CRITICAL SUCCESS FACTORS IN THE RELATIONSHIP BETWEEN MULTI-NATIONAL FRANCHISORS AND FRANCHISEES

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ABSTRACT

This research report evaluates the critical success factors in the relationship of multi-national franchises as identified by authors in franchise systems. Specifically, this research seeks to validate the critical success factors in the relationship between multi-national Franchisors and Franchisees identified in the literature review.

The research was conducted amongst Experts, Franchisors, and Franchisees operating within Africa. The questionnaire-based survey asked the participants to rate 16 statements, in order of importance, in order to verify if they would also select the 6 factors that had been identified in the literature review. Subsequently the data elicited was analysed by various statistical techniques including descriptive statistics and inferential statistics.

The findings of the research indicate consensus of the three groups of respondents on five factors: These are as follows:

- Partner selection is crucial to the success of a franchise relationship
- The deal must create mutual benefit and value
- Both parties must share common goals and a common vision
- There must be trust and transparency in all dealings between the two parties
- Effective communication between the two parties is essential

A conceptual model is formulated that outlines the critical success factors in the relationship between multi-national Franchisors and Franchisees. The study also provides consultants in franchise systems a means to develop programs and guidelines to enhance these relationships. The findings are valuable both for existing franchise systems and new ones. Recommendations are also made for further research in order to provide guidance to specific franchise sectors.

DECLARATION

I, Feroz Hosany, declare that this research report is my own, unaided work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Feroz Hosany

30 November 2006

DEDICATION

'In the name of The Omniscient'

I dedicate this work to my wife Sajia and our children, Amin, Umar, Soorayya, and Tahani. It would not have been realised without their unfailing support, encouragement and understanding,

Intelligence is a tree,
Thought is its fruit,
Knowledge is the sea,
Wisdom is its pearl

From the Middle East

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CHAPTER 1: INTRODUCTION

1.1 Context of the Study

Despite the success of franchising as a way to sell goods and services, conflict seems to be inherent in the Franchisor/Franchisee relationship (Anonymous, 1996). As with most relationships these conflicts generally arise from a mismatch of expectations and by perceptions that one party is trying to obtain more than its fair share. Stephenson & House (1971) state that the very nature of this relationship raises questions concerning latitude for independent action and constraints on decision authority. Key issues are related to the degree of autonomy the Franchisee should have, the nature of the franchise contract, and the management of conflict. Quinn & Doherty (2000) have investigated the mechanisms used to control and co-ordinate the international franchise network. Other studies have focused on communication as both a way to avoid and minimise conflicts in Franchisor-Franchisee relationships (Allen & Lee,1994). The legal framework has also been investigated to define the rules in an attempt to manage this relationship and prevent abuse from either side (Pitegoff, 1989).

1.2 Purpose of the Study

The purpose of this study was to identify and determine the critical success factors in the relationship between multi-national Franchisors and Franchisees. The study also made it possible to formulate recommendations to harmonise these relationships.

1.3 The Problem and Sub Problems

The research identifies the critical success factors in the relationship between multi-national Franchisors and Franchisees. It aims to highlight the different priorities of the research groups and develop a framework to optimise these relationships.

1.3.1 Sub Problems

1. Identification of critical success factors in the relationship between multinational Franchisors and Franchisees from the Franchisors' perspective
2. Identification of critical success factors in the relationship between multinational Franchisors and Franchisees from the Franchisees' perspective
3. Identification of key areas where the opinions of the two groups differ with each other and with academia and the literature

1.4 Delimitations and Limitations

The study was conducted through questionnaires and is limited to Multi-National Franchise operations existing within Southern and East Africa in the sectors of retail (furniture and clothing), fast food, and soft drinks.

The study does not imply that the findings can be extrapolated to other franchise systems not covered in the present research.

The study was limited to participants who are known to be actively involved in Franchise Systems as well as to those recommended to the researcher by a panel of experts.

No tests have been conducted to verify if the panel will be representative of the population of academia, consultants, or industry; similarly the cross-section of the sectors in the sample was not tested to verify if they are representative of general franchise systems.

1.5 Significance of the Study

Although there are numerous studies on franchise relationships, very few have dealt with preferred values from both sides of the franchise system. Edens, Self, & Grider (1976) have investigated the attributes which Franchisors in five different kinds of franchise operations- fast foods, automotive, other retail, and labour, would look for in the ideal Franchisee. The researchers have identified that a sound financial base is the most important requirement. The other attributes relate to personal profiles, for example, marital status, education level, experience, personality types, thinking ability, and communication skills.

Edens *et al* (1976) have analysed the responses of five Franchisor groups and have revealed differences in the perceptions of an ideal Franchisee. It appears that, while there are some important areas of agreement among the various groups, Franchisors in each area tend to seek Franchisees with qualities that will fit the demands of their particular work profile.

1.6 Assumptions

The following were the underlying assumptions when the study was conducted:

a) The attributes considered for evaluation are not exhaustive, but represent those that significantly impact franchise relations;

b) Conflicts are inherent in franchise systems;

c) There is a need to harmonise value preferences in order to minimise conflict.

CHAPTER 2. LITERATURE REVIEW

2.1 The Multinational Franchise System

Dittman (1996) describes the franchise system as a partnership that pairs someone with a proven operating concept (the Franchisor) with someone who has access to capital, has the necessary business acumen, and is willing to invest in expanding the concept (the Franchisee). The author considers that the key to a successful franchise arrangement seems to be the concept of mutual benefit. Each party brings something to the table, and both should share in the rewards when the deal is successful. Storholm, Gordon, Scheuing, & Eberhard (1994) describe franchising as a business opportunity wherein the owner (producer or distributor) of a service or a trademarked product grants exclusive rights to an individual for the local distribution and/or sale of the service or product, and receives, in return, a royalty payment and subject to conformance to certain quality standards and standardised levels of service to customers.

Franchising has been perceived by the public as a recent distribution alternative, but it appeared initially in U.S. commerce during the 19th century when Singer Corporation used this channel to distribute sewing machines. Modern franchising enjoyed tremendous growth during the 1950's, 1960's, and 1970's (Storholm *et al* 1994). Companies such as McDonald's, Carvel, Dunkin' Donuts, and Holiday Inn all fuelled their growth through this mechanism and are now staples in American retailing. Although the majority of franchises are consumer-driven, Storholm *et al* (1994) have identified three franchise formats. They are the following:

- *Product franchising:* Earlier in this century the successful marketing of automobiles and gasoline spawned many other diverse franchise concepts. Chevrolet and Exxon Corporations are examples of this type of enterprise.

- *Manufacturing franchising*: This format is associated with a manufacturer licensing a Franchisee to produce its product. The best example is in the soft drink industry through the bottling agreement formed by Coca-Cola and Pepsi-Cola.

- *Business format franchising*: Individuals are licensed to open retail shops to sell products or services under the Franchisor's name. Identifiable firms such as Pizza Hut, Midas Mufflers, Burger King, Holiday Inn, and most consumer-oriented franchises fall into this category.

The proliferation of franchises can best be appreciated by analysing both the Franchisor's and Franchisee's motives (Storholm *et al,* 1994). The Franchisor gains the benefits of profitably expanding the operation with limited capital and complete control, marketing his goods or services through highly motivated owners/operators, while offering standardised products/services and consistency. The Franchisee gains the benefit of investing in a proven concept, and presumably avoids the trial and error syndrome of a new business start-up. The Franchisee typically exhibits an inclination towards entrepreneurship and independence, but also a measure of risk aversion and the "turn-key" aspect of the operation are perceived as being well worth the cash outlay and personal commitment. It offers the opportunity to sell a well-known trademark, at uniform quality, with knowledgeable management support in all operational disciplines and is expected to justify the initial franchise fee, and future royalty payments to the Franchisor.

Of the accepted strategies for entering the international market, direct export and marketing ownership, licensing arrangements, joint ventures, and franchising, franchising is taking the lead (Hoy & Echegaray, 1994). In the last 30 years, franchising has earned recognition as an easy and practical vehicle for establishing businesses in foreign countries (Gamet-Pol, 1997). Franchising is currently considered a fast way to business growth (Castrogiovanni & Justis, 1998; Dant & Nasr, 1998; Preble & Hoffman, 1995). The trend is particularly notable in the USA in the retail sector. In the opinion of Preble & Hoffman (1995, 1998), the simultaneous development of the retail and service sectors and franchising structures explain the direction franchising is taking. According to the

International Franchise Association Educational Foundation, Washington, DC, US franchising is growing at a very rapid pace, even much faster than the economy as a whole (Stanworth, Purdy & Price, 1997). The trend to global expansion is not restricted to the USA (Gamet-Pol, 1997). Canada, France, Italy, and Japan all have several hundred international franchising chains (Preble & Hoffman, 1995). Australian franchising operates along American lines but is targeted at geographical regions closer to home, such as New Zealand (McCosker & Walker, 1992).

The question that arises is what then motivates a Franchisor to enter the international market? The saturation of the domestic economy on the one hand and intense competition on the other are accelerating the globalisation of franchising. Hopkins (1996) gives proactive reasons such as the desire for high profits and the opportunity that franchising presents to market goods, services, and unique technologies. Dant & Nasr (1998) suggest that the use of international labels as signs of reliability and quality, and rising consumer demand for high level goods and services, may explain the current trends. The penetration of franchise chains into the international market indicates a staged process (Welch, 1989). In the first stage, penetration is into neighbouring countries with a similar culture (Castrogiovanni & Justis, 1998; Hopkins, 1996), such as from the USA to Canada and to Mexico, or from Japan to nearby Asian countries. The same can be said of European countries (Gamet-Pol, 1997) and of Australia (McCosker & Walker, 1992). In the second stage, penetration is into countries with different cultures and political regimes (Hopkins, 1996; Welch, 1989). Preble & Hoffman (1995) show that cultural similarities (language, customs, and tastes) contribute to success in franchising. The probability of reciprocity enhances the attractiveness of franchising for the participating chains.

Though success in the domestic market promotes growth of the chain, it is not necessarily a guarantee of international success (Hoy & Echegaray, 1994). Among the reasons for this are political and economic uncertainty and high costs (Kedia, Ackerman & Justis, 1995; Tuncalp, 1991). Communication problems, due to geographic, language, and cultural divides, necessitate more substantial, varied, and expensive monitoring systems than those needed for the domestic market (Shane, 1996b). In line with Shane (1996b), Fladmoe-Lindquist & Jacque (1995) indicate that the propensity to franchise internationally was found to be related to the monitoring costs associated with geographical and cultural distance between Franchisor-Franchisee. The greater the geographical and cultural distance to monitor the behaviour of a foreign-service agent, the more likely a franchise arrangement would be used. Fladmoe-Lindquist (1996) suggests that the capabilities needed by a Franchisor to expand internationally are administrative efficiency and risk management in an international context, which are often lacking.

2.2 Critical Success Factors (CSF) in the Relationship Of Multinational Franchise Systems

Franchise systems have been described as virtual marriage by many authors (Allen (1994), Moserowitz (2001), Germann (2003), Johnson (2003), Nathan (2003), Schumacher & Crosby (2004). Moserowitz (2001)) compares entering the franchise relationship as signing up with someone for the long term. Bloom (2002) advocates that, in the future, these relationship issues will be central to the long-term success of franchising. A healthy Franchisor-Franchisee relationship is at the heart of every successful franchised business. A positive working relationship with Franchisees is essential to the profitability, growth, and strength of a Franchisor. This is more important than the franchise agreement, which only defines the legal limitations of each party's responsibilities and obligations for a specified time. The franchise relationship is built over time, and its foundation rests upon respect and trust between the Franchisor and each Franchisee. Like a marriage, it is an independent relationship (Trocchio, 1992; Dittman, 1996). Yet, the more two parties need each other, the more opportunity there is for conflict. As the Franchisee and Franchisor succeed in business, the focus of each may change. The interdependence that brought them together now may be seen as a threat to their independence. The following review from literature describes some of the critical factors that affect relationships in franchise systems.

2.2.1 Partner Selection

Kaplan (2002) states that choosing the right franchise partner is the first and most critical step to build good franchise relations. A franchise agreement is a long-term business commitment; so it is vital to choose franchise partners who understand the vision of the business. It is also important for any Franchisor to realise that success does not come from how many franchises are sold in a year, but rather from the quality of franchise partners who come to the table. Franchise partners must be those who want to align themselves with the Franchisor's vision of the brand and work as a team. Amos (2003) explains that the art or craft of franchise relations begins with the selection of the Franchisee, and requires a commitment by the Franchisor to develop open lines of communication, respect for his business partners, and provide a forum for addressing issues, conflicts and mentoring for Franchisees. Steinberg (1993) explains the factors that Franchisors contemplating global gambits must address such as: assessing their own domestic market position, formulating an expansion strategy, deciding what level of human and financial resources to commit, determining the market's ability to support the products or services, and finding the right joint-venture partner or master Franchisee. Steinberg (1993) further states that time and time again, poor partner selection weighs heaviest on the scales. Dittman (1996), German (2003) further specify that the Franchisor must have a proven operating concept and the Franchisee must have access to capital, the necessary business acumen, and is willing to invest in expanding the concept. Fladmoe-Linquist (1996) is of the opinion that the capabilities required by the Franchisor to expand internationally are administrative efficiency and risk management. All stakeholders in the franchise must display leadership and managerial competence (Pizanti & Lerner, 2003).

2.2.2 Commonality of Purpose (Mutual Benefit, Sharing, and Appreciation)

Haneborg (2003) reinforces the commonality in Franchisees' and Franchisors' goals. The author states that both the Franchisee and the Franchisor are in the business to make money and to grow. The Franchisee wants to grow his business, while the Franchisor works to grow the brand. Realising that both ends of the franchise spectrum are working towards the same goals can develop a deeper trust, and help the company stay on the track to success. Charlwood (1993) believes that any franchise system, no matter what size, that is geared to win for the Franchisor and lose for the Franchisee, or where the Franchisees think win for themselves and lose for the Franchisor, is not going to be around for long. The Franchisor has the responsibility to provide the programs, the research, the guidance and image to allow the Franchisees to accomplish their goals. The Franchisor must provide the vehicle for the Franchisee to succeed. The Franchisees must be able to drive the vehicle as it was meant to be driven. Both the Franchisor and Franchisee must bear in mind the concept of win/win. Bhakta (2003) advises that partners in a franchise must remain focused on the long-term. Franchisors must keep their Franchisees' goals and Wall Street's goals in mind, focusing on the long-term benefits for all parties involved, instead of the short-term benefits for one. Kaplan (2002) explains that the success of any franchised business depends on the success of the Franchisees. In order to help Franchisees succeed, Franchisors must make them partners in the business, align them with the brand's vision and give them the power to succeed. Good franchise relations are built on good franchise partnerships. Today's Franchisee has high expectations for support. They are sophisticated business people who understand the complexities of today's economy and what it means to their business. By bringing in franchise partners, instead of "Franchisees", it will enhance growth of the brand. Preble (1995) recommends that the partners in franchise systems should focus on the fact that they are partners. Each brings something to the table and both should share in the rewards when the deal is successful. He further states that it is important to the franchise relationship that both the Franchisor and Franchisee discharge their responsibilities appropriately and treat each other fairly. Consequently, franchise associations such as those in Mexico and Argentina require their members to adhere to their code of ethics. In fact, the British Franchise Association was formed in 1977 by a number of leading companies to ensure that U.K. franchising developed ethically. They followed a U.K. Code of Ethics until 1989, when the European-wide Code of Ethics was agreed upon among National Franchise Associations in the European community.

Schumacher & Crosby (2004) advocate that the best franchise organisations are those in which mutual trust and shared objectives are the norm. This condition can be achieved by the open, resolute, and ongoing application of specific policies that affirm the value of each side's goals and abilities. When Franchisees and their Franchisors join forces to each other's mutual benefit, the pie can only be enlarged.

Johnson (2003) writes that one of the best strategies is to head off problems before they start by creating avenues for meaningful Franchisee participation. Franchise advisory councils and policy boards can be beneficial for both Franchisees and the company. Frontline people understand the potential effects of price changes, new advertising programs, or store redesigns better than anyone else. Giving Franchisees advance say in policies and procedures also is a good idea. Consultants who write operations manuals, for example, can be grossly out of touch with real-world issues. Quite often employees with an eighth-grade education have more operational insight than the so-called Experts from the home office. Additionally, early Franchisee input helps gain the buy-in so necessary to procedural change. Haneborg (2003) identifies the primary factors that determine the long-term viability of the relationship as follows: adhering to a "team" mentality, facilitating open communication, and practising the basics of the respective business.

Nathan (2003) states that the real power of franchising lies in the effective sharing of knowledge and resources, not only between Franchisor and Franchisee, but also between Franchisees. It is through sharing experiences from promotional programs, new product ideas, operational improvements, and marketing intelligence that franchise systems gain and maintain their competitive edge. Sharing also builds enthusiasm, loyalty, and commitment to the brand. Everyone's energy should be directed towards building happy customers, not justifying to each other who is right or wrong. Watkins (1996) advises that marketing and operations programs should build profitability. It is important to critically analyse any new programs that the Franchisor is proposing. Ultimately, it is about money in the bank, not heads in beds. He also states that the brand has to grow for the right reasons namely, to strengthen the system, to add geographic coverage, or to replace ageing stock.

2.2.3 Support, Training, and Quality of Execution

Haneborg (2003) describes Franchisees as independent business people who make many business decisions that ultimately determine the success or failure of their businesses. How well they execute their operating system, who they hire, how much they pay their employees, and how they schedule their bottom line primarily impacts whether the business will be widely successful or go broke. However, it is up to the Franchisor to foster a symbiotic relationship with the Franchisee, listen to all comments and complaints, take action, and reinforce the basics of the respective business that will ensure their relationship is built on a solid foundation. The Franchisee's responsibility is to execute the business-format plan provided by the Franchisor, and also to provide ideas for the improvement of the business, and to communicate on a regular basis with the Franchisor about the business (Anon, 2001). Moserowitz (2001) defines execution as taking actions to promptly resolve problems effectively.

