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**A exploratory study of trust, compliance, communication
and power in franchise relationships**

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Abstract

This thesis examines four relationship building characteristics within a franchise relationship that are essential to the formation and on-going successful partnership. The main focus is to specifically explore these relationship building characteristics that enhance the franchisor-franchisee relationship, by placing particular emphasis on trust, compliance, communication and power. Ensuring that the franchisors standards have and are being complied with, and that each participant is able to realise their shared and mutual goals of financial success, that enables the franchise network to grow.

There were twelve participants interviewed for this study, these interviews where semi-structured which allowed participants to openly discuss each question based on their individual experiences. Through the use of *Atlas* software, specific codes were generated to identify common themes across the interviews. These codes were further classified into specific themes and categories that assisted the researcher in correctly deducing results from the data obtained.

The research findings showed that the foundation of the franchise relationship is trust, communication and the judicious use of power. Once these relationship building characteristics have been established it will allow individual and shared goals to be achieved in the relationship. Trust and communication are closely linked, the one cannot exist without the other. Power shifts are experienced between the parties and is dependent on the situation, the knowledge and experience of the franchisor or franchisee. Compliance is independent and governed by terms and conditions stipulated within the franchise agreement, other than through opportunistic behaviour, compliance is not influenced by the other relationship building characteristics. The study found that although trust and compliance are important to a successful relationship, they are not reliant on each other these two characteristics are mutually exclusive. Compliance is particularly interesting as this characteristic is one of the elements which is controlled by the signed contractual agreement. Communication and knowledge exchange relied on there being a trustful relationship, in which knowledge could be exchanged between both parties.

Keywords: Power; Trust & Compliance; Communication: Franchise Relationship

Declaration

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

Elena Pavlou

9 November 2015

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1. Introduction to the Research Problem

Franchising has become one of the most preferred means of entering into a business, both as a novice entrepreneur, new to the industry, or as an experienced entrepreneur. According to the Franchising Association of South Africa (FASA), South Africa is unique in that 88% home-grown franchise concepts in the industry, with 627 of these concepts in operation (Nicol, 2015). It is reported that the franchising industry contributed R340 billion or 10% of gross domestic product (GDP) in 2014 (FASA, 2015; Nicol, 2015).

Franchising is a major contributor to small business expansion. It encourages entrepreneurship and the creation of employment opportunities within South Africa, thereby enhancing economic growth. In order for the franchise industry to work, there is a requirement for a franchisor—who owns the business model—and a franchisee—who buys the business model, and, in return, the franchisor receives a share of the profits through means of royalties (Ekelund, 2014). The growth of a franchise network is dependent on a good working, respectful and mutually understanding relationship. Through this relationship, the franchise network is able to gain a competitive advantage (Altinay & Brookes, 2012; Frazer, Merrilees & Wright, 2007).

Before selling their business concept to a potential franchisee, franchisors have, through trial and error, perfected the service offering of the business (Sen, 1993; Roh & Yoon, 2009). The quality and standards have been determined and set forth by the brand through their product offering. This proof-of-concept is ultimately what the franchisor is selling, along with their business acumen and supplier partnerships gained in the industry (Ekelund, 2014). Through the experiences gained during the development stage, the franchisor is able to standardise operational procedures, which aids in achieving uniformity across the franchise network. According to the contractual terms of the franchise agreement, the franchisee must abide by these standardised operational procedures (Sen, 1993).

Franchisors benefit from this relationship because they are able to rapidly grow their network while maintaining a low level of the capital investment needed in their retail chain stores (Ekelund, 2014). The franchisees, on the other hand, have access to a proven business model, for which they have paid and have the right to own, while

benefiting from training, marketing and operational support offered by the franchisor (Altinay & Brookes, 2012).

Franchisees generally first experience the services offered by the franchisor as a customer to the brand, and tend to enter the network based on their experiences and acceptance of what the brand offers (Harmon & Griffiths, 2008). The franchisees provide the capital investment needed by the franchisor for the franchise network to grow, while allowing the franchisor to benefit from economies of scale (Altinay, Brookes, Madanoglu & Aktas, 2014; Altinay, Brookes, Yeung & Aktas, 2014).

1.1 Motivation for Research

Previous franchising research has focused on trust as a means of exercising control (Altinay, Brookes, Madanoglu & Aktas, 2014; Griessmair, Hussain & Windsperger, 2014), through the use of power-dependence and social-exchange theories (Altinay, Brookes, Madanoglu & Aktas, 2014). Trust has also been studied within the franchise relationship (Griessmair, Hussain & Windsperger, 2014) and as a means of assessing confidence in the franchisor's integrity (Davies, Lassar, Manolis, Prince & Winsor, 2011).

This research study is based on elements that can be used to improve the franchisor–franchisee relationship. These elements, which are further defined as key relationship-building characteristics, are those of trust, compliance, communication and power. These characteristics play a vital role in this important relationship dynamic: in their absence, the franchise relationship will not benefit from the shared goals of achieving financial success (Merrilees & Wright, 2007) and, secondly, the franchise network will not be able to grow and increase the brand's reputation within the industry (Harmon & Griffiths, 2008). Strengthening these relationship building characteristics in a franchisor–franchisee relationship may prevent franchisees from exiting the network.

The focus of this study is to explore these relationship-building characteristics within this partnership to identify the elements that assist the franchisor and the franchisee to succeed and realise their shared and mutual goals, while achieving financial freedom and growth within the franchise network (Harmon & Griffiths, 2008). The shared partnership should aid in gaining value for both parties and in developing a long-term relationship (Grace & Weaven, 2011)

Although there are mutual benefits to this partnership, there are also challenges faced by both parties in maintaining the relationship throughout the duration of their working contract. These challenges often manifest through the mutual goals of achieving financial success (Merrilees & Wright, 2007). The communication lines between the parties may become jagged at times and place additional strain on the relationship (Barthélemy, 2008). With breakdown in communication in this partnership, the franchisee's ability to comply with the standards and operational processes as set out by the franchisor is affected. Any additional strain on communication and compliance can inadvertently affect trust between the two parties. Power in this relationship is also a major contributing factor and can have an important influence on the way in which each party deals with the tension experienced between them (Altinay & Brookes, 2012).

This study focuses not only on these four relationship-building characteristics, but further defines some of the gaps and suggests ways of improving this important relationship. Current literature provides little guidance on how trust and compliance interact and the importance of these characteristics in this relationship. Furthermore, an essential characteristic is that of communication, particularly where this becomes vital in exploring the ways in which tacit knowledge is made explicit through the interaction between the franchisor and the franchisee. Power is manifested in many ways: the type and manner of use of power are further explored with a view to ensuring that the relationship develops successfully.

A positive relationship between the franchisor and the franchisee can promote maximising profits for franchisors (Barthélemy, 2008), while gaining a competitive advantage over competitors, in addition to ensuring positive responses from current and potential franchisees (Ghantous & Jaolis, 2012). Franchisees, too, benefit from the positive relationship because their compensation is linked to their performance (Barthélemy, 2008), while the franchisor focuses on building the brand and the operational processes to ensure standardisation throughout the franchise network (Gillis & Combs, 2009). In the early stages of this relationship, the franchisee relies heavily on the experiences of the franchisor and is most concerned about gaining a return on their investment.

If all of these characteristics are not protected and nurtured, the franchisor–franchisee relationship can be adversely affected. This can manifest to include issues such as the

franchisee not complying with the franchisor's standards or the franchisee exiting the franchise network due to a lack of brand growth and performance (Ekelund, 2014).

This study focuses on the franchisor–franchisee relationship in a South African context, evaluating the franchise relationship-building characteristics of trust, compliance, communication and power. It is not known how these four franchise relationship-building characteristics are inter-related; however, it is vital to further classify each characteristic and show its impact on the relationship. These characteristics have not, to date, been studied in unison and this study therefore advances the current literature (Altinay, Brookes, Madanoglu & Aktas, 2014; Griessmair, Hussain & Windsperger, 2014). In addition, the results of this study can aid franchisors and franchisees who may require further insight into their working relationships within the South African industry.

1.2 Research Aim

This research places emphasis on four relationship-building characteristics within the franchise relationship, namely those of trust, compliance, power and communication. The research specifically attempts to identify factors that define success in the following areas:

- Understanding the main factors that aid in developing communication and sharing of vital knowledge in this relationship;
- Understanding how power is manifested and what types of power are exerted within the franchise relationship;
- Understanding the importance of trust in ensuring integrity, satisfaction and communication across the network within this partnership; and,
- Understanding how compliance is maintained and describing the key factors in ensuring compliance.

1.3 Report Structure

Chapter 1 discusses the franchising environment and contextualises the specific characteristics that contribute to making the franchise relationship workable within the confines of each party's roles and responsibilities. It provides a compelling argument to define some of the issues faced in this relationship and describes how these key

factors can aid in realising a mutually beneficial relationship between franchisor and franchisee.

Chapter 2 reviews prior studies pertaining to these key characteristics, as reported in the open literature, and further defines each concept as it relates to the franchise relationship. This chapter outlines additional concepts that can aid in the realisation of a stronger relationship and focuses on the factors that will help drive better and more-efficient lines of communication, knowledge transfer, compliance, trust and power in this interdependent partnership.

Chapter 3 states the questions that this research aims to address.

Chapter 4 outlines the research methodology and criteria that were applied for the selection of the population and sample group. It includes discussion of the methodology used for the collection of the data and the approach to the data analysis.

Chapter 5 presents the data collected. The data are offered in a categorised, consolidated format, based on the themes that emerged from semi-structured interviews conducted with the sample group.

Chapter 6 analyses the results of the study, as they relate to the research questions posed (Chapter 3) and the literature reviewed (Chapter 2).

Chapter 7 articulates the merits of this research and provides recommendations for effective improvements to the four key relationship-building characteristics identified as having potential to strengthen franchise partnerships in South Africa.

2. Literature Review

This literature review focuses on four relationship-building characteristics that aid in establishing the foundation on which a franchisor–franchisee relationship is founded and which can be fostered throughout the duration of the partnership. These relationship building characteristics of trust, compliance, power and communication are described in detail. Each of these factors is important in maintaining a positive relationship between the parties: should any one of these factors not be present and nurtured throughout the duration of the contract, this will cause strain on the franchisor–franchisee relationship (Watson & Johnson, 2010).

Knowledge sharing is a two-way channel, in so far as ideas and information are transferred between the franchisor and the franchisee. The franchisor is able to learn about innovations and adaptations from the franchisee: such improvements or enhancements can then be shared throughout the franchise network, allowing the network to gain additional knowledge and share in the benefits (Gillis & Combs, 2009; Lindblom & Tikkanen, 2010).

Trust facilitates this knowledge sharing, particularly when the franchisor needs to persuade franchisees to comply with certain system changes or as a means of attracting new franchisees to the network (Gillis & Combs, 2009). There needs to be open and frequent communication in order to build trust and enhance compliance within the relationship.

Power can be assumed throughout this relationship, both at the early stages of the partnership and as the relationship matures. At each stage of the relationship, different types of power are assumed by each party (Frazer, Merrilees & Wright, 2007).

The literature review discusses each of these characteristics in detail, showing their importance within the franchise relationship. This provides greater insight into the types of relationships adopted within the South African franchise industry.

2.1 Introductory Concepts

A franchise is a contractual agreement between two parties (Gillis & Combs, 2009). The franchisor, who owns the firm, gives the right to the franchisee to use the firm's successful business model to transact under the franchise name and to sell their branded goods or services for a prescribed period (Gillis & Combs, 2009; Méndez, Galindo & Sastre, 2014). Of utmost importance to the success of this contract is the fact that both parties need to create a supportive and cooperative environment, which will be conducive to a working relationship (Grace, Weaven, Frazer & Giddings, 2013).

Potential franchisees have a plethora of franchise organisations to choose from when deciding on purchasing a business. Preceding their choice of a specific franchise brand, these individuals have usually subconsciously chosen franchising as the platform from which to start their business (Torikka, 2011). Before a potential franchisee enters into a contract, they tend to investigate various factors and gain as much information about the franchise as possible. This allows them to be comfortable and happy that they are buying into a proven and successful brand that they can trust (Harmon & Griffiths, 2008).

Through the franchisee's interaction with the franchisor, they become exposed to many facets of the business, with the franchisor offering support and operational guidance and the franchisee enjoying the advantages of buying into an established business, franchise network and reputable brand (Grace, Weaven, Frazer & Giddings, 2013), while reaping the financial benefits (Watson & Stanworth, 2006).

The franchise organisation is, however, not immune to certain challenges, such as opportunism, which is further explored in Section 2.1.1.

2.1.1 Opportunism

Opportunism is defined as the action of one partner that brings about conflict in the contractual agreement, as set out by the franchise agreement (Gassenheimer, Baucus & Baucus, 1996). It comprises actions whereby one partner seeks to achieve their own goals, despite the harm and effects that these actions may have on the other partner.

Franchisees can engage in opportunistic behaviour by wilfully disregarding the franchisor's goals in pursuit of their own entrepreneurial interests (Gassenheimer,

Baucus & Baucus, 1996). This conflict can arise through actions of the franchisee in which they willingly become deceitful by not cooperating, fail to comply with operational and quality standards, withhold royalties, misrepresent revenues or by resisting changes needed to keep the system competitive. On the other hand, franchisors can behave opportunistically by encroaching on franchisees' markets, unfairly terminating franchise contracts, failing to disclose information or by misrepresenting costs.

Franchisees have an incentive to work hard and earn the fruits of their efforts because their compensation is tied to the performance of their store. These benefits can also be misconstrued if franchisees are tempted to increase their profitability by behaving opportunistically and thereby hindering the relationship with the franchisor (Barthélemy, 2008).

Barthélemy (2008) argues that franchisees are less concerned with the brand name and therefore may deem it appropriate to not uphold to the franchisor's quality standards, giving rise to a reason that they behave opportunistically, whereas Gassenheimer, Baucus & Baucus (1996) argue that opportunism is brought about by disputes within this relationship. Opportunistic behaviour can be driven by franchisee greed in maximising their share of profit and revenue. The franchisee may try to look for cheaper and alternative suppliers that are outside of the franchisor supplier agreements, in hopes of obtaining goods at a better price and thereby improving their revenue. These actions could put the brand at risk if inferior quality products and goods are used (Gassenheimer, Baucus & Baucus, 1996).

2.1.2 Disputes

Disputes can arise due to opportunistic behaviour by the franchisee in reducing the product quality as prescribed by the franchisor. These disputes can have catastrophic effects on the relationship and can cause grave, irreversible damage to the brand image of the franchise (Gassenheimer, Baucus & Baucus, 1996). These can have lasting impacts on the business and can impact customer satisfaction with the product offering and positioning in the market. As Gassenheimer, Baucus & Baucus (1996) argue, communication instils trust and aligns both the goals of the franchisor and franchisee, which then encourages a mutually favourable perception of the relationship.

It is with the above arguments in place that we begin to individually unpack each of the relationship-building characteristics that are important in creating and maintaining an effective partnership.

2.2 Trust and Compliance

Trust, in the context of this study, is defined as the franchisee's confidence in the franchisor's competence and integrity and their ability to exercise autonomy and risk with the franchisor (Wright & Grace, 2011).

Trust is a building block in the relationship between the franchisor and the franchisee which enables both parties to innovate within their respective roles in the relationship. The type of support offering provided by the franchisor and the level of autonomy given to the franchisee in operating their business allow this relationship to grow, as well as enhancing franchisee compliance to the franchise standards (Altinay, Brookes, Madanoglu & Aktas, 2014).

Franchisee autonomy can be conceptualised as the need to address franchisee career growth, ambition and economic success: franchisors become capable of providing the level and quality of support necessary for the realisation of these entrepreneurial aspirations. The relationship works because of the specific elements that keep these two parties together, namely, those of trust, knowledge transfer, information exchange, and satisfaction (Grace & Weaven, 2011).

