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A COMPARATIVE EXAMINATION OF THE RELATIONSHIPS AND CONFLICTS WITHIN THE CONVENIENCE STORE AND ESTATE AGENCY INDUSTRIES IN THE TAIWANESE RETAIL FRANCHISE MARKET

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ABBREVIATIONS

CC: Cooperate Chain
CSF: Critical Success Factor
CVS: Convenience Store
DIY: Do It Yourself
EA: Estate Agency
EOS: Electronic Ordering System
FC: Franchise Chain
GNP: Gross National Production
HB: House & Business
IFA: International Franchise Association
MCR: Manufactual Convenience Store Research
NIE: Newly Industrialised Economy
OK: Circle K
POS: Point of Sales
QSCV: Quality, Service, Cleanliness and Value
RC: Regular Chain
RI: Retail Internationalisation
SMEs: Small and Medium Enterprises
TCA: Transaction Cost Analysis
TCFA: Taiwan Chain Stores and Franchise Association
TCSA: Taiwan Chain Store Association
VC: Voluntary Chain
VMS: Vertical Marketing System
WEF: World Economic Forum
WTO: World Trade Organisation

ABSTRACT

This thesis is an examination of the relationships and conflicts between franchisors and franchisees in the Taiwan retail franchise market. Two examples, convenience stores and estate agencies, are compared as these typify the retail and service sectors. The method adopted in this research is a form of exploratory qualitative research, since the purpose is to provide insights and understanding of the nature of marketing.

In this research, there are many points, which conflict with previous research, such as the performance between multi-unit and single franchising, monitoring issues, buying back franchisees, the resource constraints of management talent and financial capital, brand transference and so on. From the empirical findings, the author suggests this is related to local culture and operational customs. Further, in international franchising, the author's results show that there is no relationship between internationalisation and company scale. What is important is whether any two businesses have the same commercial objective. Some interviewees offer valuable insights, which have never been discussed before, for example, most of the previous researches on financial constraints focus on whether it is cheaper to obtain capital from franchisees as compared to stockholders or financial institutions. However, a valuable point interviewees have suggested is that the question should be related to whether the power of the brand is strong as compared with other factors. In other words, if the brand power is strong, then other constraints will be minimized.

Based on the above findings, relationships and conflicts between franchisors and franchisees are then explored. Based on the nature of industry and ownership patterns, what the franchisees care about is autonomy in the convenience store sector, whereas

brand power is highlighted in the estate agency sector. The common point is that both industries stress the importance of communication, but this function fails in this research for different reasons and these reasons can be traced back to the difference of ownership patterns. Therefore, aside from the contribution to theories, three models are developed for practical application from the perspective of communication. In conclusion, with smooth organizational communication and constructive interactions, both parties will benefit from each other and enjoy the synergy of increased brand power.

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CHAPTER ONE: INTRODUCTION

Franchising as a business format has attracted lots of attention because of its lower risk of market entry and failure rate and it has developed for over 200 years. Today, many businesses adopt franchising as a growth strategy because of its basic characteristics such as the high motivation of franchisees, resource constraint and so on. Therefore, franchising has become a world trend, not only well developed in industrialised countries like the US and the UK but also penetrating into developing countries like Taiwan. In Taiwan, with the progress of internationalisation and its strong purchasing power, many foreign franchisors and local franchisors have discerned this opportunity and entered this market. Hence, one can see many franchised outlets in the Taiwanese retail market such as 7-Eleven, Body Shop, 21st Century Estate Agency, and McDonald's. Due to the flourishing nature of franchising in the local market, many problems have occurred at the same time as this industry is in the growth stage of the life cycle. One of most important issues is the relationship between franchisors and franchisees. Conflicts are often aroused from the conceptual gaps between franchisors and franchisees and this can weaken the power of franchising. Therefore, this thesis will examine the relationships and conflicts between franchisors and franchisees in the Taiwanese retail market. Two different industries, the convenience store and estate agency will be examined. Most of the existing theories are examined from the perspective of western culture but in this thesis, the author tries to draw out contributions from the franchise ownership patterns in Chinese business culture. For this reason, the research was undertaken in Taiwan. Deliberately, two different industries, which typify the different faces of industry and different ownership pattern, namely, convenience store (product based) and estate agency (service based) are closely examined and compared. By comparative research, the core issues-relationships and conflict will be uncovered to find the critical factors leading to success in the interaction between franchisors and franchisees. It will be shown that with a stable relationship between franchisors and franchisees, both parties benefit from the franchise organisation.

In chapter two, general issues about franchising will be explored to establish the importance of franchising and to justify its choice as a subject for study. Although franchising has become the fastest growing form of business in the global economic system (Justis and Judd, 1989; Knight, 1984; Sanghavi, 1991), the failure rate of franchise organisations is often higher than average (Price, 1998). This chapter will talk about how the franchise organisation plays a part in a vertical marketing system. Generally speaking, the franchise organisation has a better operational efficiency compared with businesses in a conventional channel, because channel members share some channel functions. As far as the franchise organisation is concerned, it is a kind of hybrid organisational form that incorporates elements of both markets and hierarchies (Norton, 1988; Larson, 1992, Williamson, 1991). The relationship between channel members is built on the contract between the franchisors and franchisees, and is a kind of relational exchange between them. Franchisees have to pay initial fees and royalties to get the 'know-how' or to use the brand name of the franchisor. In a franchise organisation, there are different formats based on the pattern of ownership. Dahlstrom and Nygaard (1994) suggest that ownership comes in three forms: corporate ownership and operation; corporate ownership but management by franchisee; and ownership and operations by franchisee. Another kind of phenomenon in franchising is the prevalence of multi-unit franchising. However, the academic literature on franchising has largely ignored the true distinguishing feature: the ownership of multiple units by an individual franchisee (Bradach, 1995). This is because most researchers think that the efficiency of a single unit is better than that of a multi-unit franchisee. Therefore, it is interesting to explore whether multi-unit franchising outperforms single franchising. Besides the growth of multi-unit franchising, franchisors can also expand into international markets, and Petersen and Welch (2000) suggest that there are four options for international franchising: private label products, own brand products, concept sales, and the business format franchising package. At the end of this chapter, the author adopts Elango and Fried's (1997) work and from the study of their article, one can see which forms of franchising have been researched.

Kedia, Ackerman and Justis (1995) suggest that the emphasis on franchising has increasingly moved from the source of resources to the relationship between the partners in the enterprise. Therefore, this core feature, namely, the relationship between franchisors and franchisees, is the central topic of study for chapter three. The relationship between franchisors and franchisees is based on a long-term relational exchange (Kaufmann and Stern, 1988). Therefore, how to motivate each other and maintain a good relationship becomes important from the perspectives of organisational stability and franchise power. Key theories like motivation will be discussed from three aspects: agency theory; resource constraint and transaction cost analysis. In agency theory, both parties are self-interested: hence, the challenge of how to satisfy franchisees is a key issue because the contract is fundamentally written to benefit the franchisor. Generally speaking, franchisors use both coercive and non-coercive power to maintain the relationship. Regarding resource constraints, Oxenfeldt and Kelly (1968-69) suggest that franchisors use franchising to obtain resources from franchisees. Resources include financial capital, human capital, management talent and local market expertise (Oxenfeldt and Kelly, 1968-69; Minkler, 1990 and Lafontaine, 1992). The other explanation for motivation is found in transactional cost analysis (TCA), where Williamson (1985) suggests that transaction costs include both the direct costs of managing relationships and the possible opportunity costs of making inferior governance decisions. In franchising, both franchisors and franchisees are self-interested parties; therefore, if one party damages the other party's benefits, the relationship will become fragile. However, as TCA also suggests that the prime asset in franchising is the shared trademark (Rindfleisch and Heide, 1997), once the trademark is devalued and uncertainty grows due to external pressures or behavioural defects, the relationship will deteriorate. Hence, franchisors have to encourage franchisees to undertake some specific investment in the transaction to maintain a stable relationship and make it difficult to transfer to other franchisors.

Another key managerial dimension is whether franchisors and franchisees are entrepreneurs. Most researchers agree that franchisors are entrepreneurs, however, opinions on whether franchisees are entrepreneurs differ widely. For example, Rubin (1978) argues that the franchised enterprise is, in reality, simply a 'managed' outlet following the corporate marketing strategy of another truly independent business, i.e., that of the franchisor. Knight (1984) placed the franchisee 'exactly mid-way' on a continuum of independence from 'solo independent entrepreneurs' and 'large corporate managers'. However, Bradach and Kaufmann (1988), in their own research found that 'franchising and starting an independent business are part of the same decision process'. There is still no universal viewpoint on whether franchisees are entrepreneurs.

Further, concerning the management of relationships and conflict between franchisors and franchisees, Brown (1980) suggests that power and performance will influence the quality of the relationship. As conflicts occur, leadership and power will have direct influences on the quality of the interactions and thus, many researches highlight the importance of communication. A good and effective communication mechanism minimises dissatisfaction and conflicts. Finally, Kaufmann and Stern (1988) view franchising as the prototype relational exchange. In franchising, the alliance between the franchisee and the franchisor is established and maintained to promote the trademark, because the trademark embodies commercial value for both parties in the licence agreement. If the franchisee perceives the relationship as inadequate, and therefore the value of the trademark as not having long-term potential to fulfil his return requirements, then the franchisee will have a short-term view of the relationship, and move toward a discrete transactional relationship, or even seek to end the relationship (Pondy and Huff, 1985; Macneil, 1978). We shall see that the franchise relationship between the parties is quite complicated and is presented essentially to promote the brand benefit for each other.

Chapter four introduces the retail franchise market in Taiwan. First of all, the emphasis is placed upon why Taiwan is chosen for this research. In 2000, reflecting innovation and change in the retail environment, the Taiwan Chain Store Association (TCSA) changed its name to be Taiwan Chain Stores and Franchise Association (TCFA). Now, its membership stands at over 200 enterprises, with 19,724 store outlets, 170,908 employees and $NT6, 221 hundred million annual output value. The renaming of the association suggests that the franchise chain is becoming more important in the retail market. In Taiwan, the convenience store (CVS) and the estate agency (EA) industries are selected to typify retail and service sectors. Four franchise chains are selected from each industry. The backgrounds of these companies and general information gathered from the interviews about internationalisation are introduced in this section. Finally, the future development of franchising in Taiwan is introduced.

Chapter five presents the methodology followed, in order to provide an understanding of how the research was conducted. The method adopted in this research is a form of exploratory qualitative research, because the purpose is to provide insights and understanding of the nature of this marketing phenomena (Malhotra and Birks, 2000). First, research questions, research objectives, the conceptual framework and pre-assumptions are formed from the previous literature review. The details of the research strategies are then introduced. The sample frame is comprised of eight franchise brands in the Taiwanese retail market; four of them from the CVS sector and the other four from the EA industry. Within each brand, three interviews in the franchisors' head offices and ten franchisees from each system were selected to minimise the bias that may arise from just using one or two interviews. Selection was based on stratified and random purposeful sampling methods. Owing to difficulties of access, only 84 interviews were conducted, in other words, a success rate of 82% was achieved. Regarding the analysis, cross case and with-in case analysis are adopted to compare the cases and to uncover the natural interactions and relationships between franchisors and franchisees. All the interviews were recorded and transcribed.

Chapter six presents the first part of the discussion and analysis. Following the structure of the literature review, motivational issues like agency theory, resource constraint and transaction cost analysis are discussed and analysed. Chapter seven is the second part of the discussion and analysis. In this chapter, the characteristics of decision-makers and relational exchange theory are explored in order to have an understanding of the natural interactions between franchisors and franchisees.

Finally, in chapter eight, the research findings and conclusions are presented. In this chapter, only those findings that conflict with established theories are presented. From these findings, the author identifies the gaps between theory and practice. In addition, models are built to uncover the complexity of the interactions between franchisors and franchisees. Finally, the limitations of the study, avenues for future research and a summary of key contributions to knowledge are presented.

The following conceptual framework illustrates the structure of this research.

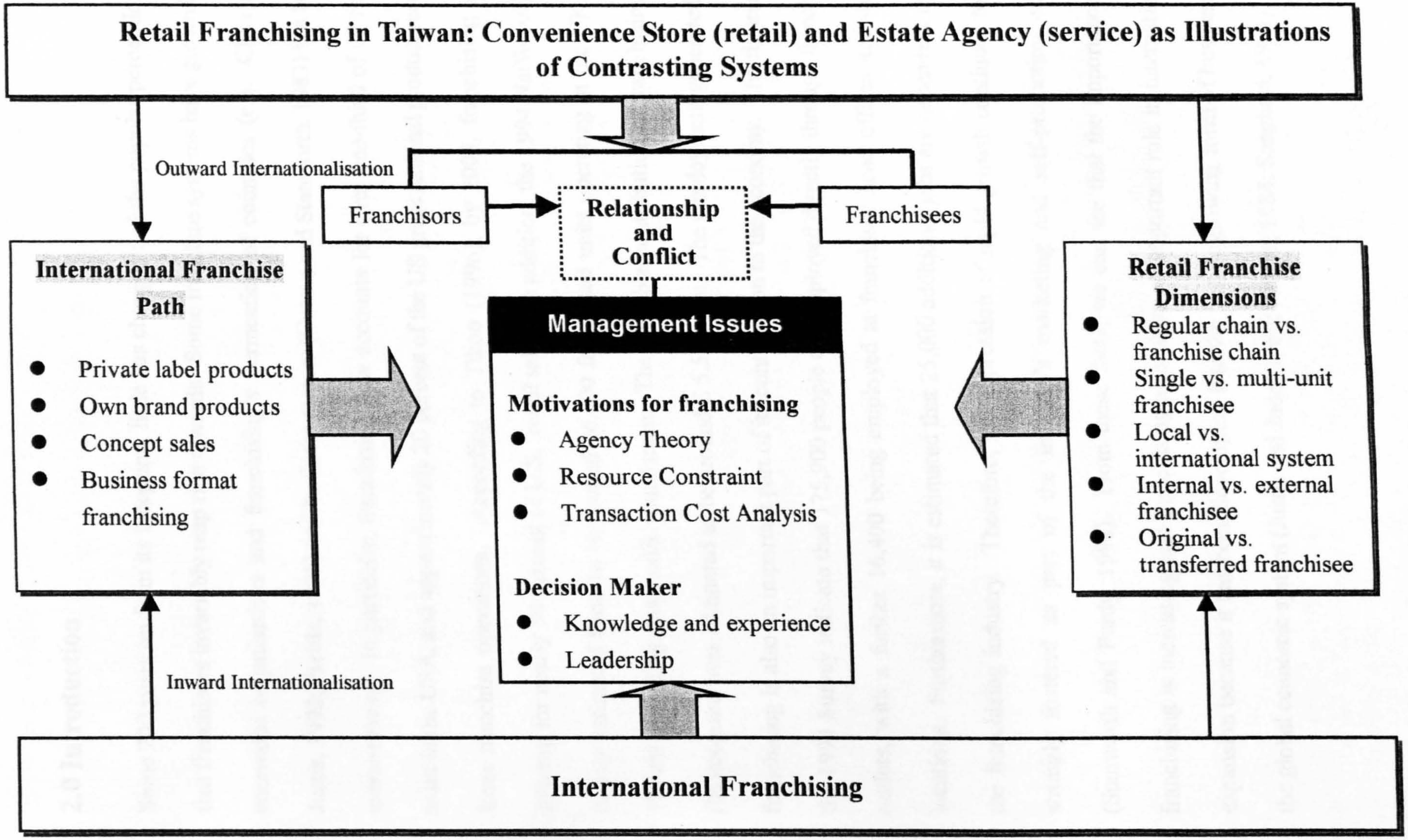


Figure 1.1 Conceptual Framework

CHAPTER TWO: FRANCHISING

2.0 Introduction

Some 200 years on from its inception, little has changed and the popular perception is that franchisors invariably reap rich rewards. Some franchise systems have grown into enormous organisations and franchising's permeation of countries (e.g., Chan and Justis, 1992; Preble, 1995) and business sectors (Curran and Stanworth, 1983) has been extraordinary. In particular, franchising now accounts for over one-third of all retail sales in the USA, and approximately 20 percent of the US gross national product results from franchise operations. According to Tikoo (1996), by 2005, franchising will account for nearly 50 percent of U.S. retail sales. In addition, the 1994 NatWest/BFA survey estimated there to be around 26,400 franchised units operating in the UK, or 19,400 excluding dairy milk roundsmen. The valuable contribution of franchising to the economy was estimated to be around £ 5.5 billion. The employment generated by franchising is also an important part of its contribution to the economy. The figures in the 1994 Survey indicate that 175,900 people are employed directly through franchise outlets, with a further 16,400 being employed at franchisor head offices and other locations. Furthermore, it is estimated that 25,000 additional jobs are dependent upon the franchising industry. Therefore, the impression of rapid growth continues to be strongly fostered as part of the industry's marketing and self-promotion effort (Stanworth and Purdy, 1998). From these facts, we can see that the importance of franchising is increasing and franchising also plays an important role in international expansion because it has been developing into the fastest growing form of business in the global economic system (Justis and Judd, 1989; Knight, 1984; Sanghavi, 1991).

However, others perceive a less optimistic future for franchising. Bates (1995) believes that some franchising niches appear sutured. Shane (1996) claims that three-quarters of all new franchise systems failed within ten years. Further, new evidence from Lafontaine and Shaw (1998) indicates that many firms starting as franchises fail despite franchising, and that many others choose to stop franchising within a few years. Most recently, Stanworth, Purdy, Price and Safiris (1998) confirmed Shane's (1996) findings and believe that, although franchise business failure rates are similar to conventional small businesses, franchising may be more risky during the first four to five years of a system's life.

Even so, some consider franchising to be the world's fastest growing method of doing business (Justis, Castrogiovanni, and Chan, 1994). This may be because of its lower failure rate and the obvious shortcut to success for many entrepreneurs. For example, Williams (1994) suggests that the more risk-averse person will prefer franchises as the franchisor services are presumed to facilitate spreading the risk between a franchisee and the franchisor.

As far as failure rate is concerned, the statistics most frequently cited by industry sources concern franchisee survival rate, although academics have shown an increasing interest in franchisor survival rate (English and Willems, 1994; Lafontaine and Shaw, 1997; Shane, 1996; Stanworth, Purdy, and Price, 1997; Bates 1998). Stanworth, Purdy and Price concluded their examination of all the above with the comment that:

> *"...a growing body of evidence now suggests the need for a radical reappraisal of the risks and challenges associated with franchise system development. The gap between rhetoric and reality in the field of franchising can be substantial. This appears generalizable internationally, albeit under U.S. influence. Only recently*

have academics assembled the necessary critical mass of relevant data sufficient to put popular conceptions...to the test. How these data are used in the years to come, and the industry's response to them, will be interesting to observe" (1997, pp.92-93).

The overall picture of franchise survival rates is one of considerable complexity. For instance, Bates has demonstrated that franchised outlets can both under-perform and out-perform comparable independent businesses, not only in the same sector but also in the very same franchise system, depending on factors such as whether franchisees are newcomers or entrenched, multi-establishment franchisees taking on additional outlets. In addition, a substantial body of theoretical and empirical analysis shows that better established, larger firms are more likely to remain in operation than younger, smaller businesses (Jovanovic, 1982; Evans, 1987; Bates, 1990; and Bruderl, Preisendorfer and Ziegler, 1992).

According to the Commerce Department attrition studies, by the end of the first year, 97 per cent of the franchises are still in business versus only 62 per cent of the independents. At the end of five years, 92 per cent of the franchises are still in business versus only 23 per cent of the independents. At the end of ten years, 90 per cent of the franchises are still in business versus only 18 per cent of the independents (Ashman, 1988). Given these figures, it appears that operating as a franchise definitely offers the entrepreneur a better chance at survival. Dun and Bradstreet (1989) also reported that franchises have a lower annual failure rate than other forms of business, ranging from 0.4 percent for personal services firms to 3.8 percent for business services firms. These figures however pertain only to failures involving losses to creditors, not to total closings. However, it appears that there has been a gross under-estimation of the risks associated franchise system development and operation. Failure rates amongst franchise systems are now known to be much higher than commonly was realised until fairly recently.

In short, after comparing US and UK data, Storey (1994) concludes that the broad pattern which emerges is that the young are more likely to fail than the old, the very small are more likely to fail than their larger counterparts, and that, for young firms, probably the most powerful influence on their survival is whether or not they grow within a short period after start-up. Therefore, we can suggest that the failure rate is closely linked with the age and the scale of the franchise system.

From the above arguments of the failure rate of franchising, we know that there must be both advantages and disadvantages to the franchise system (see Appendix 1), as it is so attractive and yet has a high failure rate. This chapter will discuss various aspects of franchising to provide a clear overview of this topic.

2.1 Definitions and History of Franchising

There is no universal definition of franchising. The general definition adopted by the International Franchise Association (IFA), founded in 1960, is:

> *"A franchise operation is a contractual relationship between the franchisor and the franchisee in which the franchisor offers, or is obliged to maintain, a continuing interest in the business of the franchisee in such areas as know-how and training: wherein the franchisees operate under a common trade name, format and procedure owned or controlled by the franchisor, and in which the*

franchisee has or will make a substantial capital investment in his business from his own resources."

From this definition, we can see that the franchise relationship is based on a contractual relationship between franchisors and franchisees and something is exchanged between both parties. Aside from the above definition, there are many different definitions of franchising. For example, Curran and Stanworth (1983) defined franchising as:

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

This definition was seen as covering most modern varieties of franchising, and in principle, no barriers appeared to exist to incorporating quasi-forms. In retrospect, this should be stressed as ideal-typical in approach. For instance, in practice, market testing can be perfunctory. Franchisee self-financing is often supported significantly by loan finance from banks or other sources, including franchisors. Also, multi-unit franchisees and corporate franchisees that are found in some areas of franchising such as fast food are clearly not always owned by small firm owner-managers. Indeed, some corporate franchises may be larger than their franchisors measured by value of corporate assets, but in many areas small-scale ownership remains typical. Also, although the relationship is defined as a continuous one, the actual period covered, of course, is variable. Some reference ought also to be made to the payment of fees or royalties of various kinds by franchisees to franchisors. But otherwise, the definition embodies a gradually evolved consensus as the study of franchising has developed.

Occasionally, the definitional debate re-emerges (see, for instance, Spinelli and Birley, 1996), but otherwise is largely a feature of earlier research.

The relationship between franchisors and franchisees is based on the franchise contract. However, the franchise contract is difficult to balance between the two parties because it at most just defines general powers and responsibilities but cannot address how the parties are to exercise those powers (Hadfield, 1991). So, franchisors can sue franchisees for different reasons if franchisors think that the franchisees' operations are illegal. Hadfield suggests that any Court should adopt a relational approach to the interpretation of franchise contracts and the resolution of franchise disputes. This is because the highly incomplete franchise contract requires analysis in a manner distinct from the ordinary, complete contracting approach of classical contract law. As a consequence, to interpret the franchise contract is to read it in the context of this relationship, to test the written terms against the basic sense of the relationship, and the commitment problems facing both franchisee and franchisor. In the UK, the most detailed comparative work on franchise contracts is that undertaken by Felstead (1993). He compared 83 different franchise contracts. His analysis compared contracts on six main component elements: guarantees granted to franchisees of territorial exclusivity; franchisors' rights to unilaterally impose changes to their operating manuals; post-termination restrictions on competition; franchisors' stakes in franchisees' businesses via ownership of sites, telephone lines or equipment; franchisors' rights to police the quality of the franchisees' output; and, finally, the franchisors' imposition of output targets. Felstead (1993:116) finds that franchisees occupy an ambiguous position of being neither fully in control of 'their' business nor fully controlled.

Therefore, most issues in franchising are linked to the contract; and how to keep a fair contract benefiting each party is an important issue. This is because the contract will influence the future development of the franchisor and franchisee. However, most franchise contracts are still beneficial to franchisors, and therefore, conflicts take place. Stanworth (1984) suggests that franchise relationships may appear to render franchisees highly dependent at a contractual level, at an operational level more independence may be manifest than appears likely at the first sight.

As far as its history is concerned, generally, there are three generations recognised in the development of franchising. Originally, franchising can be traced back to the eighteenth century, through the first generation of business franchises, known as tied-house systems among German brewers, who contracted with taverns to sell their brand of beer exclusively. The second generation appeared in the nineteenth century, when the Singer Sewing Machine Company sold its products to its sales force, who in turn had to find markets for them. This type of arrangement, known as product-tradename franchising, involves using franchisees to distribute a product under a franchisor's trademark. Today this form is prevalent in automobile sales, retail gasoline, and soft-drink distribution. The third generation of franchising, known as the business format or 'package' franchise, was developed in the twentieth century by A&W Restaurant. This type of franchise seeks to replicate in a local community an entire business concept, including product or service, tradename, and methods of operation. This form has accounted for most of the unit growth of franchising worldwide since 1950. Third generation franchises exceeded product-tradename franchises in the total number of units during the 1980s. In the UK, the tenanted public houses are often categorised as 'first-generation' franchises and almost totally sidelined from most mainstream debates on modern franchising. The terms 'franchising' and 'business format franchising' are now used practically interchangeably in the franchise industry generally. The franchise industry has been strongly influenced by developments from the USA. In the mid 1970s, the British Franchise Association was formed by eight franchise companies:

- Budget Rent-a-Car (vehicle rentals)
- Dyno-Rod (drain cleaning and hygiene services)
- Holiday Inn (hotels and motels)
- Kentucky Fried Chicken (fast foods)
- Prontaprint (fast print services)
- ServiceMaster (carpet and furniture upholstery cleaners)
- Wimpy International (fast foods)
- Ziebart (vehicle rust-proofing services)

Only two of the above (Prontaprint and Wimpy) were distinctly British and even the latter was based upon an imported American idea, albeit developed by a British company. The dominant representation of American involvement in franchising has continued, with US companies exporting to Britain largely via the medium of granting 'master licenses' for an individual or company in Britain to develop their format nationwide.

From the above introduction, we have an idea of what franchising is, and the fundamental importance of the contract. The next section will discuss related issues in franchising and first of all, how franchising fits into the retail distribution channel will be explored.

2.2 Channels of Retail Distribution

In a traditional distribution channel, the institutions with which end consumers have everyday contact are final retailers. However, it is impossible for retailers to perform all the functions from manufacturing to selling by themselves. Therefore, there are many participants within a distribution channel each of which serves a different function to maximize the efficiency of the total channel and to create customer satisfaction.

The channel is defined as "*a term of merchant and agent business institutions that combine physical movement and title movement of products in order to create useful assortments for specified markets*" (Walters, 1977, P.4). The function of distribution channels is to deliver either products or services to markets where customers can access them. As a result, no modern economic system can exist without channels because of the separation of production and consumption as a result of specialisation. A channel of distribution is necessary to bridge the gap in any society (Breyer, 1966) and it can be demonstrated that channels of distribution contribute to the overall efficiency of the system. Marketing channels are universal to all economic systems other than the very simplest. The following section will discuss two different systems, conventional and vertical marketing systems, in the form of marketing channels.

2.2.1 Conventional versus Vertical Marketing Systems

As far as the marketing or distribution channel is concerned, generally speaking, there are two systems, which are the conventional channel and the vertical marketing system (VMS). Traditionally, the channel of distribution is from manufacturer to wholesaler to retailer to consumer; the emphasis is from one channel member to the next one and each channel member has its own role and functions. This is called a conventional channel. However, in this system, some of the functions which members perform are similar or the same. This causes inefficiency in the allocation of resources. Rather, in the vertical marketing system, which is defined by McCammon (1970) as "*rationalized and capital intensive networks designed to achieve technological, managerial and promotional economies through the integration, co-ordination of synchronisation of marketing flows from points of production to points of ultimate use*", different channel members are connected to form a network and share common functions to achieve a more efficient operating system. This can not only save unnecessary cost but also improve efficiency.

Figure 2.1 provides a comparison of a conventional channel and a vertical marketing system.

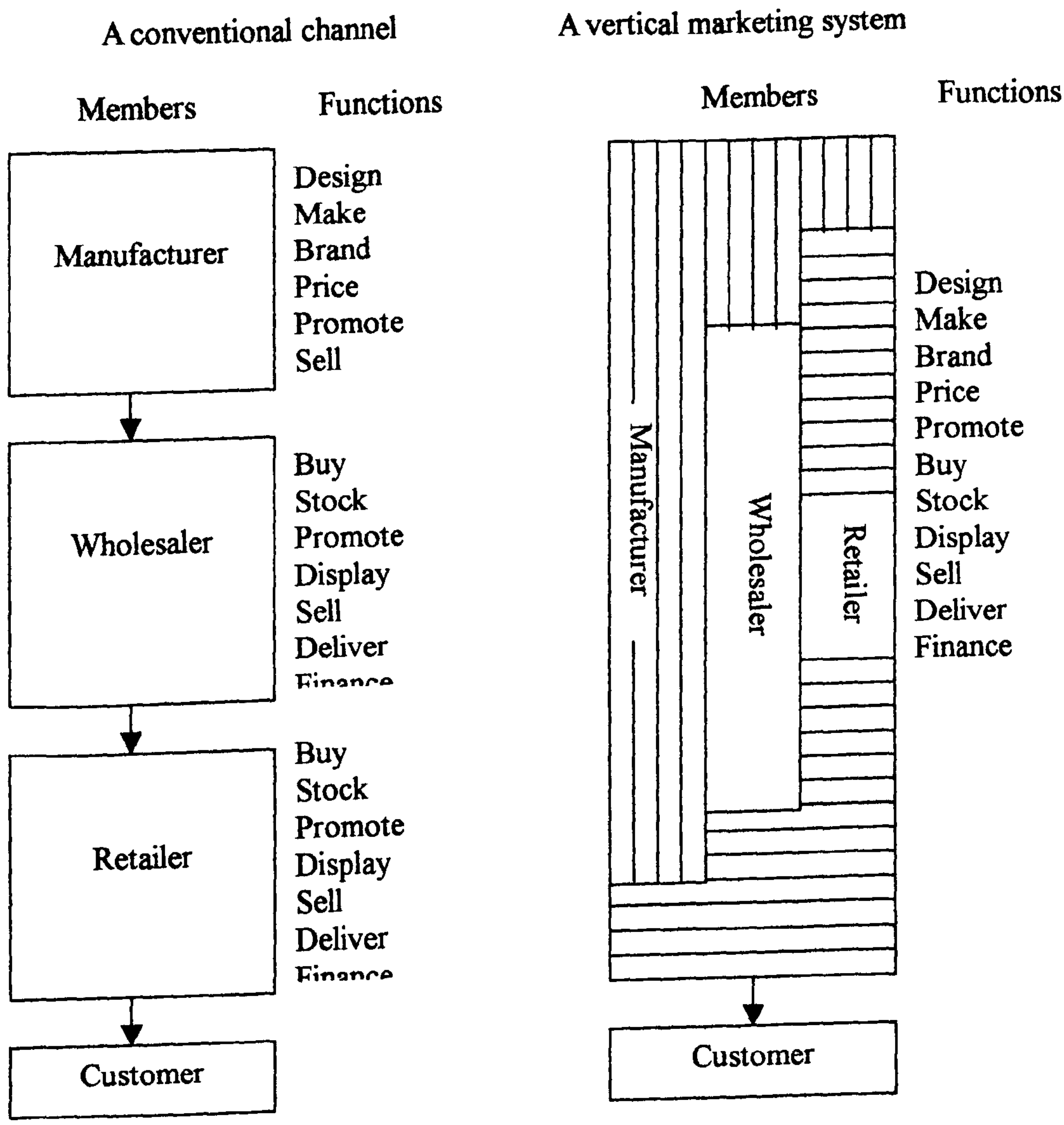


Figure 2.1 The shifting of functions within the channel
Source: Walters (1979, p.215)

From this figure, we see the difference between a conventional channel and a vertical marketing system. In the VMS, the different stages are combined through ownership or management control. This occurs when the management of one stage purchases a business operating at another stage, but it also takes place when the management of one stage simply begins performing the duties or functions of another stage through expansion (Rubuke, 1966).

The most obvious difference is in the efficiency of the operations. This is because VMS members share channel functions. In contrast, the conventional channel members operate independently. Therefore, as far as efficiency is concerned, the VMS is much better than the conventional marketing channel. Other reasons for moving to a VMS may be to reduce the cost of operations, to stabilise activities and performance, to assure sources of supply, and to provide better control over operations (Sturdivant, 1966). However, as something is shared in the vertical marketing system, so the exchange behaviour between parties becomes important because it will influence the quality of interactions between channel members. Table 2.1 offers a comparison of the differences between these two types of channel.

Table 2.1 Characteristics of Conventional and Vertical Marketing Channel Systems

Characteristic	Conventional Channel	Type of Vertical Marketing System			
		Administered	Contractual		Corporate
			Voluntary and Co-operative	Franchise	
System wide goals	None	Limited and informal	Limited and formal	Extensive and formal	Pervasive and formal
Mechanism for co-ordination	Bargaining and negotiation	Marketing programs	Contract	Contract	Corporate policy
Locus of decision making	Individual organisation	Informal collaboration	Wholesaler with ratification	Franchisor with ratification	Decentralized / centralized
Channel commitment	Unstable	Minimal	Moderate	Very high	Very high
Opportunities for scale economies	Infrequent	Possible	Good	Very good	Excellent
Flexibility	Very high	High	Moderate	Low	Very low
Investment needed	Very low	Moderate	High	High	Very high

Source: Stern, El-Ansary, and Brown (1989)

From the above table, four different kinds of approach to vertical marketing systems are introduced; each of which has a different operating style. Within the contractual group, there are three different kinds of organisations - voluntary, co-operative and franchise.

In a comparison between conventional and vertical systems, we find that the conventional system still follows the old transactional forms of behaviour, which are based on personal relationships to adapt its operations. This may be still useful in some regions or countries. However, in more modern business environments, the vertical marketing system is a more efficient mechanism because it is "*a professionally managed and centrally programmed network, pre-engineered to achieve operating economies and maximum market impact*" (McCammon, 1970). A vertical marketing system can be established using pervasive administrative powers, legally binding contractual agreements, and partial or total ownership of channel members. In a vertical marketing system, each channel member assumes the functions and tasks that will best support the entire channel system. As a team member, the retailer operates within the retail level of distribution and provides most of the teamwork at that level and some engage in operations at the wholesale and even the production levels of the marketing channels (Lewison, 1997).

In order to clarify the differences among the organisational forms in a vertical marketing system, Lin (1996) proposes that chain stores can be divided into four types, which are regular chain (also called company-owned outlets), franchise chain, voluntary chain and co-operate chain (Table 2.2). From the previous table 2.1, we have established that three of them (franchise chain, voluntary chain and co-operate chain) are based on contracts.