Reynolds (2003) similarly advises that in many companies and franchise systems, rapid change and deployment are critical to the company's success. It is absolutely essential to have a roadmap under these conditions. But it is also necessary to focus on the execution of the plan: the right recipe of buy-in, caution, speed, flexibility, and an ability to capitalise on organisational momentum. A good strategic plan is 20% about the plan and 80% about execution. Six strategic initiatives have been identified that will enable the organisation to achieve a vision. These are as follows: consensus building, team building, leveraging core capabilities, limiting distractions, demonstrating flexibility, and, finally, capitalising on momentum.

Sayler (2003) believes that there are two major reasons why people choose a franchise system over opening their own business. The first is national brand awareness, complete with marketing. The second is experience, or more specifically, a franchise training or education program. It is the passing along of this experience and knowledge that give the Franchisee an advantage over the person opening up a business on his own. The training session is the single most influential opportunity for the franchise system to shape the Franchisees' business skills. Ruggless (2003) said that Franchisors can assist Franchisees with manpower planning or recruiting, training, maintaining operational standards, facilities and equipment purchasing, creating remodelling plans, marketing and advertising, and finding financing for growth.

Smaller Franchisees need help in creating business plans, financing programs, training, and real estate. Larger Franchisees seek assistance in market-level promotion in geographic areas but take care of many of the business functions themselves. Jyh-Shen, Chia-Hung & Ching-Hsien (2004) demonstrated that although training and operational guidelines assistance satisfaction did not have direct effect on Franchisees' overall satisfaction towards the franchise system, operational guidelines assistance satisfaction did have an indirect effect on overall satisfaction through perceived trust. A Franchisor should understand that although daily operation assistance cannot improve Franchisees' overall satisfaction directly, it can definitely improve the trustworthy image of the franchise system. As proposed by Teixeira (1994), franchise sales process, orientation, and training in the start-up period are key elements for the success of a company's franchise relations program. Therefore, providing solid assistance is also very important in increasing Franchisees' intention to remain in the franchise system. Watkins (1996) cautions that assistance must come from staff consultants who have proven track records of success. Franchisees deserve the best, not has-beens or those who never were, to help solve critical marketing and operations problems.

2.2.4 Communication

The majority of studies reviewed identify communication as the underlying success factor for productive franchise relations. Nelson (2002) describes that the three most important words for successful franchise relationships are communication, communication, and communication. Similarly, Siegel (2002) is of the opinion that there is only one word that fits the answer to building and maintaining relationships and that word is communication. He advises the partners to learn this word and, most of all, work with Franchisees to master it. Communication assumes an understanding between parties. It means there is a meeting of the minds. In essence, communication is used to convey a message. It can be used to develop relationships, convey information, or to aid in making a decision. Haneborg (2003) says that communication remains the hallmark of a successful franchise relationship. Charlwood (1993) advocates that the true potential of franchising can be reached only through discipline, and the need for discipline only emphasises the importance of effective Franchisor-Franchisee communications.

Jyh-Shen, Chia-Hung & Ching-Hsien (2004) demonstrate that communication is very important in reinforcing Franchisees' trust and overall satisfaction with the franchise system. They infer that communication plays a broader role in relationship-building processes than was expected. The results of their study not only corroborated the research in academic areas and the articles in the practical field but also provided reasons behind communication's effect on the commitment of the Franchisees. Not only can communication affect a Franchisee's perceived trust on a Franchisor positively, but it can also influence a Franchisee's overall satisfaction towards the franchise system. More importantly, both perceived trust and overall satisfaction are important antecedents for a

Franchisee's intention to remain in the franchise system. Franchisors should understand that communication is the foundation for sound relationship-building in a franchise system. Active and two-way communication is very important to gain trust and overall satisfaction of Franchisees. Consequently these trust and overall satisfaction can affect a Franchisee's intention to remain in the franchise system.

Friedman (2003) describes the success factors of franchising as being based on a proactive focus on the establishment and facilitation of open lines of communication. Working together, Franchisors and Franchisees can utilise vehicles such as intranet forums, meetings, conferences, and advisory councils to foster positive and productive cross communication. Simultaneously, this discourages negative energy and contentious behaviour. All of this is possible when the franchise development team begins with the end in mind. Howe (2003) identifies communication, recognition of common interests, and an environment that encourages open exchange as the secret to success in Franchisor-Franchisee relations. Effort to maintain a good relationship requires the critical element of effective, two-way, communication. The responsibility for providing the vehicles for communication lies with the Franchisor. When the Franchisor provides these vehicles of communication and education, Franchisees are more comfortable and willing to bring concerns and questions to the table, and share thoughts and ideas from the perspective of their markets. A commitment to a two-way exchange of ideas and perspective also fosters a mutual respect and commitment between the parties, building trust and thus solidifying a fully functional and working relationship.

Schumacher & Crosby (2004) advocate that maintaining open lines of communication with the Franchisee association can be an exceptionally effective method of staying in touch and as a result this fosters a healthy franchise relationship. Similarly, Teixeira (2004) recognises how open communication, newsletters, meetings between the Franchisor and its Franchisees and other related activities contribute towards building and enhancing positive franchise relations. The author advocates that the aforementioned attributes should be part of every franchise organisation regardless of how large the Franchisor may be. It makes sense for all Franchisors to have positive communications, accessibility to Franchisor management, and other methods for recognising and communicating with its Franchisees even if these activities are somewhat on a smaller scale in newer franchise companies. Kaplan (2002) emphasises that in order to have a good relationship with franchise partners, there must be open and honest communications at all times. Partners must be free to tell the good, the bad, and the ugly and franchise partners must never be surprised by second-hand information. More importantly, it is important to understand that communication is a two-way street and a lot of time must be devoted to listen to franchise partners. Nelson (2002) notes that everything sends a message, including what one does or does not do. You are constantly communicating something. People in the system will always take that message and see it their own way whether one wants it to or not. Knowing this can help franchise partners ensure the right message is being communicated.

A number of methods can be used to enhance communications in franchise systems. According to a survey carried out by Nelson (2002), Franchisors prefer phone calls, e-mail, and on site visits. Franchisees, on the other hand prefer e-mail, phone calls, and fax. The survey revealed that the Franchisees rated individual support visits much less than did the Franchisors.

Kaplan (2002) describes some of the ways we communicate with franchise partners. They include:

- weekly communication bulletins from operations which cover any new information that is vital to running the business.

- weekly franchise newsletters which update franchise partners on the latest company news such as, new hires, new openings, sales, and best practices.

- quarterly conference calls in which all franchise partners can participate.

- quarterly letter recapping milestones reached in that quarter.

- quarterly meeting of the Franchise Advisory Council.

- annual meeting of all franchise partners. At least once per year worldwide franchise partners get together to discuss current business issues and destination.

Schumacher & Crosby (2004) recommend that Franchisors provide the essential tools for staying in touch, including a useful and informative web site, a newsletter that is worth reading, a fun and educational annual convention, and a proactive team of field representatives. The authors also say that nurturing a truly robust franchise relationship requires going beyond the basics. They recommend that Franchisors be more than a sounding board for frustrated Franchisees. They could also put new or struggling Franchisees in touch with successful colleagues. Some Franchisors hire regional managers who are franchise veterans (or have other significant business-building credentials) to help recruit and train new Franchisees, and who commit their efforts to the success of each Franchisee in their region. Other guidelines include: strive for quality communication, build consensus, do not ignore or exaggerate conflict, and work together. Maintaining open lines of communication with the Franchisee association can be an exceptionally effective method of staying in touch and feeding a healthy franchise relationship. The authors recommend that Franchisors also try some new recipes, as follows:

- Active listening

Franchisors should be more than a sounding board for frustrated Franchisees. Create a culture in which Franchisees talk about roadblocks, or potential roadblocks, before they become serious problems and help remove them. This may require devotion of substantial resources, but the long-term benefit is usually worth the cost.

Active listening also involves accurate documentation of all communications.

- Mentoring

This can be achieved by putting new or struggling Franchisees in touch with successful colleagues. There are many ways to go about this. Some Franchisors hire regional managers who are franchise veterans (or have other significant business-building credentials) to help recruit and train new Franchisees, and who commit their efforts to the success of each Franchisee in their region. Other Franchisors use variations on the traditional franchise operations and field support staff, bringing successful Franchisees into this role, and ensuring that regular field visits generate ideas and concerns to be addressed by the home office. None of this is free. If you cannot afford a full-fledged system, at least set up an informal mentoring network, and provide an appropriate incentive for your strongest Franchisees to share their wealth of experience.

- Quality Communication

Strive for quality communication rather than sheer quantity. Impersonal messages, weekly newsletters, and broadcast e-mails may be necessary, but they are not sufficient. Tell your Franchisees by post, by wire, or in person that you value their efforts. Schumacher *et al* (2004) are also of the opinion that it is important to recognise success, address complaints, send personal handwritten notes when a special word of congratulations or encouragement, or even a *mea culpa*, is in order. It is a cheap, easy, and amazingly effective way to nurture a franchise relationship, because it makes the Franchisor a real person. It will also temper an allegation of personal animus in the event of litigation.

- Working Together

Striking a balance between the Franchisor's desire to pilot the ship and the Franchisees' inclination to offer navigational advice is a tricky business. If there is a Franchisee association in the system, both Franchisors and Franchisees need to work together and not against one another. The point is that the association can provide a fantastic forum for communicating with Franchisees, both formally and informally.

On a formal level, the Franchisee association should provide information to help the Franchisor gauge the market and assess the viability of proposed initiatives. The association can also serve a self-regulating function, helping to ensure that the voice of reason is heard more clearly than objections, which might otherwise command a greater share of attention than they deserve. Informal exchanges are likely to be even more valuable.

Maintaining open lines of communication with the Franchisee association can be an exceptionally effective method of staying in touch and feeding a healthy franchise relationship. Haneborg (2003) cautions however that a broadcast e-mail or weekly newsletter is not going to make Franchisees feel "in touch." Open dialogue between Franchisees and the Franchisor is vital in the relationship. Whether it is one-on-one conversation or a round-table discussion of several Franchisees, real communication in any business relationship is essential, and there is always room for improvement.

2.2.5 Trust (Trust and Transparency, Fair and Equitable Treatment)

Tate (2004) advocates that productive business relationships are formed based on mutual benefit, fairness, and trust, not legal documents. Similarly, Ruggless (2003) advocates that maintaining strong relationships and trust must be a major goal of brand owners. Watkins (1996) has identified that one of the key elements that good Franchisors must bring to the table is fair and unscrupulously equal treatment. Preble (1995) states that it is important to the franchise relationship that both the Franchisor and Franchisee discharge their responsibilities appropriately and treat each other fairly. Johnson (2003) describes the best franchise organisations as those in which mutual trust and shared objectives are the norm. Achieving such a condition is not impossible. What is required is the open, resolute, and ongoing application of specific policies that affirm the value of each side's goals and abilities. When Franchisees and their Franchisors join forces for the sake of each other's mutual benefit, the pie can only be enlarged.

Bloom (2003) is of the opinion that strong relationships built upon careful listening and mutual respect between Franchisors and Franchisees provide the building blocks for a successful franchise system. Moserowitz (2001) writes that the Franchisor-Franchisee relationship must be built on four key areas: trust, execution, communication, and appreciation. Trust means keeping promises and appreciation means Franchisees know they are valued. Germann (2003) explains that the relationship between a Franchisor and a Franchisee is based upon mutual trust and respect. He recommends that it is important for Franchisors to foster positive franchise relations with their Franchisees to get the best out of all Franchisees. Franchisors and Franchise managers must display the human attributes of patience, must be good listeners, receptive to ideas, compassionate where necessary, assertive where necessary and above all must talk to Franchisees at the same level. Equally important, Franchisees should not be treated badly by berating them publicly or by demeaning or ignoring their efforts. It is far better to use positive ways to earn their commitment. Most people like to show how good they are and they enjoy being stretched, challenged, recognised, and rewarded.

Recognition is a most potent reward and hearing one's own name spoken in praise is very satisfying. Schumacher & Crosby (2004) advise that when the Franchisee association and Franchisor management have built a bond of trust, many significant issues (including the merits of potential Franchisee lawsuits) can be resolved quietly through communication, rather than aired publicly through litigation.

2.2.6 Potential Sources of Conflict and Conflict Resolution

Conflict is a natural and vital part of any relationship (Amos, 2003). People often have different perspectives or points of view, based upon their life experiences, background, cultural diversity, and financial goals. Disputes of varying degrees of severity will therefore occur. If the parties treat disputes as a natural part of a Franchisor-Franchisee relationship, then the disputes become simply another business challenge to overcome. They can be resolved more effectively and with less emotion.

It is important to recognise that Franchisors and Franchisees view things from opposite perspectives. For example, the Franchisor looks at, and drives results from the top down, making their percentages off the gross revenue. The Franchisee is interested in net profits, or bottom-up results, because the net profit is income. The fact that they maintain opposite financial perspectives and goals can often be the underlying cause of conflict.

Nathan (2003) describes the potential for conflict as analogous to the caution with which electricians work. They understand electricity's power to either create or kill and give it the respect it deserves. In a sense, relationships are a bit like electricity in that, while one cannot actually see a relationship, it also holds enormous power to create or destroy. He also states that our greatest challenge as human beings has always been getting on with each other. Despite our good intentions there will always be some people who bring the worst out of us and others who would perhaps say that we bring out the worst of them.

The same author describes six common causes of strained franchise relations as follows:

1. Misaligned Expectations

The author is of the opinion that unmet expectations are the most common cause of disputes in franchising. In the early stages of the relationship, when both parties are trying to impress each other, there can be a temptation to exaggerate the truth and raise expectations, which can later lead to disappointment and even feelings of betrayal. Franchisees can be just as guilty as Franchisors when it comes to over-promising and under-delivering. For instance, they can overstate their working capital, their level of hands-on commitment to the business, their willingness to disclose business information and their preparedness to participate fully in the franchise program.

2. Confusion over Roles

The roles of Franchisee and Franchisor are fundamentally different, but complementary. The Franchisee's job is to run a profitable business, grow a base of happy customers, and support the Franchisor's brand values and systems. On the other hand, the Franchisor's job is to provide good leadership, help the Franchisee achieve his or her goals, and protect the strategic position of the brand. When both parties become confused about their priorities, the result is distracted effort and power struggles. For instance, a Franchisor might try too hard to make a Franchisee successful and, in so doing, undermine the Franchisee's initiative and sense of responsibility. To use an old example, Franchisors need to practise the art of teaching people how to fish rather than just feeding them fish. On the other hand, some Franchisees feel they have to question and challenge a Franchisor's every decision. Sometimes, Franchisees and Franchisors have to be reminded that they are running a business, not a political party.

3. The Law of Perception

This law states that, "When perception meets reality, reality always comes out second best." In other words people's behaviour is always influenced more by what they believe to be true than what is actually true. When we analyse what is happening between people involved in disputes, we find that they either have access to different information or are interpreting the same information differently.

4. The Franchise E-Factor

This model developed in 1992 has helped thousands of Franchisors and Franchisees to measure map and manage the six stages of the franchise relationship. These stages called the Franchise E- Factor describes the evolution of the Franchisee mindset, as follows: Glee-Fee-Me-Free-See-We. The relationship moves from dependence to independence and finally, if managed well, to inter-dependence.

5. Lack of Consultation

A study of 1,500 Franchisees from 11 different franchise systems showed that the issue they were least happy about, was that they were not adequately consulted on decisions which affected their business, made by the Franchisor. Franchisors need to learn the art and science of effective consultation if they are to gain Franchisee commitment to important changes. It is worth noting here that the biggest cause of failure with new initiatives is a lack of commitment by the people who have to make the changes work.

6. Lack of Franchisee Profitability

Franchisees may put up with mediocre service, lack of support, little recognition, and poor leadership from their Franchisor if they are making healthy profits. However, when finances get strained so do relationships. Dittman (1996) also notes that too often complaints are received from Franchisees that the Franchisor is not listening to his Franchisees. The author concludes that it does not make sense for one party to ignore the other's good ideas. If the complaint is founded, it could weaken financial performance for the Franchisees, and ultimately, the Franchisor.

Storholm *et al*, (1994) describes some major sources of conflict generated by Franchisors as perceived by Franchisees, as follows:

a) Dual distribution implications caused by opportunistic behaviour guaranteed by favourable economics of scale for Franchisor-owned locations vis-à-vis locations owned by Franchisees, whose costs are inherently higher.

c) Full-line forcing or requirement to purchase standardised products from Franchisor. Although technically a potential antitrust violation, a number of respondents in the study carried out by Storholm which affected their business, felt that many Franchisors force Franchisees to purchase products/services from the Franchisor which could be purchased elsewhere more economically (Storholm *et al*, 1994).

d) Redirection/termination of franchise thesis is based upon a Franchisor terminating unfairly a profitable franchise in order to operate the unit as a Franchisor-owned location.

e) Questionable use of advertising payments. Most Franchisors require a weekly or monthly payment of a small percentage of sales (2%-5%) to be used to generate revenue for Franchisees. Respondents felt that in many cases, these funds were used inequitably by Franchisors.

f) Asymmetrical nature of franchise agreement. Although this issue is mainly philosophical in nature, most respondents were of the opinion that the very nature of the franchise agreement can lead to opportunistic behaviour on the part of the Franchisor, since the Franchisee is required to adhere to the terms of an agreement drawn up by the Franchisor.

Storholm *et al* (1994) are also of the opinion that many Franchisees were guilty of conduct ranging from outright contract violation to dealing in bad faith with Franchisors. Some of the more common sources of conflict generated by Franchisees were the following:

- Release of proprietary information to outside parties. This practice includes the sale or other transfer of "trade secrets" developed by the Franchisor, a practice strictly prohibited in all franchise agreements.

- Non-payment or "short" payment of royalties. Most franchise agreements stipulate a royalty payment as a percentage of gross sales by a due date to the Franchisor. Some Franchisees simply refused to make payments as agreed or else falsified their revenues reported to Franchisors.

- Refusal of Franchisees to adhere to standardised conditions in franchise agreement. A systematic avoidance of terms of this agreement (for example, refusal to purchase store signs, special offers not observed, failure to report accurate records to avoid royalty payments, etc.). Since one of the major marketing advantages of franchising is standardisation of service to consumers, non-adherence to standards pre-agreed by Franchisees has the affect of weakening the credibility of the entire franchise system.

