- DOCTOR OF PHILOSOPHY DISSERTATION -

MODELLING FIRM RESOURCES EFFECTS ON PERFORMANCE: THE MEDIATING ROLE OF DYNAMIC CAPABILITIES

By

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ABSTRACT

The extant literature has widely theorised that the exploitation of dynamic capabilities (DC), valuable, rare, inimitable and non-substitutable (VRIN) resources, contributes to the organisation's performance. However, their operationalisation has been insufficiently tested in the franchising industry, based on previous theoretical and empirical studies (for example, Mumdziev & Windsperger, 2011:449; Gillis, Combs & Ketchen, 2013:449; Akremi, Perrigot & Piot-Lepetit, 2015:145; and the like.). Drawing on the resource-based view of the firm (RBV) and dynamic capabilities, this study sought to extend, replicate and advance knowledge and understanding of the RBV model as conceptualised in literature (Penrose, 1959:25; Barney, 1991:99; Morgan, Vorhies & Schlegelmilch, 2006:624; Newbert, 2008:747; Lin & Wu, 2014:410). Hence, the study modelled the relationship between VRIN resources and firm performance, and the mediating role of dynamic capabilities.

Hypotheses were developed and the data were collected from franchisees (managers) of Gauteng metropolitan outlets using qualtrics, face-to-face and telephone methods. The analysis on a sample of 224 fast-food and retail franchisees was done through structural equation modelling. The findings show that all the VRIN empirical indicators are significant predictors of performance, $p < .001$. Dynamic coordinating capability can mediate the relationship between valuable resources and firm performance. In addition, the dynamic sensing capability was found to have a positive significant mediating effect between valuable resources and firm performance. Hence, these findings support the RBV assumptions. However, the dynamic sensing and the dynamic coordinating capabilities cannot mediate the relationship between other (rare, inimitable and non-substitutable resources) predictors and performance. Moreover, the dynamic learning and the dynamic integrating capabilities have an insignificant mediating effect between all the VRIN resources and performance.

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1 INTRODUCTION

1.1 INTRODUCTION

The debate over the ability of dynamic capabilities (Teece, Pisano & Shuen, 1997:509) to align and realign resources (Eisenhardt & Martin, 2000:1106) in a turbulent environment for competitive advantage is rife in research. The rationale is that resource-based view (RBV) has not adequately explained how and why certain firms have competitive advantage (Eisenhardt & Martin, 2000:1106) and dynamic capabilities by which firm managers integrate, build, and reconfigure resources (Teece *et al.*, 1997: 516) to become the source of sustained competitive advantage. Drawing on previous theoretical and empirical studies (for example, Mumdziev & Windsperger, 2011:449; Akremi, Perrigot & Piot-Lepetit, 2015:145; Gillis, Combs & Ketchen, 2013:449, etc) little has been done in franchising. Findings from the cited studies all support the positive impact of resources in franchising. Akremi, Perrigot and Piot-Lepetit (2015:145) found that dynamic capabilities (e.g. training and experience) are some of the independent variables that positively impact on performance of franchised chains. Mumdziev and Windsperger (2011:449) found that innovation assets affect decision rights allocations. Other scholars have established and emphasised the characteristics of a firm's resources and capabilities as the source of the performance differences among firms. For the purposes of this study, resource-based theory (RBT) and dynamic capabilities are adopted to provide an empirical analysis of their influence on South African franchise outlet performance. South Africa boasts over 600 franchised brands and about 39 000 franchised outlets (FASA, 2016:15).

The KPMG (Klynveld Peat Marwick Goerddeler) report (2016:2) argues that franchising industry growth reflects over 31 050 franchise outlets in South Africa, employing 323 519 people nationally. Of these 323 519, 34% are employed in retailing and direct marketing while 27% are in fast foods and restaurants (FASA, 2016:16). In addition, Schwarzer (2017:5) reiterates, "Similarly, when franchising economic output is measured as a share of a country's overall GDP, South Africa emerges in the top five – with 11.5% of its GDP generated by franchises''. To this GDP, fast foods and restaurants, inter alia, generated annual turnover of R52.2 million, while retailing contributed R8.9 million (FASA, 2016:13). Hence franchising in South Africa becomes a fertile ground for academic research

because both the franchisor and the franchisee resources play a major role in the performance of their outlets.

Following assumptions of the resource-based view of the firm, superior performance of the franchises is attributed to the resources of the franchisor and resources of the franchisee. Resources may be tangible or intangible. Financial, physical, organisational, intellectual and human resources possessed by a franchise firm are expected to be valuable, rare, inimitable and non-substitutable (VRIN). VRIN resource characteristics (Barney, 1991:99) of RBT are the empirical drivers of firm performance if used in combination (Penrose 1959:25).

Hypotheses were tested using structural equation modelling and a dataset of 224 respondents from fast food and retail franchised chains in Gauteng metropolitan areas. All the independent variables were confirmed to be statistically significant predictors of the dependent variable, $p < .001$. Furthermore, all the independent variables were confirmed as significant predictors of the mediators. On the other hand, VRIN resource effects at franchise outlet level and industry level support firm performance, either directly or indirectly (through the mediation of dynamic capabilities). Thus there are some positive effects which vary from outlet to outlet and between industries, as dictated by VRIN. The findings and implications for theory and practice were considered and will be discussed in Chapter 7.

1.2 BACKGROUND TO THE STUDY

The future growth potential for franchising in the South African economy is enormous (FASA, 2016:8) and provides entrepreneurial opportunities to small business owners. The small businesses are provided with resources that include skills transfer, working capital, brand name and business plan. The estimated turnover for the franchise market is R465.27 billion, which is 12.5% of the South African GDP. From the FASA survey (2016:11), the franchisors claimed that they had opened a total of 4 086 businesses, 40% of which were fast food and restaurants. However, about 999 businesses were closed down in 2014 and it takes up to six months to one year before a new franchisee breaks even (FASA, 2016:11). Because of the franchising growth, its contribution to the economy

and challenges faced by franchisees, a study of the relationship between resources and performance was sought. Hence franchising and RBT are relevant to this study, because the franchising industry is a creator of job opportunities, and posts impressive growth for the South African Gross Domestic Product (GDP). Moreover, franchising is a means of growth in business and financial services, construction, cleaning, food, medical, and recreation (Kistruck, Webb, Sutter & Ireland, 2011:503) and a prevalent growth strategy in both developed and emerging economies (Welsh, Alon & Falbe, 2006:130).

The application of RBT to business management in the context of franchising in South Africa was analysed. Drawing on RBV/RBT, this study proposes that the franchise outlet resources affect its performancedirectly (Barney, 1986:1231; Dierickx & Cool, 1989:1504). Peteraf (1993:179) suggests that resources are related to performance and indirectly through dynamic capabilities (Helfat & Peteraf, 2003:831). Teece *et al*. (1997:509) believe dynamic capabilities are regarded as a transformer for converting resources into improved performance. Another reason for analysing the direct and indirect relationships is that franchisees face industry-related challenges that include skilled staff, the ability to consistently offer good service and managing costs. Rothaermel (2017:262) further explains that resources can be the franchisor's trademark and business processes to offer goods and services that carry the franchisor's brand name. This also implies that franchising is entrepreneurial in nature; franchisees with the necessary skills, education, experience, personal attributes and financial resources will benefit. Therefore, the investigation was about the franchise outlets through the lens of RBT (Barney, 1991:112; 1995:49) and dynamic capabilities (Teece, 2007:1319), because resources and capabilities are bound together. As Penrose (1959:86) suggests, "...no resources or capabilities are of much use by themselves; any efficient use for them is always viewed in terms of possible combinations with other resources or capabilities".

1.3 LITERATURE OVERVIEW

The resource-based view (RBV), which has evolved into a theory (Barney, 1991:99), postulates a firm as a bundle of resources (Penrose, 1959:86), and the resources are controlled by the firm (Amit & Schoemaker, 1993:35). Building on the RBV assumptions, Barney (1991:99-120) published his seminal work clearly defining the resource-based

theory (RBT). However, studies from other scholars (e.g., Henderson & Cockburn, 1994:63; Eisenhardt & Martin, 2000:1105; Parmigiani & Holloway, 2011:457; Afuah, 2013:1) still refer to this theory as the RBV. Hence, in this study both RBV and RBT terms apply. Drawing on RBV/RBT, firms are expected to have capabilities or capacities to deploy resources (Amit & Schoemaker, 1993:35). These resources and capabilities are explained as heterogeneously distributed among firms and imperfectly mobile (Barney, 1991:99). Such assumptions propound the existence of differences in firm resource endowments and these differences persist over time (Barney, 1991:101). The RBV studies hypothesise that firms that possess and exploit resources and capabilities that are valuable and rare attain a competitive advantage. Second, if these resources and capabilities are also both inimitable and non-substitutable, the firm will sustain this advantage, and they will enable the firm to improve its performance (Amit & Schoemaker, 1993:33; Barney, 1991:99; Eisenhardt & Martin, 2000:1105; Henderson & Cockburn, 1994:63; Powell, 2001:875). However, Barney (1995:56) argues that for a firm to fully realise this potential, it must also be organised to exploit its resources and capabilities. This implies that resources and capabilities are vital for a firm if organised, deployed and implemented.

In addition, other scholars (Teece *et al*., 1997:509-533) extended the RBT with the dynamic-capability view (DCV) to evaluate the influences of dynamic markets (Helfat & Peteraf, 2015:831). Teece *et al*. (1997:509) regard dynamic capabilities as a transformer for converting resources into improved performance. However, the empirical research to examine the relationships between all the resource characteristics, dynamic capabilities and performance, has not been given much attention in literature. Hence there is very little empirical research operationalising value, rarity, inimitability and organisation (VRIO). Conversely, value, rarity, inimitability and non-substitutability (VRIN) has received considerable attention, although the studies are still few. For example, Lin and Wu (2014:407-413) investigated VRIN but did not operationalise it as individual characteristics; Morgan, Vorhies and Schlegelmilch (2006:621-633) used only inimitability and non-substitutability; while Newbert (2008:745-768) employed only rareness and value.This study addresses the gap by assessing how individual VRIN resource characteristics can be converted into performance through dynamic capabilities. Theoretical and empirical

suggestions for strategic decisions regarding resources and dynamic capabilities are provided.

1.3.1 THE CONCEPT OF VRIN/VRIO AND CAPABILITIES

Value, rareness, inimitability and organization (VRIO) are conceptualised by Barney (1995:49-61) as indispensable resource characteristics that drive enterprise competitiveness and economic rent (Barney, 1986:1231; Peteraf, 1993:180). Exploitation of VRIO resources leads to competitive advantage, enabling a firm to improve its short-term and long-term performance (Amit & Schoemaker, 1993:33; Barney, 1991:99; Eisenhardt & Martin, 2000:1105; Henderson & Cockburn, 1994:63; Powell, 2001:875; Teece *et al*., 1997:509). Newbert (2008:745), in his conceptual-level empirical investigation, argues that resources and capabilities are inextricably bound together in the attainment of competitive advantage. Penrose (1959:86) advocates that resources and capabilities are of much use if they are viewed in terms of possible combinations with other resources or capabilities. However, Makadok (2001:387) contends that firms may create rents not only by picking better resources than competing firms, but also by exploiting them more effectively with proper capabilities. Hence, the implication is that capabilities and resources are viewed as inseparable for a firm to realise competitive advantage and superior performance.

1.3.2 THE QUESTION OF VALUE

Do a firm's resources and capabilities add value by enabling it to exploit opportunities and/or neutralise threats (Barney, 1995:50)? Firm resources can only be a source of competitive advantage or sustained competitive advantage when they are valuable (Barney, 1991:106). Bowman and Ambrosini (2003:291) agree that a resource is valuable to the firm if it generates rents that can be captured by the firm. Moreover, resources are valuable when they enable a firm to conceive of or implement strategies that improve its efficiency and effectiveness (Penrose, 1959:25). For example, Barney (1995:50) explains that Sony miniaturised electronic technology resources; hence, Sony utilised the opportunities to develop portable tape players, portable disc players, portable televisions and easy-to-hold 8mm video cameras. In support, Aaker and McLoughlin (2010:154-155) explain that a successful business strategy must add value for the customer, and this

value needs to be real rather than merely assumed. Another case in point is also the British supermarket chain, Iceland, which tried to develop its product line by stocking only organic own-label products, but this backfired, as their core market could not afford these products. Moreover, Bic tried to extend its familiar brand name into a disposable underwear product line, but the Bic brand name, which is synonymous with stationery and lighters, did not extend well to this new product line and failed (Aaker & McLoughlin, 2010:155). This implies that value is realistic, from the customer's perspective, through exposure to information. Hence resources and capabilities that consider customers as central improve purchase and use of the product. In addition, costs are likely to be reduced, satisfaction increased and performance improved because firms with valuable resources can employ strategies that are not available to other firms.

Conversely, USX failed to recognise and respond to fundamental changes in the structure of the steel industry because they could not identify new opportunities and threats. The corporation delayed its investment in, among other opportunities, thin slab continuous casting steel manufacturing technology- but Nucor Steel made these investments early and became a major player in the international steel industry (Barney, 1995:50-51). Du Plessis, Strydom and Jooste (2012:6) further argue that an organisation's value proposition should take into account the expectations, needs and wants of the customers, since value propositions are not centred on products and services, but on customer criteria. This implies that because valuable resources enable a firm to exploit opportunities (Barney, 1995:50), marketing opportunities must then be converted into products or services that maximise customer value in terms of benefits (Du Plessis *et al*., 2012:7). For instance, in this dynamic environment, South African franchisees in fast foods and retailing must compete for resource capability advantage. The South African retailing sector had, until a few years ago, a unique problem with the neglect of the retailing needs of an important part of the population, namely the residents in the townships (Du Plessis *et al*., 2012:513). This out-shopping phenomenon of consumers can be reversed by the strong growth of franchise chains with valuable resources. Hence, the physical resources in terms of plant, equipment and geographic location are paramount.

Firm resources and capabilities may have the other characteristics that could qualify them as sources of competitive advantage (e.g., rareness, inimitability, non-substitutability), but

these attributes only become resources when they exploit opportunities or neutralise threats in a firm's environment (Barney, 1991:106). Also, resources can enable a firm to be lower cost than rival firms, or they may enable the firm to differentiate its products or services (Bowman & Ambrosini, 2003:291). Therefore resource attributes must be of value, so that they can be taken as sources of competitive advantage. That is why Barney (1991:106) argues that firm attributes must be valuable in order to be considered resources, pointing to an important complementarity between environmental models of competitive advantage and the resource-based model.

On the other hand, resources can cease being valuable as rent generators through competitor imitation or substitution (Barney, 1986:1240). Peteraf (1993:179) maintains that to be valuable a resource must not only generate rents; ex ante limits to competition also need to be present in order to prevent costs from offsetting the rents. *Ex ante* means looking at future events based on possible predictions. For firms to prevent imitation, Amit and Schoemaker (1993:39) postulate that companies must have access to adequate capabilities to take advantage of their resources. But certain resources may have the potential to create valuable services, and the value of these services will remain latent until the firm has the capabilities needed to deploy them (Newbert, 2008:746). Creation of valuable services denotes customers as the focal point of the organisation. The firm must be committed to continuous creation of superior customer value. This is consistent with the assumption that resources are valuable when they contribute to the production of something customers want, and at a price they are willing to pay (Collis & Montgomery, 1995:128).

1.3.3 RARENESS OF RESOURCES

Barney (1995:52) argues that if a particular resource or capability is controlled by numerous competing firms, then that resource is unlikely to be a source of competitive advantage for any one of them. Bowman and Ambrosini (2003:291) amplify Barney's notion that the relative scarcity of a resource means a firm's possession of a rare resource which can generate either superior margins or superior sales volumes from a cost base equivalent to that of competitors. Therefore, a rare resource must create a sustainable competitive advantage, which is not easy to develop or to sustain in the long term.

A competitive advantage is an attribute/feature/benefit which a market offering has which competitors do not have to the same extent as that which customers value (Du Plessis *et al*., 2012:19). For example, Pick n Pay may be preferred over Spar by some customers, or a large segment of customers may buy at McDonald's and not at Kentucky Fried Chicken (KFC). The reason is that a firm with rare resources will be able to offer certain products/services with certain qualities that provide satisfaction and value, which the other firm does not have. That is why a rare resource can collect economic rents and increase the duration of profits by building first-mover advantages (Afuah, 2009:146). The implication is thus that a rare resource is not commonly found across other competing firms. However, if it were common, it would be considered as an entry asset or an easily available non-rent generating asset.

Barney (1995:52) provides two examples of competing firms in the global communications and computing industries: NEC and AT &T. They both were developing many of the same capabilities that were likely to be needed in these industries. However, if either of the firms were to gain competitive advantages, they must exploit resources and capabilities that are different from the communication and computing skills they are both cited as developing. This may be part of the reason why AT & T restructured its telecommunications and computer businesses into separate firms (Barney, 1995:52). Another example is of WalMart's skills in developing and using point-of-purchase data collection to control inventory. This has given it a competitive advantage over K-Mart, its major United States (US) competitor (Barney, 1995:52). This implies that competitors must pursue strategies that create competitive advantage.

Another case in point is of Coca-Cola and Pepsi in South Africa. Pepsi failed to succeed in re-entering the South African market after a long period of absence. Coca-Cola remains the world leader and analysts agree that the superiority of Coke in terms of its tangible and intangible assets (reputation and brand name awareness) were the major reasons why it was initially difficult for Pepsi to be successful in South Africa (Ehlers & Lazenby, 2011:114). Moreover, capabilities of Coke are also rare because Ehlers and Lazeby (2011:114) maintain that it has some capabilities that make it easier to manage these assets more effectively. Wood (2013:29) in support explores human, financial,

informational and supply resources as key. When planning for marketing; managers must balance the investment and allocation of resources.

1.3.4 INIMITABLE RESOURCES

The more difficult it is for competing firms to replicate the resource, the longer-lived will be the rent stream accruing to the resource (Bowman & Ambrosini, 2003:291). Inimitability results from the presence of isolating mechanisms (Rumelt, 1984) such as causal ambiguity, information asymmetries or social complexity (Bowman & Ambrosini, 2003:291). The argument is that the mechanisms do not allow competitors to imitate what the firm does. Barney (1995:53) propounds that imitation can be done in two ways: duplication and substitution. Duplication occurs when an imitating firm builds the same kinds of resources as the firm it is imitating (Barney, 1995:53). For example, if one firm enjoys a competitive advantage of its management skills, the duplicating firm will try to imitate that resource by developing its own management skills. Moreover, firms may substitute some resources for other resources and if the substitute resources have the same strategic implications and are no more costly to develop, then imitation through substitution will lead to competitive parity in the long run (Barney, 1995:53). Thus substitution of a resource involves replacing it with an alternative resource that achieves the same results (Ehlers & Lazenby, 2011:119).

Therefore the question for this variable is, “Are the benefits difficult for other firms to imitate, substitute, or leapfrog?” (Afuah, 2013:8). Given this logic, it seems that firms need not necessarily possess rare resources andrare capabilities in order to attain a competitive advantage (Newbert, 2008:748). It shows rather that a firm must possess valuable and rare resources that cannot be copied. Thus valuable, rare and inimitable resources are essential for a firm to attain and sustain competitive advantage. As an illustration, players in the fast food industry find it difficult to imitate the recipe of KFC (Ehlers & Lazenby, 2010:119). Another example is of Caterpillar’s worldwide service and supply network, which cannot be duplicated and substituted by competitors because of its history. After getting the contract from the Department of War to supply heavy construction equipment to build roads, air strips, army bases, and the like, Caterpillar managed to develop a worldwide service and supply network at very low cost (Barney, 1995:53). To date

Caterpillar has maintained the worldwide service and is the world's leading manufacturer in construction and mining, diesel and natural gas engines, industrial gas turbines and diesel-electric locomotives (Caterpillar Reports First-Quarter, 2016:3).

Moreover, resources are difficult to imitate if: (i) they are path dependent (Dierickx & Cool, 1989:1504; Vergne & Durand, 2011:736); (ii) there is an ambiguous relationship between the resources that enhances competitive advantage (Barney, 1995:49; Dierickx & Cool, 1989:1504; Reed & DeFillipi, 1990:88); (iii) they are socially complex (Barney, 1991:106); (iv) there are legal property rights, such as in the case of patents (Wills-Johnson, 2008:214); and (v) the process of their imitation by other companies is lengthy, for example, due to the time needed to train employees or to absorb the knowledge necessary to master the resource (Wills-Johnson, 2008:214).

First, *path dependence* can be defined as the causal relevance of preceding stages in a temporal sequence (Peirson, 1994:252), the set of dynamic processes where small events have long-lasting consequences that economic action at each moment can modify, yet only to a limited extent (Antonelli, 1997:643-644), or as the dependence of economic outcomes on the path of previous outcomes, rather than simply on current conditions (Puffert, 2003:1). Most of the literature on path dependence implies that history matters; that former decisions affect the decisions that follow. This means that rival firms with similar resources and capabilities, may eventually have different resource endowments at the end because of historical trajectories. Such a scenario provides competing firms with different levels of performance. Path dependence is an attractive notion since it accounts for how certain organisational features persist over time (Vergne & Durand, 2011:1-2), and other competing firms are not able to copy resources and capabilities that make one successful. However, path dependence is criticised for lock-ins or inflexibility (Vergne & Durand, 2010:737). Hence there is need for managers to exercise their novelty rather than nurturing resource endowments that do not achieve competitive advantage.

Second, *causal ambiguity* is defined as the uncertainty that stems from a basic ambiguity concerning the nature of the causal connections between actions and results (Lippman & Rumelt, 1982:418). The factors responsible for firm performance may be difficult to identify because of causal ambiguity (Ambrosini & Billsberry, 2008:1). Drawing on RBV, causal

ambiguity creates the barrier to copying, because competing firms do not easily imitate or replicate the successes of one firm. For example, if rival firms are not in a position to identify actions or processes that help one firm's brand succeed in the market, they will have difficulty in imitating. Hence causal ambiguity will be regarded as a source of inimitability and sustainable competitive advantage. Although causal ambiguity protects the firm's strategic resources by raising the barriers to imitation, it can result in mismanagement and destruction of the resources, and such notion is known as a causal ambiguity paradox (King & Zeithaml, 2001:75). This implies that beside rivals failing to choose which resource to imitate, managers may also experience causal ambiguity because they cannot identify the source of their own competitive advantage. Thus the decision maker does not have a full understanding of the causes of his/her firm's success. This may result in under-utilisation or even destruction of the resource, caused by ignorance (Ambrosini & Bowman, 2005:493).

Mosakowski (1997:414) also argues, '...circumstances under which causal ambiguity will affect strategy making: in particular pointing to the overall complexity both within the firm and in its environment. To illustrate the effect of causal ambiguity, Mosakowski (19997) carried out a study to examine the prototypical strategic problem of finding the most profitable use of a firm's assets. The results support the hypothesis and the process of decision-making may itself transform over time as causal understanding increases.

Third, *social complexity* is one of the reasons that a firm's resources may be imperfectly imitable. This may be through interpersonal relations among managers, the firm's culture, or a firm's reputation among suppliers and customers (Barney, 1991:110). Regner and Jonsson (2009:517) argue that imitation is a process which includes, first, the identification of what to imitate, second, the willingness to imitate, and third, the ability to imitate. Further, Andersen (2007:275) postulates that social complexity refers to the problem of identifying how resources or processes constitute the advantage. At this stage, it is known that the resource or process generates an advantage, so there is no causal ambiguity. However, what is not known is how the advantage is generated. In other words, it may be easy to identify a resource but rivals may not get what exactly (how the resource) constitutes performance. Performance requires combinations of resources and capabilities through various social interactions which make them intangible and difficult to understand.

Fourth, resources can be taken as *bundles of property rights*, and firms often require the entire bundle of property rights to a resource (Foss & Foss, 2005:543). The resource owner (franchisor) has the legal right to exclude non-owners from using and obtaining value from its resources (Foss & Foss, 2005:544). For example, in a franchise chain the value of a brand name to the franchisor will be eroded (Dierickx & Cool, 1989:1508) when it is too costly to the franchisor to exclude franchisees from using the name to sell low-quality products (Foss & Foss, 2005:544). Another illustration is Outsurance Insurance in South Africa; this may be the first to market a cancer insurance concept, which in turn comes heavily into demand. Outsurance Insurance can fully protect the product from imitation by using legal means. Hence, the insurance company stands to benefit from the product that is not simultaneously offered by rivals or potential competitors. This implies that other insurance companies cannot duplicate the benefits of such a strategy.

Fifth, Regner and Jonsson (2009:517) describe the imitation process in three stages. First, firms may be willing to imitate but considerable time must be taken in identifying what to imitate. Leiberman and Asaba (2006:366) argue that imitation can lead to large positive or negative outcomes for individual firms and society as a whole. Therefore, managers must understand when imitation may have harmful implications, since imitation processes are most interesting in environments characterised by uncertainty and ambiguity (Leiberman & Asaba, 2006:366). This implies that imitating new product development must be matched with customer or market demand, to minimise risks such as unnecessary costs and market failure. Second, another critical issue in the process is the ability of a firm to imitate (Regner & Jonsson, 2009:517), because firms are social communities which use their relational structure and shared coding schemes to enhance the transfer and communication of new skills and capabilities (Kogut & Zander, 1995:76). To copy the new knowledge without social community is formidable. Third, firms compete not only through the creation, replication, and transfer of their own knowledge but also through their ability to imitate the product innovations of competitors (Kogut & Zander, 1995:76).

1.3.5 NON-SUBSTITUTABLE RESOURCES

The last requirement for a firm resource to be a source of sustained competitive advantage is that there must be no strategically equivalent valuable resources that are themselves either not rare or imitable (Barney, 1995:111). Such resources are non-substitutable. Bowman and Ambrosini (2003:292) define non-substitutability as a resource that cannot be easily replaced by another resource that delivers the same effect. Economic rents derive from imperfect substitutability (Amit & Schoemaker, 1993:38). For example, the strategic value of a firm's resources and capabilities is enhanced more if they are difficult to buy, sell, imitate or substitute (Amit & Scheomaker, 1993:39). Moreover, a firm with tacit organisational knowledge or trust between management and labour cannot be traded or easily replicated by competitors, since they are deeply rooted in the organisation's history (Dierickx & Cool, 1989:1504). This is because such tacit assets (e.g., resources, information and people) which are firm-specific, accumulate slowly over a period of time.

1.3.6 ORGANISED RESOURCES

Barney (1995:56) postulates further that to fully realize competitive advantage potential, a firm must also be organized to exploit its resources and capabilities. This leads to the question of organization: is a firm organized to exploit the full competitive potential of its resources and capabilities? The way in which firms operate their resources and exploit organizational processes (Amit & Schoemaker, 1993:36) leads to competitive advantage. The firm has many parts which become relevant if they are responding to the question of organization. These components include management control systems, reporting structure and compensation policies, among others. They are referred to as complementary resources (Barney, 1995:56), which must be combined with other resources and capabilities to enable a firm to realize its full competitive advantage.

A valuable, rare and inimitable (VRI) resource supported by organisational structure and processes should lead to sustainable competitive advantage (Kozlenkova, Samaha & Palmatier, 2014:12). Even strong brands frequently fail without proper management (Golder 2000:156). Building brands requires external and internal marketing; thus, providing appropriate employee education and training is very important (Kotler & Keller

2011). Strong relational resources rely on many organisational factors: managerial support, internal and external communication, and so forth (Palmatier, Dant, Grewal & Evans, 2006:136). Market-oriented culture greatly affects relational resources (Cannon & Perreault 1999:439); appropriate metrics, and feedback loops for employees are necessary for successful customer relationship management (Payne & Frow 2005:167). All the cited scholars concur that management or organisation of resources is critical. However, the organisation requirement of the VRIO framework is widely neglected (Kozlenkova *et al*., 2014:11). There is very little substantial research on the operationalisation of organisation as a construct. This implies that VRIO has limited literature for this study, but VRIN has. Hence this study focuses on VRIN not VRIO.

1.3.7 FIRM CAPABILITIES

Capability focuses on strategy perception and implementation, which is consistent with the role of firm resources and capabilities in strategy (Barney, 1986:1231; Barney & Arikan, 2001). Capabilities are the processes that firms employ to use stocks of resources within the production function (Amit & Schoemaker, 1993:33). Others contend that organisational capabilities can be a major source of firm performance (Wernerfelt, 1984:171; Barney, 1991:99, 2001:41; Peteraf, 1993:179). Drnevich and Kriauciunas (2011:254) provide conceptualisations and definitions of various types of capabilities; these are generic, organisational, ordinary, dynamic, heterogeneous, and homogeneous. These types of capabilities may be quite different in their operation, depending on the resource base of the firm, and as a result, may hold differing implications for competitive advantage and firm performance (Leiblein & Madsen, 2009:711; Hoopes & Madsen, 2008:393). However, other scholars contend that there is lack of sufficient empirical testing of the contributions of dynamic capabilities (Drnevich & Kriauciunas, 2011:254-255). Hence, for the purposes of this study, dynamic capabilities were operationalised as a mediator.

Teece *et al*. (1997:512) propound that dynamic capabilities can have a positive contribution to performance as long as there is heterogeneity. Successful heterogeneous, dynamic capabilities can be idiosyncratic in their details, though they may be overstated (Eisenhardt & Martin, 2000:1109). This implies that idiosyncrasies of dynamic capabilities may not remove common features across firms. Therefore, while dynamic capabilities may be somewhat rare (e.g., not possessed equally across all firms), their rarity-based (e.g., heterogeneous) advantages are probably not sustainable, since they may be imitable and vulnerable to substitution due to having key features in common (Drnevich & Kriauciunas, 2011:262). However, the ability to change and adapt those dynamic capabilities can allow the firm to have a higher probability of survival and a higher level of firm performance through increased revenue and profits (Helfat, Finkelstein, Mitchell, Peteraf, Singh, Teece & Winter, 2007:30). This study sought to increase the understanding of dynamic capabilities in the context of franchising.

1.3.8 THEORIES ON FRANCHISING

Most franchisees (72%) are optimistic about the future of their businesses and claimed to have made an average gross profit of 22.4% in 2015 (FASA, 2016:39). Franchisees believe that they receive assistance from the franchisor with training, compilation of franchise business plans, accounts management, product knowledge and customer satisfaction. Thus the support franchisees expect from franchisors is provision of resources (e.g. business plans, product knowledge, etc.) and dynamic capabilities (e.g. training). Franchising studies have drawn on some resource theories.They are some of the most widely used and accepted franchising theories based on the logic of economic efficiency. These include resource scarcity theory (Castrogiovanni, Combs & Justis, 2006:28; Combs & Ketchen, 1999:867), critical resources theory (Perdreau, Le Nadant & Cliquet, 2015:122), resource constraints (Baker & Dant, 2008:87) and resource-based theory in franchising (Mumdziev & Windsperger, 2011:449; Perdreau *et al*., 2015:122; Gillis *et al*., 2013:449) and the dynamic capabilities approach (Akremi *et al*., 2015:145).

First, resource scarcity theory explores franchising firms in order to access scarce resources, particularly capital and managerial resources to expand rapidly (Castrogiovanni *et al*., 2006:28; Combs & Ketchen, 1999:867). Second, critical resources theory helps to explain the governance and performance of franchise businesses (Perdreau *et al*., 2015:122).

Despite the fact that some of the theories entail the issue of resources, the RBV is a theory of competitive advantage among firms that emphasises the characteristics of a firm's resources and capabilities as the source of the performance differences among firms (Barney, 1991:99; Gillis *et al*., 2013:449; Perdreau *et al*., 2015:122). The primary difference between RBV and other theories is the range of the intended empirical applications of the theoretical concept (Perdreau *et al*., 2015:122). While RBV focuses on the franchise chain's choice of strategy that creates competitive advantage and governance, other theories emphasise governance issues only (e.g., critical resources theory) or the agency theory, which focuses on the compensation of agents (managers) and monitoring costs. Compared with governance issues, performance issues have received little attention in a franchising context (Perdreau *et al*., 2015:122) with particular

reference to the franchise chain's VRIN resources and dynamic capabilities. For the purposes of this study, RBT and dynamic capabilities resonate with what franchisees yearn for. These are operationalised to establish their impact on franchise outlet performance.

1.3.9 RBV AND FRANCHISING

This research examines the implications of VRIN resource characteristics (Barney, 1991:99) on franchise outlet performance (Akremi *et al*., 2015:145) through dynamic capabilities (Ambrosini & Bowman, 2009:9). The direct impact (as studied by Lin & Wu, 2014), and indirect effects of resources (Newbert, 2008:747; Morgan *et al*., 2006:624), were explored because franchising has emerged to be a vital growth strategy even in developing economies. While each resource available to a franchise outlet may be viewed in terms of its individual inimitability/rarity/value/non-substitutability, RBV theory views resource characteristics as a higher-level phenomenon (e.g., Newbert, 2008:747; Barney, 1991:99; Dierickx & Cool, 1989:1504). Moreover, RBV theory considers the mix of resources as paramount to conceiving and implementing a competitive strategy that is theoretically important in determining firm performance outcomes (e.g., Newbert, 2008:747).

Implications of RBV must be in a position to explain franchise outlet performance in South Africa. Many industries - including business and financial services, construction, cleaning, food, medical, and recreation - are now a means of growth in franchising (Kistruck *et al*., 2011:503). The wide range of industrial and geographic settings has generated research interest in the potential of franchising (Kistruck & Beamish, 2010:735).

There is now a move toward a resource-based theory of franchising (Gillis *et al*., 2013:451) and this is supported by franchising research called the symbiosis perspective (Perryman & Combs, 2012:368), which explains resource effects on franchising. Although several empirical studies have examined the performance implications of governance decisions and firms' resource characteristics in the franchising context (Combs & Ketchen, 1999:196; Yin & Zajac, 2004:365; Barthelemy, 2008:1451; Perdreau *et al*., 2015:121), this may not be a true reflection of the franchising sector of VRIN resources-dynamic

capabilities-performance relationships in South Africa. That is why Gillis *et al*. (2013:449) have offered preliminary evidence that resource-based theory has merit as a complementary explanation for franchising.

The above studies are evidence that RBV is vital in explaining franchising because it can be assumed also that the franchisor/franchisee has specific resources and capabilities that can result in competitive advantage. The higher these resources and capabilities of the franchisor/franchisee, the higher is the rent-generating potential of the resources (Combs, Ketchen, Shook & Short, 2011:99). The use of RBV would allow more in-depth explanation regarding resources, organisational capabilities and competitive advantage of franchise chains. Through RBV, it is possible to make sound decisions because Franchise Manual/FASA (2016:11, 14) argues that it takes a long period before a new franchisee breaks even and that there are challenges of customer satisfaction and knowledge of the business. On this basis, this study proposed to complement existing studies on franchising by the modelling of franchise chain resources (financial, human, intellectual, organisational and/or physical) effects on its performance (market share, growth in market share, sales volume, and growth in sales volume) through dynamic capabilities (sensing, coordinating, learning and integrating).

Furthermore, dynamic capabilities have emerged as an approach that is useful to help us understand why some chains are more likely to drive performance (Akremi *et al*., 2015:145). The dynamic capabilities approach is an offshoot of the resource-based view (Barney, 1991:99; Eisenhardt & Martin, 2000:1105; Wang & Ahmed, 2007:31) and the ability of a firm to "integrate, build, and reconfigure internal and external competencies to address rapidly changing environments" (Teece *et al*., 1997:516) is a critical source of superior performance. This approach is a relevant theoretical lens for deepening our understanding of factors that influence performance in franchising (Akremi *et al*., 2015:146). Dynamic capabilities demonstrate that the manipulation of resources, in particular knowledge resources, is especially critical in the franchising context and emphasise the importance of replication and learning (Teece *et al*., 1997:509; Zollo & Winter 2002:339). For example, hotels or restaurants that can integrate and reconfigure are probably going to experience superior performance. Replication and learning (Zollo & Winter, 2002:339) are also emphasised by dynamic capabilities. Winter and Szulanski

(2001:730) argue that strict replication drives superior growth and profitability, and is based on capabilities and routines used by managers to copy, transfer, and recombine resources within the chain, especially knowledge-based resources.

1.4 DEFINING THE CONSTRUCTS

Constructs are concepts that are deliberately invented for a special scientific purpose (Kerlinger, 1973:29). The variables should portray constructs in research to advance theories, because theories are statements that describe the relations among constructs (Bacharach, 1989:496). Constructs are abstractions that describe an observable event that cannot, however, be directly watched (MacCorquodale & Meehl, 1948:95). The construct becomes clear when it can break the observable event into distinct parts making it comprehensible to the community of researchers (Suddaby, 2010:346). The following constructs in Table1 are represented by a wide range of variables. The meaning of the constructs is as represented in this dissertation.

Construct	Definition and source
Valuable resources	Highly valued, exploited and efficient resources (Perez-Nordtvedt, Kedia, Datta & Rasheed, 2008:739)
Rare resources	Not familiar and different resources (Perez-Nordtvedt *et al*., 2008:739)
Inimitable resources	Very difficult to match and not replicated resources (Morgan *et al*., 2006:627)
Non-substitutable resources	Not substitutable and cannot succeed without resources (Morgan *et al*. 2006:627)
Financial resources	Working capital or cash (Newbert, 2008:766)
Human resources	[Training or experience of] individual employees (Newbert, 2008:766)
Intellectual resources	Brand name, patents or trademarks (Newbert, 2008:766)
Organisational resources	Relationships with buyers or creditors (Newbert, 2008:766)
Physical resources	Plant and equipment or geographic location (Newbert, 2008:766)
Dynamic capabilities	Intangible processes, for example, sensing, coordinating, learning and integrating (Teece *et al*. 1997:518; Pavlou & El Sawy, 2011:245-247)
Sensing	Responding to market intelligence. Participating in association activities, research or best practices. (Wilden & Gudergen, 2015:190; Pavlou & El Sawy, 2011:247)
Coordinating	Interacting with, synergy with or coordinating of functional areas (Schilke, 2014:189)
Learning	Learning programs, on-the-job training or in-house training (Lin & Wu, 2014:409)
Integrating	Collecting/recording customer information, recording, technologies in developing new products
Performance	Sales volume, growth in sales volume, market share, growth in market share (Wilden & Gudergen, 2015;190)

Table 1: Operational definitions of constructs

1.5 FRANCHISING AS A STRATEGY

This study links RBV, franchising and strategy in explaining performance of firms. Franchising fosters growth, internationalisation, alliance, adaptation and standardisation, among others. But for these strategies to be realised, Castrogiovanni et al. (2006a:27) have underscored RBV as a means of understanding franchising. This view (Amit and Schoemaker 1993:33) expects firms to get sufficient tangible and intangible resources within the domestic market before venturing abroad. Hence it is implied that resources affect decisions made on franchising strategies. Other resources include the franchisor's brand name, daily operations and services (such as site selection, store layout, buying and merchandise planning) and know-how. When new franchisees join a network, they must

learn the complete way to do business, particularly when they possess no prior experience in the industry (Stanworth 1991:175). These resources promote national, and even international, growth, given that their value appreciates with higher levels of usage. Furthermore, the faster domestic expansion of existing networks leads to market saturation, thus making foreign expansion an increasingly attractive approach to enhancing profitability (Shane 1996:216). That is why franchising fosters expansion as an entry mode into foreign markets.

After the franchisor supplies his franchisees with a brand name, license, and/or business concept, a management and operating system, initial and ongoing support and training, franchisees in turn provide dynamism to the chain, new know-how and competencies to increase chain value. The resource-based view provides key factors or characteristics for internationalisation strategy. Many papers have highlighted the importance of intangible resources (human and technological capital and reputation) in determining internationalisation of franchised chains (Perrigot, Lopez-Fernandez and Eroglu, 2013:551). Again, scholars offer RBV of the firm in franchising that complements other theories to demonstrate how franchise outlets help enforce standardisation while franchisees foster adaptation (e.g., Sorenson & Sørensen, 2001:713). Therefore the theory argues that some resources are best leveraged through standardisation, by company ownership, while other resources are best leveraged through adaptation, achieved by franchising.

Franchisees foster adaptation because their local market knowledge gives them insight into local market preferences, and their strong ownership incentive motivates them to act on their knowledge (e.g., Kidwell & Nygaard, 2011:467). In an effort to respond to local preferences that differ from national preferences, franchisees often change product and service attributes such as pricing, hours of operations, and operational routines (Lafontaine & Slade, 1997:1). As long as such adaptations do not threaten the business model’s core attributes, they increase chain-wide product–market fit and thus revenues (Kaufmann & Eroglu, 1999:69).

Yin and Zajac (2004:365) give an illustration on how franchisees helped a pizza chain adapt to local market variations and increase performance by combining dine-in and

delivery services where appropriate. While employee managers might have the local knowledge needed to foster adaptation, they are unlikely to do so because they lack franchisees' strong ownership incentive and existing routines (Bradach, 1997:276). It is against this background that franchisees help franchisors bring out innovations that can increase efficiency and help prevent chain-wide maturation and decline (Kaufmann & Eroglu, 1999:69).

Franchising also represents a prevalent growth strategy in both developed and emerging economies (Welsh *et al*., 2006:130). Franchising is a viable model pointing to its effectiveness as a growth strategy relative to internal growth (Oxenfeldt & Kelly, 1969:69). The strategy speeds up market expansion and a stronger market presence. In contrast, internal growth requires the corporation to carry the entire burden of market expansion. In South Africa many industries are into franchising, registering the prevalence of growth strategy. It is assumed that growth impacts on the country's productivity, employment opportunities and Gross Domestic Product (GDP).

1.6 RESEARCH PROBLEM

Although the VRIN resource characteristics have been widely theorised, literature shows that they have been insufficiently tested. For example, there is no specific study where all these individual characteristics (VRIN) were empirically operationalised in franchising. The resource-based view (RBV) has evolved into a theory (Powell, 2001:875; Priem & Butler, 2001:22; Barney, 1991:99, 2001:41; Wernerfelt, 1984:171) that propounds assumptions that call for empirical studies to prove or reject the basic generalisations or assumptions that firm resources and capabilities (Amit & Schoemaker, 1993:35) are both heterogeneously distributed among firms and imperfectly mobile. This empirical study must confirm the resource–performance relationship and demonstrate VRIN resources/dynamic capability-performance relationship. Andersen, Jansson and Ljungkvist (2015:1) argue that numerous studies have set out to determine whether or not various resources are related to the performance of a firm or other indicators of the presence of competitive advantages (Crook, Ketchen, Combs & Todd, 2008:1141; Newbert 2007:121). However, VRIN resources and the outcome (firm performance), as mediated with dynamic capabilities, have received little exploration in empirical RBV research (Lin & Wu,

2014:407-413). Other studies carried out to demonstrate the VRIN resource-performance relationship (e.g., Newbert, 2008:745-768; Morgan *et al*., 2006:621-633; Talaja, 2012:51; Perez-Nordtvedt *et al*., 2008:714; Walker & Mercado, 2013:208), have lacked specific operationalisation of all variables. It is apparent, with the notable exception of one study (Lin & Wu, 2014:407), that little empirical research has made an attempt to combine all independent measures of VRIN on resource-dynamic capability-performance relationships.

Of course, Lin and Wu (2014:409) used VRIN resources (as suggested by Barney (1991:112), but as one combined construct, with Taiwanese firms, without treating them separately. Morgan *et al*. (2006:624) took inimitability and non-substitutability to mediate the resource-performance relationship in the Germany and UK industrial-goods manufacturers. On the other hand, Newbert (2008:747) examined the relationships between value, rareness (as independent variables), competitive advantage (mediating variable), and performance (dependent variable). Crook *et al*. (2008:1141) classified a study as measuring inimitability. In addition, Wu (2006:447; 2007:549), Talaja (2012:51), Perez-Nordtvedt *et al*., (2008:714), Walker & Mercado (2013:208) and Afuah (2013:1) also employed VRIN but without resource-dynamic capability-performance relationship emphasis.

Drawing on the above studies: Newbert (2008:747) took value and rareness as independent variables, while Morgan *et al*. (2006:624) used inimitability and substitutability as mediating variables to analyse the relationship between resources and performance. Despite several scholars advocating more RBV studies that take the VRIN dimension into cognisance (Barney, 1991:99; Amit & Schoemaker, 1993:33; Newbert, 2007:121; Crook *et al*., 2008:1141; Perez-Nordtvelt, 2008:714; Talaja, 2012:51; Lin & Wu, 2014:407), there was no research that had systematically analysed this central feature (VRIN) of the RBV. Therefore, the purpose of this study is to extend and replicate the RBV model (Barney, 1991:112; Newbert, 2008:747; Morgan *et al*., 2006:624) and advance knowledge and understanding by testing empirically the influence of VRIN resource characteristics in firm performance through dynamic capabilities in the franchising industry.

Furthermore, Barney (1995:50) suggested organisation as one of the important questions about their resources. In support, Kozlenkova *et al*. (2014:5) elaborate that the introduction

of the VRIO versus VRIN framework has acknowledged that resources need to be leveraged effectively by the organisation instead of simply possessed by the firm. Therefore, VRIO is conceptualised as fit to encourage users to evaluate resources relative to competitors (Knott, 2015:1806) and affect performance (Sheehan, 2006:421). Conversely, Cardeal and Antonio (2012:10159) assert that none of the resources contributing to the capacity are VRIO, but the capability is VRI. Their argument has not received any challenge and as it stands in literature, very little has been done to operationalise organisation resource characteristic through empirical RBV studies.

Thus, RBV studies had overlooked the organisation dimension as conceptualised (Barney, 1995:49) as being a cornerstone in the resource-performance relationship. As a result, it was difficult to use VRIO in this study because it lacked empirical evidence for systematic analysis. On the other hand, there was still a paucity of studies with respect to the characteristics combination of value, rareness, inimitability and non-substitutability (Newbert, 2007:121). Armstrong & Shimizu (2007:959) argue that rareness could, instead, be included in the inimitability dimension. Crook *et al*. (2008:1141) did not even try to identify studies measuring rareness and non-substitutability, arguing that, by measuring inimitability, both of these dimensions was considered. Andersen *et al*. (2015:3) think that rareness and substitutability have generally been included in the inimitability concept. Hoopes, Madsen and Walker (2003:890) summarise this by stating that only value and inimitability are ultimately important causing a reduction of the VRIN framework (Andersen *et al*., 2015:3). Moreover, dynamic capabilities had not received much attention as the mediating variable of value, rareness, inimitability and non-substitutability. Given this background, this study responds to the gap by adapting and extending the models of Newbert (2008:747) and Morgan *et al*. (2006:621) models to examine VRIN resources-dynamic capabilities-firm performance relationships.

Thus the research problem is articulated as: Can the RBV model as conceptualised in literature (Barney, 1991:112; Newbert, 2008:747; Morgan *et al*., 2006:624) be extended and replicated to advance knowledge and understanding on VRIN resources-dynamic capabilities-firm performance relationships in franchising?

1.7 RESEARCH QUESTIONS

The RBV of the firm examines the function played by firm's internal resources. This theory is wildly used in strategic management field (Barney, 1991). The basic assumption of RBV is that firms are heterogeneous in terms of resources and capabilities (Peteraf, 1993). RBT suggests that a firms' competitive advantage is a function of a set of firm specific resources and capabilities that are valuable, rare, and imperfectly imitable and are unevenly distributed and not easily transferred, competitive advantage stems from firms possessing and using these varying resource combinations (Barney, 1991). Hence, RBV rose to popularity because it helped to understand the sources of sustainable competitive advantage (SCA). However, there is lack of consensus about empirical tests of RBV. Based on the Penrosian tradition, it sounds hard to explain if resource properties are objective or subjective. Also the inherent properties of resources such as rarity and inimitability are often unobservable, thus making it difficult for researchers to identify and measure a resource with any degree of confidence (Godfrey & Hill, 1995; Arend & Levesque, 2010). Based on this debate, is it conceivable to get reliable results from the strategic resources of a firm? What can be the characteristics of resources in the context of franchising that enables firms to achieve SCA? Drawing on the argument, the following research questions were formulated:

1. How do the characteristics of VRIN resources predict the differing performances of franchise outlets?
2. What are the effects between VRIN resources, dynamic capabilities and performance among franchise outlets?
3. To what extent does performance differ between franchise outlets and industries in the context of an extended RBT model?

1.8 RESEARCH OBJECTIVES

1.8.1 PRIMARY OBJECTIVE

The primary objective of this study was to extend the RBT model (Barney, 1991:112; Newbert, 2008:747; Morgan *et al*., 2006:624) and advance knowledge and understanding by testing empirically the influence of VRIN resources in franchise outlet performance through dynamic capabilities. The purpose was further broken down into the following objectives, which had to be achieved by the end of this study.

1.8.2 SECONDARY OBJECTIVES

The secondary objectives of the study are presented below.

(a) To determine the impact of valuable resources that a franchise outlet exploits on its performance.

(b) To establish the effect of rare resources that a franchise outlet exploits on its performance.

(c) To ascertain the impact of inimitable resources that a franchise outlet exploits on its performance.

(d) To examine the impact of non-substitutable resources that a franchise outlet exploits on its performance.

(e) To investigate the relationship of valuable resources that a franchise outlet exploits with its dynamic capabilities.

(f) To establishthe relationship between rare resources and dynamic capabilities that a franchise outlet exploits.

(g) To determinethe relationship between inimitable resources and dynamic capabilities that a franchise outlet exploits.

(h) To investigatethe relationship between non-substitutable resources and dynamic capabilities that a franchise outlet exploits.

(i) To explorethe contribution of dynamic capabilities of a franchise outlet towards its performance.

(j) To discoverthe mediating role of the franchise outlet's dynamic capabilities between valuable resources and its performance.

(k) To investigate the mediating role of the franchise outlet's dynamic capabilities between rare resources and its performance.

(l) To examine the mediating role of the franchise outlet's dynamic capabilities between inimitable resources and its performance.

(m) To ascertain the mediating role of the franchise outlet's dynamic capabilities between non-substitutable resources and its performance.

1.9 HYPOTHESES

Below is the theoretical framework that holds and supports RBT under study. Hence this model is a representation of resource-based theory which is a systematic set of relationships that depict hypotheses.

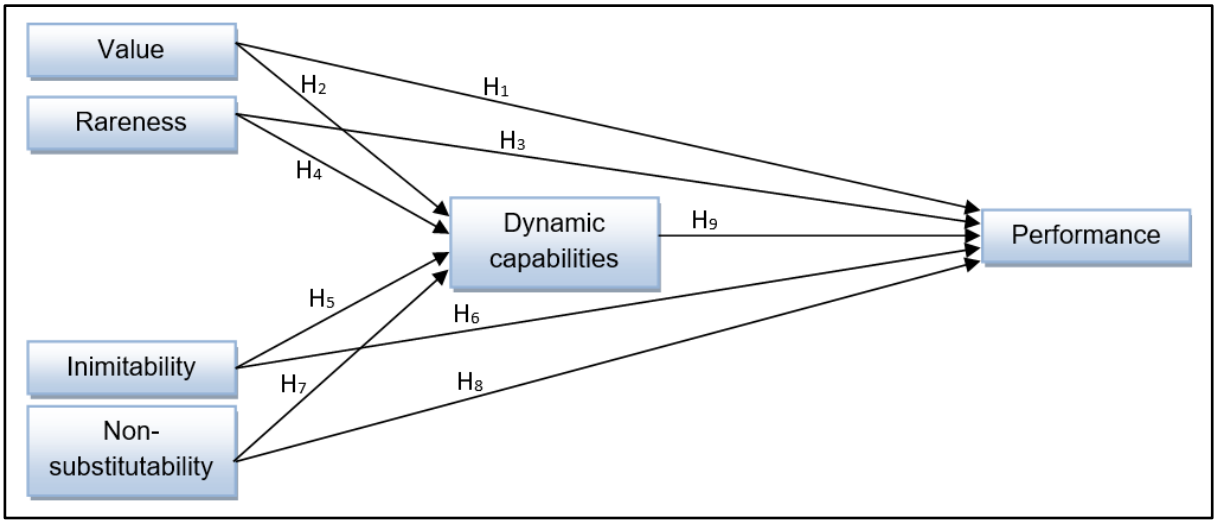


Figure 1: The theoretical framework
Source: Researcher's own model.

Drawing on RBT and dynamic capabilities, suppositions were made on the basis of limited evidence for further investigation. For the purposes of this study, nine hypotheses were crafted to provide guidance for further investigation. These would be proved correct or incorrect, so that they can be accepted or rejected. Table 2 below provides testable hypotheses.

Hypotheses
H_1: There is a positive relationship between the value of resources that a franchise outlet exploits and its performance.
H_2: The rarer the franchise outlet's resources, the more positive its performance will be.
H_3: There is a positive relationship betweenthe inimitability of resources that a franchise outlet exploits and its performance.
H_4: The non-substitutability of the resources that a franchise outlet exploits will be positively related to its performance.
H_5: The valuable resources that a franchise outlet exploits will be positively related to its dynamic capability.
H_6: The rare resources that a franchise outlet exploits will be positively related to its dynamic capability.
H_7: The inimitable resources that a franchise outlet exploits will be positively related to its dynamic capability.
H_8: The non-substitutable resources that a franchise outlet exploits will be positively related to its dynamic capability.
H_9: A franchise outlet's dynamic capabilities will be positively related to its performance.
H_{10}: A franchise outlet's dynamic capabilities will mediate the relationship between the valuable resources that a franchise outlet exploits and its performance.
H_{11}: A franchise outlet's dynamic capabilities will mediate the relationship between the rare resources that a franchise outlet exploits and its performance.
H_{12}: A franchise outlet's dynamic capabilities will mediate the relationship between the inimitable resources that a franchise outlet exploits and its performance.
H_{13}: A franchise outlet's dynamic capabilities will mediate the relationship between the non-substitutable resources that a franchise outlet exploits and its performance.