Franchisors exercise control in order to minimise the risk of opportunism and to ensure adherence to the franchise contract. These standards have been put in place to ensure that the integrity and reputation of the brand name are maintained in the industry as well as with their customers (Pizanti & Lerner, 2003). The success of this type of business organisation is attributed to the ability of the franchisor to design and enforce rigid operational standards across the franchise network (Davies, Lassar, Manolis, Prince, & Winsor, 2011). The type and number of control mechanisms in place are defined, and vary by the level of standardisation required by the franchisor (Pizanti & Lerner, 2003). If a franchisee threatens the brand name through non-compliance to the prescribed standards, this can have a detrimental impact on the franchisor's competitive advantage in the industry.

Studies have indicated that, as the relationship evolves, franchisees become increasingly confident and no longer rely as much on the franchisor for direction and advice, which, in turn, leads to lower compliance (Davies, Lassar, Manolis, Prince, & Winsor, 2011). As franchisees become comfortable with the business model and grow with the business, they tend to become despondent with their lack of autonomy and decision-making and deviate from the model, thereby becoming less compliant with operational practices (Davies, Lassar, Manolis, Prince, & Winsor, 2011).

A significant challenge for any franchisor is to ensure franchisee compliance without impacting on the franchisee's ambitions. Davies, Lassar, Manolis, Prince, & Winsor, (2011) state that the danger of franchisee non-compliance can hinder the franchise operation and performance. They argued that trust enhances franchisees' confidence in the franchisor's competence and integrity, which leads to more cooperative behaviour and satisfaction within franchise partnerships. They continue their discussion by stating that franchise relationships can be dysfunctional and that in assessing the interrelated roles of satisfaction, conflict and trust, we can better understand how these factors relate to a franchisee's extent of compliance to the franchise standards and organisational norms.

From the franchisor perspective, trust can be manifested by means of multi-unit franchising (MUF) compared with single-unit franchising (SUF). MUF can be used as a reward element for selected franchisees (Gillis, McEwan, Crook & Michael, 2011), in order to reduce conflict and to enhance trust and compliance. This reduces adverse selection and monitoring problems (Griessmair, Hussain, Windsperger, 2014).

According to Griessmair, Hussain, Windsperger (2014), trust is an important informal governance mechanism in inter-firm relationships. These authors state that trust can be differentiated into knowledge-based trust and general trust. They argue that knowledge-based trust evolves through constant interaction and exchange between all partners within the relationship. This type of trust increases the reputation and credibility of the franchisor–franchisee relationship through their interactions and, as a consequence, trust is formed and built (Griessmair, Hussain, Windsperger 2014). The trust that is built over the length of the franchisor-franchisee relationship, enhances the credibility and willingness to continue the relationship within the franchise network.

When positive experiences are gained through the relationship, it has been researched that there is a high level of trust in the relationship between the partners. This provides

the information base for further and longer-term relationships (Gillis, McEwan, Crook & Michael, 2011).

The differentiation between knowledge-based trust and general trust is that the latter does not necessarily require there to be prior interaction or relationship in place. Such trustworthiness arises from the experiences gained through other people (Griessmair, Hussain, Windsperger 2014).

It is imperative that the franchisor allows a sense of autonomy and, through mutual trust and innovative practices, enables the relationship to evolve. This will strengthen the brand image and the franchisee citizenship behaviour towards the brand (Nyadzayo, Matanda & Ewing, 2015). Trust facilitates knowledge sharing and helps when franchisors need to persuade franchisees that changes to the system are in their best interest (Gillis & Combs, 2009).

Trust is built when both sides are willing to learn from each other: franchisors encourage trust by involving franchisees in decision-making, sharing of ideas, and by providing incentives for knowledge sharing (Cumberland & Githens, 2012).

Trust is an important factor within this relationship, especially how it is harnessed, nurtured and grown. Too trusting a relationship can lead to abuse from both sides of the partnership, while too little trust may not give each party the desired results from the relationship (Dickey, Harrison, McKnight & George, 2008). One of the drivers of a successful relationship can be the length of time that an individual has participated as a franchisee.

2.3 Communication and Knowledge Exchange

Communication is defined as the medium that allows for knowledge exchange, skills transfer and mutual understanding between two parties in a relationship. It contributes to the development of trust and the transfer of knowledge relating to competences, experience and expertise (Altinay, Brookes, Madanoglu & Aktas, 2014).

According to Ioanna and Maria (2013), knowledge is defined as the information that is produced by the commitment and beliefs of the individuals who possess it. Knowledge can be classified into two types: tacit knowledge and explicit knowledge. In this context, tacit knowledge is that held by certain franchisees and which is specific to their local

environment, whereas explicit knowledge is that which has become known within the franchise network and can benefit other franchisees in the system (Lindblom & Tikkanen, 2010). We will concentrate on how explicit knowledge is transferred within the franchise network and how it is used to improve communication within the franchisor–franchisee relationship (Nijmeijer, Fabbricotti & Huijsman, 2013). In capturing this tacit knowledge, franchisors will be able to make their franchise system more competitive between the individual franchisees and thereby open communication channels within the network (Lindblom & Tikkanen, 2010).

According to Gillis and Combs (2009), franchisees are an important source of chain-wide innovation and local-market adoption. The franchisees' local knowledge allows the franchise network to benefit while creating value and innovation throughout the network by developing new products and services (Gillis & Combs, 2009).

Constant communication between the parties has been shown to contribute to the franchise relationship. Franchisees derive satisfaction on the basis of how well the franchisors meet their expectations, and this contributes to the franchisees' satisfaction within the franchise network. Equally, the franchisor should be well equipped and have the required knowledge, experience and skills to ensure that this communication is effective and enhances the relationship between the franchisor and the franchisee. If these exchanges are not effective in producing the desired results from the franchisee, the relationship will suffer and may ultimately see the franchisee leave the network entirely (Altinay, Brookes, Madanoglu & Aktas, 2014; Davies, Lassar, Manolis, Prince & Winsor, 2011).

Tacit knowledge is difficult to transfer because this is learned through experiences, which can be hard to articulate. Such knowledge can, however, be transferred through the interaction with experts rather than through sources of explicit knowledge (Paswan & Wittmann, 2009).

Franchisors initially transfer their expert and tacit knowledge relating to the creation of their business framework and model, which is then sold to franchisees. During the early stages of the relationship, most knowledge is transferred to the franchisee through experiences gained in the industry (Watson & Johnson, 2010). One can say that the franchisor has allowed the franchisee to gain access to their tacit knowledge, grown through their industry knowledge and innovative drive, while providing budding

entrepreneurs access to their intellectual property by selling them rights to the franchise model (Paswan & Wittmann, 2009).

Franchisees, too, bring their expert knowledge to the franchise network, because they can provide much-needed and valuable knowledge to the franchisor. This knowledge can help advance the competitive position of the franchise. Tacit knowledge is personal and informal, in that it relies on an individual's own experiences, which is difficult to share (Lindblom & Tikkanen, 2010). Franchisors need to try and maximise on this tacit knowledge that is held by the franchisees to increase their competitiveness and convert this into explicit knowledge, which will ensure that it is explored and fully utilised across the franchise network.

According to Lindblom and Tikkanen (2010), the franchisor's success is largely due to the franchisees' ability to run their business. It is in the franchisor's best interest to ensure that their franchisees have consistent and ongoing support, such as training and mentoring, and by providing the explicit knowledge that is required. Explicit knowledge, in this instance, could be in the form of operational manuals, pricing criteria, quality standards and health and safety standards.

It is with this in mind that we can argue that knowledge is of vital importance within this relationship: its content needs to be explored and transferred within the franchise network to ensure the franchisor maximises on capitalising on opportunities within the industry.

The most common way in which tacit knowledge is explored and transferred is through face-to-face conversation, during which common experiences are shared (Lindblom & Tikkanen, 2010). If a lack of trust exists between the parties, then it is unlikely that this information will be shared because each individual will try and keep such knowledge to themselves. The most common way to ensure that franchisors take advantage of tacit knowledge and share it amongst the franchise network is to convert it into explicit knowledge in the form of data or manuals (Lindblom & Tikkanen, 2010). This, too, reduces the risk of losing tacit knowledge when franchisees choose to leave the franchise network.

Lindblom and Tikkanen (2010) continue their argument for transferring knowledge and mention that franchisors need to choose the right mix of people (franchisees) who are able to promote dialogue within the franchise system. Franchisors need to assess the

way in which franchisees interact within the franchise system and the environment and whether this is effective to their competitive advantage (Paswan & Wittmann, 2009; Lindblom & Tikkanen, 2010).

Information technology has been used as a means to try and share this knowledge; however, it was argued that a danger is that this method only shares information and not knowledge (Lindblom & Tikkanen, 2010). By using this method of communication to transfer knowledge, franchise organisations are able to ensure that relevant, timely and cost-effective explicit knowledge is relayed to the franchise network on time. Another means of ensuring knowledge transfer is by arranging monthly conferences to enable this communication flow between all stakeholders in this relationship (Lindblom & Tikkanen, 2010).

Communication can establish mutual trust and create a shared goal and vision, while reducing conflicts in the franchisor–franchisee relationship (Chiou, Hsieh & Yang, 2004). By increasing communication and creating a platform for sharing vital knowledge, this brings about competitive advantage. Competitive advantage for an organisation positively enhances relationships and is a source of attraction for potential franchisees, ensures company growth within the industry, and enhances franchisee loyalty to the brand or franchise system (Chiou, Hsieh & Yang, 2004).

Chiou, Hsieh & Yang (2004) also argued that good communication builds trust and satisfaction within this relationship, which encourages franchisees to stay within the franchise system. Franchisors try to harness and promote explicit knowledge because this ensures conformity to standards and consistency between franchise stores (Paswan & Wittmann, 2009; Lindblom & Tikkanen, 2010; Cumberland & Githens, 2012).

Franchisors need to try and explore the options available to them in order to take advantage of local knowledge (Lindblom & Tikkanen, 2010). Paswan and Wittmann (2009) argue that franchisors need to create an environment in which franchisees are able to share their experiences, thereby creating and exchanging information not only amongst themselves, but with franchisors, suppliers and customers.

There is a need to understand how this knowledge can be utilised and transferred within the franchise system, because franchisees can be innovators and catalysts for change.

2.4 Power

Power can be expressed as the means of facilitating cooperation between partnerships in order to achieve desired goals and results within the franchise network (Frazer, Merrilees & Wright, 2007). Power has also been defined as the ability to influence the behaviour of others (Pandey & Wooldridge, 2003). Within the franchise relationship, power can be exerted by both participants, and each possesses and controls resources that are useful to the other party (Frazer, Merrilees & Wright, 2007).

Despite franchise agreements placing power overwhelmingly with the franchisor, franchisees are able to exert their own power in some situations (Atwell & Buchan, 2014). The franchisor controls aspects of the business such as the franchising system, the brand image and growth across the network, the marketing strategy and the intellectual property rights to the business model. The franchisee, on the other hand, controls the operational aspects of the business: they are more hands-on, client-focused and have knowledge of the local market (Frazer, Merrilees & Wright, 2007).

The franchisee is initially very dependent on the franchisor to aid in their development and experience in the industry. However, as the relationship grows and the franchisee becomes more knowledgeable, there is a shift in the power and balance in the partnership (Atwell & Buchan, 2014). The franchisee is able to show more control and power in their local knowledge, because they have been able to grow and maintain customer relations due to their understanding of their clientele (Frazer, Merrilees & Wright, 2007).

Different bases of power have been identified: these are reward power, coercive power, expert power, referent power and legitimate power (Frazer, Merrilees & Wright, 2007). The franchisor may use any one of these types of power throughout the relationship lifecycle to elicit franchisee compliance and achieve better performance by franchisees (Atwell & Buchan, 2014). Early in the relationship, franchisors typically show more expert power, due to their business knowledge and expertise in the industry, as well as reward power, such as when they want to enhance franchisee performance (Frazer, Merrilees & Wright, 2007; Atwell & Buchan, 2014). Similarly, a franchisee who develops local knowledge can exert their expert power later on in the relationship to provide the franchisor with enhancements and innovation within the network (Frazer, Merrilees & Wright, 2007).

Misalignment between the goals of the franchisor and franchisee causes tension in the partnership (Frazer, Merrilees & Wright, 2007). To ensure that the relationship is maintained, both parties need to understand the different types of power within the partnership, how these affect the other party and their control over it. Franchisors need to find a balance that will allow them to maintain relations and ensure compliance to standards and prevent franchisees from exiting the franchise network.

2.5 Franchisee Intention to Stay or Leave the Franchise Network

For franchisees, the reasons to stay or leave a franchise network are usually personal: they may be overly confident in their entrepreneurial capabilities and want to try to open their own business, which may be similar to their franchisor's concept. However, there are also those franchisees who stay within the franchise network and with the specific franchise brand for considerable lengths of time. The decision to stay or leave is often affected by the nature of the interpersonal elements of the franchisor–franchisee relationship.

2.6 Summary

This literature review has shown that there is a need to further study franchise relationship-building characteristics in the South African context. Awareness and understanding of these relationship-building characteristics can improve franchisor–franchisee relationships.

The relationship dynamic between the franchisor and franchisee has a direct ripple effect on the customer experience and the franchise reputation in the industry. With improved knowledge and reputation, the franchise has better prospects for network growth as well as brand image improvement, which will attract more franchisees to the brand over time. However, for all of these outcomes to manifest successfully, the right mix of trust, compliance, communication and power need to be present in the franchise relationship. Each party needs to maintain and constantly adapt to the evolving needs of the relationship as it progresses.

In respect of this study, the main measurement areas are those of trust, compliance, communication and power. These ensure that franchisors and franchisees constantly work together to improve their relationship so as to achieve their goals of gaining competitive advantage and financial success. Since all studies to date have

concentrated on franchisor–franchisee relationships in developed countries, there is a need to research the factors of trust, compliance, communication and power and their effects on this important partnership within the developing South African context.

3. Research Questions

The research questions focus on four relationship-building characteristics that affect a franchise partnership and that are important to maintaining a positive, balanced and mutually beneficial relationship.

The literature review presented in Chapter 2 provides a basis from which to formulate specific questions relating to these characteristics and how they can aid in improving the relationship between franchisor and franchisee. If these factors do not exist in the relationship, there can be greater consequences and damage to the brand than anticipated.

The following questions were compiled for this study.

3.1 Research Question 1

Are trust and compliance inter-related factors within the franchise relationship?

3.2 Research Question 2

How important is communication in the franchise relationship, while ensuring transfer of vital knowledge?

3.3 Research Question 3

How does power manifest in the franchise relationship?

4. Research Methodology

4.1 Introduction

This chapter introduces the research design and methodology that were used to explore the constructs of the study to ensure reliability and validity of the conclusions reached. The chapter is divided into four sections. Firstly, the research design approach is discussed and key terms are defined. The second section explains the universe and sampling methodology and provides an argument for the reasons that this sample was selected. The data collection methods used and method of data analysis are then described. Finally, some limitations of this study are outlined.

4.2 Research Philosophy

Saunders and Lewis (2012) define and describe the term *research philosophy*, which relates to the development of knowledge in relation to the research conducted. The type of philosophy followed in the present study is that of *interpretivism*, which is defined as a mean of understanding the differences between humans in their roles as social actors.

By using this philosophy in the context of this study, each participant in the franchisee–franchisor relationship was able to be interviewed in their natural environment, thereby facilitating the interviewer to observe their actions and responses to questions so as to better understand this relationship.

4.3 Research Design

The aim of research can be articulated as finding that truth which is hidden and which has not, as yet, been discovered (Kothari, 2004). The present study is exploratory and descriptive in nature. Saunders and Lewis (2012) distinguish between these two approaches as follows:

- Exploratory studies are aimed at providing new insights, where little is known about the research problem or further insight is required.
- Descriptive studies seek to produce an accurate representation of the elements of the research problem.

The current literature pertaining to the topic of study is extensive within a global perspective; however, the specific relationship characteristics of trust, compliance, power and communication have not been studied in a South African context within franchise relationships. To study these relationship-building characteristics within this context, it is therefore appropriate to use an exploratory research technique.