The study also observed that abuse of the above often led to expensive and unnecessary litigation. On the other hand, they felt that additional legislation designed to inhibit unethical or opportunistic behaviour is to be discouraged.

Trocchio (1994) explains that whether the individual is an employee, a Franchisee, or a customer, the need for respect is at the very core of all relationships, and the lack of it is often the root cause of a conflict. When Franchisees believe they are not respected or valued by the system to which they contribute, they begin to challenge that system. The author concludes that conflict is inevitable in most relationships, competent management and effective communication notwithstanding. She recommends that it is best to anticipate conflicts and to have systems in place to manage them constructively before they occur.

Trocchio (1993) also believes that some franchises operate under the following myths or myth-conceptions: 1. Franchise conflict can be avoided through effective communication and competent management. 2. Because the arrangement between the Franchisee and Franchisor is based on a legal contract, problems should be addressed immediately quoting that contract and proposing legal action. 3. Good Franchisees are those that follow the system while bad Franchisees are those that always call the corporate office questioning the Franchisor's policies and practices. 4. Franchisors must take a position and stick with it so as not to appear weak and lose control. 5. Franchisors should never give up something to Franchisees without receiving something in return.

Ruggless (2003) cites 10 areas of possible conflict between Franchisors and Franchisees: encroachment, non traditional locations, remodelling requirements, new product introductions, and related equipment upgrades, consistent operating standards, use of advertising funds, transfer of ownership, and sale of businesses, non competition covenants, termination procedures, and contract-renewal issues.

Larson (2002) thinks that the best way to handle these and other issues between Franchisor and Franchisee is talking face-to-face.

2.2.7 Other Issues

Johnson (2003) rightly points out that Franchisees need to realise that the franchise contract they signed, in virtually every instance, is structured to favour the company. Instead of wasting time fighting that lost battle over and over, they must find new and better ways to influence the relationship. Ideas that help the entire system nearly always are appreciated. Additionally, Franchisees have their own part to play in improving relationships. Topping the list is the importance of letting go of old grudges and biases that have nothing to do with the people and situations at hand. Franchisors, on the other hand, must treat the Franchisees with respect and follow through their promises.

Quinn & Doherty (2000) confirm the asymmetrical nature of franchise relations based on the agency theory. Agency theory is based on the concept of the principal-agent relationship where one party (the principal) delegates work to another (the agent) who performs the work on a day-to-day basis. In the standard theory of the firm, under the divorce of ownership from control, shareholders represent the principals in the relationship and management the agents. In the context of the principal-agent relationship, agency theory highlights the importance of the information transfer process, the information asymmetry problem, and associated monitoring costs. This information asymmetry problem arises in the principal-agent relationship because agents, being in day-to-day control of a company, have detailed knowledge of its operations. The principals have neither access to this knowledge, nor, in many cases, the ability to interpret information, if access was perfect. Doherty & Quinn (1999) contend that the Franchisor-Franchisee relationship parallels the principal-agent relationship, thus allowing agency theory to provide insights into international retail franchise activity.

Stephenson & House (1971) suggest that franchise relationships are based on the potential for greater gains through group membership. The very nature of this relationship raises questions concerning latitude for independent action and constraints on decision authority. Key issues concern the degree of autonomy the Franchisee should have, the nature of the franchise contract, and the management of conflict. The authors conclude that there is little or no virtue in a high degree of franchise autonomy that the inherent dangers of power concentration can be minimised via appropriate contract design and that one critical aspect is the intelligent handling of conflict, particularly situations that can impair efficiency.

With respect to this, Teixeira (2000) advises Franchisors to carefully control the franchise agreement process. The Franchisor should have procedures that will prevent individuals within the organisation from being able to amend or change terms of the franchise agreement without the approval or prior consent of the franchise attorney.

Another aspect flowing from the franchise agreement is the monitoring of services that Franchisees are entitled to receive. From site visits to training support, it is important to ensure that staff is delivering what the Franchisor is obligated to provide.

As a Franchisor, it is important to uphold the standards that the franchise agreement establishes. Franchisees expect to be held accountable to these standards, and when they are not, it can lead to potential problems. Moreover, by not enforcing system standards, a Franchisor is being unfair to those Franchisees that do follow the system.

There is a direct relationship between Franchisee financial results and Franchisor-Franchisee relations. Profitable Franchisees will typically lead to positive franchise relations. There is therefore a need to measure the financial results of Franchisees on a regular basis.

It is important for Franchisors to make changes to programs when needed and not to wait for Franchisees to demand change. It is far better as a Franchisor to initiate change rather than being forced into it.

It is also useful to have a network of Franchisees who can be counted on to provide feedback when needed. A true benefit of a franchise advisory council is that some of its members will feel obliged to provide unsolicited feedback to the Franchisor. This is a benefit which can work both ways. This relationship can be used in a positive way by getting the message to Franchisees and utilising Franchise Advisory Council members as facilitators to assist in this endeavour.

2.3 Summary of the Literature Review

The following groups of Critical Success Factors (CSF) were identified based on the literature review and these were used as the basis to design the research questionnaire.

Critical Success Factors (CSF) in Multinational Franchise Relationships

Group1: Selection of the partners is critical in the success of the franchise

1. The Franchisor must have a proven operating concept and the Franchisee must have access to capital, the necessary business acumen, and is willing to invest in expanding the concept (Dittman, 1996), Germann (2003).
2. Capabilities needed by the Franchisor to expand internationally are administrative efficiency and risk management (Fladmoe-Lindquist, 1996).
3. All stakeholders in the franchise must display leadership and managerial competence (Pizanti &Lerner, 2003).

4. Staff consultants should have proven track records (Watkins, 1996), (Jyh-Shen *et al*, 2004).

Group 2: Partnering must be for mutual benefit and value

1. Franchising is about money in the bank, not heads in beds (Watkins, 1996).
2. When finances get strained so do relationships (Amos, 2003). Franchisors must support Franchisees in times of difficulty (Amos, 2003).
3. Weakened financial performance of Franchisees also hurt the Franchisor (Dittman, 1996).
4. Partners in franchise systems should focus on the fact that they are partners (Preble, 1995).
5. Partners must remain focused on the long tem, and keep both Wall Street's goals and Franchisees' goals in mind (Bhakta, 2003).
6. Customers do not care about the relationship with your Franchisor and Franchisees. Energy should be directed toward building happy customers (Nathan, 2003).
7. Marketing programs should build profitability not just bring revenues. Brands should grow for the right reasons (Watkins, 1996).
8. Adhering to a team mentality and not as adversaries (Haneborg, 2003).

Group 3: Quality of execution depends a lot on support and training as well as on mutual appreciation.

1. Franchisors should provide assistance to Franchisees through staff with proven track records (Watkins, 2002).
2. Training in operations and sales during the start up period is fundamental for franchise relations development (Watkins, 2002, Texeira,1994, Kaplan 2002).
3. Franchisees have high expectations for support (Kaplan, 2002).
4. Franchisors should listen to Franchisees (Dittman, 1996).

5. The real power of franchising lies in effective sharing of knowledge between Franchisors and Franchisees , and also between Franchisees (Dittman,1996, Nathan 2003, Moserowitz, 2001, Schumacher *et al*, 2004).
6. Appreciation means that Franchisees know they are valued (Moserowitz, 2001).
7. Franchisees should be told that their efforts are valued (Schumacher *et al*, 2004).
8. Fair equitable treatment is expected from both partners (Preble, 1995, Schumacher et al 2004, Johnson 2003, Kaplan 2002, Watkins, 1996).
9. Both Franchisor and Franchisee should discharge their responsibilities appropriately and treat each other fairly (Preble, 1995).
10. Balance the Franchisor's desire to pilot the ship and the Franchisee's inclination to offer navigational advice (Schumacher *et al*, 2004).
11. The best franchise organisations are those in which mutual trust and shared objectives are the norm (Johnson, 2003).
12. Franchisees should expect fair and unscrupulously equal treatment (Watkins, 1996).
13. Franchisee association should provide information to help Franchisor to gauge market and assess the viability of proposed initiatives (Schumacher *et al*, 2004).
14. Make Franchise partners part of the decision process (Kaplan, 2002).
15. Flawless execution is what delivers results (Moserowitz, 2001).
16. Execution means taking actions to resolve problems effectively (Moserowitz, 2001).

Group 4: Effective Communication is essential to keep the relationship healthy and alive

1. Communication is the foundation for sound relationship building in a franchise system. Not only can communication affect a Franchisee's perceived trust on a Franchisor positively but it can also influence a

Franchisee's overall satisfaction toward a franchise system. (Jyh-Shen *et al,* 2004).

2. Communication, recognition of common interests, and an environment that encourages open exchange are key ingredients to a healthy relationship between Franchisor/Franchisee (Howe, 2003).
3. One way of enhancing the relationship is to have an annual conference, which should be a fun event as well as an educational event. (Germann, 2003, Kaplan 2002).
4. At the essence of the relationship is mutual trust and respect and it is essential to ensure that there is good communication between the Franchisor and all Franchisees. Such communication can be achieved in a number of ways including: Franchise conferences, newsletters, field visits, and regular contacts by phone (Germann, 2003).
5. There must be open and honest communication at all times, including the sharing of the good, the bad, and the ugly. Communication is a two way street (Kaplan, 2002).
6. Listening to Franchisees is an important part of communication (Kaplan, 2002, Dittman, 1996).

Group 5: Trust and transparency are necessary ingredients for a successful partnership

1. Franchisees should respect the terms of the contract agreement, even though its nature may be asymmetrical (Dittman, 1996).
2. Franchisees should not release proprietary information to outside parties (Dittman, 1996).
3. Commitment to a two-way exchange of ideas fosters mutual respect and commitment and builds trust (Howe, 2003).

4. Trust means keeping promises on both sides of the relationship (Moserowitz, 2001).
5. Franchisees must be willing to disclose business information and be prepared to participate fully in the franchise programme (Amos, 2003).
6. Franchisees are expected to maintain the high reputation of the company (Quinn & Doherty, 2000).
7. Manage expectations (Schumacher *et al*, 2004).
8. Fee structure must be equitable and easy to understand (Watkins, 1996).

Group 6: Conflict must be seen as an opportunity

1. Conflict is a natural and vital part of any relationship (Amos, 2003). The franchise contract is always asymmetrical (Johnson, 2003).
2. It is critical to be solution-oriented as opposed to conflict-oriented (Amos. 2003).
3. Franchisors and Franchisees view things from opposite perspectives, their roles are different but complementary (Amos, 2003).
4. Conflict arises from misaligned expectations: There must be a willingness to disclose business information and preparedness to participate fully in the franchise association (Amos, 2003).
5. The overlap in interests is far greater and more significant than the present zone of conflict (Schumacher *et al.* 2004).
6. Franchisees should let go of old grudges and biases that have nothing to do with the people and situations at hand (Johnson, 2003).
7. Understand each other's assumptions and beliefs (Amos, 2003)
8. Build consensus. Do not ignore or exaggerate conflict. Stay in touch especially during difficult times when there is a risk of communication breakdown. (Schumacher *et al*, 2004).

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Research Design

Research design is the plan and structure of investigation so conceived as to obtain answers to research questions. The plan is an overall scheme or program of the research. It includes an outline of what the investigator will do from writing hypotheses and their operational implications to the final analysis of the data. Briefly, research design constitutes the blueprint for the collection, measurement, and analysis of data.

This essential part of a research determines the method by which data is to be retrieved – experiments, interviews, observation, and analysis of records or simulation. In this present research, respondents have been asked to fill a written questionnaire. Given the small amount of variation in their educational level, the retrieval of accurate data was relatively easy. Neither the methods of collection of data nor the research situation were highly structured; the analysis is primarily quantitative and sample-based.

Being an exploratory research, this study will be purely formal with an objective of verifying the differences in opinions of Franchisors and Franchisees. Therefore, it logically includes a series of hypotheses and involves precise procedures and data source specifications, as will be seen later in this chapter.

3.2 Aims and Objectives

The prime objective of this statistical analysis is to verify to what extent, if any, the importance of each of the 16 factors, as mentioned in the questionnaire, vary from Franchisor to Franchisee. Each variable (factor) is to be measured on a numerical scale of 0 to 100 (actually, a percentage) with the restriction that the total scores of the 16 factors sum up to 100.

3.3 Target Population

The participants in the study are mainly Franchisors and Franchisees from selected organisations and businesses. The population comprises senior managers and executives who are employed in franchise organisations in East and Central African countries and who presently occupy full-time positions. The participants for the study were drawn from the following firms as per **Table 1**.

Table.1 Participants in the study

Institution	Sector	Number
University of Witwatersrand (WBS)	Academia	2
DCDM Business School (Mauritius)	Academia	1
Coca-Cola East Africa and Islands	Soft Drinks	10
Phoenix Beverages Group	Soft drinks	4
Ets Coubèche & Cie	Soft Drinks	1
McDonald's	Fast Food	4
KFC	Fast Food	2
Pizza Hut	Fast Food	2
Shoprite	Retail Supermarket	2
Pick&Pay	Retail Supermarket	2
Woolworth	Retail Supermarket	2
Heineken Group Africa	Breweries	8

The above firms were selected on the basis that they are large well-known members of multi-national franchise organisations. Inclusion of these firms in the sample depended on the researcher's access. The sample was therefore convenient in nature. All respondents at these participating firms were requested to complete the survey.

3.4 Data Collection

The management of the firms listed above have been contacted in person, by telephone and/or by e-mail. During this initial conversation, the purpose of the study and a brief overview of the methodology were discussed. A letter containing additional information and an invitation to participate in the study was also sent electronically to the respondent. Firms were offered a summary of the findings as an incentive for participation.

3.4.1 Administration

The data was obtained in the following way:

- the respondent was sent an electronic version of the survey
- The participants completed the survey electronically and returned it directly to the researcher.

3.5 Sample Size

A total of 27 Franchisors and 21 Franchisees participated in the survey, giving a total of 48 respondents – a number which actually lies in the range of expected respondents (40 – 60).

3.6 Measuring Instrument - Questionnaire

3.6.1 Design

Information is often used to make decisions about the future. If our information is accurate, we have a high probability of drawing the correct conclusions and, hence, making good decisions.

There are six common ways to obtain information. These are: literature searches, talking with people, focus groups, personal interviews, telephone surveys, and mail surveys. The one which has been deemed the most appropriate in this particular research is the written questionnaire. Questionnaire research design proceeds in an orderly and specific manner.

3.6.2 Questionnaire Content and Rating Scale

This questionnaire consisted of the 6 groups of critical success factors in the literature review, together with 10 other statements related to franchise systems, but which did not have their foundation in literature. The 16 statements were measured on a numerical scale as mentioned above such that the total of the ratings resulted in 100. The purpose of including the 10 statements together with the groups was to verify if, indeed, the participants also picked the groups identified in the literature review as being the most significant factors tin franchise systems.

It is clearly evident from observation of the groups of critical success factors (Section 2.3) that the sub-statements below each one of them are also derived from the literature review. In fact, these statements are powerful and representative enough to constitute the entire prospective survey questionnaire, let alone be just part of it.

Therefore, the approach taken for accurate data retrieval and analysis in this research was to actually build a questionnaire based on the above statements with, however, a change in the formulation, grouping, and number of these statements. Once responses from both Franchisees and Franchisors have been obtained, the CSF groups and their sub-statements will automatically pave the way to smooth hypothesis testing.

Once the questionnaire organised, testing each chosen statement as well as each 'group' of statements to be treated as a construct in this study may well reveal any divergence in opinion between Franchisors and Franchisees. It has to be conceded that testing by statement may prove to be sometimes too rigorous; given that opinions, being particularly subjective, implicitly carry an enormous amount of emotion, they might just bring about some discrepancies in the quantitative analysis.

It would perhaps be more appropriate to cross-check opinion divergence by testing 'groups' of statements as well by relying on the fact that grouping should theoretically 'average out' random variations occurring in single statements thereby giving a better reflection of the actual situation.

3.7 Data Processing

All responses were entered on an SPSS 12.0 spreadsheet. Every questionnaire was re-checked for entries in SPSS and there were no cases of missing data. Analysis was expected to yield relatively accurate results.

3.8 Statistical Software

Statistical Package for the Social Sciences (SPSS 12.0) was used to analyse the responses. SPSS was mainly used for:

1. Computing all relevant descriptive statistics,
2. Draw appropriate charts, graphs and diagrams, and
3. Perform hypothesis testing and publish test results.

3.9 Reliability

Reliability refers to the consistency of the results on different items in a test. Whenever attributes or opinions of people are measured, it is necessary to consider the *reliability* of the measuring instrument as well as its *validity* (to be explained in the next section). There are a number of types of reliability: test-retest, inter-scorer, split-half, and so on. The aspect of reliability, which will be relevant for this research, is, in a certain sense, split-half reliability.

As it is expected that the extent to which people are motivated towards the development of franchise relations varies over time, it is essential that the instrument is stable and secures consistent results irrespective of the current sentiments of the subjects. The statements in the survey need to be constructed in such a way that they ask the respondent to rate each construct irrespective of how they currently feel. This problem is solved by asking them about their future motives rather than their current ones. This approach caters for the situation where a respondent is currently not motivated towards the franchise where he or she is operating in.

3.10 Validity

Validity is defined as the extent to which a measuring instrument indicates what we are interested in measuring. Many forms of validity are mentioned in research literature; however, two major forms are more common, namely internal and external validity. Internal validity is the ability of a research instrument to measure what it is purported to measure whereas external validity refers to its ability to be generalised across persons, settings, and times.

3.10.1 External Validity

External validity is concerned with the ability of the research to be generalised across persons. This would require the use of a random and representative sample. The sample to be used for this quantitative study is convenient by nature.

3.10.2 Internal Validity

The content validity of the proposed quantitative study is essential. This is to ensure that the topic being researched is adequately covered through the use of the measuring instrument. To achieve this, the opinions and views of management consultants, academics/experts in the field of organisational design and industrial relations will be sought, and this, in order to validate the facets of franchise relations identified through the literature review.