Table 2: Testable hypothesis

1.10 RESEARCH DESIGN

A cross-sectional study was used. The cross-sectional study has been employed in most franchising studies (e.g., Castrogiovanni *et al*., 2006:33; Kosova & Lafontaine, 2010:556; Barthelemy, 2008:1455; Gorovaia & Windsperger, 2013:186; Kistruck *et al*., 2011:508). The design involved the collection of information from the given sample of population elements only once. A questionnaire was established and it was administered through qualtrics, face-to-face interviews and by telephone. Respondents were encouraged to complete the questionnaire voluntarily. Two hundred and twenty-four respondents completed and returned the questionnaire. Descriptive statistics, structural equation modelling and regression were used to analyse the results.

1.10.1 SAMPLE SELECTION AND SIZE

Scholars advocate the collection of primary data from a carefully drawn sample (Newbert, 2008:751; Barney & Mackey, 2005:5). The population comprised franchise owner operators and managers responsible for the running of franchise outlets. Five hundred (500) franchise outlet managers (franchisees) were randomly picked from Gauteng province. The franchisees were those who had been in business since 2014. These were selected from two categories (fast food and restaurants; retailing and direct marketing), yielding a usable sample size of five hundred (500).

1.11 IMPORTANCE AND BENEFITS OF THE STUDY

This study has several contributions to the RBV of the firm, franchising, and literature. According to Petre & Rugg (2004:7), making a significant contribution means adding to knowledge or contributing to the discourse – that is, providing evidence to substantiate a conclusion that is worth making. This study was driven by the application of the RBV's current debate. Because of the theoretical propositions about the empirical indicators, the reason was to demonstrate and test the theory in a new setting (South African franchising industry). Moreover, the benefits confirm and expand the existing model (Barney 1991:106), by combining assumptions on VRIN, dynamic capabilities and performance.

1.11.1 THEORETICAL CONTRIBUTION

First, previous studies addressed the RBV model, emphasising firm performance as a result of some of the VRIN characteristics (e.g., Newbert, 2008:745-768, looked at value and rareness as independent variables; Morgan et al., 2006:621-633, considered inimitability and non-substitutability as mediating variables) or combined VRIN as one independent variable (Lin & Wu, 2014:407-413). However, this study adopts the view that scholars are encouraged to continue to conduct conceptual-level tests of the RBV (Newbert, 2008:763) where all the VRIN resource characteristics are used as separate independent variables. Hence, this study extended and tested a resource-based model of franchising performance complementary to previous studies: intangible resources and capabilities in explaining performance of franchise networks (Gorovaia & Windsperger,

2013:183-194), dynamic capabilities in explaining the performance of franchised chains (Teece *et al*., 1997:518; Akremi *et al*., 2015:145-165), RBV relational strategic assets in influencing the proportion franchised (Gillis *et al*., 2013:449-472), resource flexibility in leveraging strategic resources in franchising (Combs *et al*., 2011:1098-1125), and importance of intangible resources in franchise network internationalisation (Perrigot *et al*., 2013:557-577). This work argued that either the franchisor's or the franchisee's VRIN resources and dynamic capabilities are vital in explaining performance.

Second, the researcher used the dynamic capabilities approach to mediate between resources and franchise outlet performance. Although the dynamic capabilities had been used to examine drivers of franchised chains performance (Akremi *et al*., 2015:145), this study employed dynamic capabilities as a mediating variable to measure franchise outlet performance. It is critical for franchisors or franchisees to have an understanding of drivers that increase performance. Thus the aim was to contribute to the existing franchise literature by arguing that dynamic capabilities are relevant in the resource-performance relationship. Hence, while Akremi *et al*. (2015:145-165) employed dynamic capabilities (an off-shoot of RBT) to explain franchise chain performance, this study drew on RBT with the emphasis on VRIN and dynamic capabilities as the mediating variable. Moreover, the study of Akremi *et al*. (2015) study was done in the US with retail and service chains, but this study was carried out in South Africa with fast food and retailing sectors.

Third, integrating existing franchising literature and theory (Kistruck *et al*., 2011:505) with the franchised chains phenomenon in South Africa would provide a stronger theoretically grounded base upon which future research can build. The vast majority of RBV research has examined franchising and the factors influencing franchising success in developed economies (Kistruck *et al*. (2011:507). For example, Akremi *et al*. (2015:153), was done in US franchised chains; Gillis et al. (2013:457), used U.S. and Canadian franchisors in 45 industries; Gorovaia and Windsperger (2013:186), got cross-sectional data from the franchise sector in Germany; Combs et al. (2011:1109) sampled public US restaurant firms; and Perrigot *et al*. (2013:564), involved US and French franchise networks. Basing on these previous RBV studies, this study assumed a similar study methodology in a developing economy.

Furthermore, from the systematic review carried out (Nijmeijer, Fabbricotti & Huijsman, 2014:62-83), empirical studies have related design and process factors within franchising to outcomes. Nijmeijer *et al*. (2014:66) summarise research designs used within franchising (e.g., quantitative, qualitative, and mixed methods), of which quantitative designs featured in the majority of the studies. In view of the fact that the cross-sectional approach and quantitative designs were used most often, this study decided to replicate the cross-sectional approach.

1.11.2 MANAGERIAL CONTRIBUTION

Managers operate in an information environment too rich to be fully attended to (Hutzschenreuter & Kleindienst, 2013:267). The study would help franchisees' decisions involving possible combinations of resources and/or capabilities. Managers must identify the fit between resources and performance so that they use wisely related resources and capabilities. Also, the bundling of resources and capabilities heterogeneously distributed among firms (Amit & Schoemaker, 1993:35) must inform franchisors and franchisees to be able to create successful businesses.

South African studies have not used data from large samples (e.g., Berndt & Herbst, 2009:97-110; Maserumule & Mathole, 2006:219-234). This study's large sample represents the most comprehensive coverage that can provide material for astute business decisions. If VRIN resources are found to have a positive relationship with firm performance as mediated with dynamic capabilities, managers would develop a resource characteristics strategy that would catapult their business endeavours. The study also had practical implications for franchise outlet managers to have a change in mindset so that effective idiosyncrasies in resources and capabilities are experienced.

1.12 OUTLINE OF THE STUDY

Hofstee (2013:36) suggests a classic dissertation structure which begins with the introduction and ends with a conclusion. This thesis comprises the introduction, theory development, literature review, methodology, results analysis and conclusion. A chapter by chapter outline of the thesis follows.

(a) **Chapter 1** – Introduction

The introductory chapter supplies the background information about the problem, RBT, purpose of study, research objectives, problem statements, significance, contributions, delineation, research questions and brief overview of chapters.

(b) **Chapter 2** - Theoretical Foundations and Literature Review

The RBT is reviewed; discussion follows on the impact of resources and dynamic capabilities on franchising research, and research hypotheses are presented. The chapter starts with an overview, followed by the explanation of the theory (RBT) and its justification for the study. Next, the various conceptual contributions that have evolved from a view to a theory are explicated. Since there is a tremendous growth in franchising, especially in the retail and food service sectors (Grewal, Iyer, Javalgi & Radulovich, 2011:533; Gillis *et al*., 2013:449), VRIN framework and dynamic capabilities are articulated as tools for seizing opportunities.

(c) **Chapter 3** – Franchising Industry

This chapter starts with an overview, followed by the concept of franchising to this study, global view of franchising, franchised chains in South Africa, and what firms are doing or can do to have sustainable competitive advantage. Some of the franchise business categories in South Africa (retailing and direct marketing, fast food and restaurants, etc.) are explained. The franchising concept is seated in RBV to expound the impact of the franchisor and franchisee resources on competitive advantage and superior performance.

(d) **Chapter 4** – Research objectives and Hypotheses

Hypotheses are developed based on the model relationships showing the contribution of resources leveraging to performance (Acar & Polin, 2015:604). The propositions are demonstrated in franchising and explain heterogeneity of firms (Amit and Schoemaker, 1993:33) or the idiosyncratic firm attributes (Barney, 1991:101).

(e) **Chapter 5** – Research philosophies, Research design and Analysis

This chapter presents the research philosophies, research design and approach planned for the empirical study. Detail emphasises quantitative/qualitative research, surveys, data collection methods, questionnaire design and statistical procedures.

(f) **Chapter 6** – Analysis and Results

This chapter analyses the collected data to verify significance of results. The hypotheses were tested on a representative sample (224 respondents) of active franchisees (owner operators and managers) in the fast food (128) and retailing (96) categories. Descriptive statistics including mean, standard deviation, factor analysis (Keiser-Meyer Olkin and Bartlett's Test of Sphericity, Chi-Square, correlations, etc), structural equation modelling and mediation tests (through multiple regression analysis) are reported on.

(g) **Chapter 7** – Discussions, Implications, Limitations and Future Research

Results analysis and explanation of critical findings. This chapter draws conclusions from the study and delves into important academic and practitioner implications of relationships between VRIN resources, dynamic capabilities and performance.

Chapter 2 - THEORETICAL FOUNDATIONS AND LITERATURE REVIEW

2 THEORETICAL FOUNDATIONS AND LITERATURE REVIEW

'I explicitly define theory as the formation of testable hypotheses, while defining empirical work as hypotheses testing.' Gorelick, 2011:1.

2.1 CHAPTER OVERVIEW

Resource-based theory (Barney, 1991:99-120; 1995:49-61; Peteraf & Barney, 2003:309-323) is receiving increased attention in its use and importance in franchising research - for example, using intangible resources and capabilities to explain performance of franchise networks (Gorovaia & Windsperger, 2013:183-194); dynamic capabilities in expounding the performance of franchised chains (Akremi *et al.*, 2015:145-165); RBV relational strategic assets in influencing the proportion franchised (Gillis *et al*., 2014:449-472); resource flexibility in leveraging strategic resources in franchising (Combs et al., 2011:1098-1125); and the importance of intangible resources in franchise network internationalisation (Perrigot *et al*., 2013:557-577). To complement previous research, this study has employed the resource-based views/resource-based theory (RBV/RBT) with emphasis on the valuable, rare, inimitable and non-substitutable (VRIN) framework and the dynamic capabilities approach to explain firm performance (Barney, 1991:106-112). In this chapter, the background of the theory is explained and a clear demonstration of its relevance is highlighted in order to develop hypotheses. The establishment of a conceptual model is also critical, to test the propositions for empirical evidence.

2.2 INTRODUCTION

The chapter starts with an overview, followed by the explanation of the theory (RBT) and its justification for the study. Next, the various conceptual contributions that have evolved from a view to a theory will be explicated. Since there is a tremendous growth of franchising, especially in the retail and food service sectors (Grewel *et al.*, 2011:533; Gillis *et al*., 2014:449), the VRIN framework and dynamic capabilities are articulated as tools for seizing opportunities (Barney, 1991:102-112; Teece *et al*., 1997:509). This is because of RBV assumptions that firms are bundles of resources and that the resources are

heterogeneously distributed across firms (Amit & Schoemaker, 1993:35). Hence, researchers have theorised that when firms have resources that are valuable, rare, inimitable, and non-substitutable (VRIN attributes), they can achieve sustainable competitive advantage by implementing fresh value-creating strategies that cannot be easily duplicated by competing firms (Barney, 1991:100; Peteraf, 1993:179; Wernerfelt, 1984:171). Moreover, there will be theoretical clarity that once a new opportunity is sensed or learnt (Teece, 2007:1326) it must be addressed through VRIN resources using integration and coordination. In addition, the dynamic capabilities (Teece *et al*, 1997:511) as an offshoot of the RBV are also explained as a critical component for a firm to enhance performance. Finally theoretical models were adapted to assist in crafting the conceptual framework.

2.3 LITERATURE AND THEORY

2.3.1 RESOURCE-BASED THEORY (RBT)

The Resource-Based View (RBV) has evolved and has been developed as a result of research from many scholars (Penrose, 1959; Rubin, 1973:936; Rumelt 1984:557; Wernerfelt 1984:171; Amit & Schoemaker, 1993:33; Barney, 1986:1231, 1991:99; Peteraf, 1993:180; Henderson & Cockburn, 1994:63; Teece et al., 1997:509; Eisenhardt & Martin, 2000:1105) into a full-fledged theory. Although its origins may be traced back to Coase (1937) and to Penrose (1959), the idea was first formally stated as "the RBV" by Wernerfelt (1984:171) and Rumelt (1984:556). Later, Barney's (1991:99-120) outline of the major tenets and characteristics of resources became a demarcation paper. Penrose (1959) argues that resources and capabilities are effective only when they are deployed in combination. Consequently, she has both directly and indirectly influenced the modern resource-based view of strategic management (Kor & Mahoney, 2004:184). Wernerfelt (1984:171-174) explores the usefulness of analysing firms from the resource side rather than from the product side. Amit and Schoemaker (1993:44) further strengthen the resource view by adding behavioural decision-making biases and organisational implementation aspects as further impediments to the transferability or imitability of a firm's resources and capabilities. Although other scholars provided more contributions, Barney's (1991:99-120) paper is acknowledged as the first article to formalise the view by bringing

out four empirical indicators of the potential of firm resources to generate sustained competitive advantage. These indicators are value, rareness, inimitability and non-substitutability (Barney, 1991:106-112), which build a comprehensive theoretical framework.

Resource-based theory can be defined by referring to the key terms (e.g., resources, assets, capabilities, etc.). Barney (1991:101) defines firm resources as assets, capabilities, organisational processes, firm attributes, information, knowledge and the like, controlled by a person that enables the organisation to conceive of and implement strategies. Resources are, “tangible and intangible assets firms use to conceive of and implement its strategies” (Barney & Arikan 2001:13). Also, firms are seen as bundles of resources and these include all inputs that allow the firm to work and to implement its strategies (Penrose, 1959; Wernerfelt, 2013:635). A firm’s resources at a given time could be defined as those (tangible and intangible) assets which are tied semi-permanently to the firm (Wernerfelt, 1984:172). On the other hand, Makadok (2001:387) is convinced that firms may create rents not only by considering better resources than competing firms, but also by exploiting them effectively with the proper capabilities. Thus the implication is that any efficient use of resources must be viewed in terms of possible combinations through capabilities.

An asset is an entity from which the economic owner can derive a benefit or series of benefits in future accounting periods by holding or using the entity over a period of time, or from which the economic owner has derived a benefit in past periods and is still receiving a benefit in the current period (Harrison, 2006:2). Because it represents a stock of future benefits, an asset can be regarded as a store of value (Harrison, 2006:3). Aaker (2005:8) argues that an asset is a resource, such as a brand name or installed customer base, which is strong relative to that of competitors. In other words, an asset is a resource to which a firm has a right or access that rivals do not have. Examples of assets are also well-known names, a prime location, state-of-the-art technology, equipment, finance, people, or for example Caterpillar’s promise of 24-hour parts service anywhere in the world, which other firms cannot duplicate. Hence, assets that provide sustainable competitive advantages should affect performance over time (Aaker, 2007:49).

Makadok (2001:389) defines a capability as a special type of resource. Ehlers and Lazenby (2011:116) explain that capabilities are the complex network processes and skills that determine how efficiently and effectively the inputs in the organisation will be transformed into outputs. Newbert (2008:766) expands on this by stating that capabilities are the intangible processes (such as skills, abilities, know-how, expertise, designs, management, etc.) with which an organisation exploits resources in the execution of its day-to-day operations. This is embedded in the organisation's non-transferrable, firm-specific resource whose purpose is to improve the productivity of the other resources possessed by the firm. Capabilities can be sensing or seizing in Information Technology and innovation. For example, the formula of Coca-Cola becomes valuable after someone with the expertise uses it to produce Coke. Amit and Schoemaker (1993:35) propound that firm-specific capabilities can abstractly be thought of as intermediate goods generated by the firm to provide enhanced productivity of its resources. This implies that capabilities can be used by organisations to increase production of their resources. In addition, capabilities enable organisations' economic rent.

Other scholars argue that mere possession of resources does not guarantee the development of sustainable competitive advantages, as those resources can be traded and are transferrable across organisational boundaries (Wu, Chen & Jiao, 2016:2679). Hence capabilities translate resources into competitive advantages that enable the firm to achieve superior performance, because capabilities are intertwined with tacit knowledge embedded in employees within the organisation and are inimitable and difficult to transfer to other firms (Makadok, 2001:387). It follows that managers must acknowledge capabilities that are needed for effective and efficient franchising. For example, the business model like Blacksteer Shisanyama franchise must continue to be customised in order to generate returns and become successful. This famous South African fast-food franchise group customises its product offerings to suit local buyers and reflect typical South African dishes, flavoured with Afrikaans and African language terms. This franchise group builds its brand offerings on fast-food takeaway items such as 'pap and vleis', 'boerewors', Russians, stews, chicken and soft-serve ice cream (Jansen van Rensburg & Venter, 2014:47). Managers must aim to innovate and widen their portfolio offering for a competitive advantage. This shows that the customer is the focal point of the organisation.

Hence, the organisation's resources are committed to continuous creation of superior customer value.

The resources can be classified into six major categories: financial resources, physical resources, human resources, technological resources, reputation and organisational resources (Grant, 1996:118). These resources can be explained in two parts: resources are heterogeneously distributed between firms, and resources are not perfectly mobile (Barney, 1991:99). These ideas imply that first, if a firm possesses and exploits valuable (V) resources, rare (R) resources and dynamic capabilities, this will result in superior performance, and second, if the resources and dynamic capabilities have inimitability (I) and non-substitutability (N), the firm will be able to improve its short-term and long-term performance (Amit & Schoemaker, 1993:33; Barney, 1991:99; Eisenhardt & Martin, 2000:1105; Henderson & Cockburn, 1994:63; Powell, 2001:875; Teece et al, 1997:509; Newbert, 2008:765). It follows that resources should have key characteristics of value, rarity, imperfect imitability, and non-substitutability (VRIN). However, VRIN resources (or capabilities) are only able to attain a competitive advantage if they are paired with other capabilities (resources). This is Penrose's (1959:25) argument: that in order to effectively process resources, a firm must use them in some effective combination.

Financial resources are the sum of the operating income before depreciation and the annual change in equity and debt (Fischer & Himme, 2016:4). These resources are vital for a firm to pursue opportunities, facilitate its ability to survive, grow and generate profits in the face of competition (Cai, Hughes & Yin, 2014:365). They refer to money available to a business for spending in the form of cash, capital, equity, liquid securities and credit lines. Du Plessis, Strydom and Jooste (2012:133) also add that the financial resources play an important role in determining an organisation's ability to respond to opportunities in the external environment. Research argues that franchisees furnish growth capital when they build outlets (Ketchen, Combs & Upson, 2006:16). For example, franchise chains must determine the financial resources available and accessibility of funding, so that they acquire sufficient capital. Therefore franchise chains need to secure sufficient financial resources to promote performance.

Physical resources of a firm refer to resources such as physical technology, plant and equipment, geographic location and raw materials (Newbert, 2008:766). These are the material assets that a firm owns such as buildings, materials, manufacturing equipment and office furniture. In service-sponsor franchise, the service enterprise may licence a retailer to provide a specific package (e.g. recipes, sauces and interior decor), as in Wimpy, Steers, Nando's and McDonald's restaurants (Du Plessis *et al*., 2012:476). Thus a franchise firm with ICT equipment, buildings and facilities, plant and machinery, supplies, services, energy, and the like is probably able to perform better. An organisation must have new kinds of production operations or facilities, technological expertise in new areas, skills and resources especially engineering skills and resources, in new technical areas (Danneels, 2015:15). For example, Absa Group Limited has embraced the digital world and now offers electronic statements using Striata's eContact to customers.

The definition of human resources is adapted from Newbert (2008:766) who views human resources as composed of training, experience, judgement, intelligence, relationships, and the like of individual employees. Shaw, Park and Kim (2013:574) also argue that a company is likely to profit from firm-specific skills, knowledge, and abilities to sustain competitive advantage. The RBT arguments can be used to describe human resource management investments' role in increasing the workforce's value and rareness (Guthrie, 2001:180), and this can be inimitable (Ployhart, Weekley & Ramsey, 2009:996). Hence, a firm that invests in human resources pursues a worthwhile strategy that fosters sustainable competitive advantage and performance. A franchise chain must provide fully trained general managers for the firm's human resources systems to deliver the needed intellectual capital. This motivates franchisees to excel at key activities such as finding and retaining good employees, because they have a stake in their outlet's performance (Ketchen *et al.,* 2006:15). For example, the South Africa Franchise Warehouse offers business management training workshops as an investment in franchisees. The business management training helps to equip entrepreneurs with various franchise business systems to ensure that the sourcing, hiring, training and assessing of employees run smoothly.

Technological resources in the form of patents, trade secrets, and know-how have become key assets for modern enterprises and today (Crittenden, Crittenden & Pierpont, 2015:2).

Newbert (2008:766) explains them as intellectual resources which also include copyrights and trademarks. Firms must have capabilities that help them to exploit technological resources so that economic value is extracted. Technological resources are expected to have a positive direct effect on performance; following an input–output logic, a firm's technological resource base is the critical precursor of any subsequent technology exploitation process (Bianchi, Frattini, Lejarraga & Minim (2014:151). They are said to be intangible and idiosyncratic resources; because of that, they are not easily imitable or duplicated. Technological capabilities are firm-specific tacit knowledge and complex routines which act as a barrier against imitation; such idiosyncratic knowledge requires social interaction for transmission (Lawson, Samson & Roden, 2012:421). This implies that a firm possessing technological resources encourages poor imitability and superior rents.

Organisational resources are unique and differentiate an organisation from its rivals. Newbert (2008:766) defines organisational resources as relationships with other firms (such as partners, suppliers, buyers, and creditors), channels of distribution, corporate culture and the like. In franchising, relationships may involve benefit (Combs et al., 2011:121). This implies that a firm must invest in creating valuable, rare, inimitable and non-substitutable relationships for competitive advantage. For example, the quick service delivery of McDonald's in its organisational processes and routines goes a long way to establishing and maintaining profitable relationships with buyers. Du Plessis *et al*. (2011:119) argue that establishing and managing relationships is becoming a key ingredient in successful organisational marketing. Since relationships are created over time, they may be difficult to imitate or duplicate. Moreover, in franchising, where the franchisee uses the organisation's name and goodwill, products and services, marketing procedures, expertise, systems and support facilities, rival organisations may not easily duplicate distribution processes.

Some scholars still refer to the RBV (Newbert, 2007:121, 2008:745; Andersen et al., 2015:1) as a viewpoint and not a theory, despite evidence that this view has evolved into a theory (Barney, 1991:100). For the purposes of this study, RBT applies. Therefore, based on the theory's credentials, the term resource-based theory is used to posit the relevance of the VRIN/VRIO framework. VRIN represents attributes of firm resources that can be thought of as empirical indicators of how heterogeneous and immobile a firm's resources

are, and thus how useful these resources are for generating sustained competitive advantages (Barney, 1991:106). As a result, the RBT has emerged to become one of the foundational and popular approaches in strategic management research (Barney, Ketchen & Wright, 2011:108). In the light of this, this study operationalises the independent variable as the value, rareness (Newbert, 2007:123; 2008:747), inimitability and non-substitutability (Morgan et al., 2006:624) of resources.

2.3.2 VALUABLE RESOURCES

Barney (1991:106) argues that firm resources can only be a source of competitive advantage or sustained competitive advantage when they are valuable. If a resource or capability yields the potential to enable a firm to reduce costs and/or respond to environmental opportunities and threats, it is valuable, and to the extent that a firm is able to effectively deploy such a resource or capability, it will attain a competitive advantage (Newbert, 2008:747; Barney, 1995:50). Given this argument, it follows that the magnitude of a firm's competitive advantage will be a function of the value of its resources and capabilities. In other words, firms whose resources and capabilities are of marginal value will at best attain only minor competitive advantages (Newbert, 2008:747). This means that only firms with valuable resources and capabilities are able to exploit opportunities and/or neutralise threats. By exploiting valuable resources a firm can achieve a lower cost than rival firms, or such resources may enable a firm to differentiate its products or services (Bowman & Ambrosini, 2003:291).

Value answers the question: Does the business model offer benefits that customers perceive as valuable to them (Afuah, 2013:8)? This is so because resources are valuable when they contribute to the production of something customers want, at a price they are willing to pay (Collis & Montgomery, 1995:118). Therefore valuable resources enable the firm to do things that lead to economic value (Fiol, 1991:191) and have the capacity to generate profits and prevent losses (Miller & Shamsie, 1996:519). Money comes from customers, who will continue to buy from a firm only if the firm offers them something that meets their needs (Afuah, 2013:8). Unfortunately, for some firms, the answer to the question of value has been negative (Barney, 1995:50). For example, USX's long experience in the traditional steel-making technology and the traditional steel market made

it almost impossible for USX recognise and respond to fundamental changes in the structure of the steel industry. Because it could not recognise new opportunities and threats, USX delayed its investment into, among other opportunities, thin slab continuous casting steel manufacturing technology. However, Nicor Steel, which made early investments in this, has become a major player in the international steel industry. The same applies to Sears, which stuck to its historical success along with its commitment to a traditional way of doing things, which led it to miss some significant retail market opportunities that had been created by Walmart and speciality retail stores (Barney, 1995:49).

The supermarket chains such as Tesco with their value lines, Kwik Save, and Iceland all provide own-label brands that offer a cheap, basic alternative to brand products (Aaker & McLoughlin, 2010:169). Their offerings are enough for consumers but tend to lack the attractive appeal of popular branded products. The Krispy Kreme manager recognised an opportunity and took advantage of it. Krispy Kreme, a wholesale seller of doughnuts, ended up selling to passers-by who were attracted by the aroma. The firm soon started opening stores, and quickly the retail business became not only profitable but a marketing vehicle (Aaker, 2005:185). This demonstrates how management can employ firm resources and dynamic capabilities in sensing and integration. Therefore customer needs create an opportunity for firms if only the marketing opportunity can be converted into offerings that maximise customer value.

Although a firm's resources and capabilities may have added value in the past, changes in customer tastes, industry structure, or technology can render them less valuable in the future (Barney, 1995:51). This also suggests that through shifts in demand, resources can become redundant irrespective of any deliberate management activity (Bowman & Ambrosini, 2003:291). Resources can also cease being valuable as rent generators through competitor imitation or substitution (Barney, 1986:1231). Peteraf (1993:171) again explains that to be valuable, a resource must not only generate rents, but ex-ante limits to competition also need to be present in order to prevent costs from offsetting the rents. As an illustration, General Electric's capabilities in transistor manufacturing became much less valuable when semiconductors were invented. In a similar way, American Airlines' skills in managing their relationship with the Civil Aeronautics Board (CAB) became much

less valuable after airline deregulation. Moreover, IBM's numerous capabilities in the mainframe computing business became less valuable with the increase in power and reduction in price of personal and mini-computers. Therefore it is vital for a firm to continuously assess resources and capabilities in order to constantly add value, for changes are inevitable in the environment. Always important are: Frequent anticipating industrial knowledge, customer information collection and integrating of industry-related technologies to develop new products.

2.3.3 RARE RESOURCES

If most competitors hold the same valuable resource, then they will probably explore their use in similar ways, thus implementing the same value-creating strategy (Barney, 1991:106). This would not result in any firm achieving competitive advantage as a result of owning a valuable resource (Barney & Zajac, 1994:5). Barney (1991:106) reiterates that: if a particular valuable firm resource is possessed by large numbers of firms, then each of these firms has the capability of exploiting that resource in the same way, thereby implementing a common strategy that gives no one a competitive advantage. The relative scarcity of a resource means that a firm that possesses a rare resource can generate either superior margins or superior sales volumes from an equivalent cost base to that of competitors (Bowman & Ambrosini, 2003:291). This implies that if a firm's offerings are valuable while others offer the same, the firm is not likely to make money. However, if the number of firms that offer the same benefits is small, customers do not have as much of a chance to play the firm against its competitors (Afuah, 2013:8). It is therefore important for firms to come up with a value proposition with respect to customers, competitors and the marketplace.

Rarity can further be elaborated by asking the following questions. Is the firm the only one that offers the customer these benefits? If not, is the firm's level of the benefits higher than that of competitors (Afuah, 2013:8)? For example, WalMart's skills in developing and using point-of-purchase data collection to control inventory have given it a competitive advantage over K-Mart, a firm that until recently has not had access to this timely information. Therefore, for many years, WalMart's valuable point-of-purchase inventory control systems were rare. Barney (1991:107) adds that as long as the number of firms

that possess a particular valuable resource (or a bundle of valuable resources) is less than the number of firms needed to generate perfect competition dynamics in an industry, that resource has the potential of generating a competitive advantage.

Ehlers and Lazenby (2011:119) argue that when ideally no other organisation possesses the same resource, then it becomes a distinctive competence for the organisation. However, to possess a resource is one thing, while the capability to exploit the resource is another. A firm must have the ability to exploit the resource in order to create a competitive advantage. Again,Ehlers & Lazenby (2011:118) illustrate, '...in the motor industry, all motor manufacturers have the necessary competencies or capabilities and resources to build motor vehicles, but a company such as BMW has core competencies in design and engine technology which are the basis of the company's reputation for high-quality and high-performance cars'. This denotes a significant contribution of unique resources that a firm can use to gain competitive advantage. In the same vein it is envisaged that franchisees are expected to acquire distinctive capabilities for better performance.

2.3.4 IMPERFECTLY IMITABLE RESOURCES

Authors such as Selznick (1957:42-56) and Penrose (1959:54) suggest that inimitable firm heterogeneity or the possession of unique competencies or capabilities may be an important source of enduring strategic advantage. That is why imperfectly imitable resources mean that firms without that resource cannot obtain it through direct duplication or substitution (Kozlenkova et al., 2014:3). Barney (1995:53) shares the same notion: that a firm has at least temporary competitive advantage with valuable and rare resources only, but obtains sustained competitive advantage when competing firms face a cost disadvantage in imitating its resources and capabilities. If valuable and rare resources were easily imitable, competitors would quickly copy them and the potential for competitive advantage would disappear (Cardeal & Antonio, 2012:10161). Other scholars have found that resources appear hard to imitate if they are path dependent (Vergne & Durand, 2011:6); when there is an ambiguous relationship between the resources that enhances competitive advantage (Barney, 1995:53; Reed & DeFillipi, 1990:88); if they are socially complex (Barney, 1991:99); if there are legal property rights, such as in the case of

patents (Wills-Johnson, 2008:214); and if the process of their imitation by other companies is lengthy (Wills- Johnson, 2008:214).

Path dependence is closely related, even if distinct. Examples are: “the causal relevance of preceding stages in a temporal sequence” (Peirson, 1994: 252); “…the set of dynamic processes where small events have long-lasting consequences that economic action at each moment can modify yet only to a limited extent” (Antonelli, 1997:643-644); and “the dependence of economic outcomes on the path performance of a firm does not depend simply on the industry structure within which a firm finds itself at a particular point in time, but also on the path a firm followed through history to arrive where it is” (Barney, 1991:107-108). Thus a path to accrue resources and capabilities may be idiosyncratic, making it difficult for rivals to copy. Teece *et al.* (1997:509) in support say that the importance of path dependencies is amplified where conditions of increasing returns exist.

Moreover, Barney (1995:53) states the importance of history in creating firm resources. A thorough knowledge of the firm’s history may be required, given the path-dependent nature of many resources (Reed & DeFillipi, 1990:88; Rouse & Daellenbach, 2002:963). As firms evolve, they pick up skills, abilities, and resources that are unique to them, reflecting their particular path through history. These resources and capabilities reflect the unique personalities, experiences, and relationships that exist in only a single firm (Barney, 1995:53). A good example is of Caterpillar before and after the Second World War. Caterpillar, as one of the medium-sized organisations, struggled to survive in the heavy construction equipment industry. When the war was almost starting, Department of War sought for a worldwide supplier of heavy construction equipment to build roads, air strips, army bases and other military requirements. Caterpillar managed to beat other firms in a competition and was awarded the contract. Later it developed a worldwide service and supply network for heavy construction equipment at very low cost, with the support of the Allies. After the Second World War, Caterpillar continued the services and supplies, making it a leader in most categories of heavy construction equipment (Barney, 1995:54). Therefore, if a competitor considers duplicating Caterpillar’s worldwide service and supply network at the same cost as Caterpillar, it has to go through the same route. This may be very difficult for the competing organisation to get the similar government support.

Barney (1995:53) sees imitation taking place in at least two ways: duplication and substitution. Duplication occurs when an imitating firm builds the same kinds of resources as the firm it is imitating. For example, if one firm has a competitive advantage because of its research and development skills, then a duplicating firm will try to imitate that resource by developing its own research and development skills. Moreover, firms may be able to substitute some resources for other resources and if these substitute resources have the same strategic implications and are no more costly to develop, and then imitation through substitution will lead to competitive parity in the long run (Barney, 1995:53). This is supported by Afuah (2013:8), who explains that a business model that is valuable and rare and therefore makes its owner money will not do so for long if the model is easy to imitate, substitute or leapfrog. Rumelt (1984:556) identifies inimitability as resulting from the presence of isolating mechanisms such as causal ambiguity, information asymmetries or social complexity. These mechanisms protect the organisation's resources from imitation and preserve the stream of rents accruing to them (Bowman & Ambrosini, 2003:291).

In addition, another reason why firms may be at a cost disadvantage in imitating resources and capabilities is that these resources may be socially complex (Barney, 1995:55). Social complexity includes the interpersonal relations among managers in a firm (Hambrick, 1987:88); a firm's culture (Barney, 1986b:656); and a firm's reputation among suppliers (Porter, 1980) and customers (Klein, Crawford & Alchian, 1978:297; Klein & Lefler, 1981:615). Thus there is little or no causal ambiguity surrounding the link between these firm resources and competitive advantage (Barney, 1991:110). Again, Barney (1995:55) argues '...organisational phenomena like reputation, trust, friendship, teamwork and culture - while not patentable, are much more difficult to imitate'. For example, HP's culture is that of supporting and encouraging teamwork and cooperation. HP's socially complex resource to enhance the compatibility of its numerous products (e.g., printers, plotters, personal computers, mini-computers and electronic instruments), has made it double its market value without introducing any radical new products or technologies (Barney, 1995:55).

2.3.5 NON-SUBSTITUTABILITY OF RESOURCES

A resource is said to be non-substitutable if it cannot be easily replaced by another resource that delivers the same effect (Bowman & Ambrosini, 2003:292). Barney (1991:111) asserts, 'Substitutability can take at least two forms. First, though it may not be possible for a firm to imitate another firm's resources exactly, it may be able to substitute a similar resource that enables it to conceive of and implement the same strategies'. An example is of a firm seeking to duplicate the competitive advantages of another firm by imitating that other firm's high-quality top management team. It will often be unable to copy that team exactly (Barney & Tyler, 1990). Second, very different firm resources can also be strategic substitutes. For example, managers in one firm may have a very clear vision of the future of their company because of a charismatic leader in their firm (Zucker, 1977:726).

Resources that pass the VRIN test are involved in delivering competitive advantage to the firm, by either delivering product advantages perceived by customers or conferring process advantages that result in lower unit costs (Bowman & Ambrosini, 2003:292). This implies that such resources generate rents and contribute to the firm's performance. However, substitute organisation resources need not have exactly the same implications for an organisation in order for those resources to be equivalent from the point of view of the strategies that firms can conceive of and implement (Barney, 1991:112). Once organisations have valuable substitute resources, they are not rare, and if competitors can acquire them then they are imitable. What it means is that both the firm and the competitor cannot expect to obtain a sustained competitive advantage.

2.3.6 ORGANISATION CHARACTERISTIC OF RESOURCES

Beside the resource characteristics of value, rarity, inimitability and non-substitutability, Barney (1995:56) later conceptualised organisation to replace non-substitutability. Organisation is defined as a firm's policies and procedures organised to exploit the full competitive potential of its resources and capabilities (Barney & Hesterly, 2012:94). This means that a valuable, rare, and imperfectly imitable resource may not provide a sustainable competitive advantage if it is not organised. Sustainable competitive

advantage is the long-term benefit of implementing some unique value-creating strategy which competitors do not implement simultaneously, along with the inability to duplicate the benefits of this strategy (Kim, Jeon, Jung, Lu & Jones, 2012:1612). That is, poor organisational processes, policies, and procedures may undermine a resource's potential competitive advantage if its knowledge as an intangible organisational competitive resource is not developed and protected (Ahmad, Bosua & Scheepers, 2014:28). This implies that organisation acts as an adjustment factor to either enable or prevent a firm from fully realising the benefits embodied in its resources. While competitive advantage means a creation of more economic value than the marginal competitor in its product market (Peteraf & Barney, 2003:314), sustained competitive advantage is creating more economic value than the marginal firm in its industry, and when other firms are unable to duplicate the benefits of this strategy (Barney & Clark, 2007:52).

However, the tenet organisation requirement of the VRIO framework is widely neglected (Kozlenkova *et al*., 2014:11). Early versions of the RBV referred to a VRIN framework: valuable, rare, inimitable, and non-substitutable (Kozlenkova *et al*., 2014:3). Barney (1995:56), however, suggests the contemporary version: subsuming the non-substitutability requirement of VRIN under "imperfectly imitable condition", and adds organisational processes as means for exploiting the potential of VRI resources (Kozlenkova *et al*., 2014:2). The VRIO framework is fostered as a tool for internal analyses of the different resources and capabilities an organisation possess (Pesic, Milic & Stankovic, 2012:584). Unfortunately, little has been done to test the conceptual level of this advocated cornerstone of RBV. Furthermore, Cardeal and Antonio (2012:10161) argue that from the dynamic capability viewpoint, capability refers to organisation (O). In other words, their argument is that a dynamic capability is the VRIO's 'O'. As a result, this study adopts the VRIN framework which has been operationalised in a number of empirical studies emphasising a resource – dynamic capability – performance relationship.

The following tables give a rundown of some key studies done so far and contributions in VRIN, VRIO and dynamic capabilities. Some of the papers are at a conceptual level while others provide empirical findings.

Authors	Articles' key points
Barney (1991)	Proposes and discusses four empirical indicators of potential of firm resources to generate sustained competitive advantage: -value, rareness, imitability and non-substitutability (pp. 106-111).
Amit and Schoemaker (1993)	Posit the desired characteristics of the firm's resources and capabilities (p.38).
Barney (1995)	Has come to regard non-substitutability as a sub-dimension of inimitability, making duplication and substitution two different dimensions of inimitability (p.53).
Hoopes *et al*. (2003)	Argue that only value and inimitability are ultimately important (p.890).
Crook *et al*. (2008)	Argue that value and inimitability matter the most, because resources that are difficult to imitate are rare by definition, and substitution is a form of imitation (p.1144).
Talaja (2012)	Using the VRIN framework, propounds that firms with more valuable and rare resources achieve higher levels of sustainable competitive advantage and performance, either directly or indirectly (p.51).
Newbert (2007)	Conceptualises Barney (1991)'s conceptual model that valuable, rare, inimitable, non-substitutable, resource/capability lead to sustained advantage which eventually leads to performance (p.123).
Newbert (2008)	Found that value and rareness are related to competitive advantage, that competitive advantage is related to performance (p.745).
Lin and Wu (2014)	Show that dynamic capabilities can mediate the firm's valuable, rare, inimitable and non-substitutable (VRIN) resources to improve performance (p.407).
Morgan, Vorhies and Schlegelmilch (2006)	Demonstrate the important role that inimitability and non-substitutability play in mediating the resource-to-performance relationship (p.621).
Perez-Nordtvedt, Kedia, Datta and Rasheed (2008)	Indicate that value, rarity, inimitability and non-substitutability influence source attractiveness (p.714).
Walker and Mercado (2013)	Show that as a resource, environmental responsibility is perceived as valuable, and to a lesser extent rare may not substitute for other organisational resources (p.2008).
Bowman and Ambrosini (2003)	Conclude that corporate centres may possess resources but must display dynamic capabilities (p.289).
Afuah (2013)	Supports the view that the more valuable, rare, inimitable and non-substitutable a resource, the more its owner is likely to make sustainable profits and that is VRIM, where M stands for money (p.17).

Table 3: VRIN key contributions

In his article, Barney (1991:106-111) proposes and discusses four empirical indicators of potential of firm resources to generate sustained competitive advantage. Value, rareness, imitability and substitutability indicate how heterogeneous and immobile a firm's resources are and how useful resources are for generating sustained competitive advantages. Amit and Schoemaker (1993:38) emphasise the desired characteristics of a firm's resources - but with reference to capabilities also. In addition, Barney (1995:53) later regarded non-substitutability as a sub-dimension of inimitability, making non-duplication and non-

substitution two different dimensions of inimitability, and inimitability has come to be seen as a prerequisite for rareness. On the other hand, others contend that only value and inimitability are ultimately important, because resources that are difficult to imitate are rare by definition, and substitution is a form of imitation (Hoopes *et al*., 2003:890; Crook *et al*., 2008:1144).

More contributions have emerged on VRIN. For example, Talaja (2012:51) propounds that firms with more valuable and rare resources achieve higher levels of sustainable competitive advantage and performance, either directly or indirectly. (Newbert (2007:123) conceptualises that VRIN resources/capability lead to sustained advantage and performance. Later Newbert (2008:745) found that if a firm possesses and exploits resources and capabilities that are both valuable and rare, it will attain a competitive advantage. Furthermore, other scholars assume that if these resources and capabilities are also both inimitable and non-substitutable, the firm will sustain this advantage, and the attainment of such advantages will enable the firm to improve its short-term and long-term performance (Eisenhardt & Martin, 2000:1105; Henderson & Cockburn, 1994:63; Powell, 2001:875; Teece *et al*., 1997:509). Lin and Wu (2014:407) discovered that dynamic capabilities can mediate VRIN resources to improve performance, while Morgan *et al*. (2006:621) demonstrated that inimitability and non-substitutability can mediate the resource-to-performance relationship. All these contributions give a clear testimony of how critical dynamic capabilities are if used in conjunction with the VRIN resource characteristics.

Authors	Article's key contributions
Barney (1995)	Suggests that in the process of filling in the internal blanks created by SWOT analysis, managers must address value, rareness, imitability and organisation as important questions about their resources (p.50).
Cardeal and Antonio (2012)	Assert that none of the resources contributing to the capacity are VRIO, but the capability is VRI (p.10159).
Kozlenkova *et al*. (2014)	Propose VRIO as the theoretical rationale for key market-based resources (p.12). The introduction of the VRIO versus VRIN framework has acknowledged that resources need to be leveraged effectively by the organisation instead of simply possessed by the firm (p.5).
Knott (2015)	Argues that VRIO encourage users to evaluate resources relative to competitors (p.1806).
Sheehan (2006)	Demonstrated that VRIO affects performance (p.421).

Table 4: VRIO key contributions

To date, not much had been done to demonstrate empirically that organisation (O) resource characteristic is a cornerstone in the resource-performance relationship. Hence, this study has a bias towards VRIN which has substantial support in the literature.

Authors	Article's key points
Schumpeter (1934)	Started the concept of dynamic capabilities when he advocated innovation-based competition where competitive advantage is based on the creative destruction of existing resources and novel recombination into new operational capabilities.
Teece, Pisano and Shuen (1997)	Define dynamic capabilities as the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments (p.516).
Teece (2007)	Argues that dynamic capabilities enable business enterprises to create, deploy, and protect intangible assets that support superior long-run business performance (p1319).
Danneels (2008)	Gives five antecedents of dynamic capabilities which have varying effects: willingness to cannibalise, constructive conflict, scanning (i.e., sensing), and slack have contemporaneous effects; scanning also has a lagged effect, and slack has a lagged effect on dynamic capabilities.
Drnevich and Kriauciunas (2011)	Heterogeneity strengthens the contribution of dynamic capabilities to relative performance (p.254).

Table 5: Dynamic capabilities key contributions

Schumpeter (1934) propounded the concept of dynamic capabilities when he advocated innovation-based competition, where competitive advantage is based on the creative destruction of existing resources and novel recombination into new operational capabilities. The concept was further elaborated by Teece et al. (1997:516), who viewed dynamic capabilities as the firm's ability to integrate, build, and reconfigure internal and

external competences to address rapidly changing environments. ‘Dynamic’ indicates the role they play in renewal, and ‘capabilities’ stresses that they are not spontaneous responses, but rather the result of strategic decisions, that is, intentional and regular efforts to adapt to a new context (Barrales-Molina, Martinez-Lopez & Gazquez-Abad, 2014:399). In addition, more contributions were provided (e.g., Ambrosini & Bowman, 2009; Danneels, 2008; Eisenhardt & Martin, 2000:1105; Pavlou & Sawy, 2011:239; Teece, 2007:1319; Zollo & Winter, 2002:339) and dynamic capabilities emerged as an offshoot of RBV. Based on these contributions, scholars agree that dynamic capabilities are vital to change the firm’s resource base.

2.4 RESOURCE-BASED THEORY AND FIRM PERFORMANCE

Franchising is not widely studied in economics but is empirically significant (Dnes, 1996:298). The growing body of work in franchising is both theoretical and empirical in nature and hence presents an excellent opportunity to test hypotheses in the economics of organisation (Dnes, 1996:298). Drawing on the resource-based theoryhelps the understanding of how franchises perform. Firm performance hinges on the efficient and effective management of resources and capabilities (Huesch, 2013:1288). The RBT explicates the potential value of resources that reside in their immobility, scarcity, non-transferability, and inimitability (Barney, 1986:1231; 1991:99; Peteraf, 1993:179). However, these four ‘VRIN’ characteristics matter only if the resources are successfully deployed to increase consumer willingness to pay or reduce a firm’s costs to produce and serve those customers, or both (Peteraf & Barney, 2003:309). This becomes critical also to franchising, where performance is expected. Franchising provides an increasingly important vehicle for entrepreneurial wealth creation and accounts for a large and growing share of business in the retail and service sectors (Sorenson & Sorensen, 2001:713), hence the need for proper understanding of performance through resource and/or capability characteristics.

Efficient production with heterogeneous resources is a result not of having better resources but in knowing more accuratelythe relative productive performances of those resources (Holcomb, Holmes & Connelly, 2009:457). This supports the idea that individuals may have similar training, experience, and credentials but with different human

capital across and within firms (Huesch, 2013:1290). In other words, performance lies at the heart of how resources are deployed towards productive ends within the firm's competitive process (Becker & Huselid, 2006:898). This will enable a firm to outperform its competitors. Hence management must identify and acquire strategic resources even though causal ambiguity may make it hard to identify the desired skills (Mol & Wijnberg, 2011:88), because chains are a growing phenomenon in the retail and small-scale service sectors. Moreover, franchising is an important way to organise such chains (Kosova & Lafontaine, 2010:543).

To our knowledge, there are no models of industry dynamics that are specific to franchising or chains (Kosova & Lafontaine, 2010:548). In this vein, the RBT is viewed as propelling rents (Teece *et al*., 1997:509) and the resources that are uniquely owned and controlled by the firm generate sustainable performance differential if and only if the resources used are valuable, rare, inimitable and non-substitutable (Barney, 1991:99). The implication of this argument is that efficiency rents stemming from such assets could be categorised into two interrelated dimensions: (a) rents stemming directly from the efficient implementation of the given strategy currently pursued; and (b) indirectly by enabling the firm to conceive and develop its strategy configuration (Spanos & Lioukas, 2001:911). Thus it becomes important for the chains to boost their knowledge so that they can develop a general model of resources and firm performance.

Du Plessis*et al*. (2012:403), define strategy implementation as entailing converting the organisation's strategic plans into action and then action into results. Some of the critical managerial actions for the implementation of current strategy are organisational structure and resource allocation. This involves creating an organisational structure with the capabilities, competencies and resources required to effectively implement strategy (Du Plessis*et al*., 2012:403). This implies that the current strategy must be feasible, sustainable and relevant to customers, based on unique resources and capabilities which are inherently hard to duplicate. For example, competitors might be deterred from developing a service backup system that is more extensive than current customers expect (Aaker, 2005:164). On the other hand, a firm must have the ability to create a strategic position, and hence utility, as a result of a strategy that is either entirely new relative to rivals, or one that was not previously feasible because of resource limitations (Spanos

&Lioukas, 2001:911). It follows that a firm is able to conceive and develop its strategy configuration when resources are available and when the strategy is compatible with the internal organisation. A case in point is that of Nando's, which pursued franchising strategy for its brand to grow in the international market. Thus Nando's had to work hard to reposition the brand by providing an indigenous South African flavour in its fast-food stores.

2.5 DYNAMIC CAPABILITIES AND PERFORMANCE

The dynamic capabilities view started in earnest with Schumpeter's (1934) innovation-based competition, where competitive advantage is based on the creative destruction of existing resources and novel recombination into new operational capabilities (Pavlou & El Sawy, 2011:241). The view was further developed in literature, throughideas such as architectural innovation (Abernathy & Clark, 1985:3), configuration competence (Henderson & Cockburn, 1994:63), and combinative capabilities (Kogut & Zander, 1995:76). Later Teece *et al*. (1997:509-533) extended the view by developing the notion of dynamic capabilities, and their seminal paper is considered the most influential source on dynamic capabilities, together with the framework of dynamic capabilities (Teece, 2007:1319-1350). One of the major reasons for the development of dynamic capabilities is that the RBV has been criticised as a static theory that is inadequate to explain the firm's sustainable competitive advantage in today's changing, turbulent environments (Priem & Butler 2001:22; Teece *et al*. 1997:509). Thus to overcome this limitation, Teece and Pisano (1994:537) introduced the concept of dynamic capabilities.

Drawing on Schumpeter (1934), Teece *et al*. (1997:509-510) posit that numerous theories have been advanced about the sources of competitive advantage but they are clustered around just a few loosely structured frameworks or paradigms. First, the competitive forces approach developed by Porter (1980), rooted in the structure-conduct-performance, emphasised the actions a firm can take to create defensible positions against competitive forces. Second, the strategic conflict approach (Shapiro, 1989:125) focused on product market imperfections, entry deterrence, and strategic interaction. Third, another approach looks into the building of competitive advantage through capturing entrepreneurial rents stemming from fundamental firm-level efficiency advantages (Teece *et al*., 1997:510).

However, Teece *et al*. (1997:510) identified the dimensions of firm-specific capabilities that can be sources of competitive advantage, and explained how combinations of competences and resources can be developed, deployed and protected. They call this the dynamic capabilities approach.

The concept of dynamic capabilities has gained rapid recognition as a potential source of achieving and sustaining competitive advantage in organisations (Teece, 2014:20; 2007:1319). Dynamic capabilities are capabilities that can "continuously create, extend, upgrade, protect, and keep relevant the enterprise's unique asset base" in a changing environment (Teece, 2007:1344). Capability is a subset of resources, which represents an "organisationally embedded non-transferable firm-specific resource whose purpose is to improve the productivity of the other resources possessed by the firm" (Teece, 2007:1319). For example, market-based resources are a subset of the firm's assets and capabilities that are related to marketing activities such as brand equity and customer equity (Sacui & Dumitru, 2014:158).

Building on Teece (2007:1319-1350), Parida, Oghazi and Cedergren (2016:181) have defined a dynamic capability as a firm's ability to integrate, build, and reconfigure the internal and external competence needed to address a rapidly changing environment. This includes information and communication technology (Zhou, Zhang, Chen & Han, 2017:713). The reason to creating, extending or modifying purposefully is to respond to the competition and dynamism of the environment. Thus the issues to do with timing of marketing programmes, and being speedy in innovation and competition, are critical. In the same vein, capabilities emphasise the role of management in adapting, integrating, and re-configuring internal and external organisational skills, resources, and functional competences toward the dynamic environment. For example, given the increasing intensity of business competition and the strong trends towards globalisation (Landroguez, Barroso& Cepeda-Carrion, 2011:1141), firms must develop brands that meet the needs of customers and then communicate superior value. In franchising, the Consumer Protection Act is critical because issues such as fair and responsible marketing, honest dealing, fair value, good quality and safety must be some of the best franchise practices for reasonable value.

Another example given by Teece *et al*. (1997:515) is the global competitive battles in high-technology industries such as semiconductors, information services, and software. They have shown that an expanded paradigm is required in order to understand how competitive advantage is achieved. Companies like IBM, Texas Instruments and Philips have employed a 'resource-based strategy' of getting valuable technology assets, often guarded by an aggressive intellectual property stance. On the other hand, this approach is not enough to support a significant competitive advantage. Winners in the global marketplace have been firms that can demonstrate timely responsiveness and rapid and flexible product innovation, coupled with the management capability to effectively coordinate and redeploy internal and external competences. Not surprisingly, industry observers have remarked that companies can accumulate a large stock of valuable technology assets and still not have many useful capabilities (Teece *et al*., 1997:515). Hence the availability of technological infrastructure in franchised chains, if the firm possesses appropriate capabilities to exploit them for a competitive advantage.

The literature has demonstrated that dynamic capabilities can be harnessed by firms to create, deploy, and protect innovation that supports superior performance (Beske, Land & Seuring, 2014:131). Henderson and Cockburn (1994:63) attest that architectural competence in the pharmaceutical industry is positively associated with research productivity as measured by patent counts. Iansiti and Clark (1994:558) found out that a firm’s knowledge-integration capability in product development is positively correlated with positive firm performance and with performance improvements over time. Therefore capabilities are considered as higher-order resources that involve the ability of a firm to deploy resources in combination with organisational processes to obtain desired outcomes. However, an organisation may identify profitable segments but without resources and capabilities to address those segments successfully. This may give room to a rival organisation if it possesses the necessary resources. Otherwise an organisation must have specific idiosyncratic competencies capable of placing the organisation in a competitive position.