The phenomenological approach was used in this study to prove the need for the various relationship-building characteristics highlighted. Phenomenology describes those observations that the participants have in common as they experience a particular phenomenon (Creswell, Hanson, Clark Plano & Morales, 2007). This was done through the use of semi-structured interviews with key participants in the franchise network, and which included both franchisors and franchisees. The questions were asked in a manner that would allow the participants to express their views according to their individual experiences. Once the researcher had collected the relevant data on the personal experiences relating to the phenomenon, a description of the experiences of all individuals was developed (Creswell, Hanson, Clark Plano & Morales, 2007).

4.4 Universe and Sampling

4.4.1 Universe

The selection of the universe is very important in a research study because it provides the required repository of information that enables answers to the research problem to be found. Correct selection of the universe further ensures that the research problem is focused by finding reliable and precise sources. A universe is defined as the group or set of entities for which it is wished to collect data for and state knowledge of (Kothari, 2004): it is the place from which relevant data are sourced.

The universe for this study comprised franchise stores in the restaurant and fast-food sector within the Johannesburg area. The universe for this study was specifically chosen because these relationships constitute 88% of the franchise industry within South Africa (FASA, 2015; Nicol, 2015). With so many franchise organizations in existence in South Africa, it is relevant to gain further clarity on the relationships within this industry sector.

4.4.2 Sample Unit

The sampling unit for this study is identified as the franchisor and the franchisees. These individuals were able to provide the required information needed in order to provide valuable information to aid this research.

The unit of analysis for this study is the relationship between the franchisor and the franchisee. The sampling units are the relationship-building characteristics of trust, compliance, communication and power.

4.4.3 Sampling Method and Size

The sampling method used was that of non-probability sampling, which is defined as a sampling technique in which the researcher is unable to obtain a list of the total population (Saunders & Lewis, 2012). The researcher used a homogeneous purposive sampling method for this study, in an attempt to obtain representatives of businesses that are as closely related as possible (i.e., food-related franchises in the Johannesburg area). Saunders and Lewis (2012) describe purposive sampling as that in which the researcher's judgement is used to select the sample members based on a range of possible reasons. The specific factor used in deciding which franchise organizations to include in the study was that they needed to have more than five years' experience within the industry. The particular choice of franchise organization was not limited, because it was important to observe whether differences existed between larger and smaller franchise organisations with respect to the relationship-building characteristics under study.

In using a non-probability technique to collect data, the researcher was able to gain access to members within the franchise network via a predefined means of highlighting both franchisors and franchisees. A combination of franchisees and franchisors were interviewed for this study, totalling 12 participants.

4.5 Data Collection

Saunders and Lewis (2012) state that if the suitability of the data required for the research project is not adequately assessed, this will reduce the quality of the data used. The main source was therefore that of primary data; some secondary data were accessed via interviews from media sources.

This study used qualitative techniques, such as interview data and document data, to describe the phenomenon under study. Data collection involved pre-arranged visits to a research site and interviewing participants, during which the individual was asked to describe their experiences based on pre-determined questions (Creswell, 2013). The interviews were conducted with franchisors and franchisees in the fast-food and restaurant sector. Interviews with franchisees were conducted at their stores, while those with franchisors were conducted at their respective head offices. Interviews were semi-structured, thereby inviting participants to freely discuss the elements of study based on their personal experiences. The interviews were scheduled for one-hour discussions; however, due to the varied nature of the individual experiences, some of these interviews continued in excess of two hours.

Franchisors and franchisees who are specialists in their fields were the major sources of the primary data obtained and provided valuable insight, key information and knowledge of the relationship issues under study. Franchisors and franchisees also provided vital information for future research and a platform for developing an enhancement in knowledge of the relationship-building characteristics of trust, compliance, communication and power within this context.

The questions employed in the interview were defined based on research conducted for the literature review. Most questions were adapted to suit this study (Altinay, Brookes, Madanoglu & Aktas, 2014). There were three main sections of the questionnaire: each section placing emphasis on one of the key relationship-building characteristics of trust, compliance, communication and power, with the aim of clarifying these issues within current South African franchise relationships. Details of the specific questions asked are presented in Appendix 1.

Trust and compliance were explored as means of further understanding the main foundations of the relationship and identifying those factors that aid in creating and fostering trust within the relationship. Trust can also be gained via the brand's image and reputation in the industry or the support tools offered by the franchisor. Compliance was paired with trust because, without a mutually trusting relationship, franchisees will not comply with the franchisor standards and are at risk of exiting the network.

Communication was explored in the sense of evaluating the frequency of communication within the relationship. The other key area of focus was how tacit and

expert knowledge are used to aid communication practises between the franchisor and franchisee and whether these are used as tools to strengthen the franchise network.

The last section of the questionnaire dealt with power and how different types of power are manifested and exerted at different times during the relationship, depending on its maturity and length. The respondents were informed of specific terminology used: as necessary, the meanings of specific words were clarified and defined in respect of their use and intent in this study. For cases in which a question was not fully understood by the participant, the question was re-phrased for clarity and definitions provided to indicate the intended meaning.

Each interview was recorded using a digital recorder. Approval to use this device was sought from each participant prior to conducting the interview. By being granted permission to use the digital recorder, the interviewer was able to concentrate on the content of the interview and take written note of only the main facts during the interview. Not having to stop the interview at regular intervals allowed the interviewees to speak freely and openly, without interruptions.

The notes taken were then used as probes to obtain more relevant information from the participants. In using a digital recorder, the interviewer was able to place particular emphasis on conducting and guiding the interview in the prescribed manner. A further benefit of using a digital recorder is that the audio notes can be stored and saved in a secure manner.

4.6 Data Analysis

Once the interviews were completed, a professional transcription service was employed to transcribe the raw data into Microsoft *Word* format, which was then used during the data-analysis process. Coding of the data from the transcripts was performed, during which the researcher collected and analysed the results of the interviews using *Atlas ti* software, which is a qualitative data-analysis software programme.

Once the audio files were transcribed to *Word* documents, these were imported into *Atlas*. The researcher read through each paragraph of each interview, highlighting specific key phrases and words that were commonly referenced within each interview. Where common phrases were identified, a code was inserted corresponding to the

phenomenon described by the participants, where these codes are presented in Appendix 3. Once coding was completed on all twelve interviews, the codes were further classified into specific themes and categories that assisted the researcher in correctly deducing results from the data obtained.

At the beginning of the coding process, there were more than 60 codes identified per transcribed interview. As specific themes and codes presented themselves, the number of new codes that emerged diminished during analysis of the last few transcribed interviews. Once the first level of codes had been processed per paragraph per interview, these were arranged into defined themes that related to the research objectives and divided into the four relationship-building characteristics identified for the study.

Qualitative data are split into two main types: text and non-text. Text data are in the form of words which have been recorded as text and are typically word-processed (Saunders & Lewis, 2012). The key features that were raised throughout the interviews were used as the basis for categorisation and coding. These key themes were transcribed and prepared in *Word* format, from where they were easily imported into *Atlas* for coding (Saunders & Lewis, 2012). It was of utmost importance to ensure data quality and reliability throughout this process, and was imperative that all data were included throughout the duration of the analysis process in order to find the pivotal points of interest appropriate to this study. The data obtained in this study remain private and confidential, unless otherwise permitted by the participants.

4.7 Limitations of the Research

A limitation of this research was accessibility to all entrepreneurs, both franchisors and franchisees, in the franchise network. A further limitation was the inability to allocate the required amount of time for all interview processes.

Some participants who initially provided their consent to participating in this study, decided to opt out of the data-collection process; however, a good portion of franchisees were willing to share their experiences and provide valuable information that aided this research. In most cases, each participant was truthful and honest in their responses. The anonymity of the respondents in the data analysis process enabled honest feedback, even when negative, to be collected during the interview process. Because franchisees are based at their stores, the interviews needed to be conducted

on their premises. Store-related sounds created additional noise on the audio recordings, making it sometimes difficult to transcribe the audio files. There were also instances in which the interview proceedings were interrupted by staff seeking assistance from the franchisee. The franchisees were cognisant of this and attempted to limit the length of the interview.

5. Findings

This chapter describes, in detail, the data obtained through the interviews and presents the findings. To make sense of the raw data obtained, the analysis of each research question is been divided into sub-sections for discussion. Further clarification and definitions are provided as required.

This chapter comprises five sections. Section 2 gives a brief introduction to the participants and their roles in this process. Sections 3, 4 and 5 provide the findings pertaining to the relationship-building characteristics of trust and compliance (treated together), communication and power, respectively. Each of these relationship-building characteristics is subdivided into its constituent parts and the results presented according to the questions posed in Chapter 3, with the key themes highlighted throughout the text.

The chapter is concluded by a short summary of the overall research project findings.

5.1 Participant Analysis

There were a total of 12 participants in this study, all of whom were either franchisors or franchisees with more than five years' experience in the franchising industry.

Each interview followed the same interview process, in which a semi-structured interview was conducted and open-ended questions were asked. This format allowed open and participative conversation between the interviewer and interviewee. The questions were asked in a manner that allowed each participant to provide their own account and an in-depth answer based on their individual experiences.

Interviews were conducted with two franchisors and ten franchisees from six different brands and franchise organisations. They each contributed positively and provided valuable knowledge in respect of the four franchise relationship-building characteristics under study.

Table 1 lists each participant and their role to aid in identifying the interviewees cited throughout this section. Anonymity has been maintained and the participants' names and franchise organisations have been omitted from all quotations cited.

Table 1: Interviewee identification numbers and roles

Interviewee	Role
P1	Franchisor
P2	Franchisee
P3	Franchisee
P4	Franchisor
P5	Franchisee
P6	Franchisee
P7	Franchisee
P8	Franchisee
P9	Franchisee
P10	Franchisee
P11	Franchisee
P12	Franchisee

5.2 Research Question 1: Are trust and compliance inter-related factors within a franchise relationship?

The respondents were asked various questions pertaining to trust and compliance, as presented in Appendix 1, with the aim of exploring these factors within the franchisor–franchisee relationship. Each respondent expressed their views, concerns and recommendations.

5.2.1 Trust

Each respondent was asked to describe their relationship with their franchisor or franchisees. The purpose was to describe the factors that led to how the relationship was initially formed.

The research results provide further insights which extend the literature analysed. The findings from the interviews suggest that, before both parties could form a trusting relationship, certain expectations need to be met. These expectations change at different stages throughout the relationship, as summarised below:

- **Stage 1: On entering the franchise network:**
 - The franchisor assesses the potential franchisee by means of their experience and skills that can be offered to the brand.
 - The franchisee's expectation is simply that the franchise brand has a certain reputation in the market with the potential to grow and which is the franchisor's duty to maintain.

- **Stage 2: Early stages of the relationship:**
 - The franchisor provides support, training and guidance to the franchisee which assists the franchisee in understanding the environment they are entering.
 - The franchisee complies with the franchise standards and, through this, trust is formed.

- **Stage 3: Growth phase of the relationship:**
 - Over the years, the franchisor aims to ensure that the franchisee is complying with their operational standards. As franchisees comply without deviating from these standards, they build rapport with the franchisor and may be given the opportunity to purchase additional stores from the franchisor.
 - The franchisee's trust is based on the expectations created by the franchisor at the beginning of the contract agreement, such as those pertaining to the means of determining the revenue stream over the years, positioning of the product in the market, brand growth over the term of the contract, marketing and various other factors. Fulfilment of these expectations contributes to the success of the relationship and ensures compliance and satisfaction.

- **Stage 4: Maturity phase (ending or maintaining the relationship):**
 - If either party feels that all or some of the expectations laid out within the franchise agreement were not adhered to—most importantly, that brand growth and reputation were not maintained in the market—then, upon review of the agreement, it will not be renewed by either party. The expectations are assessed during the relationship and quantitatively determined at the time of the contract renewal.

Franchisees were asked to describe the early, formative stages of their relationship with the franchisor to ascertain how important the brand was to the franchisee before making the decision to enter into the franchise agreement and to establish specific factors that contributed to the franchisee choosing the specific franchise and the brand in which to invest.

Respondents explained how the relationship develops over time, rather than singling out what the important factors were before entering the franchise. At this early stage, trust does not feature in the relationship: what is important is for the parties to be able to work together and build a good working relationship, as cited in this example:

“I think the most difficult part is to build that relationship. I must be honest with you: it’s because they do not know you and you do not know them. You do not know how they work, they do not know how you work.” (P2 – Franchisee)

Brand reputation and brand power within the market are drawing factors for some franchisees, as these are likely to ensure continued brand growth and greater visibility in the market. These are deciding factors when entering into a franchise, as indicated from these quotations:

“[Brand power was] extremely important. That was one of the main reasons why we entered into this franchise—because of its brand power and its exclusivity in terms of type of food that it serves.” (P9 – Franchisee)

“We looked at a lot of different ones [franchises] and what the prices were and [that] they are quite fairly cheap to open. You want a name because today in South Africa you cannot have a restaurant without a branded name: it does not work.” (P8 – Franchisee)

Most respondents explained how the franchise brand was not initially a factor in their decision: their most important criterion was that it needed to be a franchise, but the specific franchise organisation itself was not significant. These findings highlight that the specific brand is not a feature in the decision of the franchisee to invest, as long as the franchise is reputable and has a proven concept model, has shown growth in the industry and there is market awareness of the brand. This view is articulated by a franchisee as follows:

“Initially, we were looking for a franchise to go into to. It was myself and my brother. We were looking from across the board, throughout the country, [for] something that had [needed] less hands-on experience.” (P9 – Franchisee)

Potential franchisees placed particular emphasis and importance on the franchise location, the product offering, the food quality and the service offered before entering into a franchise:

“The franchise was an element but wasn't the key driver for me. Sixty percent of the driver was really around allocation of the shop, the products, the food quality, the service. Everything had been working very well.” (P3 – Franchisee)

Respondents were sometimes specific about their requirements related to location, for instance, with respect to wanting to join a franchise organisation located within a hospital:

“We were specifically looking for restaurants inside hospitals, so we were not worried about which franchise we bought into.” (P5 – Franchisee)

As can be seen from the above opinions, for some franchisees, trust did not factor in the start of the relationship. Trust is rather described as one of those factors that develops over time, as the relationship grew, and is dependent on each party's performance:

“It depends on whether you are skilled or not skilled and relationships get built over time and on performance. Either way, if you are not performing, there cannot be a relationship build up. If they [the franchisors] are not performing, it is the same thing, so it begins from ground zero.” (P2 – Franchisee)

For other franchisees, trust was important before entering into the relationship because this gave them a sense of their prospective business partner. They were then able to set the franchise agreement boundaries up front. Quality and credibility of the brand were mentioned throughout the conversations and, equally, the skills and experience that each party can offer the franchise.