3.11 Methods and Tests Used in Analysis

3.11.1 Independent Samples t-test

One very important aspect to be considered from the statistician's point of view is that, whenever we test for the difference between two population means*, it is compulsory to test for equality of the population variances first*. This is because the choice of the test-statistic depends on the fact that the variances are equal or not. In this study, we wish to verify whether the mean score for each of the 16 factors differ from Franchisor to Franchisee.

When testing for equality of means for two *independent* populations, we start by selecting a sample from each population. SPSS will automatically check whether *the variances of the two populations are equal* and, by default, will show the results in its output.

The formula being used is

$$z = \frac{(\bar{x}_1 - \bar{x}_2) - (\mu_1 - \mu_2)}{\sqrt{\frac{\sigma_1^2}{n_1} + \frac{\sigma_2^2}{n_2}}}$$

where n_1 and n_2 are the sample sizes (*not necessarily of the same size*) from each population respectively. If the population variances σ_1^2 and σ_2^2 are unknown, we replace them by their respective unbiased estimates $\hat{\sigma}_1^2$ and $\hat{\sigma}_2^2$.

However, SPSS simply computes the *p*-value (Sig. value); it is up to the researcher to compare this value with the default significance level of 5% before drawing any conclusion. Thus, if the *p*-value is less than 0.05, the result is deemed to be significant with 95% confidence.

3.12 Hypothesis Testing

Inferential statistics is the second of two major categories of statistical procedures, the other being descriptive statistics. On completion of a survey or census, it is not only important to display the results on charts, tables, graphs and diagrams but the information must be used to draw conclusions and, eventually, make decisions.

The main objective of any research topic is to seek an answer to a specific problem or question. Data is usually gathered and processed so as to confirm the possible existence of a relationship between two or more variables. In this study, we, first of all, attempted to investigate whether there is, in a sense, divergence of opinion between Franchisors and Franchisees by using the independent-samples t-test for the 16 statements in the questionnaire.

Given the possibility of finding considerable divergence in opinion on certain statements and taking into account that every individual statement belongs to some group of CSF, it may be wiser to perform an independent-samples t-test for each group as well. This will have the beneficial effect of smoothing and evening out any major difference in opinion identified for each individual statement. This step in hypothesis testing follows naturally in our inferential analysis.

The investigation was also taken one step further. An analysis of variance (ANOVA) was carried out in order to compare whether there are differences among the opinions of Franchisors, Franchisees and Academia (which was assumed to be an unbiased reference, in terms of opinion, here).

3.12.1 Hypotheses

The 16 statements listed in the questionnaire will subsequently be tested for divergence of opinion between Franchisors and Franchisees. It is worth noting that 6 of these statements are the 6 groups of CSF derived from the literature review, while the remaining ones are not derived from literature, but based on common knowledge and experience of Franchise Systems.

<u>Hypothesis One</u>

$\boldsymbol{H_o}$: There is no difference between the mean scores of Franchisees and Franchisors for <u>each of the 16 critical success factors</u> listed in the questionnaire.

$\boldsymbol{H_A}$: There is a difference between the mean scores of Franchisees and Franchisors for <u>each of the 16 critical success factors</u> listed in the questionnaire.

.

$$H_o: \mu_1 = \mu_2$$
$$H_A: \mu_1 \neq \mu_2$$

<u>Hypothesis Two</u>

$\mathbf{H_o}$: That the critical success factors in multinational franchise relationships are not:

- Partner Selection
- Partnering for Mutual Benefit and Value
- Trust and Transparency
- Support and Training as well as Mutual Appreciation
- Effective Communication
- Conflict Viewed as an Opportunity

$\mathbf{H_A}$: That the critical success factors in multinational franchise relationships are:

- Partner Selection
- Partnering for Mutual Benefit and Value

- Trust and Transparency
- Support and Training as well as Mutual Appreciation
- Effective Communication
- Conflict Viewed as an Opportunity

$$H_o: \mu_1 = \mu_2$$

$$H_A: \mu_1 \neq \mu_2$$

Hypothesis Three

H_o: There is no difference between the mean scores of Franchisees, Franchisors and Academia (Experts) for each of the critical success factors.

H_A: There is a difference between the mean scores of Franchisees, Franchisors and Academia (Experts) for each of the critical success factors.

$$H_o: \mu_1 = \mu_2 = \mu_3$$

$$H_A: \mu_1 \neq \mu_2 \neq \mu_3$$

CHAPTER 4: ANALYSIS AND FINDINGS

4.1 Descriptive Statistics

An important way of interpreting data is by analysing charts. The responses to the questions on the 16 factors are displayed on simple bar charts. Given that both Franchisors and Franchisees were requested to assign only one figure (percentage) to each factor, it was deemed necessary to group these individual values into classes for proper and meaningful bar chart presentation. Since Franchisor ratings ranged from 0% to 40%, these have been classified into the groups 0 – 4, 5 – 9, 10 – 14, 15 – 19, 20 – 24, 25 – 29, 30 – 34, 35 – 39 and 40 – 44. The range for Franchisees was 0% to 30%; hence, they were classified into the groups 0 – 4, 5 – 9, 10 – 14, 15 – 19, 20 – 24, 25 – 29 and 30 – 34. These bar charts, effectively, give a good visual impression of the distribution of responses to each question.

Distributions are most properly defined and summarised by measures of location, dispersion, and skewness. However, in this study, it is sufficient to calculate the mean since any divergence in opinion between Franchisors and Franchisors concerning any factor will be tested by using the independent-sample *t*-test on SPSS. The bar charts should give us a good idea of the degree of skewness, which would obviously be confirmed by the value of the mean (percentage) rating.

A measure of dispersion like the standard deviation will, unfortunately, not be of much help given the small sample sizes (26 Franchisors and 21 Franchisees). Nevertheless, its importance in determining whether Franchisors and Franchisees agree or disagree on any factor can never be underestimated in the *t*-test.

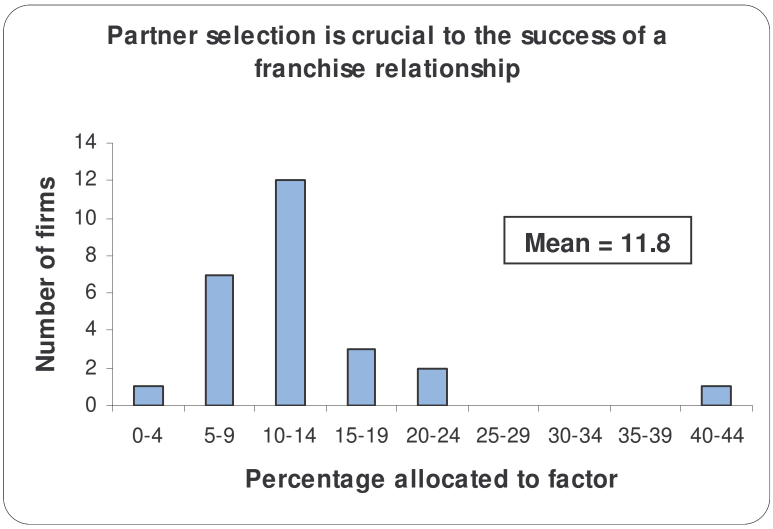
The following sections display the distribution of responses of Franchisors and Franchisees to each of the 16 questions. Each bar chart is supported by the average percentage allocated to its corresponding factor, hence giving an indication of its importance in the eyes of the respondents.

Based on the mean percentage assigned to each of the statements, the factors have been classified as follows:

- Very Important >10%
- Important 5-10%
- Not Important <5%

4.2 Responses of Franchisors

Fig. 1 Partner selection is crucial to the success of a franchise relationship



From the above figure, it can be seen that there is one outlier rating at 40-44. If this is excluded, the graph would show a normal distribution with a mean of 11.8 and the modal class of 10-14. This factor is considered to be important by Franchisors.

Fig. 2 Franchisees must have a solid financial foundation

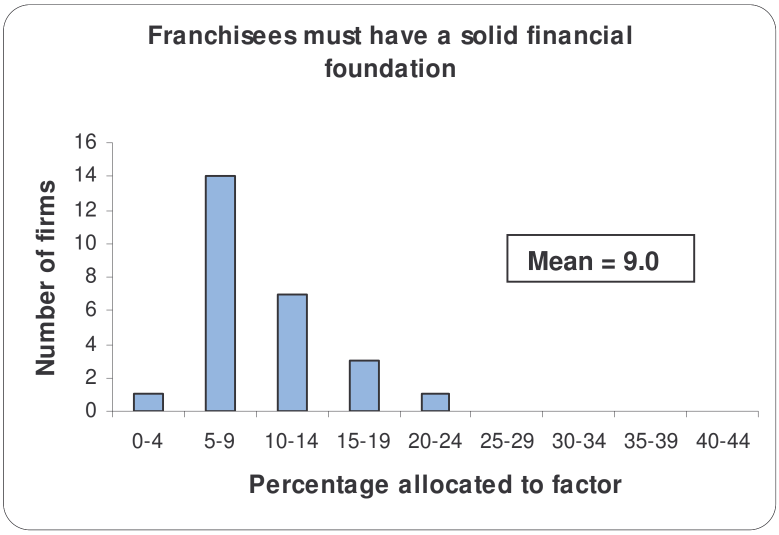


Figure 2 also displays a positive skewness with the mean at 9.0 and modal class of 5-9 . Some Franchisors rated this factor as important.

Fig. 3 Both parties must be suitably qualified professionals

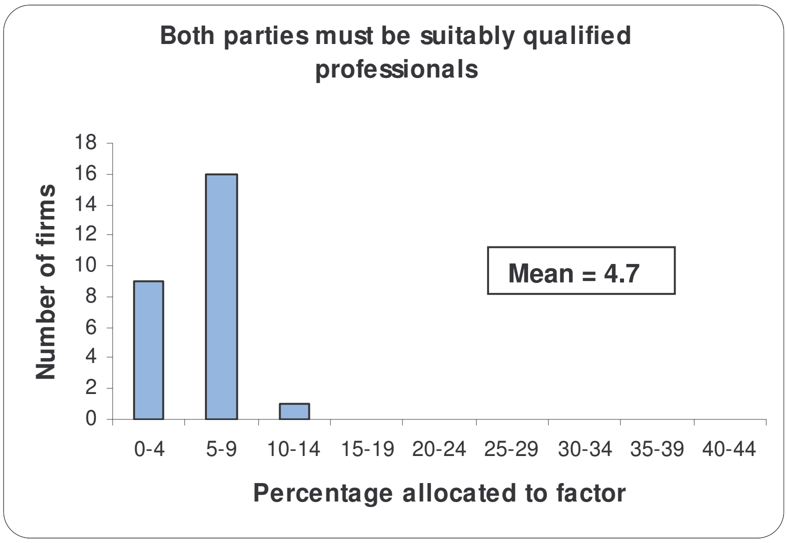


Figure 3 displays a strongly positive skewness with the mean at 4.7 and modal class of 5-9. This indicates that the factor was not important in the opinion of Franchisors.

Fig. 4 Both parties must share common goals and a common vision

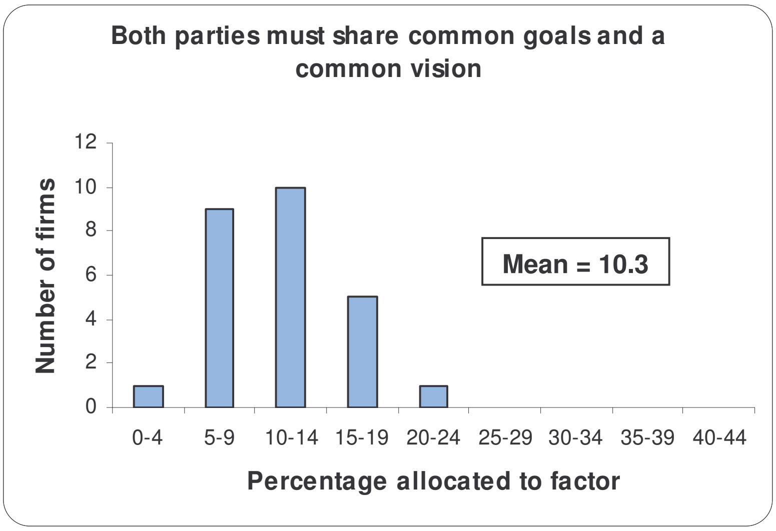


Figure 4 displays a normal distribution with the mean at 10.3 and modal class of 10-14. This factor was rated as very important by the Franchisors.

Fig. 5 The deal must create mutual benefit and value

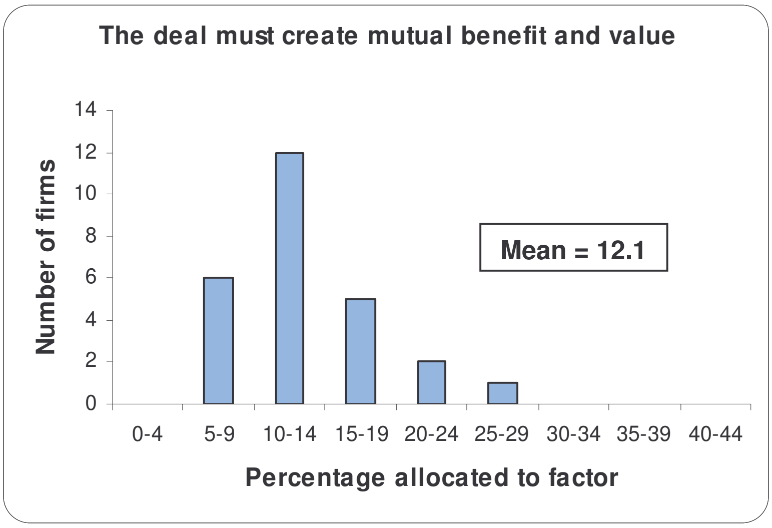
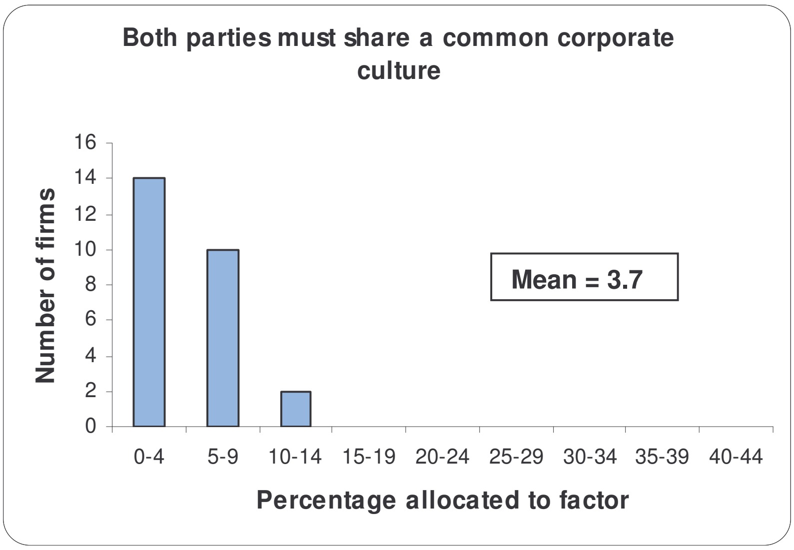


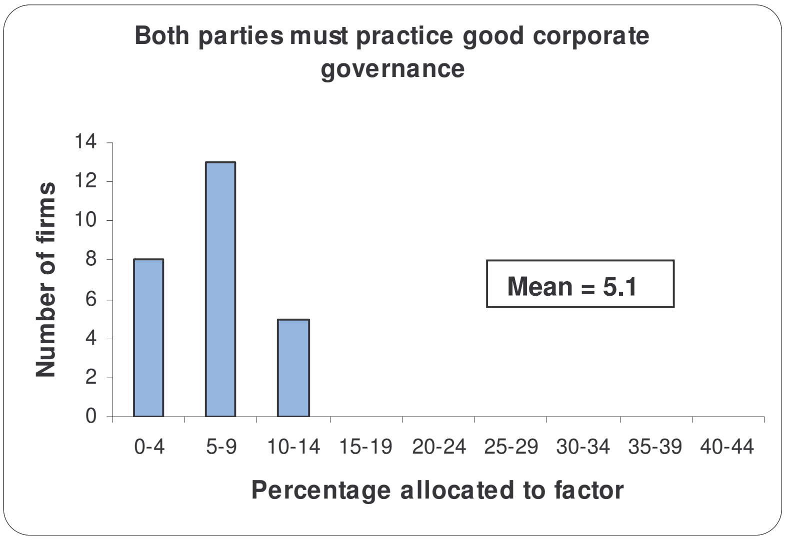
Figure 5 displays a positively skewed distribution with the mean at 12.1 and a modal class of 10-14. Franchisors rated this factor as very important.

Fig. 6 Both parties must share a common corporate culture



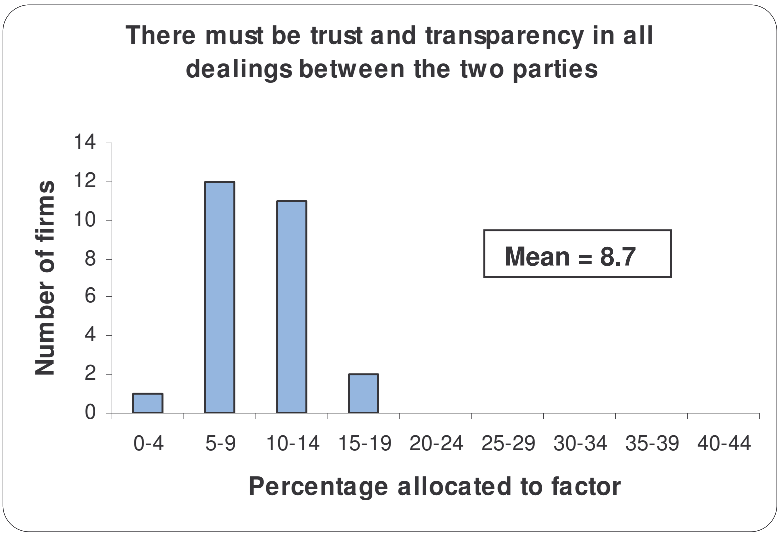
The positive skewness, low mean of 3.7 and modal class of 0-4 show that this factor was considered not to be important by Franchisors.

