and could have led to similar candidates being chosen. This technique may have eliminated a portion of the population from the process. As it is a non-probability method there was a lack of representativeness and generalisability. In addition, the volunteers may have had a strong view on the topic hence their willingness to volunteer, thereby giving a non-representative response (Baker et al., 2013; Davidson, 2006).

The data was collected in a short time frame; hence, further research could be carried out in the future over a longer time period to eliminate this limitation. Only South African franchisees and franchisors in the restaurant industry were used limiting the research to South Africa and the restaurant industry. Again further research could be carried out in other industries and other countries in order to extend the size of the universe.

Although there have been many biases and limitations which have been raised, this research is expected to provide valuable insights to both franchisees and franchisors in order to ensure a harmonious relationship and mutual benefits to both parties going forward.

#### **4.9. Chapter summary**

Presented within this chapter is the methodology adopted for the research. At the outset, the multiple case study and action research method is introduced. Delineated herein is detail pertaining to the population, in addition to the sample and sampling technique deployed during the study. It further specifies that the data gathered was done using semi-structured and detailed interviews with various franchisees and franchisors, and thereafter analysed using ATLAS.ti. Finally, the chapter discusses the validity and reliability surrounding the research and also reviews the limitations.

## 5. Results

### 5.1. Introduction

The objective of this study was to understand the relationship between franchisor and franchisee, along with understanding which factors contribute to the breakdown between franchisor and franchisee and, finally, to comprehend whether or not this breakdown can be explained by the psychological contract theory.

The following chapter outlines the findings collected from the qualitative interviews conducted for the study. This section commences with the duration of interviews conducted. Code definitions are provided in Appendix 6. The frequency of the top 10 codes are then provided for both the franchisee and franchisor, following which code families are then shown, accompanied by their respective frequencies. Finally, the chapter addresses the seven themes of industry fit, brand and marketing, finance, relationship, operations, customers and alignment. Moreover, the theme section includes relevant quotes from the interviewees. The chapter culminates with a short chapter summary.

At the outset a pilot interview was conducted with a franchisee from a franchised store. Thereafter, eight semi-structured in-depth interviews were conducted. Four of the interviews were with franchisees that had de-franchised, and the other four comprised of franchisors who themselves had de-franchised other franchisees. Each person was sent an interview invitation and consent form as laid out in Appendices 4 and 5.

Approximately seven hours of interviews were carried out at the franchisee's or franchisor's location of choice. Each interview was recorded with the interviewee's consent and then transcribed. For each hour of recording, approximately three hours of transcribing was conducted.

A list of each interviewee as well as the interview times is evident in Table 1 below. As the interviewees were guaranteed confidentiality, franchisees have been assigned a number and franchisors a letter as indicated in Table 1.



**Table 1: List of interviews and interview times.**

	<b>Interview Duration</b>	<b>Title</b>
Pilot Interview	25 minutes	Current Franchisee
Franchisee - 1	30 minutes	De-franchised Franchisee
Franchisee – 2	90 minutes	De-franchised Franchisee
Franchisee - 3	35 minutes	De-franchised Franchisee
Franchisee - 4	40 minutes	De-franchised Franchisee
Franchisor - A	80 minutes	Current Franchisor
Franchisor - B	55 minutes	Ex Franchisor
Franchisor - C	40 minutes	Current Franchisor
Franchisor - D	35 minutes	Current Franchisor

After the interviews were transcribed they were imported into ATLAS.ti and an inductive approach was undertaken whereby codes were created as the data was analysed. Appendix 4 depicts a list of the codes used with their associated definitions according to what the researcher used when coding the interview transcripts.

Table 2 below, which was generated from ATLAS.ti, lists the top 10 codes by frequency identified by both the franchisee and franchisor. The code as per franchisee indicated that the predominant element which appeared was “brand” followed by “compliance” and then “royalties”, compared with franchisors which reflected “compliance” as being their strongest constituent, “business and financial knowledge” and “wrong franchisee” positioned in second and third place respectively.

**Table 2: Top ten codes found for franchisees and franchisors.**

<b>Franchisee</b>	<b>Frequency</b>	<b>Franchisor</b>	<b>Frequency</b>
Brand	12	Compliance	19
Compliance	7	Business and Financial Knowledge	12
Royalties	7	Wrong Franchisee	12
Marketing	6	Communication	10
Support and Assistance	6	Hands on	6
Communication	5	Losing Money	6
Promise Delivery	5	Brand	5
Attitude	4	Different Views	5
Brand Association	4	Staff	5
One Size Fits All	4	Blame	4

After the data was analysed using the codes, these encryptions were grouped into seven different code families, namely, industry fit, brand and marketing, finance, relationship, operations, customers and alignment. The codes used in each of these families are evident in Table 3 below. After the families were created in ATLAS.ti the data was examined and the results then presented in Table 4. Moreover, the frequencies of each family are demonstrated for both franchisee and franchisor.

**Table 3: Code families.**

<b>Industry Fit</b>	<b>Brand and marketing</b>	<b>Finance</b>	<b>Relationship</b>
Wrong Franchisee	Brand	Business and Financial knowledge	Communication
Hands On	Culture	Investing	Legal Communication
Industry Experience	Brand Association	Financial Discipline	Promise Delivery
Not Hands On	Marketing	Losing Money	Trust
Right Franchisee		Royalties	Understanding
One Size Fits All		Compliance	Blame
Satisfying Everyone			Averse to Change
			Excuses
			Leadership

<b>Operations</b>	<b>Customers</b>	<b>Alignment</b>
Training	Customers	Different Views
Adding Value	Unhappy Customers	Expectations
Support and Assistance		Attitude
Systems		

After the codes were grouped into seven families, their frequencies were calculated in ATLAS.ti and analysed according to the frequency of each franchisee and franchisor. With regards to the franchisee the prominent theme mentioned was “Brand and Marketing” followed by “Finance” and “Relationship”. However, in the case of the franchisor “Finance” had the highest frequency followed by “Industry Fit” then “Relationship”.

**Table 4: Code families' frequency.**

Franchisee	Frequency	Franchisor	Frequency
Brand and Marketing	22	Finance	41
Finance	19	Industry Fit	26
Relationship	15	Relationship	23
Industry Fit	9	Operations	12
Operations	7	Alignment	11
Alignment	6	Brand and Marketing	8
Customers	3	Customers	5

## 5.2. Themes

This section addresses the seven themes: industry fit, brand and marketing, finance, relationship, operations, customers and alignment. Relevant quotes obtained from the interviews conducted according to franchisees and franchisors are mentioned under the relevant themes which were created from when the data was coded.

### 5.2.1. Industry fit

The industry fit group which was created is delineated in the section hereunder. This group consisted of the codes wrong franchisee, hands on, industry experience, not hands on, right franchisee, one size fits all and satisfying everyone.

#### Franchisees

In understanding 'Industry Fit', from the perspective of the franchisee, it became evident that not all franchise systems were ideally fitted or suited to every franchisee. This precise issue was experienced by a respondent who expected that all franchisees operate in the same manner, as well as for the franchisee with regards to the exponential growth within the franchise brand, which could result in brand problems.

“They [franchisor] need to understand that we are all different human beings and not just numbers. I run my store differently to others.” (Franchisee 1)

Another franchisee indicated:

“When you expand a brand at a rapid rate and put in people who are not good franchisees they damage the business and bring it down. With x franchise you become a number and all the personal stuff disappears.” (Franchisee 2)

In this case, the franchisee was referring to the franchisor not selecting their franchisees wisely and picking those who do not necessarily have the correct experience within the industry. Alongside this industry experience is the personal attitude and approach of the franchisee who may not always respond well to a formalised system of management. This reinforces the concern regarding the ‘one size fits all’ approach:

“Because I have been in this industry for long and have always run my own operations, it was difficult for me to be a franchisee. When someone becomes a franchisee, when you come out of another industry, joining a franchise is useful and a shoulder to lean on, but for me it was not necessary.” (Franchisee 3)

Again, the standardised one size fits all approach was addressed by another franchisee:

“They [franchisor] did not have a big enough offering on the menu and would not look at stores individually, they were standardised across the board.” (Franchisee 4)

### Franchisors

From a franchisor’s viewpoint under the ‘industry fit’ theme, the evidence displayed that although franchisees agreed to the franchise agreement in the beginning and they bought into the idea of a ‘one size fits all’ franchising format, once they had gained from the initial franchise experience they started to deviate from the brand standardised format and did not fit into what the franchise stood for.

“In reality once you enter a franchise agreement you must be happy with everything the brand stands for and do your homework properly.” (Franchisor A)

“It is frustrating for a franchisor as franchisees do not want to grow, their opinion is that they know how to run a coffee shop and why do they need a franchisor. Most of them [franchisees] could have been saved but it came down to the franchisee’s perception that we were not there to help them. You cannot please

everyone all the time, and therefore think before you join a franchise.”  
(Franchisor A)

Conversely, other franchisors agreed that there needed to be a degree of flexibility to accommodate different personalities and market areas. There was also substantial evidence of franchisees promising to show an interest in their store/s and be hands on, however, the evidence obtained from the interviews showed that these franchisees were not hands on and were not fully focused on their stores.

“We do not manage franchisees as a franchise as they have different personalities. They are everyday in their businesses, and the ones that are not ultimately lose their businesses.” (Franchisor A)

This was affirmed by another franchisor:

“The franchisee indicated that they would work in their store, however, they never did. The store was manager run. They showed no interest.” (Franchisor D)

Choosing the right franchisee was an issue for the franchisor. Franchisors expected their franchisees to have an industry understanding and the necessary skills to run their operations according to the franchise standard. They expected that all franchisees operated in the same way as per the franchise agreement and iterated that the initial interview process is imperative to choosing the correct franchisee from the start.