“Yes, there is an element of trust. You need to have a good feeling in your gut about what you getting married to, so, from that perspective—yes. I like the brand. It is a solid brand and if you just put up the sign of the franchise, people are drawn to pricing and quality so that is what it is about.” (P10 – Franchisee)

“What I found was the fact that... their whole discussion was [about] what they could do for me but also to make sure that I had the skills and credibility to actually run a franchise from a business point of view. So...I was quite impressed by that, so their focus was around my business skills and knowledge and expertise to run a business just generally. Their requirement was to ensure what was my level of business skills [and] that I had money to put into it. That's, obviously, that's their first issue.” (P3 – Franchisee)

When the same question pertaining to selection and admission criteria was posed to franchisors, the intent was to understand their requirements of a potential franchisee and the stringent measures taken to assess their readiness and ability to enter into such a contract while being able to uphold the reputation of the brand. A typical comment is as follows:

“We set up a [sic] minimum criteria, which is (sort of) the basics applicable across the board: so, do you have the finances, are those finances unencumbered to a certain degree depending on what the total buy in is, do you have any experience in the industry? And then, basically the nail in the coffin, is the meet and greet: do we feel that you fit into the group, personality, the dynamic at the Head Office? Are you someone who we can work with?” (P1 – Franchisor)

A franchisor further described that potential franchisees enquire about a specific brand as a consequence of the successes gained by existing franchisees. This occurs, in most part, by word of mouth. The potential franchisee is vetted by the franchisors according to their requirements before being accepted:

“In the earlier stages, it was not trust but actually word of mouth. Usually the perspective franchisee sees other franchisees and the brand working

and making money or they think it is making money and then they enquire. Thereafter, there is negotiation.” (P4 – Franchisor)

In most cases, a factor of utmost importance to prospective franchisees was the support tools offered by the franchisor. These allowed the franchisee to become acquainted with the brand and industry, as well as to become accustomed to the franchisor’s way of operating according to the business model. Typical support tools offered include training for managers and staff on operational standards, quality control, pricing and marketing requirements, as typified by these comments:

“We were training at the main branch for about six months, so we do have a background. They took us to Head Office to see exactly how everything happens. We picked our staff, we found our waiters, the kitchen staff and everything. We trained!” (P7 – Franchisee)

“It was very important because the franchisor says: I will help you. They train you, they train your staff, they cut the deals with the suppliers, they help you with specs so, if you do not know your product [or if] you do not know your product market, then they guide you.” (P2 – Franchisee)

The respondent below specifically mentions trust in regard to the support offered by the franchisor. This shows that the franchisor has credibility and integrity to support the franchisee when required:

“The important factor was trust—in terms of them having my back, in terms of them having brand training, menu development, all the knowledge that goes behind that—so I needed to trust them to support me and know what they are doing.” (P2 – Franchisee)

Each respondent interpreted the concept of trust differently and had a different understanding of what trust itself comprises. Most believed that there is no trust within a business context: this only exists on a personal level, as indicated by this citation:

“In business, there is no trust. Trust is a relationship on a human level, one-on-one, so when you are personal and you have a personal friend or a personal acquaintance, there is a different trust. As a franchisee, you trust that your franchisor will give you the best of the best in all terms.

Unfortunately, in reality, [as] the franchisor grows, his expenses get bigger and he has to input as much cost into his system to make his model work.”
(P12 – Franchisee)

Some respondents believe that there is trust when entering the relationship, because the franchisor has an already-established business concept. The trust to which they refer is the franchisor’s ability to increase brand reputation and brand growth, as typified by these opinions:

“With the Head Office: yes. It was (like I said): you need their backup one hundred percent and Head Office cannot tell you that they will open one hundred shops and then you buy in and then [one] year later, they close down... since the day that you open, they are with you.” (P8 – Franchisee)

“I think it is [a relationship of trust is in existence at the beginning of the contract], to a degree, but trust is a very interesting thing because [there] is quite a wide gap from what trust is to me, you and somebody else. There are different perspectives of it.” (P3 – Franchisee)

In fact, this franchisee mentioned that, other than trust, what was important between the franchisor and franchisee was the legal contract and how it was negotiated before the franchise agreement was signed:

“...I think you turn to instinct. Some of it, the legal contracts, some of the points in there are quite punitive and we spent a bit of time negotiating those.” (P3 – Franchisee)

This franchisee places trust in the franchise because of how they standardise the franchise operations, which means that no other franchisee can deviate from the standards prescribed and thereby erode brand integrity or credibility. It is important to franchisees that rules are set and in place for each franchisee to follow. In their opinion, without these standards, there would not be a franchise *per se*. This view also talks to compliance:

“I trust them because the documentation that they use is standardized.”
(P10 – Franchisee)

Franchisors show their trust in franchisees by offering them new stores as and when new locations are identified and the opportunity is presented. The franchisor gives existing franchisees first preferences to new stores: these franchisees need to be compliant and also have a consistent and steady revenue stream.

“What will happen if a [new] shop opens, the existing owner close by gets first option, then the second-closest owner gets the option, and then, if nobody wants to take it, then it goes onto the new market.” (P8 – Franchisee)

When franchisors do not offer franchisees first preference to new locations, the franchisee questions the franchisor’s loyalty and integrity. The franchisor’s decision to exclude existing franchisees from these opportunities has a direct impact on trust within the relationship. Franchisees feel they are adding to the brand reputation, improving turnover and aiding in the brand reputation and brand growth of the franchise: not being included in such opportunities represents a form of distrust:

“You [the franchisor] have a franchisee that you have built a relationship [with], where he has put his money, when you have trained the staff, where now he is making you money. As soon as that has happened, you go and open another shop a kilometer away and then another shop, then you force him to buy it or you say to him that there is a protection clause.” (P2 – Franchisee)

When this happens, it is seen as opportunism, whereby the franchisor encroaches on the franchisee’s consumer market and revenue stream. Each store opened within the same area shares the customers and, as a consequence, each franchisee makes less turnover. Franchisors can encroach on franchisees’ markets, with or without prior discussion, because the franchisor has a mandate to improve the brand and ensure brand growth. Furthermore, when new locations become available, the franchisor is often not cognisant of the additional pressure that they place on existing franchisees, especially with respect to maintaining the same, or even higher levels, of turnover in the existing customer market.

“...we share the same customer base.” (P2 – Franchisee)

This is seen as a betrayal of the franchisee and affects trust within the relationship. Respondents also described how franchisors were more concerned with the competition than with building and protecting their relationship with their existing franchisees:

“They [franchisors] do not actually build a relationship with you anymore. There is no relationship these days because they are so concerned about kicking out the competition and blocking out the competition that there is a full-out cannibalism.” (P2 – Franchisee)

This respondent further explained that the reason for the lack of a relationship with the franchisor is that the franchisor is not only concerned about the competition, but rather with their own “bottom line” and improving their financial returns:

“It is difficult to build it [the franchise] because the franchisor thinks of the brand, thinks of how much money they can make by expanding that brand. Basically they think about themselves: they do not really care about the franchisee, in my opinion.” (P2 – Franchisee)

The respondents were asked how the nature of the relationship has changed with time. The relationship changes depending on the learning curve experienced by each respondent. On entering the relationship, the franchisee has little experience and is reliant on the franchisor for direction, guidance and assistance in order to run the store from an operational perspective. As soon as the franchisee gains more experience and has surpassed the franchisor in these matters, then they are not as reliant on them: the franchisee then expects more from the relationship and would like more involvement in strategic decisions pertaining to brand growth.

“The relationship is very simple. The fundamentals is [sic] this: you have been ascertained as a good person, you have passed all the evaluations, you are accredited with the store, you have signed on the dotted line. It is like a repetitive process. Now what changes the relationship [is that] you have passed everything A okay, you run your store, you have been running your store for five years. So now you will say to me: the relationship, does it change? It will change. Does it evolve? It does evolve, like everything, but, again, relationships [are] on based on the current situation.” (P12 – Franchisee)

When both the franchisor and franchisee were asked to describe the strengths that they brought to the relationship, both parties mentioned their experience, length of time in the industry and the length of time that the franchise had been operational:

“Experience in this industry, like we said, this company is going on to seventeen years now. There is a diversity in terms of what we do and how we specialize—from frozen yoghurt to burgers to cocktails to salads to kudu steak with crocodile skin, whatever you want—so there is a massive diversity. The other strength that I think is quite unique is that the Head Office and the franchisors are also owner-operated.” (P1 – Franchisor)

The franchisors discussed the added value that they could offer franchisees because of the skills and knowledge that they have with respect to experiences gained by introducing and establishing the franchise conceptual model:

‘We have franchisees who are willing partners and businessmen and, beyond the franchisor, they saw the brand [X brand], that is a restaurant that I run, which is the concept I have. When you have a willing partner, it is easier for the franchisor to work and teach.’ (P4 – Franchisor)

“I would say the history behind the Head Office [is important in terms of their experience in running the business].” (P11 – Franchisee)

Respondents were asked whether they felt satisfied in the relationship with their franchisor or franchisees. Some franchisees were generally happy with the current standing of the relationship, others were not at all happy and a few were entirely happy in the relationship.

When asked if they felt that the relationship was successful, one franchisor mentioned that they have very successful relationships with their franchisees. Furthermore, each participant mentioned having experienced a shift in the relationship due to the changing nature of the franchise organisation. The larger the organisation grew, the more diversified the franchisor’s portfolio became and the less attention they were able to give to their existing brands and franchisees.

Franchisees, too, described such events and feel that they are not being appreciated or looked after when their franchisor does not spend an appropriate amount of time with them:

“I think it was an extremely successful relationship when I started with the company. I have been with them for four years now. When my portfolio started to diversify, the attention became a little bit diluted, so my franchisees went from having me a thousand percent of the time to having me twenty five percent of the time and that reflected in their attitudes towards the group—their attitudes and their turnovers. So the value of the turnovers [declines with] less time. The less physical energy and attention that we do give on an ongoing basis definitely affects that.” (P1 – Franchisor)

Franchisees were asked whether they felt that the franchisor was committed to the relationship. Respondents generally answered positively, however they were concerned about ensuring that their brand will be protected by the franchisor and not diluted due to opportunism:

“Yes, I think they are committed, in a way—but they are committed not to you but to their brand.” (P2 – Franchisee)

This respondent further explained that the franchisor’s commitment is to ensure that the return on their investment is safeguarded:

“It is their money. That is all they care about their investment—not in terms of [your] money investment, in terms of giving you their brand investment or trusting you with their brand.” (P2 – Franchisee)

When franchisors were asked the same question, their feedback was that the franchisees’ commitment was dependent on who the person was, their willingness to be a participating member in the relationship and what financial benefits they would achieve:

“It is purely circumstantial to who it is, how involved they are with their store, how involved they are with us, whether their store for them is a lifestyle choice versus [a view of] what do I earn at the end of the month

and put in the back of my pocket: it is very much dependent on that. There is no hard or fast rule with these franchisees.” (P1 – Franchisor)

In respect of changes that franchisees would like to see in the relationship, the level of franchisor’s attention to the brand was mentioned. As noted previously, the franchisor tends to lose touch with their franchisees due to their need for expansion in the market and diversifying their product offering. Franchisors often allow existing franchisees to maintain the status quo, because they are already established, self-sufficient and less reliant on constant interaction with the franchisor:

“Now that I’ve got more experience and understanding, I certainly would like to be more involved in the operational issues and changes. I’d like them to bounce things off us and just use us a bit better.” (P3 – Franchisee)

Franchisees also mentioned that it was not within their power to make changes because this falls predominantly within the domain of the franchisor, according to the franchise agreement:

“It is very difficult for me to say I would change something because it is not in my power to change it: when you sign the franchise agreement, you are at their beck and call. It is as simple as that.” (P10 – Franchisee)

Franchisees wanted franchisors who would represent them, understand the brand and what is required to grow the franchise network:

“Yes. I would get two new people that [sic] know what the franchise is actually about. It is all good otherwise.” (P8 – Franchisee)

5.2.2 Compliance

Respondents were asked how the franchisor monitors their franchisees with regards to compliance. Franchisors employ franchise consultants or franchise managers in charge of specific brands within a specific area, who ensure that each franchisee is compliant and that they are not deviating from their franchise agreement:

“They come in midday to evaluate certain parameters...So what happens is [that] they will come out and the first thing that they will do is they have an

evaluation audit form, so they will audit the store according to the Operations specification laid out in the franchise agreement.” (P12 – Franchisee)

Franchisors can task mystery diners to ensure that quality control conforms to the required standard throughout their stores. The franchisors send their chefs, professional barristers, franchise consultants and marketing managers to the stores to ensure, from a compliance perspective, that the franchisee is complying to all standards, processes and procedures according to the franchisor’s framework and concept model, as indicated by these comments:

“They have mystery shoppers that goes [sic] past all the stores in the area, and they do it randomly. They often send people in here to work in the kitchen and come late in the afternoon and see operation[al] processes. If they have a suspicion [that] you are doing something you shouldn't, they will come and have a discussion with you.” (P3 – Franchisee)

“They have regular store evaluations. We have a mystery diner that comes in to test the service level, maybe on a two months’ basis. They come and test the service level—whether the waiters are up selling...overall condition of the store—and then we have our business consultant who comes in and does a critical evaluation of the back of house—whether you [are] cleaning equipment properly, whether you have certificates in compliance with certain procedures, whether our food-handling procedures are on par—so that is done on a monthly basis.” (P9 – Franchisee)

Franchisees mentioned two ways in which franchisors ensure compliance. The first is through their customers’ feedback to the franchisor in terms of food quality differences between the different stores. This type of compliance check ensures that customers experience the same “look and feel” across the franchise network, and that the quantity, quality and service are consistent. These citations indicate how the process works:

“I have what we call a kitchen specialist who goes in and spends time with the franchisees in the kitchen. He re-trains, he helps with hygiene services, [he is a] kitchen specialist/field manager.” (P1 – Franchisor)

"There are different ways [in which the franchisor can evaluate your compliance to the contracted procedures]. Firstly, you can pick up a trend from your customers. Do not forget a lot of our customers go to a lot of other stores. [This] is a store that is known by the majority of people that come here, so they will go to the Fourways [store] and this one, and there are a lot of ways that you can pick up trends if something is different from one thing to the next." (P7 – Franchisee)

The second approach to checking that a franchisee is compliant is by means of franchise consultants:

"...he has an Operations Manager. He will go from store to store and he sit[s] down with you and he will check things and say something is a little bland, rather try this on that, [ask] why did you change this – you should have actually carried it as norm, why have you put that desert in or what have you...small things." (P7 – Franchisee)

"They come once a month and inspect the store and they do an evaluation so they sort of manage you from externally. That makes sense in terms of your standards, which is very good—I must say—because it keeps you on your toes." (P10 – Franchisee)

The franchise consultants check turnover, that the store staff are wearing the correct uniforms, and that the store is maintained and kept up in terms of physical appearance, amongst other criteria:

"If they have a suspicion [that] you are doing something you shouldn't, they will come and have a discussion with you. They phone and say this is happening, we got this information. Is it right? What is happening?" (P3 – Franchisee)

"There are inspections and you have to send a turnover [sheet] to them on a weekly basis so that they know how much money you are making and you cannot hide anything from them." (P11 – Franchisee)

If the franchise manager suspects any wrongdoing, they will discuss this with the franchisee, who will be afforded the opportunity to rectify the issues:

“Maybe you fail your audit automatically, [say] just one item out of stock, and then you get seven days to rectify it. I got that once when I ran out of serviettes. I was not trying to be deceitful—I literally ran out of serviettes and I failed my audit, so it is difficult not to comply.” (P5 – Franchisee)

“Our compliance [audit concerns aspects such as] do you buy the branded sugar, water, chemical system, and so forth. What do you think of a franchise company who would give you almost anything except one thing: the compliance page? You fail that, you fail! You get a 7 days’ notice.” (P6 – Franchisee)

Several franchisees expressed the view that there was no reason not to ensure that they complied to the operational standards because they chose to enter into this relationship and sign the franchise agreement. If they were not sure of any rules or did not want to abide by the regulations and operational procedures, then they would not have entered the agreement:

“Well, maybe they can disfranchise you, but I find that it is better to be compliant. I mean, if you buy into a franchise, you have bought [X] franchise, otherwise you might as well trade under another name and do your own thing...there is a reason why you are in [X] franchise.” (P10 – Franchisee)

“Everyone is quick to complain, but they forget the whole thing that they are the ones that choose what they are in, they are the ones that went down that road.” (P7 – Franchisee)

The franchise agreement specifies exactly how franchisees will be dealt with if they do not comply with standards, as explained by these respondents:

“It is breach of contract [if you do not comply]. They can cancel your agreement. It can get as far as that. They give you warnings, but, ultimately, should you continue not to comply, they will cancel your franchise agreement and kick you out of the store and you lose your whole investment.” (P2 – Franchisee)

“Yes, you have to abide by their rules. You cannot take shortcuts. If you take shortcuts, they disfranchise you.” (P11 – Franchisee)

Not only do franchisees risk their investment by failing to comply with the franchisor’s operational standards, but they also put the relationship at risk:

“A hundred percent [compliance]! You have just got to follow those processes without running the risk of damaging your relationship.” (P3 – Franchisee)

Franchisees are sometimes despondent as a consequence of the extent of the franchisor’s compliance checks: they felt that they were not able to truly exercise their autonomy as an entrepreneur to self-manage their store. Many interviewees mentioned that the franchise relationship is very similar to that of working for a boss in the corporate environment:

“...you are paying somebody to tell you what to do. If I wanted to work for a boss, I would not open my [own] restaurant.” (P8 – Franchisee)

The franchise agreement is set in place to protect both parties, as well as to ensure that the franchise is correctly regulated according to health and safety requirements, standardization of operational practices, training requirements and advertising:

“[T]he franchise agreement is a two-way street, not a one-way street. The franchisor has certain obligations. The main obligation is to keep the standards and, of course, that is a long process. Why I [am] saying that is because you have a health and safety requirement, you have a training requirement (and everything that comes with it) and, of course, the advertising part of it, to advertise the brand and not [only] a specific restaurant.” (P4 – Franchisor)

It should be noted that the franchise agreement is under constant review. If there is a breach in the contract, then the franchisor will terminate the franchise contract. The franchisor offers the franchisee ample opportunity to rectify their non-compliant behaviour, while providing substantial notice for their current actions and implications. If the franchisee fails to comply and make the necessary improvements, they face the consequence of becoming disfranchised.