Fig. 7 Both parties must practice good corporate governance



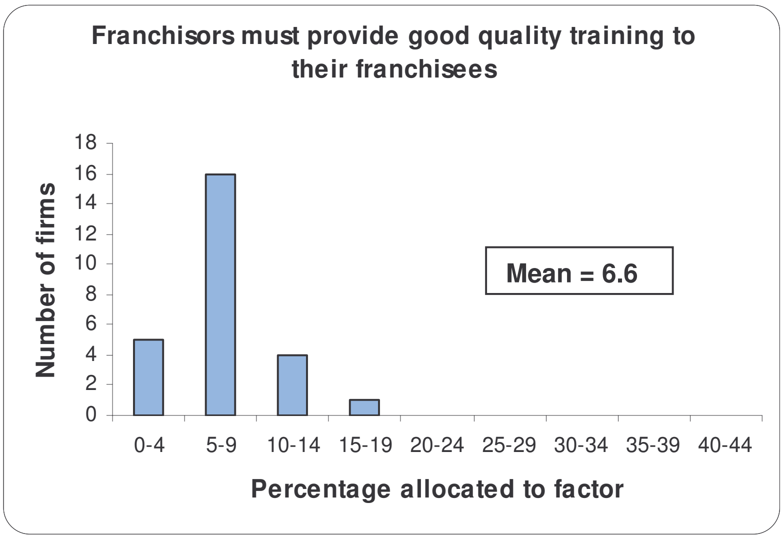
As for the above, the positive skewness, low mean of 5.1, and modal class of 5-9 show that this factor was considered to be of relatively low importance to Franchisors.

Fig. 8 There must be trust and transparency in all dealings between the two parties



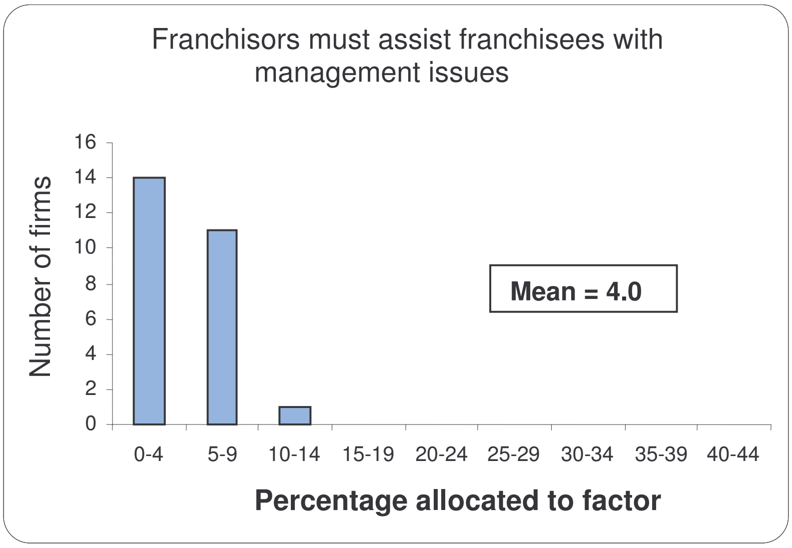
This factor exhibited an approximately normal distribution with a mean of 8.7 and a modal class of 5-9. This is an important factor in the opinion of Franchisors.

Fig. 9 Franchisors must provide good quality training to their Franchisees



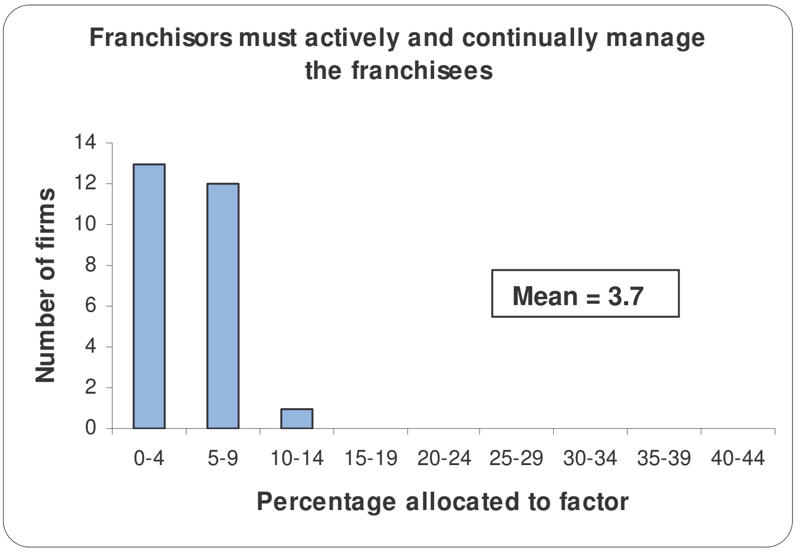
This factor also exhibited a positively skewed distribution with a mean of 6.6 and modal class of 5-9. This is an important factor in the opinion of Franchisors.

Fig. 10 Franchisors must assist Franchisees with management issues



The positive skewness, low mean of 4.0, and modal class of 0-4 show that this factor was considered to be of low importance to Franchisors.

Fig. 11 Franchisors must actively and continually manage the Franchisees



The distribution for this factor is positively skewed with a mean of 3.7 and modal class of 0-4. This shows that in the mind of the Franchisors, this factor was not deemed to be important.

Fig. 12 Effective communication between the two parties is essential

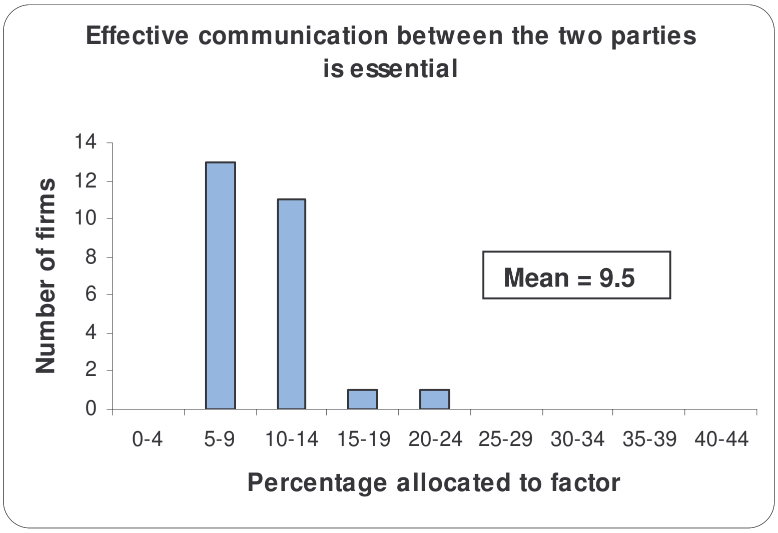


Figure 12 displays a positively skewed distribution with the mean at 9.5 and modal class of 5-9. Franchisors rated this factor as important.

Fig. 13 The headquarters of both parties should be located close to each other

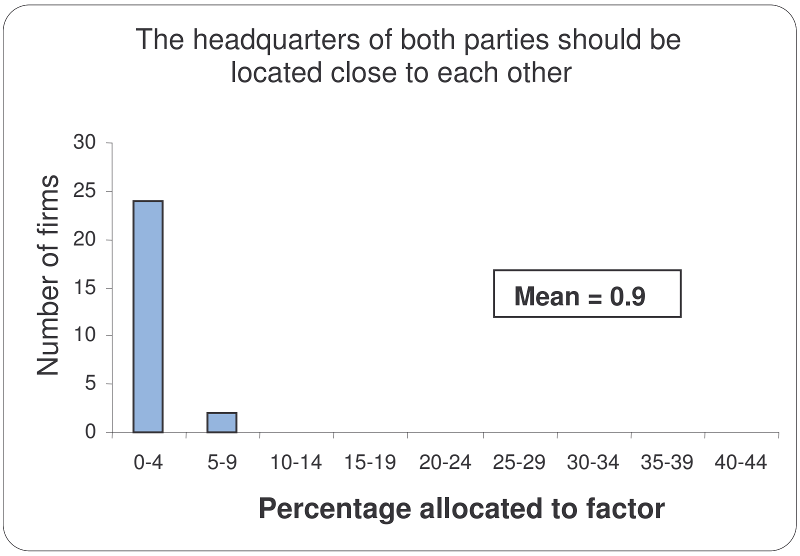
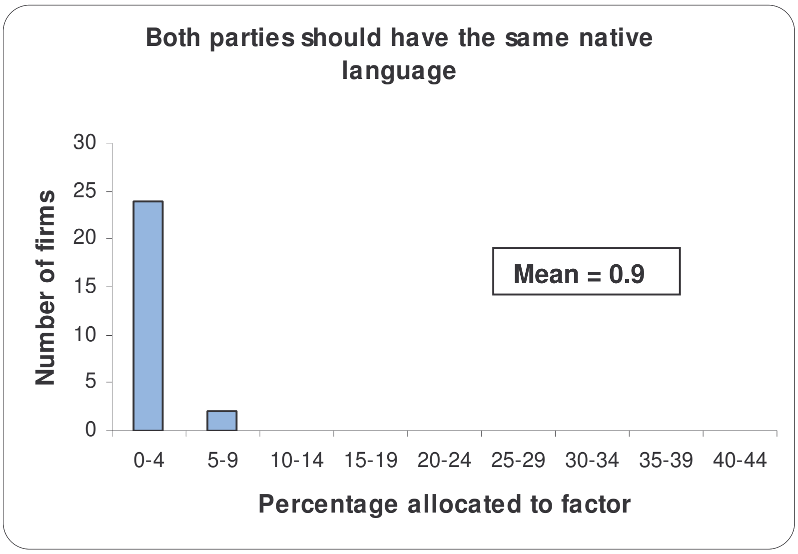


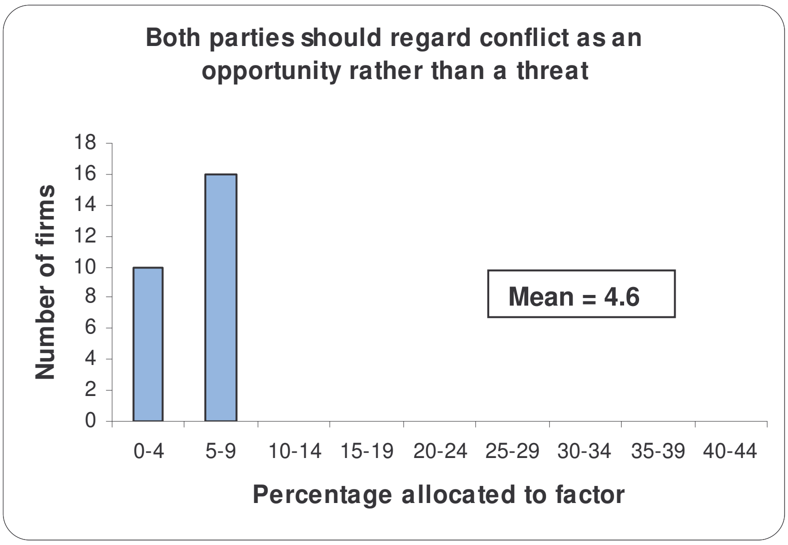
Figure 13 displays a positively skewed distribution with a very low mean at 0.9 and modal class of 0-4. This factor was not important and even insignificant in the opinion of Franchisors.

Fig. 14 Both parties should have the same native language



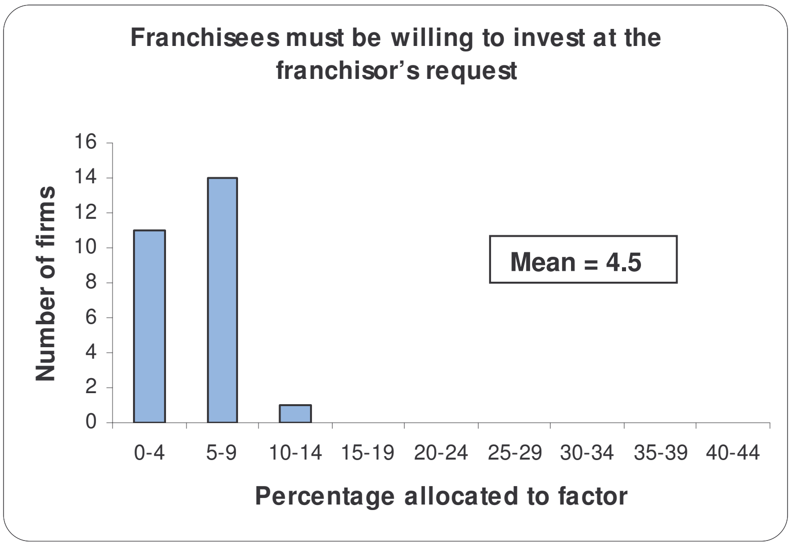
Similarly to fig.13, Figure 14 displays a positively skewed distribution with a very low mean at 0.9 and modal class of 0-4. This factor was not important in the opinion of Franchisors.

Fig. 15 Both parties should regard conflict as an opportunity rather than a threat



The positive skewness and low mean of 4.6 and modal class of 5-9 show that this factor was considered to be of relatively low importance to Franchisors.

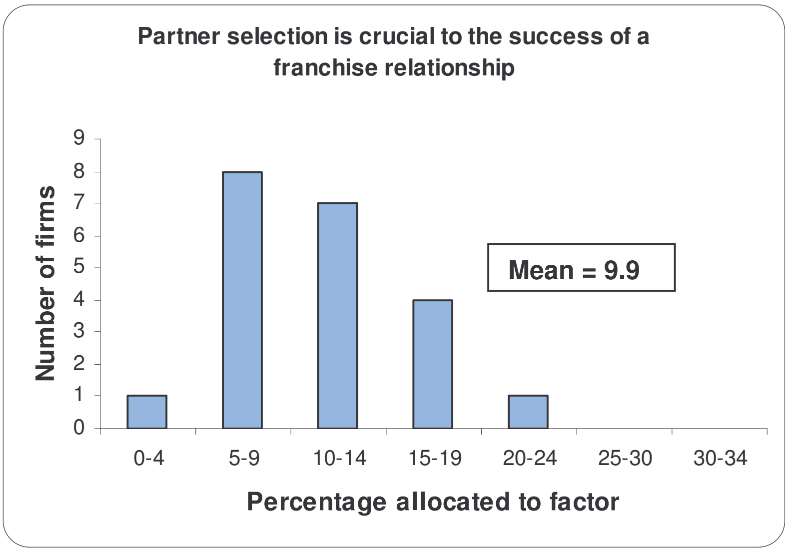
Fig. 16 Franchisees must be willing to invest at the Franchisor's request



The positive skewness, low mean of 4.5, and modal class of 5-9 show that this factor was also considered not to be important to Franchisors.

4.3 Responses of Franchisees

Fig. 17 Partner selection is crucial to the success of a franchise relationship



The distribution of responses is more positively skewed when compared to that of Franchisors with a mean of 9.9, and modal class of 5-9. However Franchisees also considered this as an important factor.

This can be explained by the fact that partner selection is indeed the starting point of any successful association. Amos (2003) states that choosing the right franchise partner is the first and most critical step to build good franchise relations.

Wrong partners can result in system failure due to lack of trust, willingness to invest, or poor communication, (Kaplan, 2002),

Fig. 18 Franchisees must have a solid financial foundation

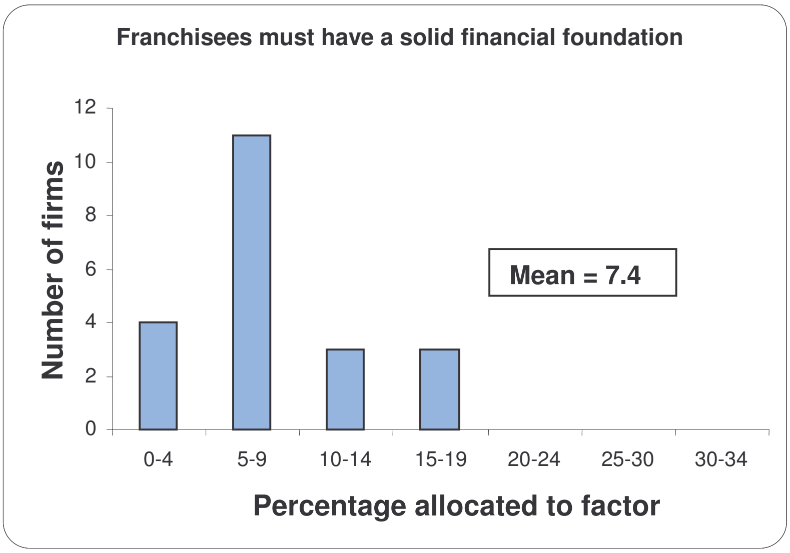


Figure 18 exhibits a positively skewed distribution with the mean at 7.4 and a modal class of 5-9. The distribution is similar to that of Franchisors. In this case also, Franchisees agree that this factor is important in determining successful relationships. This is supported by Amos (2003) who reports that when finances get strained, so do relationships. Dittman, (1996) also cautions that weakened financial performance by Franchisees also hurts the Franchisor.