Table 2.2 The Comparison of Four Kinds of Chain Stores

	Regular Chain (R.C)	Franchise Chain (F.C)	Voluntary Chain (V.C)	Cooperate Chain (C.C)
Source	Manufacturer, wholesaler, retailer and service	Manufacturer, wholesaler, retailer and service	Manufacturer, or wholesaler	Retailer
The relationship between franchisor and franchisee	Franchisor and company-owned outlets	Contract	Contract	Share/contract
Competition	Variety	Differentiation	Price competition	Price competition
The source of product	From the franchisor	From the franchisor or franchisor's recommendation	Some are from the franchisor and some are from other sources	Some are from the franchisor and some are from other sources
The main revenue of franchisor	Sales revenue	Royalty	Sales from wholesale	Service revenue
Decision maker	Franchisor	Franchisor and franchisee	Franchisees have more power	The franchisees can participate in the decision making
The source of capital	Franchisor	Franchisee	Franchisee	Franchisee
The source of management power	Franchisor	Franchisee	Franchisee	Franchisee
The management of outlets	Assigned by franchisor	Franchisees	Franchisees	Franchisees
Pricing	Franchisor	Franchisee	Franchisee	Franchisee
The termination of contracts	It is up to franchisors	Free	Free	Free
Education training	A series of training	A series of training	Use freely	Nothing
The restriction from the franchisor	Very strong	Strong	Weak	Very weak
Promotion	Decision from	Decision from	Free joining	Free joining

	the franchisor	the franchisor		
The domain of the contract	No	The whole operations	Some of the operations	Some of the operations
Control mechanism	Very strong	Strong	Weak	Very weak

Source: Lin (1996)

From the above table, we can see that each option has different advantages and disadvantages. In the retail market, they exist in different kinds of businesses, especially the regular chain and franchise chain. The main difference between these options is ownership. In addition, from the table, we can see that there is an obvious advantage for the franchise chain, which is the speed of expansion; in other words, businesses can adopt a franchise format for the purpose of quick expansion. With regular chains, their advantage is mainly in the ability to exploit a unified corporate image because of the high level control exercised by head office. In order to have a deeper understanding of the franchise organisation, the following section will discuss this from various perspectives.

2.2.2 Franchising in the Vertical Marketing System

As discussed earlier, in the vertical marketing system (VMS), there are three forms of organisation, which are corporate VMS, contractual VMS and administrative VMS (see Figure 2.2). Here, the emphasis will be on the contractual VMS. This is because franchising is basically built on the contract between franchisor and franchisee.

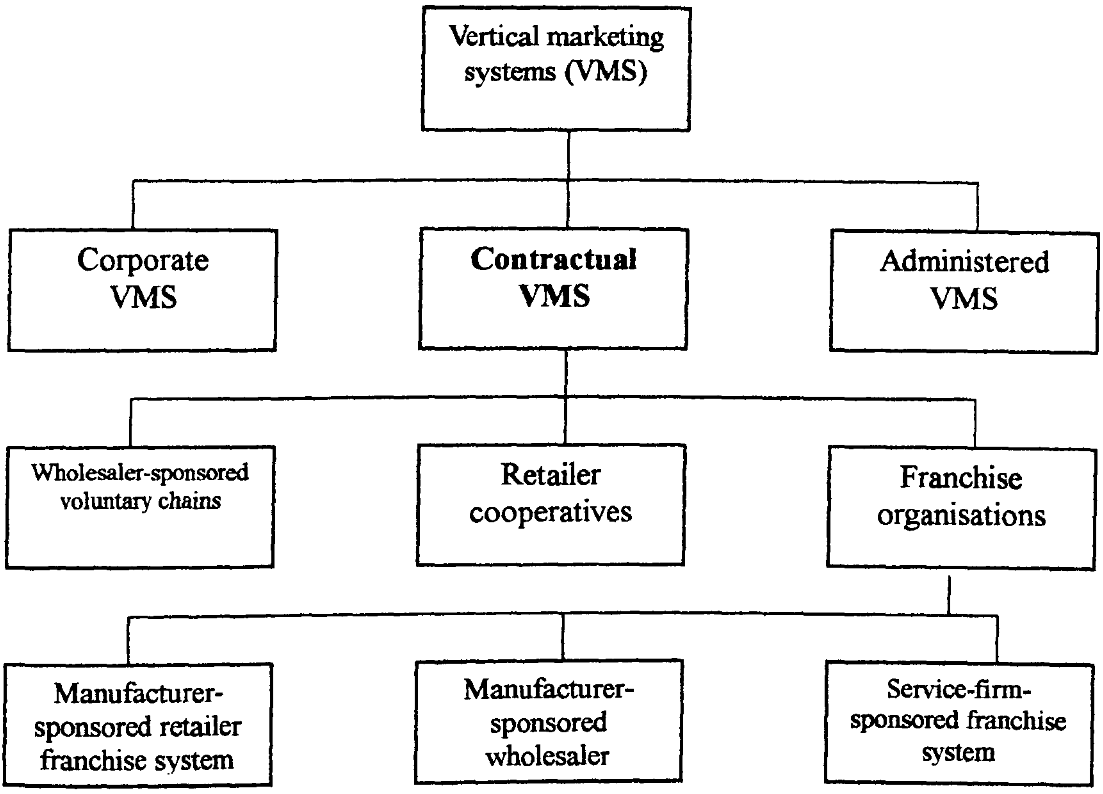


Figure 2.2 Major types of vertical marketing systems

Source: Kotler and Armstrong, (1996)

As far as a franchise organisation is concerned, it is a kind of hybrid organisational form that incorporates elements of both markets and hierarchies (Norton, 1988; Larson, 1992, Williamson, 1991). In a comparison between hierarchy, hybrid and market mechanisms, the managers in the market-based outlets have some contractual obligations, but they also have strong entrepreneurial incentives. Hybrids have some incentive to increase performance, but they gain less and have less at stake than their market counterparts. The managers in hierarchical arrangements have minimal entrepreneurial drive but are motivated through behavioural-based contracting. Therefore, the three mechanisms provide different levels of incentive and risk. Franchising is a hybrid alternative since the franchisor both retains a degree of ownership and authority over the use of the trade name, operating procedures, and the locations of outlets but contracts with independent entrepreneurs to operate the units (Child, 1987).

The advantage of this kind of organisational form is in the growth of the firm. This is because there are many restraints on growth, such as capital, human resource, local knowledge and so on. Penrose's (1959) observation is that a firm's growth is constrained by the speed at which it can expand its managerial capacity. This constraint holds because a relationship exists between asset size and the amount of monitoring required by a firm. However, research has suggested that firms may be able to overcome managerial limits to firm growth through the use of a contractual organisational form, such as franchising. Larson (1992) found that new and growing firms, in general, tend to have a disproportionate preference for hybrid organisational forms. In addition, Teece (1986) showed that hybrid organisational forms allow resource limited firms to gain control over co-specialised assets. Therefore, compared to other organisational forms, franchising is a better mechanism for firms with resource restraints during the growth stage.

From the above section, we can see that franchising is a good mechanism for the growth of a firm. As to how to apply this kind of mechanism, Vaughn (1979) suggests that there are four options, they are:

The manufacturer-retailer franchise: a manufacturer grants the right to a retailer to sell the product to the final consumer. The franchisee may operate the franchise as his sole business activity or, alternatively, as an activity within an existing business. Automobile dealerships and petrol service stations are examples.

The manufacturer-wholesaler franchise: a manufacturer grants the right to a wholesaler to distribute a product. The main examples of this form of franchising are the soft drinks industry where companies such as Coca-Cola and PepsiCo, sell franchises to independent bottlers who, in turn, distribute to retailers.

The wholesaler-retailer franchise: a wholesaler grants the right to a retailer to trade under a certain name. Perhaps the best-known examples here are the 'voluntary' groups in grocery retailing where the wholesaler (the franchisor) supplies products to the retailer (the franchisee) who is signed up on a voluntary basis.

The retailer-retailer franchise: a retailer grants the right to another retailer to trade under the same name. Usually called '*business format franchising*', the franchisor has a product or service to be marketed under a common trade name by standardised outlets. These types of franchises include fast food outlets, car hire, and hotel franchising.

Arthur Andersen (1992) simplifies franchising and distinguishes between product-tradename and business format franchising. *Product-tradename franchising*, which is prevalent in automobile sales, retail gasoline, and soft-drink distribution, uses franchisees to distribute a product under a franchisor's trademark. *Business format franchising* is a more popular option in the business world and appears in a wide range of sectors such as restaurants, hotels, real estate agents, business aids and educational services. This kind of franchising is also called a package franchise.

In the UK, the pioneering Bolton Committee researchers positioned small firms along a typology of reliance upon large firms. 'Marketers' are those firms, which actually compete in the same or similar markets as large firms. 'Specialists' are those firms, which carry out functions that large firms do not find it economic to perform at all, though they may include large firms amongst their customers. Finally, and crucially, are small firms performing the role of 'Satellites'. Here the small firm is highly dependent upon a single larger business for the majority of its trade. The degree of dependence may be even greater if the large customer actually designs the product or service and sub-contracts its manufacture or supply, as appears the case with a franchise. Franchisees would appear to fall under the third category above. The clearest illustrations of franchise satellite relationships in the UK involve the relatively recently developed areas of franchised (domestic) milk distribution (Boyle, E., 1994) and parcel despatch and delivery. Both of these, in some ways, could be said to be close to 'product' franchises with franchisees simply distributing locally a product delivered to them by their franchisors. 'Business format franchising', by way of contrast, involves the 'cloning' and support of a full business system as a channel for the delivery of a service or service-related business.

Franchising is an organisational form based on a legal agreement between a parent organisation (the franchisor) and a local outlet (the franchisee) to sell a product or service using a brand name developed and owned by the franchisor. The franchisor typically sells the franchisee a right to use this intellectual property in return for a lump sum payment (initial fee) and a monthly fee based on sales for a specified period of time (Miller & Grossman, 1990). Usually, the monthly fee is composed of two items - a royalty fee and a contribution for advertising. In addition, the franchisee usually agrees to adhere to franchisor requirements for product mix, operating procedures, and quality. In return, the franchisor typically agrees to provide managerial assistance, training, advertising assistance, operating procedures, site selection and other continuous services (Rubin, 1978). Thus, the mix of initial and continuous services provided by the franchisor should influence the payment design.

As far as the initial fee and royalty are concerned, there are two key issues. The first one is any change to initial fee and royalties. Lafontaine and Kaufmann (1994) suggested that changes in the rates are related to market demand, the cost of running the system and the value of the trademark. Also, they observed that younger and less powerful franchisors are more likely to engage in this type of negotiation. The second issue is the relationship between the initial fee and the royalty. Lafontaine (1992); Baucus and Human (1993); Lafontaine and Kaufmann (1994) all observe that the initial fee and royalty are positively related to franchise performance, the age of franchisor, the value of franchises, number of retail outlets and national representation. However, Sen (1993) suggests that new entrants into franchising charge higher initial fees than more experienced ones. This may reflect the more severe capital constraints faced by these franchisors. The author suggests that the initial fee and royalty are related to market competition and the relationship between supply and demand.

Rubin's (1978) viewpoint is that royalty rates should have the opposite effect on initial fees. His argument is based on the premise that the initial fee is the difference between the present values of the profits of the franchise and the salaries of downstream managers. As royalties are imposed on monthly sales rather than profits, a reduction in royalty rates should increase the initial fees that are charged up-front. Rubin also suggests that the initial fee and royalties are related to risk. This is because the franchisor has discretion over how they are defined. For example, franchisees might be required to purchase rather than lease equipment from the franchisor. As for royalties, they reflect risk because they are used to capture the proportion of rents due to the franchisor that are unpredictable and thus cannot be included in franchise fees. Another perspective is provided by Inaba (1980) who observes that when demand is certain, franchisors tend to use royalty more than tie-in sales to earn monopoly profits. Conversely, when demand is unstable, franchisors rely more heavily on tie-in sales rather than royalties.

Regarding setting the level of fees, Mendelsohn and Acheson (1989) believes that most companies in the UK are: "Setting their fees by what they can get away with rather than on any meaningful costing system and in light of what the competition are charging." Provided the competition has set the figure at the right level to reflect demand for the franchise, clearly this is a legitimate way of setting the fee. However, if it is a drain on resources, then this matter needs to be urgently reviewed to prevent the franchisor going out of business.

From the above details, we see that the initial fee and royalty are positively related to the age of the franchisor and its reputation and related to the franchisors' resources. Take McDonald's in Taiwan for example, the initial fee is quite high, which is ten million NT dollars (about £200,000). This is because McDonalds not only has a strong international brand reputation but also an excellent sales record in Taiwan (9^{th} out of 110 countries in the world). The sales of Taiwan McDonald's have grown over 50 times within 15 years.

The following section will discuss the development of the franchise organisation. Two key characteristics will be referred to, which are the co-existence of company-owned and franchised outlets and multi-unit franchisees in franchise systems.

2.3 The Development of Franchise Systems

In the development of a franchise system, the franchisors usually concentrate on how to maximize their efficiency and profit through an effective franchise mechanism. They could run company-owned outlets if they have sufficient resources, otherwise, they could franchise the business. There are three kinds of business systems coexisting: purely company-owned outlets; plural system (combination of company-owned and franchised outlets); and purely franchised outlets. The difference between them is found in outlet ownership. Hence, the following section will begin with a discussion on ownership followed by the issues of multi-unit franchising.

2.3.1 Ownership Patterns in Franchise Systems

As far as the franchise organisation is concerned, there are two systems - the fully franchised system and the mixed system. The fully franchised system is a business concept that has been developed and tested successfully. Therefore, at least in the initial stages, it is not possible for a firm to have a fully franchised system. Once the firm is successful in designing its business concept, the franchisor can sell its company-owned outlets to franchisees and become fully franchised. A fully franchised system allows a firm access to franchisee capital and labour, allows the transfer of business risk to its franchisees, reduces monitoring costs, generates promotion efficiencies, and focuses its efforts on specializing in national promotion and product development (Tikoo, 1996). This approach happens when the franchisor is young. In order to expand quickly, they may prefer to lower standards to sell the franchise, even though this may damage its brand value.

The second system is the mixed system. There are three ways to establish it. First, a firm can start by franchising all locations, then take over some of the stores later. This route allows a firm to gain the initial benefits of franchising while discovering which stores are worth bringing under company ownership in terms of monitoring costs, profitability and risk. This approach is related to the life cycle of a franchise first put forward by Oxenfeldt and Kelly (1968-69), which will be mentioned later in the chapter on resource constraints. The second method is by initially opening only company-owned stores, then franchising some new locations at a later stage. This is suitable for a firm willing to grow gradually, and which has strengths in identifying the profitability of potential store locations, and wants to pre-empt those sites under company ownership. The other motive is that the franchisor may want to pre-test the business know-how in the company-owned outlets in order to prevent conflict with franchisees afterwards. Third, a firm can establish franchised and company-owned outlets simultaneously. This option provides a means to combine the advantages of the other two options (Tikoo, 1996). Dahlstrom and Nygaard (1994) took petrol service station as an example to analyse ownership structures. They suggest that ownership comes in three forms: corporate ownership and operation, corporate ownership but management by franchisee, and ownership and operations by franchisee. Ownership patterns can vary from industry to industry and even in the same industry, there may be different structures.

In general, most franchising systems will start with company-owned outlets to test the product or service in the period of experimentation. After a period of successful operation, in order to expand quickly, the franchisor starts to use franchising to increase market share. Many franchisors believe they need only a few company-owned units to test new products or operating system changes (Hoffman and Proble, 1993). Also, Martin (1988), Norton (1988), and Lafontaine (1992) noted that franchisors rely more heavily on franchised outlets than company-owned outlets in high-risk industries.

Hunt (1973) suggests that franchisors prefer to buy back franchisees when they have enough resources. This is because he observed that company-owned outlets out-performed franchised outlets. He also points out several powerful reasons for franchisors preferring corporate-owned and managed units: (1) greater profits per unit; (2) greater control over the units; and (3) fewer legal problems. These arguments are based on the flexibility and capacity to react more swiftly to the need for change, and as franchisees are from different backgrounds they cannot promise to maintain the service quality. Therefore, franchisors will just leave those physically isolated or low profitability outlets franchised. However, Shelton (1967) found that franchised outlets in the restaurant industry outperformed company-owned outlets even though higher incentives are paid to company managers. Dant, Paswan, and Stanworth (1996) also suggest that despite well-documented buying back in particular franchises, no trend towards a general increase in direct ownership by franchisors appears possible to establish. Therefore, we cannot say categorically that company-owned outlets outperform franchised outlets because there are too many variables involved such as the franchisee's personality, the location and the organisational atmosphere. Pirkul, Narasimban and De (1987) developed a mathematical model allowing the possibility of opening both company-owned and franchised outlets to solve the problem of firm expansion through franchising.

If we enlarge the concept to an international context, Aydin and Kacker (1989) suggest that those companies that rely more heavily on franchisee-owned operations are more ready to go international than those who own a relatively greater percentage of units in their network. Therefore, we cannot infer that a franchisor will buy back most of its franchisees at a mature stage; this kind of situation may be more applicable in the domestic market. However, from the perspective of international expansion, those franchisors that have fewer company-owned outlets may be more able to shift the risk, the financing and the burden of operations. So, keeping a suitable proportion between franchised and company-owned outlets is not only important in the domestic market but also in the international market.

As far as the balance between franchised and company-owned outlets is concerned, a number of studies have examined changes in franchising using the aggregate industry level data published for the years 1972-1986 by the Department of Commerce (U.S. Department of Commerce, 1988). However, empirical evidence at the firm level, the appropriate level of analysis to address the Oxenfeldt and Kelly (1968-69) hypothesis, remains quite sparse. According to Lafontaine and Kaufmann's (1994) observation, only Oznne and Hunt (1971), Hunt (1972), Lillis et al. (1976), Martin (1988), Carney and Gedajlovic (1991) and Lafontaine (1992) have examined the contractual mix of individual franchisors. Using cross sectional data, these researchers relied on a comparison of the proportion of company-owned units between old and new franchised businesses at a particular point in time to assess the effect of franchisor maturity on the ownership mix. Take Martin (1988) for example, he suggests that risk avoidance would imply that urban locations will be retained as company-owned outlets, just as lower monitoring costs would imply that these locations will be retained by the franchisor.

Lafontaine and Kaufmann (1994) argue that the effect of franchisor characteristics on the use of company ownership and franchising to control agency problems is linear across franchise systems. By focusing on linear effects, agency theory research has not successfully explained the variation in the proportion of franchised outlets in franchised systems. Therefore, Shane (1998) adapted agency theory to suggest that several franchisor characteristics found to have linear effects on franchising in previous studies - geographic dispersion, system size, royalty rates, initial investment, franchisee fee, and system growth rates - should actually have curvilinear effects on the proportion of franchised outlets. Finally, the study provides empirical evidence that the effects of size, rate of growth and geographic dispersion on the proportion of outlets franchised are curvilinear, reconciling conflicting findings on the direction of these variables (e.g., Brickley & Dark, 1987; Hunt, 1973; Kaufmann & Rangan, 1990; Martin, 1988; Oxenfeldt & Kelly, 1968-69; Shane, 1996). The results show that the correct question for franchising scholars is not to ask why do firms franchise (or why are they not completely company-owned), but what is the optimal proportion of franchised outlets?

Caves and Murphy (1976) suggest that direct ownership will increase as the franchise system matures, probably testimony to the franchisor's declining opportunity cost of capital. However, Lafontaine and Kaufmann (1994) observe that franchisors tend to operate a mix of company-owned and franchised outlets, with the proportion of company-owned units sought being relatively small to achieve a synergistic effect. This kind of argument suggests that franchising is indeed the generally preferred mode of operation for these firms, presumably because of its incentive properties. In other words, as heavily franchised systems experience a relaxation in their resource constraints and become more able to expand through company-ownership, they may do so only to take advantage of the plural form benefits and not at all in an attempt to reach the near complete ownership envisioned by Oxenfeldt and Kelly (1968-69).

In short, from the above arguments, we see that there are many factors related to ownership patterns in the franchise system and these arguments are not consistent. Aside from ownership, another key issue in franchising is the role of multi-unit franchisees, which happens quite often in the franchise distribution channel. As far as the franchisee is concerned, two roles are played. First, the role of franchisee to the master franchisor who creates the brand and second, the role of sub-franchisor for the multi-unit franchisees. Therefore, the next section will discuss multi-unit franchisees in detail.

2.3.2 The Role of the Multi-Unit Franchisee

Multi-unit franchising is where a franchisee owns more than two outlets and this kind of phenomenon is quite common in the retail market (Kaufmann and Dant, 1996). In the USA, it is not uncommon for 50% of a franchise company's outlets to be owned by less than 20% of its franchisees. A single large franchisee may own several hundred outlets (Bradach, 1995). However, multiple-ownership in UK appears less common and it is estimated that 82% of franchisees operate just a single unit (The NatWest Bank/British Franchise Association Franchise Survey, 1993). The academic literature on franchising has largely ignored the distinguishing feature of ownership of multiple units by an individual franchisee (Bradach, 1995). This is because most researchers think that the efficiency of a single unit is greater than that of a multi-unit franchisee. However, Kaufmann and Kim (1994) found that 57% of franchise systems use multi-unit franchisees. In another survey, Robicheaux, Dant, and Kaufmann (1994) reported that 87% of franchise systems contained at least one franchisee that owned multiple units, and on average 33% of the franchisees in a system operated more than one unit. Therefore, it could be argued that there is still a misunderstanding of multi-unit franchising. This may be because of the assumption that multi-unit franchising is inefficient as it separates ownership from local decision-making, creating in essence a hierarchical structure much like that found in company units (Brickly and Dark, 1987; Hadfield, 1991; Kaufmann, 1992; Rubin, 1978). However, the extant empirical evidence suggests that multi-unit franchisees enjoy systemic advantages over their single-unit counterparts and are associated with higher system growth rates (Kaufmann and Kim, 1995; Kaufmann and Dant, 1996; Shane, 1996). Also, franchisors prefer looking at existing franchisees rather than finding new franchisees to reduce the risk of uncertainty (Kaufmann, 1992).

One possible explanation for the existence of the multi-unit franchisee is based on the level of efficiency between input and output. All else being equal, monitoring is the preferred method of controlling an agent's behaviour because it addresses both suboptimal and misdirected effort, whereas residual claimancy only serves to control suboptimal effort (Shane, 1996). In the case of widely dispersed outlets, therefore, output controls, such as the residual claimancy rights in franchising agreements, are used to control agents only when input controls, such as monitoring, are too costly (Brickley and Dark, 1987; Brickley, Dark, and Weisbach, 1991; Bergen, Dutta, and Walker, 1992).

In most retail chains, there are numbers or clusters of units for which monitoring is the more efficient method of controlling agents. In other words, there are a finite number of outlets that can be efficiently monitored, and there is some level of geographic proximity of retail locations that permits efficient monitoring (Brickley and Dark, 1987). The ability of firms to effectively monitor at least some units is evidenced by the prevalence of dual distribution, i.e., the coexistence of franchised and company-owned outlets within the same system (Lafontaine and Kaufmann, 1994). When the system expands to a point where the entrepreneur's span of control is stretched beyond the number or proximity of units that can be efficiently monitored, subsequent units are franchised.

However, in many cases of multi-unit franchising, it is difficult to identify the designed combinations of input and output controls. Unfettered franchisee expansion produces wide spans of control, too wide to assume that franchisee monitoring can efficiently solve store level incentive problems. In those cases, franchise holdings take on all of the trappings of company-owned chains. The only reasonable explanation for these franchised mini-chains is the access to capital that they afford (Kaufmann and Dant, 1996).

Here, we cite empirical research; Bradach (1995) compares single and multi-unit franchising within four management challenges. They are (1) adding new units (Oxenfeldt and Kelly, 1968-69), (2) maintaining uniformity (Brickley and Dark, 1987; Rubin, 1978), (3) adapting individual units to local conditions (Brickley and Dark, 1987, Caves and Murphy, 1976), and (4) adapting the system as a whole to the threats and opportunities of a competitive environment (Oxenfeldt and Kelly, 1968-69).

The following Table 2.3 is the result of the comparison, which was based on an exploratory study of five major restaurant chains.

Table 2.3 Performances of Multi-Unit/Single-Unit Franchises

	Single Unit Franchise	Multi-Unit Franchise
Unit Growth	0	+ +
Uniformity	+	+
Local Responsiveness	+ +	+
System Wide Adaptation	0	+ +
0 = low performance; + =medium performance; + + = high performance		

Source: Bradach (1995)

The table shows that multi-unit franchising has distinct advantages over single unit franchising in all areas other than local responsiveness. Therefore, franchisors interested in expansion often look to existing franchisees to reduce the risk associated with placing their concept in the hands of an unknown prospective franchisee (Kaufmann, 1992), and to take advantage of the local market expertise of operating retailers (Bradach, 1995). Based on the findings of Bradach's study, one may argue that multi-unit franchisees outperform single unit franchisees in several important management areas, which helps to explain the prevalence of this form of franchising.

The above arguments directly cast doubt on Oxenfeldt and Kelly's (1968-69) argument. They suggest that all but marginal outlets ultimately will be company owned. Obviously, this seems to require a reappraisal of Oxenfeldt and Kelly's capital acquisition argument. Therefore, this may suggest that franchisors can expand by their own resources to occupy the advantageous locations at a slower speed in the initial stage. After that, they start to franchise to realise a quick expansion.

Finally, another operational issue is how to realise multi-unit ownership. Generally, there are two ways; the first one being that some franchisees begin as single-unit operators and gradually obtain the rights to operate more franchises in what is termed as incremental or sequential expansion (Kaufmann, 1992). The other way is known as master or area franchisees, where businesses are granted the rights to sell or develop multiple franchised units within an exclusive territory on a pre-specified schedule (Kaufmann and Kim, 1995). No matter which way is adopted, the use of multi-unit franchising is positively related to growth rates, and contributes to the firm's overall franchising strategy in explaining growth. Aside from the development of multi-unit franchising in the domestic market, franchisors can also expand its operations to foreign markets. The following section will discuss how international franchising is operated and the related issues of international operations.

2.4 International Franchising

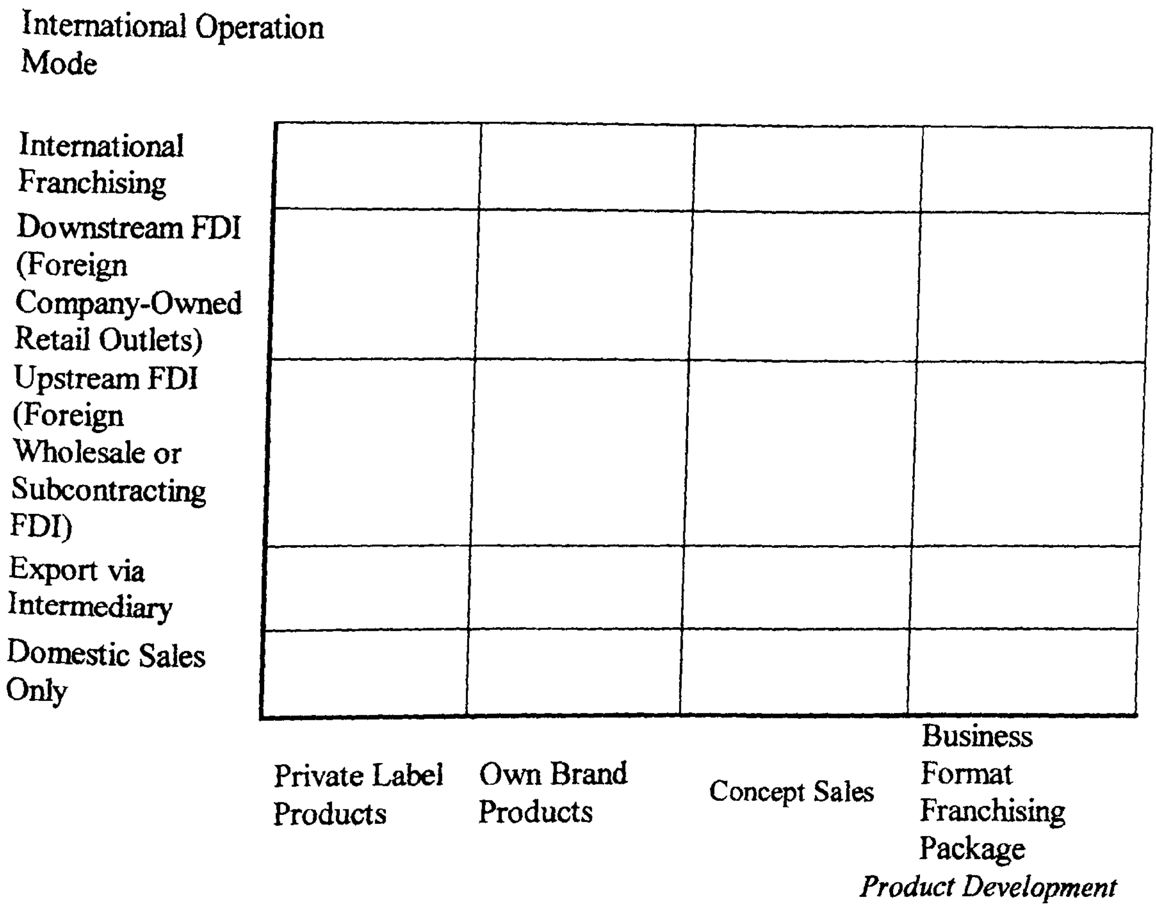
As far as the development of international franchising is concerned, it began in the US and grew rapidly in the 1950s and 1960s. In the 1980s, there was a period of rapid international expansion during which some 400 U.S. franchisors increased their overseas units by more than 70 percent, to almost 39,000. The majority of these overseas units were located in developed countries, such as Canada, the United Kingdom, Australia and Japan (Preble and Hoffman, 1995). To date, this kind of expansion is still ongoing. Many other countries follow such successful international expansion activities, but every country is in a different stage of the industrial life cycle.

International franchising will now be detailed to see how it operates in international retailing. According to Williams (1994), there are two forms of international franchising: (1) franchising by *domestic firms abroad*; and (2) franchising by *foreign firms within a host country*. In other words, one is outward internationalisation and the other one is inward internationalisation. In general, the inward and outward sides of internationalisation may develop and affect each other in a variety of ways. There are varieties of possible forms that a linked move in the reverse direction might take over time, depending on the outcome of the initial inward process (Welch and Luostarinen, 1993). Before internationalisation, franchisors usually experience successful operations in the home country. Based on the internal push and external pull motivations, franchisors start to think seriously about international operations. Research on the application of franchising in international operations has tended to concentrate on companies that have built franchising activities first within their domestic market before utilising that experience and the associated tried and tested franchising systems in the international arena (Walker & Etzel, 1973, Hackett, 1976, Walker, 1989, McCosker & Walker, 1992, McIntyre & Huszagh, 1995, Doherty, 2000). This is because franchisors have to test the know-how successfully in the domestic market before exporting. If the resulting system can be transferred easily and cheaply, then it will be helpful for international expansion.

As to whether there is a positive relationship between the scale of business and the degree of internationalisation, many researches suggest that larger firms can absorb more risk from international expansion and devote more resources to the activity. In other words, they will be more inclined to expand internationally. Walker and Etzel (1973) and Huszagh, Huszagh and McIntyre (1992) agree with the argument that franchisors are more likely to operate internationally with well established and older businesses or have a large number of units. However, Aydin and Kacker (1989) found that smaller franchisors had a greater willingness to go international than larger ones, and that the percentage of franchisors planning to go international decreased as their sales volume increased. They suggest that this phenomenon arises as the small franchisors were less concerned with the legal and regulatory restrictions abroad.

When franchisors are ready to operation internationally, Petersen and Welch (2000) propose there are different path for international franchising (see Figure 2.3). Their research is based on empirical research of 60 retailers in the Danish clothing and footwear industries.

Figure 2.3 Paths to International Franchising



Source: Petersen and Welch (2000)

From the above figure, we can see that retailers can be categorised into twenty options from a cross analysis of product development activities and international operation mode. In this research, they found that the product development of the international franchisors appeared to pass through several stages before business format franchising was reached. Most of the franchisors started operations using their own brands but some began as suppliers to private label retailers. In these cases the product development transformation of the company had gone through all the stages. Over a period of time, all of the companies developed concept sales - '*concept*' in this case referring to something broader than the brand, including an expression of style and lifestyle appeal, reinforced through a product range, in-store presentation and promotional material. From the above information, we see that both international operation modes and product development are introduced step by step, and these are both based on experience and risk. Therefore, we can infer that the move into international franchising from other forms of international operations would seem to be a potentially important phase in the overall development of international franchising (Welch and Luostarinen, 1988). If companies can handle this transition, and it becomes a more widely used path, it might provide further impetus to the growth of international franchising. Besides, Pellegrini (1994) suggests that there are two paths for growth, either product diversification or geographical diversification. This is basically developed from familiarity to unfamiliarity as well as reducing the risk of expansion. Therefore, the author suggests that contractual mode is the most efficient expansion mode and franchising can be a typical mode used in the quick expansion of international operations.

2.5 Related Research in Franchising

From the above discussion, we see that franchising is not only a common business format but it also arouses many scholars' attention from the perspectives of domestic and international operations. The academic research in franchising is enormous in both its quantity and quality. Elango and Fried (1997) summarised research on franchising in a table, shown in Appendix 2. Although the table does not include all the articles on franchising it covers a wide range of franchising topics and offers a direction for future research. The author attempted to link these articles to different parts of the literature review to enhance the arguments. For example, in this chapter, Castrogiovanni, Justis and Julian (1993) were also mentioned, and in the next chapter, Hadfield (1991) will be cited. Based on the appendix, the author formulated a topic summary, shown below in Table 2.4.

Table 2.4 Classification of Research in Frequency by Topic

Topics	Frequency
Internationalisation of Franchising	15
Ownership Patterns: the Comparison between Company Owned and Franchised Outlets	15
Contract Issues	9
Advantages and Disadvantages in Franchising	8
Franchising vs. Independent Store	7
Royalty and Initial Fee	6
Conflict Issues	5
Law Issues	5
Control (Power) Issues	3
Organisational Form	3
Failure Rate of Franchising	3
Motivational Issues	3
Types of Franchising	2
Franchisors buy back Franchisee	2
History of Franchising	2
How to Be a Successful Franchise System	2

Source: the author (based on Elango and Fried (1997))

Using table 2.4, one can see the focus of research interests. Among this research, the most popular topics are international franchising and ownership patterns in the franchise organisation. As far as international franchising is concerned, in the 1980s and 1990s, the literature on international retailing grew considerably. As mentioned in the previous chapter, franchising is a preferred entry mode from the perspective of risk considerations. Consequently, franchising has been adopted by many firms for international expansion. Regarding ownership patterns, the most popular form in the market is either company ownership or franchised outlets. Based on this difference, many management issues will arise. Therefore, in franchising, contract issues will receive more emphasis than others. The details of the contract will influence the interactions between both parties afterwards. Once one party thinks that there is unequal give and take, then the relationship will become fragile and conflict may occur.

From these analyses, we can not only see franchise operations from the perspective of international activities, but also understand the key issues around the franchise organisations and the interactions between parties. The author combines Table 2.4 with the literature review topics, franchising and management issues in franchising, to link past areas of study with the framework used in this thesis.

Table 2.5 Classification of Research in Frequency by Topics of literature review

Topics	Frequency
Franchising	
Internationalisation of Franchising	15
Ownership Patterns: the Comparison between Company Owned and Franchised Outlets	15
Advantages and Disadvantages in Franchising	8
Franchising vs. Independent Store	7
Royalty and Initial Fee	6
Organisational Form	3
Failure Rate of Franchising	3
Types of Franchising	2
History of Franchising	2
How to Be a Successful Franchise System	2
Management Issues in Franchising	

Contract Issues	9
Conflict Issues	5
Law Issues	5
Motivational Issues	3
Control (Power) Issues	3
Franchisors buy back Franchisee	2

Source: the author (based on Elango and Fried (1997))

One can see the importance of each topic within the two themes. Some topics have been discussed previously and the others will be discussed in later sections. Based on the above table, the author develops his research aims and objectives from these two perspectives - franchising and management issues in franchising. Figure 2.4 is the visualisation of these perspectives.