Lin and Wu (2014:407) argue, ‘Employing samples of top one thousand Taiwanese companies, the findings show that dynamic capabilities can mediate the firm's valuable, rare, inimitable and non-substitutable (VRIN) resources to improve performance’. The

study demonstrates the role of dynamic capabilities in firm performance under the resource based view. In another study, with an empirical study of (217) enterprises in China, dynamic capabilities do significantly positively affect competitive advantage, and environmental dynamism is a driver rather than a moderator (Li & Liu, 2014:2793). According to Parida *et al*. (2016:189) dynamic capabilities are conceptualised as a high-order construct measured through a combination of absorptive capability, adaptive capability, innovation capability, and network capability. Understanding dynamic capabilities is critical to the franchising industry because both the established ones and the new franchisors are entrepreneurs who work to improve the performance of their businesses. The FASA Manual (2016:8) also argues that the franchise sector in South Africa promotes entrepreneurship, small business development and skills transfer. In support, other scholars argue that there is evidence that franchised chains can achieve a competitive advantage and outperform their competitors by leveraging dynamic capabilities to recognise, integrate, transfer and exploit resources that further enhance their capabilities across business processes and create unique value (Grewal *et al*., 2011:533; Combs *et al*., 2011:99).

Moreover, Akremi *et al*. (2015:147) say that franchisors also possess dynamic capabilities that they reconfigure and redeploy within their chain to create additional resources and new knowledge. The learning capability is seen as a central element in franchising in the creation and renewal of dynamic capabilities (Akremi *et al*., 2015:145). Other studies have emphasised the importance of learning and the ability of franchisors to create and transfer knowledge to franchisees in order to develop superior performance (Sorenson & Sørensen, 2001:713). Ambrosini and Bowman (2009:29) also find dynamic capabilities as shaped by enabling and inhibiting variables that characterise franchised chains and drive their performance. In order to further expand knowledge in franchising performance, coordinating, integrating and sensing capabilities are added. For the purposes of this study, all the four (coordinating, integrating, learning and sensing) dynamic capabilities are explored for there is evidence in literature. Again scholars agree that dynamic capabilities are central in exploiting resources and hence, this study must prove it.

2.5.1 COORDINATING CAPABILITY

Coordinating capability is defined as the ability to orchestrate and deploy tasks, resources, and activities in the new operational capabilities (Pavlou &El Sawy, 2011:246). There is need for the coordination of resources and capabilities and synchronisation of activities (Iansiti & Clark, 1994:557; Helfat & Peteraf, 2003:997). Coordinating capability enables reconfiguration by administering tasks, activities, and resources to deploy the reconfigured operational capabilities (Pavlou &El Sawy, 2011:246). Basic routines of coordinating capability draw upon the dynamic capabilities literature (Pavlou &El Sawy, 2011:246). These include assigning resources to tasks (Helfat & Peteraf, 2003:999), appointing the right person to the right task (Eisenhardt & Brown, 1999:72), identifying complementarities and synergies among tasks and resources (Eisenhardt & Galunic, 2000:91), and orchestrating collective activities (Henderson& Cockburn, 1994:63).

Coordinating and integrating capabilities are positively associated because coordination is enhanced by a shared language (Galunic & Eisenhardt, 2001:1229), and they are theoretically and empirically distinct (Kogut & Zander, 1995:76). Coordination focuses on orchestrating individual tasks and activities, while integration focuses on building an overall collective sense-making and understanding (Crowston & Kammerer, 1998:227). Hence, coordinating helps to recognise, assemble, and allocate resources (Collis, 1994:143) by facilitating the dissemination of market intelligence across the unit (Vorhies & Harker, 2000:145). Also, coordinating capability helps to assign the right person to the right task (Eisenhardt & Brown, 1999:72), and better synchronises their tasks and activities (Helfat &Peteraf, 2003:997). In support, Teece *et al*. (1997:519) argue that dynamic capability is embedded in distinct ways of coordinating. Okhuysen and Eisenhardt (2002:382) add that these distinct ways include the effective allocation of resources to enhance assignment of the right person to the right task. Furthermore, Quinn and Dutton (2005:36) explain that coordination is the process people use to create, adapt, and re-create organisations.

All the scholars imply that coordinating capability makes implementation and deployment of resources or capabilities possible. Hence, a firm's effective coordination of activities can be an important driver of performance (Aggarwal, Siggelkow & Singh, 2011:708). That is why resources require proper coordination, or firm performance will suffer. This study

adapts from the literature some ideas for franchise chains in ensuring an appropriate coordination of all the activities, and interaction between functional areas on decisions and determining areas of synergy between functional areas.

2.5.2 LEARNING CAPABILITY

Learning capability is defined as the ability to revamp existing operational capabilities with new knowledge (Pavlou &El Sawy, 2011:244). Learning, new knowledge and skills are important for decision-makers to take advantage of market opportunities in a changing environment (Teece, 2007:1319). Learning capability provides new solutions, creates new knowledge, and reconfigures existing capabilities to develop new products (Pavlou &El Sawy, 2011:244). The literature posits that sensing and learning capabilities are distinct capabilities, because sensing focuses on gathering new market intelligence, and learning focuses on using market intelligence to create new knowledge (Hurley & Hult, 1998:42). Zahra and George (2002:185) propose acquiring, assimilating, transforming, and exploiting knowledge as learning capability routines. These routines relate to kindred terms in the dynamic capabilities literature. Acquiring knowledge relates to obtaining new knowledge (Cohen & Levinthal, 1990:128); assimilating knowledge relates to knowledge articulation (Kogut& Zander, 1995:76) and knowledge brokering (Eisenhardt & Martin, 2000:1105); transforming knowledge relates to innovative problem-solving (Iansiti & Clark, 1994:557), brainstorming (Pisano, 1994:85), and creative new thinking (Henderson & Cockburn, 1994:63); and finally, exploiting knowledge relates to pursuing new initiatives (Van den Bosch, Volberda, & De Boer, 1999:551), seizing opportunities with learning (Teece, 2007:1319), and revamping operational capabilities (Grant, 1996:109). It is against this background that learning capability is necessary for the reconfiguration and innovation of existing resources and capabilities.

Sorenson and Sørensen (2001:715) classify learning into two ideal types: exploitation and exploration. Exploitation involves the incremental improvement of existing routines to enhance operational efficiency. Firms learn from experience with their current resources and technologies and use that knowledge to improve upon them. Exploratory learning, in contrast, seeks to discover potentially useful untapped resources and technologies. However, for an ideal alternative, both must be balanced. Therefore the organisation must

not concentrate on exploration at the expense of exploitation, because it will develop insufficient experience and may fail to see changes in the environment. The balance of these processes can crucially affect firm performance (Sorenson &Sørensen, 2001:715).

Learning allows the firm to combine its resources and capabilities and transform them into distinctive competences, resulting in sustainable competitive advantage (Real, Roldan & Leal, 2014:187). Real *et al*. (2014:186) further elaborate that learning as a capability can be a mediator between entrepreneurial orientation and performance. The same idea can be adapted in the relationship between VRIN resources and performance. In an almost similar study (where learning is a mediating construct), other scholars (Cai *et al*., 2014:370; Siren, Kohtamaki & Kuckertz, 2012:36) advise firms to apply practices related to knowledge sharing between teams and departments. For example, cross-functional teams, face-to-face interactions, discussion forums through internal educational training, learning groups' establishment, cross-department learning programmes, and other cross-functional interfaces, will go a long way in providing new ways to achieve performance.

2.5.3 INTEGRATING CAPABILITY

Integrating capability is defined as the ability to combine individual knowledge into the unit's new operational capabilities (Pavlou &El Sawy, 2011:245). Galunic & Eisenhardt (2001:1229) argue that reconfiguration relies on integrating new resources and assets, because reconfiguration of existing operational capabilities requires a collective logic and shared interaction patterns (Okhuysen & Eisenhardt, 2002:370). Thus the new knowledge created by learning is mostly owned by individuals and it must be integrated to a collective level (Teece, 1982:39). The collective business unit draws on contribution, representation, and interrelation of individual input and isclosely related with dynamic capabilities literature (Pavlou &El Sawy, 2011:245). Specifically, contribution relates to disseminating individual input within the business unit (Okhuysen & Eisenhardt, 2002:370). Representation relates to visualising how people fit in, how other people act, and how the unit's activities fit together (Crowston & Kammerer, 1998:227).

Integrating capability is proposed to facilitate reconfiguration through its three basic routines (Pavlou &El Sawy, 2011:245). First, contribution to the unit helps collect and

combine individual inputs. Second, representation builds a shared understanding, creates a common ground, and develops new perceptual schema (Weick & Roberts, 1993:337). Third, because reconfiguration requires a new logic of collective interaction, interrelation helps the routinisation of the reconfigured operational capabilities (Okhuysen & Eisenhardt, 2002:370). Weick and Roberts (1993:377) argue that groups with more integrated capabilities can better react to novel situations. In addition, Zollo and Winter (2002:340) view dynamic capability as a collective activity, arguing that reconfiguring in a disjointed way does not even exercise a dynamic capability. Lastly, Teece (2007:1344) views the integration of knowledge as a foundation of dynamic capabilities. Thus this capability cannot be overlooked in franchising because entrepreneurs require a combination of knowledge in their operations.

When organisations do not have resources and competences to innovate on their own, they rely on external integrative capabilities. These capabilities, such as creation of collaborative networks, allow the firm to access external sources and act as an adhesive, absorbing critical knowledge and resources (Cohen & Levinthal, 1990:128). This implies that franchise chain managers must invest in sources of knowledge such as technology and customers. Examples are customer information collection and potential market exploration, collection of industry information for managerial decisions, integrating industry related technologies to develop new products, and recording and integrating historical methods and experiences in handling firm issues.

2.5.4 SENSING CAPABILITY

Reconfiguration requires a surveillance of market trends and new technologies to sense and seize opportunities (Pavlou &El Sawy, 2011:243). Teece *et al*. (1997:521) note: “The ability to calibrate the requirements for change and to effectuate the necessary adjustments would appear to depend on the ability to scan the environment, to evaluate markets and competitors, and to quickly accomplish reconfiguration ahead of competition.” Sensing capability is defined as the ability to spot, interpret, and pursue opportunities in the environment. In franchising, chains are expected to sense the environment to getinformation. Franchised chains must gather market intelligence on market needs, competitor moves, and new technologies in order for managers to make appropriate

decisions (Pavlou &El Sawy, 2011:243). Such opportunities may not be external to the industry. For example, technological opportunities are not exogenous, because some firms have the capacity to engage in or at least support basic research (Teece, 1994:547).

There are three basic routines of the sensing capability (Pavlou &El Sawy, 2011:243). These are: (i) generating market intelligence (Galunic & Rodan, 1998:1193); (ii) disseminating market intelligence (Kogut & Zander, 1996:76); and (iii) responding to market intelligence (Teece, 2007:1326). *Generating market intelligence* relates to identifying customer needs (Teece, 2007:1326), being responsive to market trends (Amit & Schoemaker, 1993:33), identifying market opportunities (Day, 1994:37), recognising rigidities (Sinkula, 1994:37), and detecting resource combinations (Galunic & Rodan, 1998:1193). Second, *disseminating market intelligence* relates to interpreting market intelligence (Kogut & Zander, 1996:76), interpreting events and developments, and exploring new opportunities (Teece, 2007:1344). Third, *responding to market intelligence* also relates to initiating plans to capitalise on market intelligence (D'Aveni, 1994), and pursuing specific market segments with plans to seize the new market opportunities (Teece, 2007:1345). Therefore the implication is that sensing capability helps in reconfiguration, achieving responsiveness to customer needs and product innovation.

In franchising, managers may encourage participation in professional association activities (e.g. FASA monthly breakfast seminars, latest franchise industry survey announcements, FASA's networking events, etc.), employees attending scientific or professional conferences, connection with the scientific and research community, identifying target market segments, changing customer needs and observance of best practices in their sector or category. Bharadwaj & Dong (2014:802), refer to the sensing capability as listening to the voice of the market. By listening to the voice of the market, the firm will be able to develop products and services that match/fit the buyer's requirements. Hence sensing fosters market knowledge competence and outside-in-culture, which are capable of generating economic rents.

2.6 THEORETICAL MODELS

In this study, various conceptual models were adapted from previous research. The models capture resource based theory, dynamic capabilities and firm performance. Some of the constructs were used to form the research model of this study. First, the following conceptual model (Figure 2) was developed by Newbert (2008:747) to study the relationship between resource-capability combination value, resource-capability combination rareness and performance through the mediation of competitive advantage. Only direct relationships were explored and only two resource characteristics were used (VR).

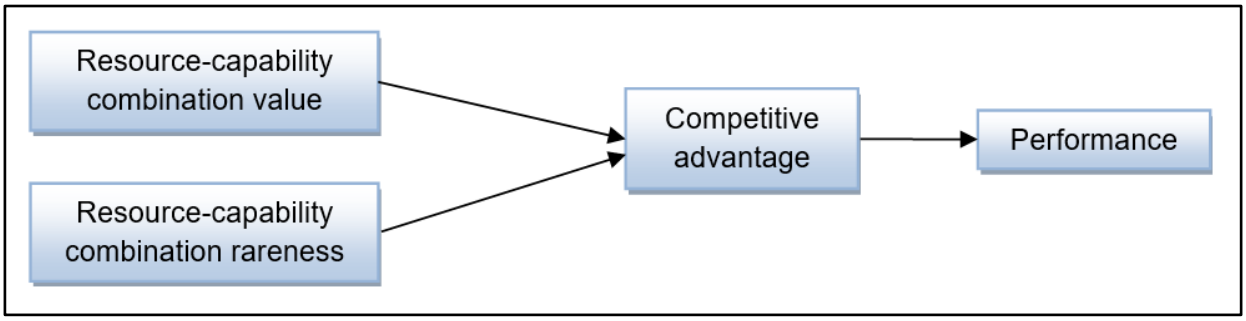


Figure 1: Newbert's conceptual model
Source: Newbert (2008:747).

Newbert's (2008:763) study endeavoured to explore relationships that underpin many of the fundamental hypotheses of the RBV that have been largely ignored in empirical literature. Since the study's findings support the majority of the hypotheses, it is a worthy contribution to the theory and can be replicated in other conceptual-level tests of RBV. It is against this background that this study adapts the model with some modifications. Instead of value and rareness (VR) only as independent variables, the other two (IN) are added as independent variables. Further, in place of competitive advantage, dynamic capabilities are used to mediate the relationships. Again, both the direct and the indirect relationships are explored instead of the direct or indirect only. This must contribute to the RBV by either rejecting or accepting the propositions and assumptions put forward that firm performance improves as a result of efficient use of resources and capabilities (Penrose, 1959:75; Amit & Schoemaker, 1993:33; Barney, 1991:99; Eisenhardt & Martin, 2000:1105; Henderson & Cockburn, 1994:63; Powell, 2001:875; Teece *et al*., 1997:509).

Second, Morgan *et al*. (2006:624) developed a conceptual model to test the relationships between export venture resource levels and export venture performance through the mediation of export venture characteristics (inimitability and non-substitutability). Their study draws inspiration from the growing importance of exporting in the past decade which has witnessed an explosion of interest in the RBV among researchers studying firm performance (Morgan *et al*., 2006:622). The conceptual model is as depicted below.

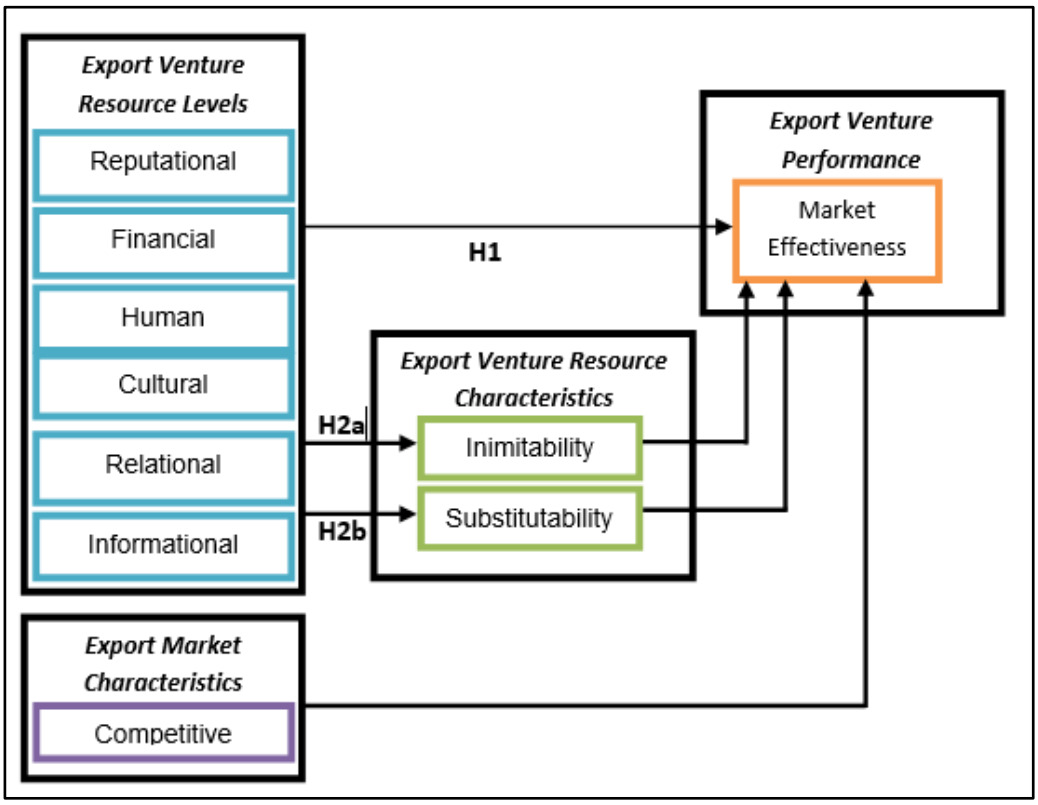


Figure 2: Morgan *et al.*'s conceptual model

Source: Morgan *et al.* (2006:624).

After examining resource drivers of industrial export venture performance, Morgan *et al*. (2006:631) found that inimitability and non-substitutability characteristics (see Figure 3) of export venture resources are strongly linked with export venture market effectiveness. However, in their study resource inimitability and non-substitutability (IN) were used to mediate the relationship, which is different in this study. In this study the mediating variable is the dynamic capabilities, as explored by Lin and Wu (2014:410) below. Therefore, it is only the IN characteristics that are adapted from Morgan et al.'s model (2006:624), to extend Newbert's (2008:747) model. Hopefully the findings must also help to confirm or reject assumptions made about the RBV of the firm.

The IN characteristics are also drawn from Barney's (1991:112) conceptual model – the relationship between resource heterogeneity and immobility, value, rareness, imperfect imitability, and substitutability, and sustained competitive advantage. Extant literature has grown on the VRIN as distinct independent variables but very little has been tested using all the four characteristics in one study. Hence in study all VRIN resource characteristics will be operationalised as distinct independent variables.

Furthermore, dynamic capabilities have been operationalised as mediating variables in a number of studies (De Brentani & Kleinschmidt, 2015:13; Wang *et al*., 2015:30; Real et al., 2014:191; Lin & Wu, 2014:410; Siren *et al*., 2012:20). In most of these studies, the learning capability was employed. However, this study will adapt four dynamic capabilities as conceptualised (Wilden & Gudergan, 2015:190; Lin & Wu, 2014:409; Schilke, 2014:189; Pavlou & El Sawy, 2011:243; Teece, 2007:1340), and employ them as one variable. A mediating variable transmits the effect of an independent variable on a dependent variable (Mackinnon, Fairchild & Fritz, 2007:593). Mediation represents to what extent the third variable will affect the relationship between the other variables. This study could focus on VRIN resource characteristics as independent variables, and firm performance as a dependent variable only, which is a two-variable relationship. This is where VRIN resources can be considered possible causes of firm performance (Barney, 1991:112). However, mediation represents the addition of a third variable, whereby VRIN resources (independent) are hypothesised to cause the mediator, dynamic capabilities, and dynamic capabilities (mediator) cause firm performance. Therefore VRIN resources were proposed to affect firm performance through the mediating role of dynamic capabilities.

Figure 4 depicts one of the models in literature where dynamic capabilities were operationalised as a mediating variable between resource characteristics and firm performance.

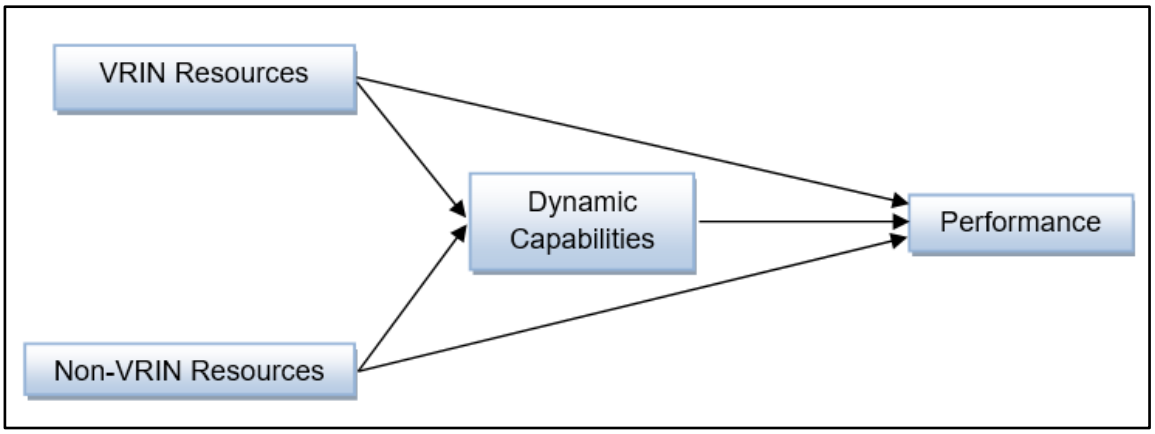


Figure 3: Lin and Wu's conceptual model
Source: Lin and Wu (2014:410).

Lin and Wu (2014:410) posit that dynamic capabilities as a mediating variable between VRIN/non-VRIN resources and performance under the resource-based view framework confirmed that direct effects on performance are significant. This is partial mediation, because there are both direct and indirect relationships. The only challenge with this model is that it does not recognise the effect of each resource characteristic as captured by the literature. Hence the current study considers investigating how each resource characteristic differs from other variables directly and indirectly.

2.7 THEORETICAL MODEL DEVELOPMENT

The RBV theory has been cited as a complementary explanation for franchising (Gillis *et al.*, 2013:449) and that resources have a positive impact (Perrigot *et al*., 2013:557). Castrogiovanni et al. (2006:27) have called researchers to look beyond resource scarcities toward resource-based capabilities to better explain franchising decisions. In addition, Akremi *et al*. (2015:145) have examined the drivers of franchised chains performance through the lens of the dynamic capabilities. It is evident that more RBV studies are needed to buttress findings already established. Hence the relationships to be explored in this study are depicted in Figure 5 below.

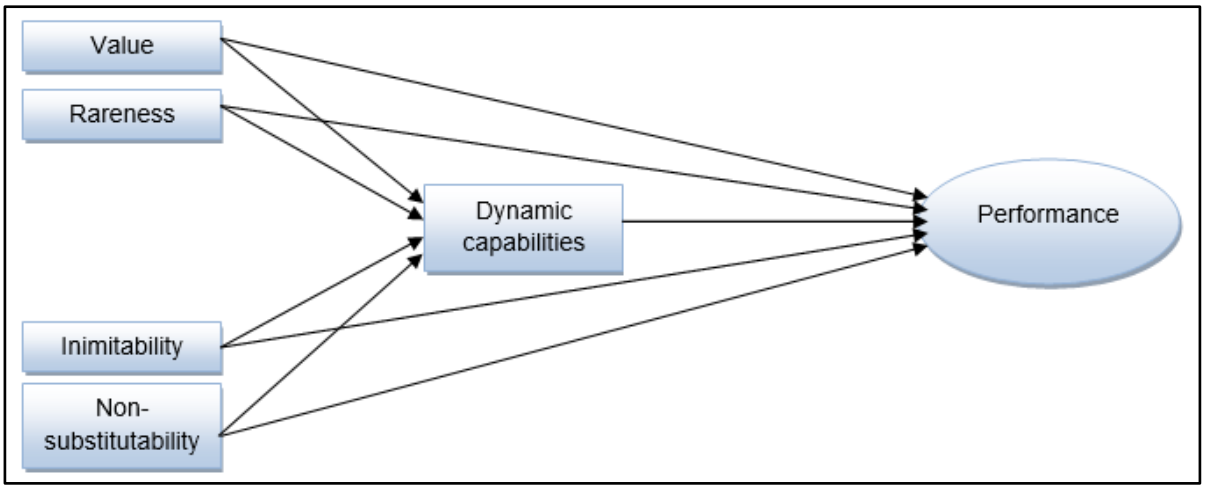


Figure 4: Conceptual framework

Source: Researcher's compilation.

VRIN resource characteristics are the independent variables assumed to either influence firm performance directly, where VRIN resources are considered a possible cause of firm performance or indirectly through the mediating role of dynamic capabilities. Value looks into resources in the franchise chain industry that can reduce costs and exploit market opportunities to increase performance. Rareness emphasises resources which none to very few of the franchise chain competitors are familiar with, which can reduce costs and exploit market opportunities to increase performance. Inimitability represents resources which franchise chain competitors find it difficult to match and replicate that can reduce costs and exploit market opportunities to increase performance. Non-substitutable resources are those which franchise chain competitors cannot substitute, that can reduce costs and exploit market opportunities to increase performance. Dynamic capabilities may be those distinct skills, processes and procedures that the franchise chain employ on VRIN resources to increase performance. The dependent variable is the performance (explained in terms of marketing, growth in sales, profitability and market share) of the franchise chain evaluated over years.

2.8 SUMMARY

This chapter dealt with the RBV of the firm and dynamic capabilities. The RBV is a theory that has come into existence through the ideas of many scholars. The theory has propositions and was explained. One of the arguments is that the exploitation of valuable,

rare, inimitable and non-substitutable resources and capabilities contributes to the organisation's performance. On the other hand, proponents further argue that resources-capabilities combinations are effective in improving performance. Hence, dynamic capabilities are operationalised to mediate the VRIN resource-performance relationship. The study tests both the direct effects of resources on performance and the indirect effects. The literature survey, including theoretical frameworks and models, was also analysed. Finally, the model for this study was crafted. In the next chapter, franchising will be looked into in detail to demonstrate and justify its relevance in the study.

Chapter 3 - FRANCHISING INDUSTRY

3 FRANCHISING INDUSTRY

"I think that if you ask what's made us successful, it's because we've been fortunate enough to identify, in a number of cases, great people early. Then we throw all the resources behind them and are aligned with them."
Dan Levitan

3.1 CHAPTER OVERVIEW

Franchising has become a means of growth across many different industries, including business and financial services, construction, cleaning, food, medical, and recreation (Kistruck *et al*., 2011:503). It is also seen as a prevalent growth strategy in both developed and emerging economies (Welsh *et al*., 2006:130). Franchised chains (Akremi *et al*., 2015:145) are viewed as a dynamic phenomenon that has spread to both developed and developing economies, including South Africa. Following assumptions of the resource-based view, superior performance of the franchises is attributed to the resources of the franchisor and resources of the franchisee. Financial, physical, organisational, intellectual and human resources possessed by a franchise firm are expected to have VRIN characteristics. Although globalisation of franchising fosters jostling and contesting of players in the South African context VRIN resources are hypothesised as drivers of performance in franchised chains.

3.2 INTRODUCTION

This chapter starts with the overview, followed by the concept of franchising in this study, a global view of franchising, franchised chains in South Africa, and what firms are doing or can do to have sustainable competitive advantage. Some of the franchise business categories in South Africa are computer Internet and cellular, print communication and media, personal services, leisure and entertainment, real estate services, retailing and fast food and restaurants. Indeed franchising in South Africa is poised to grow, considering the expansion plans, sustainability and turnover generated by each category. In this chapter, fast food and retailing will be explained. The franchising concept will be seated in RBV to

expound the impact of the franchisor and franchisee resources on competitive advantage and superior performance.

3.3 THE CONCEPT OF FRANCHISING IN THE STUDY

The franchising industry is germane to this study in a number of ways. First, there are few studies involving franchising and RBV (Melo, Andreassi & Oliveira, 2009:3). RBV as a complementary theory (Gillis *et al*., 2014:449) can have a contribution in explaining firm performance in franchising. Second, the abundance of studies in the franchising industry did not use dynamic capabilities. Only a handful operationalised the dynamic capabilities approach (for example, Akremi *et al*., 2015:145-165). Dynamic capabilities manifest the firm's capacity to purposefully create or modify the firm's resource base (Moliterno & Wiersema, 2007:1065). Hence, learning, integrating, coordinating and sensing dynamic capabilities are proposed as mediators of the relationship between VRIN resources and franchise chain performance. Third, franchises depend on tangible and intangible resources of the franchisor and franchisees, which are the most important factors that contribute to competitive advantage (Gorovaia, 2011:2). Since the studies in developed economies such as Germany and Canada show the positive impact of resources on performance (Gorovaia, 2011:1; Gillis et al., 2013:449), the same is expected in the South African franchise industry. Fourth, franchising contributes 12.5% to South Africa's gross domestic product (GDP), entrepreneurship, skills development and job creation (FASA Manual, 2016:15). Therefore, franchising is attracting interest from scholars to advance knowledge and understanding on factors influencing firm performance.

Franchising is defined by Curran and Stanworth (1983:11) as: "a business form essentially consisting of an organization (the franchisor) with a market-tested business package centred on a product or service, entering into a continuing contractual relationship with franchisees, typically self-financed and independent owner-managed small firms, operating under the franchisor's trade name to produce and/or market goods or services according to a format specified by the franchisor."

Combs *et al*. (2011:413) view franchising as a long-term contractual agreement between two types of firms; a franchisor who has recognised an opportunity and created a new

venture to exploit it, and a group of franchisees who see value in the opportunity and purchase the right to replicate the venture in new geographic markets. Others contend that franchising occurs when a franchisor sells to the franchisee the right to market its branded products (goods or services) and use its business practices (Combs, Michael, & Castrogiovanni, 2004:907). Franchising consists of a contractual arrangement between two firms: the franchisor and the franchisee (Nijmeijer *et al*., 2014:62). In this arrangement, the franchisee buys the right to market goods or services under the franchisor's brand name (Combs *et al*., 2004:443), and the franchisees have to pay for this support, and are obliged to operate their businesses as prescribed by the franchisor (Falbe & Welsh, 1998:151; Komoto, 2005:119).

A firm that grows its business concept through franchising gives control over outlets bearing its trademarks and it receives a relatively small fraction of revenues in return (Combs *et al*., 2011:413). Therefore, franchising provides access to resources that can be implemented by franchisees in business operation. The resources may be in the form of the trade mark (the marks, brand name and logo), financial resources, franchisor's product, and marketing plan and operation manuals. Gorovaia (2011:1) adds that the franchisor's intangible resources refer to the system-specific know-how and brand name assets while intangible outlet-specific resources of franchisees refer to the exploration and exploitation capabilities. The franchisor's intangible resource of the brand name can be measured in terms of strength, reputation, recognition and importance in achieving a competitive advantage. Conversely, there are the franchisee's intangible resources: (i) exploration capabilities are regarded as innovation capabilities and local market knowledge, and (ii) exploitation assets are viewed as quality control and administrative capabilities. That is why it is argued that franchisees bring to the franchise system not just financial capital, but also knowledge of geographic locations and labour markets, plus their own managerial labour (Stanworth, Stanworth, Watson, Purdy & Healeas, 2004:541). It is therefore assumed that these resources create competitive advantage and increase performance.

However, franchisees require less (costly) oversight, and there are symbiotic benefits to having a mix of franchised and company-owned outlets (Combs & Ketchen, 2003:443; Combs *et al*., 2004:907). Perdreau *et al*. (2015:121) also add that franchising is a form of

entrepreneurship and is increasingly present in a variety of sectors. It has a dual distribution strategy, referred to as plural-form organisation, which means that the network is composed of both franchised and company-owned units (Bradach, 1997:276). A plural form is the co-existence of the franchise and company-owned outlets in the same chain (Fernandez, Gonzalez-Busto & Castano, 2013:2). The company-owned units preserve the system's uniformity, and the franchised ones enhance its innovativeness and make a sales effort that requires less control of the franchisor (Cliquet in Fernandez *et al*., 2013:4). Scholars agree that the plural form is ideal for a firm although there may be conflicts with the influence of franchisees on clients or poor management of the brand name. Cliquet (2000:369) hints that the plural form should be balanced to avoid a two-speed network that creates conflict and complexity within the firm. However, Bradach, in Fernandez et al. (2013:7), argues that company units provide stable demand for services, which enables the entire chain – including the franchisees – to benefit from the returns to scale in critical areas, such as the administration of purchases. Also operating the plural form may signal credibility and commitment in maintaining the brand name.

There are two approaches that are used to leverage resources in new markets and these are franchising and multi-chaining (Brickley & Dark, 1987:401). Franchising facilitates geographic market expansion and it is defined by a contractual agreement in which one firm (the franchisee) pays an up-front fee and ongoing royalties to the focal firm (the franchisor) for the right to sell the firm's products and services and to use the franchisor's trademark and/or business format (Brickley, 1987:401; Shane, 1996:216). Thus a firm may take franchisees that will own the outlet and do all management activities. Because of such an arrangement, franchising allows faster growth into new geographic markets than company ownership because franchisees incur a large proportion of the costs of developing new outlets (Shane, 1996:216). Further, as owners, franchisees will monitor their outlets closely (Krueger, 1991:78); so if outlets are established in a location far away from the main offices costs of monitoring will not increase.

Chirico, Ireland & Sirmon (2011:483-484) argue that franchising is widely recognised as an important driver of growth in entrepreneurial firms, principally by making products proximate to geographically dispersed customers. Franchising is the fastest growing method of doing business today and it is becoming a major catalyst for economic growth,

employment, and development, not only in the US but also in the international marketplace (Chan & Justis, 1995:76). Therefore it is a noble enterprise because it benefits the franchisor, the franchisee and the marketplace. The franchisor benefits from leveraging some of the franchisee's assets, such as financial capital and specific local knowledge, while the franchisee benefits from leveraging some of the franchisor's assets including the brand, organisational routines, purchasing power, and managerial input (Chirico *et al*., 2011:484). According to Perrigot *et al*. (2013:557), intellectual resources such as brand-name recognition play a vital role in driving growth. FASA Manual (2016:15) shares the same notion that franchising has a strong potential for further growth. This implies that resources foster growth, provided that brand names and trademarks signal value. Thus, potential franchisees are likely to be attracted by a brand name with high recognition.

Moreover, franchising has grown tremendously as an organisational form especially in retail and food service sectors (Grewal *et al*., 2011:533). This growth is also evident in South Africa. The largest franchise system is the fast food and restaurant category with 24% while 12% is the retailing category (FASA Manual, 2016:11). The organisational form refers to the relationship that is established to exist between the franchisor and the franchisee. The relationship must be nurtured because for both parties the partnership is at risk. Grewal *et al*. (2011:534) argue that the franchisor risks the resources it invests in the brand and potential losses of brand equity. On the other hand, the franchisee firm risks resources that it invests to acquire tangible assets and intangible rights that are specific to the franchise. Because of the risks incurred, the franchisor's and franchisee's resources ought to be VRIN, so that growth results in superior performance.

The concept of franchising also covers with multi-unit franchising (Gard & Rasheed, 2003:329). Franchisors may allocate multiple outlets to franchisees (multi-unit franchising) instead of single-unit franchising (Jindal, 2011:550). In this case multiple outlets, owned by one firm, will be sharing a brand and have standardised business methods and practices nationwide or worldwide. Fernandez *et al*. (2013:7) show that the franchisor produces some general resources for the chain such as marketing, purchasing, and training for company managers, for the franchisees that choose to hire these services.

For example, in the fast food and restaurants category, King Pie is one of the biggest and most successful pie franchises, with over 270 outlets in South Africa, Mozambique, Swaziland, Zambia and Namibia (FASA Manual, 2016:93). The fast-food sector in South Africa has grown into multiple outlets, comprising quick service restaurants, sit-down restaurants, pub concepts, specialist food and food truck concepts. There are many other outlets in the retail, real estate services and other sectors that operate under franchising. Again the FASA Manual (2016:11) explains that South Africa has over 39 000 franchise outlets and 17 franchise business sectors, but face performance challenges. This study adopts RBV assumptions that firms can experience rents or superior performance when VRIN resources are employed.

3.4 EVOLVEMENT OF FRANCHISING

Dant and Grunhagen (2014:124) argue that franchising has a long history stretching back to ancient China. Franchising originated from an old French term ‘franche’, meaning ‘to make or set free’ or ‘to invest with a franchise or privilege (Dant & Grunhagen, 2014:125). The US is regarded as the home of franchising, with the Singer Sewing Machine Company’s network of sales and service agents being cited as a pioneer in the 1850s (Woker, 2005:1). When Singer realised that manufacturing his sewing machines was easier than selling them, he instituted a franchise system (Maserumule & Mathole, 2006:223). As a result, franchising grew throughout the world through sales agents. This is supported by Alon (2004:156), who argues, ‘...due to domestic market saturation in the United States and the attractiveness of markets overseas, US franchisors have begun to internationalize their concepts’. So franchising has evolved to be a way of doing business world-wide, and many industries are involved. Soft drink bottlers, automobiles, financial services, construction, cleaning, food, medical, recreation and social initiatives (Kistruck *et al*., 2011:503), are examples of industries that have grown through franchising.

After World War II the great proliferation of new products and services was affected by franchising; typical of this type of distribution are automobile and truck dealers, petrol service stations, and soft drink bottlers (Candilis, 1978:15). The consumer receives the same products and services as if he had bought from the franchisor direct (Rothenberg, 1967:53). Rothenberg (1967:53) points out that franchise distribution can be found in the

soft-drink industry, such as Coca Cola, in which the franchise services are channelled through the bottler to the retailer. Others contend that franchising is an efficient method of securing both rapid system growth and system-wide adaptation to competition (Weaven & Frazer, 2007:173). This implies that the evolvement of franchising is a noble cause to entrepreneurs and parent businesses.

By the early twenty-first century, there were approximately 700,000) entrepreneur–franchisees worldwide (Hoy, Stanworth & Purdy 2000:408). Although US is considered a home of franchising (Dant & Grunhagen, 2014:124), it is also growing across the globe (Kistruck *et al*., 2011:504). That is why recent findings argue that the franchising sector is expected to contribute approximately $521 billion or about 3% of the US Gross Domestic Product (Badrinarayanan, Suh & Kim, 2016:3944). It is against this background that franchising is vital to the economy and has attracted research attention.

Franchising also represents a prevalent growth strategy in both developed and emerging economies (Welsh *et al*., 2006:131). The persistence of franchising across such a wide range of industrial and geographic settings has generated research interest in the potential of franchising as a viable model within base-of-the-pyramid (BOP) markets (Kistruck & Beamish, 2010:735). Africa stands as an example of such BOP markets. Among African countries that have benefited from franchising, is South Africa. Franchising began in the 1920s in South Africa with the establishment of the motor manufacturing industry; - the original form was product distribution franchising. Coca Cola and Pepsi set up subsidiaries in South Africa in 1937 and 1948 respectively, and a network of bottlers was established. Business format franchising was introduced in the mid-1960s, when some leading American franchising companies opened outlets. Amongst the first were Steers, Kentucky Fried Chicken and Wimpy (Woker, 2005:2). Thus the Franchise Association of Southern Africa (FASA) could be established. The FASA Manual (2016:17) states that South Africa boasts fast food and restaurants (23%), retailing (14%), business to business (12%), building, office and home services (10%), childcare, education and training (10%), automotive products and services (8%), real estate services (6%), health, beauty and body culture (5%), entertainment and leisure (4%), petroleum retailing (4%), personal services (3%), construction and related (1%).

However, a franchise consultant in Kistruck *et al*. (2011:503) argues that franchising is overly expensive to do in Africa, because it is built to help undereducated and undercapitalised people in countries where there is very little infrastructure to succeed at business. In South Africa, challenges facing franchisees are finding skilled staff, being able to offer consistently good service and running costs (FASA Franchise Manual, 2016:40). On the other hand, the main challenges facing franchisors are related to finding the right franchisee with the right skills sets and finding the right staff (FASA Franchise Manual, 2016:14). Moreover, there are problems in profit-making, customer satisfaction and knowledge of the business. Therefore in such a situation, there is a need for strategic managers, who have an interest in understanding sources of competitive advantage. For competitive advantage, Barney (1995:50) provides the prescription that strategic managers must be able to manipulate the firm's resources and capabilities (such as financial, physical, human, and organisational assets) to develop, manufacture, and deliver products or services to its customers.

3.5 FRANCHISING IN THEORIES

Franchising has given rise to a number of theories. First, the agency theory (Lafontaine, 1992), second, the transaction cost theory (Dahlstrom & Nygaard, 1999:160) that propounds the franchisor's actions regarding the choice between franchised and company-owned outlets. Third, the resource-based view (Gillis *et al*., 2013:449), fourth, the property rights theory (Mumdziev & Windsperger, 2011:449), and fifth, the tapered integration theory (Bradach, 1998:276), which attempts to clarify the evolution of franchise networks toward company-owned, franchised, or plural-form organisations (Dant & Kaufmann, 2003:63). Franchising is explained in the agency theory (Brickley & Dark, 1987:401), by asserting that managers (the agents) in company-owned systems ostensibly shirk their duty to the owner of the firm (the principal) because their compensation is fixed. Consequently, high monitoring costs are incurred by the firm to ensure that its managers act in the firm's best interest (Perdreau *et al*., 2015:122). On the other hand, the agency theory posits some limitations of franchising including potential underinvestment and free riding by franchisees (Bergen, Dutta & Walker, 1992:1).

The critical resources theory (Rajan & Zingales, 1998:559) explains the governance and performance of plural-form franchise networks. The theory focuses on the benefits of each governance structure (Perdreau *et al*., 2015:123). According to the critical resources perspective, corporate governance refers to the vision of the firm as an organisation that provides access to specific and critical resources (Penrose, 1959:235-236; Rajan & Zingales, 1998:559). Perdreau *et al*. (2015:123) clearly point out that critical resources are those that are critical to organisational viability and are valuable because they tie together the assets of the firm or organisation. The critical resources theory is closely related to the resource-based view of a firm (Penrose, 1959:77; Wernerfelt, 1984:171; Barney, 1991:99). The resource-based view is a theory of competitive advantage among firms that emphasises the characteristics of a firm's resources and capabilities as the source of the performance differences among firms (Barney, 1991:99; Gillis *et al*., 2013:449).

However, the RBV and the critical resources theory are different in terms of the intended empirical applications of the theoretical concept. The RBV aims at the application of the choice of strategy of the firm that creates competitive advantage (Perdreau *et al*., 2015:123). A case in point is some studies based on imperfect imitability of capabilities: the choice between franchising and management service contracts (Erramilli & Agarwal, 2002:223) or the choice between franchising and company ownership (Gillis *et al*., 2013:449). Some scholars offer preliminary evidence that RBT has merit as a complementary explanation for franchising (Gillis *et al*., 2013:449). Castrogiovanni et al. (2006:27) call for research to look beyond resource scarcities toward resource-based capabilities to better explain franchising. Moreover, Akremi *et al*. (2015:160) suggest further research to incorporate dynamic capabilities as intermediating variables in explaining franchise chain performance. Thus this study employs RBV to further investigate its contribution to franchising through VRIN resources, dynamic capabilities and performance.

The call for more research on performance differences among franchised chains (Watson *et al*., 2005:25) is still loud. Akremi *et al*. (2015:146) have made an attempt to answer this call by analysing the drivers of franchised chains' performance through the lens of the dynamic capabilities approach and by using secondary data from US franchised chains in the retail and service industries. However, this current study is different in that it responds

to the call by using VRIN resources and the data is primary, from a South African setting and relates to two industries (that is, fast food and restaurants; retailing and direct marketing). The table below summarises the theories.

Theory	Source	Main assumptions
Transaction cost	Williamson, 1991:269; Rubin, 1978:223; Klein 1980:356; 1995:9; Klein & Saft 1985:345; Minkler & Park 1994:409; and others.	A firm's interactions with the market may not be under its control (for instance because of sales taxes), but its internal allocation of resources
Signalling	Dant & Kaufmann, 2003:63;Beggs, 1992:171; Gallini & Lutz, 1992:471; Gallini & Wright, 1990:147; Lafontaine, 1993:256; Leland & Pyle, 1977:371; Mishra, Heide, & Cort, 1998:277; and others.	Focuses on the externalities of market imperfections and knowledge asymmetries to explain organisational choice.
Agency	Brickley & Dark, 1987:401; Eisenhardt, 1989:57; Brickley, Dark & Weisbach, 1991a:27; Lafontaine, 1992:263; Combs, Ketchen, Shook & Short, 2011:99; and others.	Franchisees have the incentive to free-ride by taking actions that increase local profits at the expense of the franchisor's reputation.
Property rights	Windsperger, 2002:129; 2004a:69; and others.	Approximating the conditions that actually exist when rights are negotiated, exchanged, and handled.
Resource scarcity	Castrogiovanni *et al*., 2006:27; Combs & Ketchen, 1999:867; and others.	Explores franchising in order to access scarce resources, particularly capital and managerial resources, to expand rapidly.
Critical resources	Perdreau *et al*., 2015:121; and others.	Helps to explain the governance and performance of franchise businesses.
Resource-based	Mumdziev & Windsperger, 2011:449; Perdreau *et al*., 2015:122; Gillis, Combs & Ketchen, 2013:449; Barney, 1991:99; and others.	Emphasises the characteristics of a firm's resources and capabilities as the source of the performance differences among firms.
Resource constraints	Baker & Dant, 2008:87; and others.	Identifies the most important limiting factor that stands in the way of achieving a goal and then systematically improves that constraint until it is no longer the limiting factor.

Table 6: Franchising theories and main assumptions

3.6 THE FRANCHISE ASSOCIATION OF SOUTH AFRICA (FASA)

The Franchise Association of South Africa (FASA) is a trade association for franchisors, franchisees and the professional organisations that service the franchise industry. Its aim is to develop and safeguard the business environment for ethical franchising in South Africa. FASA is the leading recognised representative body of the rapidly growing franchise industry. FASA's criteria for membership conform to international best practices and are acknowledged by government, the industry and the public at large. The association is a full member of the World Franchise Council and the primary driver of the Pan-African Franchise Federation. Its vision is to stimulate self-employment and business development through encouraging entrepreneurship, stimulating new business concepts, creating jobs and playing a part in the skills development of all South Africans. FASA's primary role is to define the business of franchising and ensure that all parties adhere to the franchise business principles adopted and accepted internationally. Its mandate is to promote the advantages of franchising both to business entrepreneurs, to prospective franchisees and to the public at large. It promotes franchising that fosters growth.

3.7 FRANCHISING AND PERFORMANCE

Why do many franchises fail soon after inception, even as others expand successfully, not only in domestic markets but also internationally? The success of franchising as an organisational form has spawned multiple perspectives on why, and in which contexts, franchising provides a superior organisational alternative and how franchise firms expand through a combination of franchised and company-owned outlets (Shane & Spell, 1998:43). In franchising, performance depends on the joint actions of two distinct firms, the franchisor and franchisee, legally bound by the franchise contract (Nijmeijer *et al*., 2014:62). Thus the nature of the partnership between the franchisor and the franchisee may contribute to superior performance. For example, in South Africa, the relationship with the franchisor is rated as very good or good by the large majority of franchisees (FASA Franchise Manual, 2016:40). It is alleged that a poor relationship with the franchisor is characterised by lack of support from the franchisor and the franchisor, having different objectives from the franchisee.

Franchising has grown tremendously as an organisational form (Grewal *et al*., 2011:533) and its performance has interested many scholars of the franchising field. Some have been interested in unit-level performance, comparing franchised units and company-owned units (Frazer & Winzar, 2005:1534). Others have focused on performance at the chain level (Botti, Briec & Cliquet 2005:566; Perrigot *et al*., 2009:268), and comparing the performance of several chains within the same industry. However, Combs *et a*l. (2004b:907) and Watson *et al*. (2005:25) called for more research on performance differences among franchised chains. In early franchising research, resource scarcity and agency theories had focused on the propensity to franchise and did not predict superior performance (Gillis & Combs 2009:553). Combs *et al*. (2004b:909) suggest that franchised chains' performance is, at best, contingent on factors other than reducing agency costs or accessing scarce resources and they called for new theoretical frameworks to enhance our understanding of these other factors.

Recent studies have investigated performance in franchising. First, Akremi *et al*. (2015:145-146) examined the drivers of franchised chains performance through the lens of the dynamic capabilities approach. Second, Gorovaia & Windsperger (2013:183) investigated the performance of franchise networks through the lens of the resource-based theory and the real options theory. Drawing on these studies and the proponents of the RBV (Wernerfelt, 1984:171; Barney, 1991:99; Amit & Schoemaker, 1993:33), it seems that intangible resources of the franchisor and franchisees are the most important factors that contribute to the competitive advantage and superior performance in franchising. Thus this study embraces previous studies (Barthelemy, 2008:1451; Gorovaia & Windsperger, 2013:183) in operationalising VRIN resource effects on performance through the dynamic capabilities.

Comparison Data Country	Number of Brands	Percentage of Brands of Domestic Origin	Number of Units	Franchise Economic Output in USD
Argentina	700	85%	28 000	11 663 380 000
Australia	1 120	90%	79 000	109 650 000 000
Brazil	3 039	95%	142 593	46 407 600,000
Colombia	443	56%	9 500	N/A
Croatia	200	12%	1 000	N/A
Czech Republic	200	65%	11 000	N/A
Egypt	700	42%	42 000	8 000 000 000
Finland	280	74%	7 500	5 300 000 000
France	1 834	85%	69 483	284 000 000 000
Hong Kong	N/A	N/A	75	N/A
Hungary	290	70%	20 000	N/A
India	3 922	90%	168 000	50 400 000 000
Indonesia	555	23%	45 000	17 200 000 000
Italy	947	85%	50 185	23 306 000 000
Japan	1 329	N/A	260 992	214 000 000 000
Lebanon	700	45%	7 000	1 500 000 000
Malaysia	715	67%	N/A)	5 800 000 000
México	1 000	80%	N/A)	N/A
New Zealand	460	88%	22 000	14 000 000 000
Philippines	1 500	68%	140 000	16 000 000 000
Poland	1 170	80%	71 000	N/A
Russia	1 300	65%	50 000	N/A
Slovenia	100	25%	1 115	N/A
South Africa	757	88%	34 000	36 230 000 000
South Korea	4 844	N/A	200 000	84 000 000 000
Spain	1 232	82%	23 000	27 651 280 000
Sweden	700	90%	32 000	27 000 000 000
Switzerland	250	N/A	N/A	N/A
Taiwan	3 395	N/A	148 941	N/A
The Netherlands	744	89%	30 262	54 105 000 000
Turkey	1 750	76%	60 000	43 000 000 000

Table 7: Brands and their franchise economic output

Table 7 above demonstrates how critical franchising has become in many economies. Of interest is that South Africa contributes 36 230 million of franchise economic output in USD. This justifies more research in the area.

3.8 FRANCHISE INDUSTRY CATEGORIES IN SOUTH AFRICA

There are 14 categories in South Africa. Each category makes a contribution to the market turnover, employment and the Gross Domestic Product (GDP). The figure below depicts the categories.

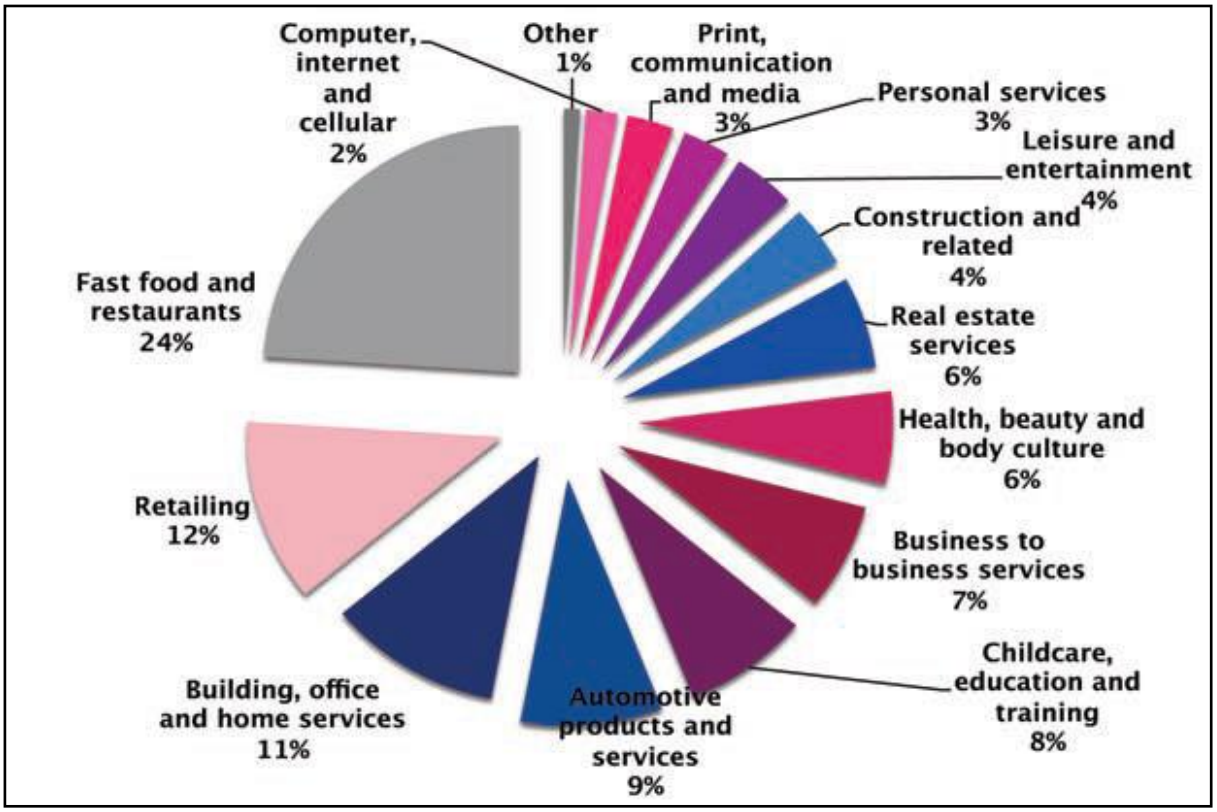


Figure 5: Franchise industry categories in South Africa

Source: FASA Manual (2016)

Schwarzer (2017:5) argues, “Similarly, when franchising’s economic output is measured as a share of a country’s overall GDP, South Africa emerges in the top five – with 11.5% of its GDP generated by franchises’’.