5.2.3 Summary of Responses to Research Question 1

Although the individual reasons for entering into a franchise varied for each franchisee through their unique circumstances, the ultimate goals of the franchisees were fundamentally aligned. These include that of becoming a successful entrepreneur or business owner, with the ability to exercise autonomy within their business. Upon investigating entering into a franchise network, the specific brand was not particularly important compared with the franchise concept itself. Key requirements for entering into a franchise were the brand reputation, brand growth, brand power, location and product offering. The franchisee placed trust within the brand—and not specifically with the relationship with the franchisor: the relationship with the franchisor developed over time. The franchisee needed to trust that, on entering the franchise network, the franchisor already had a proven business model, credibility and a proven track record in the industry in which the franchise operates.

Trust, and how trust is defined, especially within a business context, was seen differently by each participant. Opportunism was mostly reported by franchisees, pertaining to situations in which franchisors encroached on the franchisees' customers and markets by opening new stores in close proximity to existing outlets. Franchisees saw such actions as a betrayal in the relationship, and which affected the trust placed in the franchisor.

Compliance to specified and contracted standards is important in this relationship. Not only is compliance stipulated in the franchise agreement before the transfer of funds takes place, but it is a means of ensuring the brand's continuing quality and reputation in the market. If franchisees are not compliant to any of the standards, processes or procedures that are stipulated in the franchise agreement, the franchisor is allowed to take the necessary disfranchisement steps; however, this is a lengthy legal process and it is within each party's interest to ensure that this step is avoided.

5.3 Research Question 2: How important is communication in the franchise relationship, while ensuring transfer of vital knowledge?

Interview questions as presented in Appendix 1, were asked in a way that would elicit the nature and type of communication between the franchisor and the franchisee, the frequency of the communication and explain how knowledge was transferred within the franchise network.

5.3.1 Communication

Franchisees were asked about the frequency of the communication with their franchise consultant. The results were varied and inconsistent, both between different franchise organisations and within the same franchise network.

Situations without constant communication between the franchisor and franchisee were seen as a good sign and indicative that the franchisor trusted the franchisee; that the franchisor had no doubts as to the franchisee's integrity to be compliant. Communication therefore occurred at a minimum frequency or only when required:

"...for me, if I am not talking to my franchisor and my Head Office, then I know that I am doing a good job because you generally hear from them when there is something wrong." (P5 – Franchisee)

Communication is seen to be extremely important because this means that when there are issues or problems that need the franchisor's assistance or guidance, the franchisee can ask for assistance:

"It's pretty much [that] you run your business. If you have a problem, you call them. If you want to make a change, you talk to them about it. [You] can raise it, put in writing, write an email, phone somebody, talk to somebody, and, if it becomes an issue, you can put it to a franchisee meeting with the franchisor." (P3 – Franchisee)

The findings show that the channels of communication differ between larger and smaller organisations in the franchise relationship. Larger organisations are more effective in utilising technology to drive their communication, including use of emails, and where the type of content shared through electronic systems includes promotional campaigns, pangram displays and general information, as explained here:

"Communication...that again is one of the advantages with this franchise being a super brand. The communication is literally hourly based, relating to orders, delivery times, display of pangrams, campaigns, promotional updates. It is continuous, every day, whatever the brand picks up on that needs to be notified to the franchisee through the electronic email system.

You could receive information four to five times per day.” (P12 – Franchisee)

Smaller organisations rely on the closer bonds formed between the franchisor and franchisee. Such bonds often indicated that a personal relationship had developed in the partnership. Their communication is constant and does not rely on annual conferences or scheduled meetings to discuss pertinent information or issues:

“The franchisor is very helpful. He listens, he asks, he goes and sees, he spends time, he goes on holiday with his franchisees, he will spend a big chunk of money to take the franchisees on holiday—small little things like [that].” (P7 – Franchisee)

Franchisees further described how franchisors are able to assist with contracts, support of the operational manuals and products:

“[Communication is] not often. Yes, it was “we need to talk, we need to do this, what do you think of that, I have got a problem with that product or I got a problem with that supplier” and I must admit [that] they have helped me sometimes where the staff cannot. They also do that, they can help you with that, systems, contracts, a lot of back office [issues]. They have a manual. They are supportive in that way.” (P2 – Franchisee)

Communication between the franchisor and franchisee is important especially when a complaint is received from a customer. The manner in which the franchisor attends to and handles the situation has an effect on the relationship:

“I cannot say I am faultless...[but the] franchisor do[es] not support the franchisees when it comes to a complaint. I find that very unfair. They do say [that they] will investigate but, ultimately, they demand that you phone the customer, offer them a free meal and apologise.” (P2 – Franchisee)

Some franchisees mentioned that the complaints process is fair and that the manner in which disputes are settled is fair to all parties concerned:

“You will discuss anything and everything and, if he has got an issue, he will discuss this with you too. It could be a complaint on Hello Peter or whatever the case is.” (P7 – Franchisee)

“Well, firstly, they will be in touch with us to find out what the story was and what happened and, because we are not franchise-owned, we deal with our own complaints at our own discretion in our own way, so we will take it from there. If [the complaint pertains to] stores that are franchised-owned, [then] one, two or three of them...will get in touch with whoever it was complaining or had an issue with whatever store it was. So that is how they deal with it [complaints] for now.” (P7 – Franchisee)

5.3.2 Knowledge Exchange

The research findings confirm that if franchisors provide franchisees with the opportunity to voice their opinions and concerns, this allows vital knowledge to be transferred. Franchisees felt that the franchisor was not effective at gathering and transferring local knowledge gained. The general opinion of franchisees was that they were not taken seriously when concerns, improvements or ideas were raised. Opinions that related to improvements or enhancements were interpreted by the franchisor as cost-incurring initiatives, which would reduce the revenue earned, and which would ultimately need to be recovered through surplus fees.

When asked if communication aided in vital knowledge being transferred, there were mixed feelings from respondents; however, some franchisees felt that franchisors were effective in transferring knowledge in the relationship. Franchisees generally felt that their franchisor was effective in transferring information regarding customer and market trend analysis, buying power in the market and supplier contracts established:

“...they [the franchisors] are always gaining new knowledge in new areas, especially from sourcing different types of products and they report back to us about the buying power of the franchise. If I could say, in terms of the open market in the fishing industry, [that] they report back to us: on that level—yes—there are always things to be learnt. ” (P9 – Franchisee)

This franchisee further described how their learning ability is affected by the lack of experience of the franchise consultant:

“Some of them come in with less experience in terms of years spent than you are actually involved, so you are only growing from the point where the franchise has changed processes from a reason point of view. However, your learning ability fairly decreases once you have more experience than the consultant.” (P9 – Franchisee)

Franchisees mentioned they were able to post suggestions on blogs or forums that allowed their knowledge to be transferred within the franchise network. This is also achieved through annual or quarterly conferences and by way of discussions with other franchisees and the franchisor:

“We have our annual conferences where you can report in. There is also a database—it is called Agora—where you can belong to a group or a regional department [and] where you can put any experience or any feedback that you are receiving from customers, any requests, any suggestions that you may have to the franchise to grow the group, or any concerns or complaints that you have as a franchisee in your store and assimilated with any other franchisee in your region. If you have that, then it [these issues] can be reported or you can report it [sic] to your franchise consultant and he takes it up at the next weekly meeting and then he reports back.” (P9 – Franchisee)

“...when they have franchise meetings, they [other franchisees] will say “I do it like this”, for example, we went into a meeting once and then they decided what promotion they can do for Christmas, what special can they offer, and I said [that] “I am busy at Christmas [so] why would I want to give breakfast away for twenty rand at Christmas. Give the special in February when business dies down, but do not give at Christmas. I am not going to do it.” You can do it [raise suggestions and concerns], so, yes, they have be[en] very fair in that.” (P2 – Franchisee)

One franchisee felt that knowledge sharing was not allowed or supported within the franchise network because this was not permitted by the franchisor:

“They don’t encourage mutual participation.” (P6 – Franchisee)

Other franchisees mentioned that all of their ideas and concerns were either addressed or implemented within the franchise network:

“All of them [ideas] [are taken up]. If I suggest, for instance, [that] it seems that sushi sales have decreased in the Sandton area and then maybe [I would] discuss [this] with the forum or the franchise consultant and [ask] how sushi sales [are] doing as a whole, in general, in [the] Sandton area.”
(P8 – Franchisee)

“The good thing about a franchisor is [that] any knowledge that you need based upon the product, based upon the marketing, you have all the facilities online. So [because of] being a super brand, if I need information now, I go online, I communicate the request [and] they will then come back to me.” (P12 – Franchisee)

5.3.3 Summary of Responses to Research Question 2

Only a small number of respondents felt that communication and knowledge sharing within their franchise network was sub-standard. All other franchisees were happy with the frequency and type of communication received from their franchise consultant. The franchisors are open to accepting and exploring ideas that come from franchisees.

The research findings show that the franchisees would generally prefer more frequent communication with their franchisor. This communication should not be limited to business discussions, but emphasis should be placed on the development of a personal relationship. Franchisees would like to be more involved in the decision-making process, and to be seen as a vested party when ideas and concerns are raised. Franchisors experience communication as a means of ensuring compliance and adherence to standards.

Closer bonds are developed between the franchisor and franchisee within smaller franchise organisations, because the relationship is more personal than that of larger franchise organisations. Through their constant communication, the parties are able to frequently share and transfer the knowledge gained within the franchise network. The communication between the franchisor and franchisee of a smaller organisation is less formal than that of the larger organisations, allowing for more frequent sharing and

transfer of knowledge: this information is not retained for formal communication forums, such as conferences.

The franchisors are of the opinion that their franchisees are their brand representatives. The franchisees understand the customers' needs and wants, based on their experience. They are able to directly influence the customer and bring back vital knowledge into the franchise network. This may not be true for all franchise organisations. Some franchisees did not consider knowledge sharing as a major concern and indicated that some of their knowledge was shared within the franchise network.

5.4 Research Question 3: How does power manifest within the franchise relationship?

All questions asked in the last section of the interview concerned power aspects in the franchisor–franchisee relationship, as presented in Appendix 1. Through the questions, the researcher tried to ascertain and identify what type of power exists in the partnership.

5.4.1 Power

Respondents were asked to consider whether the franchisor exerted their expert power within the relationship. Franchisors show their expert power in terms of the support offered to franchisees for training, their brand power and supplier contacts. At the early stage of the relationship, it is vital to note that the franchisee is experiencing a considerable learning curve, during which the franchisor is able to transfer knowledge and skills. This is vital for the franchisee's development in the industry and in the relationship:

“They [the franchisors] were hands on, in opening a restaurant. You know, the basics, talk[ing] to a customer, and they came in and said this is how you handle it. The first week, they showed us how to order and they were here every night in the opening of the store, well, for two weeks after opening. If your system jams, they fix it; if your orders are wrong, they fix it. They are completely with you for about two to three [weeks].” (P10 – Franchisee)

A shift in power occurs during the relationship, which is experienced as the franchisee gains more knowledge of the industry and becomes less reliant on the franchisors for guidance, support and advice, as indicated by the view of this franchisor:

“Absolutely without a doubt, [the nature of the power relationship changes]. I could say boo and Andy [the franchisee] would say “how high?” in the beginning. Now he will argue and he will say, “Yes, but what about this...?” which is great.” (P1– Franchisor)

Franchisors mentioned that there is an equal distribution of power in the relationship, in which each party is reliant on each other in order to succeed:

“I think, [that] as a franchisor, we do have power in the industry, but when it comes to my franchisees in the franchise group, there is no power: I need you as much as you need me.” (P1– Franchisor)

Franchisees mentioned that the franchisors exert their referent power particularly when ensuring compliance to standards. Franchisors also offer rewards to their franchisees and try to incentivise them to increase their turnover by offering competitions and free stock to a certain monetary value.

“...they get more and more sophisticated, these guys [the franchisors]. The last one incentivised the guys that sell the most of an item will get this and that, particularly around the cruises. Whoever sells more and that cruise gets selected, [then] they...would get some sort of incentive...you must incentivise your people. They facilitate you with a process or a system that helps you do that. So that helps.” (P3 – Franchisee)

Franchisors try to create rewards that assist in building the relationship with each of their franchisees. One way in which this is achieved is by creating different types of competitions which are held at various stores at different times of the year. An associated benefit to the franchisee is the additional income attributed to these competitions or the franchisor offering free stock for the highest-performing stores:

“The challenge we had is [that] we had a relationship with everyone, so they were all relationships, but they were not so happy if I said that Phillip [another franchisee] is a better operator than you, so we did not do that.

What we tried to do is, when we did the advertising and we gave out tickets for the trip to Italy, we did it in this restaurant and [we did the draw for] the car ... in the Silverstone [store] and then, the next year, we did [the draw for] the Fiat in Monte Casino. But then we [did] not [have] the franchisee from Monte Casino win but the franchisee from Bedford Square. So we try to involve everyone, but that was still not enough.” (P4 – Franchisor)

“They do have an annual competition for the franchisees. They have an awards function on a yearly basis where the highest-performing store receives financial remuneration as well as...holiday destinations for star performers.... They do have competitions in place so, if you win the Franchise of the Year, you will probably get stock to the value of, maybe, R 500,000 for the year. So there are motives in place for you to do well.” (P9 – Franchisee)

Referent power is also seen in the situation described below, in which franchisees expressed their concern at how the franchisor tries to own all areas of the business through their value-chain offering. The franchisor’s value chain is defined by offering branded products to their franchisees and ensuring that their customers experience the brand and quality the franchise has to offer. The customer has to experience the brand and be reminded of the brand throughout their visit. This is where the value chain becomes increasingly important. The franchisor value chain is done by means of ensuring franchisee buy the franchise branded goods, such as branded sugar, crockery and cutlery, napkins and so forth.