Fig. 19 Both parties must be suitably qualified professionals

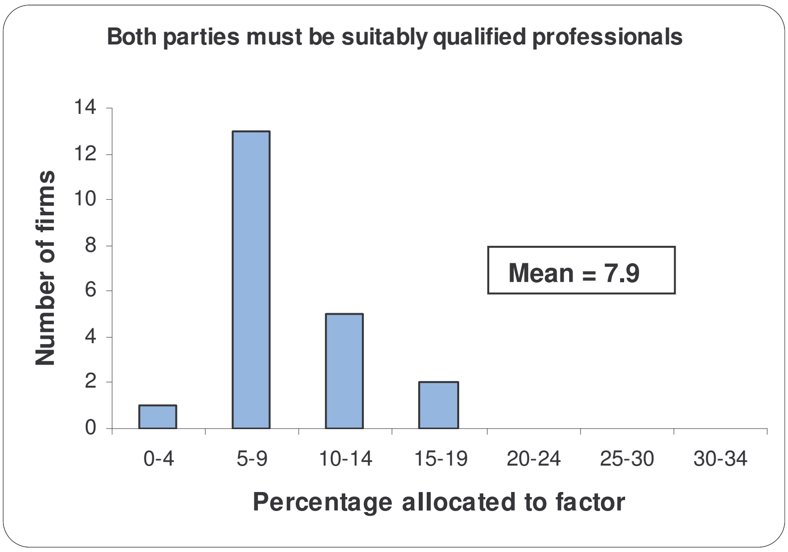
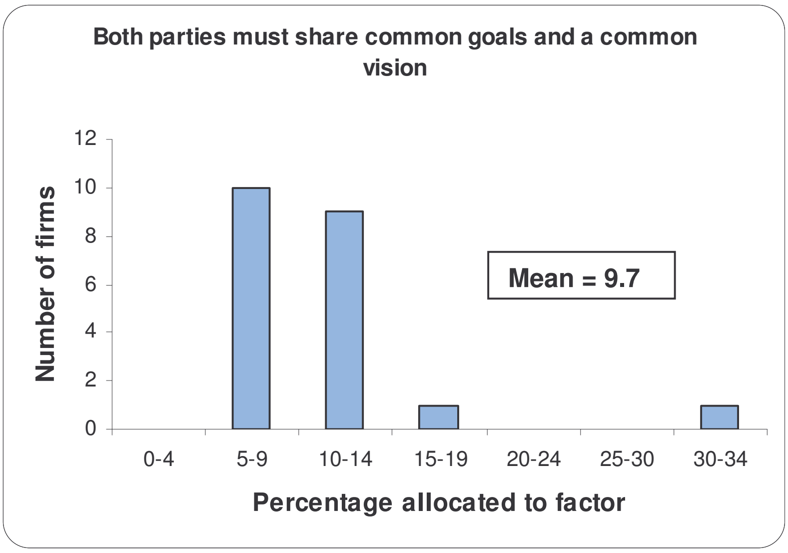


Figure 19 exhibits a positively skewed distribution similarly to Franchisors. However the mean is higher at 7.9 as compared to 4.7 for Franchisors. This implies that Franchisees consider this factor as important, while Franchisors did not consider it to be so.

This can be explained by the fact that Franchisees have high expectations of professional support from Franchisors and hence expect Franchisor personnel to be suitably qualified. This is supported by Watkins who notes that Franchisors should provide assistance to Franchisees through staff with proven track records, (Watkins, 2002).

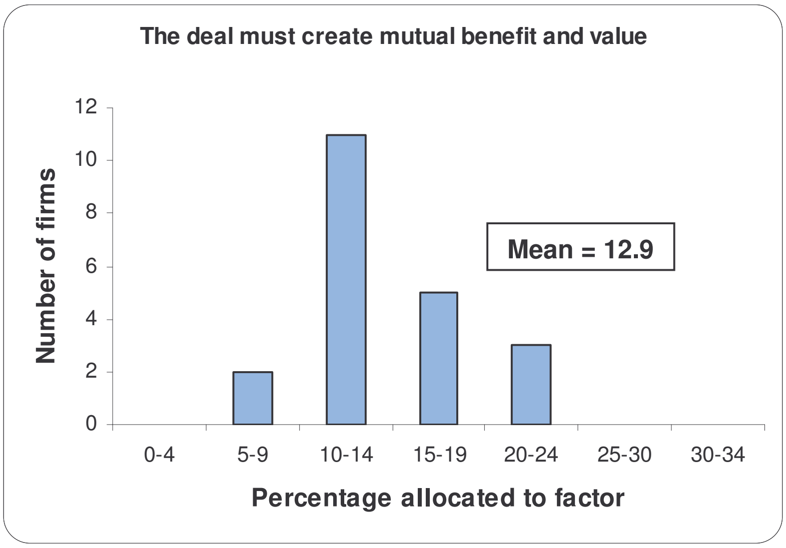
Fig. 20 Both parties must share common goals and a common vision



The distribution for this factor is positively skewed with a mean of 9.7 and modal class of 5-9, with one outlier at 30-34. The mean was close to the Franchisor rating of 10.3. Both Franchisor and Franchisee consider this to be an important factor. This can be explained that common goal and vision bring alignment and enhance synergies. This also serves to reduce friction and conflict.

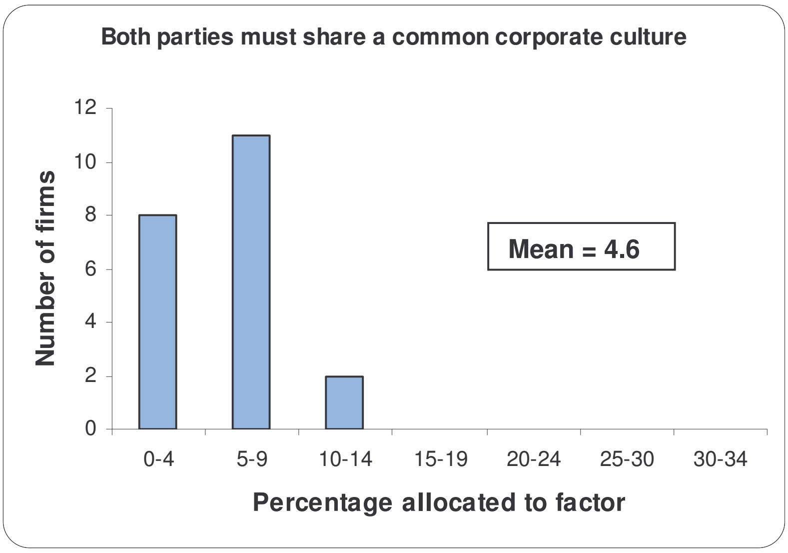
It is interesting to note that this factor was not identified as one of the CSF in the literature review.

Fig. 21 The deal must create mutual benefit and value



The distribution of Franchisees' responses is positively skewed with a mean of 12.9 and modal class of 10-14. The mean is close to that of Franchisors' distribution mean (12.1) with a similar distribution pattern. Both parties agree that the factor "the deal must create mutual benefit and value" is very important.

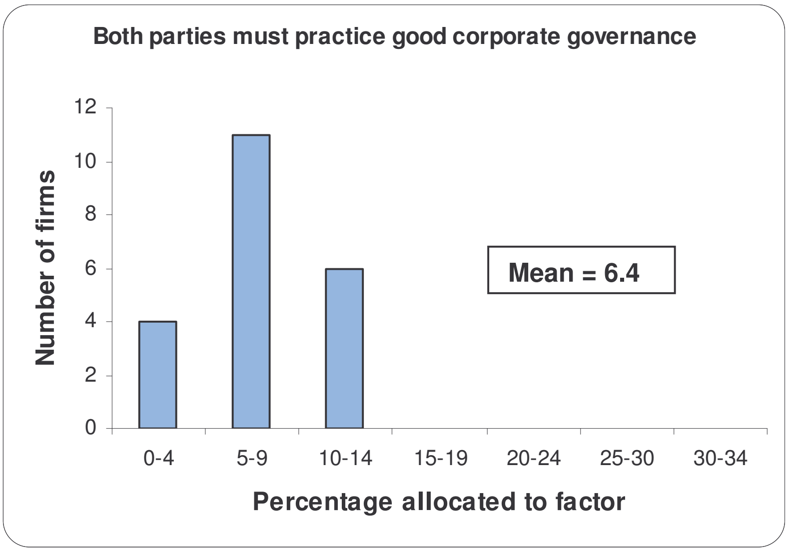
Fig. 22 Both parties must share a common corporate culture



The distribution for this factor is positively skewed with a low mean of 4.6 and modal class of 5-9 similar to that for Franchisors' (distribution mean of 3.7).

Hence, both Franchisors and Franchisees consider this factor to be of low importance. This statement was not one of the CSF identified in the literature review.

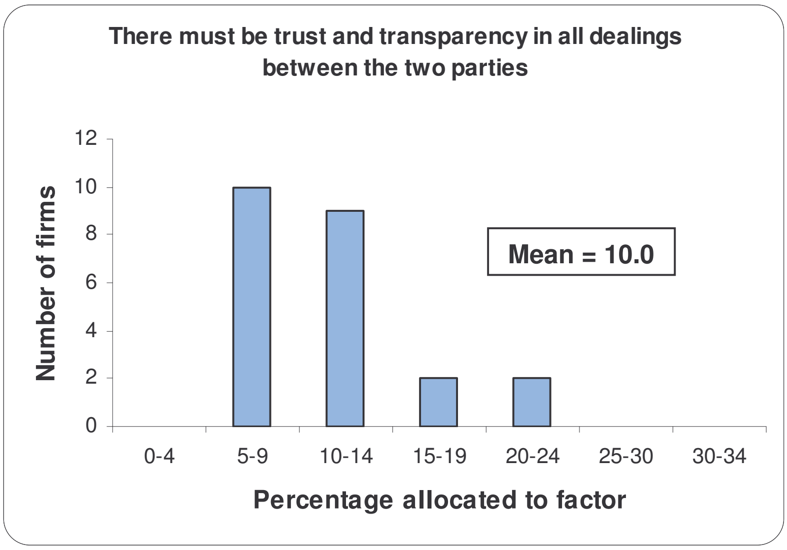
Fig. 23 Both parties must practice good corporate governance



The Franchisees' response distribution mean of 6.4 indicates that this factor is important in promoting successful franchise relationships. The Franchisors responses distribution mean was only 5.1, indicating that although this factor is important to them, it is so to a lesser degree than for Franchisees.

One explanation could be that in today's world, good governance is critical for the survival of any business, and hence is often assumed. From the Franchisor's perspective, it would also be inbuilt into the Franchise agreement.

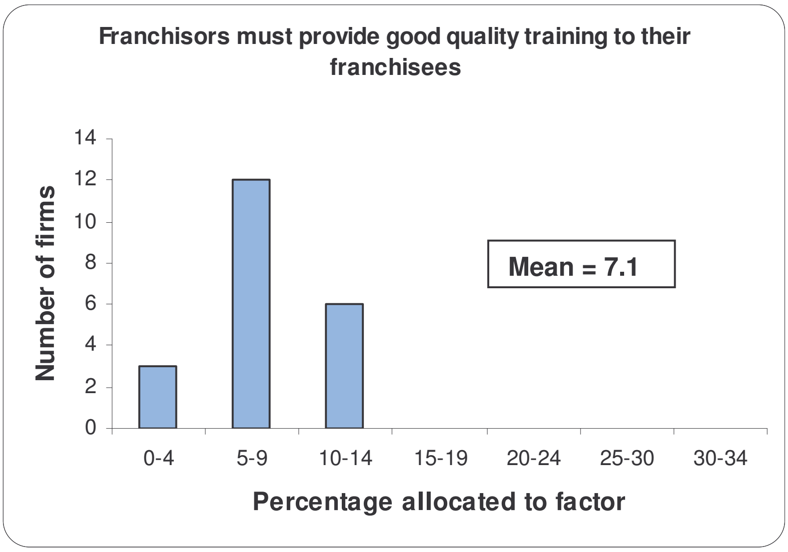
Fig. 24 There must be trust and transparency in all dealings between the two parties



The distribution of Franchisees' responses to this statement is positively skewed, with a mean of mean of 10.0, and modal class of 10-14. Hence Franchisees consider this factor to be very important. Franchisors response distribution on the other hand had a mean of 8.7 although the distribution pattern is very similar. Both parties agree that there must be trust and transparency in all dealings between them. However Franchisees rate this factor as being of higher importance than Franchisors.

This would not be too surprising as the Franchise contract is asymmetrical in nature (Johnson, 2003, Dittman, 1996). Franchisees therefore tend to be more suspicious of Franchisor motives and hence would demand more transparency from them.

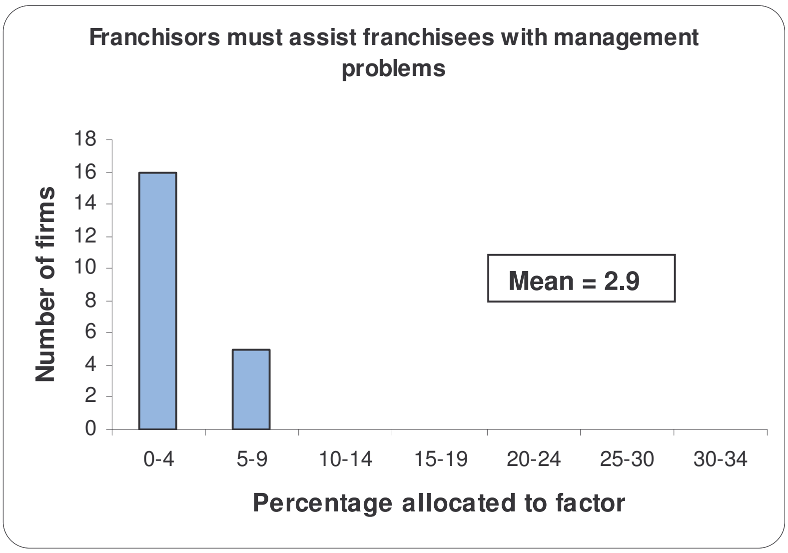
Fig. 25 Franchisors must provide good quality training to their Franchisees



The distribution is positively skewed similarly to Franchisor responses. The means are also relatively close at 7.1 for Franchisees and 6.6 for Franchisors.

This factor is considered to be important in promoting successful relationships between the two parties. Indeed Franchisees generally do expect quality training from Franchisors, who are expected to have the know-how.

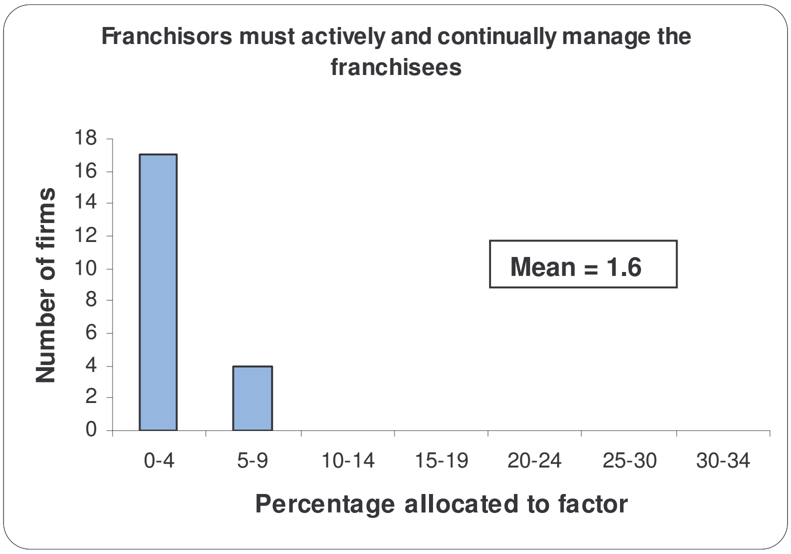
Fig. 26 Franchisors must assist Franchisees with management problems



The distribution is very positively skewed, very similar to Franchisor responses. The distribution mean of 2.9 for Franchisees and 4..0 for Franchisors indicate that both parties consider this factor to be unimportant and agree that it is not desirable for Franchisors to assist Franchisees with management problems. However it seems that here also the higher mean can indicate that there could be a tendency for Franchisors to attempt taking control of the relationship.

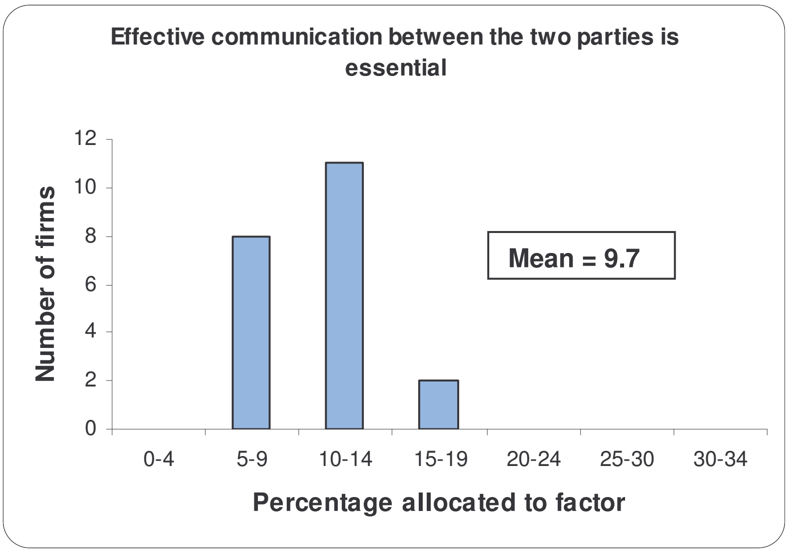
This statement was not part of the CSF and the response was expected as Franchisees and Franchisors would prefer independence in their operation albeit within an interdependent association.

Fig. 27 Franchisors must actively and continually manage the Franchisees



In this case also the distribution is very positively skewed and very similar to Franchisor responses. However, it is interesting to note that while the mean of the distribution for Franchisees is low (1.6) that for Franchisors is at 5.7. This means that Franchisees do not find it desirable for Franchisors to continually manage them. This statement was not part of the Critical Success Factors and the response was also expected for the same reason as for the prior statement. Franchisees would prefer autonomy in their operation, whereas Franchisors could feel the desire to control the Franchisee.

Fig. 28 Effective communication between the two parties is essential

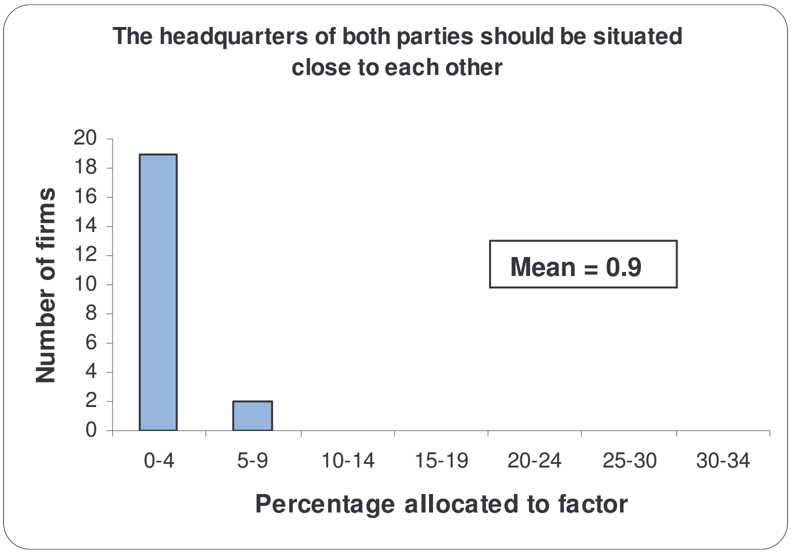


Franchisee response is normally distributed, although Franchisor response was positively skewed. However, the means were very close, 9.7 for Franchisees and 9.5 for Franchisors.