For the purposes of this study, only two categories (Fast food and retailing) are used. Fast food and retail categories are the ones that have received considerable research in franchising (Gorovaia & Windsperger, 2013:183). In the same vein, this study uses similar categories (fast food & restaurants and retailing & direct marketing) as given by FASA. The total number of employees in the franchise industry is estimated at 329 245, with 34% being employed in retailing and direct marketing, and 27% in fast foods and restaurants.

This implies that the two sectors (fast food and retailing) make a significant contribution to the economy.

3.9 FAST FOOD AND RESTAURANTS

The fast food (quick-service restaurants) and restaurants sector comprises food concepts that give franchising its global signature (FASA Manual, 2016:88). The sector boasts fast-food outlets, quick service restaurants (QSR), sit-down restaurants, pub concepts, specialist food outlets and even food truck concepts. The fast-food is South Africa's leading consumer food service category (FASA Manual, 2016:11; Produce Marketing Association, 2013:1). There are 40 fast-food outlets and restaurants in South Africa (FASA Manual, 2016:6). The most prominent include Barcelos Flamed Chicken, Cappuccino's Cafe & Pizzeria, Chicken Licken, Domino's Pizza, KFC, King Pie, McDonald's South Africa, Ocean Basket, Roman's Pizza, The Coffee Shop and The Fish & Chip Company. Since the establishment of these franchise stores, remarkable growth has been witnessed. For example, Cappuccino's Cafe & Pizzeria has 23 stores, Chicken Licken operates 245 stores country-wide, Domino's Pizza has opened over 70 outlets, and King Pie has over 270 outlets (FASA Manual, 2016:89-93). The outlets are owner-run or manager operated. The recommended working capital is one of the key factors in setting up an outlet. Barcelos Flamed Chicken requires over R1 million for set up costs; Ocean Basket requires a R150 000 joining fee plus financial obligations available on application; Roman's Pizza expects R1.950 million and other fees for set up; The Fish & Chip Company set up costs start from R525 439 (FASA Manual, 2016:88-97). For many stores, there are opportunities in growth nationwide, regionally and internationally.

Fast food menus try to embrace healthy items that are customer focused. Although the RBT provides an important framework for explaining and predicting the basis of a firm's competitive advantage and performance (Barney *et al*., 2011:1299), consumers are concerned with food safety issues regarding the food ingredients. Thus the firm's resources, as the fundamental determinants of competitive advantage and performance, should help to provide resource-related signals (for example, menu ingredients) in order to juxtapose high- and low-quality foods. There is a need for fast-food restaurants with high-quality menus to engage resources that can provide credible and convincing information

for consumers to instil trust. Hence such resource-based signals must address quality (Srivastava *et al*., 1998:2). This shares the notion that food quality matters in restaurants and affects customer satisfaction and behavioural intentions (Namkung & Jang, 2007:387). It follows that consumers must be convinced of value.

Pan, Kuo, Pan & Tu (2013) argue that potential buyers hesitate to make decisions in online shopping transactions due to perceptions of uncertainty caused by imperfect information, fears of seller opportunism, and information privacy and security concerns. In the fast food industry, it is alleged that consumers have also become increasingly concerned about their health and the food that they consume (Euromonitor International, 2012:1-33). In fact the industry has been receiving complaints that fast-food is unhealthy (Analytix Business Intelligence, 2013). Furthermore, most fast-foods are labelled as low in beneficial nutrients and high in fat, calories, salt and sugar and have thus received criticism for contributing to obesity (Binkley, 2006:373). As a result of this trend, fast-food outlets have been taking steps to introduce healthier food options (Cant, Machado & Gopaul, 2014:1199). In such an environment, outlets may have challenges of performance. Hence, managers might try VRIN resources and dynamic capabilities for superior performance.

Extant research across all domains provides empirical support for the use of RBT to link multiple resources with performance in order to understand their relative effects (Lin & Wu, 2014:407-413; Newbert, 2008:745-768; Henderson & Cockburn, 1994:63-84). However, to test the effects of resources on performance, studies must adopt appropriate performance measures (Hult, Ketchen & Arrfel, 2007:1035). In the case of this study, performance of the fast food outlets is measured by sales and market share. This will provide some suggestions to the fast-food marketers to improve their performance in meeting the consumer's need for safe, quality foods. Thus, franchise outlet operators should match the scopes of the focal resource and performance measures, to provide an accurate indication of the "true" strength of the resource–performance linkage. In addition to building competitive advantage, resources may increase the firm's capacity to charge high prices, and thus contribute to performance by helping the firm to appropriate the value linked to competitive advantage (Bridoux, 2004:3).

The improvement of capabilities and Research and Development effectiveness is one of the reasons for firms to become leaders (Sarkar & Costa, 2008:574). The achievement of higher levels of product differentiation, the improvement of competitiveness and the successful introduction of radical innovations are desirable outcomes (Sarkar, 2005:187; 2007:129). The literature considers capabilities as market-based resources (Habibi, Laroche & Richard, 2014:152). On the other hand, capabilities can mean dynamic capabilities (Teece, 2007:1319; Parida *et al*., 2016:181). Dynamic capabilities foster improvement and innovation due to dynamism in the environment (Wang et al.,2013:336). Restaurants are expected to innovate and adapt nimble business strategies that enable them to cost-effectively compete in an ever-changing environment (KPMG, 2016:2).

There is evidence that franchisees attend to the financial, human and physical elements of VRIN. Franchisees are responsible for financing the establishment of the business and for providing working capital (FASA Manual, 2016:52). On physical resources, they emphasise geographic location, where the franchisor has an input in site selection, plant and equipment. Again, all the franchisees have theoretical and practical training to ensure successful operation. However, there is need for a closer look at other VRIN resources, that is, organisational and intellectual resources. In addition, dynamic capabilities such as sensing, coordination and integrating are not explicit in their operations. There is a gap in the operationalisation of all VRIN resources and dynamic capabilities in the fast food category.

The gap in the fast food can be addressed by some of RBT's arguments. First, Intra-industry heterogeneity due to creative resource deployments spurs differences in productive opportunities and financial performance (Penrose, 1959:78). Second, if an organisation continuously invests in renewing its capabilities via new resource combinations, as Penrose explains (1959:135–136, 235–256) then this organisation's competitive advantage can be sustainable. Third, in a dynamic environment, managers can change both the productive services resources tender and the demand conditions that affect its productive opportunities (Penrose, 1959:5, 31, 80). Barney (1991:100) also adds that firm performance is determined by the resources it owns. Hence the arguments assume that with resources, organisations can do better in competition and realise significant financial performance. Moreover, combinations of resources and capabilities

make a contribution. In this study, dynamic capabilities, as an extension of RBV, mediate between VRIN resources and franchise outlet performance. In summary, drawing on RBV propositions, franchisees have great potential to improve the outlet's performance. Hence, the gap that exists in the modelling of the effects of resources on franchise performance in the South African context is closed through the mediating role of dynamic capabilities.

In other words, the concept of dynamic capabilities helps firms to adjust and respond to the demands of the dynamic environment – increasing global competition and rapid technological advancements. For example, competition has been observed as scaling up. In 1994, Kentucky Fried Chicken (KFC) remained the world's largest chicken restaurant chain and the world's third largest fast-food chain (Jain, 2000:868). It held almost 50% of the US market in terms of sales and ended 1993 with over 9 000 restaurants worldwide. Today, KFC is faced with competition from non-fried chicken chains such as Hardee's and McDonald's, who have introduced fried chicken to their menus (Jain, 2000:868). With KFC's menu limited to chicken, it has lost business to chains which offer customers a greater variety of food items that cut across different food segments (sandwich chains, pizza chains, family restaurants, dinner houses, chicken chains, steak restaurants, etc.). The chicken segment has grown, reflecting the health trend away from plain fried foods and the addition of chicken and chicken sandwiches to the menus of sandwich chains, such as McDonald's and Hardee's. McDonald's is posted as having control of 35% of the sandwich segment. It is an interesting characteristic of the fast-food industry that the leader in each food segment controls a large relative market share when compared with the market shares of its nearest competitors (Jain, 2000:869). More competitive strategies are called for.

3.10 RETAILING AND DIRECT MARKETING

The FASA Manual (2016:108) argues, "The second biggest sector in franchising, the retail sector contributes the most to the labour market, employing the highest number of people. As these franchisees occupy key trading points in shopping malls and high streets, their brand equity and recognition is high. Franchisees range from fast-moving consumer goods (FMCGs), supermarkets, liquor stores and convenience stores to cellular retail, fashion, accessories and apparel; hardware, furniture and high street retailers".

For example, CTM with 82 stores, DIY Depot at 140 stores, ITALTILE operating 9 stores, Lotter's Pine Furniture with 20 stores in operation, NIZAMS with 55 stores, Pick n Pay currently 502 stores (FASA Manual, 2016:109 - 113). Franchisees in retailing have also great potential to grow nationally, regionally and internationally. Almost all the franchisee retailers uphold other VRIN resources - human, financial and physical. Expectations in providing working capital, fees and set up costs are quite high. However, the operationalisation of VRIN resources and/or dynamic capabilities is not in sync with the assumptions of RBT (Penrose, 1959:235; Barney, 1991:99).

The franchising mode of operation is a central element of internationalisation strategy for many retail firms (Alexander & Quinn, 2002:112; Doherty & Alexander, 2006:1292; Doherty, 2009:528). There is a growing body of work on various aspects of international retail franchising (Doherty, 2007:184), retail franchising in emerging markets (Welsh et al., 2006), control and support (Doherty & Alexander, 2006:1292; Moore et al., 2004:749), and the theoretical development of the area (Doherty & Alexander, 2004:1215; Quinn & Doherty, 2000:354). However, the use of RBT in franchising is still a grey area of research. In response to the growth of franchising by retailers and the failure of the broader international franchising literature to examine the specifics of franchising by retail firms, academic retail research has increased during the past decade (Doherty, 2009:328). This study explores the applicability of RBT among the relationships of resources, dynamic capabilities and performance.

Both fast food and retailing franchisees have common challenges. First, franchisees have a challenge in finding skilled staff, being able to offer consistently good service and running costs. Second, there is the challenge of the ability to compete in the market place, making a profit and the marketing of the business. Third, there is the challenge of the business taking too long to break-even. However, the survey found that increased training across all these aspects would be of great benefit to the franchisee (FASA Manual, 2016:40). Although increased training is suggested as critical in responding to the challenges, Penrose (1959:78) proposes combinations of resources. Again, Barney (1991:99) suggests VRIN resources of RBT. Priem and Butler (2001:22) criticised the theory as static: inadequate to explain the firm's sustainable competitive advantage in

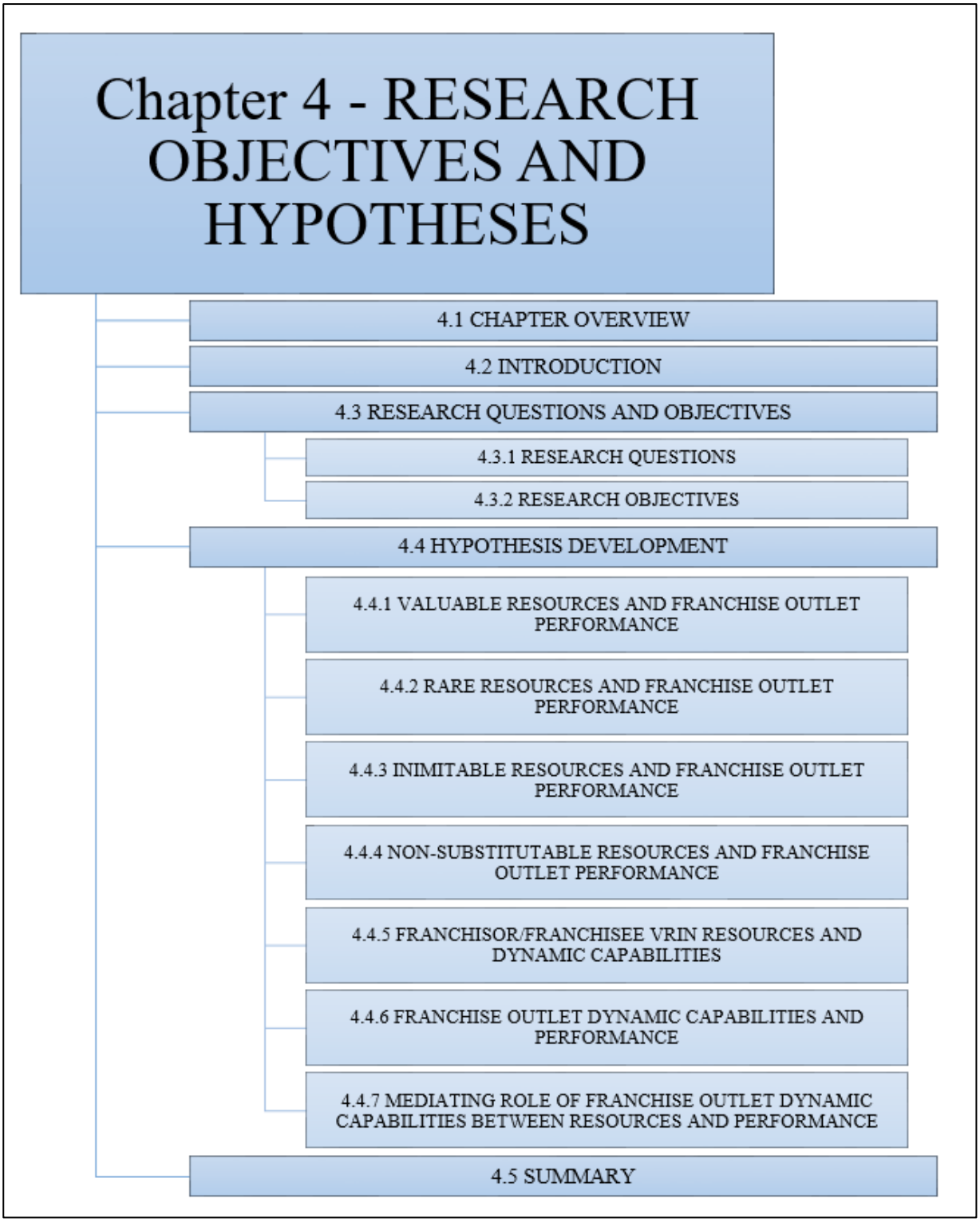
today's changing, turbulent environments. Teece et al. (1997:509) developed dynamic capabilities to be operationalised with VRIN.

On other hand, the franchise sector has recorded remarkable strides in business. The turnover generated is R465.27 billion, up from R302.40 billion in 2012. There are 39 119 stores located in South Africa, most of which are owned by the franchisees, and many franchisees expand throughout Africa and internationally (FASA Manual, 2016:11-12). This is enough evidence that studies are vital in order to contribute to the operation of franchise outlets.

3.11 CHAPTER SUMMARY

This chapter dealt with franchising as an industry. In more detail, fast foods and retailing were discussed, the studies that have been done and the theories that have been applied. Emphasis was also given on the need to use RBT in franchising, since it is still a grey area of research. Chapter 4 looks into the objectives and hypotheses development of the study.

Chapter 4 - RESEARCH OBJECTIVES AND HYPOTHESES



4 RESEARCH OBJECTIVES AND HYPOTHESES

"All interpretations made by a scientist are hypotheses, and hypotheses are tentative. They must forever be tested and they must be revised if found to be unsatisfactory. Hence, a change of mind in a scientist, and particularly in a great scientist, is not only a sign of weakness but rather evidence for continuing attention to the respective problem and an ability to test the hypothesis again and again." Ernst Mayr

4.1 CHAPTER OVERVIEW

This chapter provides the purpose of the study in detail giving specific objectives and hypotheses. The hypotheses are developed based on the relationships showing the contribution of resources leveraging to performance (Acar & Polin, 2015:604). The propositions must demonstrate whether franchising provides heterogeneity of firms (Amit & Schoemaker, 1993:33) or the idiosyncratic firm attributes (Barney, 1991:99). Barney (1991:101) views (1) all firms within an industry are heterogeneous in terms of the resources they control and the strategies they pursue; and (2) resources may not be perfectly mobile across firms, and thus heterogeneity can be long lasting. In this study these assumptions are tested through VRIN resources (independent variables), dynamic capabilities (mediating variable) and firm performance as the dependent variable.

4.2 INTRODUCTION

The focus in this chapter is on hypothesis development. The hypotheses are based on VRIN resources, dynamic capabilities and firm performance. First, all the objectives are given and explained in detail; they are rooted in the assumptions of the Resource-based theory (RBT). Second, the hypotheses are developed, capturing all the possible predictions of the VRIN resources-dynamic capabilities-firm performance relationship in the franchising industry.

4.3 RESEARCH QUESTIONS AND OBJECTIVES

4.3.1 RESEARCH QUESTIONS

Resources are at the heart of the RBT and they are those specific physical assets (e.g., specialised equipment, geographic location), human assets (e.g., expertise), and organisational assets (e.g., superior sales force) that can be used to implement value-creating strategies (Barney, 1986:1231; Wernerfelt, 1984:171; Eisenhardt & Martin, 2000:1106-1107). Contrary to the traditional view, the RBT emphasises the "heterogeneity of firms" (Amit & Schoemaker, 1993:33) or the "idiosyncratic firm attributes" (Barney, 1991:102). Other scholars have extended RBV to dynamic markets (Teece *et al*., 1997:509), in order to adequately explain how and why certain firms have competitive advantage in situations of rapid and unpredictable change (Eisenhardt & Martin, 2000:1106-1107). In dynamic markets, where the competitive landscape is shifting, firm managers are expected to 'integrate, build, and reconfigure internal and external competencies to address rapidly changing environments' (Teece *et al*., 1997: 516), to realise a sustained competitive advantage. All businesses in the current economic climate are subject to the same economic, political and trading challenges (FASA Manual, 2016:40), for example, in meeting market expectations, business knowledge, government expectations, and so on. In such markets manipulation of knowledge resources is especially critical (Grant, 1996:109).

Based on these assumptions, researchers have theorised that when firms have resources that are valuable, rare, inimitable, and non-substitutable (i.e., so-called VRIN attributes), they can achieve sustainable competitive advantage by implementing fresh value-creating strategies that cannot easily be duplicated by competing firms (Barney, 1991:99; Peteraf, 1993:179; Wernerfelt, 1984:171). Because most franchisors (90%) are optimistic about future growth in their businesses (FASA Manual, 2016:14), the following questions have been formulated:

1. How do the characteristics of VRIN resources predict the differing performances of franchise firms?
2. What are the effects between VRIN resources, dynamic capabilities and performance?

3. To what extent does performance differ between firms and industries in the context of an extended RBV model?

4.3.2 RESEARCH OBJECTIVES

By the end of this research, the following specific objectives should be achieved:

(a) To determine the impact of valuable resources that a franchise outlet exploits on its performance.

(b) To establish the effect of rare resources that a franchise outlet exploits on its performance.

(c) To ascertain the impact of inimitable resources that a franchise outlet exploits on its performance.

(d) To examine the impact of non-substitutable resources that a franchise outlet exploits on its performance.

(e) To investigate the relationship of valuable resources that a franchise outlet exploits with its dynamic capabilities.

(f) To establish the relationship between rare resources and dynamic capabilities that a franchise outlet exploits.

(g) To determine the relationship between inimitable resources and dynamic capabilities that a franchise outlet exploit.

(h) To investigate the relationship between non-substitutable resources and dynamic capabilities that a franchise outlet exploit.

(i) To explore the contribution of dynamic capabilities of a franchise outlet towards its performance.

(j) To discover the mediating role of the franchise outlet's dynamic capabilities between valuable resources and its performance.

(k) To investigate the mediating role of the franchise outlet's dynamic capabilities between rare resources and its performance.

(l) To examine the mediating role of the franchise outlet's dynamic capabilities between inimitable resources and its performance.

(m) To ascertain the mediating role of the franchise outlet's dynamic capabilities between non-substitutable resources and its performance.

4.4 HYPOTHESIS DEVELOPMENT

Hypotheses were developed about the effects of resources on franchise chain performance through the mediation of dynamic capabilities. A firm is said to have a competitive advantage when it enjoys greater success than current or potential competitors in its industry, suggesting that superior firm performance serves as a key indicator of competitive advantage (Barnett, Greve & Park, 1994:11). That is why Schilke (2014:188) operationalised competitive advantage as performance. Therefore, first, the focus is on value, rareness (Newbert, 2008:766-767), inimitability and non-substitutability (Morgan *et al*., 2006:627) as independent variables which are hypothesised to have direct effects or indirect effects (through dynamic capabilities) on firm performance. This is premised on the fact that performance differentials are produced by resource heterogeneity among competing firms (Barney, 1991:99; Penrose, 1959:136; Peteraf, 1993:180; Mol & Wijnberg, 2011:77). Second, dynamic capabilities in the form of coordinating, learning, integrating and sensing (Pavlou & El Sawy, 2011:239) are hypothesised as mediating (Wang, Senaratne & Rafiq, 2015:30) between resources and firm performance. Third, performance (Morgan et al., 2006:627; Wilden & Gudergan, 2015:190) as a dependent variable emphasises marketing, growth in sales, profitability and market share (Newbert, 2008:766).

4.4.1 VALUABLE RESOURCES AND FRANCHISE OUTLET PERFORMANCE

Firm resources can only be a source of competitive advantage or sustained competitive advantage when they are valuable (Barney, 1991:106; Kozlenkova *et al*., 2014:12), and make for superior performance (Ndofor, Sirmon & HE, 2011:640). How do valuable resources affect performance? A major advance within the RBV has also directed attention to the demand side of the firm, emphasising that the main driver of organisational performance is a firm's capacity to realise value for its customers (Barney, 2001:41; Bowman & Ambrosini, 2001:501; Priem & Butler, 2001:22). This argument extends the emphasis that firms can outperform their rivals because of their prowess in selecting,

picking or poaching strategic resources (Makadok, 2001:387). Hence, the concept of value is indispensible for understanding competitive arenas (Mol & Wijnberg, 2011:78; Barney, 1991:106). Resources are by definition the source of firm performance (Andersen, 2011:88). Also, '...resources are always a prerequisite for all firms to function, and all other steps to achieving high performance are dependent on the possession of resources' (Andersen, 2011:89). So no firm can enjoy competitive advantage without valuable resources. Considering how fast food restaurants were created to expedite the delivery of food to customers in a hurry, technology has stepped forward to make that service even speedier. For example, digital displays allow outlets to change their menus efficiently; when restaurants add innovative technology to the menu, it leads to better service and food options. This shows that IT resources are and can be used to improve firm performance (Cohen & Oslen, 2013:246). Therefore resources must have the potential to influence customer perceptions of value.

Mol & Wijnberg (2011:81) argue that resources need to be valuable first, before other strategic considerations can be made with regard to their deployment. They explain three dimensions of resource value which they consider as paramount in giving a firm sustained performance. These are (1) by allowing a firm to either enter the selection system or prevent its rivals from doing so; (2) by creating product-characteristics that have value according to product selectors; and (3) by allowing either a firm to either engage in competitive imitation or prevent its rivals from doing so (Mol & Wijnberg, 2011:79). The first dimension suggests that to generate the competitive advantage of the firm should analyse the value of resources with reference to the competitive process taking place in the product market (Priem, 2007; Priem & Butler, 2001:22; Bowman & Ambrosini, 2001:501). Other preceding dimensions describe competitive processes in terms of the selectors who contribute to value (Gemser & Wijnberg, 2001:563; Priem, 2007:219). For example, when buying a new car tyre, consumers often rely on evaluations by experts, such as product critics who rate tyres (Bridgestone, Dunlop, Firestone, etc) on price, durability or usage. That is why Santos and Eisenhardt (2005:497) argue that organisational boundaries should be set at the point that maximises the value of the firm's resource portfolio.

The value of some resources is more difficult to determine than that of others (Mol & Wijnberg, 2011:85). Understanding the value of resources in terms of their functionality in

the product market helps address this issue and can be used to assess the logic underlying complex or bundled resources (Denrell, Fang & Winter, 2003:977; Lippman & Rumelt, 2003:903; Wernerfelt, 1984:172). Further, Mol & Wijnberg (2011:88) propound that if it becomes easy to identify the value of superior resources, the sustainability of the organisational performance is jeopardised. On the other hand, if managers are not able to adequately estimate the value of resources and reward them accordingly, their capacity to select and deploy them effectively is significantly hampered and hence organisational performance suffers (Makadok, 2001:388). Therefore, managers are encouraged to have an appreciation of resource value from competitors, so that they are provided with enhanced opportunities for better performance.

Although scholars working from a resource-based perspective have established the importance of resource heterogeneity and recognise that resources have a latent potential to create value (Peteraf, 1993:180), others contend that the influence of managerial ability on resource value creation is greater with less valuable resources, presumably because able managers enable those resources to reach their potential through effective combination and use (Sirmon, Gove & Hitt, 2008:919; Holcomb *et al*. 2009:458). Therefore controlling superior resources is a necessary, but insufficient, condition for superior performance (Ndofor *et al*., 2011:642). Resources can influence performance only to the extent that a firm can adequately leverage them (Sirmon & Hitt, 2009:1375). It follows that resources are valuable in the hands of managerial ability to make them rare and difficult to imitate, through superior bundling and deployment (Holcomb *et al*. 2009:458). In their study, Ndofor *et al*. (2011:640) found that resources enable competitive actions, and that when these actions leverage the firm's resources, superior performance results.

Managers create value by developing resource bundles that enable firms to undertake novel and appropriate tasks, services, jobs, products, processes, or other combinations perceived to be of value in producing greater utility or lower unit costs in use (Lepak, Smith & Taylor, 2007:183). Resource bundles represent unique combinations of resources that enable firms to take advantage of specific market opportunities when effectively deployed (Peteraf & Barney, 2003:309; Sirmon *et al*., 2007:1375). Thus, firms realise a performance advantage when managers synchronize the resource management processes within and between interdependent bundles, such that organisational performance is optimized

(Holcomb *et al*., 2009:458). This explains the opinion that a firm's management and synchronisation of resources promote organisational performance.

In the franchising industry literature, the proportion franchised is influenced by efforts to organize franchisor-owned and relational strategic assets so that their value can be best leveraged to meet key strategic goals (Gillis *et al*., 2013:449). Intangible resources affect franchise success (Shane, 1996:216). Franchisees are granted the right to use intellectual capital (Watson *et al*., 2005:25) which refers to intangible resources (knowledge-based components) and encompasses all the information, experience, skills, structures, culture, and relationships of a firm that collectively help to create wealth (Wexler 2002:393). For example, a franchise chain with a strong brand reputation is well-known and respected among consumers (Davis & Mentzer, 2008:435). Moreover, franchise chains with important operating routines have knowledge embodied in training, manuals and checklists that is critical to delivering products and services correctly (Combs & Ketchen, 1999:867). Barthelemy (2008:1451) showed that franchising networks with a valuable brand name and tacit business practices tend to perform better when they have a low proportion of franchised outlets. These resources add value, can be considered relatively scarce, and are usually difficult to imitate (Itami, 1987:56). However, performance issues have received little attention in the franchising context (Perdreau *et al*. 2015:123).Hence it can be hypothesised that:

> H_1: There is a positive relationship between the value of the resources that a franchise outlet exploits and its performance.

4.4.2 RARE RESOURCES AND FRANCHISE OUTLET PERFORMANCE

Rarity is another critical component that should be considered in organizational resources (Kozlenkova *et al*., 2013:12). Logically, a resource is rare if possessed by only a few firms and the level of this resource should vary among firms within an industry (Day, 2014:27). If a resource does not pass the test for imperfect imitability, it cannot pass the test for rarity (Kozlenkova *et al*., 2013:12). From a resource-based perspective, firm-specific resources and capabilities are considered crucial to the explanation of competitive performance (Barney, 1991:99; Amit & Schoemaker, 1993:33; Cohen & Oslen, 2013:246).

Bowman and Ambrosini (2003:291) argue that a rare resource can generate either superior margins or superior sales volumes from a cost base equivalent to that of competitors. It means that such a resource is not common across other competing firms. This study further argues that franchises that possess rare resources will improve their efficiency and effectiveness. Perez-Nordtvedt *et al*. (2008:714), in their study on the effectiveness and efficiency of cross-border knowledge transfer, found that rarity is one of the characteristics that provide a positive impact, including value and non-substitutability. But Newbert (2008:748) propounds that resources or capabilities can be essential to the attainment of competitive advantage, provided they are paired with other capabilities or resources in such a way that the resulting combination in which they are exploited is rare. Barney (1995:52) in support maintains that if a particular resource and capability is controlled by numerous competing firms, then that resource is unlikely to be a source of competitive advantage for any one of them. This exalts valuable and uncommon resource-capability combinations which are able to support performance.

In franchising, resource-capability combinations can be likened to the coordination of human assets and their complementarities (Perdreau *et al*. 2015:124). Intangible assets and/or knowledge assets, which are critical to the network's value, are generated and exploited in franchise networks (Windsperger & Yurdakul, 2007:59). Kohli, Suri and Kapoor (2015:37) argue that brands can be differentiated according to their physical attributes. For example, Bounty is known as the thicker, quicker picker-upper paper towel; Kraft Macaroni and Cheese claims that it is the cheesiest (Kohli *et al*., 2015:38). On the other hand, prominent brands go beyond physical attributes so that they capture emotional connections with consumers. Nike's slogan, "Just do it," posted the highest recall rate, and appeals to the user's motivation to excel. In the same vein, the slogan with the second-highest recall, McDonald's "I'm lovin' it," aims to create a loving bond between the customer and the fast-food giant (Kohli *et al*., 2015:38).

It is against this background that franchise chains must aim to create resources that are rare to offer positive performance. The impact of valuable and rare resource/capabilities combinations on a franchising performance is likely to be positive. Thus it follows that:

H_2: The rarer the resources of the franchise outlet's resources, the more positive its performance will be.

4.4.3 INIMITABLE RESOURCES AND FRANCHISE OUTLET PERFORMANCE

Valuable and rare resources can only be sources of sustained competitive advantage if firms that do not possess these resources cannot obtain them (Barney, 1991:107). Such resources are imperfectly imitable (Lippman & Rumelt, 1982:418; Barney, 1986:1231). Barney (1995:53) argues that a firm that possesses valuable and rare resources and capabilities can gain, at least, a temporary competitive advantage. What it means is that competing firms must face a cost disadvantage in imitating resources and capabilities so that a firm already possessing them will obtain a sustained competitive advantage, resulting in performance. For example, skills, abilities and resources that are unique to a firm must be sources of competitive advantage and performance. A firm that possesses skills to design and manufacture high quality products must not let competitors duplicate the products.

Moreover, Barney (1995:53) argues, "While there are numerous reasons why some of these internal attributes of firms may be costly to imitate, most of these reasons can be grouped into three categories: the importance of history in creating firm resources; the importance of numerous small decisions in developing, nurturing, and exploiting resources; and the importance of socially complex resources". This implies that organisations have history which is difficult for competitors to copy.

Valuable and rare resources are products of unique historical circumstances. If competitors try to imitate, they will be at a cost disadvantage. Hence, such inimitable resources are sources of sustained competitive advantage that results in favourable firm performance. In addition, a firm's competitive advantage seems to depend on numerous small decisions through which a firm's resources and capabilities are developed and exploited (Barney, 1995:54). Thus it is difficult for firms that are attempting to duplicate a successful firm's strategies through imitation of its resources to know which resources they should imitate. Under such conditions of causal ambiguity, it is not clear that the resources that can be described are the same resources that generate a sustained competitive

advantage, or whether that advantage reflects some other non-described firm resource (Barney, 1991:109). Again, that is why it is difficult to understand why one firm consistently outperforms other firms (Demsetz, 1973:1).

A final reason that a firm's resources may be imperfectly imitable is that they may be very complex social phenomena, beyond the ability of firms to systematically manage and influence (Barney, 1991:110). For example, the interpersonal relations among managers in a firm (Hambrick, 1987:88), a firm's culture (Barney, 1986b:656), legal property rights like patents (Wills-Johnson, 2008:214), a firm's reputation among suppliers (Porter, 1980) and customers (Klein & Lefler, 1981:615) add value to a firm and improve its efficiency and effectiveness. Therefore, firms without these resources may not easily engage in systematic efforts to create them (Dierickx & Cool, 1989:1504), and may not compete favourably in the market.

In franchising, resources with a low degree of imitability are the franchisor's intangible system-specific know-how and brand name assets, as well as the franchisees' intangible outlet-specific resources (Gorovaia & Windsperger, 2013:190). The resources may include annual training days, very strong brand name, and very good reputation of the franchise system quality, innovation capabilities and local market knowledge. Franchisees are granted the right to apply business concepts developed by the franchisor's brand name, and training in daily operations and services and know-how (Perrigot *et al*., 2013:559). Gorovaia and Windsperger, (2013:191) confirm that both the franchisor's and franchisees' intangible resources positively affect the performance of franchise networks. Franchised chains in South Africa are expected to have the same experience when considering the franchisor's and franchisees' tangible and intangible resources (Gorovaia & Windsperger, 2013:191). It follows that the more imperfectly imitable a resource, is the more a firm sustains its competitive advantage and performance. Hence it is hypothesised that:

> H_3: There is a positive relationship the inimitability of the resources that a franchise outlet exploits and its performance.

4.4.4 NON-SUBSTITUTABLE RESOURCES AND FRANCHISE OUTLET PERFORMANCE

Though it may not be possible for a firm to imitate another firm's resources exactly, it may be able to substitute a similar resource that enables it to conceive of and implement the same strategies (Barney, 1991:111). For example, a firm may seek to imitate another firm's high-quality sales personnel team or point of sale, but would find it difficult to copy exactly. It may be possible for this firm to develop its own unique sales force team but it may be difficult to substitute a similar team. Thus when the team or point of sale cannot be substituted, it becomes a source of sustained competitive advantage leading to firm performance. Another example is of managers in one organisation who may have a very clear vision of the future of their company because of a charismatic leader in their firm (Zucker, 1977:726), while managers in competing organisations also have a very clear vision of the future because of organisation-wide strategic planning processes. In the event that only one firm has either a formal planning or a charismatic leader while others do not have these and cannot substitute for them, then only that one firm will have a sustained competitive advantage.

Substitutability concerns the ability of rivals to replicate a firm's positional advantages through the deployment of an alternate set of resources (Morgan *et al*., 2006:625; Dierickx & Cool, 1989:1505). As has been highlighted earlier on (Barney, 1991:101; Collis, 1994:143), non-substitutable resources cannot be replaced when implementing the firm's strategy. It may be difficult to substitute a number of the individual resources (Morgan, et al., 2006:625), and marketers have survived competition because of that. For example, strong brands have been highlighted as essential for competitive success in a number of industries (e.g., Keller, 1993:1). Similarly, market information has been identified as a resource for which there is no obvious substitute in conceiving and implementing competitive strategies appropriate to the firm's market environment (e.g., Lord & Ranft, 2000:573). However, each of the resources may vary in terms of its individual substitutability and it is the substitutability characteristics of the resources required that determines its ability to sustain any competitive advantage (Morgan *et al*., 2006:625).

Strategic assets are better leveraged when a higher proportion are franchised (Gillis *et al*., 2013:451). These strategic assets that are franchisor-owned could be brand reputation (Caves & Murphy, 1976:572) and knowledge rooted in operating routines (Sorenson & Sorenson, 2001:713). A franchise chain with a strong brand reputation may be difficult to substitute because there are costs such as ongoing advertising and quality control which create considerable variance in franchisors' investments in reputation building (Lafontaine & Shaw, 2005:131). For those franchisors who do successfully establish a positive brand reputation, the resource-based theory suggests that they will organize the firm in a way that best leverages this resource for competitive advantage (Gillis *et al*., 2013:453). In summary, if the resource a firm exploits is non-substitutable, then it must attain a competitive advantage and improves firm performance. Therefore it is hypothesised that:

> H_4: The non-substitutability of the resources that a franchise outlet exploits will be positively related to its performance.

4.4.5 FRANCHISOR/FRANCHISEE VRIN RESOURCES AND DYNAMIC CAPABILITIES

Dynamic capabilities are a category of resources (Kozlenkova *et al*. 2014:6; Day, 2014:27). They extend the RBT to examine the influences of dynamic markets by building, integrating and reconfiguring resources to cope with a highly volatile environment (Lin & Wu, 2014:408). The reason is that firms must move away from ordinary capabilities to dynamic capabilities (Teece, 2014:328). A dynamic capability is the firms' potential to systematically solve problems, formed by its propensity to sense opportunities and threats, to make timely decisions, and to implement strategic decisions and changes efficiently to ensure the right direction (Li & Liu, 2014:2794). Dynamic capabilities are the capacity of an organization to purposefully create, extend or modify its resource base (Helfat, Finkelstein, Mitchell, Peteraf, Singh, Teece, Winter & Maritan, 2007b:1). Others contend that the term 'dynamic' refers to the shifting character of the environment (Teece & Pisano, 1994:358). They go further and explain that 'capabilities' emphasizes the key role of strategic management in appropriately adapting, integrating, and re-configuring internal and external organizational skills, resources, and functional competences towards a changing environment.

Drawing on Teece *et al*. (1997:516), one can summarise that dynamic capabilities are a firm's ability to build, integrate and reconfigure the internal and external competence needed to address a rapidly changing environment (Parida *et al*., 2016:181). As an illustration of coupling strategy and dynamic capabilities, Teece (2014:36) posits warfare quotes: 'You have to be fast on your feet and adaptive or else a strategy is useless' (Charles de Gaulle); 'Strategy without tactics is the slowest route to victory; tactics without strategy is the noise before defeat' (Sun Tzu, ancient Chinese military strategist). The quotes suggest the proposition that firm resources must be organized for performance. They imply that a firm with dynamic capabilities can integrate and redeploy resources, and as a result obtain greater performance. Hence it can be concluded that dynamic capabilities are important resources to a firm.

In the franchising industry the dynamic capabilities approach can be used to explain the performance of franchised chains (Akremi *et al*., 2015:145). The dynamic capabilities approach is a relevant theoretical lens for deepening our understanding of factors that influence performance in franchising (Akremi *et al*., 2015:146). The franchise chain's capacity to integrate, reconfigure and renew knowledge resources, encapsulating both explicit processes and tacit elements, is a necessary condition for superior performance (Akremi *et al*., 2015:146). Dynamic capabilities emphasise the importance of coordination, learning, sensing and integrating (Teece *et al*., 1997:509-510; Zollo & Winter, 2007:339; Pavlou & El Sawy, 2011:268). The literature confirms that strict replication drives superior growth and profitability, based on capabilities to copy, transfer, and recombine resources within the chain (Winter & Szulanski, 2001:730). Therefore it is vital for franchised chains to employ appropriate dynamic capabilities to manage, extend, modify, and reconfigure existing resources and/or capabilities.

In the same line, recent research on information technology (IT) value adopts mostly the resource-based view, with the assumption that the variation of performance is due to different IT capabilities (Stratopoulos & Dehning in Ong & Chen, 2013:630). The value of IT can demonstrate not only how IT can improve performance, but also how IT can create opportunities and produce higher business value (Martinsons & Martinsons in Ong & Chen, 2013:672). Benitez-Amado, Llorens-Montes and Perez-Arostegui (2010:550) analyse the relationships between two types of IT resources (technological IT and

managerial IT resources) and the entrepreneurship culture and firm performance. Their findings proved that as a valuable key capability that predicts firm market performance; both technological IT and managerial IT resources have a positive effect on the development of an entrepreneurship culture in the firm, and investment in both technological IT and managerial IT resources influences firm performance positively by means of the capability of entrepreneurship culture.
Therefore it can be hypothesised that:

H_5: The valuable resources that a franchise outlet exploits will be positively related to its dynamic capability.

H_6: The rare resources that a franchise outlet exploits will be positively related to its dynamic capability.

H_7: The inimitable resources that a franchise outlet exploits will be positively related to its dynamic capability.

H_8: The non-substitutable resources that a franchise outlet exploits will be positively related to its dynamic capability.

4.4.6 FRANCHISE OUTLET DYNAMIC CAPABILITIES AND PERFORMANCE

There is some agreement in prior research regarding the relationship between dynamic capabilities and long-term firm performance (Li & Liu, 2014:408; Chien & Tsai, 2012:436; Wang & Ahmed, 2007:31). For example, the fast-food industry, worldwide, experiencing phenomenal growth (Van Zyl, Steyn & Marais, 2010:124), requires dynamic capabilities because of increased consumption (Van Zyl *et al*., 2010:124), the rise in the number of fast-food outlets (Sipahi, 2010:74) and the global expansion of the fast-food industry (Freemark, 2010:444). These call for the ability to continuously learn and transform knowledge and ideas into new products, processes and systems.

The idea of dynamic capabilities originated in the strategy field and was encapsulated in the classic papers by Teece *et al*. (1997:509) and Wu *et al*. (2016:2678). Dynamic

capabilities are a firm's capabilities in configuring and reconfiguring a firm's resource stock and deploying and redeploying it to capture and exploit changing opportunities (Wu *et al*., 2016:2679). Dynamics capabilities, therefore, generate new knowledge, products, and processes, which allow for the creation of new competitive advantages and thus better firm performance (Teece, 2007:1319; Pezeshkan, Fainshmidt, Nair, Frazier & Markowski, 2015:2951). Despite this growing agreement among scholars that strategic resources and ordinary capabilities contribute to competitive advantage and firm performance (Pezeshkan *et al*., 2015:2950), the extent to which the dynamic capabilities view is supported by empirical evidence remains an area of interest. Indeed, while several studies (e.g., Fang & Zou, 2009:742; Drnevich & Kriauciunas, 2011:254; Stadler, Helfat, & Verona, 2013:175; Pezeshkan *et al*., 2015:1) document a positive relationship between dynamic capabilities and firm performance, other studies have found insignificant or negative effects (e.g., Schilke, 2014:179; Wilden & Gudergan, 2015:181; Wilden *et al*., 2013:72; Pezeshkan *et al*., 2015:1). It is my contention that this study will contribute to the debate and establish to what extent the relationship between dynamic capabilities and firm performance is significant.

On the other hand, contingency theorists (Lawrence & Lorsch in Makkonen, Pohjola, Olkkonen & Koponen, 2014:2707) emphasize that the fit or match between the organization and the environment determines organizational performance. The performance should address the consumers' use of brand name and their consideration of quality. McDonald's boasts a brand value of $35 593 million (2011), a 6% increase from the previous year (Interbrand, 2011), while their 'Golden Arches' is said to be the "most recognized symbol in the world" (Business Insider, 2010). Between 2007 and 2010, their profit margin increased from 3.74% to 13.27% in the UK (Datamonitor, 2010), suggesting a significant improvement in brand name and quality efficiency.

Marketing capabilities may positively cause improvement by providing links with customers, predicting changes in their preferences, and creating and maintaining durable relationships with customers (Song et al., 2005:259). Newbert (2007:121) also suggests that value and rare resources are related to competitive advantage and that competitive advantage is related to performance. The implication is that dynamic capabilities transform resources into improved performance. In addition dynamic capabilities are considered to

have a mediating role between entrepreneurial resources and performance (Lin & Wu, 2014:407). Therefore this study examines types of resources most crucial to be converted into performance through dynamic capabilities, and what types of dynamic capabilities have the strongest effect in mediating resources on performance (Lin & Wu, 2014:407).

Research on dynamic capabilities has been expanded to include new product development (King & Tucci, 2002:171; Majumdar, 2000:59; Petroni, 1998:179) and internationalization (Griffith & Harvey, 2001:597; Luo, 2000:; Madhok & Osegowitsch, 2000:325). However, dynamic capabilities are not fully considered in investigating the contribution of different types of capabilities. Using the method of Teece *et al*. (1997:509), this study divides dynamic capabilities into sensing, learning, integrating and coordination which are rooted in the reconfiguring of resources for competitive advantage.

Deeds, Carolis and Combs (2000:211) propose that high technology firms should cultivate their dynamic capabilities to innovatively create novel products to cope with a rapidly changing industry environment and global competition. Franchising industry fulfils the requirements for such a dynamic business environment (Van der Vorst & Beulens, 2002:409), because it is under constant scrutiny of the public attention (Fearne, Ilnornibrook & Dedman, 2001:19; Manning, Payne, Pennicott, & Barrett, 2006:110). For example, food safety is a concern of almost every consumer, and governments are closely observing practices and products of companies in the food industry. Furthermore, Eisenhardt and Martin (2000:1105) consider dynamic capabilities as a process for integrating, re-allocating, acquiring and abandoning resources in response to market change. Good dynamic capabilities help sellers to respond quickly to customer needs and improve innovation performance (Swafford, Ghosh & Murthy, 2008:288). For example, more and more consumers believe that foods contribute directly to their health (Mollet & Rowland, 2002:483), and healthiness becomes one of the frequently mentioned motivations behind food choices (Lappalainen, Kearney, & Gibney, 1998:467; Steptoe, Pollard, & Wardle, 1995:267). Hence it can be hypothesised that:

H_9: A franchise outlet's dynamic capabilities will be positively related to its performance.

4.4.7 MEDIATING ROLE OF FRANCHISE OUTLET DYNAMIC CAPABILITIES BETWEEN RESOURCES AND PERFORMANCE

Helfat *et al*. (2007b:1) share the same notion that a dynamic capability is the capacity of an organization to purposefully create, extend or modify its resource base. In addition, Eisenhardt and Martin (2000:1105) consider dynamic capabilities as a process for integrating, re-allocating, acquiring and abandoning resources in response to market change. It is against this background that Pavlou and El Sawy (2011:243) identify sensing, learning, coordinating and integrating as a set of dynamic capabilities.

Dynamic capabilities act as a mediating variable between resources and performance (Wu, 2007:549). According to extant research, resources should be transformed into capabilities that help firms get more rents (Brush, Carter, Gatewood, Greene & Hart, 2001; Chandler & Hanks 1994:1994). A capability represents ability "to perform a coordinated set of tasks utilizing organizational resources" (Helfat & Peteraf 2003:999). This is supported by Castanias and Helfat (2001:661), who argue that rents derive not from random and/or misguided initiatives, but rather from properly motivated and well-directed strategic effort. Dynamic capabilities thus are considered a transformer for converting resources into enhanced performance (Lin & Wu, 2014:407). In this study, sensing, learning, integrating and coordinating are the dynamic capabilities which are used to mediate between resources and performance. For example, a firm can develop innovative technology and improve its performance through learning from cooperative alliances; or based on the integration of specific proprietary know-how, a firm can obtain a larger return from developing new and competitive products (Lin & Wu, 2014:407).

Sensing capability is defined as the ability to spot, interpret, and pursue opportunities in the environment (Pavlou & El Sawy, 2011:243). In franchising, chains must sense the environment to gather market intelligence on market needs, competitor moves, and new technologies in order for managers to identify opportunities. Basic routines of the sensing capability are: (i) generating market intelligence (Galunic & Rodan, 1998:1193), (ii) disseminating market intelligence (Kogut & Zander, 1996:76), and (iii) responding to market intelligence (Teece, 2007:1319). Generating market intelligence relates to identifying customer needs (Teece, 2007:1319), being responsive to market trends (Amit &

Schoemaker, 1993:33), identifying market opportunities (Day, 1994:37), recognizing rigidities (Sinkula, 1994:35), and detecting resource combinations (Galunic & Rodan, 1998). Disseminating market intelligence relates to interpreting market intelligence (Kogut & Zander, 1996:76), making sense of events and developments, and exploring new opportunities (Teece, 2007:1319). Being responsive to market intelligence also relates to initiating plans to capitalize on market intelligence (D'Aveni, 1994), and pursuing specific market segments with plans to seize new market opportunities (Teece, 2007:1319). The sensing capability of franchised chains is proposed to enable the reconfiguration of their existing operational capabilities. This provides an example to demonstrate how sensing capability positively mediates resources into improved performance.

Learning capability is defined as the ability to revamp existing operational capabilities with new knowledge (Pavlou & El Sawy, 2011:244). According to Zahra and George (2002:185) who developed learning as a dynamic capability, the four underlying routines of the proposed learning capability are acquiring, assimilating, transforming, and exploiting knowledge. First, acquiring knowledge relates to obtaining new knowledge (Cohen & Levinthal, 1990:128). Second, assimilating knowledge relates to knowledge articulation (Zander & Kogut, 1995:76) and knowledge brokering (Eisenhardt & Martin, 2000:1105). Third, transforming knowledge relates to innovative problem-solving (Iansiti & Clark, 1994:557), brainstorming (Pisano, 1994:85), and creative new thinking (Henderson & Cockburn, 1994:63). Finally, exploiting knowledge relates to pursuing new initiatives (Van den Bosch et al., 1999:551), seizing opportunities with learning (Teece, 2007:1319), and revamping operational capabilities (Grant, 1996:109).

Cohen and Levinthal (1990:131) suggest that learning helps groups become more proactive by enhancing their creative capacity. Lavie (2006:638) also agrees that a firm should modify its business direction through internal and external learning by changing, acquiring or discarding resources. Van den Bosch *et al*. (1999:551) further argue that learning facilitates reconfiguration and innovation. In addition, learning has again been found to improve innovative capability (Hult, Hurley, & Knight, 2004:429). Internal learning can be achieved through training, knowledge database maintenance and a knowledge-sharing programme. Therefore, learning is proposed as an enabler of reconfiguration by helping to revamp existing operational capabilities (Zollo & Winter, 2002:339). In

franchising, firms learn from experience with their current resources and technologies and use that knowledge to improve upon them (Sorenson & Sorenson, 2001:715) and the process can affect firm performance.

King and Tucci (2002:171) find that integrating historical experiences in previous markets can increase the probability of success in new market exploration. Deeds et al. (2000:211) also show that integrating industry related technology for new product development is a crucial dynamic capability for new biotechnology firms. Moreover, firm dynamic integration capabilities mediate the positive effect of VRIN resources on firm performance (Lin & Wu, 2014:407). Reconfiguration relies on integrating new resources and assets (Galunic & Eisenhardt, 2001:1229), because it requires a collective logic and shared interaction patterns (Okhuysen & Eisenhardt, 2002:370). Teece (1982:39) argues that new knowledge created by learning must be integrated to a collective level (Teece, 1982:39). Integrating capability is defined as the ability to combine individual knowledge into the unit's new operational capabilities (Pavlou & El Sawy, 2011:245). In a franchising context, franchisors and franchisees must integrate their individual resources and capabilities. For example, Nijmeijer *et al*. (2014:67) assert that the communication and knowledge exchange between franchisor and franchisee results in survival and financial performance. Teece (2007:1319) views the integration of knowledge as a foundation of dynamic capabilities. Therefore, integrating individual inputs within a unit or a chain may hone the reconfigured operational capabilities by executing a collective activity (Helfat & Peteraf, 2003:997). Other scholars, Weick and Roberts (1993:377) argue that groups with more integrated capabilities can better react in novel situations, whereas Zollo and Winter (2002:340) view dynamic capability as a collective activity by arguing that reconfiguring in a disjointed way does not even exercise a dynamic capability.

New configurations of operational capabilities require coordinating capability for tasks and resources and synchronization of activities (Iansiti & Clark, 1994:557; Helfat & Peteraf, 2003:997). Coordinating capability is defined as the ability to orchestrate and deploy tasks, resources, and activities in the new operational capabilities (Pavlou & El Sawy, 2011:246). The basic routines of coordinating capability also draw upon the dynamic capabilities literature, namely assigning resources to tasks (Helfat & Peteraf, 2003:997), appointing the right person to the right task (Eisenhardt & Brown, 1999:72), identifying complementarities

and synergies among tasks and resources (Eisenhardt & Galunic, 2000:91), and orchestrating collective activities (Henderson& Cockburn, 1994:63). Coordinating capability enables chains to recognize, assemble, and allocate resources (Collis, 1994:143) by facilitating the dissemination of market intelligence across the chain (Vorhies & Harker, 2000:145). It also helps chains assign the right person to the right task (Eisenhardt & Brown, 1999:72) and better synchronize their tasks and activities (Helfat & Peteraf, 2003:997).

Huesch (2013:1288) promotes the mediation of dynamic capabilities by maintaining that firm performance hinges on the efficient and effective management of productive resources using knowledge-based routines. This is elaborated by other scholars' reasoning that resources and capabilities are strongly synergistic or complements in firm performance (Penrose, 1959:86; Rivkin, 2000:824) or that the exploitation of valuable and complementary resource-capability combinations is a mechanism of firm rent creation (Makadok, 2001:387; Lippman & Rumelt, 2003:903). No matter how valuable and rare these combinations are, they will not directly predict a firm's performance (Newbert, 2008:750), and this may be applied to inimitability and non-substitutability. This means that for a firm to earn rents from its resources, it must employ dynamic capabilities. It also means that, while a firm may not be able to improve its performance in the absence of valuable, rare, inimitable and non-substitutable resources, it is the dynamic capabilities that derive from their exploitation that will ultimately determine the firm's level of performance (Newbert, 2008:750). Hence the hypotheses that:

> H_{10}: A franchise outlet's dynamic capabilities will mediate the relationship between the valuable resources that a franchise outlet exploits and its performance.