“Failed franchises resulted because non restaurateurs were put in a restaurant environment, but we do not do that anymore. Everyone did their own thing and it did not work, as they were not operators.” (Franchisor C)

This was affirmed by another franchisor:

“For a franchisor the interview process is important. It is difficult finding credible franchisees as they need to be the backbone of the franchise. Finding the correct franchisees that are disciplined and have an entrepreneurial spirit who can evolve business is tough. Franchisees do not understand the food industry and they come into the brand with the perception of how things are going to be and in effect it is completely different to reality. They do not have the capabilities and it is usually the wrong operator and incorrect skill set. If they are not in their store it puts strain on the business and, therefore, no money can be assigned for future endeavours. They do not have any respect for the business. A franchisee needs the skill set and to undergo a psychometric assessment,

and if your brand is strong enough it will always capitulate to a franchisee. Brands are not succeeding because there are no quality franchisees running their operations and they do not have a financial understanding of the business. Culture fit, ethics, skill sets and standards are all requirements for the franchisor and franchisee marriage to be solid. Failed franchisees are not true to the brand. If you have the correct culture fit and the right ethics along with the correct skill sets then the marriage is solid.” (Franchisor B)

Another franchisor indicated:

“When franchisees sign their franchise agreement, it stipulates step by step what to do but as soon as they do not make money the franchisor is to blame. Some alter the menu items to their liking. Franchisees that are making money and running successful stores are good operators; however, unsuccessful stores have the wrong person in the environment; for example, an accountant in a restaurant.” (Franchisor A)

### **5.2.2. Brand and marketing**

This section specifically refers to the brand and marketing group created. This group included the codes brand, culture, brand association and marketing.

#### Franchisees

In understanding ‘Brand and Marketing’ from the perspective of the franchisee, it became evident that franchisees bought into a certain franchise system as they associated with the brand it stood for. The franchisees lost faith in the brand when they believed the franchise was not living up to their brand promise and what the brand set out to be.

“I believed in the brand, always liked the brand, it always appealed to me and when I had the opportunity I chose them as I believed in the brand. I would still have been with the brand if it had the strength to sustain itself. All of us have a brand which we associate our character with.” (Franchisee 1)

Another franchisee stipulated:

“Franchisors need someone who loves their brand to buy into it, and it needs to appeal to the right person. Head office was not focusing on the brand and, therefore, no confidence was built and they were doing nothing for marketing. In addition, they did not listen to us and therefore watered down the brand. If you do not have a strong brand it is difficult to attract suitable people and ultimately you will close down.” (Franchisee 2)

There was also frustration seen by the franchisees where the franchisor did not deliver on the marketing promises and expectations they had laid out at the beginning of the franchise relationship.

“Marketing was not good; you would have to wait for in-store promotions. They were not aggressive enough and there was no in-house marketing.” (Franchisee 4)

Further emphasising the lack of marketing promise delivery, another franchisee indicated:

“They [franchisor] did not grow the brand in terms of customer base. The problem comes when you are not happy with the brand. I do not mind paying [royalties] as long as they do their above the line marketing.” (Franchisee 2)

### Franchisors

From a franchisor’s viewpoint under the ‘Brand and Marketing’ theme they believed that franchisees should live the franchise brand and believe in it. This is linked to the industry fit of choosing the correct franchisee that was suitable for the brand culture and whose view was also seen throughout this theme. Generally, franchisors showed frustration as these franchisees did not live up to the brand expectations and were beginning to bring the brand name into disrepute.

“The brand has given you knowledge, and in reality once you enter a franchise agreement you must be happy with everything the brand stands for and do your homework properly.” (Franchisor A)



Another franchisor postulated:

“Operators are a problem as most are not true to the brand. Brands that are not succeeding are because there are no quality franchisees present.” (Franchisor B)

This was further accentuated by another franchisor:

“Damaging our brand.” (Franchisor C)

Damaging the franchise brand was felt strongly amongst the franchisors. Franchisors believed that the franchisees should be able to afford to be associated with the brand that they have chosen, or to be a part of the brand:

“Most of the time we de-brand as the franchisee cannot afford to be a part of the brand and they bring down the name and reputation as they cannot afford to belong to the branding. The reason is that the [franchisees] take shortcuts to save money; they cannot afford to be franchised.” (Franchisor B)

He further went on to say:

“The brand determines the necessary skill set; and brands are not successful because franchisees do not have a financial understanding of the business.” (Franchisor B)

### **5.2.3. Finance**

This section below relates to the finance theme and included the codes business and financial knowledge, investing, financial discipline, losing money, royalties and compliance.

#### Franchisee

Under the ‘finance’ theme generally the franchisees were disgruntled when paying royalties and felt they did not receive value and support from their respective franchisors in return for the royalty fees paid. Often franchisees felt targeted for mistakes they made but felt they did not receive the required support from their head

office in terms of finance or guidance regarding how to rectify these errors. Royalties became a grudge payment placing strain on the relationship with their franchisors.

“I do not mind paying as long as they do their above the line marketing. When it came time to do renovations the franchisor expected one to spend a lot but you had to come up with money and it is not factored into your margins. It is important for franchisees to understand their working capital, and when you fix up your shop and put money into it, it is ultimately good for business.”  
(Franchisee 2)

Another franchisee claimed:

“When head office does an audit on your store and evidently is aware that things are not being done right, they would send in a team of individuals and tell you everything that you were doing wrong and come down hard on you. In addition, when you are not making money and still have to pay royalties, you are therefore forced to close down. The franchisor can offer to help you by taking a reduction in their royalties. Paying royalties is an issue and they promise you the earth, however the problem is when things go wrong they do not assist.” (Franchisee 3)

From the franchisee’s perspective compliance was clearly an issue. Often franchisees felt that they knew better as they were the ones that were in their stores and were facing their customers. Therefore, they believed they had a better understanding of what the customer wanted. Moreover, the franchisee’s view was that head office should be able to assist them when sourcing compliant items as these items should be in line with if not cheaper than other non-franchised items.

“If I decided to go straight and stick to the book I would not have been de-franchised, but I was not prepared to do that as I knew better. I would run my own menu on the side and order from cheaper suppliers. They started to become stricter and then we were forced to de-franchise.” (Franchise 4)

Another franchisee said:

“At the point when we can source cheaper items is when we start questioning head office. They [franchisor] were not interested in our business and did not understand it was a customer based business.” (Franchisee 2)

## Franchisor

From the franchisor's angle, compliance was a fundamental issue. There seems to be an issue around compliance and lack thereof from the franchisees. Franchisees that were non-compliant were not adhering to the franchising standards and rules. They felt that franchisees displayed opportunistic behaviour by sourcing compliance items elsewhere and would also not stick to the franchise menu thereby compromising the standardised franchise model that they agreed to.

“You can cancel an agreement if the franchisee does not comply. The better they get, the more money they want to make, and then they start to cut corners. To illustrate: serviettes cost too much so they source a cheaper option.”  
(Franchisor A)

Another franchisor indicated:

“Compliance was an issue as they think they know better.” (Franchisor C)

Again emphasising this point:

“They [franchisee] started cutting corners and costs as they would add their own items. Furthermore, they started changing prices and charging what they wanted.” (Franchisor D)

Another concern that emerged under the finance trend was the lack of financial skills from the franchisees which ultimately de-franchised. Franchisors believed that these franchisees did not have the necessary financial knowledge to run their stores successfully. Another issue from the franchisor's perspective was the lack of willingness of franchisees to invest in their business.

“They [franchisee] lack people and financial skills. Skill of finance of business is where they are lacking. They should reinvest but they do not understand the finance of the business.” (Franchisor A)

Another franchisor indicated:

“Skill of finance of business is missing in these franchisees. They do not have enough cash flow, and thus cause reputational damage. They have working capital constraints and as soon as you start clamping down you have made an enemy. Challenges were compliance.” (Franchisor B)

The point was further reiterated:

“We tried to help but they were losing money and they did not invest in their business. It is hard for franchisees to save and invest back into their business as it comes out of their personal income, but they need to accumulate cash. They need to be disciplined. Most people are not and, therefore, it is important to invest.” (Franchisor C)

#### **5.2.4. Relationship**

The relationship trend was comprised of nine codes: communication, legal communication, promise delivery, trust, understanding, blame, averse to change, excuses and leadership.

##### Franchisee

From a franchisee’s perspective it became evident from the interviews that communication was a fundamental component that ultimately led to the relationship breakdown. Communication was linked to trust as the franchisees believed they were misled by their respective franchisors and were frustrated as their franchisors were not willing to listen to them and they felt their franchisors did not live up to their promise delivery.

“In the beginning it was good but they misled us in certain ways.” (Franchisee 1)

Another franchisee stipulated:

“I tried talking to them and explaining that business was quiet, however, there was no communication.” (Franchisee 3)

An additional franchisee further affirmed this:

“They [franchisor] did not listen to us and therefore watered down the brand. They over promised and under delivered.” (Franchisee 2)

Communication clearly had reached a breaking point when this franchisee said:

“In the end I refused to speak to them.” (Franchisee 4)

## Franchisor

From the franchisor's perspective there was a general consensus that when things started to go wrong with the franchisees' stores, blame was placed on the franchisor and the franchisees would not assume any responsibility. They felt that the franchisees would come up with excuses and expect head office to run their stores for them. Overall there was agreement amongst the franchisors that when a legal party was introduced into the equation a breakdown in relationship commenced.

“Relationships deteriorate when it starts going legal and when you have to revert back to the franchise agreement for legal confirmation. This is augmented when there is a breakdown in communication. Two lessons I have learnt is to deliver on expectations as it gets sour when franchisees are not getting the level of service that they expect. The second is that a franchisee will never blame themselves as they will always blame the brand when things are not going well.” (Franchisor B)

Another franchisor said:

“The franchisees never trusted the franchisor but you need to have a trusting relationship and there were always excuses from the franchisees. What we have learnt is to do what you promise.” (Franchisor C)

This was further reiterated:

“Good relationships or bad will determine what happens. As a franchisor you cannot issue a breach letter all the time as it is not good for the relationship. Good communication is key and franchisees must pick up the phone if they have issues. Do not send an email as they are difficult to interpret. A positive aspect is when those franchisees have relationships with us and communicate with us, therefore leading to better menu options and efficient business systems. Relationships are critical and you need to have relationship skills.” (Franchisor A)

In the above quote communication has also been emphasised. This was mentioned by the franchisors as an important aspect of maintaining a healthy relationship with their franchisees:

“You will never have a perfect marriage, everyone makes mistakes and you have to make peace with that. Communication is important. There must be trust

to buy into a new store and if a franchisee experiences problems it is not just an operational issue but a relationship issue as well.” (Franchisor A)

Another franchisor indicated:

“Communication and understanding are important in a business marriage.”  
(Franchisor B)

### 5.2.5. Operations

The operations trend included the codes training, adding value, support and assistance and systems.