Unsurprisingly, both parties strongly agree that effective communication between the two parties is essential. Communication as a critical success factor has been underlined by many authors (Jyh-Shen *et al,* 2004, Howe, 2003, Germann, 2003, Kaplan, 2002).

Fig. 29 The headquarters of both parties should be located close to each

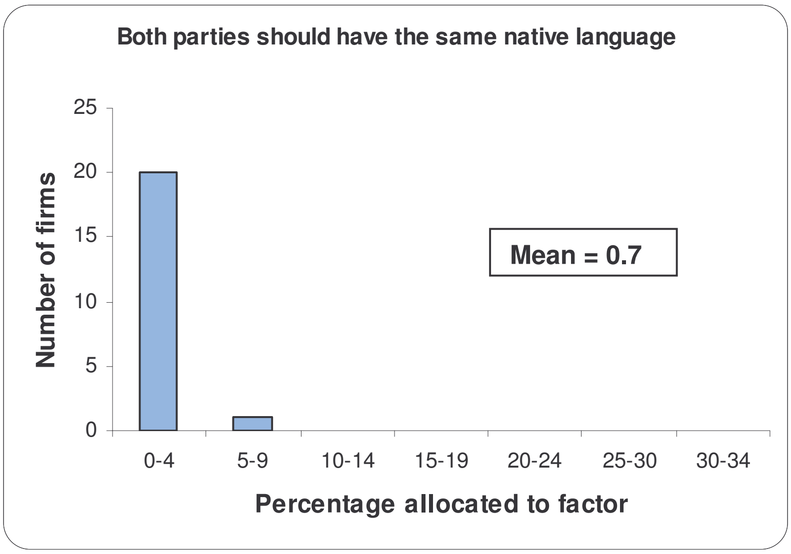
other



In this case also the distribution is very positively skewed and very similar to Franchisor responses with the mean at 0.9 in both responses. Both parties disagree that their headquarters should be located close to each other.

Again this statement was not in the CSF list and the response was expected as both parties would prefer autonomy without undue interference.

Fig. 30 Both parties should have the same native language

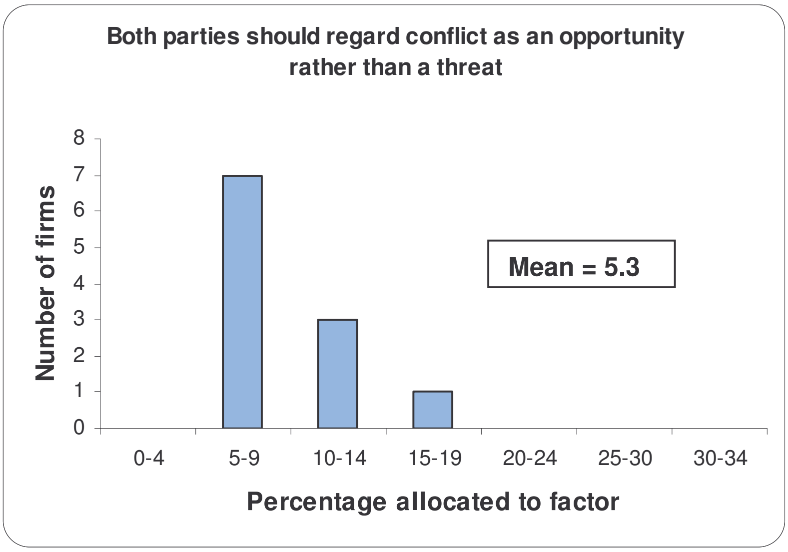


In this case also, the distribution is very positively skewed, and is very similar to Franchisor responses with a close mean of 0.7 for Franchisees and 0.9 for Franchisors.

Again, this statement was not in the CSF list and the response was expected. In a global world, having a common native language is not a prerequisite for successful relationships, as long as there is a common official language.

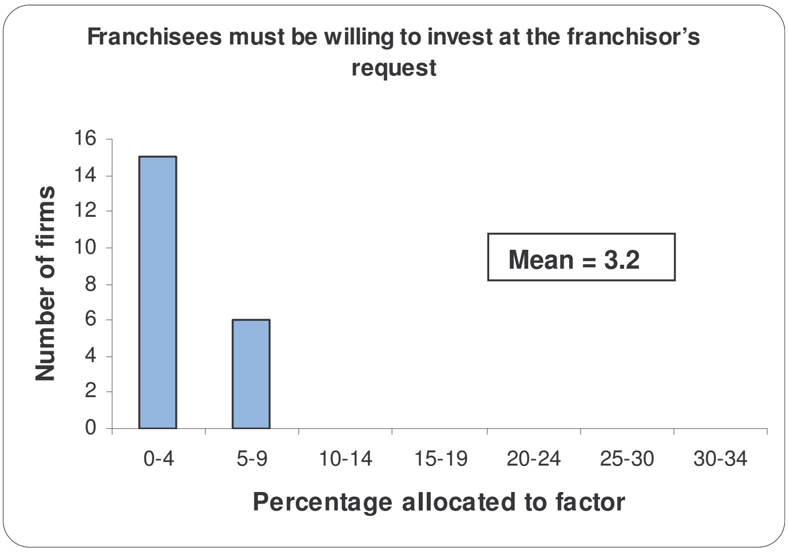
Fig. 31 Both parties should regard conflict as an opportunity rather than a

threat



The distribution of Franchisee ratings for this statement is positively skewed, similarly to that of Franchisors. The mean for the distribution of 5.3 for Franchisees indicate that they believe this factor is important to about the same extent as Franchisors (mean at 4.6).

Fig. 32 Franchisees must be willing to invest at the Franchisor's request



In this case also the distribution is very positively skewed and very similar to

Franchisor responses with a close mean of 3.2 for Franchisees and 4.6 for Franchisors.

Again, this statement was not in the CSF list. The higher mean from Franchisors can be understood from the perspective that often Franchisors would expect Franchisees to invest more and more in business development. Franchisees on the other hand, are often unwilling to do so, as the investments required for business development are often heavy, and they are made to bear the burden of the risks involved.

4.4 Inferential Statistics

4.4.1 Hypothesis Testing

Hypothesis One

As mentioned in the chapter on Research Methodology, the main method that will be used to assess the magnitude of the difference in opinion between Franchisors and Franchisees is the independent-samples *t*-test.

In fact, we will test whether the difference in mean scores (percentages) as assigned by the two parties is significant or not significant. It is worthwhile noting that testing for means should always be preceded by testing for population variances. This procedure is ensured by SPSS as will be seen in the output tables.

In general, all 16 hypotheses (one for each CSF) will be in the form of:

H_o: There is no difference between the mean scores of Franchisees and Franchisors for each of the Critical Success Factors.

H_A: There is a difference between the mean scores of Franchisees and

Franchisors for each of the Critical Success Factors.

The corresponding statistical notation for the above hypotheses is:

$$\boldsymbol{H_o}\textbf{:}\ \mu_1 = \mu_2$$

$$\boldsymbol{H_A}\textbf{:}\ \mu_1 \neq \mu_2$$

where μ_1 is the mean score for Franchisees and μ_2 is the mean score for Franchisors.

With the notation and arguments now clearly understood, let us now look at **Table 2**, which is the SPSS output for the independent-samples *t*-test for the difference between means for all 16 factors (the two columns containing the 95% confidence interval of the difference have been deleted for convenience of presentation.)

Table 2 SPSS output for the independent-samples *t*-test

		Levene's Test for Equality of Variances		t-test for Equality of Means				
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference
Partner selection is crucial to the success of a franchise relationship	Equal variances assumed	1.070	**.306**	-.437	46	**.664**	-.783	1.791
Franchisees must have a solid financial foundation	Equal variances assumed	.119	**.732**	-.958	46	**.343**	-1.185	1.237
Both parties must be suitably qualified professionals	Equal variances not assumed	8.380	**.006**	-4.536	31.080	**.000**	-5.302	1.169
Both parties must share common goals and a common vision	Equal variances assumed	.045	**.833**	.721	46	**.474**	1.000	1.387
The deal must create mutual benefit and value	Equal variances assumed	3.895	**.054**	2.165	46	**.036**	2.389	1.104
Both parties must share a common corporate culture	Equal variances assumed	.147	**.703**	-4.433	46	**.000**	-4.098	.924
Both parties must practice good corporate governance	Equal variances assumed	3.277	**.077**	-2.073	46	**.044**	-2.270	1.095
There must be trust and transparency in all dealings between the two parties	Equal variances assumed	.153	**.698**	1.687	46	**.098**	1.413	.838
Franchisors must provide good quality training to their Franchisees	Equal variances assumed	.249	**.620**	.147	46	**.883**	.127	.862
Franchisors must assist Franchisees with management problems	Equal variances assumed	2.068	**.157**	-1.539	46	**.131**	-1.397	.907
Franchisors must actively and continually manage the Franchisees	Equal variances not assumed	5.799	**.020**	-1.081	45.985	**.285**	-.868	.802
Effective communication between the two parties is essential	Equal variances assumed	1.321	**.256**	7.061	46	**.000**	6.262	.887
The headquarters of both parties should be located close to each other	Equal variances not assumed	4.759	**.034**	-3.578	34.766	**.001**	-1.997	.558
Both parties should have the same native language	Equal variances not assumed	5.255	**.027**	-1.186	35.251	**.243**	-.627	.529
Both parties should regard conflict as an opportunity rather than a threat	Equal variances not assumed	4.637	**.037**	5.552	45.621	**.000**	3.521	.634
Franchisees must be willing to invest at the Franchisor's request	Equal variances not assumed	5.573	**.023**	6.082	38.143	**.000**	3.815	.627

The Sig. values in the second column of **Table 2** indicate whether the differences in population variances are significant or not. Since the SPSS default significance level is 5%, any Sig. value less than 0.05 means that the population variances are different. However, we will be more interested with the Sig. values in the 7th column (*t*-test). The same rule applies, that is, Sig. values less than 0.05 (found in the shaded cells) imply that the differences in means are significant. We therefore come to the conclusion that opinions of Franchisors and Franchisees differ for the following factors:

1. Both parties must be suitably qualified professionals
2. The deal must create mutual benefit and value
3. Both parties must share a common corporate culture
4. Both parties must practice good corporate governance
5. Effective communication between the two parties is essential
6. The headquarters of both parties should be located close to each other
7. Both parties should regard conflict as an opportunity rather than a threat
8. Franchisees must be willing to invest at the Franchisor's request

As mentioned in the last paragraph of Chapter 2, testing for divergence in opinions of Franchisees and Franchisors by individual statement may prove to be a bit too rigorous. To that effect, an independent-samples *t*-test has also been carried out for 'groups' of factors. The grouping of these factors has been made according to the CSF identified in the literature review, with the exception that not all sub statements have been chosen in order to avoid multi-collinearity.

Only those sub statements which are considered from experience to be the most important have been selected. Indeed, the 16 chosen factors have been classified under the following groups:

Group 1 Partner Selection

Partner selection is crucial to the success of a franchise relationship
Franchisees must have a solid financial foundation

Group 2 Partnering for Mutual Benefit and Value

Both parties must be suitably qualified professionals
Both parties must share common goals and a common vision
The deal must create mutual benefit and value
Both parties must share a common corporate culture

Group 3 Trust and Transparency

Both parties must practice good corporate governance
There must be trust and transparency in all dealings between the two parties

Group 4 Support and Training as well as Mutual Appreciation

Franchisors must provide good quality training to their Franchisees
Franchisors must assist Franchisees with management problems
Franchisors must actively and continually manage the Franchisees

Group 5 Effective Communication

Effective communication between the two parties is essential
The headquarters of both parties should be located close to each other
Both parties should have the same native language

Group 6 Conflict Viewed as an Opportunity

Both parties should regard conflict as an opportunity rather than a threat
Franchisees must be willing to invest at the Franchisor's request

Hypothesis Two

H_o: That the critical success factors in multinational franchise relationships are not:

- Partner Selection
- Partnering for Mutual Benefit and Value
- Trust and Transparency
- Support and Training as well as Mutual Appreciation
- Effective Communication
- Conflict Viewed as an Opportunity

H_A: That the critical success factors in multinational franchise relationships are:

- Partner Selection
- Partnering for Mutual Benefit and Value
- Trust and Transparency
- Support and Training as well as Mutual Appreciation
- Effective Communication
- Conflict Viewed as an Opportunity

$$H_o: \mu_1 = \mu_2$$

$$H_A: \mu_1 \neq \mu_2$$

Table 3 SPSS Output for the Independent-samples *t*-test

		Levene's Test for Equality of Variances		t-test for Equality of Means				
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference
Partner Selection	Equal variances assumed	.372	.545	-.799	46	.429	-1.968	2.465
Partnering for Mutual Benefit and Value	Equal variances assumed	3.661	.062	-3.322	46	**.002**	-5.974	1.798
Trust and Transparency	Equal variances assumed	.012	.912	-.647	46	.521	-.857	1.324
Support and Training as well as Mutual Appreciation	Equal variances assumed	3.282	.077	-1.265	46	.212	-2.063	1.631
Effective Communication	Equal variances assumed	.000	.985	3.027	46	**.004**	3.693	1.220
Conflict Viewed as an Opportunity	Equal variances assumed	3.164	.082	6.842	46	**.000**	7.392	1.080

It may easily be deduced that the Franchisors and Franchisees are not on level terms concerning the groups below (note the Sig. values which are quite close to zero):

1. Partnering for Mutual Benefit and Value
2. Effective Communication
3. Conflict Viewed as an Opportunity

Of worthy interest, note that when *Group 3* (**Trust and Transparency**) lies in the same order of priority and importance for both Franchisors and Franchisees, opinions tend to diverge when the factor ‘Both parties must practice good corporate governance’ is singled out. This only means that differences in percentage ‘even out’ when factors are grouped.

4.4.2 ANOVA (ANalysis Of VAriance)

Finally, in order to confirm whether there is significant divergence among

Franchisors, Franchisees, and Academia (Experts), an ANOVA was carried out. ANOVA is very similar to the independent-samples *t*-test except that, now, comparison is made between more than two means. The null hypothesis is thus formulated as follows:

Hypothesis Three

$\boldsymbol{H_o}$: There is no difference between the mean scores of Franchisees, Franchisors and Academia (Experts) for each of the critical success factors.

$\boldsymbol{H_A}$: There is a difference between the mean scores of Franchisees, Franchisors and Academia (Experts) for each of the critical success factors.

$$\boldsymbol{H_o}: \mu_1 = \mu_2 = \mu_3$$
$$\boldsymbol{H_A}: \mu_1 \neq \mu_2 \neq \mu_3$$

Where μ_1, μ_2 and μ_3 are the mean scores for each variable as assigned by Franchisors, Franchisees, and Academia (Experts) respectively. It is always good to remember that $\boldsymbol{H_o}$ is rejected the moment that any pair of means have a significant difference between them.

ANOVA

n	16	16	16
	Franchisor	**Franchisee**	**Exper t**
1	12.07	12.86	16.67
2	8.81	10	6.83
3	4.56	9.86	4
4	10.67	9.67	10.17
5	12.06	9.67	13.5
6	3.76	7.86	2.83
7	5.11	7.38	5
8	8.56	7.14	10
9	6.56	6.43	6
10	3.89	5.29	5
11	3.7	4.57	3
12	9.5	3.24	7.5
13	0.91	2.9	0.67
14	0.94	1.57	0.67
15	4.43	0.9	4.5
16	4.48	0.67	3.67

					α		
ANOVA Table					5%		
Source	**SS**	**df**	**MS**	***F***	$F_{critical}$	***p*-value**	**Decision**
Between	2.2E-27	2	1E-27	7E-29	3.2043	1.0000	**Accept**
Within	694.826	45	15.441				
Total	694.826	47					

Table 4 Excel Output for the ANOVA

From the one-way ANOVA test carried out, the output in **Table 4** clearly indicates that there is practically no difference in opinions of all three parties (*p*-value = 1.000, much higher than the default significance level of our test, which is 5%). Note that the ANOVA has been carried out by a specially user-defined Microsoft Excel spreadsheet.

4.4.3 Further Analysis - Correlation Analysis

After all the differences in opinions have been detected in the independent-samples *t*-test, it might still prove to be very interesting to verify the (general) correlation between responses from Franchisors and Franchisees. By first ranking the 16 factors in descending order of totals (or means, as displayed in the bar charts), we calculate Spearman's Correlation Coefficient, a non-parametric way of computing correlation.

This is given by

$$\rho = 1 - \frac{6\sum d^2}{n(n^2 - 1)}$$

where *d* is the difference between corresponding rankings assigned by Franchisors and Franchisees and *n* is the number of factors.

Tables 5, 6, and 7 show the rankings (according to sum or mean of scores, that is, percentages) of the various factors by Franchisors, Franchisees, and Experts. Each table is followed by an SPSS output of Spearman's Correlation Coefficient (Tables 5.1, 6.1, and 7.1).