> H_{11}: A franchise outlet's dynamic capabilities will mediate the relationship between the rare resources that a franchise outlet exploits and its performance.

H_{12}: A franchise outlet's dynamic capabilities will mediate the relationship between the inimitable resources that a franchise outlet exploits and its performance.

H_{13}: A franchise outlet's dynamic capabilities will mediate the relationship between the non-substitutable resources that a franchise outlet exploits and its performance.

4.5 SUMMARY

Table 8 summarises the proposed research questions, objectives and associated hypotheses of this study.

Research question(s)	Research objectives	Hypotheses
1	To determine the impact of valuable resources that a franchise outlet exploits on its performance.	H_1: There is a positive relationship between the value of resources that a franchise outlet exploits and its performance.
	To establish the effect of rare resources that a franchise outlet exploits on its performance.	H_2: The rarer the franchise outlet's resources, the more positive its performance will be.
	To ascertain the impact of inimitable resources that a franchise outlet exploits on its performance.	H_3: There is a positive relationship betweenthe inimitability of resources that a franchise outlet exploits and its performance.
	To examine the impact of non-substitutable resources that a franchise outlet exploits on its performance.	H_4: The non-substitutability of the resources that a franchise outlet exploits will be positively related to its performance.
2	To investigate the relationship of valuable resources that a franchise outlet exploits with its dynamic capabilities.	H_5: The valuable resources that a franchise outlet exploits will be positively related to its dynamic capability.
	To establish the relationship between rare resources and dynamic capabilities that a franchise outlet exploits.	H_6: The rare resources that a franchise outlet exploits will be positively related to its dynamic capability.
	To determine the relationship between inimitable resources and dynamic capabilities that a franchise outlet exploits.	H_7: The inimitable resources that a franchise outlet exploits will be positively related to its dynamic capability.
	To investigate the relationship between non-substitutable resources and dynamic capabilities that a franchise outlet exploits.	H_8: The non-substitutable resources that a franchise outlet exploits will be positively related to its dynamic capability.
	To explore the contribution of dynamic	H_9: A franchise outlet's dynamic capabilities

Research question(s)	Research objectives	Hypotheses
	capabilities of a franchise outlet towards its performance.	will be positively related to its performance.
2 and 3	To discover the mediating role of the franchise outlet's dynamic capabilities between valuable resources and its performance.	H_{10}: A franchise outlet's dynamic capabilities will mediate the relationship between the valuable resources that a franchise outlet exploits and its performance.
	To investigate the mediating role of the franchise outlet's dynamic capabilities between rare resources and its performance.	H_{11}: A franchise outlet's dynamic capabilities will mediate the relationship between the rare resources that a franchise outlet exploits and its performance.
	To examine the mediating role of the franchise outlet's dynamic capabilities between inimitable resources and its performance.	H_{12}: A franchise outlet's dynamic capabilities will mediate the relationship between the inimitable resources that a franchise outlet exploits and its performance.
	To ascertain the mediating role of the franchise outlet's dynamic capabilities between non-substitutable resources and its performance.	H_{13}: A franchise outlet's dynamic capabilities will mediate the relationship between the non-substitutable resources that a franchise outlet exploits and its performance.

Table 8: Proposed research questions, objectives and associated hypotheses

This chapter looked into the research questions, objectives and hypotheses development. Detail was drawn from the literature and propositions built. The next chapter looks at the methodology employed in this study.

Chapter 5 - RESEARCH PHILOSOPHIES, RESEARCH DESIGN AND ANALYSIS

5 RESEARCH PHILOSOPHIES, RESEARCH DESIGN AND ANALYSIS

"When you can measure what you are speaking about and express it in numbers, you know something about it." Lord Kelvin.

5.1 CHAPTER OVERVIEW

This chapter is concerned with research philosophies, research design and gathering of data. The objective was to test empirically the impact of VRIN resources on franchise outlet performance. In addition, the study sought to establish the mediating role of dynamic capabilities between VRIN resources and performance in South Africa franchising industry. Although there are many listed members of the FASA, only two categories (fast-food and retailing) were used. Hypotheses were tested through cross-sectional data from a sample of franchise outlets operating in Gauteng province to establish relationships between/among variables. Gauteng was chosen because of its dynamic business environment and the fact that most franchised chains are found there (FASA Manual, 2016:11). This allowed this study to expect to find visible resources-dynamic capabilities-performance relationships. Hence detailed data on the resources and capabilities were required in order to examine research questions (Gruber, Heinemann, Brettel & Hungeling, 2010:1339). Qualtrics (a research software company that allows users to do online data collection and analysis), face-to-face and telephone methods were used for data collection from management in the sample.

5.2 INTRODUCTION

In Chapter 4, objectives and hypotheses development were covered. In addition, this chapter presents the research philosophies, research design and approach planned for the empirical study. Detail emphasises quantitative/qualitative research, surveys, data collection methods, questionnaire design and statistical procedures followed for analysis of data.

5.3 RESEARCH PHILOSOPHIES

Saunders, Lewis and Thornhill (2009:107) propound that research philosophy relates to the development of knowledge and the nature of that knowledge. Other scholars define research philosophy as a paradigm or a set of basic beliefs, accepted on faith, that provide frameworks for the entire research process (Schnelker, 2006:44). Guba and Lincoln (1994:105) see it as a basic belief system or worldview that guides the investigator. On the other hand, it is a set of interrelated assumptions about the social world which provides a philosophical and conceptual framework for the organized study of that world (Filstead in Ponterotto, 2005:127−128). The philosophy/paradigm has the following elements. First, ontology: beliefs or assumptions regarding the nature of reality. Second, epistemology: the nature of knowledge and how it can best be produced. Third, axiology: the role and place of the researcher's values in the research process; and fourth, methodology: the most appropriate ways for investigating what can be known. These are critical in the development of new knowledge in this study. The table below summarises basic beliefs and comparison of four research philosophies in business and management research.

Element	Positivism	Realism	Interpretivism	Pragmatism
Ontology: *the*researcher's view of the nature of realityor being	External, objectiveand independent of social actors	Its objective existsindependently ofhuman thoughts andbeliefs or knowledgeof their existence(realist), but isinterpreted throughsocial conditioning(critical realist)	Socially constructed,subjecti ve, maychange, multiple	External, multiple,view chosen to bestenable answeringof researchquestion
Epistemology: the researcher's view regarding what constitutesacc eptableknowle dge	Only observablepheno mena canprovide credibledata, facts. Focuson causality and law like generalisations,re ducingphenomena tosimplest elements	Observablephenom ena providecredible data, facts.Insufficient datameans inaccuraciesin sensations (directrealism). Alternatively,pheno mena createsensations whichare open tomisinterpretation(c ritical realism).Focus on explainingwithin a contextor contexts	Subjective meaningsand social phenomena. Focus upon the detailsof situation, a reality behind these details,subjective meaningsmotivating actions	Either or bothobservablephenom ena andsubjective meaningscan provide acceptableknowledged ependent uponthe research question. Focuson practicalapplied research,integrating differentperspectives to helpinterpret the data
Axiology: *the*researcher's view of the role of values inresearch	Research isundertaken in avalue-free way,the researcher isindependent of the data and maintains an objective stance	Research is valueladen; the researcheris biased by worldviews, culturalexperiences andup-bringing. Thesewill impact on theresearch	Research is valuebound, the researcher is part of what is beingresearched, cannotbe separated and sowill be subjective	Values play a largerole in interpretingresults, theresearcher adoptingboth objective andsubjective points ofview
Data collectionTech niques most often used	Highly structured,large samples,measure ment,quantitative, butcan use qualitative	Methods chosenmust fit the subjectmatter, quantitativeor qualitative	Small samples,in-depth investigations,qualit ative	Mixed or multiplemethod designs,quantitative andqualitative

Table 9: Basic beliefs (metaphysics) of alternative inquiry paradigms

Source: Saunders *et al*. (2009:119).

Saunders *et al*. (2009:139) present positivism, realism, interpretivism and pragmatism as philosophies that draw on ontology, epistemology and axiology. First, the philosophy of positivism works with observable phenomena of credible data and the end product of such research can be law-like generalisations similar to those produced by the physical and natural scientists (Remenyi, Williams, Money & Swartz, 1998:32). Hence the focus is on

causality and the reduction of phenomena to simplest elements. Second, realism is a branch of epistemology which is similar to positivism in that it assumes a scientific approach to the development of knowledge (Saunders *et al*., 2009:145). Third, interpretivism advocates that it is necessary for the researcher to understand differences between humans in our role as social actors (Saunders *et al*., 2009:147). Fourth, pragmatism argues that the most important determinant of the epistemology, ontology and axiology is the research question (Saunders *et al*., 2009:140).

For the purposes of this study, epistemology and positivist philosophy were most employed. First, epistemology-positivism was employed because of its emphasis on what constitutes acceptable knowledge (Saunders *et al*., 2009:139). In response to the dictates of the philosophies, data collection, must be highly structured, uses large samples and measurement, and must be quantitative. This study considered primary data collection from 224 respondents and a quantitative analysis about the effects of VRIN resources on performance. Third, positivist philosophy emphasises the survey method. That is why the survey method used was data collection-Qualtrics, and face-to-face and telephone interviews. In order to collect data an existing theory (RBV of the firm) was used to develop hypotheses. Drawing on the philosophy, a deeper understanding of a phenomenon is only possible through understanding the interpretations of that phenomenon from those experiencing it (Shah & Corley, 2006:1823). This implies that franchise outlet managers or owner operators were the best respondents in this regard, because they run the outlets and can evaluate the impact of their resources. Mintzberg (1979:584) adds, "...data don't generate theory – only researchers do that". The implication is that data describe the empirical patterns observed, while theory explains why empirical patterns are observed or expected. Second, data concerning the specific resources identified as valuable, rare, inimitable and non-substitutable in franchising are not easy to get from secondary sources. On the other hand, performance is not publicly reported by firms (Katsikeas, Leonindou & Morgan, 2000:493). In the light of the above, the RBV of the firm was the basis upon which primary data could be collected in order to explain relationships in the model.

On the other hand, ontology was just employed as a foundation of this study. The researcher had an ontological position about how VRIN resources and dynamic capabilities affect the performance of franchise outlets. However, in order to establish the

nature of reality, epistemology was explored. Hence, epistemology helped in explaining the relationship between what the researcher thinks about franchisees and ways in which knowledge about reality could be established.

5.4 ETHICS OF RESEARCH

Kent (2007:38) argues that ethics are moral principles or standards that guide the ways in which individuals treat their fellow human beings in situations where they can cause actual or potential harm, whether economic, physical or mental. Ethics in marketing research are concerned with professional standards of conduct and with the use of techniques in ways that avoid harm to respondents, to clients or to other parties (Kent, 2007:38). Researchers base their work on the goodwill and participation of the public, and society is now aware of their rights and sensitive about invasions of their privacy. Any individual, company or agency that violates the implicit trust of participants in a study makes it more difficult and more costly for all market researchers to approach and recruit survey respondents (Kent, 2007:38).

It is against this background that franchise outlet managers and owner-operators were invited to freely participate in this academic research study. The purpose of the study was explained. Furthermore, the survey was self-administered and anonymous on Qualtrics because the name was not required when completing the questionnaire. Even with the telephone and face-to-face interviews, the answers given were treated as strictly confidential as the respondent could not be identified in person based on answers they gave. Hence, respondents were promised that the results of the study would be used for academic purposes only and would be published in a thesis.

In order to have access to appropriate participants, the author obtained permission from RESEARCH IQ Marketing Research Consulting and Training Company to use the company's online database. The online database provided contact details of the franchise outlets. The contact details assisted in recruiting and interviewing respondents through Qualtrics data collection and analysis, and face-to-face, and telephone surveys. Data were collected in Gauteng province. The University of Pretoria Faculty's Research Ethics Committee provided ethical clearance for the study to continue.

5.5 RESEARCH DESIGN

The research design explains how the study was conducted (Malhotra& Birks, 2008:64). For the purposes of this study, the cross-sectional approach was used. The cross-sectional study is the most frequently used descriptive design in marketing research (Malhotra & Birks, 2008:74), and has been employed in most franchising studies (e.g., Castrogiovanni *et al.*, 2006:33; Kosova & Lafontaine, 2010:556; Barthelemy, 2008:1455; Gorovaia & Windsperger, 2013:186; Kistruck *et al*., 2011:508). Cross-sectional design involves the collection of information from any given sample of population elements only once. Christensen, Johnson and Turner (2015:66) explain, '…a cross-sectional study the data are collected from research participants during a single, relatively brief period'. This study replicates the use of single cross-sectional design as employed in other studies (Akremi *et al*., 2015:145-165; Akremi, Mignomac & Perrigot, 2011:930-948; Badrinarayanan, Suh & Kim, 2016:3943-3950). The design is premised on the argument that future research could use other data sources, such as questionnaire-based surveys, to measure the performance of franchised chains (Akremi *et al*., 2015:160). Saunders *et al*. (2009:155) also add that cross-sectional studies often employ the survey strategy. The designhelped to measure how franchisors and franchisees perceive their outlets' performances. Again the single time period was sufficient to collect data from the franchisees. Only one sample of franchisees was drawn from the target population, and information was obtained from this sample only once. Although the cross-sectional method is inexpensive, has a short time span and a low dropout rate, it is also associated with a limitation in the comparability of groups (Salkind, 2014:330).

5.5.1 CLASSIFICATIONS OF RESEARCH DESIGNS

Research designs may be broadly classified as exploratory or conclusive (Malhotra & Birks, 2008:62). The research design provides the plan that guides the researcher to answer the research problem and objectives. It is therefore a framework for conducting the study and collecting data, given specific methods and procedures that are used to acquire the required information. According to Malhotra & Birks (2008:70), conclusive research best fits this study because it is descriptive, cross-sectional, the sample is large, and

aiming to be representative and analysis is quantitative and uses surveys. Figure 7 below depicts the classification of research designs.

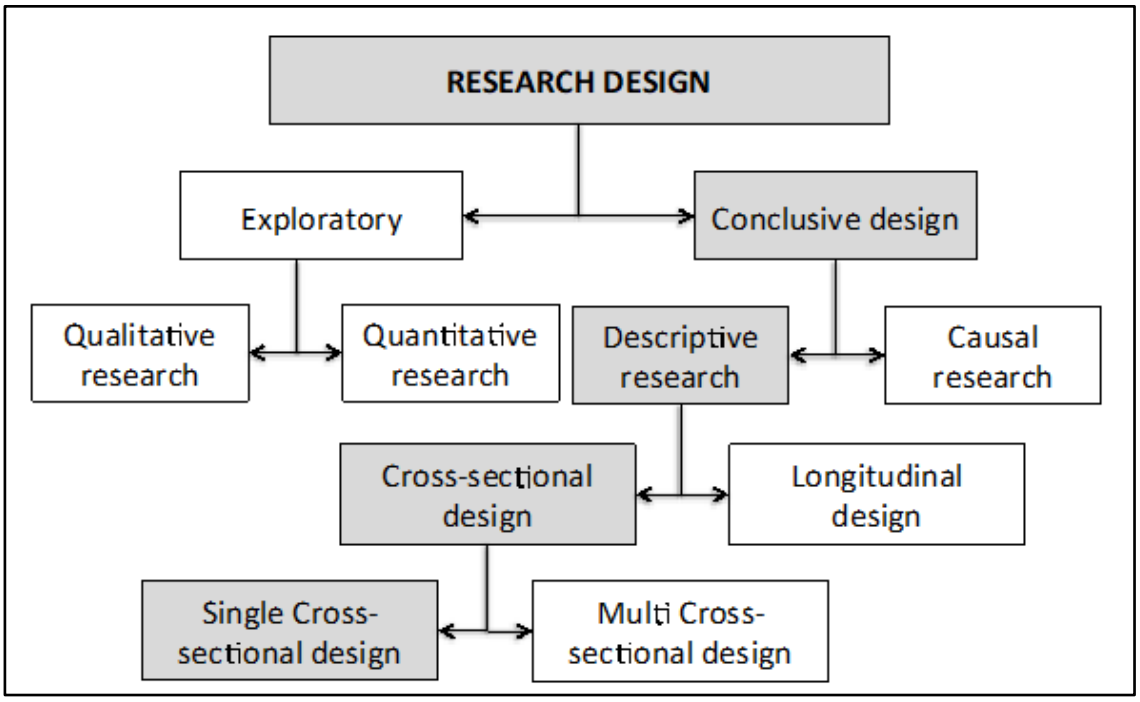


Figure 6: Research design classification

Source: Malhotra and Birks (2008:62).

From the classification depicted above, a conclusive research design was followed. After the development of research objectives and hypotheses, the survey questionnaire was crafted. Data were collected from franchise outlet owner-operators and managers through Qualtrics and telephone and face-to-face interviews. Figure 8 below summarises how the study was done.

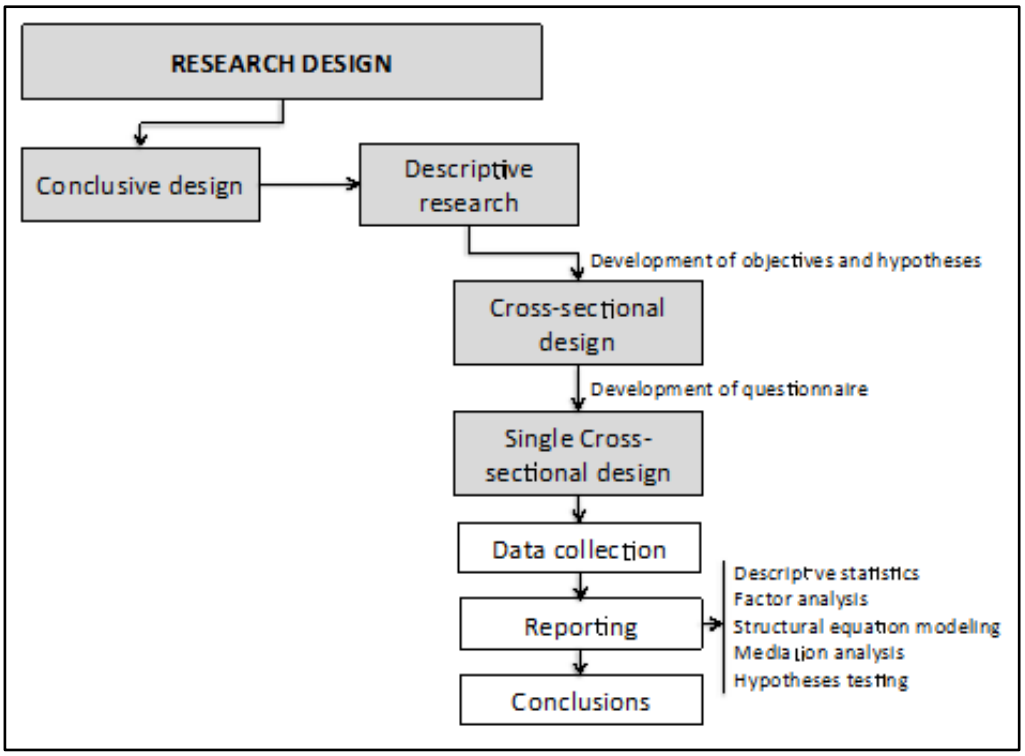


Figure 7: Research design

Source: Researcher's compilation.

5.5.2 CONCLUSIVE DESIGN

The objective of conclusive research is to describe specific phenomena, to test specific hypotheses and examine specific relationships (Malhotra & Birks, 2008:65). Drawing on this definition, conclusive research was employed for the following reasons:

1. The conclusive research was able to describe and predict relationships so that reasons for the causal relationships could be discovered. Hence specific hypotheses and relationships were tested among VRIN resources, dynamic capabilities and performance.
2. The sample size of franchise outlet owner-operators and managers was large enough and representative of fast-food and retailing categories.
3. The data collected through surveys were analysed quantitatively.

In this study, to find a causal relationship between VRIN resources and firm performance, there was a need to establish the relationship between the two variables. The questions explored were: To what extent do VRIN resources and dynamic capabilities affect firm

performance? Is positive firm performance a result of the mediating role of dynamic capabilities? If, then, firm performance is affected by resources or dynamic capabilities, adjustment of VRIN would be required. For a cause/effect relationship there is a need to establish that the causal factor occurred first. As an illustration, for valuable resources to result in positive firm performance, the exploitation of market opportunities, reduction of costs and mediation of dynamic capabilities must have taken place first to boost performance. Thus, if the effect is not preceded by cause, it means there is no causal relationship. What it means is that VRIN resources should precede performance and also that dynamic capabilities are to mediate between VRIN resources and performance.

The hypotheses were tested to explain the direct and indirect relationship between VRIN resources and performance. After the development of hypotheses, the survey questionnaire was crafted for the franchise outlet owner-operators and managers. Then the data were collected through Qualtrics and telephone and face-to-face interviews

5.5.3 QUANTITATIVE RESEARCH STRATEGY

Quantitative strategy is based on positivist theory (systematic, objective investigation of phenomena and their relationships, characterised by quantification and mathematical model development). In other words, quantitative method is based on meanings derived from numbers; collection results in numerical and standardised data, analysis conducted through the use of diagrams and statistics (Saunders *et al*., 2009:482). There are two main information sources of data, classified into primary and secondary (Cooper & Schindler, 2014:96). The data sources are places where the researcher can obtain the data (Wiid & Diggines, 2009:59). This study did not employ secondary data, because they are not current in explaining what franchise outlets are experiencing based on their resources and dynamic capabilities. Hair, Bush & Ortinau (2000:39) state that secondary data are historical data structures of variables previously collected and assembled for some research problem or opportunity situation other than the current situation. In contrast, primary data represent first-hand, raw data and structures for meaningful interpretation (Hair *et al*., 2000:39). Hence, drawing on Barney and Mackey's (2005:5) call that the best RBT empirical work involves collecting primary data from firms in a carefully drawn sample, this study collected and used primary data for analysis.

Moreover, primary data are data originated by a researcher for the specific purpose of addressing the problem at hand, and they are individually tailored for the decision-makers of organisations that pay for well-focused and exclusive support (Malhotra & Birks, 2008:94). In this study, primary data were collected to test hypotheses for two reasons. First, they were meant to respond to the performance challenges faced by other fast-food and retail outlets in Gauteng. Second, the emerging RBV methodology literature indicates that primary data give the opportunity for more fine-grained studies of the kinds of specific resource differences between firms that underpin RBV theory (Morgan *et al*., 2006:625). The analytical results would help managers and owner-operators to make informed decisions about resource deployment for better performance.

The quantitative research measures and expresses data in quantities. Saunders *et al*. (2009:445) posit that these data, therefore, need to be processed to make them useful; that is, to turn them into information. They further explain that quantitative analysis techniques such as graphs, charts and statistics allow the exploration, presentation, description and examination of relationships and trends within the data. In addition, Malhotra and Birks (2008:17) explain that if the data are quantitative, they must be analysed to give meaning to the data. In this study factor analysis and multiple regression analysis were used to analyse data. Hypotheses were tested for conclusions and recommendations.

5.6 SAMPLING

Newbert (2008:751), in responding to Barney and Mackey's (2005:5) call that the best resource-based empirical work involves collecting primary data from firms in a carefully drawn sample, surveyed a sample from micro- and nano-technology firms. Following in his footsteps, this study surveyed a sample of franchised firms involving collection of primary data. The sample was drawn from the target population as follows: elements were managers or outlet owners responsible for the running of franchise outlets. Sampling units were the franchise chains in South Africa. Extent refers to at least 500 franchise outlet managers (franchisees) in Gauteng province. The survey was conducted in 2017, but responses were sought from franchisees that had been in business since 2014. The rationale behind the theoretical sampling was to direct data - gathering efforts towards

collecting information that would best support the development of the theoretical framework (Locke, in Shah & Corley, 2006:1828).

The franchised firms were considered for two reasons. First, franchise consultants and scholars have argued that franchising is overly expensive in Africa and that the franchising model in Africa is built to help undereducated and undercapitalised people where there is very little infrastructure to succeed at business (Franchise Consultant in Kistruck *et al*., 2011:503). This seems to tie in with the idea that franchising represents a prevalent growth strategy in both developed and emerging economies (Welsh, Alon & Falbe, 2006a:130), and this idea was studied to find if franchising was a means of growth in base-of-pyramid (BOP) markets (Kistruck *et al*., 2011:503). Their findings suggested that there were some challenges regarding the franchising model in BOP markets, but they called for more studies to explain the franchising model in developing economies. In response to their call, this study sought to operationalise VRIN on franchising. This study again was responding to previous work's call for a more theoretical grounded approach in studying franchising (Chritensen *et al*., 2010; Castrogiovanni *et al*., 2006:27; Grewel *et al*., 2011:550; Gillis *et al*., 2013:467; Combs & Short, 2011:421).

The more theoretical grounded approach is rooted in Barney (1991:106); Penrose (1959:86); Amit and Schoemaker (1993:33); Teece *et al*. (1997:509); and Makadok (2001:387): that a firm has resources and capabilities that must be used effectively. South Africa franchises have had experiences that require attention by scholars. For example, in 2014, the franchisors opened 4 086 businesses, 40% of which were fast food and restaurants (FASA Manual, 2016:11). However, an estimated 999 businesses were closed down. Coupled with this challenge is that it takes up to 6 months or a year before a new franchisee breaks even. The possible reason for the challenges is that the environment is turbulent and entrepreneurs must brace up for tough times with a competitive model. Therefore instead of replicating the cited studies, this study must emphasise RBV in order to establish to what extent VRIN resources can sustain competitive advantage and influence performance through dynamic capabilities.

Second, because franchising is a plan to expand and a strong potential for further growth (FASA Manual, 2016:12−15), franchisors and franchisees must gain knowledge that helps

them catapult the success of their businesses into the future. Despite trading challenges, franchising covers a wide range of industries and contributes 12.5% to the country's Gross Domestic Product (GDP); again, the sector continues to play an important role in creating new franchise businesses, in skills transfer and job creation (FASA Manual, 2016:10). This is critical to the country's economy because it is turbulent. Hence, the sample might provide insights regarding the importance of dynamic capabilities' mediating role in the resource/capability-performance relationship.

The study used the FASA Manual (2016) from the Franchise Association of Southern Africa (FASA) which comprises member and non-member listings. FASA is a trade association for franchisors, franchisees and professional organisations that service the franchise industry. It is part of South Africa's new era in promoting entrepreneurship, small business development and skills transfer. The manual contained contact details with valid email addresses as at 1 January, 2016. From the FASA members list some names were selected from two categories (fast food and restaurants; retailing and direct marketing) yielding a usable sample size of 500 (later reduced to 224). The large majority of these franchise business units are in Gauteng (FASA, 2016:11) and they are expected to employ resources to boost performance (Gorovaia & Windsperger, 2013:183). Also, they are all expected to employ capabilities (e.g., skills, abilities, know-how, expertise, designs, management). Newbert (2008:766) maintains that capabilities are necessary for a firm to exploit resources in the execution of its day-to-day operations.

Other scholars add that there is evidence that franchised chains can achieve a competitive advantage and outperform their competitors by leveraging dynamic capabilities to recognise, integrate, transfer, and exploit resources that further enhance their capabilities across business processes and create unique value (Combs *et al*., 2011:99; Grewal et al., 2011:533). Franchisors can also reconfigure and redeploy dynamic capabilities within their chain to create additional resources and new knowledge (Akremi *et al*., 2015:147). These capabilities refer to the extent to which a franchised chain is able to pool, use, and redeploy resources to formulate and implement a competitively superior strategy, to respond better to the market, and outperform competitors (Gillis & Combs, 2009:553). For example, prior research in the franchising context has emphasised the importance of learning and the ability of franchisors to create and transfer knowledge to franchisees in

order to develop superior performance (Sorenson & Sørensen, 2001:713). For franchised chains, knowledge is the most strategically significant resource, and a source of competitive advantage that drives economic growth (Gillis & Combs, 2009:553). It is therefore against this background that drawing a sample for primary data would shed light on performance.

5.6.1 SAMPLING TECHNIQUE

The sampling technique helped to come up with the data to be interpreted but controlled by the tenets derived from the RBT. The aim was achieved by visiting franchise outlet managers at their work−places so that variations among concepts could be interpreted. That is why the theory was considered to help guide which cases they should focus upon, the issues they should observe and the context of their investigation (Malhotra & Birks, 2008:165). The goal was to test hypotheses on a representative sample of active franchise chains. Probability sampling was employed. Malhotra and Birks (2008:412) say that probability or representative sampling is most commonly associated with survey-based research strategies where you need to draw inferences from your sample about a population to answer your research question(s) or to meet your objectives. Saunders et al. (2009:245) see the sampling frame for any probability sample as a complete list of all the cases in the population from which your sample will be drawn. Hence this study's sampling frame was the FASA manual (2016) with lists of members and non-members. From 14 categories in the franchising industry, only two categories (fast-food and restaurants; retailing and direct marketing) were chosen. The fast-food is the largest business category, followed by retailing. The two business categories constitute 40% of a total of 4 086 businesses (FASA Manual, 2016:11). Hence, based on their contact details, the two business categories' franchise outlets were randomly selected for the study.

5.6.2 SAMPLE SIZE

So the research hypotheses were tested in the South African context using a sample drawn from the FASA 2016 manual. The reasons for choosing fast-food and retailing South African franchises are several. First, fast-food and retailing franchising in South Africa is growing, while other categories have performance challenges (FASA, 2016:11).

Second, most empirical studies on the franchising sector have dealt with the US market (Perrigot *et al*., 2013:564), and other developed economies. Thus this study was an opportunity to close this gap. Another reason for this choice is that franchising is contributing much to the South African economy, entrepreneurship, skills and job creation (FASA, 2016:15). According to FASA (2016:15), South Africa has over 600 franchised brands and almost 39 000 franchised outlets. So the target population of this study comprised franchise outlet managers/owners from the FASA registered and member listing (fast-food and restaurants; retailing and direct marketing) categories in Gauteng province who had been in franchising since 2014. The selected franchise outlet managers and owner-operators were initially 500.

5.7 PRETESTING THE DATA COLLECTION INSTRUMENT

The participants for the pretesting exercise were from fellow PhD students and supervisor before the pilot study. This is supported by Cooper and Schindler (2011:358), who posit that there is either researcher or participant pretesting. The idea was to ascertain the validity and reliability of the questionnaire in terms of wording, meaning and clarity of questions. Perez-Nordtvedt *et al*. (2008:726) elaborate that pretesting ensures face validity of the survey instrument, by seeking comments on wording, design, and organisation of the questionnaire and the individual items from a panel of academic and industry experts. After the pretesting, another version of the questionnaire was drafted drawing on their feedback, especially on items to improve clarity.

5.8 PILOT STUDY

Before actual data collection, the questionnaire was again tested using 25 franchise outlet managers of fast-food and retailing in other provinces. Some of the managers were visited at their companies' offices during the pilot study in order to assess the reliability and validity of the adapted and adjusted scales (value, rareness, inimitability, non-substitutability, dynamic capabilities and performance). This is supported by scholars, who argue that the size of the pilot group may range from 25 to 100 subjects (Cooper &Schindler, 2014:85). These form the industry experts' group to contribute to the representativeness and suitability of questions. The purpose of the pilot test was to refine

the questionnaire so that respondents would have no problems in answering the questions and there would be no problems in recording the data (Saunders *et al*., 2012:451). This implies that questions were evaluated for validity and to gauge reliability of the data to be collected in answering research questions. This is supported by Bell's argument (2010:151), "−however pressed for time you are, do your best to give the questionnaire a trial run−". After the trial run, the full study follows with actual data collection.

5.9 FULL STUDY

After the pilot study, the questionnaire was emailed to the 500 franchise outlet managers and owners at the beginning of May 2017, using Qualtrics. Respondents were encouraged to complete the questionnaire voluntarily. After every two weeks reminders were sent to managers and owner-operators for voluntary questionnaire completion. The managers' consent was sought about their opinions on the phenomenon. Cooper and Schindler (2014:86) add that primary data are sought for their proximity to the truth and control over error. Because of this argument, this study upheld primary data rather than secondary data. However, the response was not pleasing because out of 500 respondents, only 164 started the survey and 53 responded to all questions. In June, the other two methods (telephone and face-to-face surveys) were employed to boost the response rate. Finally, 224 participated fully.

5.10 DATA COLLECTION INSTRUMENTS

The gathering of data may be through observation, experimentation or survey (Cooper & Schindler, 2014:59). First, observation takes place when people and situations are watched (e.g. watching consumers in a supermarket and recording the information on predesigned forms). Second, experimentation is done in a controlled environment and conclusions are then generalised to apply to the wider context (e.g. a supermarket may conduct a test to determine the effect of a new display method in one of its stores). Third, survey entails collecting data about selected individuals by using direct or indirect questioning−for example, use of a questionnaire to collect facts, opinions or motives (Wild & Diggines, 2009:59). Hence, this study used the online survey method with the questionnaire.

Online surveys are increasingly common due to their speed in data collection, versatility for use with various types of measurement scales, access to difficult-to-contact or inaccessible participants and lower cost of large-sample completion (Cooper & Schindler, 2014:273). For the cited reasons this study adopted an online survey and a questionnaire was drafted for franchise outlet managers and owner operators. Malhotra and Birks (2008:370) define, “A questionnaire is a structured technique for data collection consisting of a series of questions, written or verbal, that a respondent answers”. Wild and Diggines (2009:171) elaborate further that it is a set of questions designed to generate the data necessary to accomplish a research project’s objectives. Although a questionnaire can be a major source of response error, there were thorough checks on grammatical mistakes to minimise inaccurate answers.

Following Dillman’s (1978) Total Design Method for survey construction, a cover letter was included as an invitation to explain the purpose of the study. Respondents were also assured that their responses would remain strictly confidential (Pavlou & El Sawy, 2011:255). Using Qualtrics, the questionnaire was emailed to all the identified 500 respondents to complete. Thus data were collected using a self-administered survey method where a mailed questionnaire was completed without the assistance of the interviewer. It was a cross-sectional, survey-based research which is considered appropriate because it can be used to test theory (Shah & Corley, 2006:1822). Managers and owner operators were used as the key respondents (Sethi, Smith & Park, 2001:73) because they are knowledgeable about how chains are run and the resources involved. Qualtrics is a generalised survey service permitting the creation of survey instruments, distribution of the surveys, data storage and analysis. Qualtrics is the preferred tool for surveys because it meets stringent information security requirements not found in most free online survey tools. It also has important quality control features, such as preventing multiple submissions from a single survey participant. Moreover, Qualtrics is user-friendly and able to handle complex designs. Simple surveys can be produced in minutes and complex studies involving data are possible. The respondents were screened to include only those who had been in franchising as from 2014.

In order to facilitate the administration of the online survey, phone calls were placed early in July, 2016 to all contact managers of the chains asking them to participate.

Respondents were to have an average of two years with the chain. However, if the contact person was not qualified to participate knowledgeably, they would be asked to forward the survey link to the person who had the knowledge (Gillis *et al*., 2013:457). Moreover, a follow-up phone call and email would be sent to those who did not respond within two weeks.

After a month Qualtrics, proved to be very slow in terms of response rate. Hence face-to-face and telephone interviews were introduced by mid-June 2017. Physical visits were made (from mid-June up to end of the same month) to some franchise outlets and managers or owner-operators were interviewed using the same questions as those in the questionnaire. Moreover, telephone interviews were held in July 2017 using the same questions. Although there were a few challenges in the two methods, they significantly improved the response rate from 10.6% to 44.8%, from 53 to 224.

5.11 RESPONSE RATE

Drawing on Dillman's (1991:225) Total Design method, the questionnaire was sent out through Qualtrics from the beginning of May 2017 to 500 who had not participated in the pilot survey. From 500 respondents, only 164 started the survey but 53 responded to all questions. After a month, the other two methods (telephone and face-to-face interviews) were employed in order to boost the response rate. Hence, by the end of June 2017, responses were increased from 53 to 224 (77 respondents by telephone, 53 by Qualtrics and 94 by face-to-face). Of these 224 respondents, 96 (42.9%) were from the retailing and direct marketing category, while 128 (57.1%) were from fast food and restaurants. The respondents were grouped in terms of their experience in franchising. The less experienced (up to 5 years) constituted 89: 39.7%, moderate experience (from 6 years up to 10 years) were 67: 29.9% and the more experienced (from 11 years up to 40 years) amounted to 68: 30.4%. The response rate was 44.8% and this compares favourably with other studies (Newbert, 2008:754; Alreck & Settle, 1985). In addition, of the 224 who responded, 80 (35.7%) were owner operators and 144 (64.3%) were managers at their respective outlets. It is against this background that all those who responded to the survey were considered highly qualified to provide accurate responses to the survey items. Below is Table 10 that explains hypotheses and areas covered in the questionnaire.

Hypothesis	Area	Questions
H_1: The value of resources that a franchise outlet exploits will be significantly related to its performance.	Value and performance	Q7 to Q9 and Q20.
H_2: The rarer the franchise outlet resources, the more significant firm performance will be.	Rareness and performance	Q10, Q11 and Q20.
H_3: The inimitability of the resources a franchise outlet exploits will be significantly related to its performance.	Inimitability and performance	Q12, Q13 and Q20.
H_4: The non-substitutability of the resources that a franchise outlet exploits will be significantly related to its performance.	Non-substitutability and performance	Q14, Q15 and Q20.
H_5: The valuable resources that a franchise outlet exploits will be positively related to its dynamic capability.	Value and dynamic capability	Q7 to Q9 and Q16 to Q19.
H_6: The rare resources that a franchise outlet exploits will be positively related to its dynamic capability.	Rareness and dynamic capability.	Q6 to Q11 and Q16 to Q19.
H_7: The inimitable resources that a franchise outlet exploits will be positively related to its dynamic capability.	Inimitability and dynamic capability.	Q12 to Q13 and Q16 to Q19.
H_8: The non-substitutable resources that a franchise outlet exploits will be positively related to its dynamic capability.	Non-substitutability and dynamic capability.	Q14 to Q19.
H_9: A franchise outlet's dynamic capabilities will be significantly related to its performance.	Dynamic capability and performance.	Q16 to Q20
H_{10}: A franchise outlet's dynamic capabilities will mediate the relationship between its valuable resources and performance.	Dynamic capabilities, value and performance.	Q7 to Q9 and Q16 to Q20.
H_{11}: A franchise outlet's dynamic capabilities will mediate the relationship between its rare resources and performance.	Dynamic capabilities, rareness and performance.	Q10, Q11 and Q16 to Q20.
H_{12}: A franchise outlet's dynamic capabilities will mediate the relationship between its inimitable resources and performance.	Dynamic capabilities, inimitability and performance.	Q12, Q13 and Q16 to Q20.
H_{13}: A franchise outlet's dynamic capabilities will mediate the relationship between its non-substitutable resources and performance.	Dynamic capabilities, non-substitutability and performance.	Q14 to Q20.

Table 10: Questionnaire measures

Drawing on the interest in measuring resources, dynamic capabilities and performance in franchising, a comprehensive search for existing measures was done. The study used measures that were adapted from prior studies. All the key study variables (that is, valuable resources, rare resources, inimitable resources, non-substitutable resources, dynamic capabilities and performance) were measured on seven-point Likert scales.

5.12 MEASUREMENT THEORY MODEL

Hair *et al*. (2006:772) argue that a measurement model refers to the specification of the measurement theory that shows how constructs are operationalised by sets of measured variables. Their emphasis is that a model should not be developed without some underlying theory. Hence, drawing on RBV, the measurement model below (figure 9) proposes a set of structural relationships between constructs.

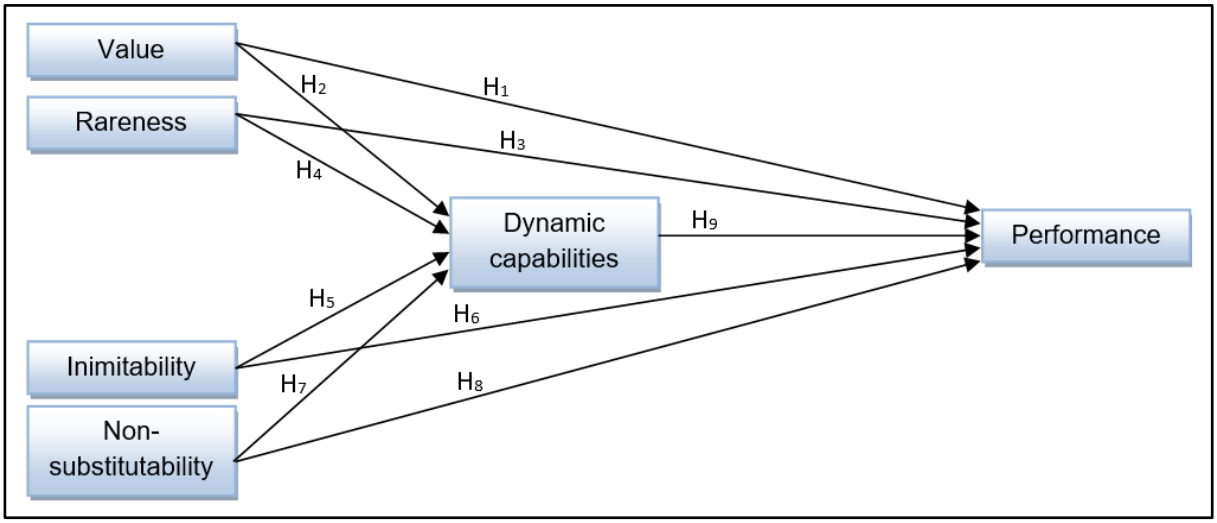


Figure 8: Structural relationships between constructs in this study

Source: Researcher's own-model.

A model is a representation of a theory which is a systematic set of relationships providing a consistent and comprehensive explanation of phenomena (Hair *et al*., 2006:713). The above model represents RBV – it is a complete path diagram showing specified hypothesised structural relationships and complete measurement specification. The systematic set of relationships is based on VRIN resource characteristics, dynamic capabilities and performance. The phenomenon is the proposition or the assumption that VRIN resources and dynamic capabilities are significant in explaining performance of a franchise outlet. H_1 is specified with the arrow connecting value and performance. H_2 is specified with the arrow connecting value and dynamic capabilities. In the same manner, H_3, H_4, H_5, H_6, H_7, H_8 and H_9 are specified.

Moreover, the measurement model depicts a relationship type. Mediation and moderation are two of the more common types of relationships (Hair *et al*., 2006:866). In mediation, a

mediating variable is located between the independent and dependent variables, which explains the relationship between them (Saunders *et al*., 2012:174). On the other hand, in moderation a second independent variable is included because it is believed to have a significant contributory or contingent effect on the original independent variable – dependent variable relationship. For the purpose of this study, mediation was explored.

5.13 STRUCTURAL EQUATION MODELLING (SEM)

In order to capture the theoretical interdependencies among VRIN resources, dynamic capabilities and performance, this study analysed the data using structural equation modelling. Structural equation modelling is a particularly attractive choice for testing mediating variables, since all of the relevant paths are directly and/or indirectly tested; complications, such as measurement error and feedback, are incorporated directly into the model (Garson, 2015:18). SEM consists of two components: a measurement model linking a set of observed variables to a usually smaller set of latent variables, and a structural model linking the latent variables through a series of recursive and non-recursive relationships (Albright, 2008:2). SEM is a form of causal modelling that examines relationships between and among one or more dependent variables and two or more predictor or independent variables (Nokelainen, Silander, Ruohotie & Tirri, 2006:1). Garson (2015:23) argues that it is one of the widely used methods for quantifying factors influencing dependent variables such as brand equity, brand loyalty, brand value, and customer satisfaction. Martinez-Lopez, Gazquez-Abad and Sousa (2013:139) in support argue that the SEM is a powerful method for theory testing and deals with continuous or discrete independent and dependent variables−but it is the independent variable that causes the outcome.

Another advantage of using SEM is that it is possible to study relationships between multiple outcomes involving latent variables (Koubaa, Tabbane & Jallouli, 2014:333). Furthermore, the estimation and testing of direct and indirect effects of resources, dynamic capabilities and performance is possible without the influence of measurement error. Moreover, De Carvalho and Chima (2014:6) argue that SEM includes exogenous variables, endogenous variables, indicator variables and latent variables. In this study the exogenous variables are the VRIN resource characteristics that are not influenced by other

variables in the model. The endogenous variable is firm performance. This shares the same notion as that in Akremi *et al*.'s (2015:155) study, where the examination of the performance levels of well-performing franchisors is relevant for understanding the drivers of such levels of performance. The study also performs path analysis in LISREL for hypothesis testing (Williams, 2015:1).

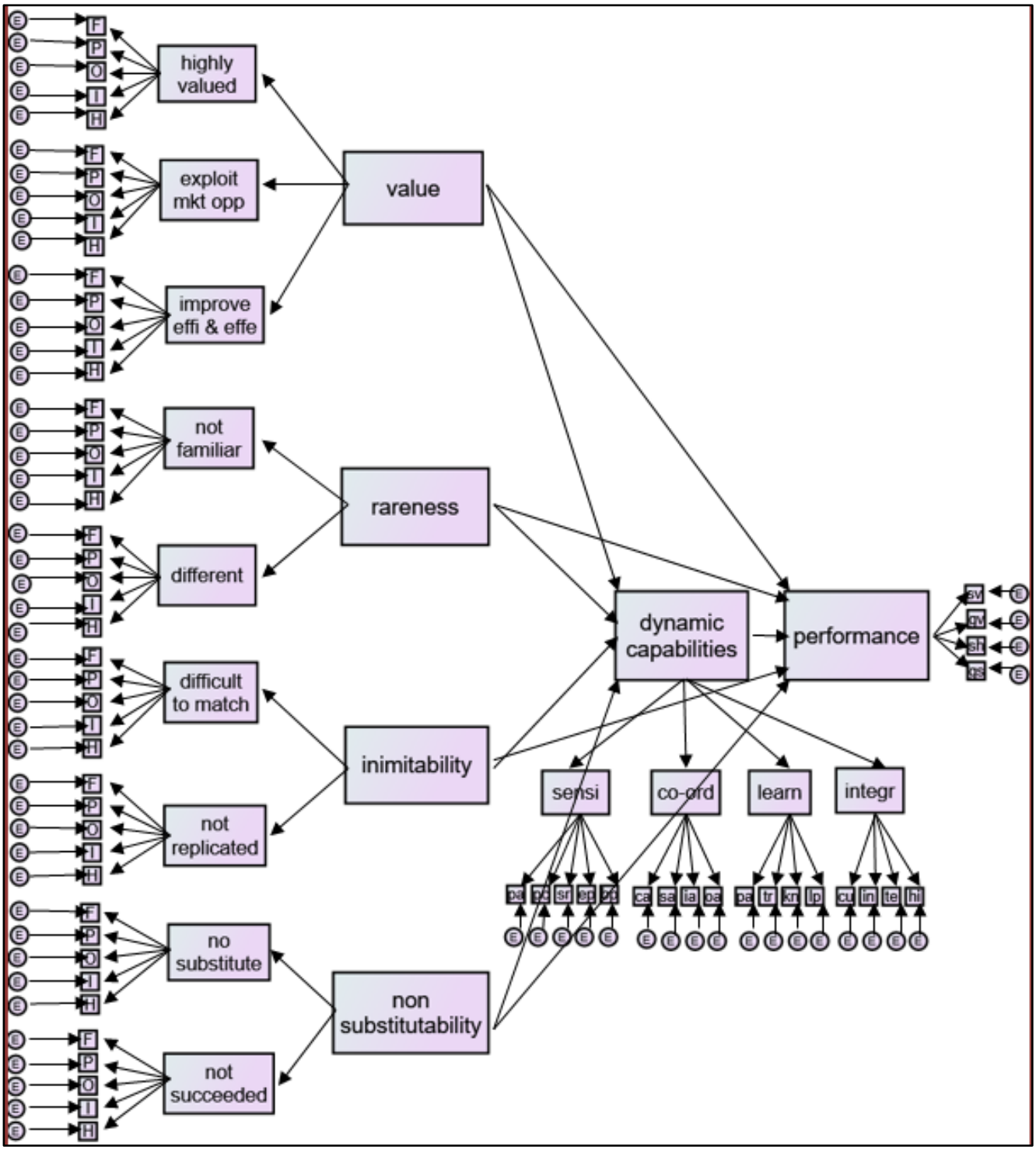


Figure 9: Measurement model
Source: Researcher's own-model.

The measurement model above (Figure 10) is a depiction of all the constructs, all the items and the relationships explored in this study. Some of the items are abbreviated. Hence the table below gives the words in full.

Construct	Items in full	Items in full
Value	1. Highly valued 2. Exploit mkt opp (exploit market opportunities) 3. Improve effi & effe (improve efficiency and effectiveness)	F - Financial P - Physical O - Organizational I - Intellectual H – Human
Rareness	1. Not familiar 2. Different	As above
Inimitability	1. Difficult to match 2. Not replicated	As above
Non-substitutability	1. No substitute 2. Not succeeded	As above
Dynamic capabilities	1. Sensi (sensing) 2. Co-ord (co-ordinating) 3. Learn (learning) 4. Integr (integrating)	PA - Professional Association PC - Professional Conferences SR - Scientific Research EP - Established Processes BP - Best Practices CA - Coordinating Activities SA - Synergy Alliances IA - Interdependence Alliances OA - Overlap Alliances Part - Participation Tain - Training KS - Knowledge Sharing LP - Learning Programs CI - Customer Information InI - Industry Information Tech - Technologies HM - Historical Methods
Performance	SV – Sales Volume GV – Growth in Sales Volume MS – Market Share GS – Growth in Market Share	

Table 11: Key on constructs and items from measurement model

Source: Own compilation

5.14 CONSTRUCTS AND MEASURES IN LITERATURE

Based on previous studies the table below gives a summary of adapted constructs and measures from literature.

Source	VRIN items	Dynamic capabilities items	Performance items	Control variables	Sample
Wilden and Gudergan (2015)		Reconfiguring - 7 Sensing - 5 (p.190)	Sales volume Market share Growth in market share Profit margin Return on own capital Net profit (p.190)	Firm size Firm age Industry membership (p. 189)	228 firms of Australian businesses (p.187)
Newbert (2008)	Value – 6 Rareness-3 (p.766-767)		Marketing Growth in sales Profitability Market share (p.766)	Firm size Environment (p.754)	664 firms in USA (p.751)
Lin and Wu (2014)	VRIN Know-how Firm reputation Cooperative alliance experience (p.409)	Integration– 4 Learning– 5 Reconfiguration- 4 (p.409)	Return on Asset or ROA (p.409)		1000 firms in Taiwan (p.407)
Ndofor, Sirmon and He (2011)			Rate of return on Asset (p.648)	Firm size Slack Firm age Prior performance (p.650)	69 firms and 239 firm year observations
Chien and Tsai (2012)		Absorbing Creating Storing Applying knowledge resources (p.444)	Service quality Sales level Current profitability Sales growth rate Overall store performance (p.444)		132 store managers in Taiwan

Source	VRIN items	Dynamic capabilities items	Performance items	Control variables	Sample
Perez-Nordtvedt, Kedia, Datta and Rasheed (2008)	Value- 4 Rareness- 3 Inimitability-2 Non-substitutability-2 (p.739)			Relationship type Knowledge type Internationali-sation level Size Industry (p.739)	102 US organisations (p.714)
Talaja (2012)	VRIN		Performance		265 large and medium-sized Croatian companies from all industries
Morgan, Vorhies & Schlegelmilch (2006)	Inimitability Non-substitutability		Market share growth Sales revenue		Germany and UK industrial manufacturing firms
Bowman & Ambrosini (2003)	VRIN	Reconfiguring processes Leveraging existing resources Learning Integration	Performance		
Afuah (2013)	Value 1 Rareness 2 Inimitability 1	Adaptability	Performance in money terms		
Knott (2015)	Value Rareness Inimitability Organization				Two cohorts of MBA students
Henderson & Cockburn (1994)	Heterogeneous organizational competence				10 major pharmaceutical firms of European and American firms
Walker & Mercado (2013)	Value 3 Rarity 3 Non-substitutability 3				

Source	VRIN items	Dynamic capabilities items	Performance items	Control variables	Sample
Cardeal & Antonio (2012)	Value Rare Inimitable Organization (DC)				Case study of Portuguese footwear manufacturer
Barney (1995)	Value Rareness Inimitability Organisation				

Table 12: Constructs and measures in literature

5.15 CONSTRUCTS AND MEASUREMENT SCALES

5.15.1 VRIN RESOURCES

This study measured two dimensions of value, rareness, inimitability and non-substitutability. Barney (1991:106) argues that VRIN attributes only become resources when they exploit opportunities or neutralise threats in a firm's environment. Moreover, VRIN resources must be able to reduce firm costs further (Newbert, 2008:766; Gorovaia & Windsperger, 2013:191). Drawing on different scholars, five items are taken from the scales proposed (Barney, 1991:106; Newbert, 2008:766-767; Perez-Nordvedt *et al.,* 2008:739; Morgan et al., 2006:627; Gorovaia & Windsperger, 2013:191). Although there may be other scales propounded, these have been found easy to adapt. The wording was rephrased to adapt the questions to this study. Below is the table indicating the breakdown of each VRIN resource characteristic and the number of items.