#### Franchisee

In understanding ‘operations’ from the perspective of the franchisee, it became evident that the franchisees were frustrated as they felt their franchisors were not adding value in terms of support and training. There was generally consensus amongst the franchisees that they were not receiving the required support and promise delivery in return for the royalty fees they were paying.

“Head office promised assistance and training and were never forthcoming, therefore we broke away”. (Franchisee 2)

Another franchisee claimed:

“I told them it was not working and the franchisor said it was my problem and you must pay. Paying royalties is an issue and they promise you the earth, however, the problem is when things go wrong they do not assist.” (Franchisee 3)

#### Franchisor

From the franchisor’s perspective they felt discouraged as franchisees expected them to run their stores for them which evidently does not reflect the notion of the franchise model. In their view the franchisees were not willing to put in the effort and were not

willing to learn by attending training to upskill themselves in order to run their stores at a superior level and according to the standardised franchise formats.

“Training was an issue, as they were not interested in the training.” (Franchisor B)

Another franchisor indicated:

“They [franchisee] did not come for training so the presentation of food would change and was not standardised.” (Franchisor D)

### 5.2.6. Customers

In the customer trend codes customers and unhappy customers were grouped together.

#### Franchisee

From a franchisee’s perspective they believed that head office would enforce certain standardised menus and procedures but they felt they knew better as they were customer facing and knew what the customer wanted given their restaurant experience. In general, misalignment was evident between the franchisee and franchisor in terms of customer focus.

“They [franchisor] were not interested in the business and did not understand it was a customer based business. Head office was trying to expand with regards to their shares as opposed to what is right for the customer.” (Franchisee B)

#### Franchisor

The franchisor’s view of the ‘Customer’ theme was that franchisees that ended up de-franchising did not look after their customers according to the franchise guidelines. Receiving customer complaints was a tipping point in this regard as it was bringing down the brand reputation.

“Experienced guys in the group look after their customers. A breaking point for us is when the business starts going down and customer complaints start

increasing. The tipping point was the constant negative customer feedback.”  
(Franchisor C)

### 5.2.7. Alignment

Under the alignment trend the codes different views, expectations and attitude were grouped together.

#### Franchisee

The franchisee’s perspective of ‘Alignment’ showed there was clear misalignment between franchisee and franchisor on how the stores should be run. Different views and expectations were experienced by the franchisees, as well as what they expected from the relationship with their franchisors, given that they showed frustration with regards to the franchisor’s views not aligning with theirs.

“At times we were at loggerheads. The company can be cut throat. I can see my issues in my shop and do not need head office to tell me what to do.”  
(Franchisee 1)

Another franchisee indicated:

“The franchisor only wants you to pay. I told them it was not working and the franchisor said it was my problem and I must pay.” (Franchisee 3)

Attitude and personality was also seen to play a role in the relationship and was clear in terms of the different expectations from both the franchisees and franchisors.

“They [franchisor] were not interested in the business and did not understand it was a customer based business, but they were still arrogant. They did not care and only wanted to open more stores. I went to head office and they said I should do what I need to. I said they need to help me and they said no, undoubtedly they are exceptionally arrogant. They lost a passionate operator and they were short-sighted.” (Franchisee 2)



Another franchisee stipulated:

“I went in with a bad mind set, if I decided to go straight and stick to the book I probably would not have ended up being de-franchised, but I was not prepared to listen to them.” (Franchisee 4)

### Franchisor

In understanding ‘Alignment’ from the perspective of the franchisor, it became evident that there was misalignment between the expectations of franchisees and franchisors. The franchisors saw that there was a perception of how a franchised relationship was going to be and in the case where the franchisee did not agree with the franchise model there was tension built up in the relationship.

“The perception of how it is going to be is different to reality. Franchisees need to be able to fly the plane but most franchisees want to be an air hostess. They buy a business and they are not there.” (Franchisor B)

He further commented that:

“There are different levels of expectations and the levels are not achieved.” (Franchisor B)

This was affirmed by another franchisor:

“Franchisees do not like change. The ones that have failed have ignored their business.” (Franchisor C)

Another franchisor indicated that:

“It is frustrating for a franchisor as the franchisee does not want to grow. Their opinion is that they know how to run a business and why do they need a franchisor. Most of them we could have saved but it came down to their perception of us and that we were not there to help them.” (Franchisor A)

Misalignment in terms of attitude and personality was also seen to play a role in the relationship. These were displayed in terms of the different expectations anticipated from both the franchisees and franchisors.

“In the beginning it was fine and when the honeymoon period was done they changed. Skills we can teach but you cannot teach basic etiquette.” (Franchisor A)

Another franchisor indicated that:

“They were two arrogant brothers and the relationship broke down.” (Franchisor D)

### **5.3. Chapter summary**

The chapter summarised the findings collected from the qualitative interviews conducted for the study. The chapter started out with background information about the interviewees followed by the duration of interviews conducted. Thereafter, the section presented the top 10 code frequencies for both the franchisee and franchisor. Code families were shown, followed by their respective frequencies. Finally, the chapter showed the seven themes which include industry fit, brand and marketing, finance, relationship, operations, customers and alignment, and also encompassed relevant quotes from the interviewees.

## 6. Discussion of Results

### 6.1. Chapter introduction

This chapter presents franchisees and franchisors as separate identities and thereafter provides a combination of the two. Under the franchisee and franchisor sections the six strongest themes were extracted from Table 4 in the results sections and are discussed in descending order, from strongest to weakest. With regards to the franchisees the themes from strongest to weakest were as follows: brand and marketing, finance, industry fit, operations, alignment and customers. Pertaining to the franchisors the themes were finance, industry fit, operations, alignment, brand and marketing and customers, respectively. The relationship theme was used as an underpinning theme for all trends. Moreover, a model for franchisee and franchisor success was created. These models were connected with the intention of forming a model relating to the relationship success model for franchisees and franchisors. This chapter includes a section which links the findings to the theory of the psychological contract and the themes were reiterated as factors to prevent further breakdown of the franchisee/franchisor relationship. The section is then concluded with a chapter summary.

### 6.2. Franchisees

#### Brand and marketing

Evidence from Table 4 reveals that the most frequent code family mentioned was that of brand and marketing which was comprised of brand, culture, brand association and marketing. King et al., (2013) conclude that a franchise model can be successful when a product or service is delivered according to the franchise brand promise. From the findings, franchisees mentioned that they bought into the brand as it appealed to them and it related to their character and values. Zachary et al., (2011) highlight that it is important for a franchisee to identify with the brand in order to have aligned values and beliefs. As seen from the results, this brand promise was broken as the franchisors did not maintain this promise and the franchisees believed that the franchisors did not sustain the brand, hence diluting it and not holding up to their psychological contract,

resulting in a breach that ultimately led to de-franchising. The franchisor is expected to provide operational support, policies and procedures, as well as marketing tools for the franchisee (Paswan & Wittmann, 2009; White, 2010). As the brand is a symbol of trust, recognition and reputation all result in brand equity. From the results some franchisees believe this brand promise was broken when the franchisor was not able to maintain the prestigious status of the brand (Leslie & McNeill, 2010). In line with this, the franchisees similarly lost confidence in the brand as they believed head office did not promote and maintain the brand in terms of marketing and that they broke their psychological contract by watering down the trademark and broke the brand promise (King et al., 2013). The brand strength is dependent on the franchisee's upholding the marque and delivering on the promise to the consumer. The franchisees reiterated that they did not deliver with regards to their promises pertaining to internal or other marketing, thereby failing to meet an obligation thus breaking the trust between the franchisee and franchisor (Hill et al., 2009).

### Finance

The second most common theme that emerged from the franchisees was that of finance (Table 4) which comprised of the following codes: business and financial knowledge, investing and financial discipline, losing money, royalties and compliance. The franchise model works in such a way that in return for paying franchise fees, franchisees should receive training, marketing, market research, assistance, amongst others, from their franchisor (Tariq Anwar, 2011). The results show that franchisees were happy to pay royalty fees as long as the franchisor did what was expected in terms of marketing. However, there was an expectation for the franchisees to upgrade their stores and invest back into their businesses, which was not factored into their margins and there was no assistance offered from the franchisor in this regard. The franchisees also mentioned that the franchisor would highlight the faults within the store and then expect them to obtain a resolution for all the issues at hand even when the franchisee was not making money and then still expect a royalty payment in return. This reaction is in line with that of Watson and Johnson (2010) who state that if a franchise provides inadequate service in terms of training, marketing, market research and assistance, which is expected in return for their royalty fee, this could result in the franchisee being despondent and dispirited which is what was displayed in the case of three of the franchisees (Watson & Johnson, 2010).

The franchise model is unique in that it is an interdependent relationship. The franchisor is expected to provide operational support, policies and procedures, as well as marketing tools for the franchisee. In turn the franchisee is expected to comply with and adhere to these policies and procedures. Compared with a traditional business relationship, this is one that is comprised of complex and unique attributes (Paswan & Wittmann, 2009; White, 2010). Sharing and developing knowledge are imperative attributes which are required to ensure a successful franchise system. This knowledge sharing however is only advantageous if both parties are working towards a common goal, and in these cases the franchisees clearly did not feel the franchisors were living up to this and felt the franchisors could offer additional assistance by reducing their royalty fee. The franchisees were frustrated as they felt they gladly accepted the royalty payment however when it came to offering assistance they were unwilling to help (Okoroafor, 2014).