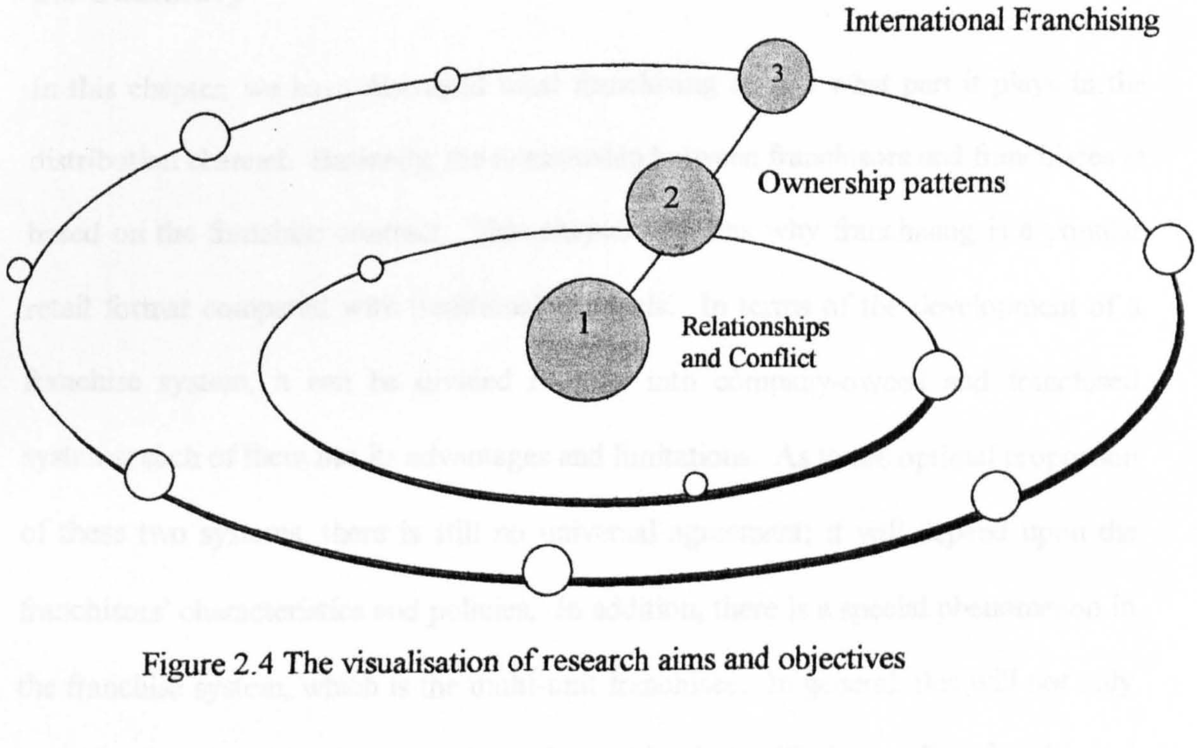


Figure 2.4 The visualisation of research aims and objectives

Figure 2.4 looks like the solar system, the sun, in the middle, is the most important part of the system and the other planets surround it. On each orbit, there are the main planets, such as Mercury, Earth, Venus and so on. In terms of the research presented in this study, the core part of the franchise system, the relationships and conflicts, is represented by the centre or sun as the most important element of this research. The second level represents the characteristics of franchising as planets, there are many issues in this orbit, however, ownership patterns will be emphasised on this level. Finally, international franchising is the most external level. Based on the interaction between franchisors and franchisees, the author tried to combine these themes together to uncover the issues of relationship and conflict in the franchise organisation. The details of research objectives are specified in Chapter 5.

2.6 Summary

In this chapter, we have discussed what franchising is, and what part it plays in the distribution channel. Basically, the relationship between franchisors and franchisees is based on the franchise contract. This chapter explains why franchising is a popular retail format compared with traditional channels. In terms of the development of a franchise system, it can be divided roughly into company-owned and franchised systems; each of them has its advantages and limitations. As to the optimal proportion of these two systems, there is still no universal agreement; it will depend upon the franchisors' characteristics and policies. In addition, there is a special phenomenon in the franchise system, which is the multi-unit franchisee. In general, this will not only help the franchisor in the expansion of activities but will also realize franchisees' entrepreneurship. The empirical research also evidenced that the multi-unit franchisees outperformed the single unit. In the section of international franchising, based on inward and outward internationalisation, franchisors have four options for international operations. Finally, Table 2.4 and Table 2.5 provides a summary of key articles in franchising. The tables uncover themes and topics that have been researched and from this the author tries to find a route to form another contribution to franchising.

In summary, after discussing the key characteristics of franchising, the following chapter will explore the core management issues in franchising to explore the intangible factors behind franchising.

CHAPTER THREE: MANAGEMENT ISSUES IN FRANCHISING

3.0 Introduction

In franchising, aside from the operational issues explored in the previous chapter, the other key foci for research are the managerial issues. These issues play an invisible role in the workings of the distribution channel. If we compare the distribution channel to our bodies, the bones and muscles can be deemed as the retail structure and operational issues. However, the most important element is our soul. In franchising, management issues can be assumed to be the soul because they affect the development and behaviour of a distribution channel. Here, three managerial issues will be considered to offer a clear perspective on how channel members behave and interact to the benefit of each other. The first topic is the motivations for franchising, which will include analysis of three explanatory theories: agency theory, resource constraint theories and transaction cost analysis. Second, the characteristics of decision makers will be taken into consideration, especially research on the view of whether franchisors and franchisees are entrepreneurs. Finally, relationships and conflict in franchise organisation will be explored from the explanation of relational exchange theory.

3.1 The Motivations for Franchising

From the previous chapter, we know that franchising is a widespread organizational form in business operations. Aside from a lower failure rate and a better mechanism for business growth, there must also be some intangible factors, which explain its prevalence. As far as the motivations for franchising are concerned, they can be explained from two perspectives, which are the management incentives for franchisees and the resource restraints facing the franchisors. Explanations of the management incentives for franchisees are found in research related to agency theory and transaction cost analysis, while motivations for the franchisor, are related to resource constraint theory.

3.1.1 Agency Theory

The most widely accepted explanation of agency theory is based on Rubin's argument of 1978. According to this theory, managers of company-owned units do not bear the full costs nor receive the full benefits of their efforts because there is a weak link between their compensation (salary) and the performance of their outlets (profits). They may therefore shirk the responsibility of the job. In contrast, franchisees bear more of the costs of their shirking because they are compensated from the residual claims of their individual units. Thus, franchisee-owners tend to minimize shirking. This explanation receives strong empirical support (Brickley and Dark, 1987; Martin, 1988; Lafontaine, 1991). Bates (1998) suggests that agency problems happen not only in the franchisor-owned outlets but also within the franchisee-owned outlets when the franchisee is a multi-unit franchisee.

The focus of agency theory is on determining the most efficient contract for both principal and agent, though there are many variables to take into account, for example, environmental uncertainty and the cost of monitoring. Therefore, an agency relationship occurs whenever one party (the principal) depends on another party (the agent) to undertake some action on the principal's behalf (Mark, Shantanu, Orville and Walker, 1992). In other words, any employment relationship can be an agency relationship.

The agency perspective relates to the perception that franchising is an effective solution to the problems of employee motivation and low levels of productivity, without incurring the costs associated with monitoring and supervising employees. The simplest way to motivate the franchisee is to give him a share of the profits of the franchise (Rubin, 1978). Then he will work hard to be efficient, as any leisure he takes will cost him as an individual. Thus, Rubin suggested that the franchise contract should be written in such a way as to give the franchisee most of the profits of the operation. Regarding the contract, the receipts of the franchisor depend on the revenue (not profits) of the franchise. In some cases, there is a payment of a percentage of sales to the franchisor; in other cases, the franchisee is required to buy inputs from the franchisor at above market prices. Ozanne and Hunt (1971) claim that this type of contract is inefficient, in that it would be more efficient for the franchisor to share in profits rather than revenues. They claim that the reason sales, rather than profits, are used is because monitoring of sales is easier than monitoring of profits. But in fact, most contracts give the franchisor the right to order audits of the franchise, and it is not clear monitoring would be that difficult. Rather, it seems likely that the element of control of the franchisor - the policing of franchises - is more closely related to sales than the profits; thus, the contracts seem to be written in such a way as to give the franchisor the correct incentives.

Those adopting the agency perspective argue that franchising is cost effective when the marginal costs of monitoring company-owned units are higher than those associated with franchise contracts. These costs are lower because the franchisee has a similar perspective to the franchisor: revenue growth. According to the theory (Brickley and Dark, 1987; Carney and Gedajlovic, 1991), the costs associated with supervising company-owned operations are dependent upon:

- Availability of managerial talent;
- Importance of local knowledge;
- Geographic distance of units from headquarters;
- Local population density; and
- The relative proximity of the brand's locations to one another.

Each of these factors affects the cost and efficiency of communications, travel and effective decision-making between unit managers and head office. Franchising can reduce many of these costs. This is because the franchisee is motivated to realize a return on his/her initial investment. Also because of the franchisor's power to refuse to renew franchise contracts without cause (Klein, 1980), the franchisee is less likely to shirk. However, there are three weaknesses in this theory. First is the suggestion that franchisors weigh the cost drivers associated with monitoring company-owned units against the supervisory issues inherent in franchising, such as lack of investment and behaviour which is damaging to brand equity (Combs and Castrogiovanni, 1994). The second weakness is the characteristic of geographically dispersed franchisees. The approach does not wholly explain the tendency for the use of multi-unit franchisees (Kaufmann and Dant, 1996). As the costs of monitoring multi-unit franchisees should be cheaper, and the revenues accruing from them higher, it is possible that franchisors are attempting to reconcile capital accumulation motives along with motivational ones. Finally, with the improvement in telecommunication, the advantages of scale in monitoring will be reduced. Therefore, geographic distance will not be so important.

The following section will discuss agency theory from different perspectives: including delivering which kind of problems will occur; how to explain and solve the problems; and how to apply agency theory to marketing and franchising.

There are three common kinds of agency problems. They are '*information imbalance*', '*environment uncertainty*' and '*performance assessment difficulties*'. All of the problems are viewed from the principal's standpoint because the principal is in the dominant position in the relationship. The principal has to think how to prevent or solve these problems; otherwise the principal has to stand the potential cost. Here, the agency issue is categorised as pre-contractual and post-contractual problems (Mark, Shantanu, Orville and Walker, 1992). Much of the agency literature refers to pre-contractual problems as problems of "*adverse selection*" and to post-contractual issues as problems of "*moral hazard*".

As far as the pre-contractual problem is concerned, this arises before the principal decides to offer an agent a contract. The key issue here is whether a particular agent has the characteristics the principal is seeking and what kind of strategy the principal should employ to find out. The pre-contractual problem is also called '*hidden information*' (Arrow, 1985), and arises mainly from information asymmetries. Before forming a relationship, the agent may know more about the principal than the principal knows about the agent. Therefore, there are three strategies a principal can adopt to address this problem. The first one is '*screening*', which means employing different screening skills to sort out the best agent. Many screening skills can be used, for example, interviews, pen and paper tests and so on. The second one is '*examining signals from potential agents*'. For example, when the principal wants to hire a local manager, if a candidate is from that location, then it means that he has the potential to qualify for the job. Through this approach, the principal can save a lot of time in finding the right person at the right time. Thirdly, the principal can adopt a policy of '*providing opportunities for self-selection*'. This means that if potential agents want to be considered they must have some qualifications. For example, when a franchisor looks for potential franchisees, there must be some limits, such as working experience, age limitation, capital requirement and so on. When the potential agent sees the basic requirements, he/she will know whether he/she is qualified or not. By employing these three policies, the principal can save a lot of time and money in choosing the right agent and preventing possible problems occurring in the post-contractual period.

In the post-contractual period, or '*hidden action*' period, attention focuses on the problems after both parties have signed a contract. In the model, there are three assumptions. The first one is that ' *both parties are motivated and self-interested*'. So, under this circumstance, both parties would try their best to achieve the best performance and then get the rewards from the other party. Lafontaine (1992) suggests that franchisees are more highly motivated than hired managers and that this is a major advantage of franchising. The second assumption is that the '*principal's labour is under conditions of incomplete information*'. Basically, the principal is assumed to know something about an agent's characteristics and abilities. However, the agent sometimes has information that the principal does not know and would like to know. This kind of situation is called information asymmetry, when one party has information the other desires but does not possess. This also links to the first assumption - self-interest, it can make the agent reluctant to share the information with the principal. The third assumption is '*the risk of environment factors*', such as economic and technical conditions in the market. However, this kind of risk is difficult to measure and forecast, therefore, both parties have to face the potential risk. Risk preference can be thought of as the degree of an individual's or firm's performance for adventure rather than security (Arrow, 1974; Pratt, 1964). Generally speaking, the principal tends to be risk neutral and the agent tends to be risk-averse. This may be because the principal has more power and resources to react to the external changes.

Identification of the above two problem areas can help to prevent the agency problem from the principal's standpoint. The principal has to consider how to use monitoring and reward systems to satisfy both parties with the goal and risk preferences to reach a win-win status. Lal (1990) suggests that royalty payments provide the necessary incentives for the franchisor while monitoring systems are used to ensure that franchisees also behave in the best interest of the channel. The result is consistent with the findings of Brickley, Dark (1987) and Norton (1988), who conclude that franchising is affected by principal-agent problems. Also, Agrawal and Lal (1995) found a negative and significant relationship between service level and monitoring costs, and a positive relationship between monitoring frequency and royalty. This means that the royalty rate is inversely related to a franchisee's service, however, it is directly related to the investment and brand name for franchisors.

Aside from the above arguments, Klein *et al* (1978) proposed another agency problem, which is the potential for quasi-rent appropriation. A quasi-rent is the value of an asset over its salvage value. If quasi-rents are high, the franchisee risks appropriation by the franchisor. In other words, franchisees would like to demand a higher rate of return that permits them to fully depreciate the value of their franchisee specific assets over the duration of a contract. Brickley and Dark (1987) suggest the risk of quasi-rent appropriation is likely to be greatest when there is high initial investment required to establish a franchise. Therefore, when all other things are equal, high initial investments will lead to greater company ownership of retail outlets. Take supermarkets (Tesco) and convenience stores (7-Eleven) for example, as supermarkets need a higher initial investment than convenience stores, company ownership is the preferred mode. In contrast, convenience stores will choose franchising because the initial investment is more viable for franchisees.

Summarising the above arguments, we can see that 'prevention is better than a cure'. If firms seek to adopt an organisational form to avoid costs, then becoming a franchising organisation is a good mechanism to reduce agency problems of firm growth (Shane, 1996). Also, Norton (1988) indicates that a hybrid organisational form, like franchising can reduce the problems of adverse selection and moral hazard and it can provide residual claimancy. By replacing a salaried outlet manager with a residual claimant on the profits of a retail outlet, franchising reduces agency problems in monitoring new employees and lowering initial investment costs per unit (Brickley & Dark, 1987). The following points show how the establishment of a hybrid organisational form like franchising can reduce agency problems. Spence (1973) proposes that there are three ways in which hybrid organisations can reduce the agency problem. Most of the arguments are consistent with the above.

- *Hybrid organisations can reduce adverse selection as firms grow.* Spence (1973) argued that individuals with above-average capabilities have an incentive to signal those capabilities to others. In franchising, qualified individuals can signal their capabilities by buying outlets. By buying a franchised outlet, an individual agrees to be compensated by the uncertain residual claim on the profits of that outlet. If the individual is qualified, this residual claimancy will provide a better return than the average wage rate paid to an employee. However, if the individual is not qualified, the compensation from residual claimancy will fall below that of the average wage rate. Therefore, qualified individuals will tend to see buying a franchise as more worthwhile than unqualified individuals.

- *Hybrid organisations are a better mechanism for establishing residual claimancy,* compared with the mechanism of paying salaried managers low salaries and large bonuses based on outlet profit. The purchase of a franchise outlet puts the franchisee's capital at risk if he or she chooses to shirk, creating a downside risk that performance bonuses do not provide. Therefore, the purchase of a franchised outlet provides an individual with an incentive to provide information about activities that fit with their abilities, lessening the need for franchisors to incur costs through gathering this information through other means. This provision of information lowers the cost of assigning new managers to jobs in the organisation.

- *Hybrid organisations can reduce the cost of deterring moral hazard.* Agents can engage in two types of moral hazard: sub-optimal effort and misdirected effort. Since employees are paid a fixed wage, they have an incentive to put forth only as much effort as is necessary to ensure that they get paid. They also have an incentive to misdirect effort toward personal goals like obtaining perks or leisure time. Franchisees focus on unit profits at the expense of company sales or free ride off the quality maintenance efforts of others. However, by turning individuals into residual claimants on the profits of their franchised outlets, franchising reduces the incentive to put forth a sub-optimal effort level (Alchian & Demsetz, 1972). Franchisees do not need to be monitored as carefully as employees since the latter need to be monitored for both sub-optimal and misdirected effort (Krueger, 1991; Martin, 1988; Norton, 1988).

So, from the above discussion of agency theory, it is clear that a hybrid organisation like franchising can minimise the problems and offer a better mechanism for the two parties. After the discussions of agency theory, the following section will explore another explanation for franchising - resource constraint theory.

3.1.2 Resource Constraint Theory

The second perspective from which franchising is viewed by researchers is that of resource constraint. This is based on logic derived from the product life cycle suggesting that young, small franchisors use franchising to access the resources needed for growth. Lafontaine (1992) observed that firms use franchising as a mechanism to grow faster. This implies that franchising allows franchisors to relax some types of constraint on their growth. The early papers on this topic [Oxenfeldt and Kelly (1968-69), Hunt (1974) and Lillis et al. (1976)] tend to discuss the advantages of rapid market penetration which encourages franchising during the early life cycle stages and which will drive growth in the future. Lillis, Narayana and Gilman (1976) use the franchise life cycle to test competitive advantage and their findings suggest that franchisee motivation is perceived as the most important issue among the three other factors (market penetration, risk sharing and entry capital) in the life cycle. Thompson (1992, 1994) found that the life cycle effect on franchising could be due to both the lack of management capabilities and capital while the firm is in a growth stage. Therefore, it probably does not apply at the level of the very large chain.

Thomas, O'Hara and Musgrave (1990) reject the life cycle theory of franchise development; they observe that company-owned chains are not the future trend within franchise systems. However, in the research on franchise versus company ownership, Combs and Castrogiovanni (1994) suggest that resource scarcity can explain the life cycle. They also found that larger firms used franchising more than older firms, this may be because they choose franchising as a growth strategy which then leads to their larger size.

Summarizing the life cycle point, the argument is still open because there are too many variables to consider. Just as Porter (1985) says, the life cycle is simply a useful descriptive tool with too many variations to be generalized. This kind of interpretation is consistent with some authors who recommend examining configurations of resource exchange rather than life cycle stage analysis (Connor, 1991; Norton, 1988). Also, there is a limitation on the life cycle first forwarded by Oxenfeldt and Kelly (1968-69), that franchising is too early in its own stage to reliably forecast future trends. Therefore, the contribution of the life cycle may change as time goes by.

As far as the resource constraint argument is concerned, Oxenfeldt and Kelly (1968-69) suggest that franchisors use franchising to obtain access to some resources which franchisees own. Underlying this resource constraint argument is the assumption that retailers prefer to own their outlets; it is only because the option is unavailable to them that they choose to franchise. They suggested that the resource provided by franchisees might be financial capital, human capital, or management talent. Similarly, Norton (1988) emphasized the franchisor's need for human capital and managerial talent as a reason for franchising, while Minkler (1990) focuses on the franchisee's capacity to provide local market expertise. So, it can be concluded that the resource restraints are from capital, human resource, managerial talent, and local knowledge. However, Felstead (1993) finds an interesting case involved a Prontaprint franchisee in the UK, which suggests that franchisors prefer franchisees without prior experience in the operational line of the franchise. This viewpoint may be because franchisors think that it is easier to train those without related experience. The above argument of resource constraint is also in line with international franchising. Contractor (1981) suggests that small franchise systems can succeed internationally when significant financial, managerial and marketing expertise is contributed by the local franchisee.

However, as the firm grows, it may buy back franchisees in accordance with the franchising contract. The reasons for this action may include the release of a scarce resource, maintenance of service quality and quick/flexible response to meet changing circumstances. Such repurchases provide the firm with additional control and by repurchasing the largest and most profitable franchisees first, the firm captures additional rents previously allocated to the franchisee. Therefore, the large, profitable franchisees and those outlets in urban or higher population densities will be transformed into company-owned outlets. The only franchisees remaining are those in less profitable or rural areas (Oxenfeldt and Kelly, 1968-69). Thomas, O'Hara and Musgrave (1990) also make the same suggestion that high unit sales cause the franchisor to convert a franchised unit into a company owned unit. Anderson (1984) concludes that although the percentage of units owned by franchisors has systematically increased over a period of ten years, there is no evidence that comprehensive ownership and/or performance differentials have emerged that favour company-owned establishments. Further, Dant, Paswan and Stanworth (1996) use meta-analysis to test 17 US-based empirical studies on the subject of ownership redirection phenomenon. They suggest that ownership redirection may not be universally valid across business sectors. Therefore, we cannot say that company-owned outlets perform better than franchised outlets.

As far as the source of capital is concerned, several researchers (e.g., Brickley & Dark, 1987; Norton, 1995; Rubin, 1990) do not think that capital scarcity should be considered as a potential explanation of the decision to franchise because franchisees are a costly source of capital although the capital scarcity hypothesis was among the early explanations offered for franchising (Oxenfeldt & Kelly, 1968-69). Indeed, their arguments are mainly from two perspectives, which are on the capital issue and the agency theory issue. On the capital issue, when a firm needs funds, it is more efficient to obtain capital from passive investors such as lenders and stockholders who, by investing in an entire chain, diversify their risk among the outlets. Unable to similarly diversify, rational franchisees will demand a greater return on their capital (Norton, 1995; Rubin, 1990). Unless there are imperfections in debt and equity markets that might increase the cost of capital from passive investors, using franchisee capital to delimit capital scarcity would be inefficient and irrational (Combs and Ketchen, 1999).

However, Lafontaine (1992) pointed out that franchising might be a less expensive source of capital if there are incentive issues at the outlet level. She argues that if managers lack incentives to exert effort, investors with a portfolio of shares in all outlets are likely to demand higher rates of return than they would on the capital invested in a single store that they manage themselves. Hence, capital may after all be more efficiently obtained from franchisees than from investors (Lafontaine and Kaufmann, 1994).

In practice, resource constraint does not seem to be a suitable explanation for the phenomenon of franchising in Taiwan. For example, MacDonald's in Taiwan started operating by company ownership rather than franchise. After a successful period of running over 400 company-owned outlets, they started to franchise. The reasons behind this change include realizing entrepreneurship for employees and attracting business partners who identify with McDonald's spirit, rather than a lack of capital.

3.1.3 Transaction Cost Analysis

Over the past decades, transaction cost analysis (TCA) has received an increased amount of attention from a broad range of fields, including sociology, organisation theory, contract law, business strategy, corporate finance and marketing (Rindfleisch and Heide, 1997). Owing to TCA's substantive focus on '*exchange*', it covers a wide range of marketing phenomena. These fields include vertical integration decisions (e.g., Anderson, 1985; John and Weitz, 1988), foreign market entry strategy (e.g., Anderson and Coughlan, 1987; Klein, Frazier, and Roth, 1990), sales force control and compensation issues (e.g., Anderson, 1988; John and Weitz, 1989), industrial purchasing strategy (e.g., Noordewier, John, and Nevin, 1990; Stump and Heide, 1996) and distribution channel management (e.g., Anderson and Weitz, 1992; Heide and John, 1988). Clearly, TCA plays an important role in marketing. The following section will first discuss TCA and then examine how TCA may explain franchising.

Firstly, we start with a brief overview of TCA and its origins. There are two institutional economic paradigms, which are new institutional economics and neoclassical economics. They have different views on the firm. Neo-classical economics view the concept of the firm as a *production* function (Barney and Hesterly, 1996). However, new institutional economics (TCA) views the firm as a *governance* structure. In the governance structure, TCA researchers have conceptualized three general types of governance structures: *market*, *hierarchy*, and *hybrid* or *intermediate mechanisms*. One of Coase's (1937) initial propositions was that firms and markets are alternative governance structures that differ in their transactional costs. Specifically, Coase propose that under certain conditions, the cost of conducting economic exchange in a market may exceed the costs of organizing the exchange within a firm. Williamson (1975, 1985) has added considerable precision to Coase's general argument by identifying the types of exchange that are more appropriately conducted within firm boundaries than within the market. He has also augmented Coase's initial framework by suggesting that transaction costs include both the direct costs of managing relationships and the possible opportunity costs of making inferior governance decisions. Williamson's micro-analytical framework rests on the interplay between two main assumptions of human behaviour (i.e., *bounded rationality* and *opportunism*) and two key dimensions of transactions (i.e., *asset specificity* and *uncertainty*). Uncertainty can be categorized as environmental and behavioural uncertainty.

As far as the underpinning assumptions and dimensions of TCA are concerned, as mentioned, there are two assumptions about human behaviour, which are bounded rationality and opportunism. Bounded rationality is the assumption that decision makers have constraints on their cognitive capabilities and limits on their rationality. Although decision makers often intend to act rationally, this intention may be circumscribed by their limited information processing and communication ability (Simon, 1957). According to TCA, these constraints become problematic in uncertain environments, in which the circumstances surrounding an exchange cannot be specified at the beginning (environmental uncertainty) and performance cannot be easily verified later (behavioural uncertainty). The primary consequence of environmental uncertainty is an adaptation problem, that is, difficulties with modifying agreements to changing circumstances. The effect of behavioural uncertainty is a performance evaluation problem that has difficulties in verifying whether compliance with established agreements has occurred.

Opportunism is the assumption that given the opportunity, decision makers may unscrupulously seek to serve their self-interest, and that it is difficult to know a priori who is trustworthy and who is not (Barney, 1990). Williamson (1985) defines opportunism as "*self-interest seeking with guile*", and suggests that it includes such behaviour as lying and cheating, as well as more subtle forms of deceit, such as violating agreements. In franchising, the source of revenue is based on sales for franchisees. Therefore, franchisees may cheat on the sales in order to gain extra profit. The other possible situation is that franchisees purchase from unauthorized suppliers. This is because franchisees can get a better price or better payment conditions. Therefore, opportunism poses a problem to the extent that a relationship is supported by specific assets whose values are limited outside of the focal relationship.

Rindfleisch and Heide (1997) summarised the composition of transaction costs in the following Table 3.1.

Table 3.1 The Composition of Transaction Cost

	Asset Specificity	Environmental Uncertainty	Behavioral Uncertainty
A. Source of Transaction Costs -Nature of Governance Problem	Safeguarding	Adaptation	Performance Evaluation
B. Type of Transaction Costs -Direct Costs	Costs of crafting safeguards	Communication, negotiation, and coordination costs	Screening and Selection costs (ex ante) Measurement costs (ex post)
-Opportunity Costs	Failure to invest in productive assets	Maladaptation; Failure to adapt	Failure to identify appropriate partners (ex ante) Productivity losses through effort adjustments (ex post)

Source: Rindfleisch and Heide (1997)

In the table, asset specificity creates a safeguarding problem (Rubin, 1990). Without appropriate safeguards, firms face the risk of expropriation (ex post) or productivity losses resulting from the failure to invest in specialized assets (ex ante). Environmental uncertainty creates an adaptation problem; the associated transaction costs include the direct costs of communicating new information, renegotiating agreements, or coordinating activities to reflect new circumstances. A failure to adapt involves an opportunity cost of maladaptation (Malone, 1987). Behavioural uncertainty leads to difficulties because of ex post information asymmetry regarding task performance. Information asymmetry also may exist ex ante, because of an inability to ascertain a party's true characteristics prior to exchange. Typically referred to as adverse selection (Akerlof, 1970), this problem is more commonly associated with agency theory than with TCA. Doherty (1999) suggests that information asymmetry arises in the retail sector because of the significant amount of intangible assets involved, such as a strong retail brand and managerial technology, coupled with the complex regulatory, economic, social, cultural and retail structural boundaries which characterise the retail context. Franchising can overcome this information asymmetry problem by matching the local market knowledge of the franchise with the retail and brand know-how of the franchisor.

The basic premise of TCA is that if adaptation, performance evaluation, and safeguarding costs are absent or low, economic factors will favour market governance. If these costs are high enough to exceed the production cost advantages of the market, firms will favour internal organisation. The logic behind this argument is based on certain a priori assumptions about the properties of internal organisation and its ability to minimize transactional costs. Three specific aspects of organisations are relevant in this respect. First, organisations have more powerful control and monitoring mechanisms available to them than do markets, because of their ability to measure and reward behaviour as well as output (Eisenhardt, 1985, Oliver and Anderson, 1987). Second, organisations are able to provide rewards that are long term in nature, such as promotion opportunities. The effect of such rewards is to reduce the payoff from opportunistic behaviour. Third, Williamson (1975) acknowledges the possible effects of the organisational atmosphere, in which organisational culture and socialisation processes may create convergent goals between parties and reduce opportunism ex ante.

Although the TCA framework poses the governance question as a discrete choice between market exchange and internal organisation, the current version of the theory explicitly acknowledges that features of internal organisation can be achieved without ownership or complete vertical integration. A variety of hybrid mechanisms have been identified in the literature, ranging from formal mechanisms, such as contractual provisions and equity arrangements (Joskow, 1987, Osborn and Baughn, 1990). Williamson (1985) notes, "*Any problem that can be formulated, directly, or indirectly, as a contracting problem can be investigated to advantage in transaction cost terms.*" Therefore, franchising can also be explained by transaction cost analysis because it is based on the contract between the franchisor and the franchisee.

As for how TCA may be applied to franchising, the franchise organisation is a kind of hybrid organisational form that incorporates elements of both markets and hierarchies (Williamson, 1991). This is because in 'market' organisational governance, it is supported by classical contract law (Williamson, 1991), which is described by Macneil (1974) as "*sharp in by clear agreement; sharp out by clear performance*" where conflict or disagreement is ruled by a set of laws and where more formal terms supersede less formal terms. Clearly, this is not a form of governance that best characterizes franchising. The franchise relationship is long-term, and the parties to the agreement have interdependence whereas in discreet market interactions the asset focus is the individually traded item, and although assets such as a single purpose building and secret recipes are franchise specific asset, the principle specific asset in franchising is the shared trademark (Rindfleisch and Heide, 1997). Also, 'hierarchy' governance describes the individual firm as a nexus of contracts that resembles the market (Jensen and Meckling, 1976; Fama, 1980) but which must adapt through that and forbearance because of the absence of standing in the courts (Eaton and Joseph, 1988). Because the franchise relationship is an inter-organisational form between two independent companies with access to the courts, it is clear that the hierarchical form of governance does not apply. In the 'hybrid' organisation governance, the franchise license agreement seems to embody much of the neoclassical rationale. It is born out of economic self-interest, desires to have a continuing long-term relationship, and anticipates disturbances, specifically in the division of tasks, which gives the franchisor the discretion to implement change across the system for all franchisees. Therefore, it is clear that franchising is a hybrid organisational form and the excuse doctrine in contract law applies (Williamson, 1975).

In the franchise system, one of the advantages is "mass purchasing power." However, instead of being able to purchase supplies less expensively through the franchisor, many franchisees found themselves paying exorbitant prices for supplies. One disillusioning study found that (1) the practice of requiring franchisees to purchase supplies from their franchisors is widespread; (2) franchisees believe they are being overcharged on their supplies; and (3) franchisees who must buy supplies from their franchisors suffer lower profits (Hunt and Nevin, 1975). From this point, one can doubt the cost of transaction within an organisation. In theory, it should be cheaper, but actually, many franchisors overcharged on their supplies.

As to how to maintain a cooperative relationship, both parties will make tangible and intangible investments, such as equipment and training. As the relationship is based on a contract, once the contract expires, either party has the power to determine whether to continue in the relationship. Franchisees may terminate the relationship and transfer to other contractual systems such as a voluntary chain. This is because franchisees have already got the know-how to run a business. In the voluntary chain, the attraction is that franchisees do not need to pay royalties aside from the initial fee. Therefore, franchisees can absorb all the profits. From this point of view, franchisors have to think how to make franchisees undertake some specific investments in the transaction to stabilize the relationship, and make it difficult to transfer. Also, another important issue for franchisors is to maximize the channel efficiency. This is because in the competitive franchise market, there are many alternative brands for franchisees. As TCA applies to franchising through the assumption that both parties involved in the relationship are motivated by economic self-interest and will engage in opportunistic behaviour to maximize their own position, how to maintain a good relationship benefiting both parties becomes a crucial issue.

From the above discussions of agency theory, resource constraint theory and transaction cost analysis, it is not difficult to see the motivations for either party provided by franchising. The next section will explore the characteristics of the decision-maker, and will focus on entrepreneurship. The purpose is to have an understanding of the perception gap between franchisors and franchisees.

3.2 Entrepreneurship in Retail Franchising

This section will discuss the characteristics of decision makers and the focus will be placed upon entrepreneurship. The other attributes of decision-makers, like leadership qualities, knowledge and experience will be explored in the section on 'relationships and conflict in the franchise distribution channel'. The role of franchising, as a type of entrepreneurial activity in economic development, is now receiving attention (Dandridge, Falbe and DuPuis, 1991; Hoffman and Preble, 1993). It has been applied across many disciplinary boundaries (e.g., management, economics, sociology, marketing, finance, history, psychology, social anthropology, etc.). Consequently, entrepreneurship researchers have pursued a wide range of goals, adopted different units of analysis and espoused diverse theoretical perspectives and methodologies (Low and MacMillan, 1988). In general, entrepreneurship includes the introduction of new products and services, innovative marketing, openness to change, outrunning the competition, and fast growth (Aldrich and Auster, 1986; Stopford and Baden-Fuller, 1994). Franchising, as an organisational form has emerged as an important vehicle for entrepreneurship. Franchising is a way for large companies to become nimble and more responsive to customers (Matusky, 1990). Franchising is also a preferred method for developing growth in small businesses (Huber, 1992). As a result, each year, 200 new business format franchisors appear in dozens of industries (Tannenbaum, 1991). Therefore, there must be a dedicated link between franchising and entrepreneurship. The following section will explore entrepreneurship in retail franchising from two perspectives – that of the franchisor and the franchisee. First of all, we have to provide a definition of entrepreneurship.

3.2.1 The Definition of Entrepreneurship

As far as the origin of the term entrepreneurship is concerned, it was first utilized in the sixteenth century in France. It was used to describe captains of fortune who hired out mercenary soldiers to serve princes and towns; the term's usage in business contexts commenced in the eighteenth century to refer to economic factors that undertook contracts for public works, introduced innovative agricultural techniques, or risked personal capital in industry (Martinelli, 1996). Hence, from the very beginning, constitutive associations were posited between entrepreneurship and the entrepreneurs' willingness to accept the risk and the uncertainty associated with new economic enterprise (Kaufmann and Dant, 1998).

A consistent theme in the entrepreneurship literature is that the process involves venture creation (Hornaday and Aboud, 1971; Powell and Bimmerle, 1980; Gartner, 1985; Timmons, 1986; Low and MacMillan, 1988). Some authors differentiate the start-up of an entrepreneurial venture from other types of organisations by the integral inclusion of change, innovation, and risk (Vesper, 1980; Shapero, 1984; Philips, 1986). There are frequent references in the literature that the entrepreneurial process in the venture extends beyond start-up (Baty, 1981; Cooper, 1982; Schollhammer, 1981; Covin and Slevin, 1986; Roberts, 1987). According to some scholars, the entrepreneurial process includes acquisition as well as start-up (Dunkelberg and Cooper, 1983; Winters and Murfin, 1988). Still others define entrepreneurship even more broadly as the creation of wealth or value (Ronstadt, 1984; Stevenson, et al., 1985). Interpreting the responses to a three-phase Delphi survey of academics and business leaders, Gartner (1990) included innovation, organisation creation, value creation, growth, and uniqueness as venture-related themes characterizing the nature of entrepreneurship.