4.4.4 Nonparametric Correlations

Table 5 Ranking by Franchisor and Franchisee

	Ranked by Franchisor (a)	**Ranked by Franchisee (b)**
The deal must create mutual benefit and value	1	1
Partner selection is crucial to the success of a franchise relationship	2	3
Both parties must share common goals and a common vision	3	4
Effective communication between the two parties is essential	4	5
Franchisees must have a solid financial foundation	5	7
There must be trust and transparency in all dealings between the two parties	6	2
Franchisors must provide good quality training to their Franchisees	7	8
Both parties must practice good corporate governance	8	9
Both parties must be suitably qualified professionals	9	6
Both parties should regard conflict as an opportunity rather than a threat	10	10
Franchisees must be willing to invest at the Franchisor's request	11	12
Franchisors must assist Franchisees with management problems	12	13
Both parties must share a common corporate culture	13	11
Franchisors must actively and continually manage the Franchisees	14	14
Both parties should have the same native language	15	16
The headquarters of both parties should be located close to each other	16	15

Table 5.1 Correlation Coefficient

Correlations

			Franchisor	Franchisee
Spearman's rho	Franchisor	Correlation Coefficient	1.000	.631 **
		Sig. (2-tailed)	.	.009
		N	16	16
	Franchisee	Correlation Coefficient	.631 **	1.000
		Sig. (2-tailed)	.009	.
		N	16	16

** Correlation is significant at the 0.01 level (2-tailed).

Table 6 Ranking by Franchisor and Academia

	Ranked by Franchisor (a)	**Ranked by Academia (b)**
The deal must create mutual benefit and value	1	2
Partner selection is crucial to the success of a franchise relationship	2	1
Both parties must share common goals and a common vision	3	3
Effective communication between the two parties is essential	4	5
Franchisees must have a solid financial foundation	5	6
There must be trust and transparency in all dealings between the two parties	6	4
Franchisors must provide good quality training to their Franchisees	7	7
Both parties must practice good corporate governance	8	8
Both parties must be suitably qualified professionals	9	11
Both parties should regard conflict as an opportunity rather than a threat	10	10
Franchisees must be willing to invest at the Franchisor's request	11	12
Franchisors must assist Franchisees with management problems	12	9
Both parties must share a common corporate culture	13	14
Franchisors must actively and continually manage the Franchisees	14	13
Both parties should have the same native language	15	15
The headquarters of both parties should be located close to each other	16	16

Table 6.1 Correlation Coefficient

Correlations

			Franchisor	Expert
Spearman's rho	Franchisor	Correlation Coefficient	1.000	.956**
		Sig. (2-tailed)	.	.000
		N	16	16
	Expert	Correlation Coefficient	.956**	1.000
		Sig. (2-tailed)	.000	.
		N	16	16

** Correlation is significant at the 0.01 level (2-tailed).

Table 7 Ranking by Franchisee and Academia

	Ranked by Franchisee (a)	**Ranked by Academia (b)**
The deal must create mutual benefit and value	1	2
Partner selection is crucial to the success of a franchise relationship	3	1
Both parties must share common goals and a common vision	4	3
Effective communication between the two parties is essential	5	5
Franchisees must have a solid financial foundation	7	6
There must be trust and transparency in all dealings between the two parties	2	4
Franchisors must provide good quality training to their Franchisees	8	7
Both parties must practice good corporate governance	9	8
Both parties must be suitably qualified professionals	6	11
Both parties should regard conflict as an opportunity rather than a threat	10	10
Franchisees must be willing to invest at the Franchisor's request	12	12
Franchisors must assist Franchisees with management problems	13	9
Both parties must share a common corporate culture	11	14
Franchisors must actively and continually manage the Franchisees	14	13
Both parties should have the same native language	16	15
The headquarters of both parties should be located close to each other	15	16

Table 7.1 Correlation Coefficient

Correlations

			Expert	Franchisee
Spearman's rho	Expert	Correlation Coefficient	1.000	.588*
		Sig. (2-tailed)	.	.017
		N	16	16
	Franchisee	Correlation Coefficient	.588*	1.000
		Sig. (2-tailed)	.017	.
		N	16	16

* Correlation is significant at the 0.05 level (2-tailed).

Table 6.1 clearly shows that there is hardly any divergence in opinion between Experts and Franchisors (ρ = 0.956). In fact, we may venture by saying that there is *almost perfect* correlation between the two parties with regards to the ranking of factors by hierarchical importance.

From **Table 7.1** it is to be noted that *moderate* correlations were registered whenever Franchisee ratings figured in the sets of paired data: ρ = 0.631 with Franchisors and ρ = 0.588 with Experts. These results probably suggest that Franchisees should make a greater effort to reach a compromise with their counterparts. However, we should not reach any hasty conclusion, given that data were gathered from only 6 Experts. The mean scores for expert opinion could therefore contain a considerably high degree of bias.

Table 8 Summary of All Bivariate Correlations

Correlations

			Expert	Franchisee	Franchisor
Spearman's rho	Expert	Correlation Coefficient	1.000	.588*	.956**
		Sig. (2-tailed)	.	.017	.000
		N	16	16	16
	Franchisee	Correlation Coefficient	.588*	1.000	.631**
		Sig. (2-tailed)	.017	.	.009
		N	16	16	16
	Franchisor	Correlation Coefficient	.956**	.631**	1.000
		Sig. (2-tailed)	.000	.009	.
		N	16	16	16

* Correlation is significant at the 0.05 level (2-tailed).

** Correlation is significant at the 0.01 level (2-tailed).

Table 8 summarises the correlations between the three groups of participants, namely Experts, Franchisees and Franchisors. Although there is a very strong correlation between the opinions of Franchisors and experts, the correlation between Franchisees and Experts is moderate. However, there is a significant correlation between Franchisor and Franchisee opinions.

CHAPTER 5: CONCLUSION

5.1 Limitations

5.1.1 Convenience Sampling

Convenience sampling is a *non-probability sampling technique*. Items are included in the sample without known probabilities of being selected. A convenience sample is a sample where respondents are selected, in part or in whole, at the convenience of the researcher. No, or limited, effort is made to ensure that this sample is an accurate representation of some larger group or population. Thus, it is impossible to determine how representative of the population the sample is.

The undesirable consequence is that there is great difficulty in generalising the results of a convenience sample to any population that has practical relevance. However, convenience samples can provide useful information, especially in a pilot study.

To interpret the findings from a convenience sample properly, the researcher has to characterise (usually in a qualitative sense) how the sample would differ from an ideal sample that was randomly selected. Particular attention needs to be given as to who might be left out of the convenience sample or who might be under represented in the sample.

Great care must also be taken when qualifying findings appropriately. Findings from a convenience sample would be considered less definitive as they would usually require replication in a more controlled setting. (The Internet, 2006)

5.1.2 Sample Size

The statistical analysis of the current study has been based on samples of 27 Franchisors, 21 Franchisees, and 6 Experts only. Theoretically, we know that the sample size *n* is considered to be small if it is less than 30. Hence, there could be a considerable degree of bias in the results. However, errors can be decreased if accurate data are obtained from respondents, a fact that has been ensured here.

5.1.3 Questionnaire

A drawback that could have a minor impact on the hypothesis testing results is the time taken by respondents to assign ratings to the statements in the questionnaire. Though the statements were fundamentally clear, there is a possibility that, after assigning genuine ratings to them, respondents could have increased or decreased these ratings merely to satisfy the condition that the sum of ratings should always amount to 100%, without really thinking about the effect that these re-adjustments might have on the final results.

The slightest of changes may have an immediate impact on the independent-samples *t*-test or even upset the rankings of factors, thereby changing the Spearman's Correlation Coefficient.

5.1.4 Selection of Respondents

One final limitation is the way respondents have been selected. It has to be conceded that sample quality and representativity could have been greatly improved by refraining from choosing only respondents who work:

1. For a vast majority of firms producing foods and beverages,
2. For firms located in the African continent, and
3. At Senior Management level

5.2 Findings

5.2.1 Identification of Critical Success Factors in the Relationship between multinational Franchisors and Franchisees from the Franchisors' perspective.

From literature, the following 6 factors had been identified as critical success factors in the relationship between multinational Franchisors and Franchisees :

1. Partner selection is crucial to the success of a franchise relationship
2. The deal must create mutual benefit and value
3. Franchisors must provide good quality training to Franchisees
4. Effective communication between the two parties is essential
5. There must be trust and transparency in all dealings between the two parties
6. Both parties should regard conflict as an opportunity rather than a threat

Analysis of the responses received show that from the sample of Franchisors tested, the following factors were picked :

1. The deal must create mutual benefit and value
2. Partner selection is crucial to the success of a franchise relationship
3. Both parties must share common goals and a common vision
4. Effective communication between the two parties is essential
5. Franchisees must have a solid financial foundation
6. There must be trust and transparency in all dealings between the two parties

The following observations are noted:

Two factors listed in the Critical Success Factors from the literature review did not appear within the 6 top statements for Franchisors; These are as follows:

- Franchisors must provide good quality training to their Franchisees; this factor is rated in the 7th position
- Both parties should regard conflict as an opportunity rather than a threat; this factor is rated in the 10th position

On the other hand, the following new factors were rated in the top 6:

- Both parties must share a common goal and vision
- Franchisees must have a solid financial foundation

One Franchisor noted the following "*You need financially strong partner for which the selection comes in for alignment, trust and transparency in the dealings between them and good communication. The rest will come.*"

5.2.2 Identification of Critical Success Factors in the Relationship between multinational Franchisors and Franchisees from the Franchisees' perspective;

Analysis of the responses received show that from the sample of Franchisees tested, the following factors stand out :

1. The deal must create mutual benefit and value
2. There must be trust and transparency in all dealings between the two parties
3. Partner selection is crucial to the success of a franchise relationship
4. Both parties must share common goals and a common vision
5. Effective communication between the two parties is essential
6. Both parties must be suitably qualified professionals

As with Franchisors, the same two factors listed in the Critical Success Factors did not appear within the 6 top statements:

- Franchisors must provide good quality training to their Franchisees; this factor is rated in the 8th position

- Both parties should regard conflict as an opportunity rather than a threat; this factor is rated in the 10^{th} position

On the other hand, the following new factors were rated as important:

- Both parties must share common goals and a common vision (this was also selected by Franchisors)
- Both parties must be suitably qualified professionals

Table 9 summarises the non parametric ranking of the factors by the Experts, Franchisors, and Franchisees.

Table **9** Summary of Ranking by Expert, Franchisor, and Franchisee

Rank	Expert	Franchisor	Franchisee
1	Partner selection is crucial to the success of a franchise relationship	The deal must create mutual benefit and value	The deal must create mutual benefit and value
2	The deal must create mutual benefit and value	Partner selection is crucial to the success of a franchise relationship	There must be trust and transparency in all dealings between the two parties
3	Both parties must share common goals and a common vision	Both parties must share common goals and a common vision	Partner selection is crucial to the success of a franchise relationship
4	There must be trust and transparency in all dealings between the two parties	Effective communication between the two parties is essential	Both parties must share common goals and a common vision
5	Effective communication between the two parties is essential	Franchisees must have a solid financial foundation	Effective communication between the two parties is essential
6	Franchisees must have a solid financial foundation	There must be trust and transparency in all dealings between the two parties	Both parties must be suitably qualified professionals

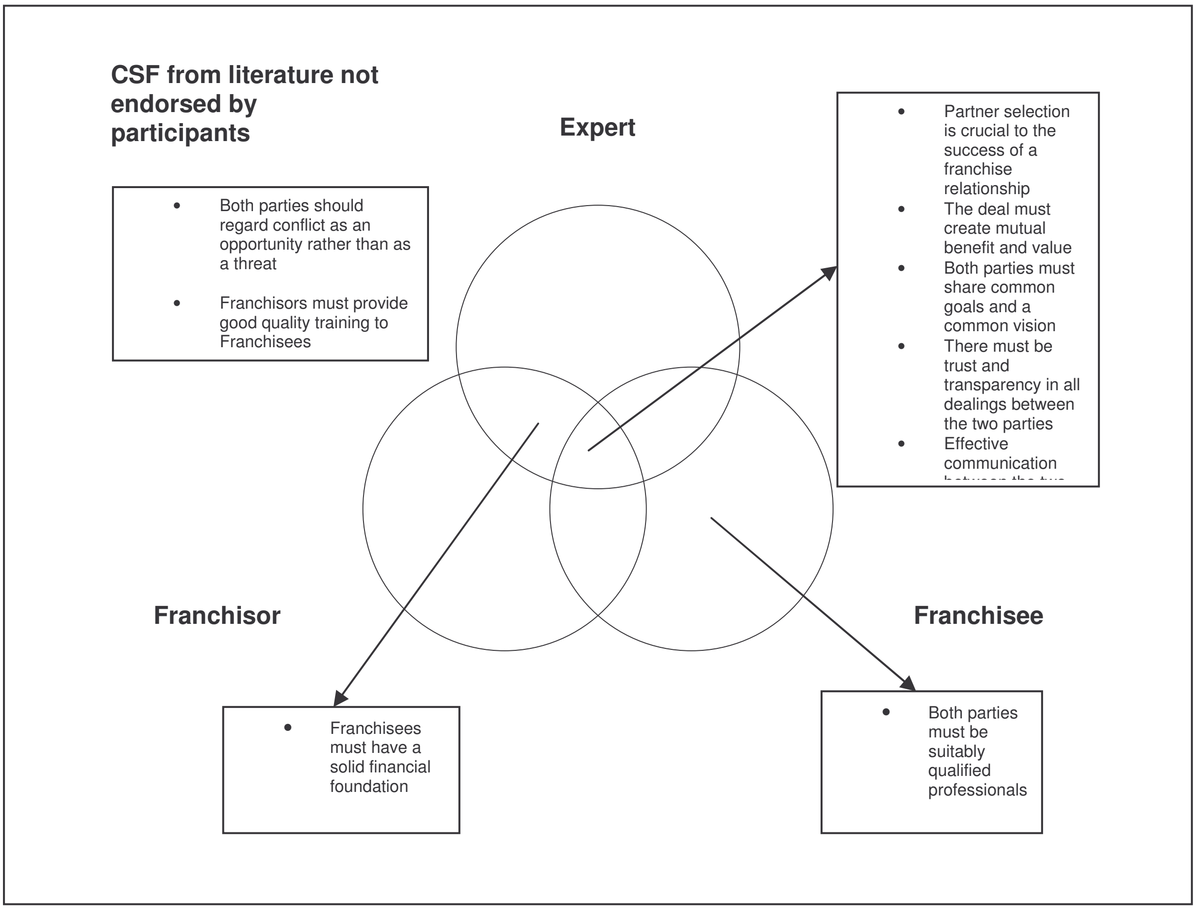
5.3 Recommendations

Based on the responses received, a strong correlation is observed between the responses obtained from the sample of Experts and Franchisors. Some difference is noted between the opinion expressed by Franchisees with respect to the panel of Experts.

However, it is observed that, in the non parametric ranking of Critical Success Factors, both Franchisees and Franchisors agree on the 5 statements as critical in the relationship of multinational franchises. The differences in opinion lie in the degree of importance given to that particular statement rather than in the statement itself.

Figure 33 is a schematic model of Critical Success Factors in the relationship between multinational Franchisors and Franchisees.

Fig. 33 Schematic model of Critical Success Factors in the relationship between multinational Franchisors and Franchisees



Given that the panel of Experts represents a credible source of opinion on franchise systems, we would recommend that efforts be made to close the identified gaps. It would appear that Franchisees have to make more efforts in order to align with Franchisors' expectations.

As there is a general consensus on five factors, franchise systems can inbuild them in the design of their contract.

On the other hand, both Franchisees and Franchisors should pay attention to the factor that each considers important, but on which their opinion also differs. For

Franchisors, they must ensure that their personnel, and especially those who will be interacting with Franchisees in the field, should be suitably qualified professionals. For their part, Franchisees must ensure that they have a solid financial foundation as thay may be requested to invest by their Franchisor.

It is not really surprising to find that there is a major difference in the opinions of Franchisors and Franchisees when it comes to the perception of conflict. The results of the survey show that while Franchisors view conflict as an opportunity, Franchisees, on the other hand would rather consider it a threat. One of the reasons for this divergence in opinion is that Franchisees aspire to operate independently and view Franchisors interventions as a constraint to their freedom. For Franchisors, conflict represents a fertile ground for developing solutions so as to better align Franchisees to deliver on their agenda.

These samples are largely skewed towards the beverage industry, and thus, it would be recommended to extend the survey to include a broder scope of international franchise systems. That would help us to generalise the results of the current study.

Further to the above recommendations, the study could also be carried out on franchise systems within specific industry sectors such as the hotel industry, fast food, automotive industry, retail supermarkets. This would enable the elaboration of tailor-made strategies in order to meet the needs of each of these sectors.

Tools can be developed to consolidate those aspects in Franchise relations based on the consensus on factors where there is strong alignment in both Franchisors' and Franchisees' views. Similarly, the reasons for the differences can be investigated and tools and programs developed in order to bridge the perception gaps.

The findings of this study can be used to develop programs for symposiums intended for Franchise Council members, in view of enhancing alignment.

5.4 Scope for Further Research

1. The above study can be carried out using a different methodology, for example, using the Delphi technique. The Delphi technique can be described as "a procedure to obtain the most reliable consensus of opinion of a group or Experts by a series of intensive questionnaires interspersed with controlled opinion feedback" (Rowe & Wright, 1999:354). This will have the benefit of highlighting factors that are current and hence identify changing relationship patterns and priority focus areas.

2. Prospective researchers would be encouraged to probe into a wider variety of industries in order to obtain more representative samples. That would certainly offer them the possibility to generalise their results and hence contribute to the worldwide community of franchise systems.

3. Further research can be recommended involving Franchises worldwide, thus expanding the scope of the present one which has been limited to Franchises operating within Africa.

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APPENDIX 1 (QUESTIONNAIRE)

What factors are important in promoting a successful relationship between the Franchisor and Franchisee in a multi-national franchise?

Please allocate 100 marks between the 16 listed factors. Allocate the highest mark to the factor you believe to be the most important and zero to factors you feel are irrelevant. The total allocated marks must add up to 100 exactly.

Partner selection is crucial to the success of a franchise relationship	
Franchisees must have a solid financial foundation	
Both parties must be suitably qualified professionals	
Both parties must share common goals and a common vision	
The deal must create mutual benefit and value	
Both parties must share a common corporate culture	
Both parties must practice good corporate governance	
There must be trust and transparency in all dealings between the two parties	
Franchisors must provide good quality training to their Franchisees	
Franchisors must assist Franchisees with management issues	
Franchisors must actively and continually manage the Franchisees	
Effective communication between the two parties is essential	
The headquarters of both parties should be located close to each other	
Both parties should have the same native language	
Both parties should regard conflict as an opportunity rather than a threat	
Franchisees must be willing to invest at the Franchisor's request	

TOTAL **100**

Please list any other factor(s) that you would consider to be important other than the ones mentioned above:

Company: *Please tick as appropriate*

Position: Franchisor Franchisee

Other