Conflict can inflict long lasting damage on the relationship between the franchisee and franchisor, resulting in the franchisee being dissatisfied and becoming less compliant (Winsor et al., 2012). Franchisee 4 admitted to displaying non-compliant and opportunistic behaviour as he felt he knew better when he stated: “if I decided to go straight and stick to the book I would not have been de-franchised, but I was not prepared to as I knew better. I would run my own menu on the side and order from cheaper suppliers. They started to become stricter and then we were forced to de-franchise.” One challenge facing franchisors is the issue of compliance. Even though this is often stipulated in the contract, franchises deliberately ignore this, thereby diminishing the value of the brand. According to King et al., (2013) and Watson and Johnson (2010) defiant franchisee behaviour has been shown to develop through the interactions between the franchisee and franchisor. Additionally, franchisors who act in a dictatorial manner and force a hierarchy also receive resistance. This was clearly seen from Franchisee 4 when the franchisor was not willing to assist or compromise on the menu items.

### Industry fit

Industry fit was the next most popular theme. This code family consisted of wrong franchisee, hands on, industry experience, not hands on, right franchisee, one size fits all and satisfying everyone.

The question of standardisation was a common thread picked up in the literature, as well as during the interview process and coding (Kaufmann et al., 2015). As part of action research the researcher also found this to be a common topic of conversation. As a business model franchising follows a standardised format and is accompanied by both advantages and disadvantages. One advantage relates specially to cost minimization. Nonetheless, this was not seen to be passed onto the franchisees in some cases. In some situations this franchising benefit caused tension in the relationship between franchisee and franchisor. This is concerning as in general this is why franchisees buy into the franchise format (Cox & Mason, 2007; Pardo-del-Val et al., 2014). There has always been the debate that the location of the store requires some flexibility with regards to the franchise format due to the different target markets and essentially varying customers being served. It also does not take into consideration the franchisees local market expertise and experience (Cox & Mason, 2007; Pardo-del-Val et al., 2014).

The one size fits all approach from franchisors is clearly a contentious issue and from the results obtained seemed to be common throughout all franchisees who were interviewed. The more experienced franchisees seems to be more inclined to be disgruntled with the standardised process as they believed they knew better. This is in line with Chiou and Droge (2015) where they conclude that newer franchisees are more conforming to the standardisation process as they do not have the industry experience and require assistance from the franchisor. Trust, again, is mentioned and its importance in the relationship: when a greater degree of trust exists, there is more conformance with respect to standardisation. Dickey et al., (2008) found that trust in the franchisors' competence results in a relationship with the compliance of a franchisee; in addition, they found that perceived mutual commitment influences the trust relationship.

### Operations

The operations trend was the fifth most common code family for franchisees as per Table 4 and included codes training, adding value, support and assistance and systems.

According to Croonen (2010) a franchisee's trust in their franchisor is dependent upon a number of factors. The first factor relates to the amount of interest and concern the franchisor has for the franchisee as well as their honesty with regards to the happenings of the organisation. A franchisee's trust will also depend on the dependability of the franchisor and if they are forthcoming with regards to their deliverables. Moreover, competence also plays a role in the trust of the franchisee (Croonen, 2010). A number of the franchisees interviewed were frustrated by the lack of training and support from their respective franchisors. There was a trend of frustration evident and the resentment of paying royalties alongside not receiving what was promised in terms of operations and support in return. When a franchisor provides support to a franchisee, the latter believe they are getting value for their money and believe the brand is measuring up to their values and expectations (Leslie & McNeill, 2010). When this support is not provided strain is apparent in the relationship, resulting in a psychological contract breach. This is in line with Watson and Johnson (2010) where they say that if a franchise provides inadequate services in terms of training, marketing, market research and assistance, which is expected in return for their royalty fee, this could result in the franchisee being dejected and disheartened (Watson & Johnson, 2010).

Samaha et al., (2011) state that the absence of promise delivery can result in conflict and, therefore, result in opportunistic behaviour which was evident from Franchisee 4, as he just stopped listening and started to do his own thing displaying opportunistic behaviour. This perceived unfairness undermines the benefits of having a contract in place. A few of the franchisees felt strongly in this regard, thus resulting in the relationship's being damaged (Samaha et al., 2011; Winsor et al., 2012).

### Alignment

The alignment trend was the final sixth most common code family for franchisees as displayed in Table 4 and included the codes different views, expectations and attitude. Although franchisees have to comply with certain rules and regulations, both franchisee and franchisor are required to work together in order to maximise their performance, thus capitalising on their profits (Ekelund, 2014; Zachary et al., 2011). There was a clear misalignment on how certain things should be carried out in the eyes of the franchisees interviewed. This misalignment was evident as they did not work together

with their franchisors as a team. Mind-set plays a key role as seen in the case of Franchisee 4 where he started off with the wrong mind set. This also links to the industry fit theme and selecting the right partnership at the outset to ensure success. The franchisee/franchisor relationship when compared with a traditional business relationship, is one that is comprised of complex and unique attributes (Paswan & Wittmann, 2009; White, 2010). Both franchisee and franchisor needs to be cognisant of this unique relationship in order to work towards a common goal. In all four cases where the franchisees de-franchised clear misalignment was displayed.

### Customers

Customers are a requirement for any business to survive and succeed. In this particular relationship the franchisee is customer facing and when customers are unhappy due to the brand's not delivering on their promise, it is the franchisee who ultimately suffers the consequences. An organisation's identity is what makes them unique in the eyes of their customers. Franchisors are aware, though, that delivering this promise ultimately rests with the franchisee (Zachary et al., 2011). From the results it can be seen that there was a misalignment between what the franchisee wanted for their customers compared to what the franchisor wanted. These misalignments ultimately lead to the customers' dissatisfaction, as well as increasing the strain on the franchise relationship.

### Relationship – underpinning theme

The relationship code family contained the codes communication, legal communication, promise delivery, trust, understanding, blame, aversion to change, excuses and leadership. Trust plays an important part in the franchisee/franchisor relationship as well as the psychological contract (Robinson, 1996). Trust and communication were displayed strongly from the data as an important aspect in maintaining a sound relationship. According to King et al., (2013) and Watson and Johnson (2010) communication needs to be participative, in addition to informal and formal, depending upon the communication needed. From the interviews it was noted that effective communication was not maintained at all times, resulting in a breakdown of the relationship.



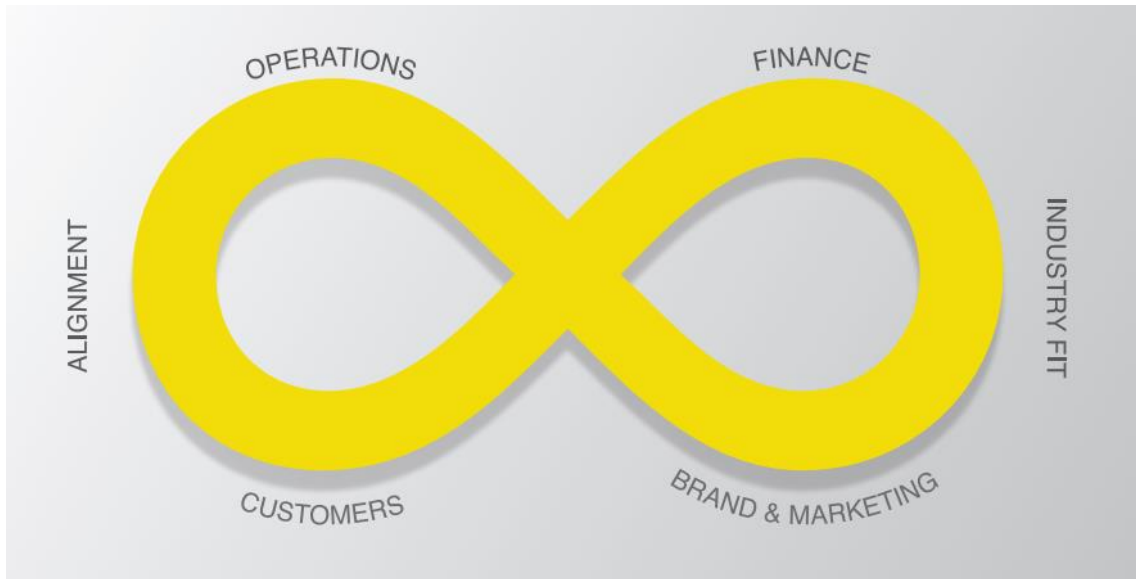
Communication is essential to reduce any misconceptions, decrease conflict, improve cooperation, as well as increase the quality of a relationship. Communication is imperative in order to stimulate a successful franchise relationship (King et al., 2013). According to the literature hundreds of franchisees fail each year due to conflicts which comprise lack of support, compliance, fees, communication, marketing, profit and breach of agreements. These results are in line with the findings, as communication and trust were found to be breached resulting in a de-franchising process (Clauson, 2013; Winsor et al., 2012). King et al., (2013) believe that an effective franchisor/franchisee relationship is one that exhibits high levels of trust, satisfaction, cooperation and commitment and in the cases of de-franchising trust was seen to have been absent. King et al., (2013) further conclude that achieving this within a relationship assists in controlling the franchisee which results in fewer problems going forward. This needs to be maintained throughout the relationship and not only initially during the honeymoon phase.

From the results of the interviews, being treated as human beings was a point which was emphasized. King et al., (2013) describe their “H” factor that in a relationship one needs to be aware of treating one another with trust and respect as a foundation for the relationship to be built on. Where these are absent the task is pointless. King et al., (2013) state that communication needs to be participative, in addition to informal and formal, depending upon the communication required (Watson & Johnson, 2010). Communication is essential to reduce any misconceptions, decrease conflict, improve cooperation as well as increase the quality of a relationship. Communication is imperative in order to stimulate a successful franchise relationship. However, in the results discussed within Chapter Five, communication seemed to be lacking throughout and was an area of concern (King et al., 2013; Watson & Johnson, 2010).

### Bringing it all together

From a franchisee’s perspective the six strongest themes displayed were brand and marketing, finance, industry fit, operations, customers and alignment, all of which is encompassed in the relationship theme. All of these themes have an overlap and their parameters cannot be exactly defined. It is necessary for all of these themes to be present in order to ensure a successful operation. For this reason the six themes were linked in an infinity model and displayed in Figure 5 hereunder.