From these various perspectives, it is possible to conclude that the concept of venture in the entrepreneurship literature is that of an entity, with features distinct from traditional views of the firm or organisation. Venture studies address value creation through start-up and acquisition, but can include entrepreneurial activities both prior and subsequent to the point of creation.

According to Kaufmann and Dant (1998), the contemporary definitions of entrepreneurship can be roughly categorized into three groups. They are: (1) definitions stressing the characteristic traits or qualities supposedly possessed by entrepreneurship, (2) definitions stressing the process of entrepreneurship and its outcomes, and (3) definitions focusing on the activities entrepreneurs perform.

(1) The Personal Traits Perspective

- An entrepreneur is an individual who possesses qualities of risk-taking, leadership, motivation, and the ability to resolve crises (Leibenstein, 1968).
- Entrepreneurs are leaders and major contributors to the process of creative destruction (Schumpeter, 1942).
- An entrepreneur is an individual who undertakes uncertain investments and possesses an unusually low level of uncertainty aversion (Knight, 1921).

Although some scholars have suggested psychological profiling as a useful tool in entrepreneurial research (Brockhaus, 1982; Perry, 1990; Shaver and Scott, 1991), as Amit, Glosten, and Muller (1993) point out, it is simply not known whether there is an essential set of entrepreneurship characteristics and, if so, what that set may be. Other traits such as creativity, technical know-how, the ability to make decisions quickly and so on may also be associated with successful entrepreneurs.

(2) The Process Perspective

- Entrepreneurship is the creation of new enterprise (Low and MacMillan, 1988) or new organisations (Gartner, 1985).
- Entrepreneurs introduce new combinations of the factors of production (land and

labour) that, when combined with credit, breaks into the static equilibrium of the circular flow of economic life and raises it to a new level (Schumpeter, 1934).

- Entrepreneurship is the process of extracting profits from new, unique, and valuable combinations of resources in an uncertain and ambiguous environment (Amit, Glosten and Muller, 1993).

From the above definitions, we can see that entrepreneurs are those who combine different resources and processes, and then create a new organisation to realize their business goals.

(3) The Activities Perspective

- An entrepreneur performs one or more of the following activities: (1) connects different markets, (2) meets/overcomes market deficiencies, (3) creates and manages time-binding implicit or explicit contractual arrangements and input-transforming organisational structures, and (4) supplies inputs/resources lacking in the marketplace (Leibenstein, 1968; Amit, Glosten, and Muller, 1993).
- Entrepreneurship is the purposeful activity to initiate, maintain, and develop a profit-oriented business (Cole, 1968).
- Entrepreneurs perceive profit opportunities and initiate actions to fill currently unsatisfied needs or to do more efficiently what is already being done (Kirzner, 1985).
- Entrepreneurs are residual claimants with operational control of the organisation (Shane and Cable, 1997).

Summarizing the above three perspectives, we can see that diversity in the conceptualisations of entrepreneurship have led some to suggest that, like leadership, the term "entrepreneurship" may be too imprecise a concept to define tightly (Low and MacMillan, 1988). The following Table 3.2 is a summary of different definitions of entrepreneurship and their applications in the context of franchising.

Table 3.2 Definitions of Entrepreneurship and Their Applicability to the Franchising Context

Representative Definitions of Entrepreneurship	Application to Franchisors	Application to Franchisees
Entrepreneur is an individual who possesses qualities of risk-taking, leadership, motivation, and the ability to resolve crises (Leibenstein, 1968)	Yes	Yes
Entrepreneurs are leaders and major contributors to the process of creative destruction (Schumpeter, 1942)	Yes	No
Entrepreneur is an individual who undertakes uncertain investments and possesses an unusually low level of uncertainty aversion (Knight, 1921).	Yes	Yes
Entrepreneurship is the creation of new enterprise (Low and MacMillan, 1988)	Yes (concept)	Yes (market)
Entrepreneurship is the creation of new organisations (Gartner, 1985)	Yes (concept)	Yes (market)
Entrepreneurs introduce new combinations of the factors of production (land and labour) that, when combined with credit, breaks into the static equilibrium of the circular flow of economic life and raises it to a new level (Schumpeter, 1934).	Yes	No
Entrepreneurship is the process of extracting profits from new, unique, and valuable combinations of resources in an uncertain and ambiguous environment (Amit, Glosten, and Muller, 1993).	Yes	Yes (ambiguous environment)
Entrepreneur performs one or more of the following activities: (1) connects different markets, (2) meets/overcomes market deficiencies, (3) creates and manages time-binding implicit or explicit contractual arrangements and input-transforming organisational structures, and (4) supplies inputs/resources lacking in the marketplace (Leibenstein, 1968).	Yes	Yes
Entrepreneurship is the purposeful activity to initiate, maintain, and develop a profit-oriented business (Cole, 1968).	Yes	Yes
Entrepreneurs perceive profit opportunities and initiate actions to fill currently unsatisfied needs or to do more efficiently what is already being done (Kirzner, 1985).	Yes	Yes
Entrepreneurs are residual claimants with operational control of the organisation (Shane and Cable, 1997).	Yes (system profits/shared control)	Yes (unit profits/shared control)

Source: Kaufmann and Dant (1998).

In table 3.2 above, Kaufmann and Dant (1998) combine the characteristics of entrepreneurship and the applications to franchisors/ franchisees. For franchisors, all the definitions are applied but for franchisees, two definitions are not applicable. This is because franchisees do not need creativity for developing a whole package of operational know-how. What they need to do is to pay the royalty to use the franchisor's know-how. However, Venkataraman (1988) has argued for overtly abandoning the pursuit of definitional standardisation. He sees it as a futile endeavour. Instead, he advocates reaching a consensus on the distinctive domain of entrepreneurship research. His recommendation is that entrepreneurship, as a scholarly field should seek to understand how opportunities for profit are discovered and exploited, by whom, and with what consequences. Kaufmann and Dant think it is interesting because his suggestion can be viewed as accommodating all three categories of definitions discussed above: how (action), by whom (traits), and consequences (process).

Also, according to Leibenstein (1968), the fewer the market deficiencies, the less likely entrepreneurs are to find a niche to connect markets. In other words, incomplete and imperfect markets give rise to entrepreneurship. This partially explains why, in advanced industrial countries, entrepreneurship is not as important than in less developed countries (Linda, 1990). However, the author suggests that if entrepreneurship is examined from the perspective of Maslow's hierarchy theory, we know that self-realisation is the final stage of the hierarchy. This implies that as GNP (Gross National Production) grows, then people will be more likely to exhibit the behaviour of self-realisation because other needs have already been satisfied. Therefore, we can confer that franchising is a way of self-realisation. This conflicts with Linda's argument; so, different results can be explained from different perspectives. Generally, both of the above arguments are applicable to Taiwanese society because the former view suggests that something can be created under higher uncertainty and the latter view implies that franchising is a means to realize entrepreneurship under a structured society.

From the above definitions, we see that entrepreneurship can be explained from different perspectives. As to how entrepreneurship is applied to the franchisor and franchisee, the next section will provide an explanation.

3.2.2 The Franchisor as Retail Entrepreneur

The role of the franchisor as an entrepreneur is generally assumed, for franchisors have to bear the risk of running a business. Entrepreneurial activity by the franchisee is sometimes viewed as a paradox, this may be because the franchisee's operational know how is acquired from franchisors rather than innovated. Therefore, the franchisee just follows instructions to organize their business units. Often, when choosing a franchisee, franchisors state that they prefer to select a manager rather than an entrepreneur to protect their business system from unauthorized change. This is because franchisees may exit the franchise system to create their own brand once they have discovered the operational know-how, and then become competitors of the original franchisor. This is true but failure rates for this type of competitor are usually higher than for the original franchisor.

Franchising is predominantly a retailing phenomenon in both segments of product franchising (e.g., automobiles) and business format franchising (e.g., McDonald's).

Some would argue that it is a me-too strategy, which offers similar products or services that reflect little true innovation. This view arises from the ease of access to the industry, which does not need a lot of capital or difficult technological know-how. Nevertheless, even concepts that appear to duplicate existing non-franchise retail establishments (e.g., photo finishing outlets) often gain their competitive advantage through the development of unique and efficient operating systems that "*industrialize*" the service offering (Levitt, 1983). Therefore, it is obvious that although the entry barrier is quite low, only those franchisors exhibiting continual innovation will prosper. This is a reason why the franchise failure rate is lower than the average business failure rate. Moreover, the entrepreneur-franchisors that create these systems must not only risk the resources to develop the concept and operating system, but must do so in a manner that permits efficient turnkey transfer to the operating franchisees (Kaufmann and Dant, 1998). Aside from internal innovations, the franchisor has to face the changing external environment to adapt and offer the latest news to franchisees. Therefore, from the previous table 3.2, we know that franchisors are on the whole more entrepreneurial than franchisees. Storey (1994) suggests that any entrepreneur intending to build up a franchise should consider devoting at least two years to establishing a basic business idea in terms of testing out sales, marketing, product/service, pricing and staffing strategies. After all, every small business start-up plan inevitably requires considerable modification during the initial months of its implementation. High failure-rate figures, particularly during the first 30 months of operation, verify this fact. Stanworth, Purdy and Price (1997) stress that there are three key documents, *operating manuals*, *franchise contracts* and *franchise prospectuses* that need to be drawn up prior to franchising

3.2.3 The Franchisee as Retail Entrepreneur

As far as whether franchisees are entrepreneurs, the arguments are quite diverse. In the economics literature, two unique perspectives have been offered to explain the existence of franchising and are relevant to entrepreneurship. The first one is the capital acquisition model and the other one is agency theory. The details of the two models have been discussed previously. As far as the capital acquisition model is concerned, scholars suggest that franchisees are an efficient source of financial capital for retail firms seeking to expand (Caves and Murphy, 1976; Dant, 1995; Oxenfeldt and Kelly, 1968-69). Although the subject of some dispute (Rubin, 1978; Kaufmann and Dant, 1996; Lafontaine, 1992), the capital acquisition argument is consistent with the concept of an entrepreneurial partnership. Whereas the franchisor risks resources to develop the brand, the franchisee risks resources in the development of local markets. The different parties have different kinds of risk. Although the risk they face may be reduced by this familiarity, the franchisees' role as entrepreneur-partner is supported by the fact that they accept the risk of operating in an unexplored market, and the degree of risk is dependent upon the relationship between supply and demand in the market. As to agency theory (Rubin, 1978), it is considered that franchising solves the problems of shirking that occur because the franchisor cannot directly and efficiently monitor the widely dispersed retail outlets that comprise a chain. By providing the franchisee with claims to the profits, then both parties come into alignment. However, due to differences in local markets, besides accepting the maintenance of the franchisor's core concept, franchisees often have their own unique ways doing business. Take McDonald's for example, pepper and salt are separate in UK, but in Taiwan, both of them are mixed together in one pack. This kind of change must be adapted by local franchisee's knowledge of local culture. However, if there are too many different systems within a franchise brand, customers will feel confused and doubt the standardisation of the brand. In this situation, the franchisor has to use its power to intervene in the franchisee's operations.

In addition, there is a tendency for entrepreneurs to choose to franchise rather than establish an independently owned business if the expected utility from franchising exceeds the expected utility from independent business ownership. Differences in expected utility will depend on differences in the expected profits under each alternative contractual arrangement, the individual entrepreneur's attitudes toward risk, and tastes (Rubin, 1978). However, as far as personal qualities are concerned, Wattel (1968-69) suggests that the franchisee needs less planning ability, less creativity and less competitiveness; instead, he needs a highly co-operative personality, including the ability and willingness to follow the decisions, policies and daily routines laid down by others. However, the author argues that this depends on which kind of industry is involved. In the convenience store industry for example, the operation is basically routine and does not need any special creativity to attract customers. However, in a highly personal, interactive industry, such as estate agency, every franchisee faces different market characteristics and customer attitudes. Therefore, their strategies may differ from one another. So, the standardisation of operational know-how varies with different industries. However, in general, the franchisees' operations are confined to the franchise contract. They cannot act like an independently owned business; in other words, their freedom of operation is limited.

The other key point in the literature is that although partners with very different roles, franchisors and franchisees may have a great deal in common. Research has demonstrated that franchisees are very similar to those entrepreneurs who start their own independent businesses, and that they often consider both courses before doing one or the other (Kaufmann and Stanworth, 1995; Peterson and Dant, 1990). However, there are still different arguments as to whether the franchisee is an entrepreneur. Rubin (1978) argued that the franchised enterprise is, in reality, simply a *managed* outlet featuring in the corporate marketing strategy of another truly independent business - that of the franchisor. Knight (1984) placed the franchisee on a continuum of independence "*exactly mid-way*" between "*solo independent entrepreneurs*" and "*large corporate managers*". However, Bradach and Kaufmann (1988), in their own research found that "*franchising and starting an independent business are part of the same decision process*". Therefore, there is still no universal viewpoint on whether franchisees are entrepreneurs. It just depends on which kind of standpoint and industry being discussed. In addition, the power of the franchisor is very important, if the franchisor's power is strong enough, the unity of operations will be higher and the space for franchisees' creativity will be minimized.

Summarizing the above views, one can see that most people agree that franchisors are entrepreneurs, but in the case of franchisees, some key characteristics are not as evident, such as the need for creativity. However, it is possible for a firm to switch from being a franchisee to becoming a franchisor. In addition, culture also plays an important role in the business environment. No matter which party it is, what is important is that the entrepreneur has the characteristics of risk-taking, leadership, motivation, and the ability to resolve a crisis.

3.3 Relationships and Conflict in the Franchise Distribution Channel

Any commercial transaction between two organisations is governed by the nature of the formal and informal relationships that pertain, and all have the potential for conflict (Spinelli and Birley, 1996). Therefore, conflict exists in all commercial organisations at some level (Thomas, 1992). Carlson and Kusoffsky (1969) were two of the early researchers to classify conflict, based on an analysis of organisational goals, decisions, and communications. Palamountain (1967) identified three different forms of channel conflict, including horizontal, intertype and vertical conflict. Conflict will increase, decrease, or stay the same depending on how people deal with it. For this reason, Brown (1980) emphasized the need to determine whether conflict causes other behavioural dimensions or whether the other dimensions cause conflict. He suggests that the two major dimensions that could cause conflict were power (Beier and Stern, 1969; Cadotte and Stern, 1979; Korpi, 1973; Lusch, 1976; Lusch, 1978; Raven and Kruglanski, 1970; Stern, Schultz, and Grabner, 1973) and the performance of other channel members (Gill and Stern, 1969; Foster and Shuptrine, 1973; Anand, 1987).

Many researchers have used a variety of research designs and empirical and theoretical settings to examine various aspects of channel relationships and conflict. For example, Assael (1968), Stern, Sternthal, and Craig (1973), and Hunger and Stern (1976) investigated conflict management within distribution channels. Pruden (1969) examined the relationship between channel conflict and inter-organisational co-ordination. Rosenberg and Stern (1971), Foster and Shuptrine (1973), Kelly and Peters (1977), and Etgar (1976) investigated the nature of distribution channel conflict. Rosenberg and Stern (1971), Pearson (1973), Lusch (1976), and Brown and Frazier (1978) examined the relationship between channel conflict and other important constructs such as channel member satisfaction, channel performance, and channel power. Finally, the relationship between power and the source of power in a channel of distribution has also been tested by Hunt and Nevin (1974).

From the above, we know that relationships and conflicts have been investigated from various perspectives of marketing. In franchising, Kedia, Ackerman and Justis (1995), suggest that the emphasis on franchising has increasingly moved from the source of resources to the relationship between partners. The relationship becomes more important in terms of maintaining long-term cooperation because it will influence the performance of the system. As mentioned before, cooperation is built on the exchange of brand name and royalty. Carman and Klein (1986) propose a process model (Figure 3.1) to explain these key issues in a vertical channel organisation.

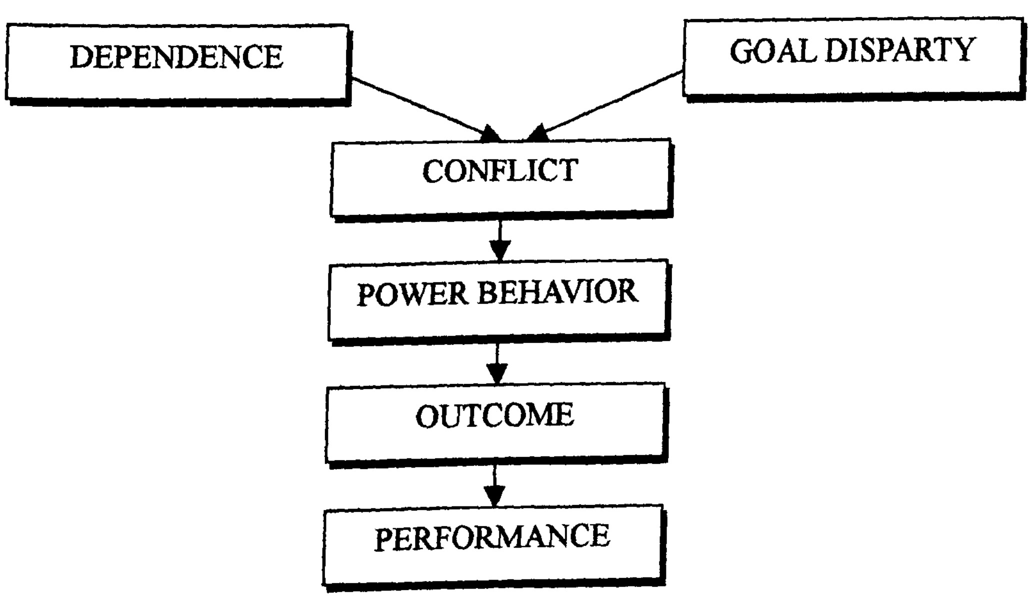


Figure 3.1 The Dependence, Conflict, Power, Performance Process in a Loosely Coupled Vertical Channel Organisation.
Source: Carman and Klein (1986)

The figure above reveals that conflict arises from dependency and goal disparity between the parties. In other words, the degree of conflict depends on how one party depends on the other and how both coordinate organisational objectives. Once either party cannot satisfy the other, conflicts will arise, and the principal will exert its power on the relationship. The outcomes could be either good or bad, and will directly or indirectly influence channel members' performance. Hence, the development of the relationship and conflict between both parties are linked by cause and effect. One party's action will influence the other party's reaction.

From this overview, we see that relationships and conflict occur in every organisation. In the following section, key issues in relationships and conflict will be discussed and first of all, we start with a definition of conflict and relationships.

3.3.1 Definitions of Conflict and Relationships

Conflict, according to one authoritative definition, is "*tension between two or more social entities (individuals, groups, or larger organisations) which arises from incompatibility of actual or desired responses*" (Raven and Kruglanski, 1970). Based on this definition, we know that conflict arises from the perceptual gap between the desired and actual reaction of two or more entities. Major responses to conflict are: political action to resolve intense conflict (Assael, 1968); bargaining and expansion of alternatives outside of the buyer seller dyad (Firat, Tybout, and Stern, 1974); litigation (Mason, 1975); joint goal setting (Rosenberg, 1974); membership exchange when interdependence is high (Stern, 1971); and arbitration (Weigand and Wssson, 1974). Therefore, there is still no generally accepted definition of 'conflict' in the literature and the response to conflict also varies depending on the kind of relationship that exists between two parties and the attitudes they hold towards each other. Putnam and Poole (1987) proposed a family of three general definitions, which are: interdependence between the parties (i.e. each has the potential to interfere with the other), perception of incompatibility among the parties' concerns, and some form of interaction. This group of definitions is interrelated, and different researchers have focused on different aspects of these themes.

In the context of franchising, with the high degree of functional interdependence between franchisor and franchisee, the possibility of channel conflict is high. In addition, due to the nature of the contractual arrangement between the two parties, economic and social powers are usually imbalanced in favour of the franchisor (Lusch, 1976). In other words, franchisees have to abide by the contract even if it is unequal. Hence, the franchisor holds the strongest position for channel leadership. Rubin (1978) suggests that franchise contracts sometimes have clauses preventing the franchisee from opening a similar business for some period after termination of his franchise relationship. We would predict that this would be most common in those cases where substantial amounts of training are provided by the franchisor; much of this training would be in the form of general human capital, and the franchisor might well desire to avoid having persons acquire this human capital for other uses.

As to whether conflict occurs in the channel of distribution, the arguments are quite diverse. It depends on how the channel leader utilizes power resources. Stanworth, Kaufmann and Purdy (1995) suggest that in the longer term, as franchisees find themselves paying ever increasing royalties in line with increasing sales, and as their level of reliance upon the expertise of the franchisor in day-to-day problem-solving tends to decline, then the franchisor's power-base relies increasingly upon (a) the marketing power of the franchise tradename and (b) the fact that the franchisee has gained access to his/her knowledge and understanding of the field of operation exclusively via the franchisor. Therefore, franchisors have different power bases in different stages to main the franchise relationship. The relationship is also dependent on the style of leadership, and leadership is usually closely linked with the characteristics of senior managers or the corporate culture. Ivancevich, Szilagyi and Wallace (1977) propose three kinds of leadership - participative, supportive, and achievement. Similarly, Schul, Pride and Little (1985) also suggest three kinds of leadership; participative, supportive and directive. Aside from leadership, Hunt and Nevin (1974) suggest that conflicts arise from the inappropriate use of coercive and non-coercive power.

Power, in its most general sense, refers to the ability of one individual or group to control or influence the behaviour of another. Dahl (1957), for example, defines power as the ability of one individual or group to get another unit to do something that it would not otherwise have done. El-Ansary and Stern (1972) applied this notion to distribution channels by operationally defining power as the ability of a channel member to control the decision variables in the marketing strategy of another member at a different level in the channel of distribution.

In the franchisor-franchisee channel of distribution, the direction of power for most decisions has already been built into the relationship by means of the franchise contract. Previous analysis has suggested that most franchisees enter the negotiations at an extreme bargaining disadvantage vis-à-vis the franchisor and that franchisors go to great lengths in developing the contract to protect their own prerogatives (Ozanne and Hunt, 1971). Therefore, power in a franchisor-franchisee channel usually refers to the ability of the franchisor to control the business decision variables of the franchisees.

The franchisor-franchisee relationship is essentially a channel of distribution with a unilateral dependency relationship. The franchisor, being the strong channel member, has coercive and non-coercive sources of power that can be exercised to control the franchisee. Some authorities, have suggested that the non-coercive sources of power appear to be better alternatives for enhancing the satisfaction of the weak channel members (Frederick and Stern, 1969; John and Raven, 1959).

As far as the sources of power are concerned, French and Raven (1959) have defined five, which seem common and important: reward, coercive, legitimate, referent, and expert power. Coercive power can be differentiated from the others because it, alone, involves potential punishment. For all other non-coercive sources of power, i.e., reward, legitimate, expert, and referent, the individual willingly yields power to another. Franchisors were found to be able to increase the franchisees' satisfaction with the franchise relationship by relying more on non-coercive sources of power, such as providing higher quality assistance in the areas of equipment, site location, national advertising, "on-the-job" training, local advertising, pricing assistance, and product deletions and additions. The results also showed that franchisors could increase franchisee satisfaction by relying less on the coercive sources of power (Hunt and Nevin, 1974).

In the UK, Rainbird (1991) has highlighted the power of the actor's subjective perception in prevailing over even the starkest of objective realities. However, this is not to say that franchisees' perceptions of autonomy are of necessity subjectively led, but to acknowledge that they can be a factor at play. Franchisees' perceptions here certainly accord quite closely with the kind of claims typically made in franchisor advertising: "*...secure your own future... You will be in control of your own business*" (Business Franchise Magazine, September, 1994).

Usually, franchisors use different kinds of power to keep a stable relationship with franchisees, because franchisors have more resources and stand in the dominant position. In general, results show that a franchisor could increase franchisee satisfaction by relying less on coercive sources of power. Therefore, the important thing is how the channel leader develops a good channel management mechanism that will reduce or at least contain the level of vertical conflict, rather than let the conflict stay there or even become worse - because the cost of dealing with conflict is far greater than the cost of prevention.

As far as the relationship is concerned, if a good relationship is maintained then the coordination in a franchise channel will be better, and conflicts will be minimized. Here, the definition of the relationship between franchisor and franchisee as interdependent organisations in the process of making a product or service available for use or consumption is adopted (Stern, El-Ansary and Brown, 1989). Thus, what is important are the nature and extent of the inter-related roles and the allocation of the productive value generated by the relationship. The alternative approach has assumed a hierarchical, dependent relationship (Jensen and Meckling, 1976; Stern, El-Ansary and Brown, 1989).

As to the maintenance of a good relationship, Guiltinan, Rejab and Rodgers (1980) suggest that a good relationship is related to the effectiveness of channel communications, the degree of uncertainty reduction and the extent of participative decision making. Therefore, the complicated relationship between franchisor and franchisee requires careful management given the franchisor's interest in protecting his trade name and public image, on the one hand, and the franchisee's motivation for independence, on the other. On the issue of franchisee independence, Felstead (1993, pp. 92-129) has constructed an index of contractual control as an aid to analysing and understanding the power of the franchisor over the franchisee. Others have considered franchisor-franchisee links at a more behavioural level (Achrol, 1996; Dant, Li and Wortzel, 1995; Spriggs and Nevin, 1995; Stanworth, 1995). In the past, Ozanne and Hunt (1971) in the US, and in the UK, Stanworth (1977, 1984), Stanworth and Curran (1999) and Stanworth, Curran, and Hough (1983), showed that, in some respects, franchisee' independence is considerably less than that of the conventional independent small business owner. For instance, decisions on product content and mix, service presentation, and pricing were largely the franchisor's responsibility even if in other areas such as operating hours, staffing, and staff wages, the franchisee had considerable autonomy. The franchisees' autonomy is however constrained, as the franchisor has an interest in closely monitoring the activities of franchised outlets stemming from a desire to ensure that standards of service and efficiency are maintained. These interests potentially clash with the franchisee's role as a *self-employed small businessman* with its norm of *independence and autonomy* (Stanworth, 1990). Therefore, it might be argued that the franchised enterprise is in reality, simply a *managed* outlet featuring in the corporate marketing strategy of another truly independent business - that of the franchisor (Rubin, 1978). According to Baron and Schmidt (1991), franchisees wish to be allowed to run their business, but to have support available when required; to quote: "*I don't want the franchisor to run the business for me, but I do expect 100 per cent backing if there is a problem.*" According to Stanworth, Kaufmann and Purdy (1995), people without previous self-employment experience are most strongly attracted to franchising by the goal of '*independence*'; those currently owing their own business are most attracted by the appeal of '*proven business formula*'. Thus, franchising appeals in different ways to two separate groups of people and franchisees recruitment marketing, to be fully effective, needs to take account of this. So, franchisors have to know about that the needs from franchisees are varied. Also, Knight (1986) suggests that both parties have different expectations of each other. To be a successful franchisee, the desire to succeed and, the willingness to work hard are the two most important characteristics. As to how to keep a good relationship, he suggests that the recognised trademark and operating manuals are the most two important variables affecting satisfaction with the relationship.

Schul, Little and Pride (1985) suggest that channel climate is significantly affected by leader consideration and reward orientation. They suggest that overall franchisee satisfaction is further intensified when the member perceives a strong association between performance and channel-related rewards. Therefore, the franchisor has to design a reasonable reward system, which can motivate the franchisee to maximize his/her performance. Hence, performance is another criteria for evaluating the relationship. This is because performance leads to satisfaction with the franchisor's role performance, but not directly (Lewis and Lambert, 1991). They suggest that the amount of credit or blame a franchisee attributes to the franchisor for its performance appears to moderate the relationship between performance and satisfaction. A franchisee's satisfaction with the franchisor's performance across a wide spectrum of services influences the franchisee's overall satisfaction with the franchisor's performance. Therefore, they found that financial dependence and performance are determinants of a franchisee's satisfaction with the relationship. Rubin (1978) suggests that the performance evaluation can be from four perspectives. First, the trademark of the franchise and the product sold appear to be valuable. Second, the franchisor often gives managerial advise to the franchisee. Third, the franchisor often makes capital available to the franchisee in some form, either by consigning for a bank loan or by actually buying the plant and leasing it to the franchisee. Finally, to the extent that franchisees are closer to being employees than entrepreneurs, they may simply lack the requisite human capital to open businesses without the substantial assistance of franchisors.

Anand (1987) used the agent/profitability information on attribution formation to test the control issue and found that franchisees in the franchisor-initiated profitable performance group believed their success was due to the franchisor's ability and effort. Franchisees in the self-initiated profitable performance group believed their success was due to their ability or effort whereas those whose performance was unprofitable felt they had not worked hard enough or had not had sufficient ability. Therefore, the franchisee's performance is not only related to the franchisor's efforts on promoting the brand but is also linked to the franchisee's ability and diligence. In addition, Anand and Stern (1985) found that channel members, particularly franchisees, would relinquish control over decision making if the franchisee attributes the success of the unit to a franchisor. Even though they also suggest channel members should act rationally to maximize performance outcomes, channel leaders should not attempt to control associates who are performing well on the basis of their own decisions. Therefore, if the franchisor is strong enough, then franchisees are likely to follow the franchisor's policy and relinquish some rights in order to get the potential benefits. In other words, the relationship is related to the franchisor's ability and the power exerted on the franchisee, once the franchisor begins to perform well, franchisees will be more loyal to the franchisor's policy and the potential conflict will thus be minimized.

From the above discussion of relationships and conflicts, we see that leadership plays an important role in the interactions between franchisors and franchisees. The performance of both parties is another criteria used to evaluate the relationship. Once conflict takes place, the franchisor has to use coercive and non-coercive actions to intervene for the protection of the franchisor's brand. Therefore, based on self-interest, franchisors have to design a good system of rewards to maximize the franchisee's performance and minimize the potential conflict.

3.3.2 The Origin of Conflict

As far as the origin of conflict is concerned, it always arises from disagreement between both parties. In the franchise channel of distribution, conflict between channel members A and B is inevitable when both of them are functionally independent (Stern and Gorman, 1969, Stern and Heskett, 1969). Also, there is a high degree of functional interdependence between the franchisor and franchisee. Therefore, how to coordinate independence and interdependence between franchisors and franchisees is important to organisational development. In general, with this high degree of functional interdependence, the potential for conflict is high. As far as conflict is concerned, it tends to arise over the policies and procedures used to achieve individual channel members' goals rather than the incompatible goals themselves (Stern and Gorman, 1969). The policies and procedures of one channel member may be obstacles for the other channel members as they attempt to achieve their own goals and objectives.

All of these issues differ in their ability to impede or facilitate goal attainment; that is, conflict issues may vary according to their relative importance or relative stakes (Thomas, 1976). Therefore, both parties come together for the purpose of producing a benefit, which they believe would not be attainable, in total or in scope, if not for the alliance (Rubin, 1978). Therefore, understanding the goals of the franchisee allows a greater understanding of their perceptions of any conflict in the relationship (Achrol and Etzel, 1990).

Achrol and Etzel (1990) also suggest that the mutual franchisee-franchisor goals should include concepts of co-operation, communication, co-ordination and commitment. The dynamic perception of conflict between the franchisee and franchisor by either party invariably includes goal congruency, and so if the franchisee's goals for the relationship are not being met there is a greater probability that conflict will become manifest as dissatisfaction (Schul, 1987). Take location for example; Current and Storbeck (1994), Bush, Tatham and Hair (1976) suggest that the objective of the franchisor is to locate outlets so as to maximize total market share and/or the total number of outlets in such a way that each individual franchise has sufficient demand to attain normal profit. The objective of the individual franchisee, on the other hand, is to locate its particular outlet so as to maximize its individual market share. This means that market penetration goals and location goals of the members of the franchising system do not coincide easily (Zeller, Achabal and Brown, 1980; Kaufman and Rangan, 1990). Each member would like to maximize its revenue. Therefore, these different objectives might lead to conflict.

Achrol and Etzel (1990) use four goals to measure the relationship with the franchisor. The theoretical underpinning for these goals comes from Parson's (1959) functional imperatives. Parson's functional imperatives have been used by Kumar, Stern and Achrol (1992), and Quinn and Rohrbaugh (1983) for goal definition in marketing channels. Parson (1959) argues that a successful organisation must achieve four functional imperatives: goal attainment, integration, adaptation and pattern maintenance. These four functional imperatives have been empirically tested and integrated into the literature vis-à-vis a rational system model, an open system model, a behavioural system model, and an internal process model (Kumar, Stern and Achrol, 1992; Quinn and Rohrbaugh, 1983). As for the franchisor, his concern is to maximize total system sales in an effort to maximize royalty receipts (Mittelstaedt and Stassen, 1991).

In a word, both parties have different goals and in these circumstances, how they communicate with each other in order to agree the same organisational goals, is important. If any party ignores communication, then conflict will take place. During the conflict, several situations may develop. Therefore, the following section will discuss the tensions in different stages of conflict.

3.3.3 The Stages of Conflict

The process of conflict, usually initiates from psychological dissatisfaction then moves to behavioural conflict. Therefore, conflicts can range from "*tongue-in cheek*" comments to verbal abuse or even physical violence (Pondy, 1967; Thomas, 1976). Much of the previous research in the distribution channels area has taken the process approach (Cadotte and Stern, 1979; Rosenberg, 1971, 1974; Rosenberg and Stern, 1970, Stern and Gorman, 1969; Assail, 1968; Foster and Shuptrine, 1973; Kelly and Peters, 1977; Brown and Frizzier, 1978). Each conflict episode is particularly shaped by the results of the previous episode and in turn lays the groundwork for subsequent episodes (Cadotte and Stern, 1979). In other words, conflict is progressed step by step and the treatment of each step will influence the following step. A problem with this approach is that separating the various stages of the process from each other is a very difficult task (Schmidt and Kochan, 1972). Therefore, some researchers focus on the cross analysis of different stages (Hunger and Stern, 1976; Etgar, 1977).

Based on the literature, the author introduces two approaches from Thomas and from Pondy. Thomas (1976) specifies that the stage of conflict could be progressed in a sequence of frustration-conceptualisation-behaviour-outcome, while Pondy (1967) classifies conflict into five stages:

1. Latent conflict: underlying sources of conflict;
2. Perceived conflict: perception only, when no conditions of latent conflict exist;
3. Felt conflict: tension, anxiety, disaffection in addition to the perception;
4. Manifest conflict: behaviour which blocks another's goal achievement;
5. Conflict aftermath: post-conflict conduct, either resolution or suppression.

From Pondy's approach, we can see that this is in line with what was specified by Thomas. Both approaches have arisen from some dissatisfaction in the mind of an agent, which then manifests itself in actions based on emotion or behaviour. No matter what the result, the future relationship between both parties will be influenced. Therefore, in the relationship between a franchisor and franchisee, each stage has the potential to occur and can last for differing periods of time. During the conflict, how the franchisor exerts its power and leadership will in turn influence the development of the conflict. Once the franchisee's goals for the relationship are not being met, there is a heightened probability that conflict will become manifest as dissatisfaction (Schul, 1987).