“I feel that the franchisor takes advantage with the buying power that they have as a super group. The profitability that they make out of that buying power does not come down to the franchisee—it is absorbed into their system...” (P12 – Franchisee)

“What I am gearing towards, is that, if you study their financials,...more than 50% of their profit comes from the value chain. It doesn’t come from the franchise fee. It comes from the value chain, the brand and so forth.” (P6 – Franchisee)

Coercive power can be seen in situations in which franchisors ensure that franchisees are complying with operational standards. This is most prominent through the franchise

agreement. If franchisees are not compliant, they breach the terms of the contract and this allows the franchisor to exert coercive power to remedy this before disfranchisement is possible. When franchisees still do not adhere to operational standards, as set out in the franchise agreement, and all other options have been explored by both parties, it is at that juncture that the franchisor may take further action: in most instances, this would follow a litigation process, as described below:

“It is breach of contract. They can cancel your agreement. It can get as far as that. They give you warnings, but, ultimately, should you continue not to comply, they will cancel your franchise agreement and kick you out of the store and you lose your whole investment.” (P2 – Franchisee)

“It is fifty-fifty...you have to play your role and not be on bad terms with the Head Office because, obviously, if you are on bad terms, it can be nasty. They have got ... the power and if they want to, [they can] come in and say [that if] you do not want to abide by us, then you must tell us.” (P11 – Franchisee)

5.4.2 Summary of Responses to Research Question 3

With respect to the balance in the relationship, the franchisor holds more power through the signed franchise agreement, where power is specifically exerted to assure that quality, control, and adherence to operational standards are maintained within the franchise brand. A second source of power is that the franchisor’s knowledge has been transferred to the franchisee. Through the years, however, the franchisee is able to optimally apply their learnings in their store and to the brand to ensure customer satisfaction.

There is definite evidence of four bases of power in the franchisor–franchisee relationship, which are exerted at different stages of the relationship, depending on its maturity. A shift in power between the franchisor and franchisee occurs as the relationship grows and as the franchisee gains more experience and surpasses the franchisor from a learning perspective.

The franchisor can use reward power to influence the behaviour of the franchisor to achieve a desired outcome. A typical example of reward power in the franchise network is the generation of competition between the franchisee stores to generate sales,

promote products and increase brand awareness, and where, in return, the franchisee will receive a tangible reward or incentive.

When a franchisee does not adhere to operational standards, the franchisor uses coercive power, by means of the franchise agreement, to remedy non-compliance. The franchise agreement dictates the terms and conditions and roles and responsibilities which must be adhered to. The possibility of being disfranchised as a consequence of non-compliance is a reality. This could ultimately cost the franchisee their business, the capital investment, relationship with the franchisor and penalties (which could also extend into their personal capacities), leading to significant losses.

Franchisors exert referent power through the value chain brought about by brand compliance and uniformity across the franchise network, and which is positively experienced by their customers, franchisees and the market at large.

5.5 Summary of Findings

The findings presented in this chapter show that, as the relationship develops, a shift in its nature is experienced by both the franchisor and franchisee. This shift is due to the growth in knowledge, skills and expertise gained in the industry, most specifically, by the franchisee. The shift in the relationship directly impacts the power exerted between the parties. The power shift occurs via the initial transfer in knowledge between the franchisor and franchisee and which subsequently sees these roles reversed as the relationship matures: when this happens, there is a steep decline in the extent of knowledge transfer between the parties.

The extent of knowledge transfer can also be impacted by the franchise consultant employed by the franchisor: if they are not knowledgeable of the product, the brand and its target market, the franchisee loses confidence in the franchisor's ability to ensure brand growth. The franchise consultant represents the franchise network and brand to all external parties.

The type of communication and the channels used for communication between the parties is also an important factor in the relationship. The main constraint described by the franchisees is that knowledge gained by each party is not effectively utilised to the greater benefit of the franchise. This is exemplified by the local product knowledge and

service enhancements held by the franchisee and when the franchisor is not open to discussion of ideas generated by their franchisees.

Opportunistic behaviour is more prevalent by franchisors who try to encroach on franchisees' markets, particularly by opening new stores in close proximity to existing stores, thereby creating competition within the same franchise for the same customer segment and ultimately causing a downturn in trading that negatively impacts the earning potential of the franchisee. In examples such as this, the franchisees felt that their hard work and efforts are not appreciated, particularly if they were not offered the opportunity of participation in the new store or location identified.

Unresolved disputes can lead to either party becoming disgruntled, which may ultimately lead to litigation and extensive legal costs, distrust in the relationship, and animosity between the parties. Despite franchisees becoming disgruntled and having negative feelings towards their franchisors, they still remain part of the franchise network. The franchisees remain compliant and continue to generate good returns for themselves and the franchisor. Despite the franchisees not being presented with opportunities to sell their stores and enter into a new franchise, most often these franchisees choose to stay within the network. The majority of franchisees interviewed expressed a positive relationship with their franchisor, while the minority of disgruntled franchises nevertheless choose to remain within their franchise and uphold their compliance standards.

Interestingly, franchisees did not have brand-specific criterion before making the decision to enter into a franchise network. The circumstances and selection criteria surrounding the franchisees' choices of a franchise organisation for investment were based on location, service and product offering, and—most importantly—on brand power or brand recognition.

The support offering provided by the franchisor to the franchisee becomes less important once the franchisee is established and experienced within the network. Throughout the duration of the relationship, the support tools offered are as important to the franchisor as they are to the franchisee. These include support offered in areas of product pricing, marketing advice, and product enhancements, which add much value to the relationship. Without such support, training and guidance offered to the franchisee throughout the duration of the contract, the franchisor would not be able to ensure that their operational standards, quality criteria and product offerings meet the

standards demanded across the franchise network. Staff are continually retrained to ensure uniformity across the franchise network, particularly with respect to the introduction of new recipes and techniques.

6. Discussion of Results

6.1 Introduction

Chapter 5 presents the findings from the interviews conducted, as they relate to the research questions posed in Chapter 3. This chapter discusses these findings and compares them with those reported in the literature presented in Chapter 2.

The three research questions that are discussed in this chapter are:

1. Are trust and compliance inter-related factors within the franchise relationship?
2. How important is communication in the franchise relationship, while ensuring transfer of vital knowledge?
3. How does power manifest within the franchise relationship?

6.2 Research Question 1: Are trust and compliance inter-related factors within the franchise relationship?

This question is discussed in respect of the relationship-building characteristics of trust and compliance. Trust and compliance were researched together because they were initially considered to be closely interrelated. This research has, however, demonstrated that these two relationship-building characteristics, in fact, manifest independently of each other. Davies, Lassar, Manolis, Prince, & Windsor (2011) argued that trust enhances a franchisee's confidence in the franchisor's competence and integrity, which is developed as the relationship grows, whereas compliance is monitored and maintained through the signed franchise agreement. Compliance can therefore exist in the relationship in the absence of trust. For the purposes of further analysis, trust and compliance are therefore independently assessed.

6.2.1 Trust

Wright and Grace (2011) discussed trust with respect to two elements: that gained by the franchisee in terms of the franchisor's competence and integrity within the franchise organisation and that which refers to the franchisee's ability to exercise autonomy and risk within their business, in which they have invested considerable capital. These research findings confirm the presence of only the first of these two elements of trust in the context of this sample population. The second element of trust, not consistent with

propositions of Wright & Grace (2011), is absent: franchisees have very limited ability to exercise autonomy and risk within their business, primarily due to the need for compliance with their franchise contract (discussed in Section 6.2.2).

The present findings confirm those of Gillis, McEwan, Crook & Michael (2011), who argued that franchisors show their trust in franchisees by offering them the opportunity to own multiple franchise units called multi-unit franchising (MUF). This practice is not unique to franchising within the South African context.

Griessmair, Hussain, Windsperger (2014) further differentiated trust into two distinct types: general trust and knowledge-based trust. General trust is gained through the influence and perceptions of other people, while knowledge-based trust is gained through interactions between the franchisor and the franchisee. The findings of this study confirm this differentiation, as presented by Griessmair, Hussain, Windsperger (2014): trust exists in the relationship and provides a platform for knowledge sharing to take place.

These research findings are also consistent with those of literature (Davies, Lassar, Manolis, Prince, & Winsor, 2011; Altinay & Brookes, 2012) in that both franchisors and franchisees interviewed placed significant emphasis on trust in their relationships to ultimately achieve their mutual goals.

6.2.2 Compliance

Uniformity and brand consistency are maintained by driving compliant behaviour through means of frequent inspections, completing of check lists and adherence to contractual terms by the franchisee. These findings confirm similar observations reported in the literature by Pizanti and Lerner (2003) and Davies, Lassar, Manolis, Prince, & Winsor, 2011). Compliance is seen as a means by which franchisors can ensure that there are no deviations from operational standards. Such standards are a requirement by the franchisor to enable brand uniformity to be offered (Davies, Lassar, Manolis, Prince, & Winsor, 2011), to create control over their business and to ensure that the franchise brand reputation is maintained with both its franchisees and customers (Pizanti & Lerner, 2003). The present findings confirm those reported in the literature, which discuss how uniformity ensures that the franchise brand and network are not diluted by the opportunistic actions of a few franchisees (Grace, Weaven, Frazer & Giddings, 2013).

Franchisee career growth, ambition and economic success can be attributed to the autonomy granted by the franchisor, as argued by Grace and Weaven (2011). This research has shown that the control mechanisms put in place by the franchisor do not allow the franchisee to exercise autonomy within the business. Furthermore, franchisors exercise control in order to minimise opportunism (Pizanti & Lerner, 2003). The findings of this study show that franchisors are more inclined to exercise opportunistic behaviour as a consequence of the power that they hold through the signed contractual agreement. This can manifest in misrepresentation of costs, by encroaching on franchisee markets or by unfairly terminating contracts by franchisors (Barthélemy, 2008).

Pizanti and Lerner (2003) argued that the franchisor is able to standardise on the operational manuals, processes and quality control across the franchise network by offering constant training, support and guidance. This standardisation ensures that the integrity and reputation of the brand are maintained in the industry and for the customer. This is confirmed by the present findings.

This research has identified that, through the creation of operational and procedural manuals and implementation of frequent inspections and completing of check lists, the franchisor is able to ensure compliance to the brand by the franchisee. Strict monitoring by the franchisor makes any deviation from such procedures and standards extremely difficult. These findings do not support those of Davies, Lassar, Manolis, & Windor (2011), who argue, regarding franchisee deviation to compliance, that as franchisees become more confident with the franchise model and framework, they become less compliant and deviate from the model. Davies, Lassar, Manolis, & Windor (2011) argue further that, as the relationship evolves, franchisees become increasingly confident and no longer rely as much on the franchisor for direction and advice, which leads to lower compliance. The results of this study do not support this argument, in that strong compliance is maintained throughout the relationship. The franchisees do gain valuable skills, knowledge and experience over time which, in turn, build confidence. With these skills, knowledge and expertise, the franchisees then do not rely on the franchisor as heavily as they did at the onset of the relationship. The level of confidence in running the business does not, however, impact on compliance.

6.2.3 Summary

The findings of this study support those of the literature with respect to the relationship-building characteristics of trust and compliance. When literature views trust and compliance together, it is important to understand that these two relationship-building characteristics are also mutually exclusive: there can be compliance without trust in the franchisor–franchisee relationship.

Previous studies argued that it was difficult to enforce franchisee compliance (Davies, Lassar, Manolis, & Windor, 2011); however, as previously detailed, the franchise agreement specifically stipulates the roles and responsibility of each party. Should either party deviate from the terms as laid out in the agreement, this will affect their integrity and credibility, and, ultimately, trust, within in the relationship. The franchise agreement specifies the consequences of non-compliance, which can breach the contractual terms between the franchisor and the franchisee should a non-conformance not be remedied.

These research findings indicate that franchisees see themselves as having willingly entered into the franchise agreement—of which compliance is a key element. Where compliance requirements are not adhered to by the franchisees, the contractual agreements stipulates processes to remedy compliance adherence, which could ultimately lead to costly legal proceedings.

The findings further indicate that in cases where the franchisees deem there to no longer be a mutually beneficial relationship or find themselves unable to exercise autonomy and innovate within the confines of the relationship, they may become despondent and choose to seek alternative entrepreneurial opportunities.

6.3 Research Question 2: How important is communication in the franchise relationship, while ensuring transfer of vital knowledge?

6.3.1 Communication

The results of this study are consistent with those reported in the literature (Davies, Lassar, Manolis, & Windor, 2011; Altinay, Brookes, Madanoglu Aktas, 2014) in that franchisees derive satisfaction on the basis of how well the franchisor communicates with them. In addition, should these exchanges not be effective and a constant flow in

communication is not ensured between the franchisor and franchisee, the relationship between the parties will deteriorate (Altinay, Brookes, Madanoglu & Aktas, 2014).

A clear distinction is made between communication and knowledge (Ioanna & Maria, 2013; Altinay, Brookes, Madanoglu & Aktas, 2014), where communication is defined as the medium through which there can be knowledge transfer and mutual understanding between parties. Communication and knowledge are closely linked because, without communication, there would be no platform for knowledge exchange: knowledge exchange cannot serve its purpose if there is no communication (Lindblom & Tikkanen, 2010).

The research findings further confirm those of Chiou, Hsieh & Yang (2004), who argued that trust and satisfaction are created in a franchise relationship through good communication. Where franchisees place emphasis on communication is evident in instances where the franchisor chooses to address customer complaints and show their support to their franchisees. Franchisees are also encouraged to voice their concerns and opinions to the franchisors during quarterly and annual conferences to improve customer service and gain competitive advantage.

Communication can establish mutual trust and create a shared goal and vision, while reducing conflicts in the franchisor–franchisee relationship (Chiou, Hsieh & Yang, 2004). By increasing communication and creating a platform for sharing vital knowledge, this brings about competitive advantage. This, in turn, is a source of attraction for potential franchisees, which ensures company growth within the industry and enhances franchisee loyalty to the brand or franchise system (Chiou, Hsieh & Yang, 2004).

Communication establishes trust and revalidates the mutual goal of increased revenue growth through knowledge exchange and increased customer satisfaction.

6.3.2 Knowledge Exchange

Nijmeijer, Fabbriotti & Huijsman (2013) argued that there should be a concerted effort between the parties within the relationship to ensure knowledge transfer. The knowledge transfer explicitly referred to in this context takes place by converting tacit knowledge into explicit knowledge and sharing this within the franchise network.

In the present research findings, franchisees expressed concern regarding how little feedback, communication and knowledge exchange occurs within the franchise network. This can be quite limiting to the network, particularly because knowledge sharing can create additional opportunities for the brand and bring about product enhancements which ultimately create greater competitive advantages for the franchise organisation (Gills & Combs, 2009; Lindblom & Tikkanen, 2010).

Knowledge obtained by trend and market analysis, supplier information, customer complaints and feedback, and including interactions with their franchisees, is used by franchisors to benchmark current practices. Amendments to and the introduction of new operational standards and procedures are implemented from time to time using the new or additional knowledge gained.

Local knowledge in respect of brand positioning and product enhancements is best acquired by the franchisee because they are directly in contact with their customers and market: this knowledge is shared with the franchisor (Lindblom & Tikkanen, 2010). This study showed that franchisees are dissatisfied because they felt that their franchisors were far removed from the customers, which lead to uncertainty regarding their product offering.

6.3.3 Summary

These research findings confirm that, as reported in the literature, good and constant communication creates trusting relationships (Chiou, Hsieh & Yang, 2004). The findings do, however, not support those of prior studies insofar as certain franchisees felt that communication is one-sided and lacks in frequency and value. In most instances, however, franchisees expressed satisfaction with the medium and extent of communication between the franchisor and franchisee.

The findings distinguish between the various franchise organisations in the way that they chose to communicate with their franchisees. The distinction is drawn in respect of the size of the franchise network and the age and maturity of the organisation: the larger the organisation, the less frequent is their communication, whereas communication is more personalised and frequent in smaller organisations. The larger organisations are able to effectively implement and utilise innovative approaches to communication by the use of technology, and where emails, electronic forums, blogs and similar media comprise the main channels of communication.

This work confirmed that franchisors offer an environment in which franchisees are able to exchange information within the franchise network, and with suppliers and customers (Paswan & Wittmann, 2009).

Despite not implemented to the full expectations of the franchisee, knowledge exchange does take place between the franchisor and franchisee. Franchisors expressed the opinion that they were open to exploring ideas shared by franchisees. It is uncertain whether these ideas would be implemented within the franchise network; however, the concept that the franchisors' ability to support the franchisees' ideas provides credibility and integrity with their franchisees is consistent with that reported in prior studies.