**Figure 5: Infinity model displaying the 6 most important factors: A Franchisee perspective.**



### 6.3. Franchisors

#### Finance

The most common theme that emerged from the franchisors was that of finance (Table 4) which was comprised of the codes business and financial knowledge, investing, and financial discipline, losing money, royalties and compliance. All franchisors interviewed mentioned that franchisees need sound financial knowledge in order to run the organisation successfully, which is also evident in the results displayed. Compliance was grouped in the family as the franchisors often mentioned that franchisees would cut corners in order to save costs. Menu prices were also altered to their preferences, displaying their lack of financial knowledge, given that all of these elements are controlled by the franchisor as it is their area of expertise. King et al. (2013) recognises the issue of compliance. Even though this is often stipulated in the contract, franchisees deliberately ignore this, thereby diminishing the value of the brand. Defiant franchisee behaviour has been shown to develop through the interactions between the franchisee and franchisor (King et al., 2013; Watson & Johnson, 2010).

Some of the de-franchising occurred due to bad cash flow management. According to the franchisors, franchisees sign a contract agreeing to royalty fees and the

standardised franchise concept, however, when it comes to implementation they display resistance. The franchisors believe that this is due to bad cash flow management and not understanding the finances of their businesses. There was also consensus that where the franchisees ran into cash flow problems they blamed the franchisor for not assisting financially, whereas in the view of the franchisor these problems could have been prevented if the franchisee had sound financial knowledge to commence with. Overall, the franchisors all had the same view that franchisees need to be more disciplined when it comes to cash and finance within their stores.

### Industry fit

When franchisees enter into an agreement with their franchisors they agree to the terms and conditions of the contract. The franchise model is such that it is a one size fits all approach. An organisation's identity is what makes them unique in the eyes of their customers, and the franchisors are aware that delivering this promise ultimately rests with the franchisee (Zachary et al., 2011). Therefore, selecting the right partners is imperative to upholding the brand name. The results from the franchisors show that the franchisees enter into the franchise group with a perception of how it is going to be, rather than a view that they are joining a franchise group. Selecting the right franchisee to partner with, whose goals are aligned, is necessary for the success of the franchise (Brookes & Altinay, 2011; Zachary et al., 2011). If franchisees do not share the same values as those of the organisation this can act negatively towards the franchise. It is imperative for the franchisee to believe and accept the culture of the franchise system before they buy into it.

Selecting a franchisee that has industry and financial knowledge is also important. A common theme that was brought up amongst all the franchisors interviewed was whether a franchisee was hands on or not. All franchisees that were de-franchised were accused of not being active within their businesses and of being unwilling to put the work and effort into running their stores. In this case the stores deteriorated over time as they were not run according to the franchise standards, thus resulting in poor customer satisfaction and devaluation of the brand. This is in line with Zachary et al., (2011) where they say that if franchisees do not make decisions in line with that of their franchisors it may result in agency costs when the franchisee disobeys commands from the franchisor.

## Operations

The operations trend was the fourth most common code family for franchisees as per Table 4 and included codes training, adding value, support and assistance and systems. According to Croonen (2010) a franchisee's trust in their franchisor is dependent on a few factors. First, it depends on the amount of interest and concern the franchisor has for the franchisee, as well as their honesty with regards to the happenings of the organisation. A franchisee's trust will also depend on the dependability of the franchisor and if they are forthcoming on their deliverables. Competence also plays a role in the trust of the franchisee (Croonen, 2010). It is, therefore, essential for a franchisor to deliver on their promise delivery. When a franchisor provides support to a franchisee, they will believe they are getting value for money and feel the brand is measuring up to their values and expectations (Leslie & McNeill, 2010). In each case in this study the franchisor believed that that they were delivering on their expectations in terms of training and assistance. However, some franchisees were not accepting the training provided, as it was not being delivered in the way that they wanted it to be delivered.

## Alignment

The alignment trend was the fifth most common code family for franchisors as per Table 4 and comprised the codes different views, expectations and attitude. Ekelund (2014) says that the franchisee has to comply with certain rules and regulations. Both franchisee and franchisor are required to work together in order to maximise their performance, thus capitalising on their profits. There was a misalignment between the franchisee and franchisor when the interviews were analysed. Franchisees wanted their own menus and required the freedom to set their own prices and franchisors were attempting to follow a standardised format. There was clear frustration among the franchisors that ultimately de-franchised these franchisees, as the franchisee was not willing to operate in a way that was expected from the franchisor.

## Brand and marketing

As displayed in Table 4 the sixth frequent code family mentioned was that of brand and marketing which comprised of the codes brand, culture, brand association and

marketing. The brand image was seen to be important to the franchisor. According to Kaufman and Eroglu (1999) there are four components necessary to create a franchise image for their customers, as seen in Figure 3. The first is product/service: for example, menu, food quality and franchise format benefits. The second is benefit communicators which are intangible, such as quality or cleanliness. System identifiers are visual or acoustic elements that make a franchise unique: the logo, slogan or colour scheme. Finally, system facilitators relate to the policies and procedures, including store layout and financial reporting (Kaufmann & Eroglu, 1999). These components when combined create a brand image that is necessary for the franchisor to uphold to avoid destroying their brand.

The results from the interviews pointed out that when the franchisees started to deviate from the brand there was negative customer feedback which was received. The franchisors also said that the franchisees agreed to be a part of the brand when they signed their franchise agreement. The problems started to occur when there was a miss-fit between the brand and the franchisee. Franchisor B had an interesting take in the case where the franchisee de-franchised: it was believed that it was because they could not afford to be a part of the brand. The franchisee started to take shortcuts to try and save costs and ultimately brought down the brand name. This links to the work of Kaufmann and Eroglu (1999) whereby all components need to be upheld in order to deliver on the brand promise. The higher the brand recognition, the more attractive the business will be to a potential franchisee. Franchisees are attracted to a particular brand (Nyadzayo et al., 2011). The brand may not directly benefit the franchisee financially but can indirectly assist them in terms of customer perception and attitude towards the brand (Calderon-Monge & Huerta-Zavala, 2014).

According to Watson and Johnson (2010) franchisees may not have a beneficial interest in safe-guarding the equity of the brand if they are not compensated for it. Franchisees may be tempted to conduct activities that compromise the brand for short term gains, which is evident in businesses that do not have repeat customers. The brand plays an imperative role in the eyes of customers and it is the franchisor's responsibility to ensure the quality and promise of the brand. It is clear from the results that this became a challenge for the franchisors, as the franchisees were diminishing the brand which was one of the reasons resulting in the de-franchising process (Leslie & McNeill, 2010). It is important to attract franchisees that identify with the brand and

who are aligned in terms of values and beliefs (Zachary et al., 2011). Franchisee branding is aimed towards franchisees and incorporates the organisation's identity of values through the activities it displays.

### Customers

The franchisees are customer facing and are the ones who uphold the brand in the eyes of the customers, and franchisors are aware that delivering this promise ultimately rests with the franchisee (Zachary et al., 2011). Customer feedback is important in any business. In the results we can see that in some cases the franchise was receiving negative feedback thereby diminishing the brand name. If franchisees do not make decisions in line with that of their franchisors it may result in agency costs when the franchisee goes against the direction of the franchisor. The franchisor develops their franchise brand that they market to potential franchisees so that they can further grow their brand (Zachary et al., 2011).

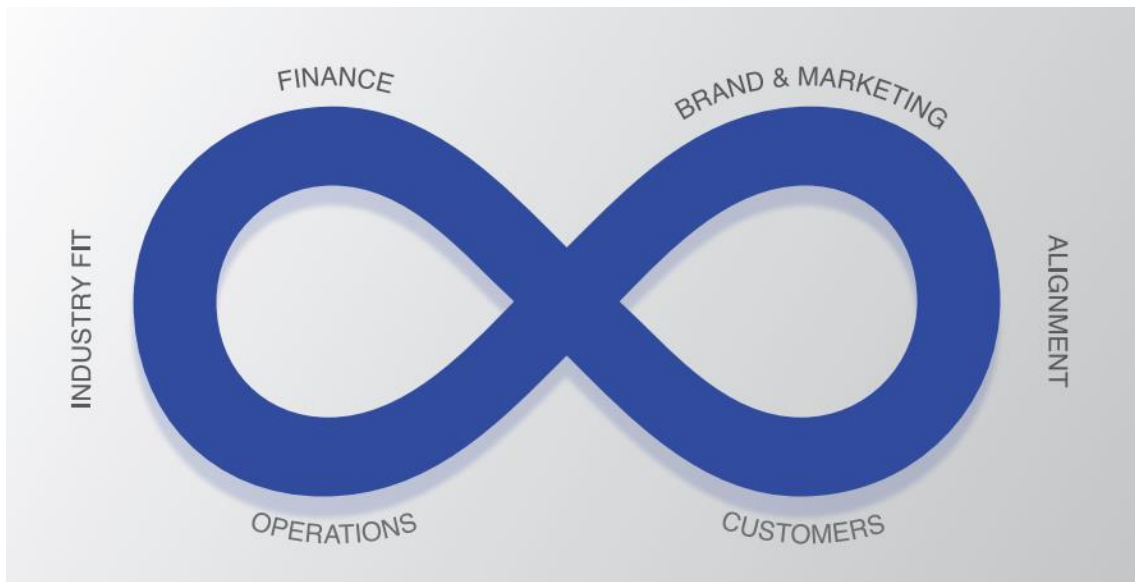
### Relationship – underpinning theme

The relationship code family contained the codes communication, legal communication, promise delivery, trust, understanding, blame, aversion to change, excuses and leadership. Communication and trust seem to play an important role in the relationship. It was found that often there was a breakdown in communication between these two parties that ultimately resulted in their de-franchising. King et al., (2013) say that communication is essential to reduce any misconceptions, decrease conflict, improve cooperation, as well as increase the quality of a relationship. Communication is imperative in order to stimulate a successful franchise relationship (King et al., 2013). A breakdown in communication ultimately leads to the eventual breakdown in the franchise relationship. Dant et al., (2013) found evidence to support that agreeable, conscientious and emotionally stable franchisees are more likely to develop long term efficacious relationships with their franchisors, compared with extraverted franchisees who may struggle to accept the dominance of a franchisor, thereby hindering the development of a robust relationship. These findings are in line with Dant et al., (2013) who conclude that the franchisees struggled to take orders from their franchisors as they believed that they knew better, which caused tension within the relationship.