To sum up, conflict is inevitable although not all conflicts are serious, therefore, conflict can be both a positive and negative force (Pondy, 1967). However, it is clear that the relationship will only be maintained if the value of the transactions exceeds the cost of completing them (Williamson, 1991). If this is not the case, then the positive aspects of conflict will disappear and '*the potential for conflict in the franchisor-franchisee relationship will be manifest as franchisee dissatisfaction*', (Spinelli and Birley, 1996, p.336). In other words, if either party feels that he gets hurt from the conflict and the cost is greater than any benefit that he receives, then the relationship will be terminated. As conflicts take place, March and Simon (1958) defined four general types of conflict resolution strategies in the franchising channel: 'problem solving', 'persuasion', 'bargaining' and 'politics'. Also, Zonober (1990) lists seven potentially positive results of conflicts: 'stimulating problem solving', 'causing parties to the inter-organisational relationship to unite around an issue', 'uncovering and defining problems', 'creating new learning opportunities', 'forcing the prioritising of opportunities', 'preventing escalation of unaddressed conflict' and 'increasing mutual understanding'. From the above analysis, we can see that conflict is not always bad; it depends on how both parties perceive and deal with conflict. A good relationship is usually built on the trust of both parties.

The next section will introduce the framework of relational exchange theory to provide a perspective on the topic of relationship and conflict. Relational exchange theory is used for the analysis of establishing and continuing a relationship with fundamental areas of conflict.

3.3.4 Relational Exchange Theory

Research in marketing channels has increasingly been devoted to examining the nature of relationships among member firms. Transaction cost analysis and relational exchange theory are the dominant theoretical perspectives in these investigations. The normative goal of both perspectives is to minimize the costs of exchange. Macneil (1974, 1978, 1980, 1985) is the principal proponent of relational exchange theory, which proposes that the norms governing commercial exchange behaviour in discreet transactions are markedly different from those in relational exchange, which involves long term, continuous, and complex relationships where individual transactions are of low importance. When parties in a commercial exchange become involved in a conflict episode, it might be expected that the types of norms that govern their relationship would affect their characterization of each other's conflict behaviour. Generally, relational exchange is opposite to discrete exchange. It recognizes that during transactions, aside from the price factor, there are also emotional exchanges. Further, each transaction is closely linked with the next transaction; therefore, economic and non-economic satisfaction can be achieved by the transaction.

In relational exchange theory, channel firms all have characteristics such as role integrity, mutuality, solidarity, flexibility, bilateral information exchange, harmonious conflict resolution, and a long-term orientation (Dwyer and Oh, 1987; Ganesan, 1994; Kaufmann and Dant, 1992; Kaufmann and Stern, 1988; Macneil, 1980). Kaufmann and

Stern (1988) used relational exchange theory to assess the attitude of parties to transactions between entities, when operational conflict exists in the exchange. In the following Table 3.3, they propose the differences found in exchange norm characteristics along a discrete/relational exchange continuum.

Table 3.3 Representative Differences of Exchange Norm Characteristics Along Discrete/Relational Continuum

	Solidarity	Role Integrity	Mutuality
Discrete transacting	Enforcement of the terms of the individual transaction or contract	Maintenance of unidimensional roles of buyer and seller	Precise prespecification of terms of exchange, and monitoring on basis of each individual transaction
Relational Exchange	Preservation of the exchange relationship itself	Maintenance of complex multi-dimensional roles forming a network of relationships	Imprecise prespecification of terms of exchange, and monitoring on basis of long term but indefinite length of relationship

Source: Kaufmann and Stern (1988)

From the above table, we can easily distinguish the difference between discrete transitioning and relational exchange behaviour from the perspectives of solidarity, role integrity and mutuality. We can say that relational exchange is indicative of those channels in which the norms of relationship preservation, role integrity, and harmonisation of conflict are intensified (Macneil, 1980). These shared norms are characteristics of relational exchange. Role integrity considers channel members' expectations for needed future roles and suggests that roles expand to "cover a multitude of issues not directly related to any particular transaction" (Kaufmann and Stern, 1988). This contractual norm ensures the stability necessary for exchange relationships to deepen (Dant and Schul, 1992; Kaufmann and Dant, 1992). The harmonisation of relational conflict depends on the extent to which channel members achieve a mutually satisfying resolution of their conflicts (Macneil, 1980). Therefore, we view the extent of relational exchange in a marketing channel as the degree to which the norms of role integrity, preservation of the relationship, and harmonisation of relational conflict characterize that channel.

In franchising, the mutuality of the exchange does not mean that it is an exchange between equals. Instead, the reliance relationship created by the franchisor's relative superiority and the franchisee's relative inexperience is an essential component of the typical franchise exchange (Hadfield, 1991). Therefore, this kind of exchange in the franchise relationship is usually unequal. Kaufmann and Stern (1988) especially note franchising as the prototype relational exchange. In franchising, the alliance between franchisee and franchisor is established and maintained to promote the trademark because the trademark embodies commercial value for both parties to the licence agreement. If the franchisee perceives the relationship as inadequate and therefore the value of the trademark as not having long-term potential to fulfil their return requirements, then the franchisee, or any party to a transaction, will have a short-term view of the relationship or move toward a discrete transaction relationship, or seek to end the relationship. (Kaufmann and Stern, 1988; Pondy and Huff, 1985; Macneil, 1978). As franchising is a relationship normally characterized by a higher relational norm of solidarity, where the parties are likely to develop a strong reputation for trust, therefore, either party may discount observed behaviour to keep the relationship (Spinelli and Birley, 1996).

Relational exchange theory gives a theoretical measure of the strength of the relationship. The relationship between franchisor and franchisee is a special one because it lies in the intermediate range between employment and independent contracting. Both parties could be expected to work towards developing high relational norms of solidarity and mutuality, with strong role integrity to benefit each other. If they are just co-operating with each other within the tolerance zone, then the trademark would be more valuable and the relationship would be longer.

Summarising the above understanding of management issues in relationships and conflict, it is clear that the relationship between franchisor and franchisee is based on the exchange behaviour between trade name and royalty. Once one party is dissatisfied with the other party's behaviour, then conflicts arise. However, not all conflicts will destroy the relationship, if both parties can have a good communication mechanism, then the relationship will be closer. Otherwise, the relationship will no longer exist.

3.4 Summary

In this chapter, management issues have been discussed from various perspectives. In these discussions, it is obvious why franchising is so attractive to both franchisors and franchisees. The beginning of the chapter, the motivations for franchising, which include agency theory, resource constraint and transaction cost analysis perspectives, were examined. From these approaches, we understand the importance of the franchise contract and potential problems between the two parties. Regarding decision maker characteristics, entrepreneurship was discussed and compared with respect to the characteristics of franchisors and franchisees. Most researchers agree that franchisors are entrepreneurs, but for franchisees, the arguments are diverse. Finally, as far as relationships and conflict are concerned, conflicts arise from the misuse of power and performance evaluation. Therefore, the franchisor has to develop a sound system of rewards to motivate franchisees and use an appropriate level of control to solve potential problems between both parties. This is because conflicts directly influence the relationship, once the relationship has deteriorated, then the value of the trademark decreases. As a result, how to minimize the cost of exchange behaviour is an important issue for franchising. The motivations for co-operation are not only important but so is the maintenance of the relationship. If there is a good link between motivational and relational maintenance, then a good franchise system should develop.

CHAPTER FOUR: RETAIL FRANCHISING IN TAIWAN

4.0 Introduction

In the previous chapters, existing research about international retailing, franchising, and management issues in franchising were explored. In this chapter, relative issues about franchising in Taiwan will be discussed. Taiwan is a small island of 36,000 square kilometers with a population of 23 million. However, as far as its economic power, location and culture are concerned, its powers are greater than its geographical scale. For example, Taiwan has the 3rd highest foreign currency reserves and its GDP already totals $258 billion, making Taiwan the world's 13th largest economy. In addition, it is also the world's 14th largest trading country (Export: 14th, Import: 15th) and according to the World Economic Forum (WEF) in 2002/03, Taiwan was ranked as 3rd out of the 80 selected countries in the global growth competitiveness ranking (see Appendix 3). As Taiwan was governed by Japan, its people are familiar with the Japanese culture and language, although Taiwan has the same culture as Mainland China. The implication of this is that the Taiwanese can potentially communicate with 2.2 hundred billion people in the world (Chinese: 1.3 hundred billion, English: 0.7 hundred billion and Japanese: 0.13 hundred billion). In addition, since China and Taiwan joined the WTO (World Trade Organisation) at the beginning of 2002, the Chinese market has attracted the attention of many foreign companies. Taiwan has been getting used to Western cultural values (such as creation) but still keeps the sense of Chinese culture (such as the virtue of hard working). Therefore, as foreign companies enter the Chinese market, they may practice first in Taiwan or hire Taiwanese to manage the market. This is an opportunity for the Taiwanese. In this chapter, general issues on retailing in Taiwan will be introduced, and then the focus will be placed upon franchise chains especially in the convenience store and estate agency industries, which will form the focus of this study. Finally, the future development of retailing in Taiwan will be detailed.

4.1 Innovations in the Retail Market in Taiwan (1960s-2000s)

Generally speaking, commerce in Taiwan has been deeply affected by the forces of foreign and local development. In the past, there were three stages for the internationalisation of Taiwanese business, which were based on interactions with foreign countries. According to Shih (1999), they are the Ching Dynasty (15th century-1895), the Japanese colony (1895-1945) and the After War period (1945-present). The common points were: (1) an exporting orientation, (2) an input of foreign capital, (3) low labour costs, (4) single industry (product), (5) exclusive exploration and (6) a positive trading balance. The details for each period on criteria of the social structure, GNP, consumption behaviour, business policy, distribution trends and channels are listed in Table 4.1.

Table 4.1. The History of Taiwan Business

Period	Time	Social Structure	GNP (US$)	Consumption Behaviour	Business Policy	Distribution Trends	Distribution Channels
Ching Dynasty	1500s	Pirates; Primitive hunting and low-level agricultural society		Basic physiological needs		Private trading (Mainland Chain, Europe and Japan)	Taiwan Harbour
Ching Dynasty	1600s	Chinese settlers to Taiwan Colony of Holland (1624-1662) Colony of Spain (1626-1642) Colony of Chen Dynasty (1662-1683)		Basic physiological needs	Mercantilism and plunder economics Mercantilism and plunder economics Economics of feudalism	Exchange behaviour of products Transit trade Transit trade Multilateral trade	

	1700s-1800s	Ching Dynasty (1683-1895), Agriculture cultivation; Political and economic centers move toward the north		High quality with a rational price	Trading business	Harbor trading with mainland China; Open the market to UK and France	Trading agents; Different channel members in transactions
Japanese Colony Period	1900s	Colony of Japan (1895-1945) The foundation of modernisation		The invasion of Japanese consumption style and the emergence of urbanisation	The economics of Capitalism; Supply the raw materials to its home country	The basic distribution channel was built, such as railway Mass output of agricultural products Basic business laws were constituted	The first railway; Licensing system (wine, cigar, and salt etc.)
After War (1945)	1950s	The KMT party was repelled to Taiwan by the Communist; China was then divided two parts; Industrialisation; Aid from US (1951-1965) Agricultural society		The invasion of Chinese consumption style	Develop and emphasize industries; ignore the development of business Keep price stable and take care of the groups who work for government	The retail outlets were run by the army	Traditional open market, Army retail outlets; Street vendors; Night markets
	1960s	The development was directed by the KMT	1,000	Variety and better quality		Encourage exporting; Import international brands; The emergence of new business types; TV appears (1962)	Department store
	1970s	Industrial society; The emergence of middle class	3,000	Wider and quicker choice		Ten national constructions; The operations of freeway (1987); New business block appear	Supermarket
	1980s	Liberalisation of economy; Privatisation; Internationalisation	6,000	Quick and convenience	Liberalisation of distribution policy; Import foreign capital, technology and management skills	The variety of business types; Vigorous competition of chain stores; The foundation of consumer protection association (1980); The legislation of labour law (1985)	Convenience store; Fast-food chain; Clothing chain; Household electric appliances chain; Service chain
	1990s	Society of servicing; Democracy of politics; Variety of values; Society of the old	10,000	Low price pursuing, personalisation	The modernisation of business policy; The instalment of retailing park	Green marketing; The adoption of high-tech (POS, EOS, QR), Fair transaction law (1992); Fair of consumer protection (1994)	Distribution center; Wholesalers; Direct-marketing; Pharmacy chain

	2000s	Information society; The economic integration of Taiwan and China	15,000	Combine shopping with leisure together and satisfy personal achievement		The make-up of store image; Internationalisation of retailing	Multi-function shopping center; DIY shops; The reorganisation of urbanisation; Internationalisation of retailing

Source: Shih (1999)

From the above table, we can see that consumption behaviour; business policy, distribution trends and distribution channels were deeply affected by the social structure and the growth of GNP. Basically, this table follows Maslow's hierarchy of needs, in other words, with improvements in life, people started to require convenience, safety and fun from the process of shopping especially in recent years.

Table 4.2 details the relationship between GNP and the development of retailing in the Taiwanese market.

Table 4.2. The Relationship between GNP and the Development of Retailing

GNP (US$)	Consumption Characteristics	Retail Operations
$1000	Variety and better quality	Department store
$3000	Wider and quicker choice	Supermarket
$6000	Quick and convenience	Convenience store
$10,000	Low price pursuing, personalisation	Warehousing store
$12,000	Multi-functional shopping environment	Shopping mall
$15,000	Combine shopping with leisure together and satisfy personal achievement	DIY (Do It Yourself)

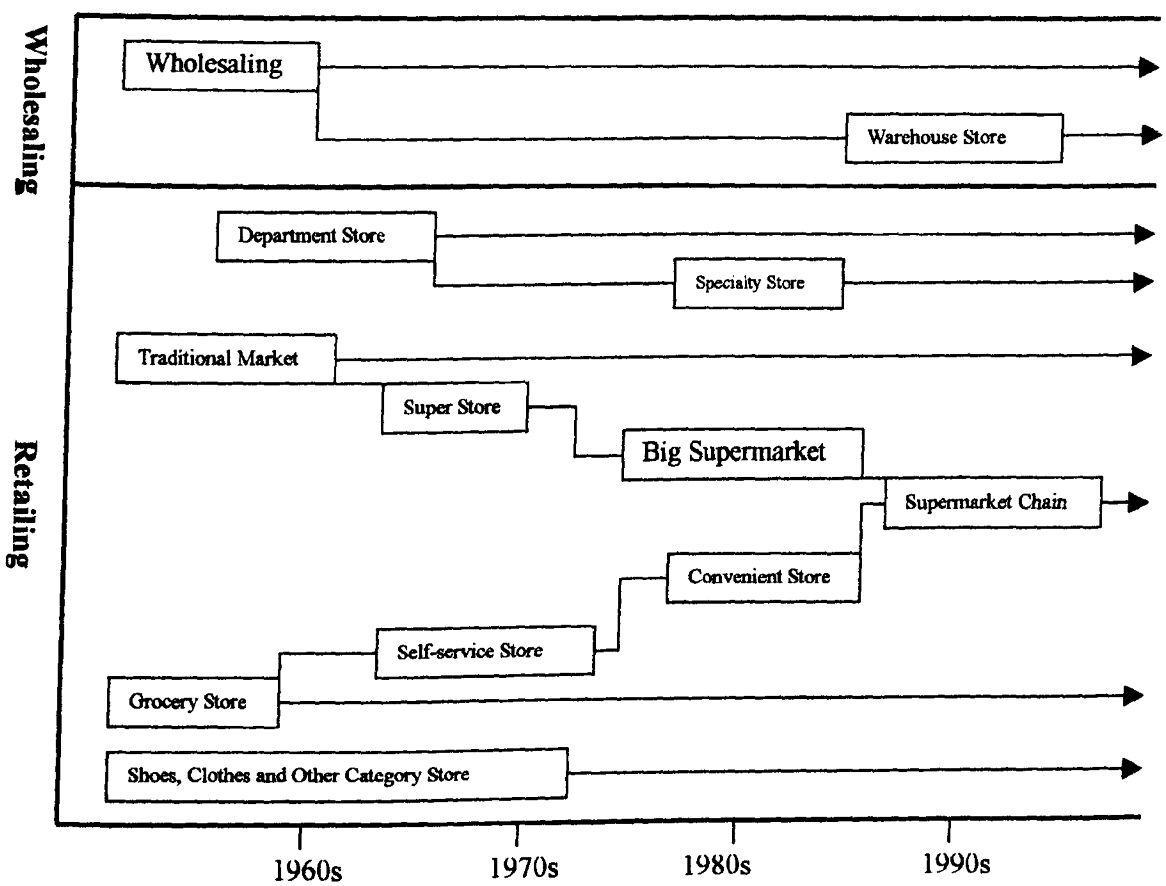
Source: Taiwan Department of Commerce (2000)

The above table implies that shopping behaviour and retail innovation have changed progressively. When the GNP was under $1,000, street vendors and traditional grocery stores played the main roles in the distribution system. In 1976, as the GNP grew to over $1,000, people started to care about quality, hence, department stores evolved. This period lasted until around 1986 when, as the GNP was over $3,000, customers' needs for a wider choice and quicker service induced the advent of the supermarket. The next stage was the appearance of convenience stores as GNP extended to $4000 in 1989. With the rapid development of society, people started to feel the inconvenience of traffic jams, parking problems and hence the shopping mall (like Makro) appeared in 1989. Finally, in 1995, the DIY market was explored by the import of the UK retailer - B&Q. From the above phenomenon, the author suggests that shopping behaviour is related to economic growth and the hierarchy of needs. In addition, based on the developed countries' experience, we can say that the life cycle of retail innovations was applied to the Taiwanese market based on a combination of internationalisation and localisation. Before the 1970s, innovation came from a kind of inward internationalisation; this meant that most of the know-how was learned from the Western industrialized countries. Since the 1980s, localisation and adaptation have progressed to meet local needs. Finally, since the 1990s, outward internationalisation has occurred, starting with the neighbouring countries with geographical and/or cultural proximity, such as China and Southeast Asia countries.

As far as the retail format is concerned, aside from a widening of the variety of products and services, another change has been in the innovation of operational issues. In the past, the typical retail markets were traditional open markets, grocery stores, hardware stores and clothing shops. All of them were run as family businesses on a small scale.

The only difference among them was in product line. However, as the market opened up, with more and more stimuli, local retailers gained know-how and brought various new store formats to the market. Figure 4.1 shows the innovation of the retail format in Taiwan from the perspectives of wholesaling and retailing.

Figure 4.1 The Innovation of the Retail Format in Taiwan



Source: Taiwan Department of Commerce (2000)

From the above figure, we can see when different retail formats first appeared in Taiwan. Before the 1960s, government policy was focused on the development of manufacturing and trading rather than commerce. However, with the natural interactions between supply and demand, commerce developed under the market mechanism. Most businesses in Taiwan are traditionally small scale. According to a report of the Commerce Department in 1994, 130,000 businesses (including retailing) were run by one person, with annual sales of under NT$2 million dollars accounting 30 percent of all businesses, but just 4 percent of sales. This means that most businesses were typically run on a small scale (limited capital, low efficiency and family owned). According to the Economist (1998): the Taiwanese have a joke that if you throw a stone in the streets of Taipei, you are likely to hit the chairman of a board. With one company for every 18 people in Taiwan (the highest density in the world), it could almost be true. The Chinese prefer not to work for other people - "*better the head of a chicken than the tail of an ox*," according to an old Chinese saying - and feel most comfortable in a company financed and run by their own family. Small to medium-sized enterprises (SMEs) make up 98.5% of Taiwan's companies, 75-80% of all employment and 47% of the total economy. Even government economists refer to corporate Taiwan as an "*army of ants*". From this description, we can see that SMEs are very popular in Taiwan and therefore, it is difficult to find large Taiwanese enterprises such as those found in South Korea or Japan. This also demonstrates that the Taiwanese prefer to be bosses. In recent years, with the development of the economy and the changes in customers' shopping behaviour, commerce has tended to develop through large scale, chain-formatted, and professionally run organisations. From Figure 4.1 above, we can see that this tendency is still ongoing. Based on the typical characteristics of the Taiwanese, chain stores provide opportunities for them. The prevalence of store chain (whether regular chains or franchise) is also related to customers' shopping preferences for well-known brands and social identity. Table 4.3 and Table 4.4 show a significant growth of chains in the Taiwanese market.

Table 4.3 The Growth of Chain Stores

Year/Item	No. of Business Types	No. of Chain Systems	No. of Chain Store Outlets
1990	14	26	895
1994	60	299	15,899
1995	92	375	20,486
1996	122	458	23,786
1997	146	675	34,177
1998	175	831	45,034
1999	196	999	56,677
2000	226	1126	64,066
1990/2000 growth	1614%	4330%	7135%

Source: Taiwan Chain Store Almanac (2000)

Table 4.4 The Percentage of Chain Stores in the Channels of Distribution

	All the Distribution Channels Sales (A)	No. of Store Outlets (B)	All the Chain Stores Sales(C)	No. Store outlets (D)	Percentage of the Chain Store (D/B)	Percentage of the Chain Store Sales (C/A)
1998	32,000 hundred millions	≒450,000	12,000 hundred millions	≒45,000	10%	38%

Source: Taiwan Chain Store Almanac (1999)

According to these two tables, it is very obvious that the role of store chains is growing in terms of both the number of store outlets and store sales. We can say that store chain development is still the trend and is likely to continue into the future; therefore, in the following section, chain stores will be highlighted due to their importance.

4.2 The Development of Chain Stores in Taiwan

According to Taiwan Chain Store Almanac (1993), the origin of the chain store can be traced back to 1956. Table 4.5 illustrates four stages in the development of chain stores in Taiwan.

Table 4.5 Stages of Chain Store Development in Taiwan

Stage	Time Period	Development Stage	Stage Characteristics	Typical Chains
1	Before 1979	Local learning stage	1. Chain store appears 2. Most of the chain stores are company-owned outlets 3. Low expansion speed 4. Localisation	Ten-Ren Tea (1953), National Electronics (1974), Treasure Island Clock and Watch (1956)
2	1980-1983	Inward Internationalisation stage	1. Rapid growth of chain store 2. President Company import 7-ELEVEN from US 3. Start to import the know how of international chain store	7-ELEVEN (1979), President Bread (1980), 31 Ice Cream (1983), Sin-Yi House (1981)
3	1984-1990	High-degree development of business type stage	1. McDonald's is imported to Taiwan and cause a wave of inward internationalisation of chain store 2. 7-ELEVEN started to make profit in 1986 and brought about the prevalence of CVS. 3. Different kind of operational types appear	MacDonald's (1984), Kentucky Fried Chicken (1985), Pizza Hut (1986), Watson's (1987), Makro (1989)
4	After 1991	Integration and outward internationalisation stage	1. The establishment of Taiwan Chain Store Association 2. Chain store was regulated by the law of Fair-transaction 3. Domestic chains started to do outward internationalisation	Taiwan Chain Store Association (1991)

Source: Taiwan Department of Commerce, 2000

In the very beginning, the famous chain stores included Ten-Ren Tea, National Electronics, Treasure Island Clock and Watch. All of them were run in the format of a regular chain. Hence, their expansion speed was not fast. In 1961, the first franchise chain, Zheng-Zhang Laundry Chain, appeared. It adopted a plural system combining a regular chain (RC) with a franchise chain (FC). Through this plural system, it experienced rapid growth - over one hundred outlets were set up within 2 years. Hence, it can be considered to be the forerunner of franchise chain development in Taiwan.

All of the above statements belong to the first stage (before 1979), which can be seen as a local learning stage during which chain stores started to appear in the market. In the second stage (1980-1983), typically businesses like 7-ELEVEN were imported from the US first appearing in 1979. In other words, the inward internationalisation of retailing had commenced. After that, the market stepped into another stage, from 1984 to 1990, when international brands, like McDonald's, KFC, Pizza Hut, Watson, and Makro started to operate in the retail market. Meanwhile, an important event was that 7-ELEVEN started to make a profit after seven years of financial deficits. As 7-ELEVEN started to make a profit, other competitors joined the market operating various business formats, such as RC (Regular Chain), FC (Franchise Chain) and VC (Voluntary Chain). However, they could not compete with 7-ELEVEN who had benefited from past experiences.

In the retail market, the most popular business formats are still based on the regular chain (RC) and the franchise chain (FC). Generally speaking, the regular chain is an industry of '*management*' because of centralisation. Its advantage is in policy execution, in other words, every retail outlet looks the same, and you should get the same service wherever you go. However, its disadvantage is in speed of response and lack of efficiency. The franchise chains advantages are the regular chain's disadvantages, especially in terms of efficiency such as the speed of market responses. In contrast, its disadvantage is mainly in the consistency of service quality. Hence, we can say that franchise chain is a kind of '*thought*' industry. Without the same objective for all franchise chain members, it is difficult to compete with the regular chain. Therefore, communication would seem to be more important in the franchise organisations.

The final stage is from 1991 till now. Many businesses have started to undertake vertical or horizontal integration to create synergy. Another important characteristic is that some retail chains have started outward internationalisation. For example, the Taiwanese 7-ELEVEN bought up a 51% share of the Philippines 7-ELEVEN in 2000 and was selected as a joint venture partner with China and Japan for entry into Beijing in 2002.

The Chain Store Association was born in 1987; the name then was the 'Jiu-Ru Club', made up of 9 chains and this was the forerunner of the Taiwan Chain Store Association (TCSA). Four years later in 1991, the formal association, TCSA, was set up with 54 member companies. The definition given by the Association for a chain store is that there must be at least 7 retail outlets with the same brand name and its previous annual sales must have reached $NT 70 million dollars (about £1.4 million). In 2000, reflecting innovation in the retail environment, the TCSA moved into another stage and changed its name to the Taiwan Chain Stores and Franchise Association (TCFA). Currently, its membership stands at over 200 enterprises, with 19,724 store outlets, 170,908 employees and $NT6,221 hundred million annual output value. The renaming of the association suggests that the franchise chain has become more important in the retail market. Hence, the following section will focus on franchise chains in the Taiwanese market.

4.3 The Development of Franchise Chains in Taiwan

Taiwan has changed from a manufacturing to a service orientated society. Hence, the industrial characteristics are not only focused on high technology but also high touch. The retail franchise chain is a kind of organisation combining both features. As mentioned before, the first franchise organisation was set up in 1961. Since then this kind of organisational form has been growing very quickly and has spread into different business sectors since the1980s. The main reason is the pressure of brand advantages created by RC retailers. In order to compete with these regular chains, individual shops looked for some kind of organisation similar to RC system. Under this circumstance, a flexible system, the franchise chain, started to attract their attention. Franchise organisations were flexible and most of them possessed know-how from the industrialised countries. Hence, in order to compete with the large regular chains, many small businesses chose franchise chains to achieve their business objectives. By 2000, the numbers of franchise organisations had reached 343 businesses.

As discussed in the literature review, the franchise relationship is based on a contract, involving the exchange of trademarks and royalties between franchisors and franchisees. However, as the contract is usually beneficial to franchisors, the original expectation of franchisees to be '*their own bosses*' is often in conflict with the contractual regulations. This leads to dissatisfaction and conflicts can arise between franchisors and franchisees. One reason could be explained by Maslow's hierarchy of needs, when the Taiwanese annual GNP grew to ten thousand dollars, motivations of self-realisation and autonomy, became important. In other words, over and above the physiological needs, other needs became important. Hence, before becoming partners with each other, both parties must be clear about lines of authority and responsibility. Once the relationship has been formed, communication will be the most important factor of all in maintaining the relationship. The ideal situation is that under the principle of self-interest, both parties can maximize their efforts with the same organisational objectives. In the following section, the two industries forming the basis of the study will be introduced, the first one is the convenience store (CVS) typifying the retail industry and the other is the estate agency (EA) typifying the service industry.

4.3.1 The Convenience Store (CVS) Industry

In the Taiwanese franchise market, the CVS could be considered the most outstanding and successful industry in terms of the number of outlets and innovations. This is because, aside from the daily necessities, they always create new needs for customers. They are not just like traditional grocery stores because they have positioned themselves as everyone's good neighbour. The president of 7-ELEVEN, Mr. C.J. Hsu said,

> *"as long as you keep your customers in mind, there will always be something that needs to be improved. If we work hard and stick to our belief in having the spirit of a small enterprise and the strength of a big enterprise, we can serve our valued customers and offer more comprehensive services in the near future."*

Nowadays, many value-added services are offered in the CVS like photocopying, mobile phone recharging, catalogue shopping, internet shopping, coupon shopping, facsimile transmission, local and international parcel delivery, film development, Duskin rental service (home cleaning), bill and fine payment, free calls for ringing up radio taxi firms and so on. The main function of the CVS is to satisfy customers' instant needs rather than that of the supermarket whose function is to satisfy customers' daily needs. In other words, you can 'get what you forgot' in the convenience store. The Japanese MCR (Manufactual Convenience Store Research) defines the CVS as having the following characteristics:

(1) Operating space: between 720 and 2520 square feet.

(2) Structure of products: food lines must be over 50% of the total and must be convenience food. Non-food items must be daily necessaries. In addition, service items should be provided, such as phone card and stamps.

(3) Product lines: any product line must be not over 50% of the store sales. Otherwise, it should be called specialty store.

(4) Operating hours: it should open long hours or 24 hours.

(5) Selling style: most of the shop should be self-service.

(6) Staff Attitude: considerate, cheerful service, and interactions with customers.

(7) Management belief: willing to invest to improve store efficiency, including the update of equipment, customer research, operational improvement and POS (Point of Sales).

From the above characteristics, we can suggest that CVS has some core features, such as the convenience of distance, time, commodity, store decoration, and efficiency. With 24-hour operation, it not only satisfies daily needs but also creates fashion trends. Hence, its target customers' ages are between 10 and 30. Take 7-ELEVEN for example; its policy is to create a shopping environment of QSCV (Quality, Service, Cleanliness and Value). Under this guideline, not only has the retail environment been improving but also customers' needs are satisfied.

The development of the Taiwanese convenience store can be traced back to 1979, when 7-ELEVEN was imported from the US. The concept has now been in Taiwan for over 20 years and the market has reached a highly competitive stage. By 1992, the average trading distance between stores was just 0.55 square kilometres; this is similar to the Japanese situation, where there is an average distance of 0.6 square kilometres between each shop. Because of the high density of population, the development of big stores is restricted, so, small stores will be the mainstream for future development. Nowadays, the total number of 24-hour CVS in Taiwan is over 6,000, and the competition among brands seems more intensive. The trend is emerging too for most convenience chains to move from a purely regular chain to a franchise chain or a plural system. Franchisors can take advantage of franchising to minimize their costs and maximize their efficiency. In the following section, the four franchise chains, which were interviewed as part of this study, will be introduced to provide an understanding of their business background and historical development.

Generally speaking, there are two franchise packages in the CVS industry with the difference being in the ownership of the store outlets. In some franchise chains, the store outlets are the franchisees' property (FC1) whereas for others the outlets belong the to franchisor (FC2). The sharing percentage of sales for FC1 is higher than for FC2. Today, most franchisors adopt a plural system, with the coexistence of store operation as a regular chain and as a franchise chain format. In other words, you can see three different kinds of ownerships within one brand, company ownership (RC), FC1 and FC2. During the interviews, with the interviewees' permission, the author uses the brand names directly to introduce their business backgrounds.

- **7-ELEVEN**

The 7-ELEVEN convenience store concept was created in 1927 in US, and at that time operated mainly as an ice, milk, and eggs retailer. By 1946, the company introduced a new convenience service that involved prolonging the opening time from 7 a.m. to 11 p.m. This was how the legendary trade name came about. In 1979, 7-ELEVEN was imported by the biggest food company in Taiwan - the President Enterprise. In the initial stage, owing to a poor positioning strategy, it was in financial deficit for 7 years until 1986, when the business started to make profits as the number of store outlets reached the 100s.

There were also some other important issues for the business in Taiwan. For example, in 1983, 7-ELEVEN Taiwan started to open for 24 hours. In 1989, 7-ELEVEN Taiwan became the 3rd largest chain system of 7-ELEVEN in the world, and 7-ELEVEN Taiwan started to franchise its business beyond the master franchise. As the franchise system started to run, an EOS (Electronic Ordering System) was operated online at the same time. In 1995, a POS system was also implemented to improve operational efficiency. Later in 1999, the 2000th outlet was set up and the company was awarded ISO 9002 certification in 2000. Because of the reliable management strength and remarkable performance of 7-ELEVEN Taiwan, CEO Jim Keyes decided to sign a perpetual license contract with Chairman, C.Y. Kao, in the presence of the press on April 20, 2000. With this rare contract signing, the development of 7-ELEVEN in Taiwan was further secured. In the same year, 7-ELEVEN Taiwan singed a contract with the Philippine 7-ELEVEN and therefore, its operations started to expand into the international market. Later in 2002, the company landed in Beijing using a joint venture with China and Japan. At the time of completing the interviews in 2001, the number of store outlets in Taiwan had reached 2,854.

From the interviews, information on internationalisation and localisation was gained. The reason for inward internationalisation was that it was easier to get successful operating know-how from industrialized countries. But in the beginning, the original concept failed because localisation was not carried out at the same time. For example, tealeaf eggs are sold in the store, which was thought impossible by the US franchisor. Now, based on local consumption habits, most of the experiences of the Taiwanese 7-ELEVEN were gleaned from Japan rather than the US. The other advantage of internationalisation is that they can transfer this kind of know-how to other group businesses; for example, COSMOS is a pharmacy retail outlet operated by the company and most of the outlets were set up next to 7-ELEVEN to create synergy. As far as outward internationalisation is concerned, they feel that they are now in the stage between cautious and emboldened. The stage is basically related to organisational culture. So, they started in countries with cultural and geographical proximity, the Philippines and China. Being a member of a big business group, aside from advantages, can create some disadvantages, for example merchandising. As stated earlier, the mother company is a food company, so, the mother company asks 7-ELEVEN to purchase its products, even though it is not competitive in the market. This situation has changed over time and the percentage purchased 'in-house' is down from 85% to 25%. From the front-line selling information gained by 7-ELEVEN, the mother company can get the latest news to introduce new products meeting customer's needs allowing both parties to benefit from co-operation.

- **CIRCLE K (OK)**

In 1988, a Taiwanese business groups, the Fong Chin group, co-operated with the American Circle K, and started to operate convenience stores in Taiwan. Three years later in 1991, the 100th store was opened and one year on EOS was run online. The POS system was then installed in 1993, and in 1998, the franchise department was set up and the company started to attract franchisees to expand its market by FC2 (i.e., franchisor owns property). By 2000, the total number of stores exceeded 600.

From the interview, the franchisor said that inward internationalisation is by master franchising. Although it is part of a big business group, Circle K Taiwan does not think it has any relationship with the mother company; in other words, every business unit in the group is independent. On the issue of localisation, most of the convenience food is local, hot, Chinese food rather than cold food. In addition, products sold in the US are sold in pairs or packages, but in Taiwan, they are sold individually with Taiwanese stores also running regular promotions. As to the outward internationalisation stage, the company is in the cautious stage. The Circle K brand is the final entrant into the franchise market of the four case companies, the reason being that they felt that if they did not join the market, the market would be occupied by other brands.

- **NIKO MART**

In 1990, another Taiwanese business group linked up with the Japanese company Niko Mart and started to run the convenience store in Taiwan. By 1991, all the store outlets were installed with the EOS. One year later, the business started to franchise its business by FC2 in March and FC1 in May. In 1993, the franchisor set up its own logistic company to deliver commodities. The 100th store outlet was opened in 1995 but by 2001, its store outlets numbered over 300 and the POS system were introduced to all stores.

This franchisor is the only one co-operating with a Japanese company. As far as localisation is concerned, it is mainly found in the product mix. Regarding standardisation, the franchisor said that training is the best way to achieve this. However, this franchisor had a different point of view from the previous case companies, he said that the there is no relationship between the scale of the company and internationalisation. They co-operated with a foreign partner because they did not have any know-how on the store operations.

- **HI-LIFE**

Hi-Life is a local company, which is owned by another business group. Based on the strategy of forward integration, the company set up its stores in 1989. One year later, EOS was run online and in 1992, the company started to run an internal franchise system to allow existing company managers to become franchisees. An external franchise system was run one year later in 1993. By 1996, the company had over 300 outlets and 750 by 2000.