VRIN characteristic	Number of items in scale	Items
Value	5 items	Questions 7 to 9
Rareness	5 items	Questions 10 to 11
Inimitability	5 items	Questions 12 to 13
Non-substitutability	5 items	Questions 14 to 15

Table 13: Summary of VRIN items in scale

5.15.2 DYNAMIC CAPABILITIES

The constructs are based on scholars who conceptualised and operationalised dynamic capabilities (Liu & Wu, 2014:409; Wilden & Gudergan, 2015:190; Schilke, 2014:18; Pavlou & El Sawy, 2011:268; Gorovaia & Windsperger, 2013:191). Items were adapted and adjusted to suit this study. Below is Table 14 to summarise the items in each question.

Dynamic capabilities	Number of items in scale	Items
Sensing	5 items	Question 16
Coordination	4 items	Question 17
Learning	4 items	Question 18
Integrating	4 items	Question 19

Table 14: Summary of dynamic capabilities items in scale

5.15.3 PERFORMANCE

The items on performance must be compatible with the theoretical framework of this study. Hence measures were adapted from various scholars (Newbert, 2008:766; Morgan *et al*., 2006:627; Gorovaia & Windsperger, 2013:191; Wilden & Gudergan, 2015:190). The firm performance was evaluated over the past two years relative to competition. The diagram below depicts measures and items.

Performance	Number of items in scale	Items
Performance	4 items	Question 20

Table 15: Summary of performance items in scale

5.16 DATA ANALYSIS AND REPORTING

Data were collected and analysed from franchise chains about resources, dynamic capabilities and performance. Items of constructs were provided so that the impact could be determined. The findings were analysed in graphs, figures and tables using structural equation modelling as presented in Chapter 6. Neuendorf (2002:10) asserts that for content analysis to be scientific, it needs to conform to various criteria considered to be acceptable in a scientific method, namely: inter alia being reliable and valid.

5.16.1 DESCRIPTIVE STATISTICS

Descriptive statistics enable you to describe (and compare) variables numerically (Saunders *et al*., 2009:444). Zikmund (2003:736) views descriptive statistics as techniques and methods used to describe or summarise the characteristics of a population or a sample. Based on these definitions, the collected data would be analysed using pie charts, stacked bar charts and tables. The objective would be to establish the relationships between the variables.

5.16.2 FACTOR ANALYSIS

Factor analysis allows you to condense a large set of variables or scale items down to a smaller, more manageable number of dimensions or factors. It does this by summarising the underlying patterns of correlation and looking for 'clumps' or groups of closely related items (Pallant, 2010:104). The fact, or analysis gives the summary of Kaiser-Meyer-Olkin (Kaiser, 1974:31), the Bartlett's Test of Sphericity (Bartlett, 1954), % variance explained, factor loadings and Cronbach's Alpha.

5.16.3 STRUCTURAL EQUATION MODELLING

Structural equation modelling (SEM) is a statistical methodology that takes a confirmatory (i.e., hypothesis-testing) approach to the analysis of a structural theory bearing on some phenomenon (Bryne, 2009:3). This theory represents "−causal−" processes that generate observations on multiple variables (Bentler, 1988:317). The term structural equation modelling conveys two important aspects of the procedure: (a) that the causal processes under study are represented by a series of structural (i.e., regression) equations, and (b) that these structural relations can be modelled pictorially to enable a clearer conceptualisation of the theory under study (Bryne, 2009:3). In this study the hypothesised model would be tested. For the goodness-of-fit, four fit indices are normally used (McDonald & Ho, 2002:64). The four fit indices are: the Comparative Fit Index (CFI: Bentler, 1990); the Normed Fit Index (NFI: Bentler & Bonnet, 1980); Non-Normed Fit Index (NNFI, also known as the Tucker-Lewis index (Hair *et al*., 2010); and the Goodness-of-Fit statistic (GFI: MacCallum & Hong, 1997:193).

5.17 POTENTIAL SOURCES OF ERRORS IN RESEARCH

The survey was associated with non-response error and extremity bias with online survey, but appropriate action was taken to deal with each of them. The non-response error is a form of respondent error. The University of Pretoria (2012:60) explains that it refers to the systematic differences between the respondents who participated in the study and those members of the target population who did not. The study could be affected because other managers were not present or were not prepared to complete the questionnaire as companies during the survey. However, the respondents present were encouraged to participate in the survey and the importance of the questionnaire was explained. The extremity bias means that the respondents will only indicate the extreme scale points (Zikmund & Babin, 2010:152). The researcher had to visit some of the respondents to explain the importance of the survey and arrangements were made to visit managers when they were free. This is supported by Gillis *et al*. (2011:435), who state, "−Two calls were placed to each organization (if the first did not result in survey completion), followed by an email with a link to the survey".

To increase the response rate, face-to-face and telephone interviews were also employed. These two methods were employed after Qualtrics proved insufficient. Reminders were made to informants and in order to further increase the response rate, an alternative top manager could be contacted if the original informant was no longer available or remained unresponsive.

5.18 RELIABILITY ASSESSMENT

Cronbach's alpha was used to assess the internal consistency reliability of a multiple-item rating scale if a composite scale score was created. This study considered 0.7 as the minimum Cronbach's alpha value (University of Pretoria, 2012:45). Also Su, Hesmati, Geng & Yu (2013:125) and Cronbach (1971) confirm that reliability coefficients of 0.70 or higher are considered adequate.

5.19 CHAPTER SUMMARY

This chapter looked at the methodology issues. The research design, research philosophies, objectives, hypotheses and data collection procedures were explained. All the three methods for data collection were established. The constructs were rooted in literature and the measurement model clearly demonstrated relationships to be explored. Next, chapter 6 deals with the analysis of results.

Chapter 6 - ANALYSIS AND RESULTS

6 ANALYSIS AND RESULTS

"I never guess. It is a capital mistake to theorize before one has data. Insensibly one begins to twist facts to suit theories, instead of theories to suit facts." Sir Arthur Conan Doyle.

6.1 OVERVIEW

Drawing on systematic literature and theory analysis, a survey was conducted. The research questions were based on four RBT empirical indicators – value, rareness, inimitability and non-substitutability (Barney, 1991:199; Perez-Nordtvedt, 2008:739; Newbert, 2008:766) as independent variables, dynamic capabilities – sensing, learning, integrating and coordinating (Wilden & Gudergan, 2015:190; Schilke, 2014:18; Lin & Wu, 2014:409) as the mediating variable, and performance – sales volume, growth in sales volume, market share and growth in market share (Wilden & Gudergan, 2015:190; Newbert, 2008:766; Morgan *et al*. 2006:627) as the dependent variable. The survey was administered using three methods to boost the response rate, namely Qualtrics, and face-to-face and telephone interviews to owner operators and managers. The results are reported in this chapter starting with descriptive statistics, including factor analysis and then structural equation modelling (SEM).

6.2 INTRODUCTION

The franchising industry is critical to the South African economy (FASA Manual, 2016:12) and Schwarzer (2017:10) argues that it has emerged in the top five countries (US, France, Japan, Australia and South Africa) with 11.5% of the country's GDP generated by franchises. Such an industry requires accurate information about what its resources and dynamic capabilities can achieve. Hypotheses were tested on a representative sample (224 respondents) of active franchisees (owner operators and managers) in the fast food (128) and retailing (96) categories. Owner operators (80) and managers (144) were taken to be the subject of this study because they must be responsible for firm resources and dynamic capabilities. The data were generated through Qualtrics (23.7%), telephone

interviews (34.4%) and face-to-face interviews (41.9%). This chapter is intended to record and analyse the collected data to either confirm or reject the significance of VRIN, dynamic capabilities and performance relationships.

6.3 SAMPLING AND RESPONSE RATE

Drawing on Dillman's (1991:225) Total Design method, the questionnaire was sent out through Qualtrics from beginning of May 2017, to 500 who did not participate in the pilot survey. From 500 respondents, only 164 started the survey but 53 responded to all questions. After a month, two other methods (telephone and face-to-face interviews) were employed in order to boost the response rate. Hence, by end of June 2017 responses were increased from 53 to 224 (77 respondents by telephone interviews, 53 by Qualtrics and 94 by face-to-face interviews). Of these 224 respondents, 96 (42.9%) were from the retailing and direct marketing category, while 128 (57.1%) were from fast food and restaurants. The respondents were grouped in terms of their experience in franchising. The less experienced (up to 5 years) constituted 89: 39.7%, moderate experience (from 6 years up to 10 years) was 67: 29.9% and more experienced (from 11 years up to 40 years) amounted to 68: 30.4%. The response rate was higher in face-to-face interviews (41.9%) than in telephone interviews (34.4%) and Qualtrics (23.7%). Overall, the response rate was 32.3%, considering those who started the survey, and this compares favourably with other studies (Newbert, 2008:754; Alreck & Settle, 1985). In addition, of the 224 who responded, 80 (35.7%) were owner operators and 144 (64.3%) were managers at their respective outlets. It is against this background that all those who responded to the survey were considered highly qualified to provide accurate responses to the survey items. Below are tables about the position in the firm, number of years in franchising and franchising categories.

Position	**Frequency (n)**	**Percent (%)**
Owner operator	80	35.7
Manager	144	64.3
Total	**224**	**100.0**

Table 16: Position held in the firm

The majority of respondents who participated were managers (64.3%), although owner operators (35.7%) are quite significant in this study. The managers are those who are in charge of the resources at the outlets and run or supervise the day-to-day business operations. Both fast foods restaurant and retailing franchise outlets have managers and/or owner operators.

Years in franchising	**Frequency (n)**	**Percent (%)**
5 years or less	89	39.7
Above 5 years to 10 years	67	29.9
Above 10 years	68	30.4
Total	**224**	**100.0**

Table 17: Number of years in franchising - grouped

Each group (39.7%, 29.9% and 30.4%) signals experience in franchising. Experience ranges from at least one year up to forty years, and the most experienced are in the fast food category. Experience is taken as a vital dynamic capability. Zollo and Winter (2002:344) reflect dynamic capabilities as emerging from the co-evolution of tacit experience accumulation processes with explicit knowledge articulation and codification activities. These dynamic capabilities result from experience and learning within the organisation, and their development and deployment unfold over time (Ambrosini & Bowman, 2009:29).

Category	**Frequency (n)**	**Percent (%)**
Fast foods and restaurants	128	57.1
Retailing and direct marketing	96	42.9
Total	**224**	**100.0**

Table 18: Franchising category

According to the Franchise Association of South Africa (FASA), there are currently 12 business categories in the country. Among the 12, the fast-foods and restaurants category occupies 23%, followed by retailing and direct marketing with 14% (FASA, 2016:11). From these two largest categories, 128: 57.1% and 96: 42.9% participated (see figure 11 below). Although other managers were not comfortable with sharing their information, those who participated are quite significant.

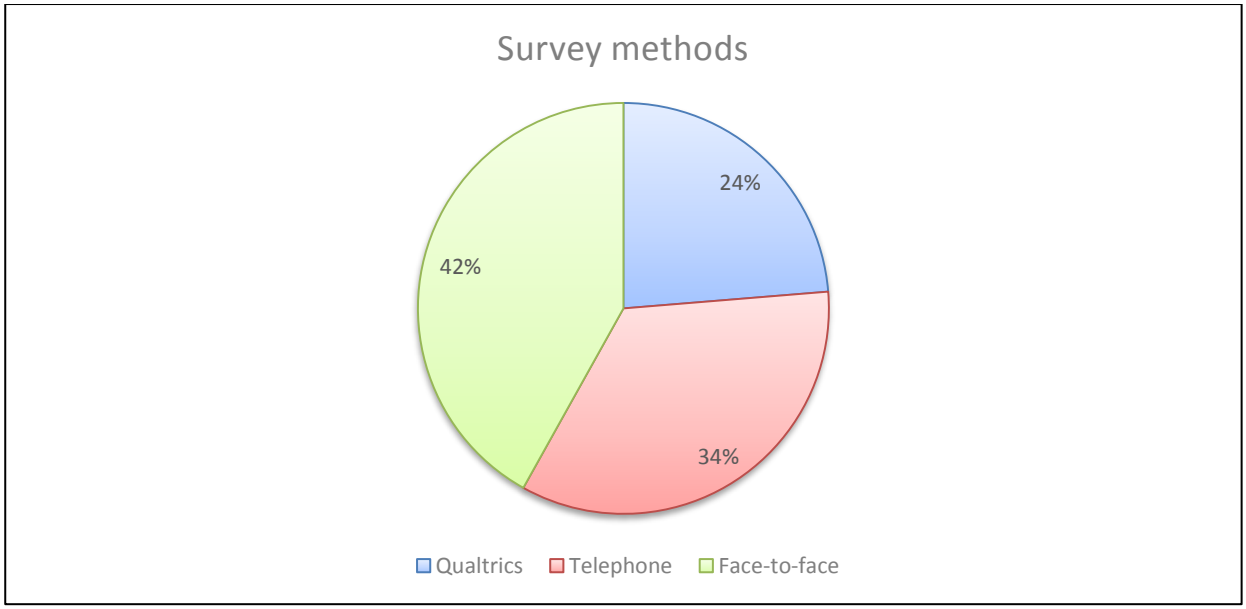


Figure 10: Survey methods

Source: Researcher's own-model.

Table 19 below gives the frequencies and percentages of the respondents, based on the methods used in data collection.

Survey method	Frequency (n)	Percent (%)
Qualtrics	53	23.7
Telephone	77	34.4
Face-to-face	94	41.9
Total	**224**	**100.0**

Table 19: Methods used in data collection

The survey instrument (questionnaire) was first dispatched to the potential respondents at the beginning of May, 2017, through Qualtrics. After every week, reminders were sent until the end of May. One hundred and sixty-four (164) started the survey on Qualtrics but only 53 completed it. This means that 111 did not respond to all questions. Due to this problem, another two methods were introduced (telephone and face-to-face interviews). Telephone (34.4%) and face-to-face (41.9%) methods proved highly significant in complementing Qualtrics (23.7%). Malhotra and Birks (2008:250) state that survey questionnaires may be administered in three major modes: (1) telephone interviews, (2) personal interviews, and (3) mail interviews.

6.4 QUALTRICS, TELEPHONE AND FACE-TO-FACE IN THIS STUDY

6.4.1 QUALTRICS

Research IQ Company and the FASA Manual (2016) had all the current names and email addresses of the franchisees in fast foods and retailing and the Qualtrics electronic survey was distributed via the email addresses.

6.4.2 TELEPHONE

The computer-assisted telephone interviewing (CATI), using a computerised questionnaire, was administered to 77 respondents. All respondents showed willingness after appointments were booked. However, this method was more expensive in bookings and in administering all questions over the line.

6.4.3 FACE-TO-FACE

Visits were made to managers at their respective work places and personal interviews were carried out. The interviewer asked the questions from the questionnaire and recorded the responses. Although some owner operators and managers were not prepared because of tight schedules, others had time to respond to the questions. Overleaf is the table summary on benefits envisaged in employing the three methods.

Attributes	Qualtrics	Telephone	Face-to-face
Flexibility of data collection	Low	Moderate to high	High
Diversity of questions	Moderate	Low	High
Use of physical stimuli	Low	Low	Moderate to high
Sample control	Low	Moderate to high	Potentially high
Control of data collection environment	Low	Moderate	Moderate to high
Control of field force	High	Moderate	Low
Quantity of data	Low	Low	High
Response rate	Low	Moderate	High
Perceived respondent anonymity	Moderate	Moderate	Low
Social desirability	High	Moderate	Low to moderate
Obtaining sensitive information	Moderate	Low	High
Potential for interviewer bias	None	Moderate	High
Potential to probe respondents	Low	Low	High
Potential to build rapport	Low	Moderate	High
Speed	High	High	Moderate
Cost	Low	Moderate	High

Table 20: Summary about the survey technique's evaluation

Source: Malhotra and Birks (2008:234).

The comparative evaluation of survey techniques above shows that a telephone interview allows more moderate outcomes than a face-to-face interview, which is more beneficial in terms of the quality of the data and other factors, explained in the list of benefits below. By contrast, the Qualtrics technique improved the speed of responses and the social desirability. However, all the three techniques were found applicable because of the following benefits:

(a) Email survey could reach geographically dispersed respondents and hard to reach outlets.

(b) A diversity of questions could be asked in the personal interview because the respondent could see the questionnaire and the interviewer was present to clarify ambiguities.

(c) A face-to-face interview offered the interviewer sample control because appropriate sampling units (managers/owner operators) were interviewed.

(d) The response rate was higher in face-to-face interviews (41.9%) than in telephone interviews (34.4%) and Qualtrics (23.7%).

(e) Perceived respondent anonymity was high in Qualtrics because respondents were convinced that their perceptions about identities would not be discerned by the interviewer.

(f) Responses given in Qualtrics were free from social desirability since respondents could express themselves in the absence of the interviewer.

(g) Sensitive information, like in the case of outlet performance relative to competition, could be obtained because during face-to-face interviews the interviewer had to reassure respondents that such information would be handled in a confidential and proper manner.

The following negative aspects of the survey techniques were noted:

(h) Face-to-face interviews were costly, for the interviewer had to visit franchise outlets in Gauteng province.

(i) Qualtrics turned out to be slow, because respondents took days to complete the survey.

(j) The telephone and face-to-face interviews posed potential for interview bias by probing and recording answers.

(k) Sensitive information could not be obtained; this might be one of the major reasons why 111 started but did not complete the survey through Qualtrics.

(l) The face-to-face interview promoted social desirability, because owner operators or managers tended to give answers they felt to be acceptable.

(m) The face-to-face interviews did not wholly reduce chances of perceived responded anonymity.

6.5 DATA SCREENING

The questionnaires were examined for incomplete, erratic and unclear responses; 111 questionnaires were discarded from Qualtrics because they were incomplete. Hence the final sample size was 224. Using Microsoft Excel, the data were entered and verified from errors. As a result data were cleaned, based on the rating scales of seven-point scales for most questions and a few questions on five-point scales. Responses of 0 and 8 were

considered out of range and a code of 9 was allocated. The following table 21 gives the responses removed which were coded 9.

Question	Frequency	Percent
6	1	0.45
7	1	0.45
8	1	0.45
13	5	2.23
14	6	2.68
15	10	4.46
16	15	6.70
17	15	6.70
18	10	4.46
19	10	4.46
22	28	12.50
23	26	11.61
24	28	12.50
25	28	12.50
27	23	10.27

Table 21: Out-of-range values

Questions 22, 23, 24, 25 and 27 had the largest proportion of respondents who said they did not know. The least Proportion was for 6, 7 and 8. These were taken out as missing because they would distort the results.

6.6 DESCRIPTIVES FOR EACH QUESTION

Figures show the descriptive statistics for all the variables (value, rareness, inimitability, non-substitutability, dynamic capabilities and performance). Each VRIN variable (empirical indicator) had five items (financial, physical, organisational, intellectual and human resources) in explaining performance. The dynamic capabilities (sensing, learning, coordinating and integrating) played a mediation role in the model. Finally, performance was explained by sales volume, growth in sales volume, market share and growth in market share. The responses in blue depict managers who somewhat agreed, agreed and strongly agreed. Responses in brown are those who neither agreed nor disagreed with

the impact of empirical indicators and dynamic capabilities on performance. Those in green somewhat disagreed, disagreed or strongly disagreed.

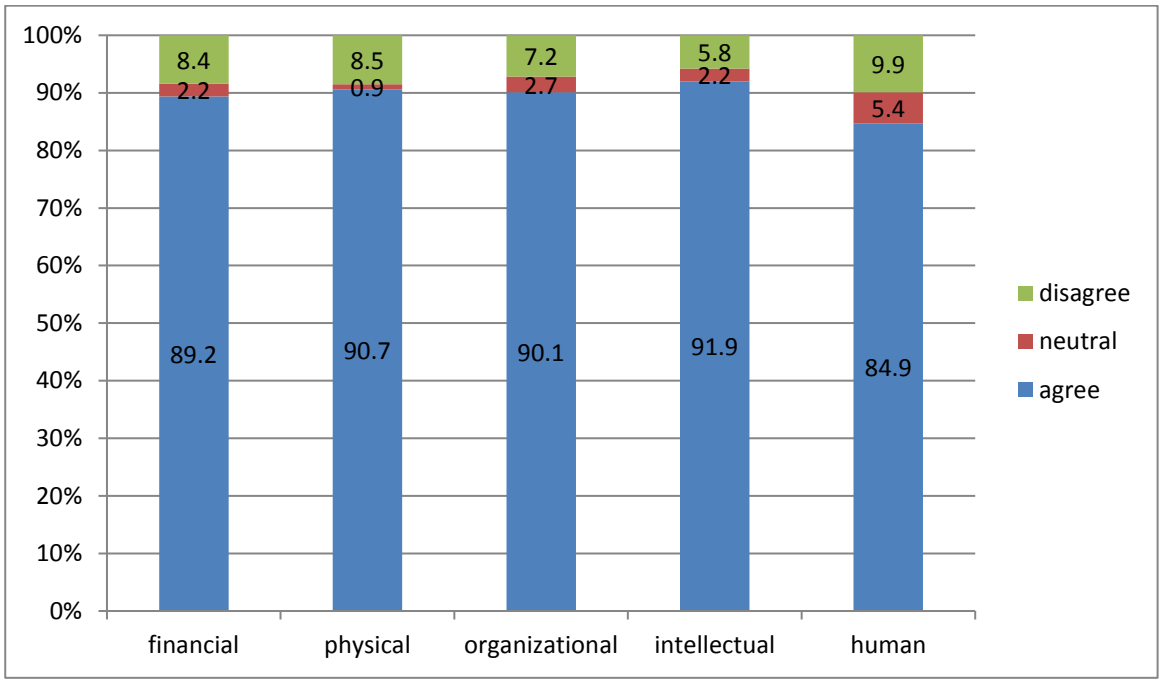


Figure 11: Outlet resources are highly valued in the industry

Source: Own compilation

Most of the franchisees are in agreement that their outlets own resources (financial 89.2%, physical 90.7%, organisational 90.1%, intellectual 91.9% and human 84.9%) are highly valued in their industry. Only a few disagree and others are neutral (refer to Figure 12).

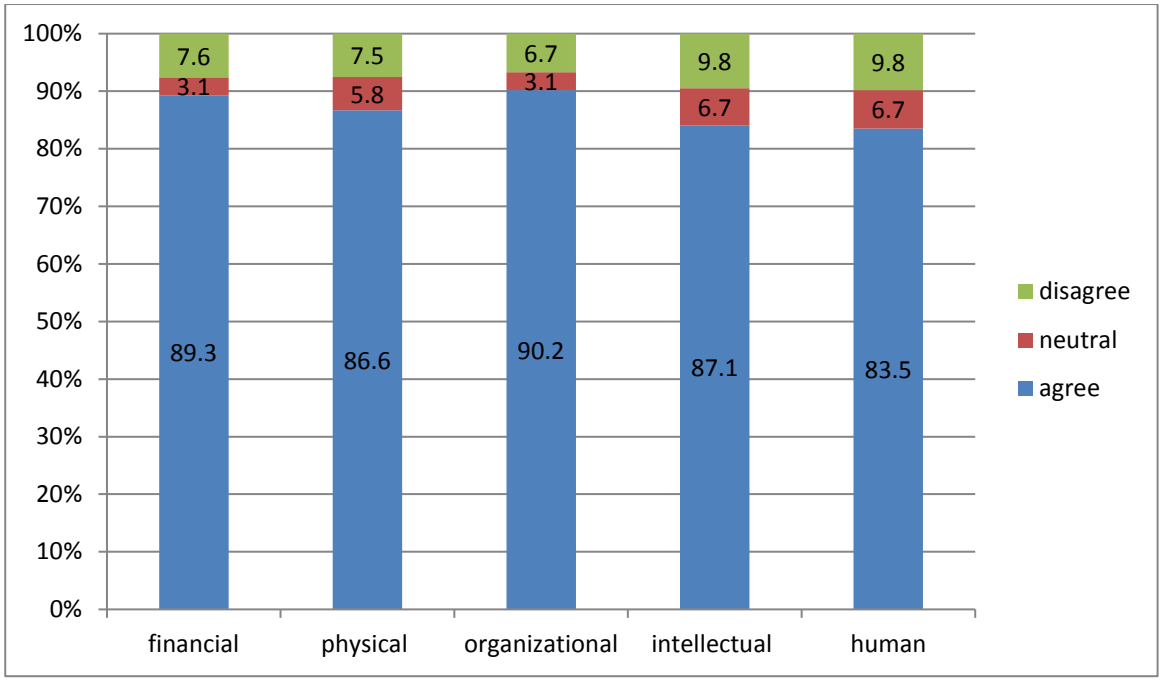


Figure 12: Valuable resources exploit market opportunities and neutralise threats

Source: Own compilation

Figure 13 explains five types of resources that allow franchise outlets to exploit market opportunities and neutralise threats, as is indicated by high percentages (financial 89.3%, physical 86.6%, organisational 90.2%, intellectual 87.1% and human 83.5%).

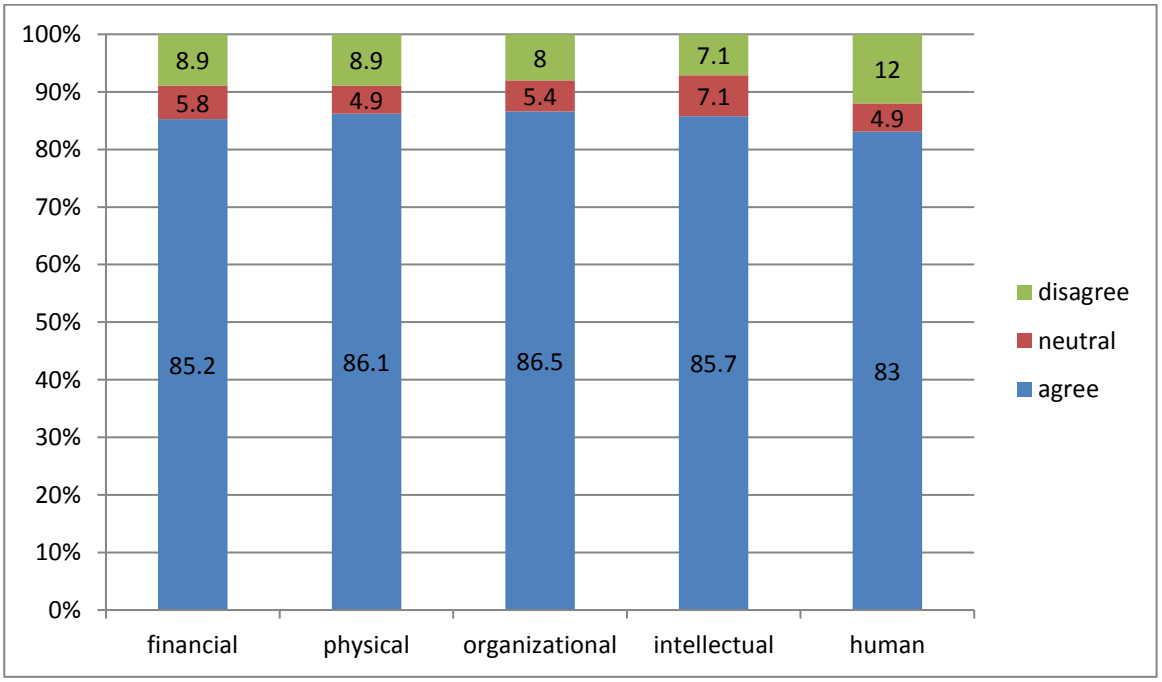


Figure 13: Valuable resources enable implementing of strategies that improve efficiency and effectiveness

Source: Own compilation

The responses among the financial (85.2%), physical (86.1%), organisational (86.5%), intellectual (85.7%) and human (83%) are relatively high. Such evidence suggests that franchisees understand the importance of their resources.

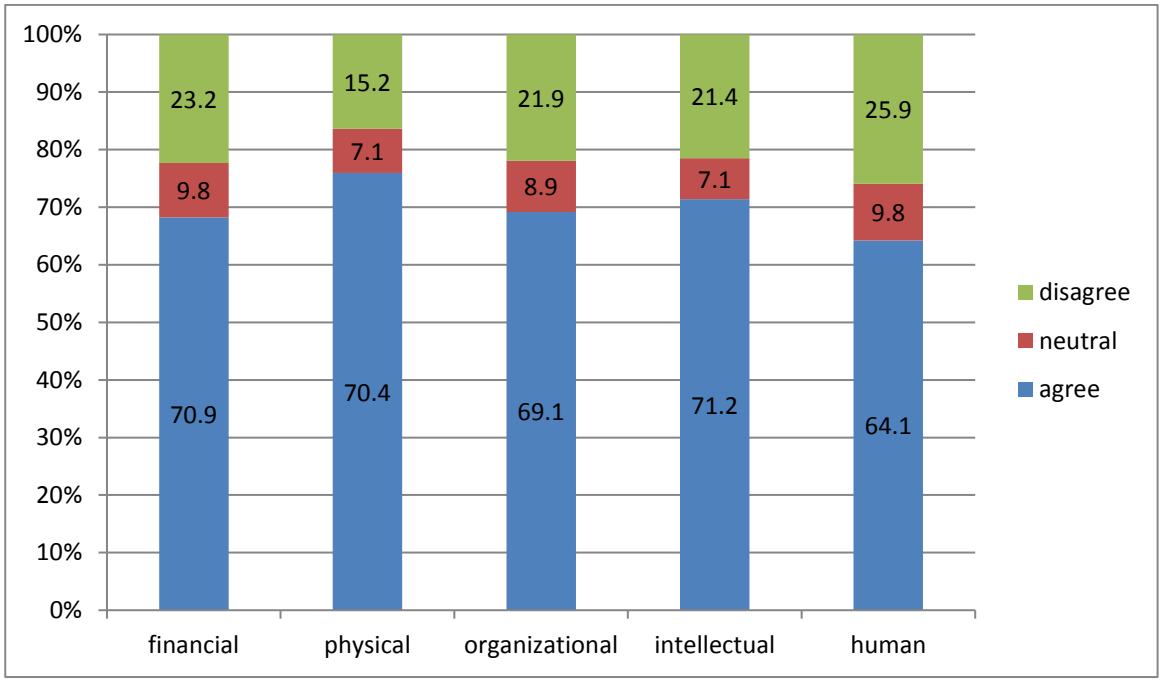


Figure 14: Competitors are not familiar with resources my franchise outlet possesses

Source: Researcher's compilation

Franchisees agree that their resources are rare. Across the five resource types, 71.2% is the maximum.

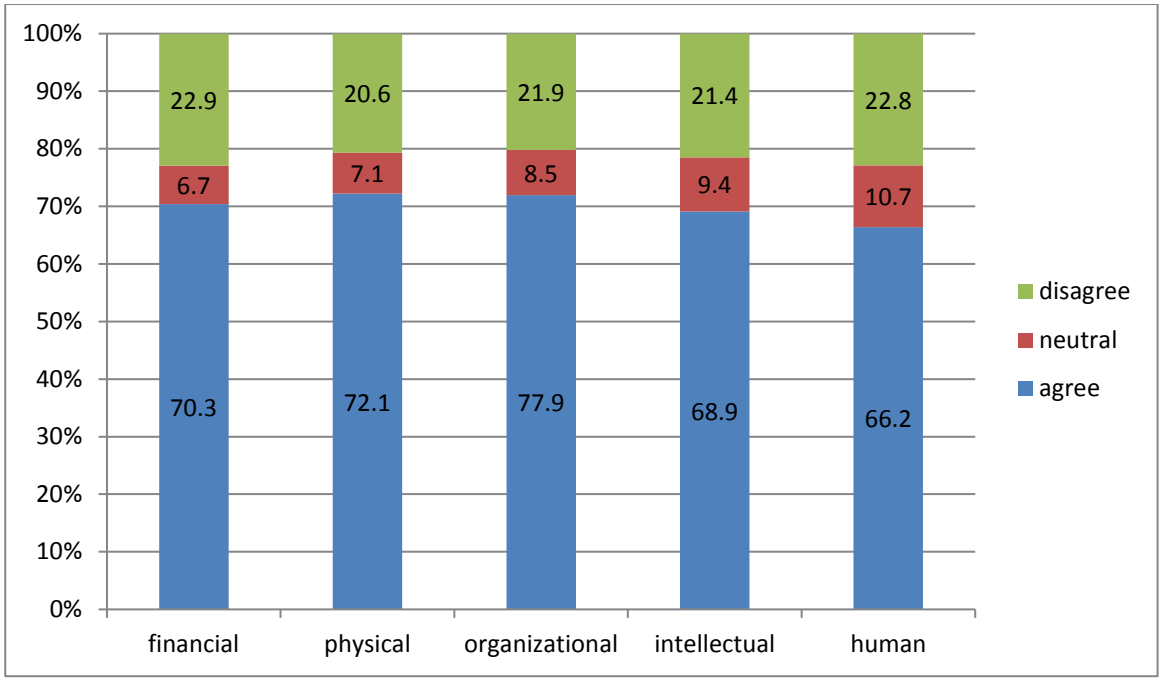


Figure 15: My franchise outlet possesses resources that are different from my competitors
Source: Researcher's compilation

Most of the respondents agree that their franchise outlets possess resources that are different from the kind of resources their competitors possess. Only a few are not in agreement, ranging from 20.6% to 22.9%. Other managers and owner-operators (between 6.7% and 10.7%) are neutral.

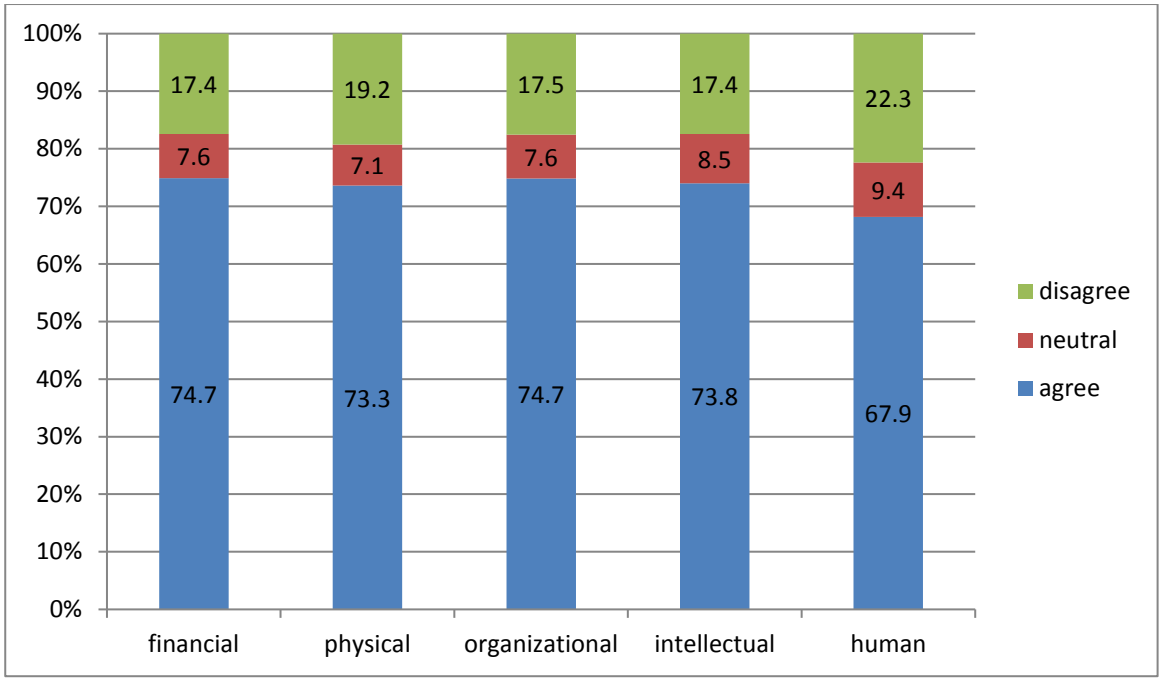


Figure 16: Competitors find it difficult to match other outlets' resources

Source: Researcher's compilation

The majority of managers and owner operators support the idea that competitors find it difficult to match each other's franchise outlet's resources. They are in the range between 67.9% in human resources and 74.7% in intellectual resources. The highest who are neutral are 9.4% while those who disagree give the highest score of 22.3%.

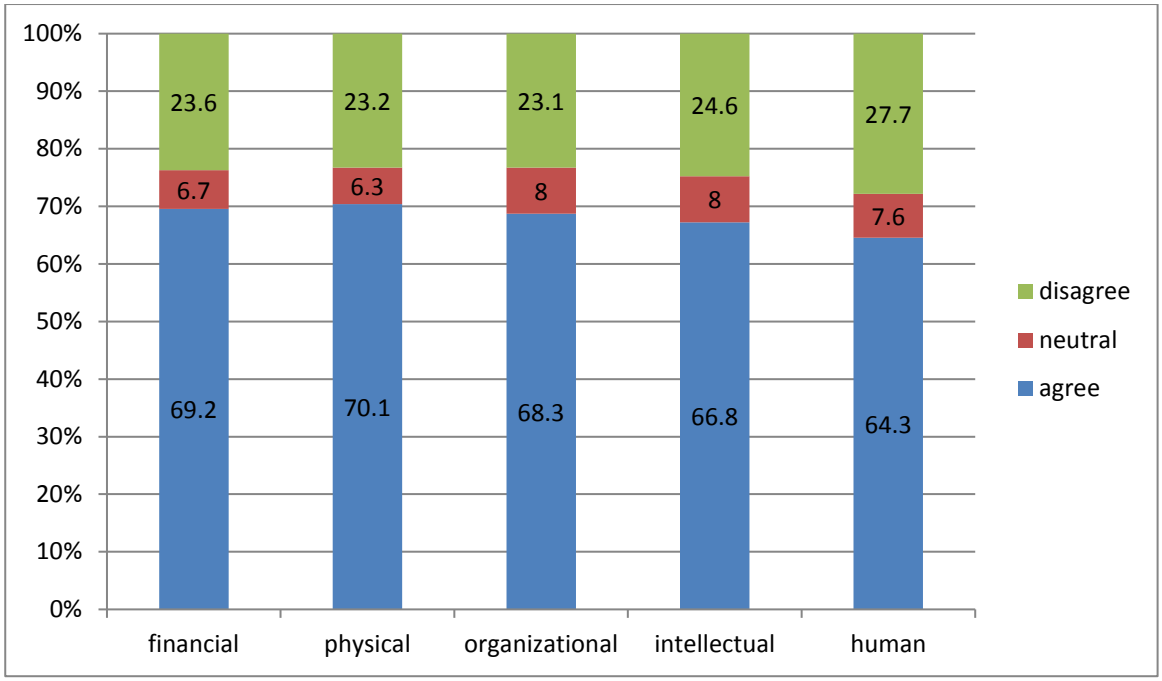


Figure 17: No competitor can replicate our franchise outlet's mix of resources

Source: Researcher's compilation

69.2% on financial, 70.1% on physical, 68.3% on organisational, 66.8% on intellectual and 64.3% on human resources establish that no competitors can replicate the franchise outlets' mix of resources. However, those who are either neutral or disagree are insignificant.

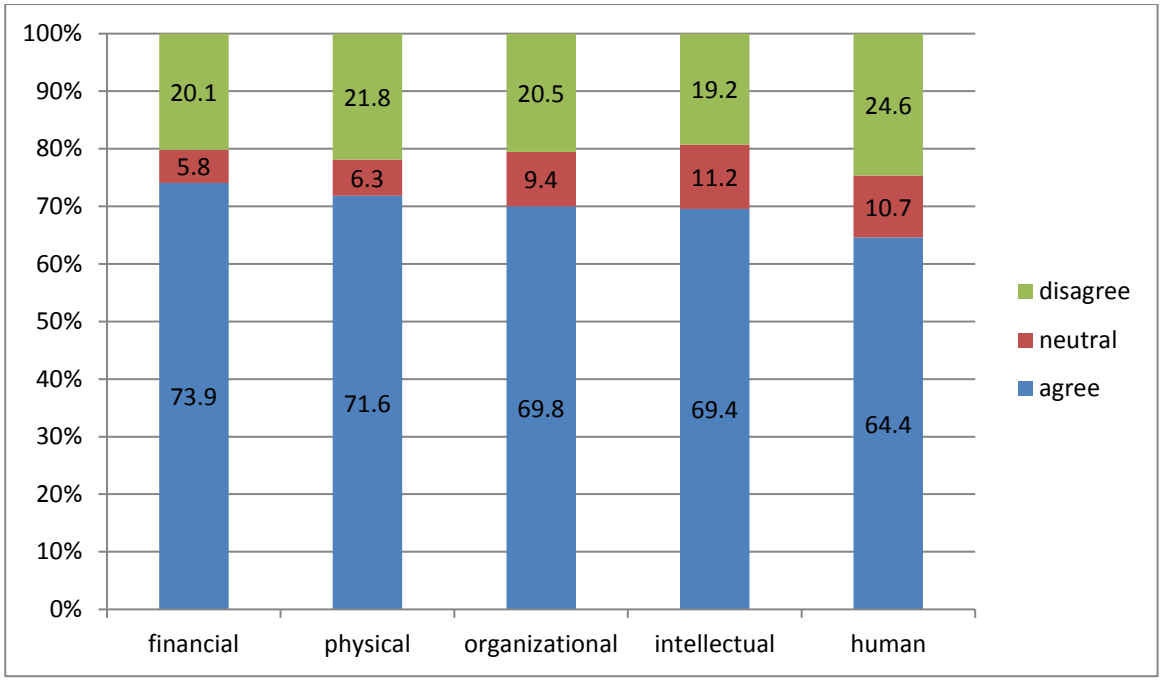


Figure 18: There is no substitute for our franchise outlet's mix of resources

Source: Researcher's compilation

On all the five types of resources, managers and owners are in agreement that there is no substitute for their franchise outlets' mix of resources. Hence the majority of agreeing respondents are between 64.4% (human) and 73.9% (financial).

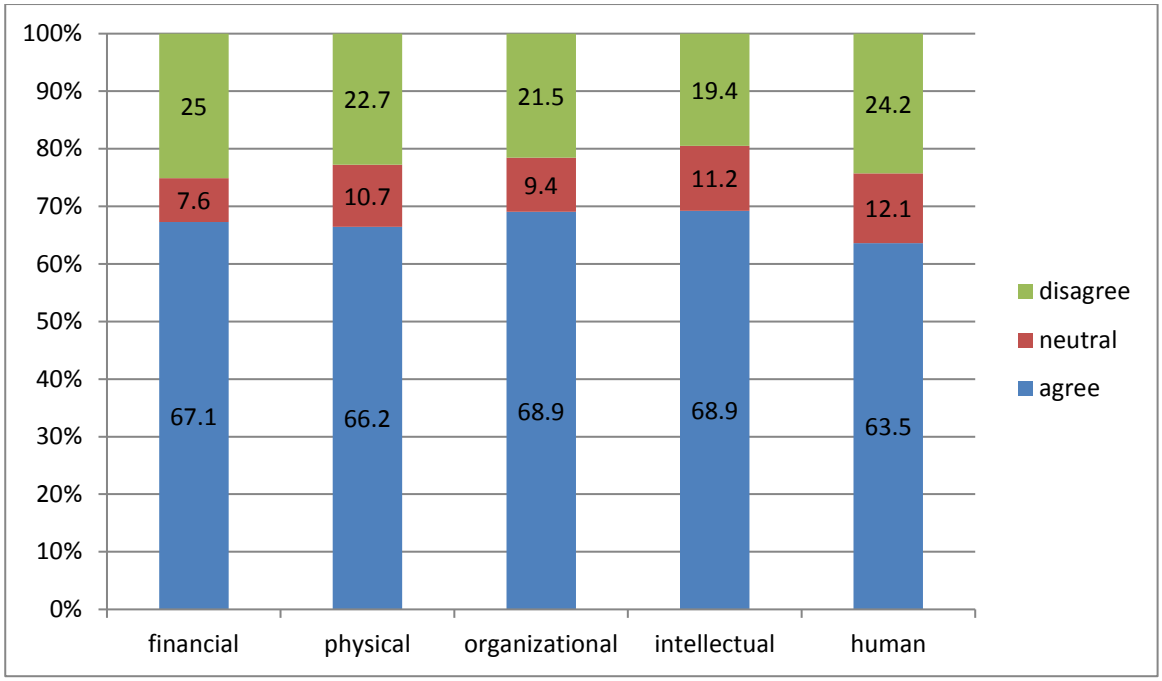


Figure 19: No franchise outlet can succeed without our mix of resources

Source: Own compilation

Agreement among respondents is distributed almost evenly with 67.1% (financial), 66.2% (physical), 68.9% (organisational), 68.9% (intellectual) and 63.5% (human). They concur that no franchise outlet can succeed without having their mix of resources. Over 30% are neutral or disagree with the idea.

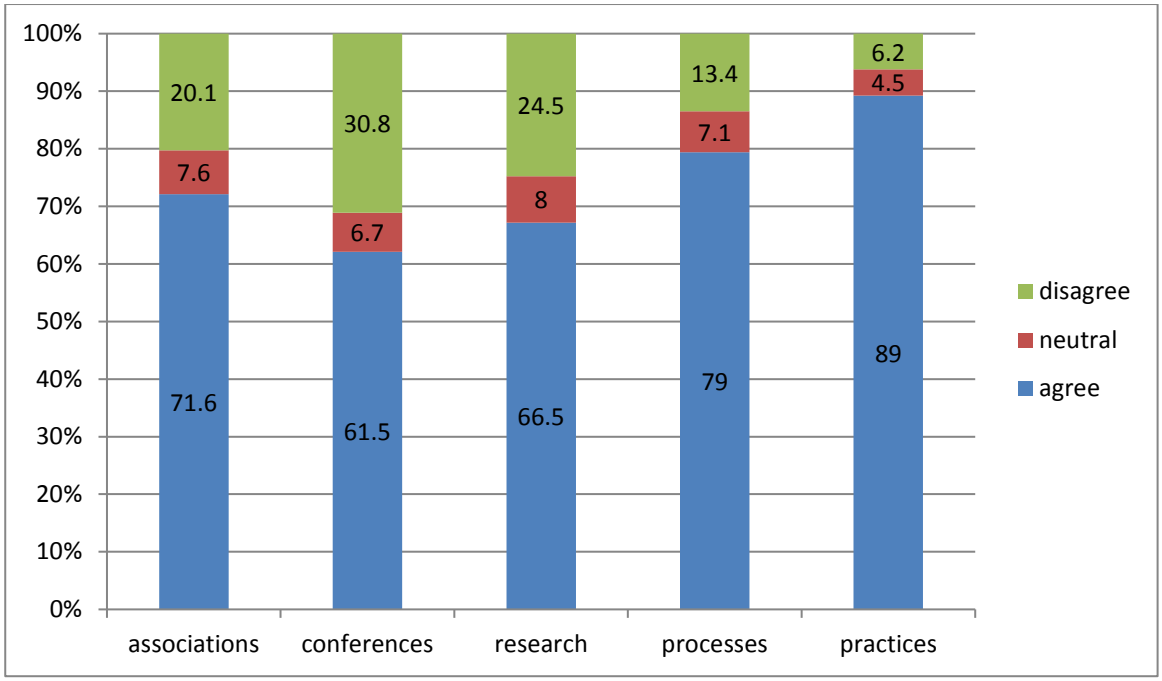


Figure 20: In my franchise outlet, we do sensing

Source: Own compilation

The highest score, 89%, is a clear indication that most of the franchise outlet observes the practices in their sector. Of the groups, 79% agree that they use established processes to identify target market segments, changing customer needs and customer innovation; 66.5% connect with their active network of contacts with the scientific and research community; 61.5% have their employees attend scientific or professional conferences. Again, 71% participate in professional association activities. All these five items are under the dynamic capability of sensing.

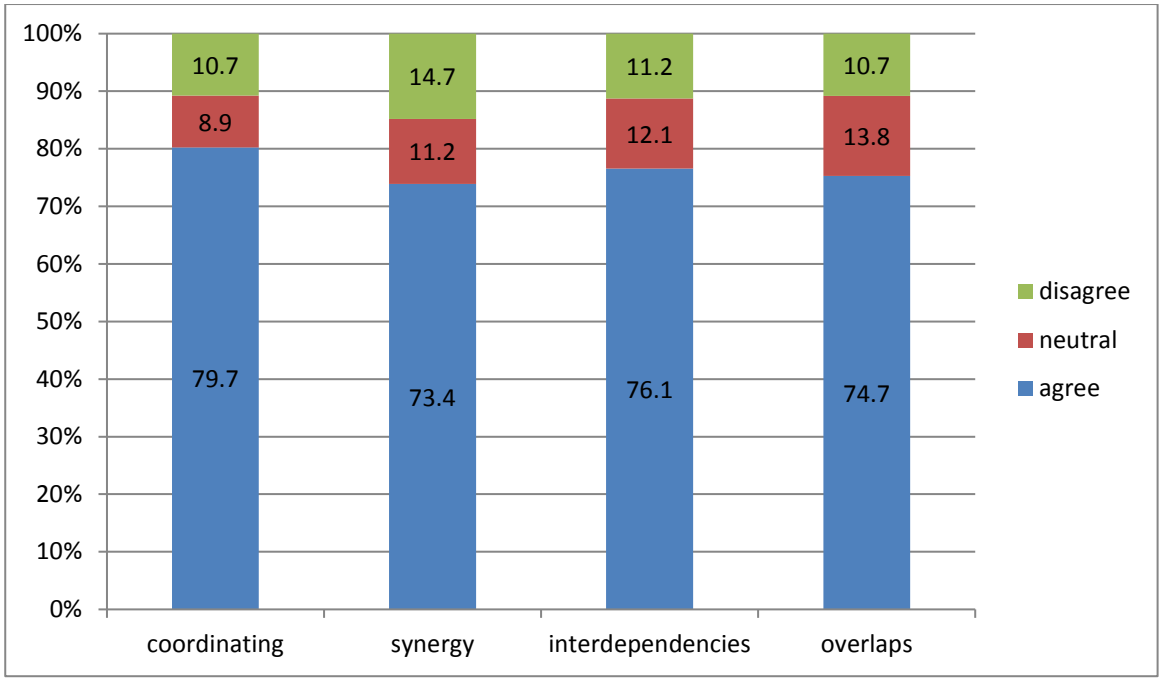


Figure 21: In my franchise outlet there is coordinating

Source: Own compilation

On coordinating, 79.7% ensure an appropriate coordination among the activities of different research and development alliances; 73.4% determine areas of synergy in research and development alliance portfolio; 76.1% ensure that interdependencies between research and development alliances are identified; and 74.7% determine if there are overlaps between different research and development alliances.

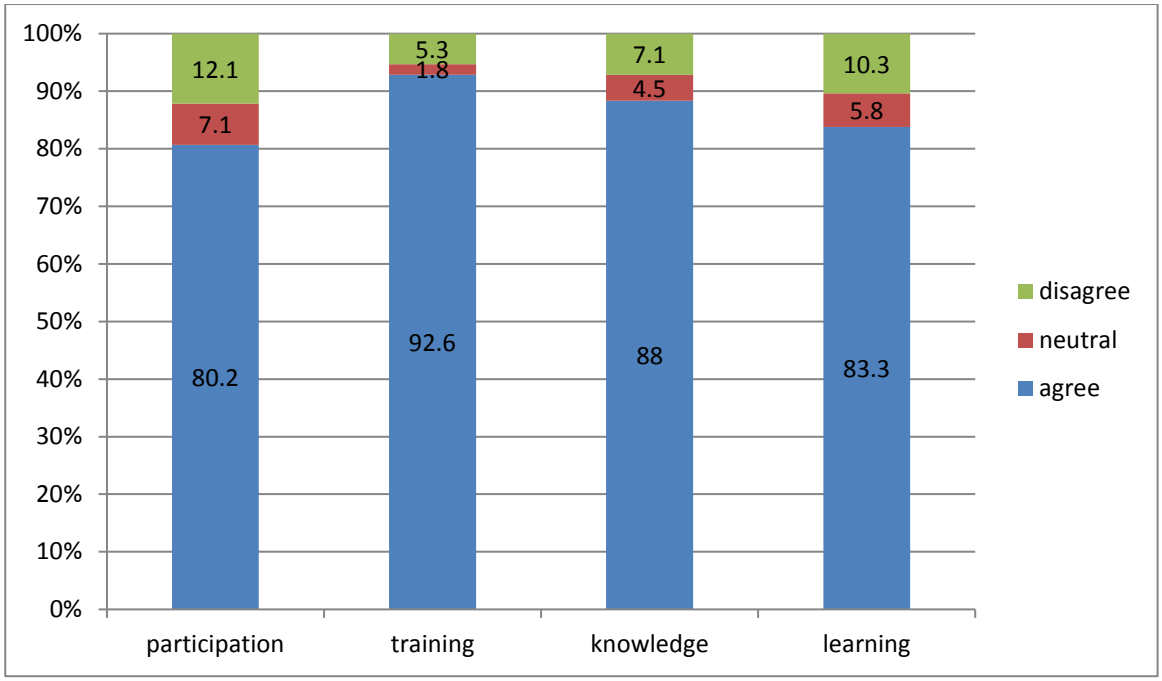


Figure 22: In my franchise outlet there is learning

Source: Own compilation

On learning, most respondents are in agreement: 80.2% agree that there is frequent participation in industrial knowledge programmes; 92.6% do frequent internal training; 88% share knowledge as they learn in groups; and 83.3% have frequent internal cross-development learning programmes.