### Bringing it all together

From a franchisor’s perspective the six themes of finance, industry fit, operations, customers, alignment and brand and marketing are all encompassing of the relationship theme. As with that of the franchisees, all of these themes overlap and their parameters cannot be exactly defined. For this reason the six themes were linked in an infinity model and displayed in Figure 6 hereunder.

**Figure 6: Infinity model displaying the 6 most important factors: A Franchisor perspective.**



#### **6.4. Franchisees and franchisors**

The results from the franchisees showed the most important themes were brand and marketing, finance and industry fit. For the franchisor the top three themes were finance, industry fit and operations. From this, finance and industry fit are common to both the franchisee and franchisor. These have been linked in the middle, as evident in Figure 7, which displays the importance of the franchisor and franchisee working on these aspects of the relationship in order for it to be a successful one. Brand and marketing have been included from the franchisee’s side and operations from the franchisor’s side as these were important to each party. This shows that the other party needs to be aware of this. Respect is important in order to maintain an efficacious relationship.

## 6.5. Psychological contract

The psychological contract is an unwritten agreement that exists between a set of individuals, and goes above and beyond the written contract (El-sayed et al., 2015; Robinson, 1996). It is a set of beliefs or perceptions of what each party owes to one another. Moreover, a traditional contract is no longer sufficient in today's changing world (Botha & Moalusi, 2010; Hill et al., 2009; Robinson, 1996). The relational psychological contract is group orientated and long-term which relies on trust between both parties (Chanut & Paché, 2011; Vantilborgh et al., 2014).

A breach of the psychological contract is when the franchisor fails to fulfill an obligation and a breach of the psychological contract is considered an out of the ordinary happening (Parzefall & Coyle-Shapiro, 2011). Betrayal of the psychological contract does not necessarily mean that opportunistic behaviour was displayed, but simply shows a lack of understanding of the expectations of the relationship (Chanut & Paché, 2011). A violation of the psychological contract is caused by two contributing factors, namely, reengaging and incongruence (Hill et al., 2009). The former involves an intentional failure to meet obligations. This may be due to financial or physical inability or a decisive decision not to fulfil the obligation. The latter can arise from three possibilities: differing cognitive schema, ambiguity or a lack of communication (Hill et al., 2009).

When a franchisee believes that their franchisor has not delivered on a responsibility or vice versa a breach of the psychological contact has occurred. This results in anger, disappointment, resentment, feelings of betrayal, a sense of injustice and frustration (Botha & Moalusi, 2010; Kumar et al., 2012).

The results obtained from the research which was conducted reflected no single isolated incident but rather a buildup of events which caused the franchisee to de-franchise or the franchisor to cancel a franchisee's contract. A study piloted by Parzefall and Coyle-Shapiro (2011) displayed that a breach may not come about from a singular event: it may result because of a series of events. This reintroduces the zone or buffer in which employees accept these behaviours from their superiors until such



time as they reach a breaking point where the actions are no longer accepted and they are now considered a breach.

Figure 2 demonstrates the process of an individual's making sense of the psychological contract breach (Parzefall & Coyle-Shapiro, 2011), and then links it to the results wherein certain trigger events were underpinned by emotions that led to the breach's being labelled. In each of the cases an exit intention was seen as that was specifically the sample which was chosen for the research. Each of the parties experienced the 'making sense' process and decided that an exit intention was the way to go (Parzefall & Coyle-Shapiro, 2011).

The breach usually results in changes of attitudes and behaviours, which is clearly what we observed from the interview results. At the outset, a degree of effort was initiated which took the form of assistance, trying to offer advice and increasing communication. However, once the psychological contact had been breached beyond repair and the de-franchising process commenced there was a shift in attitude from trying to salvage the relationship to an exit strategy (Chaudhry et al., 2009; Parzefall & Coyle-Shapiro, 2011). Given that the contract is implied and assumed, at the point where there is a breach, both parties may not necessarily agree that a breach has taken place and, therefore, it is usually an emotional event that occurs. This event is generally followed by frustration and anger, as was seen from the interviews and analyzed results (Hill et al., 2009).

Chanut and Pache (2011) identified two forms of betrayal of the psychological contract which include not taking the franchisee's individual interests into consideration and ignoring the franchisee's need for independence. Interestingly, the outcome of the psychological contract breach is dependent on the strength of the initial relationship, displaying an area of acceptance from the franchisee (Parzefall & Coyle-Shapiro, 2011). As depicted in the results, both of the betrayals were portrayed. In the instance where the franchisees were seeking financial assistance or requesting certain marketing to be carried out, it was evident that their interests were not being taken into consideration. The need for franchisee independence was also seen to be a betrayal by the franchisor, as was clearly visible where franchisees wanted to deviate from the menu to accommodate the local environment. However, this was not tolerated by the franchisor. Evidently, franchisees act as local entrepreneurs attempting to maximise

their profits within their local market. In addition, the store may not be performing to its maximum ability due to the poor fit of the franchise model in that specific area (Chiou & Droge, 2015).

## **6.6. Factors to prevent the breakdown**

A model has been developed which is presented in Figure 7 linking the trends which were identified from the results of the research. From a franchisee's perspective the most important aspects of success included finance, in terms of support from their respective franchisors, as well as their franchisor's offering assistance. Industry fit was also important with regards to relating to the brand and being proud of what the brand stands for. Brand and marketing were the most prominent elements obtained from the franchisees with regards to the franchisor delivering on their brand promise in terms of quality and marketing, as well as promise delivery.

With regards to the franchisor, finance was of extreme importance because it was imperative for the franchisee to be financially sound and disciplined to invest back into their business in order to uphold the brand. Industry fit was also essential in terms of finding the right franchisee for the position and ensuring they were hands on, therefore, ensuring a successful operation. "Franchisees need to be able to fly the plane but most franchisees want to be an air hostess," is a fitting quote from Franchisor B. Operations was also key for franchisors in terms of adding value and expecting franchisees to attend training and manage their systems to guarantee they run their stores efficiently. These families have been linked in the centre of the model to show their integration and importance to both franchisees and franchisors. These elements need to be the focus of the relationship to warrant its success. If any of these elements are not focussed upon it will lead to a strained relationship and, ultimately, a relationship breakdown (Parzefall & Coyle-Shapiro, 2011).

From the viewpoint of the franchisee it is important for the franchisor to uphold their operations in terms of training and assistance. The franchisor needs to be aware of this and pay attention as it is important for the franchisee to receive sufficient support and training, as well as know the franchise is adding value. In turn, the franchisee needs to accept the training and support which is offered and make an effort to attend and

benefit from these sessions. Moreover, they must understand they have entered into a standardised franchise model (Tariq Anwar, 2011; Watson & Johnson, 2010). In order for the franchisee to operate according to the franchisor's standards the latter needs to supply the franchisee with the correct information and tools to ensure they do so (King et al., 2013).

Industry fit was crucial for both parties and the debate between standardisation and flexibility was rife. There is a delicate balance between the two and the franchisor needs to be aware of this and accommodate the franchisee; however, the franchisee needs to take cognisance of the fact that they joined the standardised franchise model and need to comply with what the brand stands for (Parzefall & Coyle-Shapiro, 2011). Selecting the right partners is something that can be done to avoid the problem upfront. Franchisees should consider joining a brand which they relate to and franchisors need to question why franchisees want to join their brand and assess if their values and goals are in line with what the franchise stands for (Brookes & Altinay, 2011; King et al., 2013; Zachary et al., 2011).

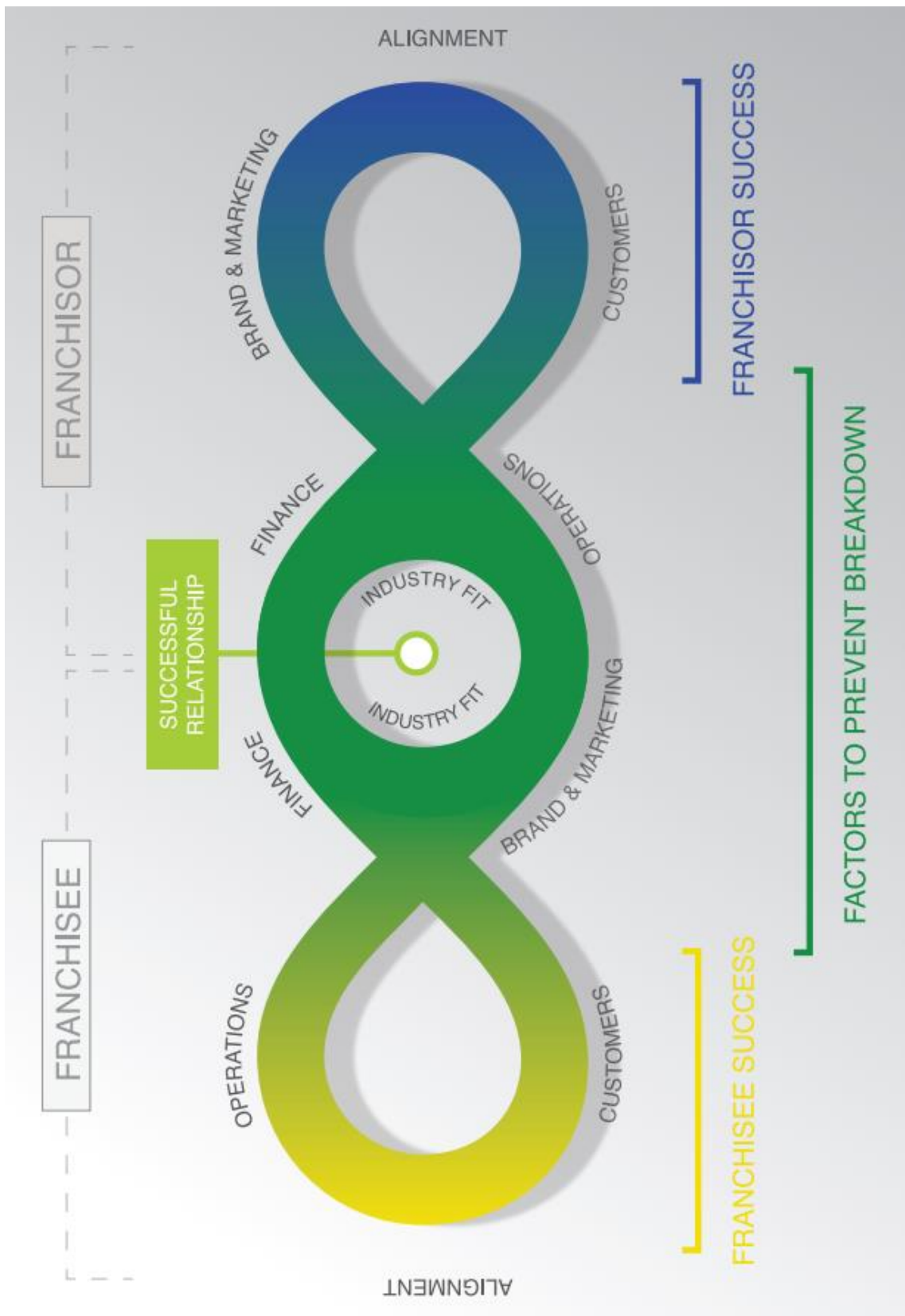
The franchisee also needs to be aware of the importance of upholding the brand as this is important to the franchisor. Displaying opportunistic behaviour and leading the brand into disrepute will break the psychological contract the franchisee has with the franchisor. The core of the business is essentially the customers. Some franchisees want to deviate from the uniformity to accommodate their local customers and practise their entrepreneurial flare. Conversely, the franchisor intends on giving the customer a standardised experience and believes the customer wants to receive the same quality and style from the brand that they receive from any location (Leslie & McNeill, 2010; Pardo-del-Val et al., 2014).