Compared with the previous case companies, this company is the only local company. The reason for not cooperating with foreign partners, according to the manager, is that they had the ability to do this by themselves. All the store outlets were operated through company ownership initially.

The above introductions provide a brief history of each franchise system. They have some points in common, for example, all of them were originally run as company-owned outlets (RC). The reason for this approach is to accumulate operational know-how. When they felt that it was time to run the franchise system, they started via the FC2 system to reduce the risks, as the franchisor still owns the stores. Later, when the franchisors thought that their computer systems and logistics were good enough to let franchisees have higher levels of autonomy, then the FC1 system was introduced.

4.3.2 The Estate Agency (EA) Industry

Real estate is a huge industry; the industrial cycle includes production, transaction, usage and investment. The role of the estate agency industry lies in three core activities, which are channels, information, and customers. Hence, it plays an important role at each stage of the industrial cycle, especially in the transaction stage, as the estate agency serves as the intermediary between buyers and sellers. There are seven characteristics of the industry specified in the Taiwan Real Estate Almanac (1998).

(1) Uniqueness: every house or estate is unique, in fact, it is impossible to have the same estate at the same time, so the differentiation is very obvious.

(2) The rate of flow is very low: even if the price is very high in place A but very low in place B, it is impossible to move the property from B to A.

(3) The transactional frequency is quite low: even if the transactional frequency is relatively high as in foreign countries, many people still prefer selling houses by themselves or through acquaintances rather than through the estate agency.

(4) The industry is based on reliance and trust: companies have to invest money in brand management and advertising to gain customers' attention and trust. As a result, the cost of marketing is, on average, higher than for other industries.

(5) It is a human industry: in other words, it is a labour-intensive industry with high proficiency. The company has to spend a lot of money to train its staff to maintain service quality.

(6) The reliance on public media is very high: the higher the exposure, the higher the transaction opportunity for a house. Therefore, companies use different channels for an advertisement, such as mail, newspapers, window displays, journals, TV, the Internet and so on.

In addition, the Almanac also suggests that there are eight stages in the development of the Taiwanese real estate market. The author has rearranged this information into the following Table 4.6.

Table 4.6 The innovations of the Estate Agency industry in Taiwan

Stage	Period	Characteristics
1 (prior to 1970)	Traditional period	■ Sellers posted the selling information of the houses by themselves. ■ Individual brokers existed but most of them were part-time and the transactions were based on the land rather than houses.
2 (1970-1980)	Miniature period	■ The first agency was established to deal with the transactions of houses.
3 (1980-1985)	Fragmentary period	■ Fragmentary agencies existed to solve the problems arising from advance bookings.
4 (1985-1990)	Estate agency period	■ The first estate agency was opened. ■ RC started from 1985. ■ FC started from 1986. ■ Foreign brands entered the market. ■ Three business types (US, Japanese and local) coexisted.
5 (1990-1993)	Total service period	■ Quick expansion stage for FC. ■ Two main streams: RC and FC.
6 (1993-1995)	Adaptation period	■ Because of the recession, the reward system is based on high commission without base salary.
7 (1995-1996)	Alliance period	■ Companies allied together to share cases with one another.
8 (1996-now)	Consumptive safety period	■ Payments were dealt and guaranteed by banks to ensure the transactional safety.
9 (1997-now)	E-commerce period	■ Customers can use the Internet to see the houses.

Source: Taiwan Real Estate Almanac (1998)

From the above table, we have a clear idea of the development of the industry and the role the estate agencies play in this industry. As far as the service commission is concerned, sellers and buyers have to pay 4% and 1% of the house value to the agency. However, with high levels of competition, the commission rates are usually discounted for customers. Consolidation has taken place and those chains in the middle are disappearing little by little. This is because the public usually knows about the leading brand and it continues to grow steadily. The small/local brands can just focus on local markets with a policy of 'deep cultivation'. The leading brands are regular chains rather than franchise chain systems, because the regular chain gives the public a positive impression of its service quality in the media. Within the franchise chains, because the franchisors and franchisees sometimes cannot cooperate together, their collective powers are weaker than the regular chain brands. In the following section, four companies will be introduced as background to this study.

■ **HOUSE & BUSINESS (HB)**

HB was established in 1979 and it is the forerunner of the EA industry in Taiwan. Before becoming a franchise brand, it was a research institution. It helped other brands and building companies by undertaking market research. In 1986, the institution became the first EA franchise chain in Taiwan. In 1993, the company introduced high-tech to the operating system and was awarded a prize for its information technology application. In the same year, it created the certificate system for salesmen. Later, in 1996, the organisation reached ISO 9002 certification.

In the initial interview, the franchisor said that the public did not accept the concept of an estate agency at the time they started, so, it was impossible to undertake inward internationalisation at that time. There were two reasons for not operating company owned outlets. One was the high cost of running a regular chain system; the other was that, as the market is unstable, the franchisor could dodge the external risk.

- **REBAR RESHOUSE**

The company was established in 1988, and is a member of a large business group. It started with a regular chain system and then changed into a fully franchise chain system in 1996. One year later, the franchisor got the certifications of ISO 9002 and ISO 1401. The purpose was to standardize its operations. As it has support from other businesses, the brand combined its services with other businesses to create synergy, for example combining insurance with house sales to protect customers. Their objective is to become the strongest brand in the Chinese market in the near future.

From the preliminary interview, the franchisor specified that the reason for creating its own brand was to create synergy because the mother company could perform vertical and horizontal integrations. As for the reasons to transfer from a regular chain to a franchise chain system, the manager said that this is a labour-intensive industry and with the implementation of the Law of Labour, company's costs rose. The other reason was that remote outlets were difficult to manage, so the company converted all the company-owned outlets to franchise little by little. The process took two years to move from a fully regular chain to a fully franchised chain system.

■ CHINATRUST

ChinaTrust was established in 1985, and started as a brand of a regular chain. In 1997, in order to face changes in the external environment, the company changed its policy and transferred all the regular chain outlets to franchise chain outlets. In order to attract new franchisees, the franchisor adopted a penetration strategy by charging a lower royalty. This brand also has a strong business background, including banking, building and media. However, the franchisor said that there is no relationship with other group businesses; the only association is in having the same brand name. In addition, he argued that the estate agency is a 'local' and 'unmovable' product, so, unless there is no estate industry already established in the country, it is difficult for an international brand to enter the market. The international brands present in Taiwan like ERA and Century 21 are not as competitive as the local brands because their operations are not so localised.

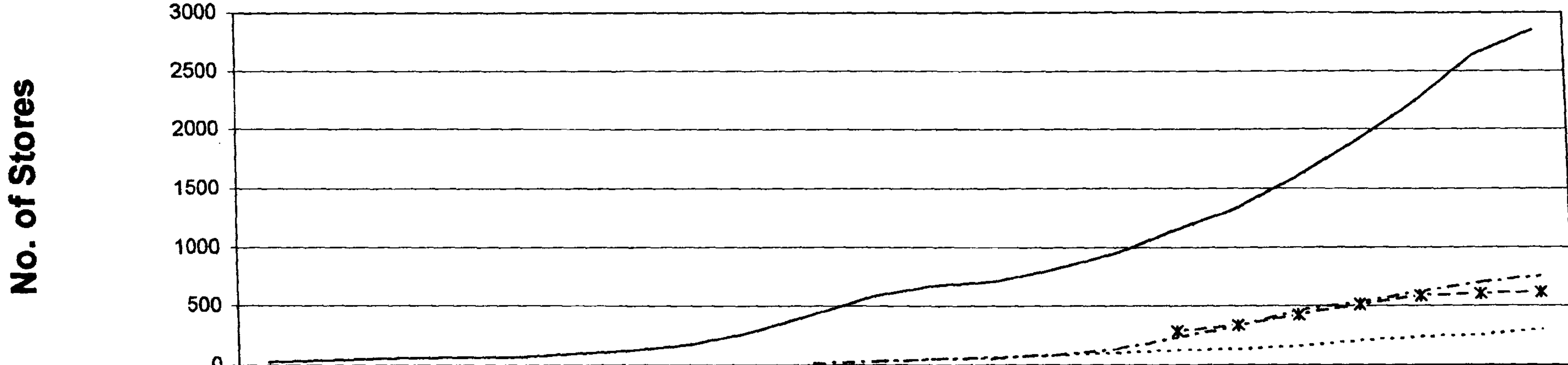
■ CENTURY 21

Century 21 is an international brand, which is different from the other three in the sample. It is the final entrant into the market and was set up in 1997. The company's background seems more complicated because its shares are held by many businesses, located in Taiwan, Hong Kong and US. The franchisor said that they adopted an international brand because the brand had existed for 30 years, so through the co-operation, the franchisor could easily obtain know-how. In addition, the franchisor could save a lot of money in promoting a new brand name. For the franchisees, they get the benefit of being members of a global brand. As to issues of localisation, operations must be changed according to the local laws and operational habits. The most difficult point in the internationalisation process is the communication with foreign managers.

The respondent also believed that there is no relationship between company scale and internationalisation. The most important factor is how the two companies co-operate with each other.

From the above introductions to the CVS and EA franchisors, one has a basic understanding of these franchisors. Based on this, we can see differences between the industries and also among companies. For example, the CVS industry exhibits stable growth no matter what the constraints of the external environment (see Figure 4.2). In contrast, the EA was influenced deeply by pressures in the external environment (see Figure 4.3). Given the recessionary pressures in the external environment (see Figure 4.4), we can suggest that the relationship between EA franchisors and franchisees is becoming unstable. In the following chapters, these relationships will be examined and the perceptions of those in both industries will be compared. The relationships between franchisors and franchisees are, not only influenced by the external environment, but also by the development and nature of the chain industry. In other words, franchising is a relatively young and growing industry in Taiwan and hence, as the external environment becomes worse, many franchisors do not know how to react. As a result, conflict takes place between both parties.

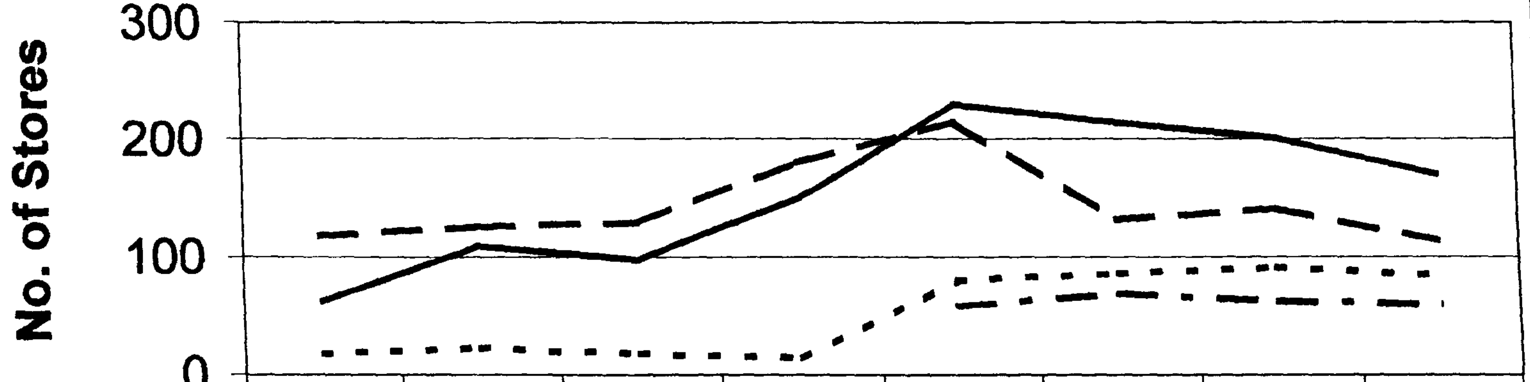
Figure 4.2 The Growth of CVS Outlets



	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
7-ELEVEN	27	45	58	61	62	88	122	168	271	420	585	665	705	809	942	1135	1318	1588	1896	2241	2641	2854
Circle K										17	30	48	57	81	132	229	322	466	535	620	701	750
Niko Mart											29	52	63	81	98	127	132	159	205	240	250	305
Hi-Life																280	340	430	510	580	606	616

Year

Figure 4.3 The Growth of Estate Agency Outlets



	1993	1994	1995	1996	1997	1998	1999	2001
HB	118	125	128	180	215	132	141	114
Rebar	62	109	97	150	230	214	201	170
ChinaTrust	18	22	17	14	80	86	91	84
Century 21					58	69	62	60

Year

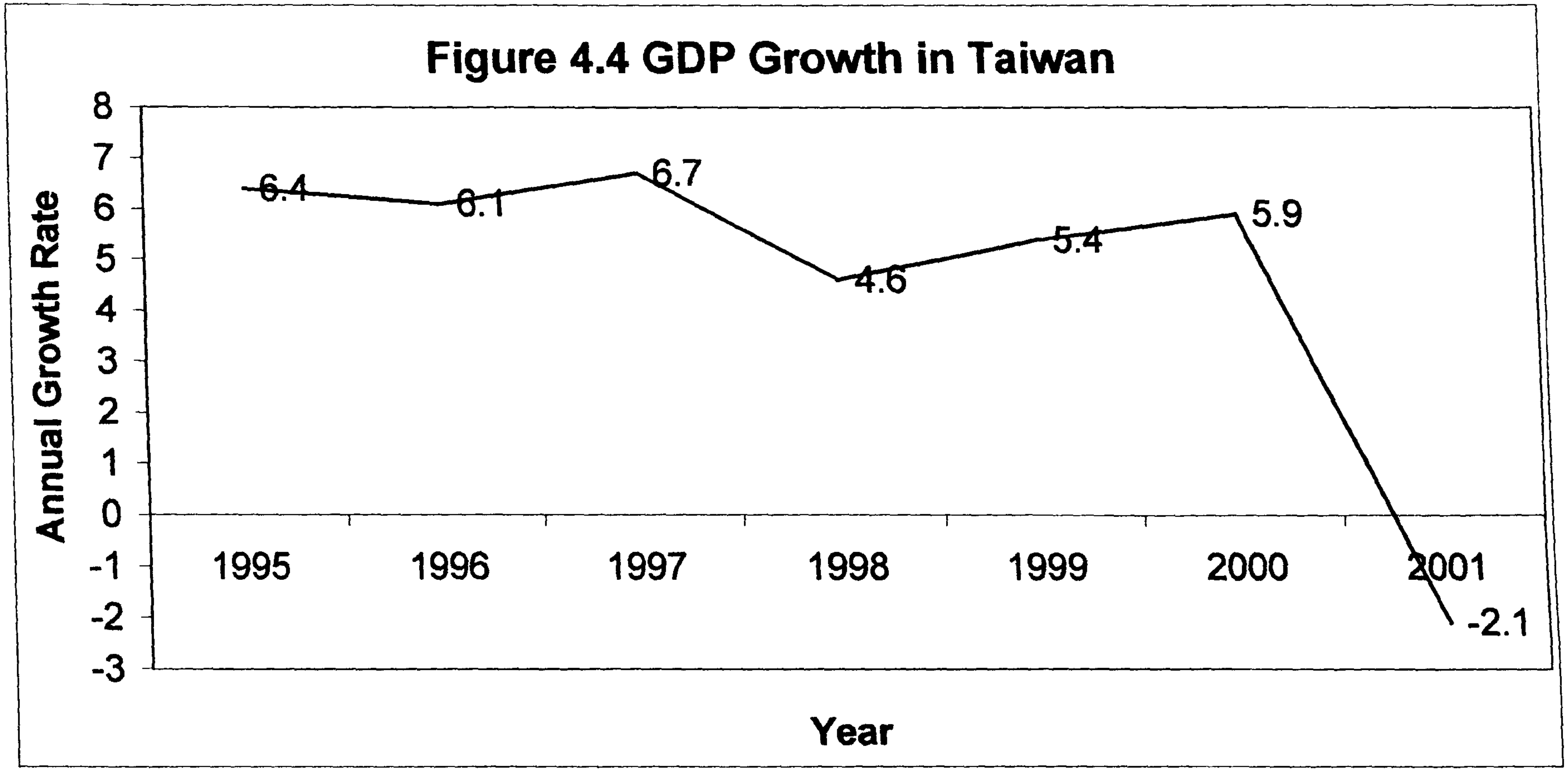


Figure 4.4 GDP Growth in Taiwan
Annual Growth Rate
8
7
6
5
4
3
2
1
0
-1
-2
-3
6.4
6.1
6.7
4.6
5.4
5.9
-2.1
1995
1996
1997
1998
1999
2000
2001
Year

Finally, Table 4.7 provides a general comparison between both industries, based upon the comments of franchisors and franchisees, author's observation and analysis, and published material in Taiwan. From these comparisons, we can have a clear map of the differences. These differences suggest that a comparison of the industries may reveal interesting findings.

Table 4.7 The General Comparisons of Estate Agency and Convenience Store

	Items	Estate Agency	Convenience Store
1	Operating hours	9am-9pm	24 hours
2	Product characteristic	1. Unmovable 2. Unique	1. Movable 2. Common
3	Entry barrier (experience)	High	Low
4	Outlets	Pure franchising	Combined systems
5	Transaction frequency	Few	Daily
6	Personal contact	High	Low
7	Unit Price	High	Low
8	Organisational form	Hybrid	Hybrid + Hierarchy
9	Integration	Vertical + Horizontal	Vertical + Horizontal
10	Ownership	100% owned by franchisees	Partly owned by franchisees
11	Entrepreneurship	Medium-High	None-Low
12	Multi-unit franchisee	Few	Many
13	Limitation outlet numbers for multi-unit franchisee	No	Yes
14	Exclusive trading distance	Yes	No
15	Guaranteed annual sales	No	Yes
16	Contract period	1-4 years	5 years
17	Royalty	Fixed	Variable with sales
18	Self-Motivation	High	RC (low), FC (high)
19	Leadership	Non-coercive	RC (Coercive) FC (Non-coercive/Coercive)
20	Communication channel	Head office staff (horizontal)	Store supervisor (vertical)
21	Each party's status	More equal	More unequal
22	Cost of changing brand as the contract is expired	1. Original customers 2. Redecoration fee 3. Initial fee	1. Cost of losing the outlet (FC2) 2. Initial fee
23	Quality control	1. Cooperation with qualified solicitors and banks 2. Official contracts 3. Periodical check 4. Computer network 5. Emphasize the transactional process	1. United sourcing 2. Store supervisor's supervision 3. Other departments' non-periodical check 4. POS system 5. Trained store manager 6. Emphasize the result

24	Flexibility of the store operation	High (90%)	Low (10%)
25	Impact of recession	Huge	Tiny
26	Overall growth	Negative	Positive
27	Industry characteristic	People/Product 80/20	People/Product 20/80
28	Contract with customers	Yes (at least for 3 months)	No
29	Transactional focus	Safety	QSCV (Quality, Service, Cleanliness and Value)
30	Negotiability on royalty	Yes (depends on your sales or whether you are an old franchisee or whether you are from another franchise system)	No, but internal franchisees have special discounts
31	Contract	Some are different, especially on the initial fee and royalties	The same
32	The most common conflict	Brand exposure rate is not enough	1. Policy products 2. Absorbing of defects 3. Interactions
33	Limitation of the franchisor's expansion	No	The reach ability of logistics
34	Purchasing from the franchisor	Recommended	Necessary
35	Management of trading area	Very important	Not so important
36	Interactions with customers	Very proactive	Very reactive
37	CSF (Critical Success Factors)	1. Brand advertisement 2. Attitude of staff	1. Strong logistics 2. Location 3. Attitude of staff 4. Quantity of product lines 5. Advertisement
38	Autonomy	High	Low
39	Attitude for the franchisor's assistance	Not welcomed and useless	Welcome and helpful
40	Experience required	Yes	No
41	Franchisee's representative	Yes	No
42	Franchisor's objective	To earn profit from franchisees	To help franchisees making money
43	Create own brand for a multi-unit franchisee	Possible	Impossible (because most of the products and estates are the franchisor's properties)
44	Product lines	Limited (just related to houses and land)	Wide (aside from the daily necessities, the shop also offers services, such as film development, national and international express, clothes washing, faxing, photocopying, bill payment, internet shopping, catalogue shopping, and publication

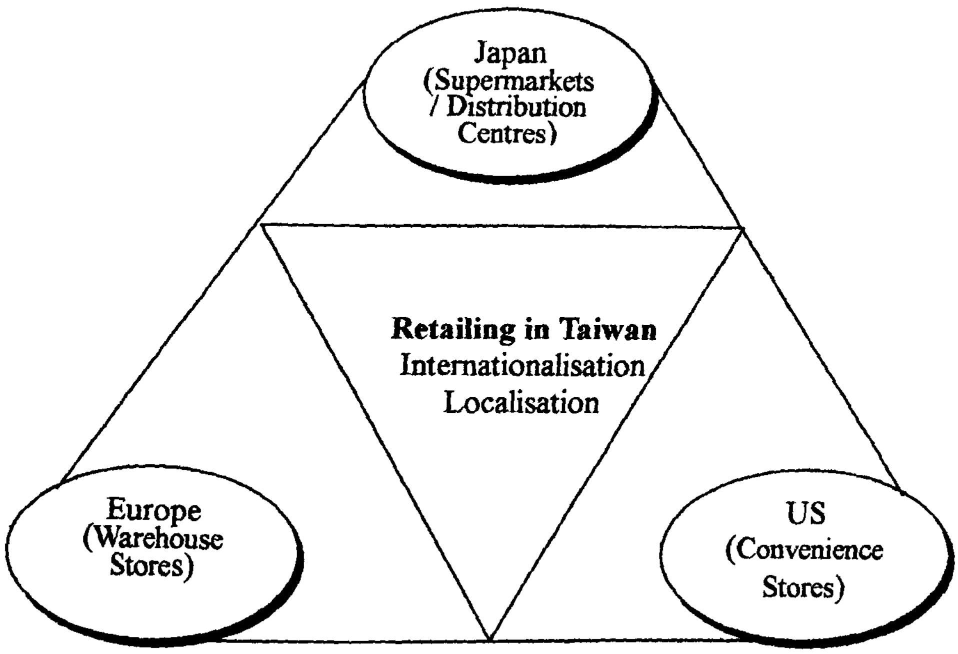
			selling)
45	Coexistence of RC and FC	No and impossible	Yes and many
46	Industrial characteristic	Industry of thoughts	Industry of management
47	The importance of personal network	Very important	Not important
48	Both party's relationship	Loosely	Tightly
49	The importance of the brand to potential customers	More important to sellers than buyers	The same importance for sellers and buyers
50	Being a RC before a FC	Not necessary	Necessary

Source: the author

4.4 The Future Development of Retailing in Taiwan

As far as the future development of retailing is concerned, there are some general developments in the Taiwanese retail market. For example, 24-hour operations have become common. Aside from convenience stores, other businesses like cinemas, shopping malls, restaurants, gas stations, Internet coffee shops, MTV, KTV, and bookstores have the same operating hours. An interesting finding is that most of these stores are chain stores. This kind of phenomenon not only suggests that there are more business opportunities for them but also implies that customers' preferences and habits are changing. Another development is the prevalence of multi-function stores; convenience stores are the most outstanding examples. Aside from the general developments in retailing, another phenomenon in the Taiwanese market is internationalisation. As mentioned before, inward internationalisation started in the 1970s, and was then followed by a stage of localisation. Since the 1990s, outward internationalisation had been underway. As far as inward internationalisation is concerned, each retail sector has been influenced by different countries. Hence, aside from the influences from the local culture, some countries have had influences and impacts on Taiwanese retailing. For example, Figure 4.5 illustrates the effects of Japan, Europe and the US from different perspectives. First, supermarkets and distribution centres are Japanese orientated; warehouses like Carrefour and Makro were imported from European countries and finally, convenience stores were brought in from the US, for example 7-ELEVEN.

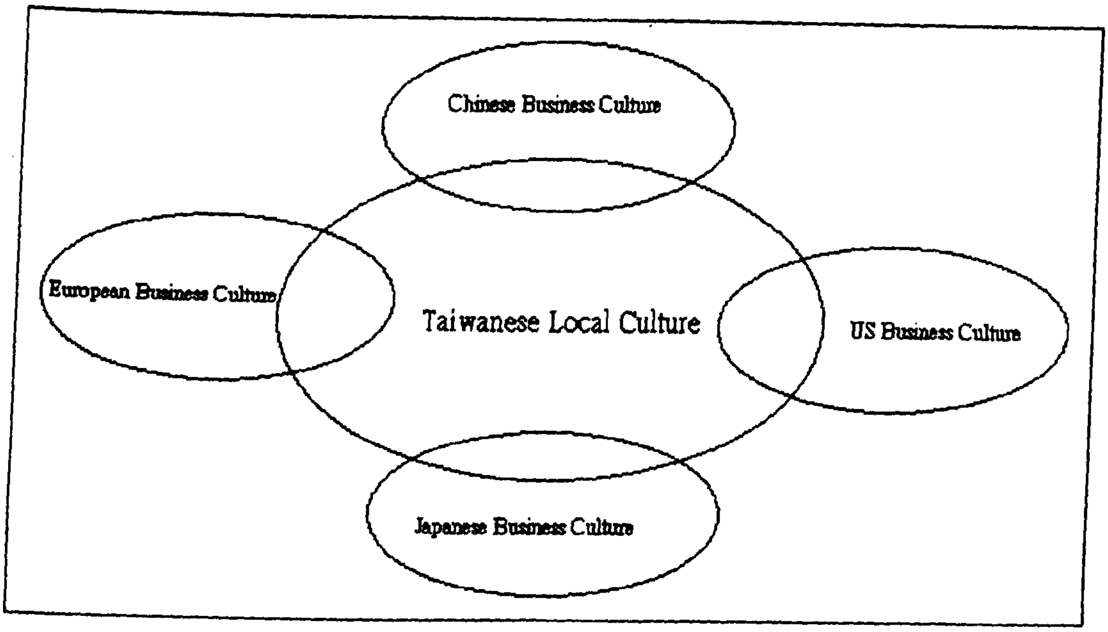
Figure 4.5 The External Impacts of the Taiwanese Retailing



Source: Shih (1999)

Earlier in this chapter, it was suggested that the Taiwanese business cultures are mixed with Chinese (Ching Dynasty), European (Dutch/ Spanish period), Japanese (Colony period) and US (Post war period) influences. Figure 4.6 shows the modern time of the Taiwanese business with mixed culture influences drawn from different countries.

Figure 4.6 The Modern Time of the Taiwanese Business



Source: Shih (1999)

With the same cultural background, the Chinese market is considered to be the biggest future opportunity for Taiwanese businesses. With Taiwan and China both recently joining the WTO, their markets will become more open and many Taiwanese businesses have started to move into the Chinese market as they share the same culture and language. So far, there have been some successful Taiwanese retailers in the Chinese market such as 7-ELEVEN, Starbucks Coffee Shop and Pacific Department Store. In addition, the Taiwanese have to think about how to combine foreign capital and local human resources to enter the Chinese market. If this model could be established, then Taiwan can not only upgrade its industrial level but also become the interface between foreign countries and China. Therefore, as the Taiwanese local market becomes mature and saturated, the future is likely to be based on expansion into the Chinese market. With this market, retailers could establish their capacity and ability to be international brands. Regarding the external impact of WTO membership, within CVS, the main impact will be from the open market. Foreign retailers will be able to distribute more products to Taiwan and prices will become lower. For customers this is good news. As to the response by retailers, they could enhance their operations by automation and e-commerce; in practice, they seem to have done this already. Within EA, as the market opens up, foreign companies can directly set up subsidiaries in Taiwan. However, as the market is already highly competitive, local agencies should not feel a great difference and it may even produce opportunities to co-operate with foreign retailers to enhance competitiveness.

As to the future development of chain stores, the Department of Commerce (2000) suggests six tendencies (Table 4.8). Some of these have already taken place; others are still at the experimental stage.

Table 4.8 The Future Development of Chain Stores

Tendency	Tendency in the chain store	Illustrations
One stop shopping	Clearly positioning, Individualisation, Satisfaction of customers' needs	Multi-function shop
Self-service	From 'face to face' to 'self service', it can not only reduce the cost of personnel but also let customers feel free.	Self-service laundry Self-service photocopying
Chain operation	By collective purchasing, costs can be reduced, e.g., supermarkets - bargaining ability can rise 5-7% as every 10-store outlets increase. Failure rate: Independent store: 80% in the first year and 92% in the fifth year. Chain store: 20% in the first year and 23% in the fifth year.	Convenience store Book chain Fast food chain
Automation	Through the use of information technology, the lead-time between purchasing and selling will become shorter.	POS EOS VAN
Interface Fitness	Integration of money, commodity, logistics and information.	The use of IC The use of Bar-code
Direct sales	Service will become important. Major cost savings without the physical store.	Direct marketing Catalogue selling Internet marketing

Source: Taiwan Department of Commerce (2000)

Within CVS, all of the case companies have already taken the above trends on board but for EA, not all are applicable. EA has its own special trend like the setting-up of distribution centres to share cases. If this could be carried out, then it would be good news for sellers, buyers and agencies because it would speed up property rotation. However, due to issues of self-interest, it is difficult to make franchisors cooperate with one another.

4.5 Summary

This chapter has provided a background to retailing innovation in the Taiwanese retail market. Franchise chains were then highlighted owing to their importance and relevance to this research. For this research, CVS and EA have been chosen to allow comparisons of the perspectives of general and management issues between franchisors and franchisees in two very different industries. These sections also provided a contrast in the way they operate and in their reaction to economic pressures. Finally, the development of retailing in Taiwan was examined from the perspectives of its historical background and future tendency.

CHAPTER FIVE: RESEARCH METHODOLOGY

5.0 Introduction

Following the literature review and the chapter on retail franchising in the Taiwanese market, this chapter discusses the research methodology - how this research was designed, conducted and analysed. This chapter is closely linked with the previous chapter 4 and the following chapters 6 and 7 as the analysis was spread over these three chapters according to the characteristics of questions. In this methodology chapter, the author will demonstrate how the research was developed and how each section is connected. First of all, the research design is both inductive and deductive to serve different purposes. Strauss and Corbin (1998) suggest that inductions (the derivation of concepts, their properties and dimensions from data) and deductions (hypothesising about relationships between concepts) are interplayed from the perspective of theory building. Based on the essence of the research, research pre-assumptions are used to replace hypotheses. In this chapter, the author will explain the different approaches that were adopted to qualify the research questions and objectives; detailing the sampling strategies, data collection, analysis and finally, reliability and validity testing will be explored.

5.1 Research questions, objectives, conceptual framework and pre-assumptions

From the review of the literature discussed previously, we can see that there are some important and interesting questions relating to franchising. For example, in the franchise organisations, although this organisational form theoretically has a greater channel efficiency, compared to traditional distribution channels, the fact that both franchisors and franchisees are self-interested entities, raises the issues of how to motivate and satisfy each participant, and then how to create synergy in the channel. Conflicts are sometimes unavoidable because the franchisor is in the dominant position, therefore, how to minimise both party's perceptual gaps and how to keep a good relationship during the relational exchange process between the parties are key issues. For this reason, leadership characteristics and the role of decision-makers becomes more important in interactions from the perspective of relationship maintenance. These two broad areas may offer different perspectives in different industries (e.g., retail and service), and in the Chinese cultural context (i.e., Taiwan).

5.1.1 Research Questions

From the above general points, seven research questions arise:

1. What is the motivation to be an international or local player and which kind of international franchise path did the international retailer adopt for Taiwan?
2. Why franchising is so popular in the Taiwanese retail market?
3. Is there any relationship between entrepreneurship and ownership patterns in franchising?
4. Are there differences between the convenience store (retail sector) and estate agency (service sector) from the perspective of organisational patterns: such as RC (Regular Chain) and FC (Franchise Chain); internal and external franchisee; original and transferred franchisee; local and international franchise system; single and multi-unit franchisee?
5. How do franchisors and franchisees in Taiwan co-operate with each other to maximise the brand value and, if conflicts take place, what will the reactions be?

6. What role do the decision-makers and leadership play in the interactions?
7. Based on relational exchange behaviour, do both parties think that it is an equal balance between give and take?

5.1.2 Research Objectives and Conceptual Framework

From these seven broad research questions, research objectives were formulated and these research objectives were identified from three main perspectives found in the literature, which are international retailing, franchising as an organisational from and management issues in franchising. Each perspective relates to different objectives. These objectives are detailed in 5.1:

Table 5.1 Research Objectives

Topic Perspective		Research Objectives
Franchising as a business form	1	To understand the development of franchising in the Taiwanese retail market, especially in the convenience store and estate agency industries and to comprehend why this kind of business format is so popular.
	2	To explore the relative issues in franchising, such as regular and franchise chain, single and multi-unit franchisee, local and international franchisee, internal and external franchisee, original and transferred franchisee and so on.
	3	To understand what was transferred during the process of internationalization for both convenience store and estate agency industries, and to identify any difference in international franchise path.
Management issues in franchising	4	To explore the motivations for franchising from the perspectives of agency theory, resource constraints and transactional cost analysis.
	5	To evaluate the importance of the decision maker on the interactions between franchisors and franchisees, including the decision maker's characteristics, leadership, attitude, and the role of entrepreneurship.
	6	To explore what was exchanged between the franchisor and franchisee, and how this kind of interorganisational form was maintained to maximize both party's benefits. If both party's exchange behavior is not balanced, how will one party react to the other.

To address the above research objectives, many issues will be explored. The most important topics of all are those relating to the relationships and conflicts between franchisors and franchisees. Therefore, key theories like the motivation, decision-maker and relational exchange theory were discussed. In order to have a clear perspective of how these dimensions interact with one another, Figure 5.1 illustrates the conceptual framework and illustrates the interactions from which the research objectives were derived. The numbers in the shaded boxes relate to the research objectives shown in Table 5.1.