6.4 Research Question 3: How does power manifest in the franchise relationship?

6.4.1 Power

These research findings confirm those reported by Atwell and Buchan (2014) in that power is held by the franchisor through to the signed franchise agreement. Terms and conditions, as well as roles and responsibilities, are clearly defined and each party is contractually bound to abide by these terms. Atwell and Buchan (2014) further describe a shift in power within the relationship which is noticed as the franchisee becomes more knowledgeable, and which is consistent with these findings.

Frazer, Merrilees & Wright, (2007) expressed power as the means by which cooperation is maintained in the franchisor–franchisee relationship. Power is predominantly held by the franchisor because the franchisor is in control of the franchise system, brand image, brand growth and intellectual property rights to the business model. Franchisees' power stems from being client-focused, in having experience and knowledge of the local market, and in being more hands-on in the day-to-day operation of their respective store (Frazer, Merrilees & Wright, 2007). This power classification is consistent with that described in the literature and demonstrated in the findings of this study.

Of the five identified elements of power (Frazer, Merrilees & Wright, 2007), only four are exerted by the franchisor in the franchisor–franchisee relationship. These include expert power, reward power, referent power and coercive power. Power is used to

bring about adherence to standards, ensure quality control and competitive advantage and to increase explicit knowledge sharing within the franchise network (Frazer, Merrilees & Wright, 2007; Atwell & Buchan, 2014).

Power is exerted by both parties at different stages within the relationship and presents in all facets of the relationship. The research findings show that, at the onset of the relationship, franchisors exert their expert power, during which vital knowledge, guidance and operational experience are transferred to the franchisee. At the onset of the relationship, the franchisee is heavily reliant on the franchisor due to their own inexperience or lack of knowledge or skills. Expert power on the part of the franchisor acts predominantly as a means to coach or guide the franchisee during the early stages of the relationship (Frazer, Merrilees & Wright, 2007).

Franchisees, too, can exert expert power, particularly as they become familiar with operational standards, their business and the inner workings of the franchise system. Franchisees expert power is gained through local knowledge obtained by means of understanding their clientele and maintaining customer relations (Frazer, Merrilees & Wright, 2007).

6.4.2 Summary

There are five elements of power, of which franchisors predominately utilise four. These different elements are exerted at various times throughout the relationship to drive certain behaviours to achieve the required results.

The findings of this study are consistent with those of the literature, as provided by Atwell and Buchan (2014), whereby a shift in power is noticed as the franchisee gains more knowledge and experience in the industry and the relationship and becomes less reliant on the franchisor for support, guidance and advice.

6.5 Summary of Discussion

The main aim of this research project was to explore four relationship-building characteristics within franchise partnerships, an improvement in which would assist both the franchisor and franchisee in succeeding and realising their shared and mutual goals, whilst achieving financial freedom and growth in the franchise network. These

characteristics aid in gaining value and developing successful and long-term relationships.

The four relationship-building characteristics of compliance, trust, power and communication are interrelated factors that are developed throughout the duration of the relationship. When positively nurtured, these characteristics aid in the development and sustainability of a mutually successful relationship and allow each partner to grow within the confines of the partnership while still achieving their shared and mutual goals of financial success.

The research results confirm and enhance current literature findings with respect to these characteristics. Essential information was collected in respect of how franchise organisations operate within the South African context.

A franchisor–franchisee relationship which demonstrates a higher level of trust was proven to yield better performance from the franchisee. According to Altinay and Brookes (2012), the growth of the franchise network is dependent on a good, respectful and mutually understanding working relationship. The findings in this research fully support this view.

Within the South African context, there is no substantiation that less adequate communication exists between the franchisor and the franchisee, and which could cause the franchisee to exit from the franchise network. The research concludes that most franchisees remain with the franchisee, despite not experiencing a good working relationship. The research also found that a poor working relationship does not negatively impact on the brand image, quality or compliance to the franchise.

From the franchisees' perspective, compliance and quality become issues when a sense of greed and opportunistic behaviour are experienced in dealings and interactions with franchisors. Through the franchise agreement, the franchisor is able to deal with non-compliant and opportunistic franchisees who compromise the franchise brand, franchise network and business model integrity.

The success of the franchise relationship is largely attributed to the manner in which conflicts are addressed by both parties, as well as the day-to-day operational workings of this partnership. It is important to value each party as more than a revenue partner,

but to also ensure that there is continuous and value-added information, communication and trust within the relationship.

It is of the essence to highlight some of the findings within this research project that differ from those reported in earlier studies, carried out in different locations. These findings are especially directed to idea that the characteristics of trust and compliance are mutually exclusive: these two elements are not reliant on each other for a successful relationship, even though it is important that there is trust in this relationship.

Compliance is particularly interesting because this element is controlled by the signed contractual agreement. Compliance is not a characteristic that comes under threat when the relationship suffers. Opinions reported in the literature review described this characteristic completely differently, indicating that compliance is an optional element in the relationship. This is not the case and, as has been researched in the South African context, this characteristic is a compulsory requirement as set out by the contractual agreement.

Communication and knowledge exchange rely on the presence of a trusting relationship, in which knowledge can be exchanged between both parties. Communication differs between the organisations; however, the same principles apply across each franchise organisation. Franchise consultants are tasked with ensuring that the franchise is adequately represented and that the franchisee's needs and concerns are addressed.

7. Conclusions and Recommendations

7.1 Introduction

This chapter provides conclusions of this exploratory study on trust, compliance, communication and power in franchise relationships. It highlights the key findings with respect to four relationship-building characteristics within the franchise relationship.

This chapter is presented in three sections. Section 7.2 presents the research conclusions in relation to the research questions posed in Chapter 3. Recommendations for both franchisees and franchisors with respect to ensuring the continued success of this relationship are presented in Section 7.3. The chapter concludes with a brief discussion of recommendations for future work on this topic.

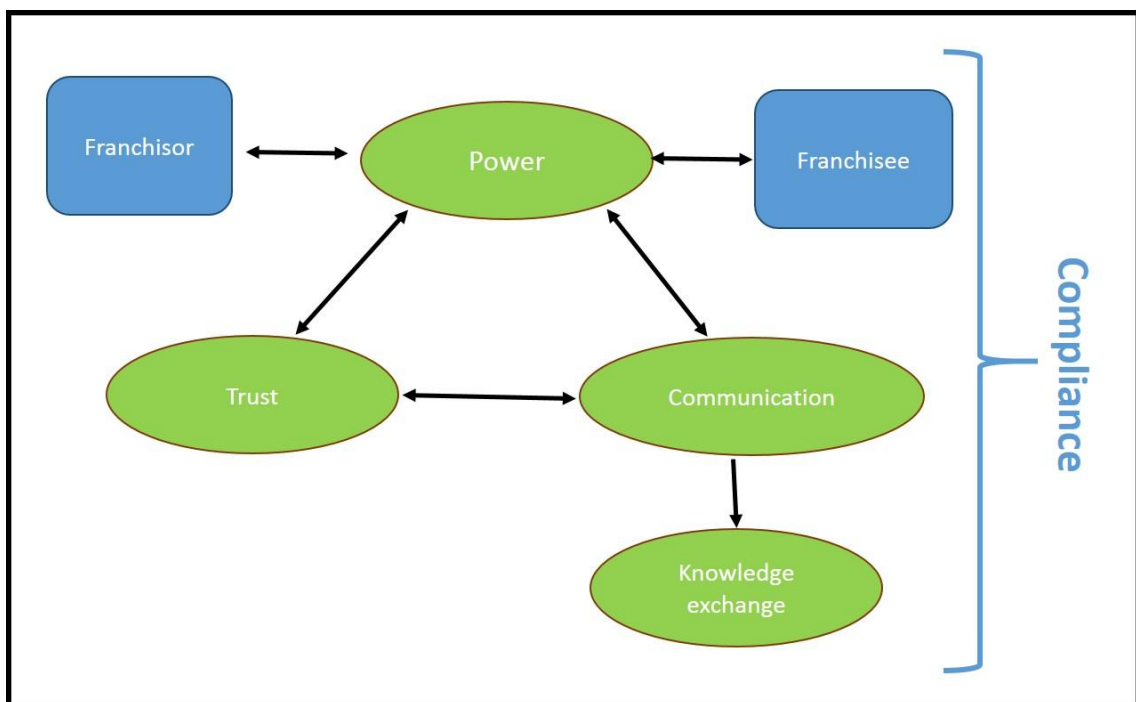
7.2 Key Remarks Regarding the Research Findings

The key focus of this research project was to understand whether the franchisor and franchisee are able to realise their shared and mutual goals through the four relationship-building characteristics of trust, compliance, communication and power. The realisation of these mutual goals brings about financial freedom within the franchise network and growth in the network overall. Each party in this relationship seeks to ensure that they are able to maximise on their revenue-earning potential. As with any relationship, lack of communication or miscommunication have the potential to lead to misunderstandings and disputes. Should these disputes not be effectively addressed to the satisfaction of both the franchisee and the franchisor, unnecessary strain is placed on the relationship Gassenheimer, Baucus & Baucus (1996) argued that disputes can have catastrophic effects on the relationship and may cause grave, irreversible damage to the brand image of the franchise.

Although the participants may not have explicitly known about the relationship-building characteristics before the interviews were conducted, it was evident from their responses that the franchisor–franchisee relationships are characterised by these four elements. Different levels of importance were placed on each characteristic by the participants. The franchisee and franchisor are each able to achieve their mutual and shared goals by ensuring that their individual and collective interests are being achieved through constant feedback and cooperation.

Figure 1 depicts the four relationship-building characteristics of trust, compliance, communication and power, as they interact within the franchise relationship. This diagram has been specifically created for this study, based on the research conducted and is broadly interpreted as follows. The franchisor and franchisee both exert their power constantly throughout the relationship. If, during the relationship, they are able to ensure regular communication, trust is maintained. In order for communication to be beneficial within the partnership, trust needs to exist, because this ensures that there is a constant flow of vital information between the parties and local knowledge can be made explicit. Compliance is, however, maintained throughout the relationship via the signed franchise contractual agreement.

Figure 1: Franchise relationship characteristics - created for the purposes of this study according to research completed



The overall findings for each of the three research questions are summarised in the following sections.

7.2.1 Research Question 1: Are trust and compliance inter-related factors within the franchise relationship?

Although the literature review concluded that trust and compliance are interrelated, these research findings revealed that these characteristics are closely interrelated, but manifest independently of one another.

The franchisor ensures that compliance is maintained, which is driven by the franchise agreement. Compliance is one of the relationship-building characteristics for which the observations of this study deviated from those reported in the literature. The franchisor maintains compliance in order to offer uniformity across the franchise network, thereby ensuring that the integrity and reputation of the franchise brand are maintained in the industry (Gassenheimer, Baucus & Baucus (1996). The findings indicated that franchisees see no need to deviate from their franchisor's operational procedures and this was one aspect of the relationship that was not a cause for concern. Opportunistic behaviour, as described in the literature, is not attributed to disputes associated with non-compliance to standards. A small number of franchisees do exercise opportunistic behaviour, driven by a need to fraudulently improve their revenue. The reasons related to opportunistic behaviour are not associated with disputes, as confirmed by these research findings.

The relationship-building characteristic of trust is predominantly led by franchisee confidence in the integrity, competence and satisfaction in their partnership with the franchisor. The main research findings expressed that each party had certain expectations on entering into the partnership. Franchisees derive satisfaction on the basis of how well the franchisors meet their expectations. Where expectations were not met, strain was placed on the relationship, thereby causing distrust between the parties. A distrustful relationship has a direct impact on communication and knowledge exchange between the parties: vital knowledge, product enhancements and service improvements are not necessarily shared between the parties. It is noteworthy that when both parties are willing to learn and cooperate, trust exists and can be formed in the relationship (Cumberland & Githens, 2012).

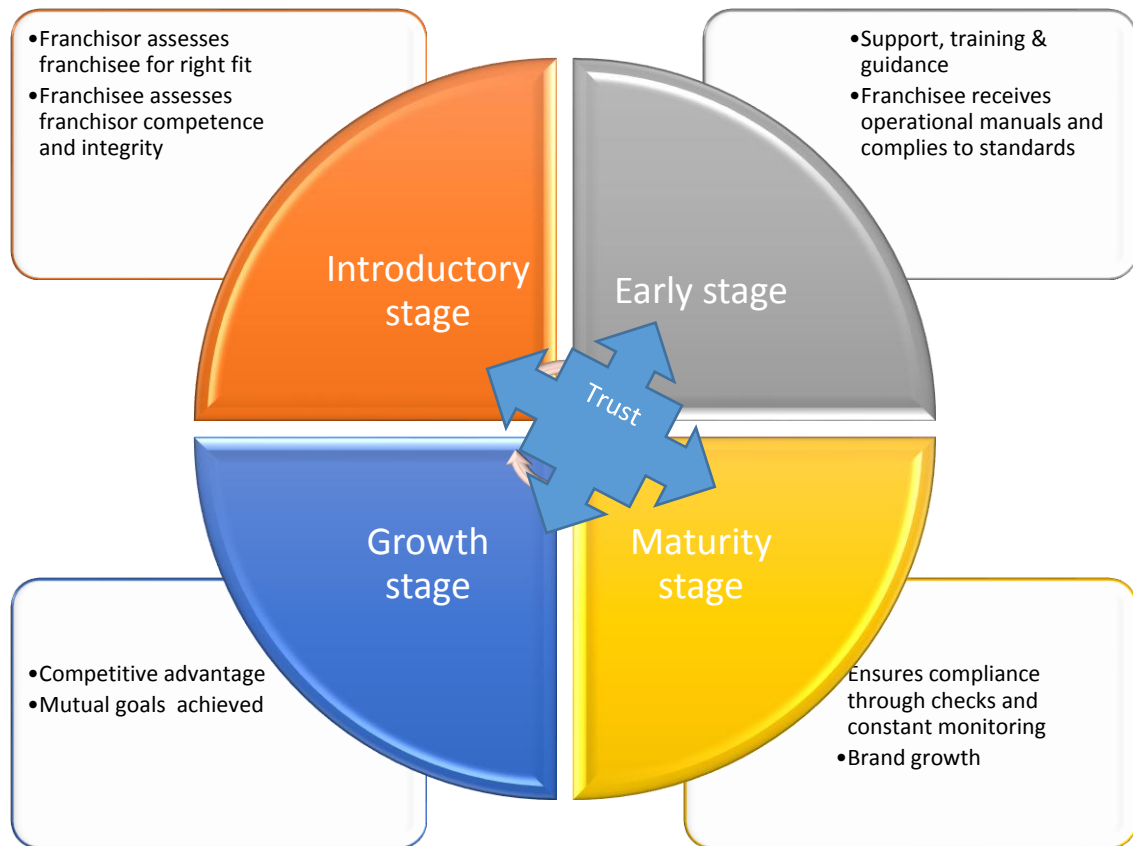


Figure 2: Knowledge-based trust development throughout the duration of the franchisor–franchisee relationship

Figure 2 shows the relationship between the franchisor and franchisee through each stage of the partnership during which knowledge-based trust is created, nurtured and maintained throughout the duration of the contract. At the onset of the relationship, trust is not a significant factor for the franchisor. The franchisor requires that the following elements be invested by the franchisee: capital; relevant experience within the industry and/or business acumen; that the franchisee upholds brand value and reputation. Trust between the franchisee and the franchisor develops over time through their ongoing interaction.

Franchisees place trust in the franchisor in that their business model offers credibility and integrity in uniformity of operating practices, as well as continued support, training and guidance. The uniformity offers a positive customer experience across the group, leading to greater brand awareness, brand power and, ultimately, greater market share.

A significant emphasis is placed on brand power because this is a key influencer for the franchisee in selecting a franchise network in which to invest.