Alignment of goals is important to both the franchisee and franchisor. Due to the nature of the franchise arrangement the franchisee and franchisor may have conflicting goals; therefore, it is imperative to understand and manage this relationship to ensure it remains healthy and mutually beneficial (Grace et al., 2013; Winsor et al., 2012). The goals are different for both franchisee and franchisor as franchisees are independent traders who undertake a personal risk when investing in a franchised business. The objective is for these franchisees to operate their own stores and maximise their profits.

Due to this, franchisees believe they are on the same level as their franchisor (Ekelund, 2014; King et al., 2013).

All of these elements have been connected together which has resulted in the key model as evident in Figure 7. This model clearly displays the important factors that are necessary to ensure a successful relationship between each franchisee and franchisor.

**Figure 7: Model displaying the factors which are important to franchisees and franchisors and the key attributes of a successful relationship that if broken will result in a psychological contract breach.**



## 6.7. Chapter summary

This chapter initially presented each franchisee and franchisor. Thereafter a combination of the two was delineated. Under the respective franchisee and franchisor sections the 6 strongest themes were discussed commencing from the strongest to the weakest. With regards to the franchisees, the themes from strongest to weakest included brand and marketing, finance, relationship, industry fit, operations, alignment and customers. For franchisors the themes comprised finance, industry fit, relationship, operations, alignment, brand and marketing and customers. The relationship theme was used as an underpinning theme for all trends, similarly reflecting an underpinning seventh theme. A model for the success of franchisees and franchisors was created. These models were linked together to form a model for the relationship success model for each franchisee and franchisor. The chapter includes a section which connects the findings to the theory of the psychological contract and the themes were reiterated as factors which prevent further breakdown of the franchisee/franchisor relationship. The chapter concludes with a chapter summary.

## 7. Conclusion

### 7.1. Chapter introduction

The chapter presented hereunder commences with a summary from the findings of the research. This is followed by a section on implications for management and academics. Moreover, the limitations of the study have been reiterated and suggestions for future research have been made. The section ends off with a chapter conclusion.

### 7.2. Findings

The ability of a franchisor to sustain a harmonious relationship with their franchisee, over a period of time, has been shown to ensure continued success of the franchise system, as well as a sustainable relationship going forward. In addition, this affiliation can also form part of a strategic capability for the franchise (Blut et al., 2011; Diaz-Bernardo, 2013; El-sayed et al., 2015; Grace et al., 2013; Saraogi, 2009). According to El-sayed et al., (2015) psychological dissatisfaction experienced by franchisees may result in problems between franchisees and franchisors. Essentially franchisees represent those individuals who receive an adequate amount of security, affiliation and respect from their franchise partners. This study was conducted to ensure the success of each franchisee/franchisor relationship going forward. Hence, interviewing de-franchised franchisees, as well as franchisors who have cancelled franchisee's contracts, and gaining an understanding through the theory of the psychological contract of the nature of franchise relationships, is pertinent for any franchise-oriented business. It is for this reason that determining the breaking point of this relationship is of extreme importance.

After analysing the data, the themes that emerged encompassed industry fit, brand and marketing, finance, relationship, operations, customers and alignment. These themes were connected together with regards to their importance to the franchisee and franchisor and, thereafter, a model was constructed (Figure 7) to visualise the relationship and the success factors required for this relationship to be successful and continue into the future.

A thorough understanding of the relationship between franchisees and franchisors has been provided by adopting the underlying theory of the psychological contract. Guidance and detailed intelligence has been provided with regards to maintaining a healthy and productive relationship between these two parties to guarantee a fruitful and successful business relationship going forward. This study showed that the theory of the psychological contract can be used to understand the relationships between franchisees and franchisors.

### **7.3. The research question**

The research question was to identify what the factors are that may lead to a breakdown in the psychological relationship between franchisees and franchisors. 6 factors were found including Industry Fit, Brand and Marketing, Finance, Operations, Customers and Alignment. Relationship was found and used as an underpinning theme. There is a psychological contract that exists between the franchisee and franchisor which is linked to these factors. The factors were linked in a model to illustrate their importance to both franchisee and franchisor. These factors were identified as important to ensure a lasting and mutually beneficial relationship between the franchisee and franchisor.

### **7.4. Implications for management**

Franchising plays an important role in the economy. It is also necessary to further economic growth, as well as create employment, develop skills and empower individuals. It is, therefore, essential for these franchising relationships to be successful and sustainable. This study addressed the crucial rudiments from a psychological contract perspective to ensure a lasting relationship between franchisor and franchisee. With globalisation and increasing competitiveness, franchising is a way to augment job creation, as well as self-employment (Tariq Anwar, 2011). Conflict can inflict long lasting damage on the relationship between franchisee and franchisor, as in the case of Windsor et al., (2012), resulting in the franchisee being less satisfied and becoming less compliant.



The cost of de-franchising is customarily incurred by the franchisee in terms of contract restrictions and quasi rent. Franchisors may incur legal costs, as well as lose income from disruptions in operations, in addition to brand damage (Watson & Johnson, 2010). This study is a step towards understanding the affiliation from a psychological contract perspective to avoid franchisees de-franchising or franchisors cancelling franchisee's contracts in the future, to guarantee additional, unnecessary costs are not incurred and to avoid any reputational damage that may occur to both franchisees and franchisors (Blut et al., 2011).

From a franchisee's perspective, in order to maintain a successful relationship with their franchisor all elements of the model depicted in Figure 7 need to be exercised and the same is applicable with regards to the franchisor. If all of these elements are focused upon by both parties, an efficacious relationship between the two should result. If any of these elements are not considered throughout the relationship it could result in a relationship breakdown with an outcome of ultimately de-franchising.

### **7.5. Implications for academics**

This research has attempted to expand the use of the psychological contract beyond employer/employee discussions and extend it to the franchisee/franchisor relationship. At the outset when the study was initially commenced there was limited research conducted within this field of linking the theory of the psychological contract to the franchisee/franchisor relationship. The work of Chanut and Paché (2011) appears to have been the first to investigate this relationship utilising the psychological contract in a study conducted in France. The researchers' thinking was echoed in a study carried out by El-Sayed et al., (2015) who investigated the hotel franchising relationship and the theory of the psychological contract. Their study was around success factors in the hotel franchising relationship. The research presented herein compliments the exploration of El-sayed et al., (2015) who outlined the factors that are responsible for the psychological contract breakdown between franchisees and franchisors within the restaurant industry. This study is the first to be undertaken within the South African environment. It is imperative for franchisors and franchisees to avoid destructive associations in order to guarantee continued success.

## 7.6. Limitations

Due to the nature of the study the interviewees may have been open to social desirability bias in their responses in order to gain prestige from the occurrence. Volunteer bias was at play, as only franchisees and franchisors that were willing to participate in the study were interviewed. The limitations of the researcher are also noted. The interviewer was not skilled in this process which may have led to amateur mistakes, thus resulting in skewed data. Availability bias is also considered as a possible limitation due to the time constraints and thus bias may become a possibility (Saunders & Lewis, 2012).

The non-probability snowball and convenience sampling technique is a subjective approach and could have led to similar candidates being chosen. This technique may have eliminated a portion of the population from the process. As it is a non-probability method there was a lack of representativeness and generalisability. In addition, the volunteers may have had a strong view on the topic, hence their willingness to volunteer thereby giving a non-representative response (Baker et al., 2013; Davidson, 2006).

The data was collected in a short time frame; further research could be carried out in the future over a longer time period to eliminate this limitation. Only South African franchisees and franchisors in the restaurant industry were used, limiting the research to South Africa and the restaurant industry. Again, further research could be carried out in other industries and other countries in order to extend the size of the universe.

Although there have been many biases and limitations which have been raised, this research is expected to provide valuable insights to both franchisees and franchisors in order to ensure a harmonious relationship and mutual benefits to both parties going forward.

## **7.7. Future research**

Future research to further enhance this study could include determining the motivation behind why franchisees act opportunistically, even when franchisors offer assistance. Another area of study is exploring what customers think in terms of a franchised brand and the effects of the franchise's being less standardised, in the case where a franchisor allows for certain franchises to adapt to the surrounding areas of their business and align their operations with the local markets in which they operate. The model produced can also be tested in other franchise industries outside of the food sector to validate its robustness and compatibility within other industries. As the study was qualitative in nature, more in-depth interviews with regards to a quantitative study could be carried out using a larger sample size.