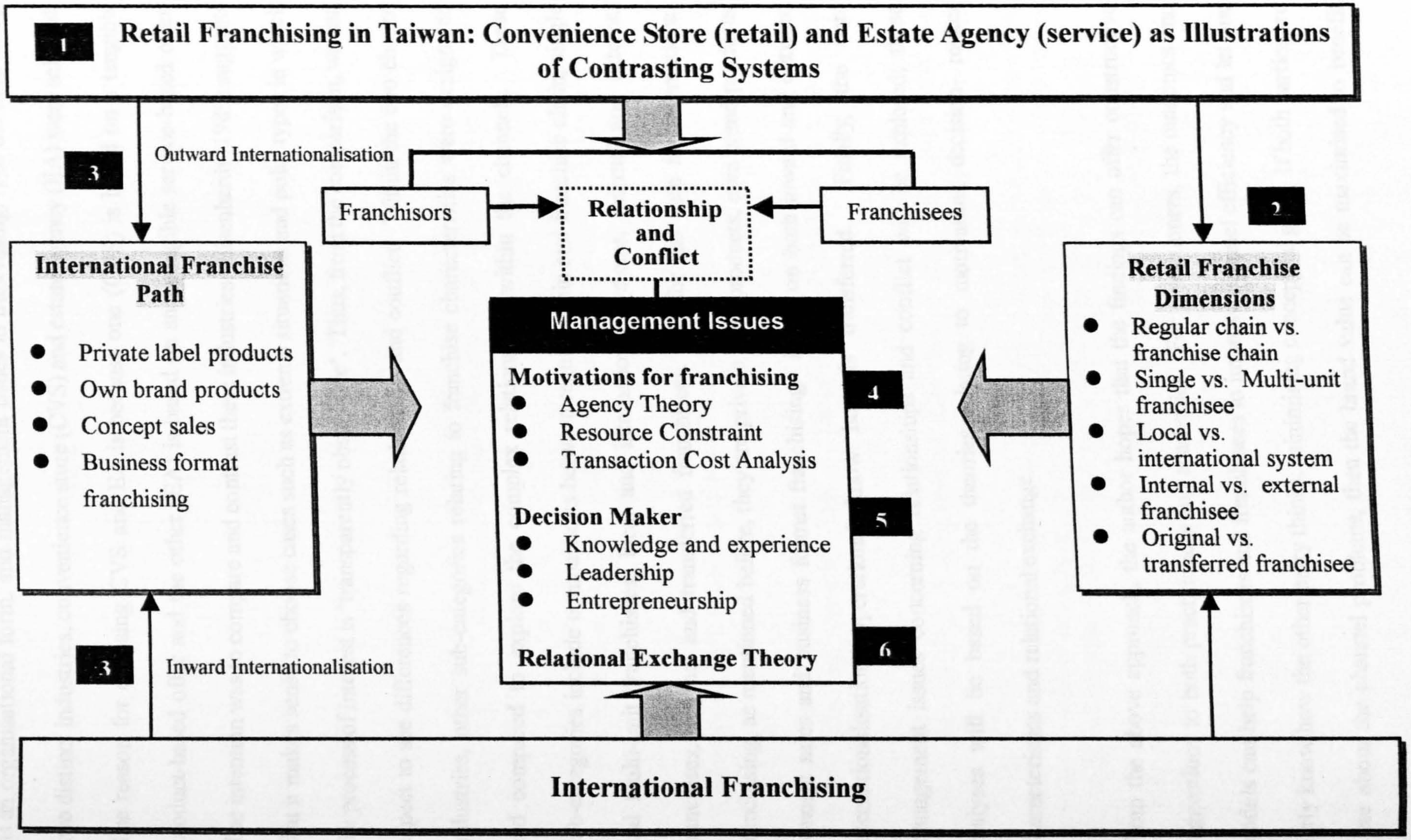


Figure 5.1 Conceptual Framework

The conceptual framework is derived from two main topics or perspectives: franchising as an organisational form, and management issues in franchising. For the field study, two distinct industries, convenience store (CVS) and estate agency (EA) were selected. The reason for choosing CVS and EA is because one (CVS) is based on a tangible product-based offer and the other (EA) is based on an intangible service-based offer. The intention was to compare and contrast these industries. Eisenhardt (1989) suggests that it makes sense to choose cases such as extreme situations and polar types in which the process of interest is 'transparently observable'. Thus, from the comparison, we can expect to see differences regarding relationships and conflict. Within the two chosen industries, other sub-categories relating to franchise characteristics were designated and compared to explore the complex relationships within the channels. These sub-categories include comparisons between regular chain and franchise chain, single and multi-unit franchisees, local and international systems, internal and external franchises, original and transferred franchisees. As for the path for international franchising, as mentioned before, they are private label products, own brand products, concept sales and business format franchising. Based on both inward and outward internationalisation, operational know how is transferred. Finally, the core management issues concerning relationships and conflict will be explored; these analyses will be based on the theories relating to motivation, decision- maker characteristics and relational exchange.

From the above approach, the author hopes that the findings can offer constructive suggestions to both practitioners and academics. For practitioners, the outcomes and models can help franchisors and franchisees to improve channel efficiency and let one party know how the other party thinks, minimising conceptual gaps. If both parties are clear about the channel problems, then the brand value can be maximised to benefit both parties. As to the contribution for academics, this is rooted in the analysis, as some findings may conflict with existing theories. Hence, theory generation, testing, elaboration and extension will be highlighted. All of these expected results are based on the background of the research. In other words, all the culture backgrounds, industrial characteristics are focused in the Taiwanese context.

5.1.3 Research pre-assumptions

From the literature review in Chapters 2 and 3, a number of central pre-assumptions contributing to knowledge development can be defined and subsequently evaluated.

- It is believed that analysis of international franchising will provide an understanding of the internationalisation process of franchise systems in the Taiwanese retail market.

- It is anticipated that the development of a franchise system in Taiwan is a little different from those observed in industrialised countries, from the perspective of localisation and industrial characteristics.

- It is anticipated that culture based motivations, lower failure rates, and ownership for franchising will be uncovered as explanations of the prevalence of franchising in the Taiwanese retail market.

- It is anticipated that the attitude of the decision-makers and leadership of the head office play an important role in the interactions between franchisors and franchisees.

- It is expected that the relationship between franchisors and franchisees plays an important role in the development of a franchise system, and based on the same objectives, both parties should ally together to reach a win-win status.

- It is anticipated that if the franchise relationship is based on something important, which is worthy of exchange, (e.g., based on a valuable asset, such as the brand name), both parties should maintain a long-term relationship.

- It is anticipated that if conflicts take place, both parties should negotiate with each other to reach a win-win status.

5.2 Research Design

Research design can be broadly classified as either exploratory or conclusive. The difference between exploratory and conclusive research is summarised in Table 5.2. In this thesis, exploratory research was adopted for the purpose of providing insights into, and an understanding of, marketing phenomenon, especially the motivations and the relationships between franchisors and franchisees. As a method, a qualitative in-depth interviewing approach was adopted. Hence, the research is qualitative and exploratory in nature. This approach is used where the subject of the study cannot be measured in a quantitative manner. The researcher was trying to understand how the concepts of 'motivation', 'decision-maker' and 'relational exchange' worked in the franchise organisations. Therefore, exploratory research can help to establish all the appropriate variables and see the linkages. In contrast, conclusive research requires a method, which is more formal and structured than exploratory research, typically based on large, representative samples, and in which the data generated is subjected to quantitative analysis. The findings from this type of research are considered conclusive in nature. The differences are tabulated below (Table 5.2).

Table 5.2 Differences between Exploratory and Conclusive research

	Exploratory	Conclusive
Objective	• To provide insights and understanding of the nature of marketing phenomena • To understand	• To test specific hypothesis and examine relationships • To measure
Characteristics	• Information needed may be loosely defined • Research process is flexible, unstructured and may evolve • Sample are small • Data analysis can be qualitative or quantitative	• Information needed is clearly defined • Research process is formal and structured • Sample is large and aims to be representative • Data analysis is quantitative
Findings/	• Can be used in their own right	• Can be used in their own

results	• May feed into conclusive research • May illuminate specific conclusive findings	right • May feed into exploratory research
Methods	• Expert surveys • Pilot surreys • Secondary data • Qualitative methods • Unstructured observations • Quantitative exploratory multivariate methods	• Surveys • Secondary data • Databases • Panels • Structured observations • Experiments

Source: Malhotra and Birks (1999)

As far as exploratory research is concerned, Malhotra and Birks (1999) propose that it is an appropriate design for the following:

When the nature of the topic under study cannot be measured in a structured, quantifiable manner;

When the problem needs to be defined more precisely;

When alternative courses of action need to be identified;

When research questions or hypotheses need to be developed;

When key variables need to be isolated and classified as dependent or independent.

Points one and five are relevant to this study. The research requires an understanding of the attitudes and perceptions of the franchisors and franchisees: these cannot be adequately measured in a structured and quantifiable manner. In addition, key variables like management issues and the two industries under study are independent variables, and other variables like characteristics as entry path, business format, single and multi-unit franchisee, local and international system, internal and external franchisee, original and transferred franchisee, are dependent variables. Hence, we can say that this research can be considered to be an exploratory research.

As for the research strategy, case studies were adopted. Yin (1994) gives a strict and more "technical" definition: A case study is an empirical inquiry which:

- investigates a contemporary phenomenon within its real-life context;
- when the boundaries between phenomenon and context are not clearly evident;
- in which multiple source of evidence are used.

Eisenhardt (1989) agrees that case studies can be used to accomplish various aims: to provide description, test theory or generate theory. The interest here includes all of the above aims. For example, the analysis in Chapter 4 is related to exploration, whereas Chapter 6 and 7 aims at generating, testing and refining theories. Besides, Bettenhausen and Murnighan (1986) have converted theory-testing research into theory-building research by taking advantage of serendipitous findings. Hence, some testing in the research will help generate or refine theories. Finally, as to what constitutes a case? There is no clear definition of what is a single case study or unit of analysis; single cases may sometimes involve the opportunity to study several contexts within the case (Mukherjee et al., 2000). In this research, the case is based on the company level; so, there are eight cases in this study.

Regarding the different research strategies employed in qualitative research, Yin (1994) proposes three conditions: the type of research question posed; the extent of control an investigator has over actual behavioural events; and the degree of focus on contemporary as opposed to historical events. The conditions are then related to five major research strategies, shown in Table 5.3 below.

Table 5.3 Relevant Situations for Different Research Strategies

Strategy	Form of research question	Requires control over behavioral events?	Focuses on contemporary events?
Experiment	How, why	Yes	Yes
Survey	Who, what, where How many How much	No	Yes
Archival analysis	Who, what, where How many How much	No	Yes/no
History	How, why	No	No
Case study	How, why	No	Yes

Source: Yin (1994)

Table 5.3 displays these relevant situations for different research strategies. Each of these options has its advantages and disadvantages. As to which kind of strategy is the most suitable, Yin (1994) states, "*the goal is to avoid gross misfits - that is, when you are planning to use one type of strategy but another is really more advantageous*". It is clear from the table that a case study research strategy is considered to have a distinct advantage when a 'how' or 'why' questions is being asked about a contemporary set of events over which the investigator has little or no control. For example, in this research, the core research questions were designed to explore motivations, which are 'why' questions, and the development of relationships and conflicts, which are 'how' questions. The main reasons for choosing case studies for the research strategy were the descriptive nature of the research and the dominance of 'why' and 'how' questions. Although the research questions were reformulated several times during the research, the objectives are still focused on the 'exploration of the relationships and conflicts between franchisors and franchisees'.

In this research, a comparative approach was adopted to compare different dimensions within two different kinds of industries, the convenience store and the estate agency industries. The reason for choosing these two industries was to allow a comparative study between retail and service industries. The convenience store is a product-based retail industry whereas estate agency is a service-based industry. Hence, by the comparison of these two industries, potential relationships and conflict between franchisors and franchisees can be uncovered and contrasted. Figure 5.2 typifies this research because the research is to investigate the relationship between franchisors (A) and franchisees (B). From an analysis of interactions between both parties, many implications from the interactions will be found.

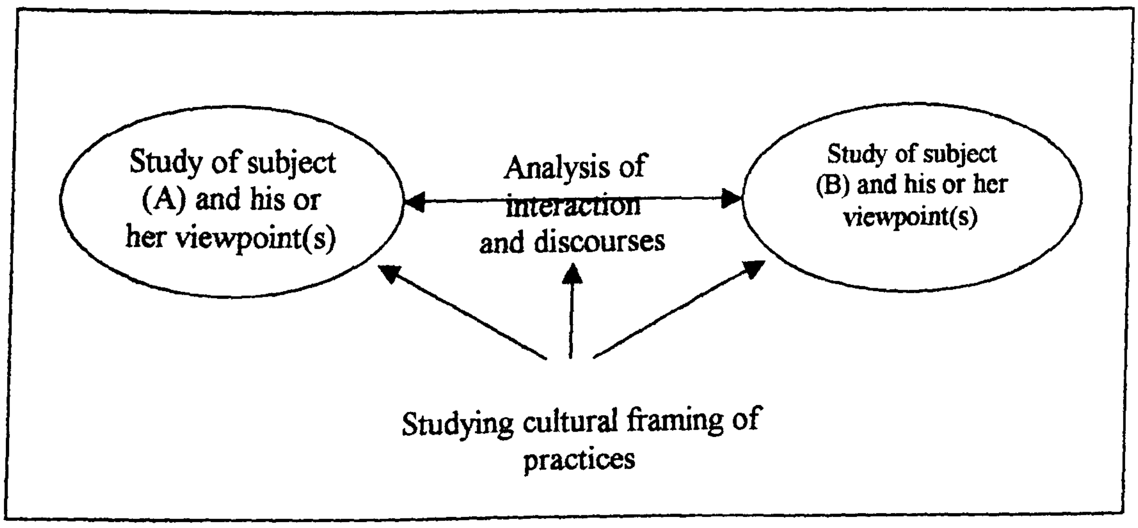


Figure 5.2 Research perspectives in qualitative research
Source: Flick (1998)

Regarding the sampling strategy (which will be explained in more detail in the following sections), three main strategies were adopted: they are convenience, stratified and random sampling, but strategies can be still varied at different stages. After the samples were selected, the primary data were collected from two methods, in-depth interviews and telephone interviews. Elango and Fried (1997) provide a table based on recent research in franchising mentioned before (see Appendix 2). In the research studies shown, 49 were conducted using quantitative methods and only 2 through qualitative methods. Although qualitative research was not so prevalent before, this does not mean that the quantitative method is superior to the qualitative method. The author suggests that the method is closely related to the essence of the questions to be researched. In this research, the relationships between franchisors and franchisees and the related issues to be explored are difficult to measure effectively using quantitative methods. As a result, a qualitative method was adopted.

In the analysis stage, coding and comparative analysis was undertaken to highlight the similarities and differences between the two industries. In addition, the author introduced his own insights to the analysis trying to find out the abstract implications and make it more concrete. After the stages of description and analysis, the final stage is to highlight those points, which are in conflict with established theories. From these conflict points, the aims are to test, elaborate and generate theories; hence, it is a kind of grounded research. The following Figure 5.3 suggests that there are two ways to build theories. The author chose the second one - the circular model, to be the basis of the research process. According to this model, the research process for this study was constructed as shown in Figure 5.4.

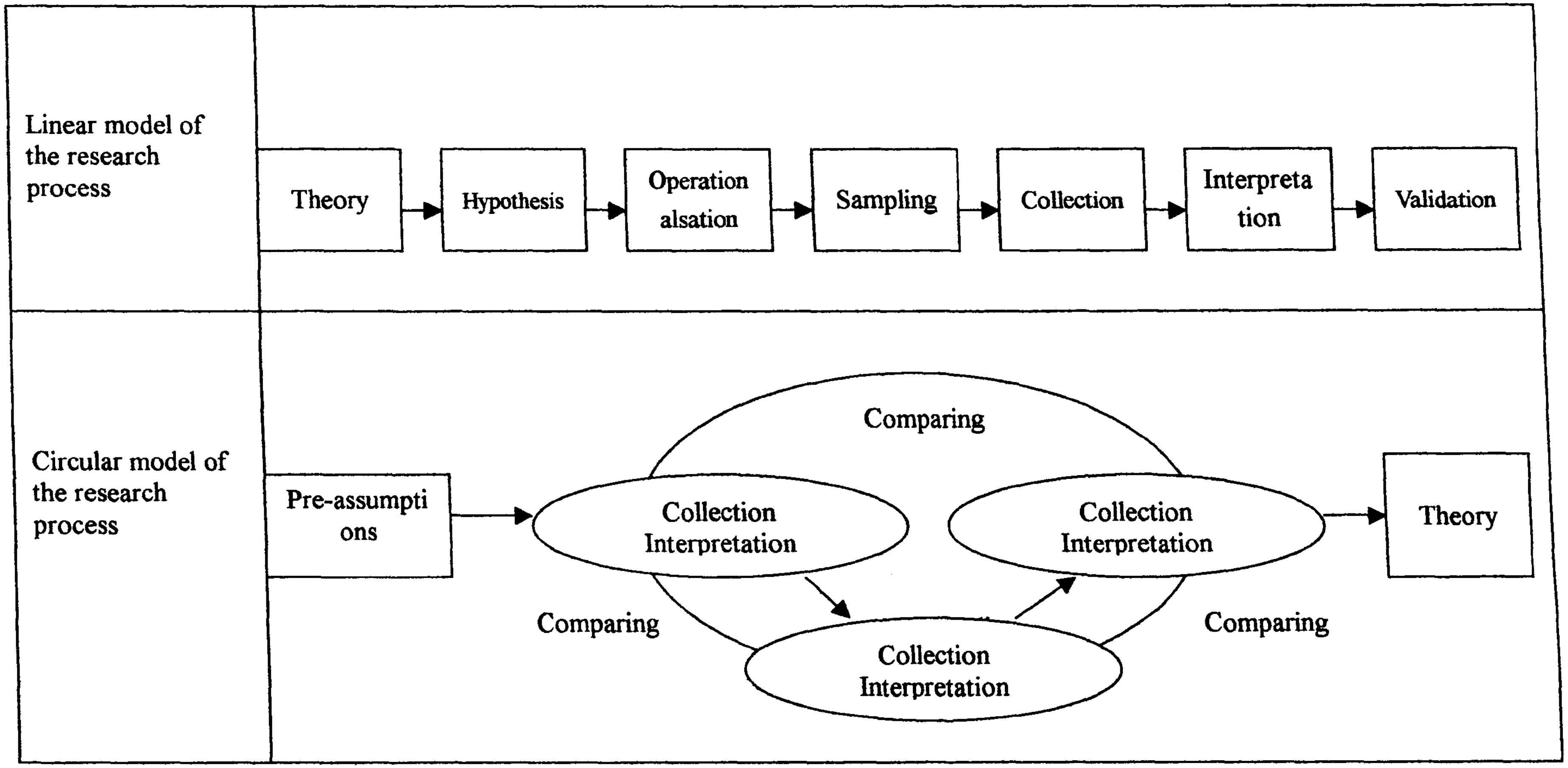


Figure 5.3 Models of process and theory
Source: Flick (1998)

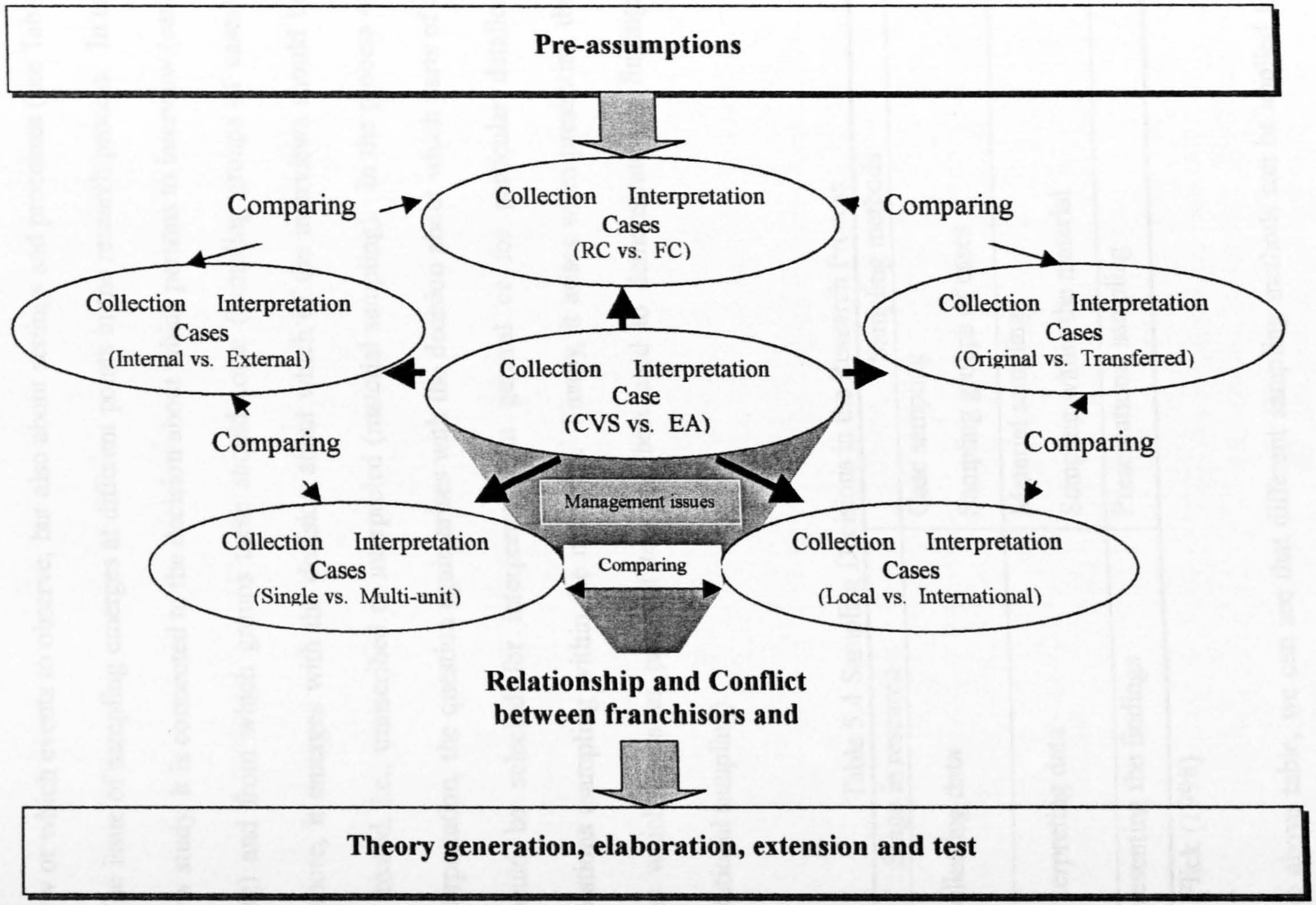


Figure 5.4 Research Process: application of circular model to the thesis
Source: the author

5.3 Sampling

Sampling is as important in qualitative research as it is in quantitative research. For qualitative research, we cannot study everyone everywhere doing everything. Flick (1998) states that sampling decisions are required not only about which people to interview or which events to observe, but also about settings and processes (see Table 6.4). The issue of sampling emerges at different points in the research process. In an interview study, it is connected to the decision about which persons to interview (case sampling) and from which groups these should come (sampling groups of cases). Furthermore, it emerges with the decision about which of the interviews should be further treated, i.e., transcribed or interpreted (material sampling). In the process of data interpretation, the question again arises with the decision about which parts of a text should be selected for interpretation in general or for particular detailed interpretations (sampling within the material). Finally, it arises when presenting the findings: which cases or parts of text are best used to demonstrate the findings (presentational sampling).

Table 5.4 Sampling Decisions in the Research Process

Stage in research	Sampling methods
While collecting data	Case sampling Sampling groups of cases
While interpreting data	Material sampling Sampling within the material
While presenting the findings	Presentational sampling

Source: Flick (1998)

From the above table, we can see that different sampling methods can be applied to different stages in collecting data, interpreting data and presenting the findings. Each stage has different kinds of sampling methods; this implies that sampling is not just applied at the stage of data collection. In general, sampling starts from extreme, negative, critical or deviant cases, i.e., from the extremities of the field. It may be disclosed from the inside, starting from particularly typical or developed cases. The structure of the sample may be defined in advance and filled in through collecting data, or it may be developed and further differentiated step by step during selection, collection, and interpretation of material. In this research, the samples were defined in advance but further developed and differentiated during the stages of selection, collection and interpretation due to the actual access to the interviewees being different from that planned in advance. As far as sampling strategy is concerned, Miles and Huberman (1994) evolve a typology provided in Table 5.5.

Table 5.5 Typology of Sampling Strategies in Qualitative Inquiry

Type of Sampling	Purpose
Maximum variation	Documents diverse variations and identifies important common patterns
Homogeneous	Focuses, reduces, simplifies, facilitates group interviewing
Critical case	Permits logical generalisation and maximum application of information to other cases
Theory based	Finds examples of a theoretical construct and thereby elaborates and examines it
Confirming and disconfirming cases	Elaborates initial analysis, seeks exceptions, looks for variation
Snowball or chain	Identifies cases of interest from people who know people who know what cases are information rich
Extreme or deviant case	Learns from highly unusual manifestations of the phenomenon of interest
Typical case	Highlights what is normal or average
Intensity	Involves information-rich cases that manifest the phenomenon intensity, but not extremely
Politically important cases	Attracts desired attention or avoids attracting undesired attention
Random purposeful	Adds credibility to the sample when the potential purposeful sample is too large

Stratified purposeful	Illustrates subgroups, facilitates comparison
Criterion	Includes all cases that meet some criterion, useful for quality assurance
Opportunistic	Follows new leads, takes advantage of the unexpected
Combination or mixed	Involves triangulation and flexibility, meets multiple interests and needs
Convenience	Saves time, money, and effort but at the expense of information and credibility

Source: Miles and Huberman (1994)

In Table 5.5, sixteen different kind of sampling strategies are suggested to meet different needs. With each different sampling strategy, the results generated would be different. As sampling decisions start from integrating concrete cases, the origin of reconstructing cases is concretely realised. In sampling decisions, the reality under study is constructed in a specific way: certain parts and aspects are highlighted, others are phased out. For example, in this research, only national/international franchise brands were highlighted. Sampling decisions determine substantially what becomes empirical material in the form of text and what is taken from available texts and how it is used (Miles and Huberman, 1994).

For a comparative case study, a specific or a combination method can be chosen to fit the research objectives. The author combined the above two typologies together to develop the sampling strategy. The following Table 5.6 shows how the researcher used different sampling strategies at different stages.

Table 5.6 Application of Sampling Strategies

Stage in research	Sampling methods (Flick)	Practice (Miles and Huberman)
While collecting data	Case sampling (CVS and EA)	Critical case and maximum variation (Retail vs. Service sector)

	Sampling groups of cases (RC vs. FC) (Single vs. Multi-unit franchisee) (Local vs. International system) (Internal vs. External franchisee) (Original vs. Transferred franchisee)	Stratified purposeful (National/International brand) Maximum variation Convenience (Location) Stratified purposeful (Personal network) Random purposeful (Phone list and Store visits)
While interpreting data	Material sampling (RC vs. FC) (Single vs. Multi-unit franchisee) (Local vs. International system) (Internal vs. External franchisee) (Original vs. Transferred franchisee) Sampling within the material (RC) (FC)...(Transferred franchisee)	Maximum variation (All) Maximum variation Extreme or deviant case Intensity Combination or mixed
While presenting the findings	Presentational sampling	Maximum variation Homogeneous Extreme or deviant case Typical case Intensity Theory based Confirming and disconfirming cases

Source: the author

From the above table, we can see that the sampling strategies used varied from data collection to the presentation of findings. The purpose of choosing a specific sampling strategy is to highlight, compare or contrast any similarities and differences. Hence, in the following chapters of comparative interpretation, analysis and findings, all the above sampling strategies will be rooted in these contexts.

After the sampling strategies were defined, the next step was to determine how many cases should be collected. There are many formulas to decide the sample size, but there is no set answer, it depends on the entity of the research itself. Krippendorff (1980) suggests that when all sampling units are exactly identical, a sample size of one is satisfactory. When there are a few rare and significant incidents on the lists of units, the sample will have to be large and will include the whole population when each sampling unit is unique. In this case, the situation is between these two extremes. Based on the costs of analysis, there comes a point at which a further increase will not appreciably improve the generalizability of the findings. This is the point at which the sample size is most efficient. It is a cost-benefit question, which depends largely on how the property to be generalised is distributed in the sample. Hence, the main constraints in this research are the time (six months) and the cost of travelling to access the interviewees. The ideal sample size for each franchise system was predetermined, i.e., at least 3 interviewees should be selected from each franchisor office and at least 10 franchisees should be interviewed from each brand. There are two reasons for selection of the number of cases; one is to minimise the difference and bias among interviewees. The other is that the author wished to identify the similarities and differences among different groups. Based on grounded research, Strauss and Corbin (1998) suggest that there are three criteria to follow in choosing the sample size, which are: no new or relevant data seems to emerge regarding a category; the category is well developed in terms of its properties and dimensions demonstrating variation; and the relationships among categories are well established and validated. For these reasons, people who were either a senior manager in head office or a store supervisor were interviewed to allow comparisons. From the interactions between franchisees and store supervisors or senior managers, we can observe the relationship between franchisees and franchisors. Within the CVS sector, different types of franchisees were selected to allow comparison between different subtypes, for example, RC (Regular Chain, the store outlets are company owned), FC1 (the store outlets are the franchisees' property) and FC2 (the store outlets belong the to franchisor); single and multi-unit franchisees; and internal and external franchisees. Within the EA sector, the comparisons were mainly from single and multi-unit franchisee; original and transferred franchisee. From the franchisors' and franchisees' opinions toward each party, it is possible to find out the conceptual gaps between both parties.

5.4 Data collection

After the sampling strategies were decided, the next step was data collection. As far as the principles of data collection are concerned, Yin (1994) proposes that there are three principles of data collection: using multiple sources; creating a case study database; and maintaining a chain of evidence. These principles can help to construct validity and reliability of a case study.

Using multiple sources as a means of providing many different sources of evidence is a major strength of case study research. According to Yin (1989), any finding or conclusion in a case study is likely to be much more convincing and accurate if it is based on several different sources of information, following a corroboratory mode. In this research, the sources of data are not only from primary and secondary data collection but also from two different industries, the convenience store and estate agency industries. These multiple sources of evidence essentially provide multiple measures of the same phenomenon.

Yin's (1994) argument for the second principle, creating a case study database, is that every case study should strive to develop a formal retrievable database so that other investigators can review the evidence directly and not be limited to the written reports.

In this research, all the interviews were transcribed into English written format. This database will increase markedly the reliability of the entire case study. Finally, Yin (1994) suggests that maintaining a chain of evidence is the principle of traceability: this allows an external observer to follow the derivation of any evidence from initial research questions to ultimate case study conclusions, moving from one portion of the case study to another, with clear cross-referencing to methodological procedures and to the resulting evidence. He states that this is the ultimate 'chain of evidence' that is desired. In other words, the methodology should be well connected with the analysis and conclusion to let external observers have a clear perspective in their minds. In this research, the methodology acts as the bridge between the literature review, the background of the Taiwanese retailing and the following analysis. Therefore, each chapter is like a chain, connected to each other. By following these criteria, the reliability and validity of the research can be constructed. The following section will elaborate on each section of the data collection to justify the research.

5.4.1 Sources of Data

In this research, there are two different kinds of data resource: primary data and secondary data. As far as secondary data is concerned, internal data was used for example company brochures and franchise contracts, and external data such as published material and computer databases. The role of the secondary data is to provide the background and basis for the primary research. Three kinds of qualitative data collection methods were used to gather the primary data: participation, observation and in-depth interviews (Marshall and Rossman, 1999). Participant observation demands firsthand involvement in the social world chosen for the study. Immersion in the setting allows the researcher to hear, see, and begin to experience reality as the participants do. Ideally, the researcher should spend a considerable amount of time in the setting, learning about daily life. In this research, this method was difficult for two reasons: the difficulty of becoming a participant in a business were there may be sensitive information and the nature of the research focussing on a comparison of the convenience store and estate agency industries. This meant there were at least eight sets of comparisons to be processed. Hence, it was even more difficult to do participative observation. Observation entails the systematic noting and recording of events, behaviours, and artefacts (objects) in the social setting chosen for study. The observational record is frequently referred to as field notes - detailed, non-judgemental, and concrete descriptions of what has been observed. In this case, as what was being investigated was the attitudes of the franchisors and franchisees towards each other, observation was not appropriate due to the emotional nature of these daily interactions.

Kahn and Cannell (1957) describe interviewing as "*a conversation with a purpose*" (p.149). Typically, qualitative in-depth interviews are much more like conversations than formal events with predetermined response categories. The researcher explores a few general topics to help uncover the participant's views but otherwise respects how the participant frames and structures the responses. A degree of systematisation in questioning is necessary, for example, well-organised questions. As this research is based on exploratory research design, trying to uncover the interactions between franchisors and franchisees, the qualitative methodology of in-depth interviewing is very appropriate to achieve the research objectives.

5.4.2 Pilot Testing

Before doing the formal interviews, pilot testing is the final preparation for data collection. The criteria for selecting the pilot were based on personal networks and geographical convenience. The pilot case study helps the researcher to refine the data collection plans with respect to both the contents of the data and procedures to be followed. Usually, pilot studies are undertaken prior to the selection of specific technologies for the final data collection and prior to the final articulation of the study's theoretical propositions (Yin, 1994). Thus, the pilot data provided considerable insight into the basic issues being studied. In addition, the pilot inquiry can be much broader and less focused than the ultimate data collection plan, and can cover both substantive and methodological issues. In this research, pilot tests were undertaken for both industries. Within each industry, one franchisor and three franchisees were selected for pilot testing. From these pilots, the author learned how to improve the research questions and refine the questions for different subgroups. Due to the minor nature of the corrections, these were progressed during the following interviews; these changes will not affect the overall reliability of the study as they were about issues of language translation and the use of proper nouns.

5.4.3 In-depth Interviews

Once the pilot testing was completed, the next step was to undertake formal interviews. The interview is one of the most powerful ways of collecting data. As Fontana and Frey (1994) put it:

> *"Interviewing has a wide variety of forms and a multiplicity of uses. The most common type of interviewing is individual, face-to-face verbal interchange, but it can also take the form of face-to-face group interviewing, mailed or self-administered questionnaires, and telephone surveys. Interviewing can be structured, semi-structured, or unstructured. It can be used for marketing purposes, to gather political opinions, for therapeutic reasons, or to produce data for academic analysis. It can be used for the purpose of measurement or its scope can be the understanding of an individual or a group perspective. An interview can be a one-time, brief exchange, say five minutes over the telephone, or it can take place over multiple, lengthy sessions, sometimes spanning days, as in*

life-history interviewing."

From the above description, we can see that there are many alternatives for interviews. In this research, two kinds of interview, face-to-face interviews (79 interviews) and telephone interviews (5 interviews) were adopted. No matter which kind of interviewing was undertaken, as the purpose was to understand another person's constructions of reality, they were asked in such a way that they could respond in their terms and in a manner from which the rich context that is the substance of their meaning was evident (Jones, 1985). Mariampolski (2001) also suggests that individual depth interviews are the preferred methodology when the project demands intensive probing of respondents, or reactions to ideas without influence from peers. This kind of interviewing facilitates a high degree of psychological depth, that is, investigation of motivations, associations and explanations behind preferences.

Although interviewing is a powerful method, just like other research methods, interviews have particular strengths and weakness. Although the interview technique has the strength of obtaining large amounts of data quickly, Marshall and Rossman (1999) stress that the main limitations involve the difficulties of personal interaction and co-operation. Interviewees may be unwilling or may be uncomfortable sharing all that the interviewer hopes to explore, or they maybe unaware of recurring patterns in their lives. In the process of interviewing, the author encountered the former situation, with franchisees afraid that if they told the truth, the franchisor would have a bad impression of them. Where the questions were felt to be sensitive, some franchisees preferred to answer "*No comment*", although the researcher told them that the franchisor would not know the individuals concerned. This kind of situation occurred mostly in the CVS industry because that the ownership is combined with the franchisors.

As far as the styles of interviewing are concerned, Patton (1980) distinguishes between three main types of interview: the informal conversational interview; the general interview guide approach; and the standardised open-end interview. Fielding (1996) uses the terms 'standardised', 'semi-standardised' and 'non-standardised'. Similarly, Fontana and Frey (1994) use a three-way classification of structured, semi-structured and unstructured interviewing, and they apply this schema to both individual and group interviews. In this research, the author adopted Fontana and Frey's semi-structured interviews. This kind of approach, in particular, has attracted interest and is widely used. This interest is linked to an expectation that the interviewee's viewpoints are more likely to be expressed in a relatively openly designed interview situation than in the case of a structured interview or a questionnaire. Flick (1998) classified this kind of semi-structured interview into five categories: focused interview, semi-standardised interview, problem-centred interview, expert interview and the ethnographic interview. The differences between these approaches are shown in Table 5.7. Each kind of interview has its advantages and disadvantages. The reason for selecting a specific interview type for this research is based on the criteria 'domain of application'. Hence, the researcher used four methods for semi-structured interviews - the focused, the semi-standardised, the problem-centred and the expert interview.