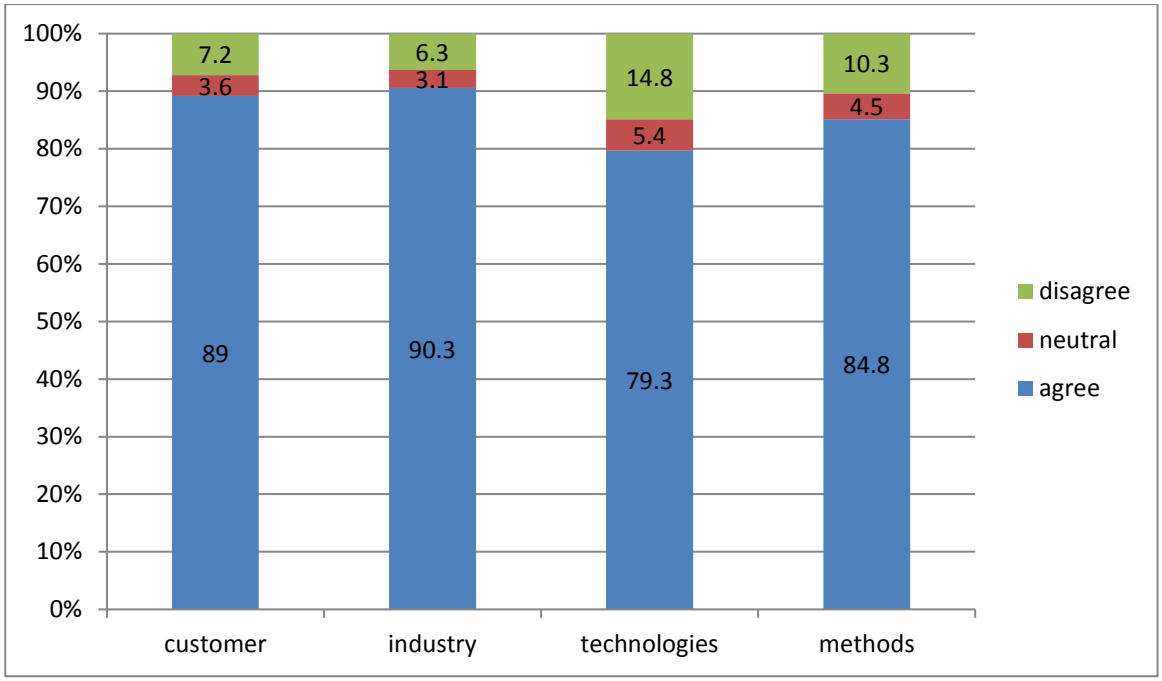


Figure 23: In my franchise outlet there is integrating

Source: Own compilation

Responses on integrating are also quite high: 89% collect customer information and explore potential markets; 90.3% collect industry information for managerial decision-making; 79.3% use industry-related technologies to develop new products; and 84.8% record historical methods and experiences in handling organisational issues.

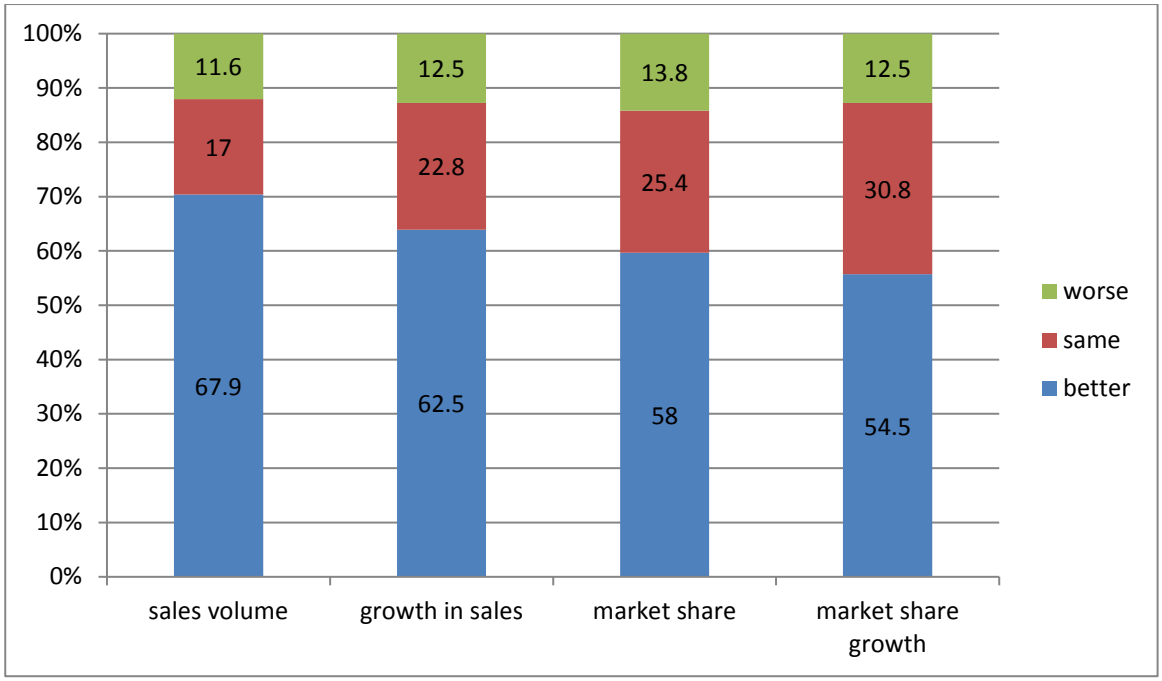


Figure 24: The franchise outlet's performance relative to competition over the last two years
Source: Own compilation

Performance in sales volume (67.9%) and growth in sales (62.5%) are higher than performance in market share (58%) and growth in market share (54.5%). Market share growth is the least and sales volume is the highest.

6.7 FACTOR ANALYSIS

An exploratory factor analysis was performed on items of the VRIN, dynamic capabilities and performance. Pallant (2010:181) sees factor analysis as a 'data reduction' technique that takes a large set of variables and looks for a way the data may be 'reduced' or summarised, using a smaller set of factors or components. In addition, two statistical measures are also generated by SPSS to assess the factorability of the data: Bartlett's test of sphericity (Bartlett, 1954:296), and the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy (Kaiser, 1974:31). Bartlett's test of sphericity should be significant ($p < .05$) for the factor analysis to be considered appropriate. The KMO index ranges from 0 to 1, with .6 suggested as the minimum value for a good factor analysis (Tabachnick & Fidell, 2007). The maximum likelihood extraction and direct oblimin rotation were employed to determine the Kaiser-Meyer-Olkin (KMO), Bartlett's Test of Sphericity (p-value), percentage variance

explained, factor loadings and Cronbach Alpha. The table below summarises the factor analysis.

Factor/constructs and item description	KMO and Bartlett's test	% Variance explained	Factor loadings	Cronbach alpha
Value				
Q11: My franchise outlet owns resources that are highly valued in our industry.	0.896 P< 0.000	68.484		0.914
Finances			0.834	
Physical			0.891	
Organisational			0.803	
Intellectual			0.780	
Human			0.826	
Q12: Our resources allow my franchise outlet to exploit market opportunities and neutralise threats.	0.885 P < 0.000	70.113		0.917
Finances			0.821	
Physical			0.927	
Organisational			0.890	
Intellectual			0.803	
Human			0.730	
Q13: My franchise outlet has the kind of resources that enable us to conceive of or implement strategies that improve its efficiency and effectiveness.	0.884 P < 0.000	77.486		0.943
Finances			0.875	
Physical			0.921	
Organisational			0.954	
Intellectual			0.836	
Human			0.808	
Rareness				
Q14: Our competitors are not familiar with the kind of resources my franchise outlet possesses.	0.864 p< 0.000	79.101		0.949
Finances			0.883	
Physical			0.895	
Organisational			0.917	
Intellectual			0.858	
Human			0.893	
Inimitability				
Q16: Competitors find it difficult to match our franchise outlet's resources.	0.904 p< 0.000	76.928		0.943
Finances			0.853	
Physical			0.885	

Factor/constructs and item description	KMO and Bartlett's test	% Variance explained	Factor loadings	Cronbach alpha
Organisational			0.927	
Intellectual			0.874	
Human			0.8	
Q17: No competitor can replicate our franchise outlet's mix of resources.	0.874 p< 0.000	80.677		0.953
Finances			0.889	
Physical			0.921	
Organisational			0.956	
Intellectual			0.845	
Human			0.876	
Non-substitutability				
Q18: There is no substitute for our franchise outlet's mix of resources.	0.863 p< 0.000	78.708		0.948
Finances			0.858	
Physical			0.894	
Organisational			0.955	
Intellectual			0.847	
Human			0.878	
Q19: No franchise outlet can succeed without having our franchise outlet's mix of resources.	0.890 p< 0.000	83.294		0.961
Finances			0.903	
Physical			0.945	
Organisational			0.937	
Intellectual			0.878	
Human			0.899	
Dynamic capabilities-sensing				
Q22: In my franchise outlet...	0.779 p< 0.000	52.839		0.842
People participate in professional association activities.			0.761	
Employees attend scientific or professional conferences.			0.769	
We connect with our active network of contacts with the scientific and research community.			0.820	
We use established processes to identify target market segments, changing customer needs and customer innovation.			0.717	
We observe best practices in our sector.			0.533	
Coordinating				
Q23: In my franchise outlet…	0.872 p< 0.000	83.181		0.951

Factor/constructs and item description	KMO and Bartlett's test	% Variance explained	Factor loadings	Cronbach alpha
We ensure an appropriate coordination among the activities of our different research and development (R&D) alliances.			0.912	
We determine areas of synergy in R&D alliance portfolio.			0.893	
We ensure that interdependencies between our R&D alliances are identified.			0.939	
We determine if there are overlaps between our different R&D alliances.			0.904	
Learning				
Q24: In my franchise outlet, we have...	0.794 p< 0.000	65.538		0.876
Frequent participation in industrial knowledge learning programmes.			0.721	
Frequent internal training.			0.841	
Knowledge sharing and learning groups.			0.829	
Frequent internal cross department learning programmes			0.835	
Integrating				
Q25: In my franchise outlet, we...	0.783 p< 0.000	56.869		0.829
Collect customer information and explore potential markets.			0.708	
Collect industry information for managerial decision making.			0.848	
Use industry related technologies to develop new products.			0.753	
Record historical methods and experiences in handling organisational issues.			0.699	
Performance				
Q27: Please compare your franchise outlet's performance relative to that of the competition over the last two years in terms of the following indicators:	0.773 p< 0.000	63.850		0.825
Sales volume			0.571	
Growth in sales volume			0.837	
Market share			0.856	
Growth in market share			0.891	

Table 22: Summary of factor analysis on six constructs

The 45 items on VRIN resources, 16 items on dynamic capabilities and 4 items on firm performance (66 in total) were subjected to principal components analysis (PCA) using SPSS version 24. Their Kaiser-Meyer-Olkin (KMO) values were all above 0.5 (the lowest

being 0.773 and the highest was 0.904), exceeding the recommended value of 0.6 (Kaiser 1970:401, 1974:31). The Bartlett's Test of Sphericity (Bartlett, 1954:296) results were all statistically significant ($p<0.000$). This is supported by Field (2013), and thus, the sample was adequate and factor analysis appropriate for the six constructs (value, rareness, inimitability, non-substitutability, dynamic capabilities and performance). On communalities, all other values were above 0.3, with the exception of 0.284, indicating that most of the items fit well with other items. All the constructs are multidimensional and their eigenvalues are greater than one (Field, 2013). Moreover, as all the Cronbach alpha coefficient values are above the rule of thumb (0.7), the reliability was confirmed as satisfactory (Nunnally, 1978).

6.8 STRUCTURAL EQUATION MODELLING

Structural equation modelling was used to test the conceptual model. Figure 26 is the conceptual model. The model shows the relationships explored.

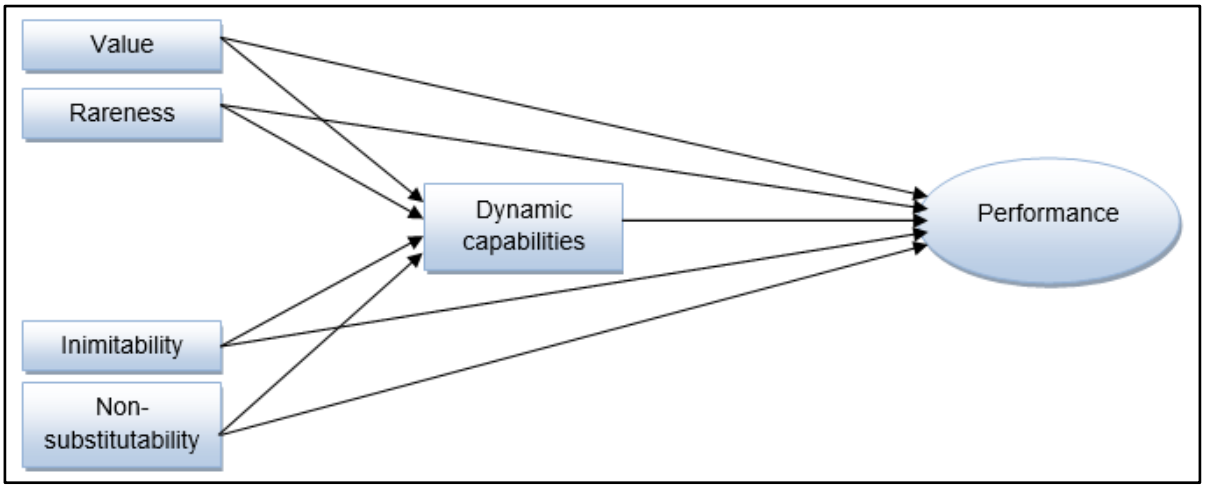


Figure 25: Theoretical model

Source: Researcher's own model.

Value stands for resources that are highly valued in the industry, that exploit market opportunities and improve efficiency and effectiveness. Rareness demonstrates resources that are not familiar and different from what other firms own. Inimitability means the resource is difficult to match and cannot be replicated. The resources that cannot be succeeded and which have no substitutes are non-substitutable. These VRIN resources

are depicted as capable of impacting on firm performance either directly or indirectly. Hence, a pooled Confirmatory Factor Analysis (PCFA) using Structural Equation Modelling was applied. The figure below shows the output of structural equation modelling.

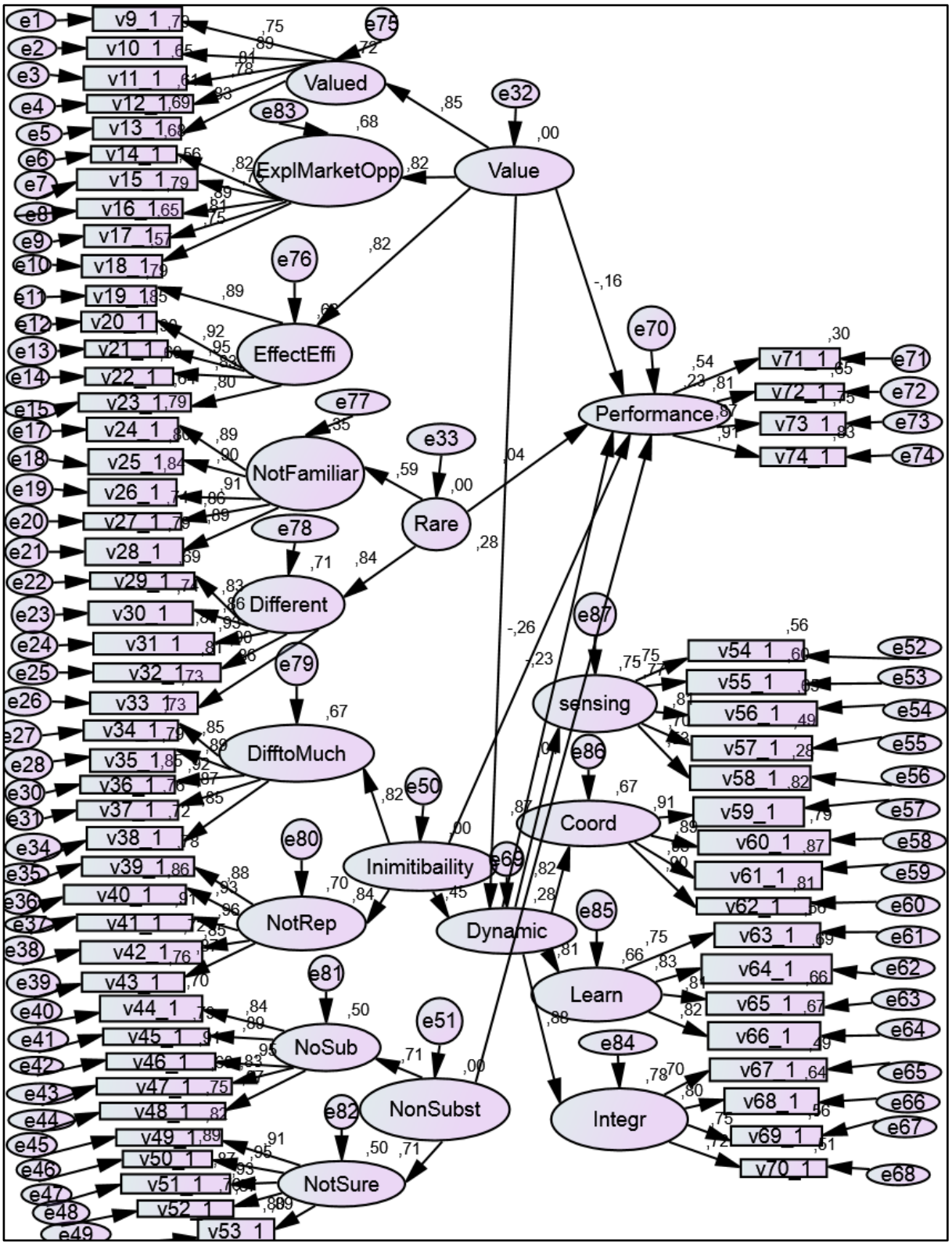


Figure 26: SEM output model 1

Source: Researcher's analytical results

The output shows the fitness indexes for the measurement model. In summary, the table below explains name of category, name of index, index value and comments. The assessment of model fit (the extent to which the model fits the data) is examined by considering the model's chi-square (x^2), Root Mean Square Error of Approximation (RMSEA), Normal Fit Index (NFI), Incremental fit index (IFI), Tucker-Lewis Coefficient (TLI) and Comparative fit index (CFI). However, for the purposes of this research, RMSEA, TLI, CFI and NFI were considered.

Name of category	Name of index	Index value	Comments
Absolute fit	RMSEA	0.0876	Garson (2009) recommends RMSEA < 0, 08. Hence the required level is not achieved.
Incremental fit	TLI CFI NFI	0.7765 0.7852 0.6990	All the index values are below the recommended 0.90 (Hair *et al*., 2010). Therefore the required level is not achieved.

Table 23: Summary of model fitness

Values of 0.05 or less are good fit, < 0.1 to > 0.05 are moderate, and 0.1 or greater are unacceptable. 0.00 indicates perfect fit and the cut off values usually range from 0.05 to 0.10 (Browne & Cudeck, 1993:136; Steiger & Lind, 1980:893). Generally a value of 0.90 or greater on NFI suggests a good fitting model (Bentler & Bonett, 1980:588). TLI cut-off values are from 0.90 to 0.95 and above (Bentler & Bonett, 1980:588). In addition, CFI and IFI are similar to NFI with 0.90 as a generally accepted measure of model fit. As the model fit showed an inadequate fit, other three models were explored. On the other hand, all the factor loadings are above 0.6, but fitness index is not achieved. As a result, the researcher considered improving model fit.

After multiple modifications through modelling, some constructs in conjunction with other constructs in the model finally gave an acceptable fit. The table below summarises output of each attempt to improve the model.

Model	RMSEA	TLI	CFI	NFI	Comments
Second model fit with covariance	0.0804	0.8115	0.8197	0.7299	RMSEA must be < 0.08 (Garson, 2009). TLI, CFI and NFI must be at least 0.90 (Hair *et. al*., 2010). Hence the level was not achieved.
Third model with new latent	0.0813	0.8076	0.8152	0.7256	RMSEA was more than 0.08 (Garson, 2009). The incremental fit indices are all below 0.90 (Hair *et. al*., 2010). Therefore fitness was not achieved.
Fourth model with new latent excluding item 58 from sensing.	0.0802	0.8165	0.8242	0.7354	Incremental indices are all below 0.90 (Hair *et. al*., 2010). RMSEA was above 0.08 but below 0.10 Hence model fitness was achieved but mediocre.
Fifth model with relationships between all initial constructs	0.0823	0.8067	0.8173	0.7308	TLI, CFI and NFI were all below 0.90. The absolute fit index was above 0.08 Therefore model fitness was not achieved.
Sixth model with 12 covariances	0.0777	0.8278	0.8353	0.7455	TLI and CFI slightly improved and were acceptable between 0.08 to 0.90 NFI still was far below 0.90 RMSEA also significantly improved to an acceptable level but still it was not a good fit.
Seventh model with latent constructs covariances	0.0876	0.7763	0.7855	0.6994	Incremental indices established unacceptable values less than 0.80 RMSEA was still mediocre (Garson, 2009). Hence model fitness was not achieved.

Table 24: Measurement model evaluation and fit indices

According to the output figure, the RMSEA (0.0777) on the sixth model significantly improved to an acceptable level and also other fit indices (TLI and CFI) are acceptable between 0.08 and 0.90. In addition, the Akaike Information Criterion (AIC) was decreasing, which is a signal of model improvement (Akaike, 1987:317). There was a significant improvement from 6018.5989 on the first model to 4554.000 on the seventh model. On the other hand, the emergence of a new latent variable is significant to VRIN, dynamic

capabilities and performance. Figure 28 overleaf depicts the relationship of the new latent with other constructs.

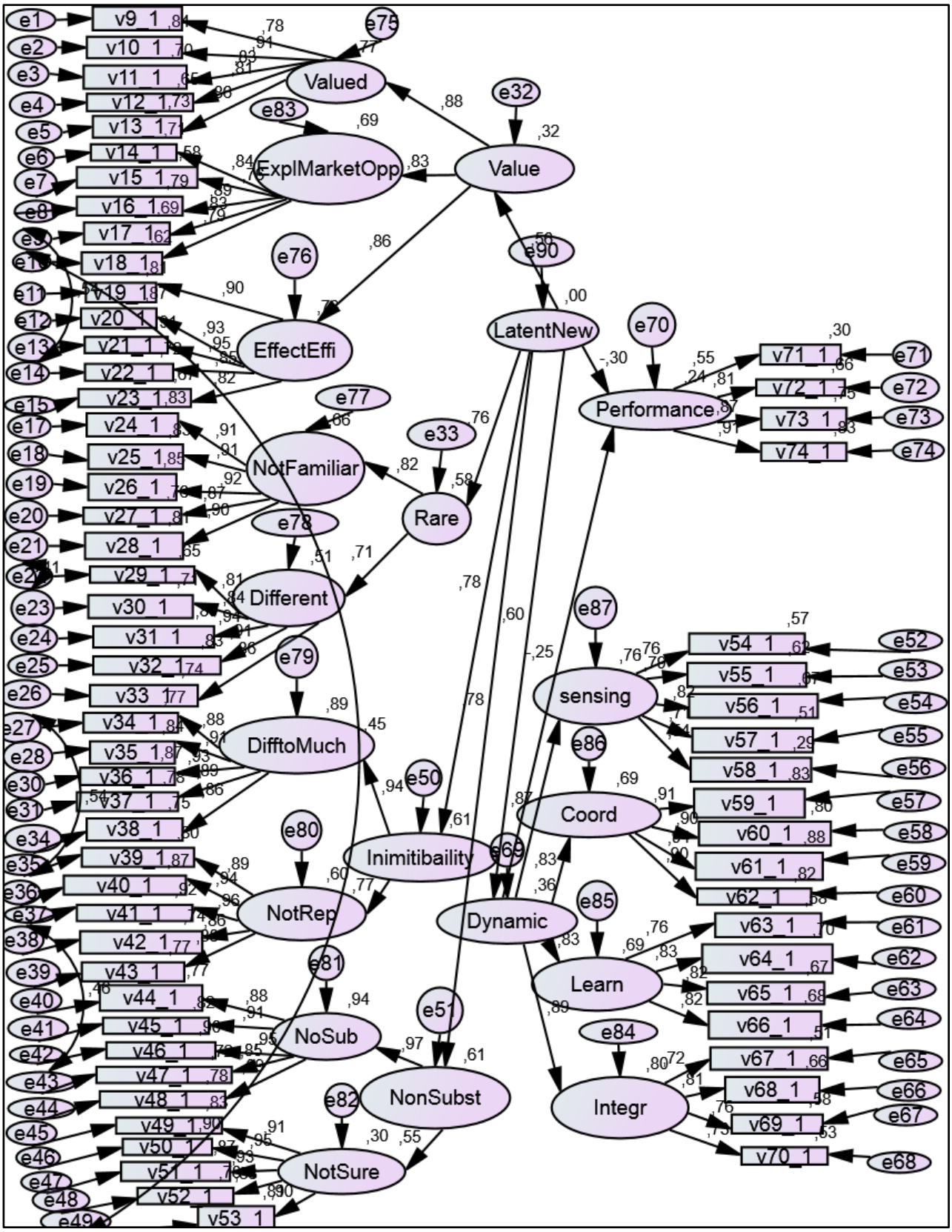


Figure 27: SEM output model 2

Source: Researcher's analytic results

As shown above, the variable labelled latent new shows strong significant relationships with other constructs in the model. Drawing on RBT, this latent new variable has support in theory if VRIN is taken to represent this (Penrose, 1959:86; Barney, 1991:99). Lin and Wu (2014:407) also demonstrate that VRIN can be operationalised as one construct instead of treating it as slices of variables.

6.9 MODEL FITNESS AND POTENTIAL CHALLENGES

Drawing on SEM that was used for data analysis, an acceptable fit was produced. The indices considered were RMSEA (0.077), TLI (0.8278), CFI (0.8353) and NFI (0.7455). The incremental indices (TLI and CFI) are acceptable because they are between 0.80 and 0.90 (Garson, 2009; Ullman, 1996:505; Schumacker & Lomax, 2004). On the absolute fit, the RMSEA is mediocre when < 0.10, acceptable if it is < 0.08 and good when less than 0.05. Although there was no good or perfect fit, it was an acceptable model since RMSEA was found to be less than 0.08. Hence it is against this background that there could be a multiple of factors for not achieving the highest level.

First, it could be that the same items (physical, financial, technological, organisational and human) on VRIN predictors were used and hence were closely related to each other. Second, model improvement by eliminating or correlating measurement items with low standardised regression weights (SRW), high standardised residual covariances (SRC) or through high modification indices (MI), would eventually distort the original conceptual model, hence only one item (v58) was deleted. This has support from Tomarken and Waller (2003:595), who posit that one re-specification class is deletion. Third, one of the most serious critiques of the RBV is that of the tautological nature of value and competitive advantage (Newbert, 2008:762). Godfrey and Hill (1995:519) further argue that given the tautology inherent in their operational definitions, an empirical test of the relationship between them is admittedly difficult or complicated. This conclusion seems to feature in this study, where VRIN constructs are almost similar in nature.

Moreover, there may be numerous measurement errors that exist among the constructs, although an attempt was done to further reduce the potential confounding effects of tautology (Newbert, 2008:763). Hence the alternative mediating variable (dynamic

capabilities) was used but did not yield a very significant outcome. On the other hand, since Penrose (1959:86) advocates for resource-capability combinations, this study could have adopted Newbert (2008:747), where resource-capability combination value and resource-capability combination rareness were explored instead of separating resources and capabilities.

Hooper, Coughlan and Mullen (2008:56) argue, “Allowing modification indices to drive the process is a dangerous game, however, some modification can be made locally that can substantially improve results”. This implies that if the model fit becomes primary at the expense of the reason for the study, the research eventually drifts away from the original theory-testing purpose of SEM. In addition, fit indices may point to a well fitting model when in actual fact, some parts of the model may fit poorly (Joreskog & Sorbom, 1996; Tomarken & Waller, 2003:578; Reisinger & Mavondo, 2006:41). Therefore fit-indices rules of thumb, is a typical issue with mixed feelings. Others contend that strictly adhering to recommended cut-off values can lead to instances of Type 1 error, that is, the incorrect rejection of an acceptable model (Marsh et al., 2004:320).

Tomarken and Waller (2003:578) further argue, “Even models that are well fitting according to commonly used statistical tests and descriptive fit indices can have significant problems and ambiguities”. Examples can be by adding, deleting or reversing paths in the original model and ending up with alternative non-equivalent models. Again, omitted variables account for effects that are mistakenly attributed to variables explicitly included in a model. But fit indices are not sensitive to all omitted variable structures that are likely to cause biased parameter estimates and inaccurate standard errors.

Regarding the problem of omitted variables, it is one manifestation of the broader difficulties associated with reliance on measures of global fit (Tomarken & Waller, 2003:585). In addition, models that fit well according to global fit indices can be associated with potential weaknesses in lower-order components (path coefficients). Because of the cited potential challenges, the validity and replicability can be questionable. However, the researcher could have specified in advance some possible modifications that are theory driven, to be tested regardless of the absolute fit of the initial model.

In summary, Tomarken and Waller (2003:596) acknowledge the following problems or ambiguities:

1. The existence of a number of equivalent models that fit equally well,
2. The existence of a number of non-equivalent, alternative models that fit equally well or better,
3. The omission of important variables,
4. Questionable lower-order components of fit,
5. An ill-fitting partition, as exemplified by a poorly fitting structural component that is masked by a well-fitting composite model,
6. Insufficient sensitivity to particular types of mis-specifications,
7. Post-hoc modifications that lower the validity and replicability of the results.

On the other hand, there are guidelines for researchers to follow:

1. Acknowledge the presence of plausible equivalent models and design studies to rule out such alternatives,
2. Comparatively evaluate the fit of the target model and plausible alternative models that are non-equivalent,
3. Acknowledge to readers the substantial likelihood that important variables are omitted and the possible effects of such omissions on parameter estimates and standard errors,
4. Report and evaluate lower-order model components,
5. Parse composite models by conducting separate tests of the structural and measurement components and of other meaningful partitions,
6. Design studies with sufficient sensitivity to detect non-trivial mis-specifications of a trivial magnitude,
7. Clearly distinguish between a priori models and those generated by post-hoc specification searches.

Hence, models can be useful if they are not grossly wrong – useful for prediction, for testing and developing theories, for clarifying the nature of the world (MaCallum,

2001:136). That is why it is not encouraged to manipulate fit indices and publish sloppy and inaccurate models (Steiger, 2007:897). For the purposes of this study the researcher did not manipulate fit indices, for this would have altered the original model.

6.10 PATH MODELS

Furthermore, path models were established as observed variables. The results are shown in the table below.

Figure	RMSEA	GFI	CFI	NFI	TLI
1	0.1773	0.7247	0.6921	0.6672	0.5997
2	0.1203	0.8138	0.8462	0.8094	0.8158

Table 25: Path models

Results from the two figures show that model fitness could not be achieved. Hence bootstrapping was employed. Bootstrapping was used to try and improve the fitness of the model since a mediocre result was achieved.

6.11 BOOTSTRAPPING

200 usable bootstrap samples were obtained. 0 bootstrap samples were unused because of a singular covariance matrix and 0 bootstrap samples were unused because a solution was not found. After bootstrapping, a summary of bootstrap iterations was given.

RMSEA	CFI	NFI	TLI
0.0777	0.8353	0.7455	0.8278

Table 26: Bootstrapping

After bootstrapping, the output in the table above shows an acceptable fit with all other indices except the NFI. The NFI is below the acceptable level of 0.8. Hence model fitness was not achieved.

6.12 MEDIATION ANALYSIS

According to Baron and Kenny's (1986:1173) analytic considerations for mediation, the following four conditions must be met in order to conclude support for hypotheses: (1) the independent variable (value, rareness, inimitability or non-substitutability for resources) must be significantly related to the dependent variable (performance), (2) the independent variable must be significantly related to the mediating variable (dynamic capabilities, that is, sensing, coordinating, learning or integrating), (3) the mediating variable (dynamic capabilities) must be significantly related to the dependent variable (performance), and (4) when controlling for the effects of dynamic capabilities on performance, the effect of VRIN resources on performance must no longer be significant. Hence the four conditions were tested by performing three separate regression analyses. The results highlighted in the following table show that mediation was present in the relationships between valuable resources, dynamic capabilities and performance. In order to establish the presence of mediation, a series of regression analyses was performed. The table below depicts results of the first regression analysis.

Variables	Step	F	Sig	B	Beta	T	sig	R^2	Adjusted R square
Highly valued/performance	1			.211	.237	3.640	.000		
Highly valued/sensing	2			.429	.371	5.949	.000		
Highly valued/ sensing/performance	3	20.161	.000	.100 .259	.112 .337	1.687 5.060	.093 .000	.154	.147
Efficiency/performance	1			.206	.241	3.695	.000		
Efficiency/sensing	2			.419	.376	6.049	.000		
Efficiency/sensing/ performance	3	20.215	.000	.098 .258	.114 .336	1.714 5.029	.088 .000	.155	.147
Efficiency/coordinating	2	29.173	.000	.408	.341	5.401	.000		
Efficiency/coordinating / performance	3	20.359	.000	.109 .238	.127 .332	1.938 5.056	.054 .000	.156	.148

Table 27: Relationship between independent and dependent variables

First, regressions were run to predict franchise outlet performance from each of the VRIN predictors. The unstandardised regression coefficients for the prediction of franchise outlet performance from all the VRIN resource predictors (highly valued resources, valuable exploiting resources, valuable efficient resources, resources that are not familiar,

resources different from competitors, difficult to match resources, resources that cannot be replicated, non-substitutable resources, and resources that cannot be succeeded) were established. All the independent variables were confirmed as statistically significant predictors of the dependent variable, $p < .001$. See the table below:

Variables	Df	B	T	Sig
Highly valued resources/performance	222	.211	3.640	.000
Valuable exploiting resources/performance	222	.262	4.422	.000
Valuable efficient resources/performance	222	.206	3.695	.000
Resources that are not familiar	222	.147	3.605	.000
Resources different from competitors	222	.154	3.630	.000
Difficult to match resources	222	.246	5.686	.000
Resources that cannot be replicated	222	.193	5.095	.000
Non-substitutable resources	222	.197	4.776	.000
Resources that cannot be succeeded	222	.109	3.399	.000

Table 28: Predictors and performance

Next, regressions were performed to predict each mediating variable (sensing, coordinating, learning and integrating) from each of the causal variables (VRIN predictors). The results of each regression provide the path coefficients for the paths denoted a between the independent variable and the mediator as an example and also the standard error of a (Sa) and the t test for the statistical significance of the a path coefficient (ta). For the hypothetical data, the unstandardised a path coefficients were established. The rest of the paths coefficients, were statistically significant at $p < 001$. Of interest were the other six relationships: valuable exploiting resources and learning $p = .003$, resources that are not familiar and coordinating $p = .003$, resources different from competitors and learning $p = .001$, not succeeded and sensing $p = .008$, resources that cannot be succeeded and learning $p = .001$ and resources that cannot be succeeded and integrating $p = .019$. All other independent variables were confirmed as significant predictors of the mediators, with the exception of non-substitutability (not succeeded resources) and coordinating $p = .055$.

Finally, regressions were performed to predict the outcome variable (performance) from both the VRIN predictors and the dynamic capabilities. The regressions provided estimates of the unstandardised coefficients for path b (and sb and tb) and also path c1 (the direct or remaining effect of VRIN predictors on performance when the mediating

variable was included in the analysis). Valuable resources (highly valued and resources with efficiency) were no longer significantly related to performance. Hence sensing and coordinating were significantly related to performance.

6.13 HYPOTHESIS TESTING

Hypothesis testing is an important plan of action in statistics. For the purposes of this study 13 hypotheses were tested to determine which statement was best supported by the sample data.

6.13.1 Hypothesis 1

H_1: The valuable resources that a franchise outlet exploits will be positively related to its performance.

Variables	B	Beta	T	Sig
Highly valued resources/performance	.211	.237	3.640	.000
Valuable exploiting resources/performance	.262	.285	4.422	.000
Valuable efficient resources/performance	.206	.241	3.695	.000

Table 29: Valuable resources and franchise outlet performance

The results show that valuable resources are significantly positively related to performance. Hence the hypothesis is accepted.

6.13.2 Hypothesis 2

H_2: The rarer the franchise outlet resources, the more significant firm performance will be.

Variables	B	Beta	T	Sig
Not familiar/performance	.147	.235	3.605	.000
Different/performance	.154	.237	3.630	.000

Table 30: Rare resources and franchise outlet performance

The rare resources were tested using two variables and five items. The hypothesis is accepted because there is a significant relationship.

6.13.3 Hypothesis 3

H_3: The inimitability of the resources that a franchise outlet exploits will be significantly related to its performance.

Variables	B	Beta	T	Sig
Difficult to match/performance	.246	.357	5.686	.000
Not replicated/performance	.193	.324	5.095	.000

Table 31: Inimitable resources and franchise outlet performance

The results depict that the inimitability of the resources that a franchise outlet exploits is significantly related to its performance. Hence the hypothesis is accepted.

6.13.4 Hypothesis 4

H_4: The non-substitutability of the resources that a franchise outlet exploits will be significantly related to its performance.

Variables	B	Beta	T	Sig
Not substituted/performance	.197	.305	4.776	.000
Not succeeded/performance	.109	.222	3.399	.000

Table 32: Non-substitutable resources and franchise outlet performance

Results show that non-substitutability of resources that a franchise outlet exploits is significantly related to its performance. Therefore, the hypothesis is accepted.

6.13.5 Hypothesis 5

H_5: The valuable resources that a franchise outlet exploits will be positively related to its dynamic capability.

Variables	B	Beta	T	Sig
Highly valued/sensing	.429	.371	5.949	.000
Highly valued/coordinating	.334	.268	4.150	.000
Highly valued/learning	.255	.246	3.784	.000
Highly valued/integrating	.254	.253	3.902	.000
Exploiting/sensing	.365	.305	4.771	.000
Exploiting/coordinating	.349	.271	4.197	.000
Exploiting/learning	.214	.200	3.041	.003
Exploiting/integrating	.221	.213	3.241	.001
Efficiency/sensing	.419	.376	6.049	.000
Efficiency/coordinating	.408	.341	5.401	.000
Efficiency/learning	.346	.347	5.519	.000
Efficiency/integrating	.328	.340	5.381	.000

Table 33: Valuable resources and dynamic capability

The table above demonstrates that the valuable resources that a franchise outlet exploits are positively related to its dynamic capability. Hence the hypothesis is supported and accepted.

6.13.6 Hypothesis 6

H_6: The rare resources that a franchise outlet exploits will be positively related to its dynamic capability.

Variables	B	Beta	T	Sig
Not familiar/sensing	.183	.224	3.428	.001
Not familiar/coordinating	.173	.197	2.994	.003
Not familiar/learning	.178	.244	3.746	.000
Not familiar/integrating	.207	.293	4.561	.000
Different/sensing	.243	.286	4.451	.000
Different/coordinating	.256	.281	4.371	.000
Different/learning	.167	.220	3.360	.001

Table 34: Rare resources and dynamic capability

All the items for the rare resources of a franchise outlet are positively related to its dynamic capabilities. Therefore, the hypothesis is supported and accepted.

6.13.7 Hypothesis 7

H_7: The inimitable resources that a franchise outlet exploits will be significantly related to its dynamic capability.

Variables	B	Beta	T	Sig
Difficult to match/sensing	.363	.404	6.574	.000
Difficult to match/ coordinating	.368	.381	6.134	.000
Difficult to match/learning	.302	.376	6.041	.000
Difficult to match/integrating	.273	.351	5.578	.000
Not replicated/sensing	.267	.343	5.436	.000
Not replicated/coordinating	.320	.383	6.171	.000
Not replicated/learning	.234	.336	5.311	.000
Not replicated/integrating	.249	.369	5.918	.000

Table 35: Inimitable resources and dynamic capability

All the items of the inimitable resources that a franchise outlet exploits are positively related to its dynamic capabilities. Hence the hypothesis is supported and accepted.

6.13.8 Hypothesis 8

H_8: The non-substitutable resources that a franchise outlet exploits will be significantly related to its dynamic capability.

Variables	B	Beta	T	Sig
Not substituted/sensing	.283	.336	5.314	.000
Not substituted/coordinating	.380	.420	6.902	.000
Not substituted/learning	.281	.374	6.000	.000
Not substituted/integrating	.276	.378	6.084	.000
Not succeeded/sensing	.113	.177	2.675	.008
Not succeeded/coordinating	.088	.128	1.928	.055
Not succeeded/learning	.129	.225	3.433	.001
Not succeeded/integrating	.087	.156	2.358	.019

Table 36: Non-substitutable resources and dynamic capability

The non-substitutable resources that a franchise outlet exploits are not significantly related to its dynamic coordinating capability p = .055. Therefore the hypothesis is not supported and is rejected.

6.13.9 Hypothesis 9

H_9: A franchise outlet's dynamic capabilities will mediate the relationship between its valuable resources and performance.

Variables	B	Beta	T	Sig
Highly valued/ sensing/performance	.100 .259	.112 .337	1.687 5.060	.093 .000
Efficiency/sensing/ performance	.098 .258	.114 .336	1.714 5.029	.088 .000
Efficiency/coordinating/ performance	.109 .238	.127 .332	1.938 5.056	.054 .000

Table 37: Mediating role of dynamic capability between valuable resources and performance

After controlling for the effects of dynamic capabilities (sensing, coordinating, learning and integrating) on performance, only the effect of valuable resources (highly valued and efficiency) on performance was no longer significant. Hence the hypothesis is supported and is accepted.

6.13.10 Hypothesis 10

H_{10}: A franchise outlet's dynamic capabilities will mediate the relationship between its rare resources and performance.

Variables	B	Beta	T	Sig
Not familiar/sensing/ performance	.099 .264	.158 .343	2.512 5.449	.013 .000
Not familiar/coordinating/ performance	.105 .245	.168 .343	2.679 5.478	.008 .000
Not familiar/learning/ performance	.109 .215	.174 .250	2.667 3.837	.008 .000
Not familiar/integrating/ performance	.107 .196	.170 .221	2.553 3.315	.011 .001
Different/sensing/ performance	.091 .260	.140 .339	2.174 5.268	.031 .000
Different/coordinating/ performance	.093 .240	.142 .336	2.213 5.226	.028 .000
Different/learning/ performance	.118 .217	.181 .253	2.794 3.906	.006 .000
Different/integrating/ performance	.116 .199	.178 .225	2.703 3.407	.007 .001

Table 38: Mediating role of dynamic capability between rare resources and performance

The effect of rare resources on performance was still found to be significant after controlling for the effects of the dynamic capabilities. Therefore, the hypothesis is not supported because there is no mediation. The hypothesis is thus rejected.

6.13.11 Hypothesis 11

H_{11}: A franchise outlet's dynamic capabilities will mediate the relationship between its inimitable resources and performance.

Variables	B	Beta	T	Sig
Difficult to match/sensing/ performance	.168 .215	.243 .280	3.684 4.246	.000 .000
Difficult to match/ coordinating/performance	.172 .201	.250 .281	3.824 4.301	.000 .000
Difficult to match/learning/ performance	.198 .159	.287 .185	4.305 2.776	.000 .006
Difficult to match/integrating /performance	.206 .148	.298 .167	4.506 2.518	.000 .013
Not replicated/sensing/ performance	.131 .233	.220 .303	3.398 4.697	.001 .000
Not replicated/coordinating/ performance	.126 .211	.211 .295	3.192 4.476	.002 .000
Not replicated/learning/ performance	.152 .178	.254 .208	3.839 3.142	.000 .002
Not replicated/integrating/ performance	.155 .156	.259 .176	3.835 2.603	.000 .010

Table 39: Mediating role of dynamic capability between inimitable resources and performance

After controlling the effects of dynamic capabilities on franchise outlet performance, the effect of VRIN resources was still significant. Hence, there was no mediation and the hypothesis was rejected for there was no support.

6.13.12 Hypothesis 12

H_{12}: A franchise outlet's dynamic capabilities will mediate the relationship between its non-substitutable resources and performance.

Variables	B	Beta	T	Sig
Not substituted/sensing/ performance	.130 .239	.201 .311	3.101 4.811	.002 .000
Not substituted/coordinating /performance	.116 .215	.179 .301	2.644 4.445	.009 .000
Not substituted/learning/ performance	.147 .179	.228 .208	3.365 3.075	.001 .002
Not substituted/integrating/ performance	.153 .161	.237 .182	3.473 2.668	.001 .008
Not succeeded/sensing/ performance	.079 .269	.160 .350	2.515 5.621	.011 .000
Not succeeded/coordinating/ performance	.087 .252	.177 .353	2.869 5.721	.005 .000
Not succeeded/learning/ performance	.081 .220	.165 .256	2.535 3.933	.012 .000
Not succeeded/integrating/ performance	.091 .215	.185 .242	2.867 3.764	.005 .000

Table 40: Mediating role of dynamic capabilities between non-substitutable resources and performance

In like manner, there was no mediation because the effect of VRIN resources remained significant after controlling for the effects of dynamic capabilities on franchise outlet performance. Hence the hypothesis was rejected.

6.14 SUMMARY OF HYPOTHESIS TESTING

Based on the analytic results, Table 41 below depicts the hypotheses which were accepted and rejected.

Hypothesis	Result
H_1: There is a positive relationship between the value of resources that a franchise outlet exploits and its performance.	Accepted
H_2: The rarer the franchise outlet's resources, the more positive its performance will be.	Accepted
H_3: There is a positive relationship betweenthe inimitability of resources that a franchise outlet exploits and its performance.	Accepted
H_4: The non-substitutability of the resources that a franchise outlet exploits will be positively related to its performance.	Accepted
H_5: The valuable resources that a franchise outlet exploits will be positively related to its dynamic capability.	Accepted
H_6: The rare resources that a franchise outlet exploits will be positively related to its dynamic capability.	Accepted
H_7: The inimitable resources that a franchise outlet exploits will be positively related to its dynamic capability.	Accepted
H_8: The non-substitutable resources that a franchise outlet exploits will be positively related to its dynamic capability.	Rejected
H_9: A franchise outlet's dynamic capabilities will be positively related to its performance.	Accepted
H_{10}: A franchise outlet's dynamic capabilities will mediate the relationship between the valuable resources that a franchise outlet exploits and its performance.	Rejected
H_{11}: A franchise outlet's dynamic capabilities will mediate the relationship between the rare resources that a franchise outlet exploits and its performance.	Rejected
H_{12}: A franchise outlet's dynamic capabilities will mediate the relationship between the inimitable resources that a franchise outlet exploits and its performance.	Rejected

Table 41: Results on hypothesis testing

6.15 CHAPTER SUMMARY

The purpose of this study was to extend the RBT model (Barney, 1991:112; Newbert, 2008:747; Morgan et al., 2006:624) and advance knowledge and understanding by testing empirically the influence of VRIN resources in franchise outlet performance through dynamic capabilities. This chapter outlined the findings and hence the purpose was achieved. Next, Chapter 7 looks into the conclusions of findings, recommendations, limitations of the study and directions for future research.

Chapter 7 - DISCUSSIONS, IMPLICATIONS, LIMITATIONS AND FUTURE RESEARCH

7. DISCUSSIONS, IMPLICATIONS, LIMITATIONS AND FUTURE RESEARCH

"There are two possible outcomes: if the result confirms the hypothesis, then you've made a measurement. If the result is contrary to the hypothesis, then you've made a discovery." Enrico Fermi.

7.1 OVERVIEW

This study was driven by the application of the dynamic capabilities and RBT's current debate on its use and importance in franchising research. Dynamic capabilities are premised as the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments (Teece *et al*., 1997:516), to support the performance of franchised chains (Akremi *et al*., 2015:145-165). On the other hand, the RBT assumes that firms within an industry are heterogeneous in terms of VRIN resource empirical indicators (Barney, 1991:99). And Penrose (1959:86) suggests that no resources or capabilities are of much use by themselves, but any efficient use for them must be in terms of possible combinations with other resources or capabilities. Because of these theoretical propositions, this study operationalised the independent variable as the value, rareness, inimitability and non-substitutability of franchise outlet resources. Second, dynamic capabilities were hypothesised to mediate the VRIN resource – franchise outlet performance relationship. The reason was to demonstrate and test theory in a new setting (South African franchising industry).

In order to test what had been drawn on dynamic capabilities, RBT and franchise outlet performance literature this study followed a rigorous research process. Fast-food and retail franchise outlets were surveyed through Qualtrics and face-to-face and telephone interviews. The descriptive statistics, correlations, factor analysis, bootstrapping and SEM were computed for the model relationships. The analytic results confirmed and expanded the existing model by combining propositions on VRIN resources, dynamic capabilities and performance. In addition, the VRIN resource indicators were confirmed as direct predictors

of franchise outlet performance. Second, the franchise outlet's dynamic capabilities were found to have a mediating role between its valuable resources and performance.

7.2 INTRODUCTION

Drawing on the dynamic capabilities and RBT extant literature, it became evident that little empirical study had received attention in the franchising industry. This study attempted to extend the RBT model (Barney, 1991:112), to advance knowledge and understanding on VRIN resources – dynamic capabilities – firm performance relationships in franchising. Chapter 1 articulated the background information about the problem under study. Chapter 2 reviewed the RBT, dynamic capabilities and performance debate in franchising. Chapter 3 supplied an overview of the franchising concept from a global perspective and the South African context. Hypotheses were developed and appraised in Chapter 4. Chapter 5 presented the detailed methodology. Then the empirical testing was done to address the problem, objectives and hypotheses. The analytic results in Chapter 6 explained critical findings. Value, rareness, inimitability and non-substitutability of resources are related to dynamic capabilities and dynamic capabilities are related to performance, and sensing and coordinating mediate the value−performance and non-substitutability relationships. This chapter goes on to delve into important academic and practitioner implications of relationships between VRIN resources, dynamic capabilities and performance. The table overleaf, in a summary, reminds the reader of key findings.

Hypothesis	Result
H_1: The value of resources that a franchise outlet exploits will be significantly related to its performance.	Accepted
H_2: The rarer the franchise outlet resources, the more significant firm performance will be.	Accepted
H_3: The inimitability of the resources that a franchise outlet exploits will be significantly related to its performance.	Accepted
H_4: The non-substitutability of the resources that a franchise outlet exploits will be significantly related to its performance.	Accepted
H_5: The valuable resources that a franchise outlet exploits will be significantly related to its dynamic capability.	Accepted
H_6: The rare resources that a franchise outlet exploits will be significantly related to its dynamic capability.	Accepted
H_7: The inimitable resources that a franchise outlet exploits will be significantly related to its dynamic capability.	Accepted
H_8: The non-substitutable resources that a franchise outlet exploits will be significantly related to its dynamic capability.	Rejected
H_9: A franchise outlet's dynamic capabilities will mediate the relationship between its valuable resources and performance.	Accepted
H_{10}: A franchise outlet's dynamic capabilities will mediate the relationship between its rare resources and performance.	Rejected
H_{11}: A franchise outlet's dynamic capabilities will mediate the relationship between its inimitable resources and performance.	Rejected
H_{12}: A franchise outlet's dynamic capabilities will mediate the relationship between its non-substitutable resources and performance.	Rejected

Table 42: Key findings on hypothesis testing

7.3 CONCLUSIONS ON FINDINGS

7.3.1 VALUABLE RESOURCES AND FRANCHISE OUTLET PERFORMANCE

Objective 1: To determine the impact of valuable resources that a franchise outlet exploits on its performance.

H_1: There is a positive relationship between the value of resources that a franchise outlet exploits and its performance.

Finding: The overall effect of value on performance was statistically significant.

The valuable resources of a franchise outlet were hypothesised as highly valued in the industry, able to exploit market opportunities and neutralise threats and able to implement strategies that improve efficiency and effectiveness. Their response items were financial, physical, organisational, intellectual and human resources. Drawing on factor analysis,

value proved to have a high Cronbach Alpha's coefficient (above 0.9) and the KMO (p<.000), denoting high reliability. All the items are highly correlated. This is a clear indication that if a franchise outlet owns valuable resources; they are highly valued in their industry, they can exploit market opportunities and neutralise threats, and they enable the franchise outlet to conceive of or implement strategies that improve its efficiency and effectiveness.

All the response items (financial, physical, organisational, intellectual and human) have an R2 more than 0.6 and the factor loadings are also above 0.6. Hence the factors are strongly correlated. From the regression run, the overall effect of value on performance was statistically significant. This means that for a franchise outlet to experience significant performance, managers are to consider owning valuable resources. These analytical results resonate with the study of Lin and Wu (2014:411), who also found out that VRIN resources foster performance.

7.3.2 RARE RESOURCES AND FRANCHISE OUTLET PERFORMANCE

Objective 2: To establish the effect of rare resources that a franchise outlet exploits on its performance.

H_2: The rarer the franchise outlet's resources, the more positive its performance will be.

Finding: The overall effect of rare resources on performance was statistically significant.

The latent construct rare had two variables (not familiar and different) with the same response items (financial, physical, organisational, intellectual and human). The factor analysis proved rare to have a high Cronbach Alpha's coefficient (above 0.9). There was high reliability and correlation of items. Based on the regression run, the overall effect of rare resources on performance was statistically significant (p<.000). Even in descriptive statistics (71.2%), franchisees attested that resources they own must be different from those owned by competitors. This implies that franchise outlets that own resources which are not familiar with or different from competitors' are probably going to enjoy competitive advantage. The findings support Barney's (1991) argument that competitive advantage probably derives from the exploitation of resources and capabilities that are rare, or possessed by some number of firms in an industry that is small enough to prohibit perfect

competition. Given this logic, the suggestion is that if competitors are familiar with a franchise outlet's resources, then many franchise outlets are likely to implement the same, resulting in diminishing performance. Hence managers and owner operators are to watch manoeuvres with a vigilant eye.