## **7.8. Chapter summary**

The chapter initially presented a summary of the findings of the research. It was then followed by a section on implications for management. The limitations of the research were reiterated and suggestions for future research were given.

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## 9. Appendices

### Appendix 1: Ethical clearance letter

**Gordon Institute  
of Business Science**  
University of Pretoria

Dear Miss Amy Kirtland

Protocol Number: **Temp2015-00990**

Title: **Towards an understanding of the nature of the breakdown in relationship between a franchisee and franchisor: an approach using psychological contract theory.**

Please be advised that your application for Ethical Clearance has been APPROVED.

You are therefore allowed to continue collecting your data.

We wish you everything of the best for the rest of the project.

Kind Regards,

GIBS Ethics Administrator

## Appendix 2: Interview guide - franchisee

Name:

Start Time:

Organisation:

End Time:

Job Title:

Date:

---

Thank you for agreeing to meet with me today. Your time and contribution to this research is sincerely appreciated.

The title of the research is: Towards an understanding of the nature of the breakdown in relationship between a franchisee and franchisor: an approach using psychological contract theory.

The key objectives of this research are to:

- Understand the relationship between Franchisor and franchisee;
- Understand which factors contribute to the breakdown between franchisor and franchisee;
- Understand if this breakdown can be explained by the theory of the psychological contract.

The nature of this research and interview is both of a conversational and exploratory nature. Kindly speak freely and be reassured of the fact that any information shared in this interview will be treated as confidential and your comments will remain without identifiers.

Prior to commencing the interview, may I ask you to please sign the consent form and can you in addition please confirm that you have no objections for me to record the interview utilising an audio recording device?

- 1) How did you become a franchisee?
- 2) Was this your first franchise experience?
- 3) How would you characterize your first franchise experience?
- 4) Have you had any franchise experience since (your first)?
  - a. Could you describe those experiences?
- 5) Could you describe the experience of being a franchisee, focusing specifically on the relationship with the franchisor?
  - a. What would you say your main problems were as a franchisee?
  - b. What would you say were the main problems with your franchisor? (ask for examples)
- 6) What were your expectations from your franchisor?
  - a. In what areas do you feel your franchisor lived up to your expectations?
  - b. In what areas do you feel your franchisor did not live up to your expectations?
- 7) At what point did you feel the relationship started to deteriorate?
  - a. What did you do to address the breakdown?
  - b. What did the franchisor do?
- 8) When did you decide to start the de-franchising process?
- 9) What do you believe was the main factor of this relationship that deteriorated to breaking point?
- 10) What would you/did you do differently next time?
- 11) Knowing that I am interested in understanding the nature of the relationship between franchisee and franchisor, is there anything else you could share with me that you consider relevant?

### Appendix 3: Interview guide - franchisor

Name:

Start Time:

Organisation:

End Time:

Job Title:

Date:

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Thank you for agreeing to meet with me today. Your time and contribution to this research is sincerely appreciated.

The title of the research is: Towards an understanding of the nature of the breakdown in relationship between a franchisee and franchisor: an approach using psychological contract theory.

The key objectives of this research are to:

- Understand the relationship between franchisor and franchisee;
- Understand which factors contribute to the breakdown between franchisor and franchisee;
- Understand if this breakdown can be explained by the theory of the psychological contract.

The nature of this research and interview is both of a conversational and exploratory nature. Kindly speak freely and be reassured of the fact that any information shared in this interview will be treated as confidential and your comments will remain without identifiers.

Prior to commencing the interview, may I ask you to please sign the consent form and can you in addition please confirm that you have no objections for me to record the interview utilising an audio recording device?

- 1) How long have you been working as a franchisor?
- 2) How did you become a franchisor?
- 3) Describe your first experience as a franchisor, focusing on the relationship between you and your franchisees?
  - a. What problems came up in this relationship (ask for examples)?
- 4) What would you say are your main problems as a franchisor?
- 5) What would you say are the main problems you have with your franchisees?
- 6) What do you expect from your franchisees?
- 7) In what areas do you feel your franchisees live up to your expectations?
- 8) In what areas do you feel your franchisees do not live up to your expectations?
- 9) Can you recall any franchisees where you have had to prematurely cancel their franchise agreement?
- 10) What were the reasons for this de-franchising process?
- 11) At what point did you feel the relationship started to deteriorate?
- 12) What do you believe was the main factor of this relationship's deteriorating to breaking point?
- 13) Knowing that I am interested in understanding the nature of the relationship between franchisee and franchisor, is there anything else you could share with me that you consider relevant?



## Appendix 4: Invitation to participate in research study

I am in my final year of an MBA at the Gordon Institute of Business Science and am in the process of completing the compulsory research report component of the degree. My research project title is: "Towards an understanding of the nature of the breakdown in relationship between a franchisee and franchisor: an approach using psychological contract theory."

It is my understanding that you have the necessary experience that could provide key insights into this area of study. I would greatly appreciate your participation in this research by agreeing to be interviewed on the subject matter. The interview will be semi-structured and in-depth. It is the intention to conduct the interviews during the months of July and August 2015. Please find attached a copy of the consent form that you are requested to read and sign, prior to the interview's commencing. The interview will be confidential and your comments will remain without identifiers.

The key objectives of this research are as follows:

- To understand the relationship between franchisor and franchisee;
- To understand which factors contribute to the breakdown between franchisor and franchisee;
- To understand if this breakdown can be explained by the theory of the psychological contract.

Please can you confirm your agreement to take part in this process, and indicate your availability to be interviewed during the months of July and August 2015?

I look forward to your positive response.

Kind regards

Amy Kirtland

amykirtland@yahoo.co.uk

## Appendix 5: Interview consent form

Towards an understanding of the nature of the breakdown in relationship between a franchisee and franchisor: an approach using psychological contract theory.

**Researcher:** Amy Kirtland, MBA Student at the Gordon Institute of Business Science, University of Pretoria

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I am conducting research into understanding the breakdown in relationship between a franchisee and franchisor. My approach includes using the psychological contract as a theory base.

The information and insights gained through the various interview processes will hopefully assist me to better understand the relationship between a franchisor and franchisee, and whether the selected theory can be linked as a contributing factor to the breakdown in this relationship.

Your participation is on a voluntary basis and you can withdraw at any time without any consequences. All data will be kept strictly confidential and your comments will remain without identifiers.

If you have any concerns, please contact my supervisor or myself directly. Our respective details are provided below:

Amy Kirtland  
amykirtland@yahoo.co.uk  
083 290 7515

Dr.Jonathan Marks  
[marksj@gibs.co.za](mailto:marksj@gibs.co.za)  
082 469 0104

Participant's Name: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Researcher's Name: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

## Appendix 6: Code definitions

Compliance	Conforming to certain guidelines pertaining to regulations as laid out by the Franchisor.
Adding value	Adding value to the individual or business to improve it or enhancing the value of products or services prior to offering them to customers, therefore amplifying the perceived value.
Averse to change	Resistance to change or a generally unfavourable sentiment, therefore opposing any transformation.
Attitude	Refers to thinking, feeling, behaviour and disposition appertaining to someone or something.
Blame	To hold someone accountable or place responsibility upon them as opposed to yourself.
Brand	A grouping of products with inherent distinct characteristics, which a particular company has named.
Brand association	The attributes and benefits associated with the brand which the customer or franchisee relates to.
Business and financial knowledge	Possessing both superior business and financial acumen is essential for any business to succeed and make a profit.
Communication	Means by which information is sent or exchanged. This can be in the form of different methods.
Culture	The manner of working, thinking or behaving within an organisation. A set of norms or values practised within an organisation or community.
Customers	Individuals who purchase goods or services from a company.
Different views	Relating to an array of social, cultural, political and economic topics on how certain things need to be carried out.
Excuses	To discharge or be excused from an obligation or duty, something used to back up why things weren't done in a particular way.
Expectations	The degree of probability or expectations that an event will occur, an unspoken idea of what a group or individual will do.
Financial discipline	Understating every facet of a situation and dealing with things systematically will result in positive spinoffs.
Hands on	Characterised by personally being involved and actively participating in an activity or in their business

Industry experience	Retaining specific knowledge and focusing on issues and problems appertaining to the specific industry in which one is working.
Investing	Accumulating cash through the purchase or expenditure of something, thus resulting in an overall surplus. Putting this surplus back into one's business to further enhance or grow it.
Leadership	An individual who manages, controls, guides or directs other individuals or teams.
Legal	An individual who acts in a legal manner, whereby they derive authority from law and seek legal advice.
Losing money	In the case where an organisation, individual, product or service does not make a profit.
Marketing	The business process by which the demand for products and services increases, as well as maximising customer satisfaction. This also includes advertising and doing initiatives to try and make customers aware of products and services.
Not hands on	Lethargic participation by an individual.
One size fits all	Appropriate and suitable for an array of circumstances or individuals. A cookie cutter approach of trying to make one model or format fit into all situations.
Promise delivery	Ensure the successful delivery of promised goods or services.
Right franchisee	Identifying the correct individual who is the most suitable to ensure the continued success of the business.
Royalties	Refers to the payment which is made to the owner/franchisor for making use of the franchise with the intention of producing income.
Satisfying everyone	Ensuring the satisfaction, by maximising the need or expectation, of everyone by providing them with something that they want or need.
Staff	All the people employed by the company to conduct their duties.
Stock	Goods which are stored on site and made available for sale or distribution.
Support and assistance	To support an individual or company by providing the necessary aid or assistance from having specific experience or expertise within a field.
Systems	A set of principles or methods according to which a specific activity is performed to ensure the goal of the system is achieved.

Training	Teaching an individual a skill, or undertaking a course with a mandatory level of knowledge.
Trust	A relationship which is built upon truth and reliability.
Understanding	The capability of comprehending something, and taking everyone's individual situations into consideration.
Unhappy customers	A dissatisfied customer believes that the organisation did not live up to their expectations with regards to delivering the goods or services.
Wrong franchisee	Selecting an inappropriate candidate who does not grow the business and ultimately results in its failure.