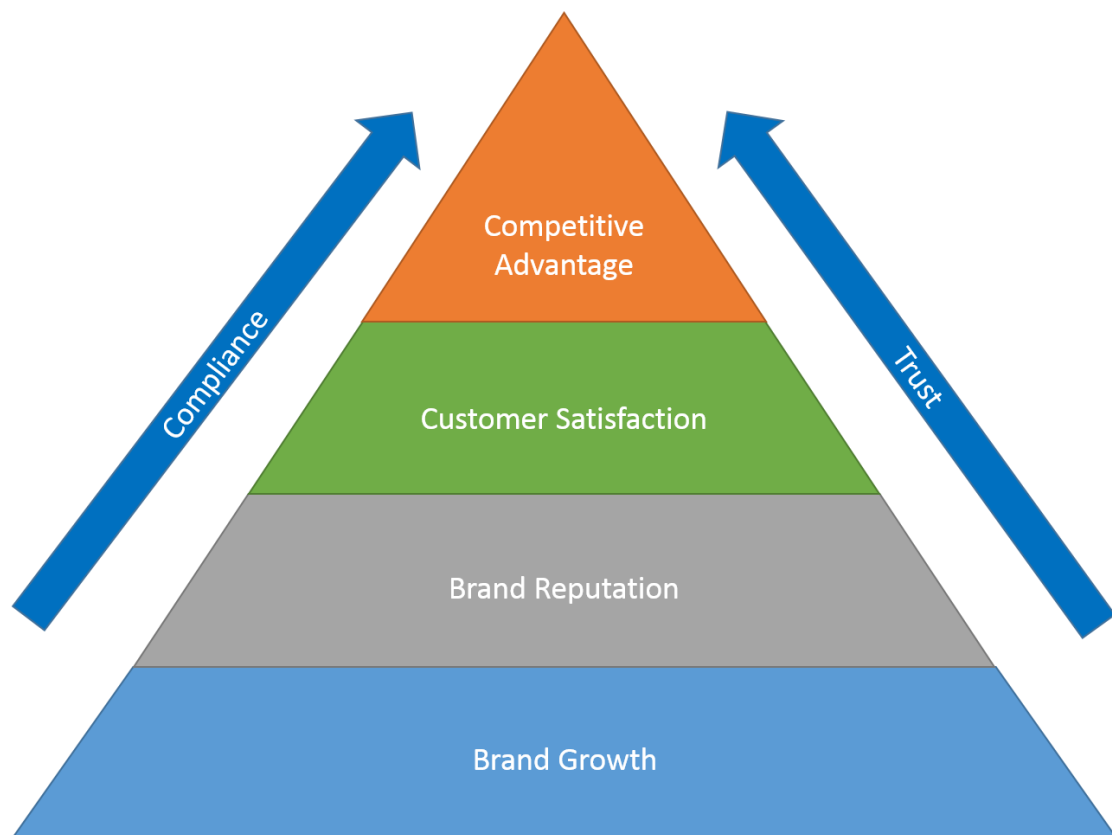


Figure 3: Franchisor-franchisee relationship with respect to achieving mutual goals

There is significant reliance on trust and compliance: through these two relationship-building characteristics, brand growth and brand reputation can be maintained. When each party delivers on their contractual obligations, this leads to general satisfaction and willingness to continue the relationship. This ultimately has a positive influence on the customer who experiences the quality standards of the product offering and, through this, competitive advantage is created in the market, which leads to heightened brand reputation and brand growth.

7.2.2 Research Question 2: How important is communication in the franchise relationship, while ensuring transfer of vital knowledge?

The research findings indicate that communication is the most important aspect of the franchise relationship. Communication between the franchisee and the franchise consultant occurs on a frequent basis. These communications range from face-to-face

discussions to telephonic calls and conferences or franchise engagements. The quality and nature of the communication is perceived to be well below expectation.

Franchisees would like to be afforded the opportunity to participate in forums concerning future expansion opportunities for the franchise network and franchise organisation. Franchisors interviewed welcomed the ideas of growth put forward by the franchisees, although most franchisors were not willing to include these ideas into their long-term planning because of cost implications. Smaller franchise organisations are able to benefit from the closer bonds formed between the franchisor and franchisees and are able to effectively communicate issues and ensure that product enhancements are taken seriously across the franchise network. This openness between the parties ensures that information transfer and knowledge exchange form an integral part of the relationship. Larger organisations are effective at sharing information concerning trends and market analysis; however, knowledge exchange was clearly lacking.

The franchisee is a source of valuable knowledge and is able to provide innovative contributions to the franchise network for the franchisor (Gills & Combs, 2009). Local knowledge gathered by the franchisee would allow the franchisor to maximise on opportunities in the industry.

The research findings confirmed those of Chiou, Hsieh & Yang (2004), who stated that good communication is built on trust and satisfaction in the relationship. Where trust is not present in the franchisor–franchisee relationship, a breakdown in communication is evident. The relationship-building characteristics of trust and communication are mutually exclusive, but are reliant on one another in order for knowledge exchange to take place.

7.2.3 Research Question 3: How does power manifest in the franchise relationship?

Research Question 3 focused on power and the various types of power that can be exerted in the relationship. The research findings confirmed those of literature (Frazer, Merrilees & Wright, 2007) in that power can be exerted by each party at different stages throughout the duration of the relationship. The type of power exerted is dependent on the experience and knowledge and length of time that the franchisee has served within the franchise network.

The research findings indicated that the franchisor exerts four of the five recognised types of power throughout the relationship and at different stages of the relationship. These are reward power, coercive power, expert power and referent power. These are demonstrated schematically in Figure 4.

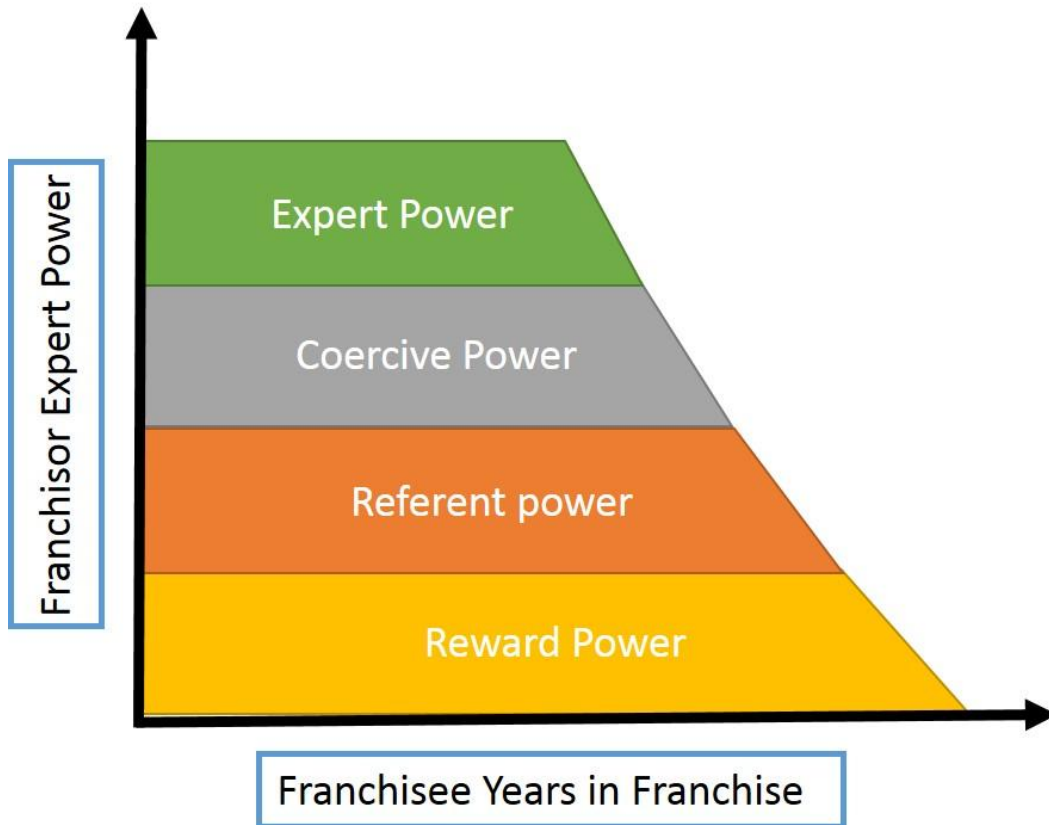


Figure 4: Evolution in franchisor–franchisee power balance with duration of the relationship

At the onset of the relationship, the franchisor holds most of the power, because the franchisee is reliant on the franchisor for direction, guidance and advice. There is a shift in power when the franchisee gains the required experience in the industry and is able to exert their expert knowledge. The longer the relationship with the franchisor, the less reliant the franchisee is on the expert power held by the franchisor. When expert power is gained by the franchisee, and subsequently exerted in this relationship, this is not favourably received by the franchisor.

A continual shift in power is experienced between the franchisor and the franchisee throughout the duration of the relationship, which is attributed to knowledge, skills and

experience gained and shared be the franchisee. In reference to expert power, the franchisor will exert a significant amount of expert power over the franchisee. As the franchisee develops skills, knowledge and expertise, the franchisor will exert less expert power over the franchisee, because the franchisee would then use their own expert power.

Power can both positively and negatively influence the relationship, and can be bi-directionally focussed, especially as and when the franchisee gains more experience. The franchisor is able to stimulate franchisee compliance in many different ways, where each power base can be used in different situations. Power is used as a mechanism to ensure that brand image, brand reputation and brand growth are maintained, while still allowing for knowledge exchange and a trustful relationship between the parties.

The franchisor uses all four types of power interchangeably in order to enforce and ensure adherence to compliance, revenue growth and brand reputation. Power is used as a mechanism to drive certain behaviour to achieve a desired outcome. The franchisor uses power to control standards and brand power across the franchise network. Standards and uniformity drive brand power, which, in turn, create brand growth and investment opportunities within the industry. These positive market influences reassure franchisee satisfaction and commitment, as well as attract potential franchisees to the franchise network.

7.3 Recommendations

7.3.1 Recommendations to Franchisors and Franchisees

With respect to the conclusions drawn from this work, it is evident that both parties have important information to share within the relationship: they need to be receptive and open to this communication and knowledge sharing.

Franchisors often become increasingly fixated on their requirements for brand growth and tend to underutilise their franchisees' knowledge, skills and expertise. The franchisees are often metaphorically cast aside, which has a direct impact on developing a trustful relationship. It is important to ensure franchisee buy-in, especially as relates to product enhancements, brand awareness and brand growth. Franchisors should consider including franchisees in decision-making requirements, especially

those in which they are able to provide comments and recommendations with respect to changes in regulation, menu enhancements and vital product knowledge, because this affects their business and the revenue stream to both the franchisor and the franchisee.

Although it may not always be possible to include the franchisee in all decisions that pertain to the operation and continued success of the franchise brand, franchisees become disgruntled when they are not included in key decisions pertaining to the brand and the brand growth of the franchise network.

7.3.2 Recommendations for Future Research

The main aspects to consider for future research are presented below.

- This study only reviewed a small sample of the population of franchise partners in South Africa. Future research could be expanded to include more franchisees and franchisors within the local industry.
- The research did not evaluate the reasons why franchisees chose to leave franchise networks. Future research could explore the factors that lead to franchisee dissatisfaction and their subsequent exit from the franchise network.
- Future research can be conducted with the Franchising Association of South Africa (FASA) to explore ways on improving government regulation to favour both parties in the relationship. Both franchisors and franchisees felt that the industry would benefit from stricter controls and regulations in the market and which would assist the parties to increase their overall revenue growth.
- The research highlighted the need for a review on the details of the property lease agreement which could be added into the franchise contract agreement. This would minimise the risk of eviction that is held by the franchisee, particularly at the onset of the relationship.

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Appendix 1

Interview Schedule - Factors that influence franchise relationship development

I am conducting research on the factors that influence the development of the franchise relationship, and I am trying to find out more about the specific factors of trust, compliance, communication and power and their effects on the franchisor – franchisee relationship. Our interview is expected to last about an hour, and will help us understand these characteristics in this important relationship. **Your participation is voluntary and you can withdraw at any time without penalty.** Of course, all data will be kept confidential. If you have any concerns, please contact my supervisor or I. Our details are provided below.

Section A: Trust & Compliance

1. Could you please describe the early stages of forming a relationship with the franchisor?

Probes: What was the role of trust in building this relationship, how did you trust this partner? What factors played an important role in building this trust? How did you build that close relationship?

2. What role do the strengths of the franchisor play in the development of a working relationship?

Probes: How important was the brand reputation for you? How important was the expertise of the company? How important was the infrastructure for you? How important was the assistance and training for you? In your opinion, have those expectations been met? Why? Are there any instances when your expectations have been exceeded? Give examples.

Are there any instances when your expectations have not been met?

3. Do you feel that the franchisor has invested a great deal in the partnership? What else could be done? For example, do you feel that the franchiser has made substantial investments in training you and your people?

4. Has the nature of your relationship with the franchisor changed at all since its inception? If so, can you explain how it has changed and give examples.

5. Has the nature of the support provided by the franchisor changed since you began the relationship? If so, can you explain how it has changed and give examples. Are these changes in your opinion for the better?

Probes: Training, marketing, new product development, procurement, etc. Adaptation for cultural/market differences.

6. Do you believe the franchisor is committed to the relationship with you as a franchisee? If so, what types of things demonstrate that commitment to you? Please give examples.

7. Do you ever disagree with or have disagreements with the franchisor? Can you give examples? Can you explain if and how these are resolved? If not resolved, how does the franchisor deal with any complaints?

8. Would you say you were satisfied with your relationship with the franchisor? If so, could you explain why? If not could you explain why?

9. Do you consider your relationship with the franchisor to be successful? If so why, what are the things, in your opinion that make it successful? If not, what are the things that make it not successful?

10. Would you change anything about the relationship with the franchisor if you could? If so, what?

11. What are your future intentions for the relationship? Are you planning to continue?

12. If a friend were to ask you advice on “making a franchise partnership work”, what would you say?

Section B: Communication

1. How often and to what lengths does the franchisor (ee) communicate on a weekly or monthly basis?
2. What is the nature of this communication? Has the relationship developed to become more social or is it purely business?
3. Do you feel that the constant communication and feedback has aided in vital knowledge, skills and expertise being transferred in this relationship, please elaborate and provide examples?
4. How important is communication with your franchisor or franchisee in respect of your daily operations and the support required in performing your job?
5. How are opportunities explored and vital knowledge shared within the franchise network?
6. How open is the franchisor to changes within the franchise business model, and are there any amendments allowed to for instance the menu, store location, etc?

Section C: Power

1. Does the franchisor exert his/her power in trying to enforce compliance to standards, and changes to operational standards?
2. Has the franchisor ever offered a reward in order to create a competitive environment within the franchise network?
3. Has the franchisee exerted their expert power (in terms of local knowledge gained) to ensure franchisor attention?
4. In the earlier stages of the relationship, where has the franchisor's expert power been most valuable within the partnership?
5. Has the franchisor (ee) been jealous of the power held by each partner in this relationship? To what extent has this placed undue strain on the relationship?

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Date: _____

Appendix 2

GIBS Ethical Committee – Approval Letter

Gordon Institute of Business Science

University of Pretoria

Dear Miss Elena Pavlou

Protocol Number: **Temp2015-00832**

Title: **Trust, Compliance, Communication and Power in franchise partnerships**

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

You are therefore allowed to continue collecting your data.

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

Kind Regards,

GIBS Ethics Administrator

Appendix 3

List of codes processed through *Atlas* software

Code-Filter: All

HU: EPav_Research2015_Codes

Edited by: GUEST

Date/Time: 2015-11-05 13:57:05

Brand Awareness/reputation

Brand Growth

Communication

Competition

Customer complaints

Experience as a customer first

Franchise agreement

Franchise branding

Franchise compliance

Franchise disagreements

Franchise power

Franchise relationship

Franchise success

Franchisee dissatisfaction

Franchisee passion

Franchisee satisfaction

Franchisor requirements

Future plans

Knowledge

Preferred Suppliers

Proven concept

Recommendation

Successful relationship

Support and Training from franchisor

Trust factors in the relationship