7.3.3 INIMITABLE RESOURCES AND FRANCHISE OUTLET PERFORMANCE

Objective 3: To ascertain the impact of inimitable resources that a franchise outlet exploits on its performance.

H_3: There is a positive relationship between the inimitability of resources that a franchise outlet exploits and its performance.

Finding: The overall effect of inimitable resources was statistically significant.

The impact of inimitable resources was assessed using two variables – difficult to match and not replicated. After the factor analysis, both variables had a high Cronbach Alpha's coefficient (above 0.9) and their factor loadings were above 0.6 and were above 0.4. This showed high reliability and correlation of items. The regression run to predict performance from inimitable resources was $p<.001$. Therefore the overall effect of inimitable resources on franchise outlet performance was statistically significant. Again, the findings support the argument of Barney (1991): that the criterion of inimitability of resources is a source of competitive advantage. This implies that franchise outlet managers must continue to mobilise resources that are difficult to match and those that cannot be replicated.

7.3.4 NON-SUBSTITUTABLE RESOURCES AND FRANCHISE OUTLET PERFORMANCE

Objective 4: To examine the impact of non-substitutable resources that a franchise outlet exploits on its performance.

H_4: The non-substitutability of the resources that a franchise outlet exploits will be positively related to its performance.

Finding: The overall effect of non-substitutable resources was statistically significant.

Based on the same response items, the non-substitutability construct was measured with two variables – not substituted and not exceeded. The factor loadings for the items were more than 0.6 and their item R2 was above 0.4. After the regression was run to predict franchise outlet performance from non-substitutable resources, the unstandardised regression coefficient was statistically significant ($p<.001$). Thus, the overall effect of non-substitutable resources on franchise outlet performance was statistically significant. The findings support Barney (1991:99) that sustained competitive advantage must be found in the rare, imperfectly imitable, and non-substitutable resources already controlled by a firm. Franchise outlet managers and owner operators must therefore aim to not only own valuable, rare and inimitable resources, but also resources that are non-substitutable.

7.3.5 CONCLUSIONS ON THE DIRECT RELATIONSHIP BETWEEN VRIN RESOURCES AND PERFORMANCE

The findings must be of interest to academics and franchisees (managers and owner operators). From an academic perspective, the study fills a critical gap in empirical literature. The fact that VRIN resources significantly contribute to the franchise outlet performance strengthens the proposition of RBT. Hence, crafting an independent construct (value) captures the RBT argument that if a resource yields the potential to enable a firm to reduce costs and/or respond to environmental opportunities and threats, it is valuable, and to the extent that a firm is able to effectively deploy such a resource (Newbert, 2008:747; Barney, 1991:99), it will attain a competitive advantage. What can be concluded is that the franchise outlet's performance is a result of its valuable, rare, inimitable and non-substitutable resources. This is supported by Penrose (1959:25), who reiterates, "...the services yielded by resources are a function of the way in which they are used".

In addition, to a practitioner who can be a franchise outlet manager or owner operator, the finding that VRIN resources positively contribute to performance is an eye-opener to the way in which decisions are made. Although prior research (Lin & Wu, 2014:407; Newbert, 2008:766) emphasised the symbiotic relationship between capabilities and resources for a competitive advantage, this study discovered that with no combination, VRIN resources foster performance. Hence, managers must realise that a resource can be exploited singly. For example, the implication may be drawn that, if a given resource is exploited and fails to

attain performance, then that resource is not valuable. However, managers are expected to examine any given resource to ascertain if it is highly valued in the industry, able to respond to environmental opportunities/threats, and able to help the firm reduce costs.

7.3.6 VALUABLE RESOURCES AND FRANCHISE OUTLET'S DYNAMIC CAPABILITIES

Objective 5: To investigate the relationship of the value of the resources that a franchise outlet exploits with its dynamic capabilities.

H_5: The valuable resources that a franchise outlet exploits will be positively related to its dynamic capability.

Finding: Valuable resources of a franchise outlet are significantly related to its dynamic capabilities.

The next regression was performed to predict the mediating variable (dynamic capabilities) from the causal variable (value). The results of the regression provided the path coefficient for the path between value and dynamic capabilities, the standard error of the path and the t test for the statistical significance of the path coefficient. The unstandardised path coefficients were as follows: (a) value – sensing was p = .000; (b) value – coordinating was p = .000; (c) value – learning was p = .000; and (d) value – integrating was p = .000 for all the three variables. Hence valuable resources that a franchise outlet exploited were significantly related to its dynamic capability. Even descriptive statistics (60% − 90%) attest to the fact that managers consider and implement dynamic capabilities. The findings support the proposition of Penrose (1959:86) that no resources or capabilities are of much use by themselves, but any efficient use for them must be in terms of possible combinations with other resources or capabilities. Given these analytic results, it can be concluded that valuable resources must be used in combination with dynamic capabilities.

7.3.7 RARE RESOURCES AND FRANCHISE OUTLET'S DYNAMIC CAPABILITIES

Objective 6: To establish the relationship between rare resources and dynamic capabilities that a franchise outlet exploits.

H_6: The rare resources that a franchise outlet exploits will be positively related to its dynamic capability.

Finding: Rare resources of a franchise outlet are significantly related to its dynamic capability.

The regression was performed to predict the mediating variable (dynamic capabilities) from the causal variable (rare resources). The results denote the path between the causal variable and the mediating variable. The path had the following results: (a) rare – sensing was p = .001 and p = .000; (b) rare – coordinating was p = .003 and p = .000; (c) rare – learning was p = .000 and p = .001; (d) rare – integrating was p = .000 and p = .000. All the four dynamic capabilities provided the path coefficients for the path, the standard error of the path and the t test for the statistical significance of the path coefficient. Thus the rare resources that a franchise outlet exploits are significantly related to its dynamic capabilities. It can be concluded that rare resources must be used in combination with other resources or dynamic capabilities.

7.3.8 INIMITABLE RESOURCES AND FRANCHISE OUTLET'S DYNAMIC CAPABILITIES

Objective 7: To determine the relationship between inimitable resources and dynamic capabilities that a franchise outlet exploits.

H_7: The inimitable resources that a franchise outlet exploits will be positively related to its dynamic capability.

Finding: Inimitable resources of a franchise outlet were significantly related to its dynamic capability.

The unstandardised overall inimitable – dynamic capabilities path coefficient was p = .000. The findings also support the idea that firm resources must be used in combination with other resources or dynamic capabilities. Hence, the implication is for franchise outlet managers to take advantage of the findings and implement inimitable resources and dynamic capabilities together.

7.3.9 NON-SUBSTITUTABLE RESOURCES AND FRANCHISE OUTLET'S DYNAMIC CAPABILITIES

Objective 8: To investigate the relationship between non-substitutable resources and dynamic capabilities that a franchise outlet exploits.

H_8: The non-substitutable resources that a franchise outlet exploits will be positively related to its dynamic capability.

Finding: Non-substitutable resources of a franchise outlet were significantly related to its dynamic capability.

After performing the regression to predict the mediating variable (dynamic capabilities) from the causal variable (non-substitutable resources), the results provided the path coefficient, the standard error and the t test for the statistical significance of the path coefficient. For the non-substitutability – dynamic capabilities path, the coefficient was as follows: (a) non-substitutability – sensing was p = .000 and p = .008; (b) non-substitutability – coordinating was p = .000 and p = .055; (c) non-substitutability – learning was p = .000 and p = .001; (d) non-substitutability – integrating was p = .000 and p = .019. Non-substitutability (not succeeded) was not significantly related to coordinating dynamic capability. However, statistical significance was present with other dynamic capabilities. This is still an eye-opener that not all franchise outlet dynamic capabilities can be used in combination with resources for a competitive advantage. Managers must always combine resources and /or dynamic capabilities and evaluate the performance. Otherwise resources may be committed without realising rents.

7.3.10 FRANCHISE OUTLET'S DYNAMIC CAPABILITIES AND PERFORMANCE

Objective 9: To explore the contribution of dynamic capabilities of a franchise outlet towards its performance.

H_9: A franchise outlet's dynamic capabilities will be significantly related to its performance.

Finding: A franchise outlet's dynamic capabilities were significantly related to its performance.

From the pooled factor analysis of the model, dynamic capabilities and performance are highly correlated. In descriptive statistics, managers and owner operators agree that dynamic capabilities have a positive contribution towards franchise outlet performance. However, there are other managers who still do not see value in connecting the business to the scientific and research community.

7.3.11 THE MEDIATING ROLE OF DYNAMIC CAPABILITIES BETWEEN VALUABLE RESOURCES OF A FRANCHISE OUTLET AND ITS PERFORMANCE

Valuable resources refer to financial, physical, organisational, intellectual, and human resources that are highly valued in the industry. Such resources allow the franchise outlet to exploit market opportunities and neutralise threats. The resources also enable conceiving and implementing strategies that improve efficiency and effectiveness. On the other hand, dynamic sensing capability explains five items in this study: people participating in professional association activities; employees attending scientific or professional conferences; franchisees connecting with their active network of contacts with the scientific and research community; franchisees using established processes to identify target market segments, changing customer needs and customer innovation; and observing best practices in their sector. Moreover, coordinating is another dynamic capability explaining four areas: franchisees ensuring an appropriate coordination among the activities of their different research and development (R&D) alliances; determining areas of synergy in their R&D alliance portfolio; ensuring that the interdependencies between their R&D alliances are identified; and determining if there are overlaps between their different R&D alliances. All these were considered in the survey. Below are the objective, hypothesis and the finding.

Objective 10: To discover the mediation role of the franchise outlet's dynamic capabilities between valuable resources and its performance.

H_{10}: A franchise outlet's dynamic capabilities will mediate the relationship between the valuable resources that a franchise outlet exploits and performance.

Finding: The dynamic capabilities (sensing and coordinating) of a franchise outlet significantly mediated the relationship between valuable resources and performance. This was present in both fast food and retailing sectors.

After the final regressions were performed, only sensing and coordinating were proved to have a mediating effect between valuable resources and franchise outlet performance. Although analytical results indicate that dynamic capabilities (sensing and coordinating) significantly mediate valuable resources to improve franchise outlet performance, other hypotheses (11 to 13) were not supported. Findings for hypothesis 10 resonate with the RBT assumption that by accumulating VRIN resources and developing dynamic capabilities to mediate resources, firms can improve their competitive advantage and thus performance (Teece *et al*., 1997:509). Hence it can be concluded that this study accepts the mediating role of dynamic sensing and coordinating capabilities between valuable resources and franchise outlet performance but rejects the dynamic sensing, coordinating, learning and integrating capabilities role between other VRIN resources (rareness, inimitability and non-substitutability) and franchise outlet performance.

7.3.12 THE MAGNITUDE OF MEDIATED EFFECT

Drawing on Warner (2013), when variables are measured in meaningful units, it is helpful to think through the magnitude of the effects in real units. The units of measurement have some real-world practical interpretation. The diagram overleaf guides the practical interpretation.

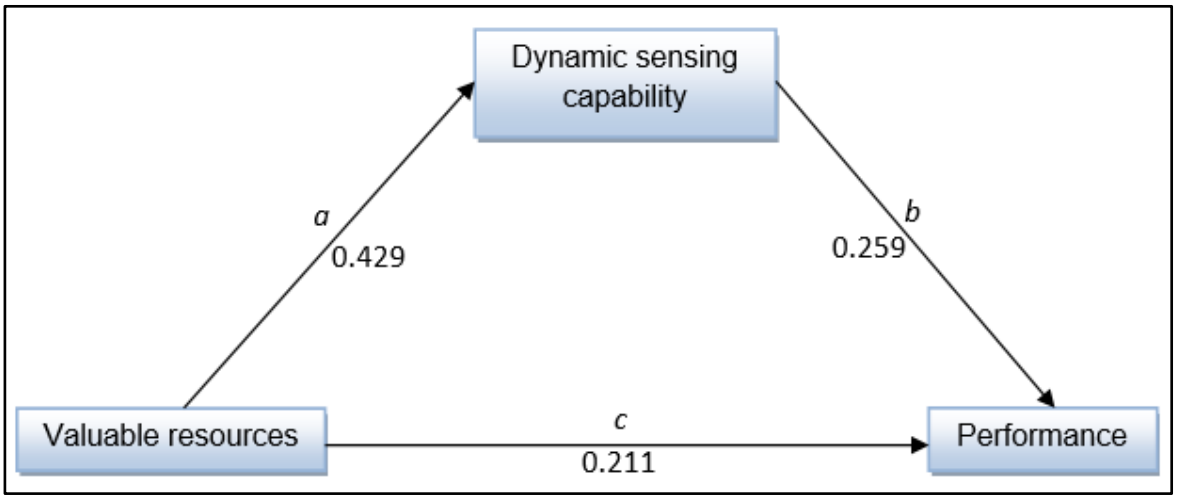


Figure 28: Unstandardised path coefficients

Source: Researcher's own compilation.

From the first regression analysis the coefficient for the total effect of valuable resources on franchise outlet performance was c = 0.211 (Refer to Table 29). For example, each 1 unit increase in valuable resources, can predict an increase in franchise outlet performance of 0.2%. In addition, the assumption that franchisees aim to mobilise valuable resources into a distant future implies a significant valuable resource – related increases in franchise outlet performance.

From the second regression, the effect of valuable resources on dynamic sensing capability is a = 0.429; this was statistically significant (See Table 33). As an illustration, for a 1 unit increase in valuable resources, one can predict almost a 1.5% increase in dynamic sensing capability. This implies that the more a franchise outlet increases its valuable resources, the more dynamic sensing capability is also required. The final regression provides the two paths, b and c. The b coefficient that represents the effect of dynamic sensing capability on franchise outlet performance was b = 0.259; again it was statistically significant, based on the t-test (5.060) in Table 37. For the dynamic sensing capability increase, it predicts almost a 0.3% increase in franchise outlet performance. Given this logic, franchisees may gain the dynamic sensing capability over a long haul, and this would imply dynamic sensing capability > related increases in franchise outlet performance.

In conclusion, the indirect effect of valuable resources on franchise outlet performance is found by multiplying a x b (Warner, 2013). In this case the product of 0.429 and 0.259 = 0.111. This implies that for each 1 unit increase in valuable resources, a 0.11% increase in performance is predicted through the effects of valuable resources on dynamic sensing capability. On the other hand, the direct effect of valuable resources on performance is still significant. Hence, over and above any dynamic sensing capability > related increases in performance, still there is a substantial increase in performance for each additional valuable resource.

7.3.13 OTHER CRITICAL CONCLUSIONS

7.3.13.1 RBV and dynamic capabilities in strategic management

Analytical results seem to buttress the proposition that RBV of the firm and dynamic capabilities must be explored in combination (Newbert, 2008:748), instead of treating them separately. The findings emphasise that the performance of a franchise outlet is a result of accumulating valuable resources and also from the development of dynamic sensing and capabilities. Hence, franchise outlet managers and owner operators have to answer the following question: What are the valuable resources and the types of sensing capabilities or coordinating capabilities that effectively mediate them in the South African franchising industry? For example, one of the merits of valuable resources is the ability to exploit market opportunities and neutralise threats. And sensing capability has the ability to spot, interpret, and pursue opportunities in the environment. Both valuable resources and sensing capability share the same point of interest: to pursue and exploit market opportunities. Given this logic, franchise outlet managers must find valuable resources and dynamic sensing capabilities that exploit those market opportunities.

7.3.13.2 Manager/owner operators in a causal ambiguity paradox

Another conclusion that can be made from the responses of managers/owner operators is the presence of causal ambiguity. They perceive that franchise outlets are weak in dynamic capabilities yet are high in performance. This may result from the causal ambiguity paradox (King & Zeithaml, 2001:75). Causal ambiguity may mean that managers of franchise outlets do not understand the cause of their performance. They make decisions but do not have a full understanding of the cause of their success. Hence managers/owner operators cannot identify the source of their competitive advantage. Also, rivals find it difficult to choose which resource to imitate because resources and dynamic capabilities accumulate slowly over a period of time. Hence, organisational knowledge cannot be traded or easily replicated by competitors since it is deeply rooted in the organisation's history (Dierickx & Cool, 1989:1504). That is why there may be under-utilisation or even destruction of the resources caused by ignorance (Ambrosini & Bowman, 2005:493).

On the other hand, the reason why other franchise outlets are the same in performance may be due to social complexity. Performance requires combinations of resources and capabilities through various social interactions which make them intangible and difficult to understand (Penrose, 1959:86). Based on the findings and conclusions above, the table below shows the summary.

Objectives of the study		Conclusion
(a)	To determine the impact of valuable resources that a franchise outlet exploits on its performance.	Valuable resources are vital to exploit market opportunities.
(b)	To establish the effect of rare resources that a franchise outlet exploits on its performance.	Franchise outlet's rare resources must be different from those of competitors to boost performance.
(c)	To ascertain the impact of inimitable resources that a franchise outlet exploits on its performance.	Difficult to match resources improve franchise outlet performance.
(d)	To examine the impact of non-substitutable resources that a franchise outlet exploits on its performance.	For an outlet to experience performance, franchise outlet resources must not have substitutes.
(e)	To investigate the relationship of valuable resources that a franchise outlet exploits with its dynamic capabilities.	Valuable resources and dynamic capabilities must be used in combination.
(f)	To establish the relationship between rare resources and dynamic capabilities that a franchise outlet exploits.	Rare resources must be used in combination with dynamic capabilities.
(g)	To determine the relationship between inimitable resources and dynamic capabilities that a franchise outlet exploits.	Inimitable resources and dynamic capabilities must be employed in combination.
(h)	To investigate the relationship between non-substitutable resources and dynamic capabilities that a franchise outlet exploits.	Non-substitutable resources could not be used in combination with dynamic capabilities.
(i)	To explore the contribution of dynamic capabilities of a franchise outlet towards its performance.	Dynamic capabilities positively impact performance.
(j)	To discover the mediating role of the franchise outlet's dynamic capabilities between valuable resources and its performance.	Dynamic sensing capability and dynamic coordinating capability can be used to mediate valuable resources and performance.
(k)	To investigate the mediating role of the franchise outlet's dynamic capabilities between rare resources and its performance.	No mediation was found between rare resources and franchise outlet performance.
(l)	To examine the mediating role of the franchise outlet's dynamic capabilities between inimitable resources and its performance.	There is no mediation between inimitable resources and performance.

Table 43: Objectives and summary of conclusions

7.4 RECOMMENDATIONS

7.4.1 VALUABLE RESOURCES

Since the analytical results indicate the importance of valuable resources in developing dynamic sensing capability and dynamic coordinating capability, franchisees can take note of this study. Physical resources (plant and equipment, geographic location, etc), financial resources (working capital, cash, etc), human resources (training, experience, etc. of individual employees), intellectual resources (patents, trademarks, etc) and organisational resources (relationships with buyers, creditors, etc) are key to the success of the franchise outlet. Managers whose outlets exploit resources of great value will see high organisational performance. Hence, all exploited resources may attain low performance if they are of marginal value. The following are suggestions on each resource to create value:

1. Physical resources (plant, equipment and location). Since these resources are related to franchise outlet performance, this must inform managers or owner operators in the way in which they make decisions. For example, locating a franchise outlet at a mall, by the highway or high-density areas will foster high organisational performance. Hence an outlet located where there is low traffic may experience very low sales. On the other hand, without plant and equipment, the operations and processes in the franchise outlet will not be feasible. It follows that advanced technology and equipment help franchise outlets to achieve their objectives.
2. Financial resources (working capital and cash). Working capital and cash are some of the main resources that control the operations of the franchise outlet. It suggests that money must be managed with special care because most of other resources depend on it.
3. Human resources (training and experience). Training of human resources is strategically important to franchises. This may be presented as formal, extensive skills building or as extensive training programmes.
4. Intellectual resources (patents and trademarks). Another strategy for a franchise outlet may be to intentionally protect their innovations against competing outlets to

avoid successful imitation or adaptation of innovations. Managers are to continually guard the patents and trademarks to prevent abuse of intellectual property rights.

5. Organisational resources (relationships with buyers and creditors). A franchise outlet must continue to pursue a core competency strategy for more corroborative relationships with buyers and creditors. Such a strategy will act as a stimulus for streams of revenue to a franchise outlet.

7.4.2 DYNAMIC SENSING CAPABILITY

Reconfiguration requires a surveillance of market trends and new technologies to sense and seize opportunities (Pavlou & El Sawy, 2011:243). Teece *et al*. (1997:521) note: “The ability to calibrate the requirements for change and to effectuate the necessary adjustments would appear to depend on the ability to scan the environment, to evaluate markets and competitors, and to quickly accomplish reconfiguration ahead of competition.” Hence, sensing capability is defined as the ability to spot, interpret, and pursue opportunities in the environment (Pavlou & El Sawy, 2011:244).

In franchising, franchising outlets can sense the environment to gather market intelligence on customer needs, competitor strategies, and new technologies to identify opportunities. An example of sensing is the introduction of healthier food choices in fast-food restaurants, which calls for market intelligence on calories, sugars, protein, saturated fat and sodium, as well as consumer trends and preferences. A sensing capability can help managers to identify customer needs; to understand how they must respond to market trends when the industry is affected; to identify market opportunities (Day, 1994:37), recognising rigidities (Sinkula, 1994:35); and to detect resource combinations (Galunic & Rodan, 1998:1193). Some of these sensing issues are made possible by attending the Franchising Association of South Africa (FASA) professional activities and conferences. Franchisees must continually use established processes to identify target-market segments, changing customer needs and customer innovation. There is also a need to observe the best practices in the sector, like re-engineered menus and recipes in fast foods, or merchandising and customer database in retailing.

7.4.3 DYNAMIC COORDINATING CAPABILITY

Coordinating capability has the ability to orchestrate and deploy tasks, resources, and activities in the new operational capabilities (Pavlou & El Sawy, 2011:246). On the basis of analytical results, franchise outlet managers must: ensure an appropriate coordination among the activities of their different research and development (R&D) alliances to determine areas of synergy in their R&D alliance portfolio; ensure that interdependencies between their R&D alliances are identified; and also determine if there are overlaps between their different R&D alliances. If they did these, managers would be able to allocate valuable resources efficiently and assign the right person to the right task.

7.5 CONTRIBUTIONS OF THE STUDY

7.5.1 THEORETICAL CONTRIBUTION

An attempt was made to test all the RBT empirical indicators as independent constructs, dynamic capabilities, and performance in one study. The findings on the replicated and extended model support the propositions on VRIN resources−dynamic capabilities−firm performance relationship. The study managed to explore VRIN indicators that support RBT hypotheses that have been insufficiently tested in the franchising empirical literature. Acceptable model fitness was attained and both the conceptual and measurement models proved that all the VRIN empirical indicators and dynamic capabilities can be used to explain firm performance, because the data integrity is high and statistically sound.

7.5.2 MANAGERIAL CONTRIBUTION

Of the four dynamic capabilities, dynamic sensing capability has the most significant mediating effect. This implies that franchise outlets can develop dynamic sensing capability through participating in professional association activities, connecting with active networks of contacts with the scientific and research community, establishing processes to identify target-market segments and changing customer needs and innovation, and observing best practices in the industry. Franchisees, as owner operators or managers, must embrace Penrose's (1959:86) proposition that no resources or capabilities are of

much use by themselves, but any efficient use for them must be in possible combinations with other resources or capabilities. This implies that to realise performance managers must strive to employ a resource with another resource or with a dynamic capability for their outlets.

7.5.3 METHODOLOGY CONTRIBUTION

This study closed the gap through sampling in South Africa. Previous franchising research had no cross-sectional study where franchisees (managers/owner-operators) were used as the target population to explore the resource−dynamic capability−performance relationship. Moreover, the study made a contribution by demonstrating that Qualtrics, face-to-face interviews and telephone interviews can be used in a cross-sectional study.

7.6 LIMITATIONS

7.6.1 RESPONSE BIAS

Drawing on Barney and Mackey's (2005:202) call to explore RBT using primary data, this study collected primary data from franchisees (managers and owner-operators). Although most franchise outlets use franchisor resources, they are run independently and privately. Hence other managers felt uncomfortable or uneasy about responding freely without bias. Again, respondents were managers/owner operators only, instead of other workers from the same outlet. This might have caused response bias, although managers were better positioned to respond to questions that dealt with resources, dynamic capabilities and performance.

7.6.2 TAUTOLOGICAL NATURE OF THE RBV OF THE FIRM

One of the most serious critiques of the RBV is that of the tautological nature of value and competitive advantage (Newbert, 2008:762). Godfrey and Hill (1995:519) further argue that given the tautology inherent in their operational definitions, an empirical test of the relationship between them is admittedly difficult or complicated. This conclusion seems to feature in this study, where VRIN constructs were almost similar in nature. Because of that

respondents felt one construct was a repetition of the other and thus responses were affected.

7.6.3 RESOURCE-CAPABILITY COMBINATIONS

Newbert's (2008:745−768) study operationalised the resource-capability combinations as suggested by Penrose (1959:86), because the argument is to understand and acknowledge the symbiotic relationship that exists among them. But this study did not use the VRIN-capabilities combinations. This might have limited the findings that firms' resource-capability combinations result in greater advantage as a result of their exploitation.

7.6.4 VRIN AS ONE CONSTRUCT

Lin and Wu (2014:407) operationalised VRIN as one construct. Instead of treating VRIN as one construct, this study operationalised separate constructs as value, rareness, inimitability and non-substitutability. This might have negatively affected the mediating role of dynamic capabilities, since only value could be successfully mediated by dynamic sensing and dynamic coordinating capabilities. But the rest of the constructs had no mediation.

7.6.5 MODEL OPTIONS

The researcher did not specify in advance some possible model options that are theory-driven to be tested, regardless of the absolute fit of the initial model. Other options could have considered VRIN as one construct and the response items (financial, physical, organisational, intellectual and human resources) could have been reduced to improve discriminant validity – so that the measurement model would be free from redundant items.

7.6.6 ENDOGENEITY

During the study, the researcher did not cater for endogeneity. Nandialath, Dotson and Durand (2014:47) posit, '…the lack of empirical consensus may be the result of

endogeneity inherent in the RBV'. This refers to the lack of consensus about empirical tests of RBV, premised on the endogenous resource picking by firms. According to Kennedy (2008), four different issues may potentially introduce endogeneity in ordinary least squares (OLS) regression models: errors-in-variables (i.e., measurement error), auto regression, omitted variables, and simultaneous causality. The first source of endogeneity could be coming from omitted control variables. These can be environment and firm size, to increase the reliability of the results. Newbert (2008:754) shares the same notion, '…authors engaging in RBV research typically control for firm size and environment'. For either safety or hostility of the environment, franchisees could have given their perception on the franchise outlet's environment as characterised by competition or risk. In light of this, franchisees do not operate in a single industry and because they are private-owned, some information was difficult to obtain. On the other hand, firm size could be the outlet's total number of employees. Hence, omitted variables were a limitation.

Another possibility could be reverse causality. Performance may be driving resources and dynamic capabilities rather than the other way round. Although some contend that resources and dynamic capabilities do not need performance to exist, but the other way round, evidence of correlation from the data does not necessarily mean such causal relationship. Again, it sounds logical that resources and dynamic capabilities preceded performance but correlation may not imply causality. Hence, there was need to consider some variety of techniques to address reverse causation.

7.7 DIRECTIONS FOR FUTURE RESEARCH

Although this study has limitations, it envisages directions for future research opportunities. Structural equation modelling (SEM) failed to give perfect or good fit. Hence future research could aim to establish the challenges with VRIN, dynamic capabilities and performance. Future research could address the three types of validity (convergent, construct and discriminant). In addition, instead of emphasising on modelling the measurement model for a pooled construct, there is need to emphasise modelling the measurement model for single constructs as well.

7.7.1 TAUTOLOGICAL NATURE OF THE RBV OF THE FIRM

There should be more emphasis on further theoretical work to examine the tautological nature of RBT. The theoretical underpinnings of RBT propositions and dynamic capabilities should be explored in other industries with fewer constructs and items, since RBT is criticised for tautology. Franchisees may not be the best population to deal with, since most of the resources are franchisor-initiated or oriented. Hence, a similar study could be replicated with the franchisors in South Africa. Another option might be to do a comparative analysis of franchisees and franchisors.

Moreover, drawing on Newbert (2008:747), future research could explore independent variables as resource-capability combinations, instead of treating them as slices of empirical indicators.

The findings in this study also indicate interesting directions for future research in that the model was statistically sound. Hence it can be further tested in large firms where resources and capabilities are idiosyncratic.

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APPENDIX A

- Questionnaire and cover letter-

University of Pretoria
Pretoria 0002 Republic of South Africa http://www.up.ac.za
Faculty of Economic and Management Sciences
Department of Business Management

2 March 2017

TO WHOM IT MAY CONCERN

RE: DOCTORAL STUDENT (JILSON ZIMUTO) REQUESTS FOR COMPLETION OF QUESTIONNAIRE

You are invited to participate in an academic research study conducted by Jilson Zimuto, a PhD Business Management student at the University of Pretoria. The purpose of this study is to investigate how franchises in South Africa perform using their resources and capabilities.

Please note the following:

- This is a self-administered, anonymous survey and your name will not appear on the questionnaire. The answers you give will be treated as strictly confidential as you cannot be identified in person based on the answers you give.
- Your participation in this study is very important. Please answer the questions as completely and honestly as possible. This should not take more than 15 minutes of your time.
- The results of the study will be used for academic purposes only and may be published in a thesis.
- Please contact my study supervisor, Dr Rachel Maritz, who is available telephonically on 0124206312 or per email at rachel.maritz@up.ac.za if you have any questions or comments regarding the study.

Your support and participation is highly appreciated.

Regards,

Mr Jilson Zimuto

Cell: +27791864170/+263772597088 and email: zimutojilson@gmail.com

1) Are you managing a franchise outlet?

Yes	1
No	2

2) Number of years in franchising? _____

3) Does your franchise outlet own some resources and/or capabilities?

Yes	1
No	2

If you have answered NO to question 1 or 3, you do not have to complete the rest of the questionnaire.

SECTION A

This section contains general questions regarding your firm's resources and dynamic capabilities. Please indicate your answers to the questions below.

1) Indicate the extent to which your organisation owns its own resources and capabilities necessary for business operations.

Not at all	To some extent	To a moderate extent	To a large extent	Completely
1	2	3	4	5

2) Indicate the extent to which your organisation regards its resources and capabilities as critical to its performance.

Not at all	To some extent	To a moderate extent	To a large extent	Completely
1	2	3	4	5

3) How frequently do you evaluate your firm's resources and dynamic capabilities?

Never	Rarely	Sometimes	Often	Always
1	2	3	4	5

SECTION B

Please answer sections B and C by indicating the extent to which you agree or disagree with the following statements ranging from strongly disagree to strongly agree.

My franchise outlet owns resources that are highly valued in our industry. Indicate your agreement with this statement in terms of each of the following types of resources:		**Strongly disagree → Strongly agree**						
B1	Financial resources	1	2	3	4	5	6	7
B2	Physical resources	1	2	3	4	5	6	7
B3	Organizational resources	1	2	3	4	5	6	7
B4	Intellectual resources	1	2	3	4	5	6	7
B5	Human resources	1	2	3	4	5	6	7

Our resources allow my franchise outlet to exploit market opportunities and neutralise threats. Indicate your agreement with this statement in terms of each of the following types of resources:		**Strongly disagree → Strongly agree**						
B1	Financial resources	1	2	3	4	5	6	7
B2	Physical resources	1	2	3	4	5	6	7
B3	Organizational resources	1	2	3	4	5	6	7
B4	Intellectual resources	1	2	3	4	5	6	7
B5	Human resources	1	2	3	4	5	6	7

My franchise outlet possesses the kind of resources that enable us to conceive of or implement strategies that improve its efficiency and effectiveness. Indicate your agreement with this statement in terms of each of the following types of resources:		**Strongly disagree → Strongly agree**						
B1	Financial resources	1	2	3	4	5	6	7
B2	Physical resources	1	2	3	4	5	6	7
B3	Organizational resources	1	2	3	4	5	6	7
B4	Intellectual resources	1	2	3	4	5	6	7
B5	Human resources	1	2	3	4	5	6	7

Our competitors are not familiar with the kind of resources my franchise outlet possesses. Indicate your agreement with this statement in terms of each of the following types of resources:		**Strongly disagree → Strongly agree**						
B6	Financial resources	1	2	3	4	5	6	7
B7	Physical resources	1	2	3	4	5	6	7
B8	Organizational resources	1	2	3	4	5	6	7
B9	Intellectual resources	1	2	3	4	5	6	7
B10	Human resources	1	2	3	4	5	6	7

The resources my franchise outlet possesses are different from the kind of resources my competitors possess. **Indicate your agreement with this statement in terms of each of the following types of resources:**		**Strongly disagree**						**Strongly agree**
B1	Financial resources	1	2	3	4	5	6	7
B2	Physical resources	1	2	3	4	5	6	7
B3	Organizational resources	1	2	3	4	5	6	7
B4	Intellectual resources	1	2	3	4	5	6	7
B5	Human resources	1	2	3	4	5	6	7

Competitors find it difficult to match our franchise outlet's resources. **Indicate your agreement with this statement in terms of each of the following types of resources:**		**Strongly disagree**						**Strongly agree**
B11	Financial resources	1	2	3	4	5	6	7
B12	Physical resources	1	2	3	4	5	6	7
B13	Organizational resources	1	2	3	4	5	6	7
B14	Intellectual resources	1	2	3	4	5	6	7
B15	Human resources	1	2	3	4	5	6	7

No competitor can replicate our franchise outlet's mix of resources. **Indicate your agreement with this statement in terms of each of the following types of resources:**		**Strongly disagree**						**Strongly agree**
B1	Financial resources	1	2	3	4	5	6	7
B2	Physical resources	1	2	3	4	5	6	7
B3	Organizational resources	1	2	3	4	5	6	7
B4	Intellectual resources	1	2	3	4	5	6	7
B5	Human resources	1	2	3	4	5	6	7

There is no substitute for our franchise outlet's mix of resources. **Indicate your agreement with this statement in terms of each of the following types of resources:**		**Strongly disagree**						**Strongly agree**
B16	Financial resources	1	2	3	4	5	6	7
B17	Physical resources	1	2	3	4	5	6	7
B18	Organizational resources	1	2	3	4	5	6	7
B19	Intellectual resources	1	2	3	4	5	6	7
B20	Human resources	1	2	3	4	5	6	7

No franchise outlet can succeed without having our franchise outlet's mix of resources. **Indicate your agreement with this statement in terms of each of the following types of resources:**		**Strongly disagree**						**Strongly agree**
B16	Financial resources	1	2	3	4	5	6	7
B17	Physical resources	1	2	3	4	5	6	7

No franchise outlet can succeed without having our franchise outlet's mix of resources. **Indicate your agreement with this statement in terms of each of the following types of resources:**		**Strongly disagree**						**Strongly agree**
B18	Organizational resources	1	2	3	4	5	6	7
B19	Intellectual resources	1	2	3	4	5	6	7
B20	Human resources	1	2	3	4	5	6	7

SECTION C

In my franchise outlet...		**Strongly disagree**						**Strongly agree**
C1	People participate in professional association activities	1	2	3	4	5	6	7
C2	Employees attend scientific or professional conferences	1	2	3	4	5	6	7
C3	We connect with our active network of contacts with the scientific and research community	1	2	3	4	5	6	7
C4	We use established processes to indentify target market segments, changing customer needs and customer innovation.	1	2	3	4	5	6	7
C5	We observe best practices in our sector	1	2	3	4	5	6	7

In my franchise outlet...		**Strongly disagree**						**Strongly agree**
C6	We ensure an appropriate coordination among the activities of our different research and development (R&D) alliances	1	2	3	4	5	6	7
C7	We determine areas of synergy in our R&D alliance portfolio	1	2	3	4	5	6	7
C8	We ensure that interdependencies between our R&D alliances are identified	1	2	3	4	5	6	7
C9	We determine if there are overlaps between our different R&D alliances	1	2	3	4	5	6	7

In my franchise outlet we have...		**Strongly disagree**						**Strongly agree**
C10	Frequent participation in industrial knowledge learning programmes	1	2	3	4	5	6	7
C11	Frequent internal training	1	2	3	4	5	6	7
C12	Knowledge sharing and learning groups	1	2	3	4	5	6	7
C13	Frequent internal cross department learning programmes	1	2	3	4	5	6	7

In my franchise outlet we...		**Strongly disagree**						**Strongly agree**
C14	Collect customer information and explore potential markets	1	2	3	4	5	6	7
C15	Collect industry information for managerial decision-making	1	2	3	4	5	6	7
C16	Use industry related technologies to develop new products	1	2	3	4	5	6	7
C17	Record historical methods and experiences in handling organisational issues	1	2	3	4	5	6	7

SECTION D

Questions in this section range from much worse to much better, relative to competitors

	Please compare your franchise outlet's performance relative to that of the competition over the last two years in terms of the following indicators:	**Much → Much Worse Better**						
D1	Sales volume	1	2	3	4	5	6	7
D2	Growth in sales volume	1	2	3	4	5	6	7
D3	Market share	1	2	3	4	5	6	7
D4	Growth in market share	1	2	3	4	5	6	7

SECTION E

1) Please indicate to which category your firm belongs according to FASA.

Fast Food and restaurant	**1**
Retail and direct marketing	2

2) What position do you hold in this firm?
_____

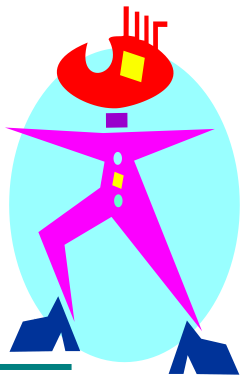
3) Number of years in the franchise environment?
_____

Thank you for taking the time to complete this survey

APPENDIX B

- Letter of consent -

Margaret Constantaras trading as
RESEARCH IQ
Marketing Research Consulting and Training



16 October 2016

To Whom It May Concern
Marketing Management Department
University of Pretoria
Private Bag X20
Hatfield 0028
Pretoria

USE OF RESEARCH IQ's DATABASE

Research IQ hereby gives Mr. Jilson Zimuto permission to use our online database to recruit and interview respondents as part of the data collection for his Doctoral thesis.

This database consists of names and contact details for franchisees that are contacted and invited to complete a survey for Research IQ that is conducted annually. Research IQ has compiled this database by conducting extensive desk and online research. The members of this database are not offered an incentive to complete these surveys and their participation is strictly voluntary.

In the invitation, franchisees give consent to participate in the surveys. The potential respondent goes through an opt-in process, during which s/he agrees that s/he is prepared to answer surveys. The opt-in procedure clearly explains that participation in the surveys is voluntary, that the results are kept strictly confidential and that the respondent may withdraw at any time.

Yours faithfully

Margaret Constantaras

Margaret Constantaras
Owner

P.O. Box 651613, Benmore Gardens 2010, Johannesburg

TELEPHONE NUMBER: +27 11 784 5020 FAX NUMBER: 08661 62667 MOBILE: +27 83 454 8550
EMAIL: MARGARET@RESEARCHIQ.CO.ZA

APPENDIX G

- Technical care checklist-

TECHNICAL CARE	✓ or ✗
1. Cover (title) page	✓
Is the layout of and information supplied on the cover/title page correct? Check the layout of thecover/title page against the examples available on clickUP.	✓
The block of text on the cover page should be positioned so that the assignment title is more or less in the middle of the page (from top to bottom) and the date of submission is on the very last line of the page.	✓
Use single line spacing on the whole cover/title page.	✓
The cover/title page should **not** have a page number.	✓
2. Evaluation form	
Have you included and, if necessary changed, the evaluation form required for the specific assignment?	✓
Check that you have added the following to the evaluation form: • The correct course name and course code • Your title, initials, surname and student number • The evaluation criteria and mark weights that apply to the assignment	✓
3. Declaration regarding plagiarism	
Have you completed and signed the declaration regarding plagiarism?	✓
Have you used single line spacing in the declaration regarding plagiarism?	✓
The declaration regarding plagiarism should **not** have a page number.	✓
4. Table of contents, list of figures and list of tables	
Update the Table of Contents, List of Figures and List of Tables to include all the headings and figure/table captions in the document.	✓
Are all entries in the Table of Contents, including references to appendices, complete with the correct page numbers?	✓
The List of Figures and List of Tables should appear on a separate page after the Table of Contents.	✓
Are the entries in the List of Figures and the List of Tables complete with the correct page numbers?	✓
The pages containing the Table of Contents, List of Figures and List of Tables should be numbered in Roman numerals: i, ii, iii, iv starting at i.	✓
5. Page margins	
Are the left and right margins of the whole document set to 2 cm?	✓
Are the top and bottom margins of the whole document set to 2.54 cm?	✓
Is the paper size set to A4 in MS Word? Is the paper size on your printer correctly set to A4 and not to Letter?	✓
6. Body text	
6.1 Assignment title	

TECHNICAL CARE	✓ or ✗
The assignment title should be typed on the cover page and at the top of the first page of the main body following directly after the Table of Contents (i.e., page 1 with the heading INTRODUCTION). Check the following: • The titles on the cover page and on p. 1 should have the exact same wording. • Both titles should be typed in bold, UPPER CASE and should be centred horizontally (from left to right) on the page. • There should be no full stop at the end of the title. • The title on the cover page should have single line spacing and the title on p. 1 should have 1.5 line spacing. • Leave a single blank line open after the title on p. 1 and before the first heading on this page.	✓
6.2 Page numbering	
The pages containing the cover page, evaluation form and declaration regarding plagiarism should <u>not</u> be numbered.	✓
The pages containing the Table of Contents, List of Tables and List of Figures should be numbered with Roman numerals (i, ii, and iii) starting at i.	✓
All the pages in the main body of the assignment and in the appendices should be numbered with Arabic numerals (1, 2, 3, etc.) starting at 1.	✓
Page numbers in the main body of an assignment be typed in Arial, 10 pt. font; should appear in the bottom margin; should be centred horizontally (from left to right) on the page; and should be between hyphens as is the case in this document.	✓
6.3 Headings	
Are all headings formatted and numbered correctly? • First-level headings should be in **bold**, UPPER CASE, 14 pt. font. • Second-level headings should be in **bold**, UPPER CASE, 12 pt. font. • Third-level headings should be in **bold**, sentence case, 12 point font and the words of the heading (not the heading number) should be <u>underlined</u>. • All headings, except the heading for the ABSTRACT, should be numbered. • No heading numbers should be indented away from the left-hand page margin. • All headings should be justified. • No heading should have a full stop at the end. • Avoid colons, semi-colons and hyphens in the wording of headings.	✓
Leave a blank line open <u>before and after</u> all headings. However, when one heading follows directly after another (with no body text in-between), there should <u>not</u> be a blank line open between the consecutive headings. Leave a blank line open before the first and after the last heading.	✓
Are all the headings concise, but still clearly descriptive of the content of their respective sub-sections? (Avoid headings longer than two lines as well as single word or very brief headings)	✓
Do not start each major section of an assignment (i.e., each section with a first level heading) on a separate page. Each major section of an assignment should follow directly after the preceding one on the same page.	✓
Are there any instances where headings appear on their own at the bottom of a page(i.e., with no body text following directly after the heading)? Move such headings to the top of the next page.	✓

TECHNICAL CARE	✓ or ✗
Do the wording and numbering of headings in the text correspond with the heading wording and numbering in the Table of Contents?	✓
6.4 Text and paragraph formatting	
Have you consistently used Arial, 12 pt. font for the body text of your document?	✓
Have you consistently used 1.5 line spacing in the main body of the document, except inside tables? Use single line spacing inside all tables.	✓
Justify all the paragraphs in the body text (excluding paragraphs in tables) and in the list of references using the icon in the "Paragraph" group of the "Home" tab in MS Word.	✓
Do all the sentences in a paragraph follow one directly after the other? Each new sentence inside a paragraph should not start on a new line. In other words, there should be no hard line breaks inside paragraphs.	✓
Check that all paragraphs end in a full stop or other appropriate punctuation mark.	✓
Leave a single blank line open between all paragraphs by pressing the Enter key twice at the end of a paragraph.	✓
6.5 Tables and figures	
Have you included a sentence or paragraph before each table/figure to introduce the table/figure to the reader? The introductory sentence/paragraph should contain a specific cross-reference to the table/figure (e.g., As is shown in Figure 1 below …) All cross-references to tables/figures should start with a capital letter (e.g., Different definitions of the construct locus of control are summarised in **T**able 2 on p. 18.)	✓
Have all tables and figures been supplied with correct captions (located **above** each table or figure)?	✓
Are the wording of all the table/figure captions concise, but still clearly descriptive of the specific table/figure? (Avoid captions longer than two lines as well as single word or very brief captions.)	✓
Do the wording of the figure/table captions listed in the List of Figures and List of Tables correspond a 100% with the corresponding captions used in the text?	✓
Check that all table/figure captions are formatted correctly: • Use the "Caption" style in the Styles window of the Home tab in MS Word to format all captions. • All table/figure captions should be typed in **bold**, Arial, 10 pt. font. • Leave a blank line open before a table/figure caption. • Use sentence case for the wording of all table/figure captions. • A table/figure caption should not end in a colon, semi-colon, comma or full stop. • Do not leave a blank line open between a caption and the table/figure, but add a 4 pt. paragraph spacing after the caption to prevent a squashed-in look.	✓
Are all tables and figures numbered correctly? Tables and figures should be numbered independently and sequentially starting from 1. Do not include section/chapter numbers in the numbering of tables/figures. The numbers of tables/figures in appendices should continue sequentially from the numbers used in the main document.	✓
Where necessary, have all tables and figures been supplied with correct source references situated **below** the table or figure? The source references should be formatted as follows: • The source reference **below** a table/figure should be in 10 pt. font with a 4 pt.	✓

TECHNICAL CARE	✓ or ✗
paragraph spacing before the reference to separate it from the table/figure. • Use the "Table/Figure source ref" style in the Styles window of the Home tab in MS Word to format the source reference. • The word "Source:" should be underlined, but not the colon. • Use the same format for the references as you would in an in-text citation where the authors are listed as part of the sentence. • Multiple sources are separated by semi-colons. • The source reference should end with a full stop. • Where necessary, use the words "Adapted from" to indicate that the table/figure was changed from the original source. • It is not necessary to add a source reference to a table/figure based on information that you have generated yourself (e.g., a table/figure based on analyses of your own data).	
Have all tables/figures been formatted correctly based on the following requirements? Tables and figures: • A table/figure may not overlap with or extend into the left or right page margins, but should fit between the specified margins. Figures: • There should preferably be borders around all figures. • It is best to draw figures in MS PowerPoint and to then insert the PowerPoint slide into your Word document. This will allow you to draw neater figures than if you used the "Drawing Canvas" in MS Word. • Figures/graphs/diagrams copied from PDF files often do not have a clear resolution and should rather be redrawn in PowerPoint and then inserted into MS Word. Tables: • Use **single** line spacing inside tables. • The column headings in the first row of a table should preferably be typed in bold and should be centred vertically (from top to bottom) and horizontally (from left to right) in their respective cells. • The contents of a table may be printed in a smaller font size (e.g., 11 pt or 10 pt), but the same font size should preferably be used consistently in all tables. • If a table breaks across one or more pages, the header row (i.e., the row containing the column headings) should be repeated at the top of each page. • All textual (non-numeric) entries in table cells should either consistently be left-aligned or justified. Numeric entries may be centred or right-aligned.	✓
6.6 Bulleted / numbered lists	

TECHNICAL CARE	✓ or ✗
Do all the bulleted lists in the document comply with the requirements outlined in Section 15 of these guidelines? • Use the “List Bullet” style in the Styles window of the Home tab to format all bulleted lists. • There should <u>not</u> be a blank line open after the stem sentence (ending in a colon) and before the first bulleted point in a bullet list. • Bulleted points should <u>not</u> be indented away from the left-hand page margin. • Add a 4 pt. paragraph spacing before all bulleted points to prevent a squashed-in look. • Do not place a bulleted list inside a paragraph. Leave a single blank line open after the last bullet point and any subsequent body text. • Numbered lists should have the same basic format as bulleted lists. Use the “List: Numbered” style to format numbered lists.	✓
6.7 Spelling, grammar, punctuation and sentence construction	
Have you checked the whole document for spelling and grammatical errors using the “Spelling and Grammar” function in MS Word?	✓
Have you, as far as possible, used an impersonal, objective and formal writing style with as few self-references to “I”, “we” or to “the researcher” as possible.	✓
There should be <u>no</u> contractions (e.g., do**n’t**, won’t, shouldn’t) in the document. Write contracted words out in full.	✓
Have you used abbreviations correctly? See Section 9.2above for guidelines in this regard.	✓
There should be no instances of etc. or et cetera in the document.	✓
All foreign words, including the abbreviation *et al.*, should be typed in italics.	✓
Have you consistently used only <u>one</u> method of emphasising (*italics*, or **bold** or <u>underlining</u>) throughout the assignment?	✓
Have you consistently rounded off all numeric values in the assignment to two (2) decimals?	✓
Have you used numbers correctly based on the requirements outlined in Section 14 of these guidelines? No sentences should start with numbers written in numeric format. Re-write such numbers in words (e.g., Twenty-two percent of the respondents …)	✓
Are the sentences in your assignment not perhaps too long? Sentences running over three lines are often too long and are usually difficult to read.	✓
Have you made any "sweeping” or unsubstantiated statements in your writing, such as "there is no literature available on this topic" or "this research will contribute to the body of knowledge"?	✓
Are all factual statements in your document supported by appropriate in-text citations?	✓
Are all direct quotations enclosed in quotation marks and supported by an in-text citation? Check that all direct quotations have quotation marks at both the start and the end of the quotation. All direct quotations should be supported by an appropriate in-text citation.	✓

TECHNICAL CARE	✓ or ✗
Check that you have used ellipses correctly in direct quotations: • An ellipsis consists of three full stops (…) only. • If an ellipsis follows directly after or before a quotation mark, there should be no space between the quotation mark and the ellipsis. • There should, however, be one space open after the ellipsis and before the first word at the start of a direct quotation. Similarly, there should be one space open after the last word and before the ellipsis at the end of a direct quotation. • If an ellipsis occurs in the middle of a sentence, one should leave a single space open before and after the ellipsis.	✓
Check the following in your cross-references to sections, tables figures and/or appendices: • When referring to a numbered table, figure or section or to a specific appendix, the words Table, Figure, Section or Appendix always starts with a capital letter (e.g., The questionnaire is included as Appendix A.) • Include page numbers in the cross-reference. For example: "As is shown in Figure 1 (p. 12) …" or "Various definitions of the construct alienation are summarised in Table 3 (p. 11). • Use p. to refer to a single page and pp. to refer to a page range. A page range should be indicated as pp. 3-6 with no blank spaces before/after the hyphen.	✓
7. Referencing	
7.1 In-text references (citations)	
Are all the sources listed in in-text references (citations) included in the list of references (and *vice versa*)?	✓
Have you included page numbers in all in-text references to sources where page numbers appear in the original source you consulted? This is also applies when you are citing an article as a whole.	✓
Check your in-text citations for the following frequent errors: • There should be no space open after the colon and before the page numbers in in-text citations. • Have you used the abbreviation *et al*. correctly? See Section 8.1.2 on p. 27 of the referencing guidelines. • The abbreviation *et al*. should always be typed in italics and should end in a full stop. • When multiple sources are cited, the sources should be listed in the same order in which they appear in the list of references. See Section 6.2.3 on p. 19 of the referencing guidelines.	✓
7.2 List of references	
Convert all EndNote fields in the final version of your document to plain text before submitting the document for evaluation.	✓
The list of references should be placed on a separate page after the main body of the document and before any appendices.	✓
The heading "**LIST OF REFERENCES**" or "**REFERENCES**" should be formatted as a first-level heading and should be numbered.	✓
Leave a blank line open after the heading "**LIST OF REFERENCES**" and before the first entry in the list of references.	✓
Use 1.5 line spacing in the list of references.	✓

TECHNICAL CARE	✓ or ✗
The entries in the list of references should be sorted alphabetically based on the surname of the first author of each source. Entries in the list of references should not be numbered or bulleted.	✓
All the entries in the List of References should be justified.	✓
Each entry in the List of References should have a full stop at the end.	✓
Leave blank lines open between the entries in the list of references.	✓
Removed all active hyperlinks from entries in the List of References.	✓
Wrap all hyperlinks in the List of References to remove blank spaces. See the instructions on p. 28 of the referencing guidelines.	✓
Have you checked the entries in the list of references against the general requirements outlined in Section 5.1 and 6 of the document "Referencing in academic documents"?	✓
Have you checked each entry in the list of references against the specific requirements that apply to that source type as are outlined in Section 8 of the document "Referencing in academic documents"?	✓
Check all the entries in the list of references for the following frequent errors: • The names of journals (e.g., *Journal of Management,*) should be typed in *italics* and should be followed by a comma. • The titles of journal articles, books and the titles of all other sources should be in sentence case. • When citing a journal article, give the volume, issue number and the full page range in the required format. For example: 12(2):23-45.	✓
8. Appendices (Where applicable)	
Do all the appendices have appropriate descriptive titles?	✓
Are the pages of all the appendices numbered sequentially up to the last page?	✓
Have all the appendices been tagged / "flagged" in the prescribed manner to facilitate cross-referencing? See Section 16 above.	✓
Where required, have you included a CD/DVD with an electronic copy of your document in the prescribed manner?	✓
Are all the appendices included in the Table of Contents with their correct page numbers?	✓
9. General technical care	
Have you removed all instructions in blue and all warning messages in red from the document without deleting any of the section breaks?	✓
Have all pages printed correctly? Check for missing pages, duplicate pages, blank pages and for pages that are skew.	✓
10. Binding	
Have you ring-bound the document between plastic covers?	✓

We hereby certify that we have checked ourfinal research article against the requirements outlined in this checklist:

Signature: Student