Table 5.7 Comparison of Methods for Semi-Structured Interviews

Criteria	Focused interview	Semi-structured interview	Problem-centred interview	Expert interview	Ethnographic interview
Openness to the interviewee's subjective view by:	• Non-direction by unstructured questions	• Open questions	• Object and process orientation • Room for narratives	• Limited because only interested in the expert, not in the person	• Descriptive questions
Structuring (e.g. deepening) the issue by:	• Giving a stimulus • Structured questions	• Hypothesis-directed questions • Confrontational questions	• Interview guide as basis for turns and ending	• Interview guide as instrument for structuring	• Structural questions • Contrastive questions

	• Focusing on feelings		unproductive presentations		
Contribution to the general development of the interview as a method	• Four criteria for designing interviews • Analysing the object as a second data sort	• Structuring the contents with structure laying technique • Suggestions for explicating implicit knowledge	• Sort questionnaire • Postscript	• Highlighting of direction: limitation of the interview to the expert	• Highlighting the problem of making interview situations
Domain of application	• Analysis of subjective meanings	• Reconstruction of subjective theories	• Socially or biographically relevant problems	• Expert knowledge in institutions	• In the framework of field research in open fields
Problems in conducting the method	• Dilemma of combining the criteria	• Extensive methodological input • Problems of interpretation	• Unsystematic change from narrative to question-answer schema	• Role diffusion of the interviewee • Blocking by the expert	• Mediation between friendly conversation and formal interview
Limitations of the method	• Assumption of knowing objective features of the object is questionable • Hardly any application in its pure form	• Introducing a structure • Need to adapt the method to the issue and the interviewee	• Problem orientation • Unsystematic combination of most diverse partial elements	• Limitation of the interpretation on expert knowledge	• Mainly sensible in combination with observation and field research
References	Merton and Kendall (1946)	Groeben (1990); Scheele and Groeben (1988)	Ruff (1991); Witzel (1982; 1985)	Meuser and Nagel (1991)	Spradley (1979)

Source: Flick (1998)

From the above table, we can see that aside from the ethnographic interview, the other four types of interview applications are applicable to this research. For example, franchisees were asked about the leadership of the franchisor, which has a subjective meaning. In addition, from the fieldwork, some theories can be reconstructed for the purpose of localisation. Further, many questions are about socially relevant problems, such as the interactions and relationship maintenance between franchisors and franchisees. Finally, as the interviewees are those who have particular experiences in this industry, they are qualified to answer the questions, and as such, fall into the expert interview category.

In practice, as the interviews were conducted, the author tried different ways to access franchisors and franchisees, such as personal networks; formal letters of inquiry; telephone inquires; or just walking into the store asking for an interview. With EA, the researcher started with his personal network because he worked in an estate agency company, so, he interviewed his ex-boss and asked him to introduce the franchisor and other franchisees. After interviewing the franchisor, the franchisor introduced two other franchisors (ChinaTrust and Century 21) based on his personal network. In addition, the author initially sent out formal inquiry letters (see Appendix 5), but as the response rate was quite low, he finally decided to directly telephone them asking for interviews and the response was generally much higher. In general, the success rate of the phone call approach was quite high, about 50%. Some even asked for an interview just after the phone call, but some were unable to honour the appointed time due to customers commitments and a further appointment had to be made.

With CVS, there were two ways to access the franchisors, one was through a personal network, as two of the author's friends worked in a franchisor's head office and were able to introduce the author to some managers and franchisees. Where there was no relationship, the author just sent the formal inquiry letters to the franchisors and surprisingly all of them agreed to an interview with the author. Some franchisors even introduced the author to 10 franchisees, including franchisees in the three categories (RC, FC1 and FC2). Where the franchisor was unwilling to do this, the author simply visited stores and asked for interviews randomly. The final response rate was fairly good; around 71% of approaches were achieved in the CVS sector. The details of all the interviews are shown in Table 5.8.

Table 5.8 The Details of Interviewees

	Brand	Local/International Franchise	Partner	Franchisor Interviewees	Franchisee Interviewees	Franchisee Characteristics* (RC/FC1/FC2/Single/Multi-Unit)	
Estate Agency (EA) Industry	HB	Local		2	10	Single unit franchisee	4
						Multi-unit franchisee	6
	Rebar	Local		2	10	Single unit franchisee	10
						Multi-unit franchisee	0
	ChinaTrust	Local		2	10	Single unit franchisee	8
						Multi-unit franchisee	2
	Century 21	Inward I (Joint venture)	US	1	10	Single unit franchisee	9
						Multi-unit franchisee	1
Convenience Store (CVS) Industry	7-Eleven	Inward I (Master franchising) and Outward I (Joint venture)	US, Philippine and China	2	10	RC	3
						FC1	4
						FC2	3
						Single unit franchisee	7
						Multi-unit franchisee	3
	Circle K	Inward I (Master franchising)	US	2	10	RC	2
						FC1	N/A
						FC2	8
						Single unit franchisee	8
						Multi-unit franchisee	2
	Niko Mart	Inward I (Master franchising)	Japan	1	6	RC	0
						FC1	N/A
						FC2	6
						Single unit franchisee	5
						Multi-unit franchisee	1
	Hi-Life	Local		1	5	RC	1
						FC1	1
						FC2	3
						Single unit franchisee	5
						Multi-unit franchisee	0
				13	**71**		**84**

* RC: Regular Chain (company-owned system); FC1: Franchise Chain 1 (the ownership of the store outlet belongs to the franchisee); FC2: Franchise Chain 2 (the ownership of the store outlet belongs to the franchisor)

During the interviews, with the permission of the interviewees, all the interviews were recorded. After the interviews, thank you cards were sent to them with the author's Chinese calligraphy card. The following map shows where the researcher carried out the interviews.

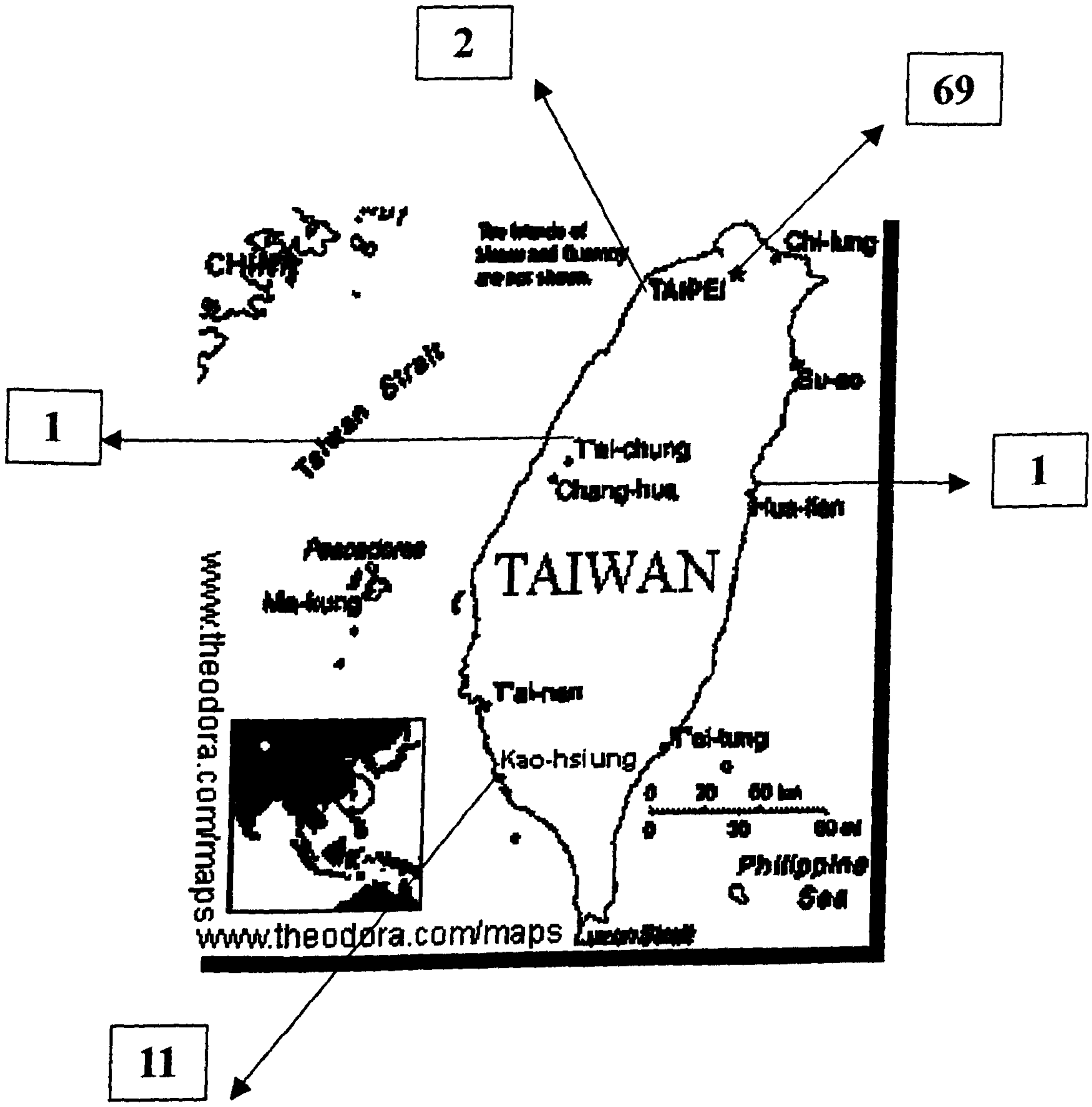


Figure 5.5 Geographical locations of interviews

The interview questions were designed to relate to the original research objectives, Appendix four summarises how these interview questions relate to the research objectives. The interviews then completed the data collection stage of the research. After data collection, the next step is data analysis and reporting.

5.5 Data Analysis and Reporting

> "*Analysing data is the heart of building theory from case studies, but it is both the most difficult and the least codified part of the process*" (Eisenhardt, 1989).

Wolcott (1994) sees data analysis as a process of data transformation that involves description, analysis and interpretation. In description, data should speak for themselves and the account stays close to the data as originally captured. In analysis the researcher expands and extends data beyond a descriptive account. The emphasis is on the search for patterns and themes in the data, followed by the author's interpretation of what is going on. Interpretation is imaginative, freewheeling, casual, unbounded, aesthetically satisfying, idealistic and impassioned. Malhotra and Birks (1999) suggest that the key factors in developing analysis and interpretation of qualitative research lie in a combination of (1) theoretical understanding of the researcher collecting and analysing the data; and (2) marketing understanding, i.e., the appreciation of how decision-makers will use qualitative research findings. Hence, the data analysis and interpretation can not only contribute to academic study but also provide insights into how to improve the practical efficiency.

5.5.1 Data Analysis Framework

As far as the data analysis is concerned, this is divided into two sections, one is the core topic explored in the primary research - relationships and conflict, which will be detailed in chapters 6 and 7. The others are the general issues in international franchising and franchising; this analysis was detailed in Chapter 4, where the author placed the analysis within the Taiwanese retail market. The author developed an analytical framework shown in Figure 5.6, which illustrates how the analysis will be presented in Chapters 6 and 7.

In this framework, we can see that there are three dimensions: international retailing; franchise organisation; and relationship and conflict. The three dimensions interact with one another. The core issue of this research is in the relationship and conflict between franchisors and franchisees. By using comparative study, local and international systems, regular chains and franchise chains, single and multi-unit franchisees, original and transferred franchisees, internal and external franchisees are compared. The potential relationship and conflict can be uncovered.

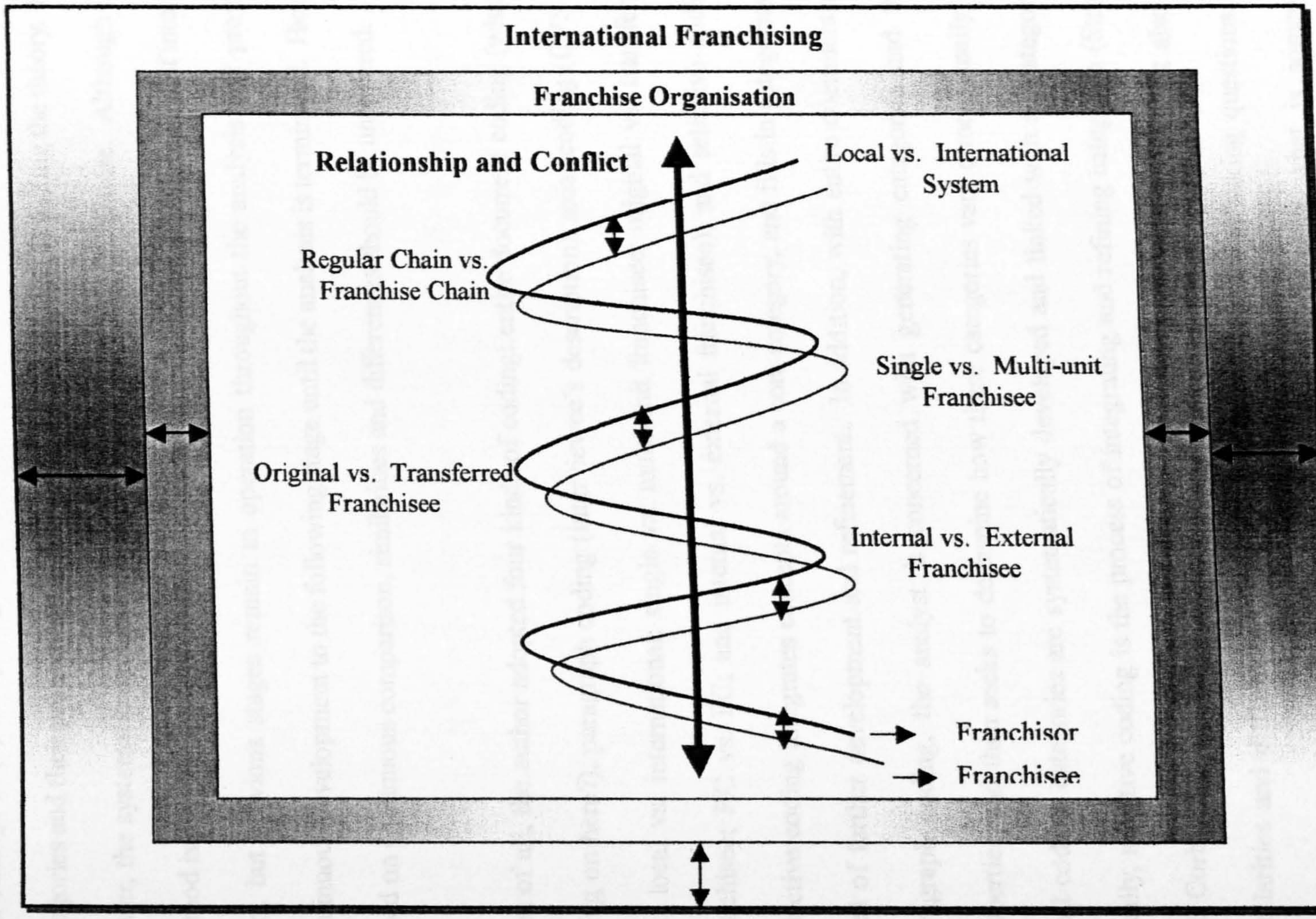


Figure 5.6 Analysis framework
Source: the author

Generally speaking, the analysis is based on text description; hence, the author selected key and typical statements from each subcategory. Glaser (1992) suggests the 'constant comparative method' as a procedure for interpreting texts. This basically consists of four strategies: (1) comparing incidents applicable to each category, (2) integrating categories and their properties, (3) delimiting the theory, and (4) writing the theory. For Glaser, the systematic circularity of this process is an essential feature. Although this method is a continuous growth process, each stage after a time transforms itself into the next, but previous stages remain in operation throughout the analysis and provide continuous development to the following stage until the analysis is terminated. Hence, based on continuous comparison, similarities and differences should be uncovered.

First of all, the author adopted four kinds of coding: entire document coding (what is going on here?), paragraph coding (interviewee's description), axial coding (CVS vs. EA; local vs. international; single vs. multi-unit franchisee; original vs. transferred franchisee; RC vs. FC; and internal vs. external franchisee), and selective coding. Selective coding integrates concepts around a core category, and fills in categories in need of further development and refinement. In addition, with entire document and paragraph coding, the analyst is concerned with generating categories and their properties, and then seeks to determine how these categories vary dimensionally. In axial coding, categories are systematically developed and linked with subcategories. Finally, selective coding is the process of integrating and refining categories (Strauss and Corbin, 1996). From this coding, we can not only find categories but also the similarities and differences. So, the standard procedures of asking questions and making comparisons remain the essential analytical process; what is somewhat different is the analytical focus. Aside from developing new theories, the author is also interested in extending existing theories, so he will enter the field with some existing concepts and relationships in mind and look for evidence of how their properties and dimensions vary under a different set of conditions. Hence, there are two purposes for the analysis: theory or model generation and refinement (theory test, elaboration and extension).

Analysing data is usually the heart of building theory from cases study, but it is both the most difficult and the least codified part of the process because it has no definitive format. In this research, two kinds of analytical formats were adopted, one is within-case analysis and the other is cross-case analysis. The importance of within-case study analysis is driven by one of the realities of case study research: a staggering volume of data. As Pettigrew (1988) described, there is an ever-present danger of 'death by data asphyxiation'. Within-case analysis typically involves detailed case study write-ups for each site. These write-ups are often pure descriptions, but they are central to the generation of insight (Gersick, 1988; Pettigrew, 1988) because they help researchers to cope early in the analysis process with the enormous volume of data. However, there is no standard format for such analysis. In this research, within-case analysis is applied to the company level. Each company was seen as a case; hence, how the relationships and conflicts evolve within the case will be explored. The other approach the author adopted is cross-case study: the similarities and differences among companies between CVS and EA industries can be listed. These comparisons can be new categories and concepts, which the author did not anticipate. Hence, the following analysis starts with the analysis of the CVS sector, followed by the EA sector, then the two industries will be compared.

5.6 Reliability and Validity of the Research Method

Generally speaking, critics of qualitative research often refer to the fact that this type of research does not meet the demands of reliability and validity. This is because qualitative research does not measure, it provides insights. This insight can be gained through a process consisting of analysis and the meaningful integration of views expressed by respondents (Spiggle, 1994). Indeed, as a result of the relative freedom and lack of structure and rigour characteristic of most qualitative research methods it is easy to question validity and reliability in their traditional sense (Kirk and Miller, 1986). According to Quinn Patton:

> "*Validity focuses on the meaning and meaningfulness of data; reliability focuses on the consistency of results*" (Quinn Patton, 1986)

Although critics are from various perspectives, many researchers still develop some useful tools to justify qualitative research. For example, Yin (1994) proposes the case study tactics to construct the reliability and validity of a research; Table 5.9 highlights such tactics.

Table 5.9 Case Study Tactics for Four Design Tests

Test	Case study tactic	Phase of research in which tactic occurs
Construct validity	• Use multiple source of evidence • Establish chain of evidence • Have key informants review draft case study report	• Date collection • Date collection • Composition
Internal validity	• Do pattern-matching or explanation building or time-series analysis	• Data analysis
External validity	• Use replication logic in multiple-case studies	• Research design
Reliability	• Use case study protocol • Develop case study database	• Data collection • Data collection

Source: Yin (1994)

The question of validity can be summarised as '*a question of whether the researcher sees what he or she thinks he or she sees*' (Kirk and Miller, 1986). Therefore, the validity of qualitative research is primarily related to the fact that constructs are closely aligned to their real-life context. A basic problem in assessing the validity of qualitative research is in how to specify the link between the relations that are studied and the version of them provided by the researcher. In this research, according to Yin (1994), we use the following three tests to examine the validity: -

- *Construct validity* is the extent to which we establish correct operational measures for the concepts being studied. Through the use of multiple sources of evidence, triangulation allows an investigator to address a broader range of historical, attitudinal, and behavioural issues. The most important advantage presented by using multiple sources of evidence is the development of converging lines of inquiry (Yin, 1994). Denzin and Lincoln (1994) distinguish four types of triangulation. They are 'data triangulation', 'investigator triangulation', 'theory triangulation' and 'methodological triangulation'. In this research, data triangulation was applied by using different data sources, such as interviewing and secondary data. As for investigator triangulation, the purpose of this approach is to minimize bias resulting from the researcher as a person. However, because of the constraints of time and money, the author had to do the research by himself, so this research does not allow investigator triangulation. Third, theory triangulation is achieved as many theories regarding the management issues were adopted (e.g., motivational theory, decision-maker characteristics and relational exchange theory). Finally, concerning methodological triangulation, the researcher used different kinds of methods to carry out the study. For example, the analyses are based on both within-case and cross-case analysis. With regard to the establishment of a chain of evidence, this has been covered in the previous section. As to suggestion that key informants review a draft case study report, this was done in the pilot test.

- *Internal validity* is a notion often seen to be particularly appropriate to qualitative research. It refers to the internal coherence of the findings by cross-checking and amplifying of ideas as they emerge out of the data (Sykes, 1991). In this research, pattern-matching was adopted in the leadership questions, for example, interviewees were asked which kind of leadership their franchisors adopted, they chose from three patterns: which are participative; supportive; and achievement leadership. If the patterns coincide, the results can help a case study strengthen its internal validity.

- *External validity* is knowing whether a study's finding can be generalised beyond the immediate case study. The main approach is to use replication logic in multiple case studies. In this research, for example, the replication logic is not only used at the industrial level but also at the business format level. By means of replication, a theory can be tested in a second case or even more times, and the same results should occur.

Finally, concerning reliability, the question, which seems to be asked most often is: would the same study carried out by two researchers produce the same findings? It is the inherent characteristics of qualitative methods, their flexibility and the absence of rigid experimental control, that throws into doubt their ability to produce reliable findings (Sykes, 1991). However, an in-depth insight into the motivations and perceptions of respondents does not primarily require reproductively. Instead, it requires a feeling for the logic and psychology of, as well as certain 'drivers' of, consumer behaviour (Ruyter and Scholl, 1998). In this study, the consumers are both the franchisors and the franchisees. Even so, Yin (1994) suggests reliability can enhance the credibility of a research study and specifies that reliability is the extent to which a study's operations can be repeated. A case study database can be developed to enhance the reliability. In this research, as mentioned before, databases of the interviews were developed and transcribed into English written format.

5.7 Conclusion

This chapter has presented the philosophical stances of various methodological approaches and adopted the most suitable strategies to carry out this study. All of these strategies are related to the research objectives and questions, which were, derived from previous literature reviews of international retailing, franchising and management issues in franchising. The research design was then developed, with the reasons given for carrying out a qualitative exploratory research. Details of particular issues to be investigated like the relationships and conflicts between franchisors and franchisees were presented, along with the practical considerations such as sampling, data collection and analysis procedures. Finally, considerations of reliability and validity were adopted to qualify the research.

The next chapters provide the findings of the primary work. These are divided into two chapters. The first, chapter 6, deals with the motivations for franchising defined as objective 4 in the conceptual framework. The second, chapter 7, considers the managerial issues of decision-maker characteristics (objective 5) and relational exchange theory (objective 7).

CHAPTER SIX: ANALYSIS AND DISCUSSIONS - I (MOTIVATIONS FOR FRANCHISING)

6.0 Introduction

Based on the previous discussions, this chapter and the following chapter will present the data gathered from the interviews. These data are firstly presented in their original form and then the author uses his insight to analyse them. In this analysis, management issues were explored due to their importance in the relationship between franchisors and franchisees. Three aspects influencing relationships were identified in the literature: (1) the motivations for franchising (relating to the literature on agency theory, resource constraint and transaction cost analysis), (2) decision-maker characteristics (knowledge, experience, attitude and entrepreneurship); and (3) relational exchange theory. From these analyses, potential conflicts between the franchisor and franchisee could be identified. After the discussions and analysis, key findings will be highlighted, particularly those in conflict with existing theories. Finally, models will be generated to explain the phenomena of interactions between franchisors and franchisees.

6.1 Agency Theory

According to agency theory, there are three issues that provide an explanation for the motivation to franchise, namely: the selection of franchisees; monitoring costs; and risk considerations relative to the external environment. As stated in the literature review, agency theory suggests two areas with the potential to lead to conflict, i.e., pre-contractual and post-contractual problems. Before signing a franchise contract, the key issues are whether a particular prospective agent has the characteristics the principal is seeking and the kind of strategy the principal should employ. Problems mainly arise from information asymmetries. As to post-contractual problems, these, by definition arise only after both parties have signed contracts. In the following discussion, the views of those within the Convenience Store (CVS) industry are presented first followed by those from the Estate Agency (EA) industry. Details on the background of the interviewees are shown in Appendix 6.

6.1.1 The Criteria Franchisors and Franchisees use to Select the Other Party

This section is mainly related to pre-contractual issues. In the CVS industry, due to the fact that candidates do not necessarily need specific skills to be franchisees, most people are "qualified" to become a franchisee. If somebody has an interest, she/he just phones the franchisor and asks for an interview. As to how franchisors make their selection, this is what they said:

> *"There are eight procedures to help select a suitable franchisee. These include an introduction day to let potential franchisees know about the franchisor. Then followed by a family visit, forty-hours of on-line practice, interviews with four managers and ends with educational training. Usually, it takes about two months to test whether she/he is a potential franchisee or not. As to a RC manager, she/he will be evaluated by the regular evaluation on practice and booklet report."* **(7-Eleven) (International)**

> *"The criteria are whether she/he has enough capital, ability, human resources, family support, academic qualification (university degree) and correct concept of this industry. As for experience, that is not necessary."* **(Circle K) (International)**

> *"The criteria are that there must be two persons (not necessarily a married couple) running the store, that the age limit is below 50 and finally, that the minimum academic degree must be high school level. As to the RC manager, she/he will be trained by the franchisor step by step before being appointed as a qualified store manager."* **(Niko Mart) (International)**

From the above descriptions, we can see that there are passive and active qualifications. Passive qualifications include academic achievement, age, capital and human resource. Such qualifications make candidates examine themselves as to whether they are qualified for the task. After that, the franchisors use different screening skills such as interviews, pen and paper tests or on-line practice to sort out the potential agents. From these tests, both parties will decide whether the other party is suitable for them. If they are compatible, then the franchise contract will be signed and will last for at least five years. Clearly, both parties need to think carefully to prevent conflicts afterwards.

The above-cited comments are from the franchisors' points of view. Franchisees will have a different way of thinking; the following are typical of their selecting approaches to selecting a franchisor.

> *"This is because 7-Eleven is the leading brand in Taiwan and the franchisor has a sound background. As a customer, when I have a choice, I prefer shopping in the brand's outlets. Although the sharing percentage is not the highest compared with other systems, I would be proud of being a franchisee of this brand."* **(7-Eleven) (Franchisee 5)**

> *"This is because I was an internal store supervisor but as the salary was not high enough for such high responsibility I transferred to being a franchisee. Even though the franchisor gave a discount to internal employees. As to other brands, I carefully thought about it, but finally, I still chose the one I am familiar with rather than the most popular one."* **(Circle K) (Franchisee 2)**

> *"This is because that we are not qualified to be a franchisee for the leading brand. Our educational levels are not high enough so we have to choose the inferior brand."* **(Hi-Life) (Franchisee 2)**

As well as from the above reasons, many others were provided, such as the franchisor giving a quick response; organisational atmosphere; capital requirement; easy recognition of the brand; a friend's introduction and the brand's reputation. There is another interesting pattern of those who had previously been store managers; nobody transferred from the original franchisor to another brand. The reasons for this could be that the franchisors gave them discounts, or that the franchisees were used to the particular management style.

For company managers, the main reasons to remain an employee of the company included: it is a good job for a female; it is stressful to be a franchisee and a preference to be promoted within the company. The research revealed that most company managers were females and this kind of work was suitable because the work time was quite flexible. As to why they did not wish to change to become a franchisee, one company manager said that there are two reasons, one is that it is difficult to find and train part-time staff; secondly, if the franchised outlet were profitable, it was felt that the franchisor would open another outlet nearby to share the market.

After pre-contractual selection, potential franchisees have a choice of five stores for all brands. The franchisor will show the candidate the historical sales of these company-owned stores and let the franchisee choose one store from the five. Of course, all these stores are profitable; otherwise the franchisor would have to cover the deficit at the end of the year. The link between the parties is stressed in order to maximise the store's performance.

From the above viewpoints, we can see that CVS franchisors have standardised their requirements when selecting franchisees. However, in the EA sector, due to different working characteristics, the required qualities vary from those of the convenience store industry. In estate agency work, the criteria for choosing a suitable franchisee are more flexible and simpler than in the CVS industry, and the selection is more subjective. Some franchisors expressed this view as follows:

> *"First, we will investigate his credit in the industry and if the candidate has other brand experience, we will evaluate his former operating records. Second, we will evaluate whether his performance was good and finally, we will take his moral standard into consideration. I will not consider those without previous experience. This is because the franchisee's operation is related to the brand reputation, and inexperience will only increase the franchisor's burden. Also, if the franchisee's performance is not good, he will ask more from the franchisor rather than from himself."* **(HB) (Local)**

> *"We will investigate his background, and basically, he must have work experience*

> *in this field and must hold the license to run the office. Further, he must accept the concept of sharing house information with other franchisees. Finally, we will investigate his past operational records to see whether his reputation is good or not."* **(Century 21) (International)**

From these typical comments, we can see that most franchisors prefer those with working experience to be their franchisees, as this means that the franchisor does not need to supervise them too closely. Moreover, a franchisee's past operating record is seen to be particularly important in determining his quality in this industry. However, the franchisees' viewpoints may be different when they come to choose a franchisor. This is what the franchisees said:

> *"There was no international brand before, and this was the leading brand at that time and the quality of franchisees was excellent. If I could choose again, I would still choose this brand because I have been used to it for over 10 years. The international brand is not so successful as the local brands in Taiwan and its operations should be adapted to the Taiwanese market."* **(HB) (Franchisee 1)**

> *"Basically, this brand has a higher market share and I have joined the system for 6 years. I was an employee of the other RC system. This brand has stronger logistic support and the franchisor's background is strong. In addition, the brand gives to the public a good impression."* **(Rebar) (Franchisee 5)**

> *"The reason for choosing this brand was that its mother company has a good reputation being a new brand it had no detrimental history with the advantage of a fresh impression on the customer."* **(ChinaTrust) (Franchisee 7)**

> *"There are three reasons why I joined the international brand, one was that other chain brands had already occupied this trading area so that I had little choice. Second, the royalty for this brand is cheaper than others and finally, as this was a new it would give customers a fresh impression without any good or bad historical records."* **(Century 21) (Franchisee 5)**

From the above comments, we can see that what franchisees care about most is brand reputation. This is followed by market space, the background of the franchisor, royalties, friend's introduction and so on. There is a tendency in the industry that shows that the earlier the franchisees enter the market, the more opportunities they have to choose between brands and locations. As a result, those following can only choose from the inferior options because every franchisee has an exclusive trading distance. However, this situation sometimes does not apply, if the original franchisee agrees.

Summarising the above statements, we can see that in both industries, franchisors and franchisees have their own viewpoints on how they choose a good partner. However, there are some particular differences among them. For instance, the franchisors in CVS seem to adopt a standard selecting procedure to find out the most suitable franchisee. With EA, what franchisors care most is whether the candidate has industrial experience and his/her credit record. Generally speaking, the criteria are more flexible. With the franchisees, those in CVS care about the strength of the brand and/or the gross margin on offer. In the EA, what franchisees care most is the reputation of the brand.

6.1.2 The Relationship between Monitoring Costs and the Incompleteness of the Contract

After entering into a business relationship with the franchisor, both parties' behaviour is based on the contract. However, in practice the contract is usually more beneficial to the franchisor and sometimes the franchisor even has the authority to change the contract without informing franchisees. As a result, the incompleteness and inequality of contracts leads to many agency problems. In order to prevent this, the franchisor usually adopts a system of monitoring to ensure that franchisees follow the principal's policy. Questions were asked of both franchisors and franchisees to see whether they thought that monitoring costs arise from the incompleteness of the contract. First let us see what the CVS franchisors said:

> *"I don't think so, there is no relationship between monitoring costs and the incompleteness of the contract. The monitoring is to help the franchisee do better. The store supervisor will tell the franchisee where he should improve and there is no penalty, just rewards for those with good performance. As to whether the contract is equal or not, in fact, it is impossible to be equal. It is beneficial to the*

franchisor, especially on the points of obligations and power. But we don't count on the contract too much, the main interaction is based on mutual communication." **(7-Eleven) (International)**

"It should be said that the contract just regulates the policies rather than operational issues. As a result, the purpose of monitoring is to check whether franchisees follow the franchisor's policy or not. Also, there are two other functions of monitoring. One is to check whether the franchisee is used to the store operations and the other is to remind franchisees which kinds of operations are illegal. As to the contract, to be truthful, it is not so equal because the franchisor has the dominant position." **(Circle K) (International)**

"I don't think the contract is equal; this is because the franchisor has to face so many different franchisees, and as a result, the franchisor has to think how to protect the business from the worst situations that could arise." **(Niko Mart) (International)**

All of the CVS franchisors think that monitoring is not related to the incompleteness of the contract, this is because even if there were no franchisees but all company-owned outlets, the franchisors would still follow the same system to maintain quality. Further, the contract specifies the policy rather than operational guidelines. Franchisors argue that the function of the store supervisor is to help franchisees become familiar with the store operations. However, franchisees have a different view when they were asked whether they are monitored by franchisors:

"The monitoring is done by the store supervisor and a computer network, such as POS. The store supervisor will ask me to improve the efficiency via the computer system. For example, from the computer he can see which kinds of products are best sellers and if you don't have any stock at all, and then he will no doubt ask why you don't order more. Also, he will evaluate the layout of products, and the cleanness of the store. If the result is good enough (the top 100s), then you will be rewarded by a free trip abroad and it is an important criterion on your application to be a multi-unit franchisee. If the result is not good, you will need to attend the retraining course to improve the service quality. Such kind of monitoring is not related to the incompleteness of the contract. I think it is to keep brand value because total outlets are over 2500s. If the franchisor doesn't monitor franchisees, then the brand will be easily damaged." **(7-Eleven) (Franchisee 6)**

"The monitoring is very strict. If the monitoring is reasonable, that's fine and I am happy to accept it. But if the monitoring is unreasonable, then the motivation for a franchisee to run a store will become lower. Now, the franchisor asks too much on the hot product lines, i.e., you cannot be short of 5 product items among the 200 hot product lines. If you are found in such a situation, you will be fined.

> *Aside from the store supervisor who assists the store once a week, the auditor also comes and scores the performance once a month. Performance is based on how the franchisee operates the store. If the performance is not good 3 times within one year, then the franchisor has the power to terminate the relationship. If the franchise is terminated, she/he has to pay the penalty as well. The monitoring is somehow related to the incompleteness of the contract. But the monitoring is very unreasonable, for example, the auditor may check the store at midnight, when he comes, you have to be sure that you don't have any shortage on the display shelves, otherwise, you will be fined. Take fast food for example, it is unreasonable to audit at midnight. As a result, the problem is on the communication channel, i.e., the people who are in the franchisor office don't know the practices on the front line so that they give many poor and bad directions."* **(Circle K) (Franchisee 9)**

From the above comments, we see that there are two kinds of monitoring mechanisms, one is via the store supervisor, and the other is from the auditor. Some of the franchisors use a positive rewards system but others use punishments. From the research, it seems that more complaints arose when the franchisor used coercive power. In reality, most franchisors used both powers to manage franchisees, the store supervisor uses non-coercive power and the auditor uses the coercive power. However, most franchisees say they welcome some kind of monitoring, because the store supervisor can assist the franchisee in running the store especially if the franchisee is unfamiliar with the operations. The supervisor can tell him about other franchisees' experiences so that he can learn and improve his own performance. Some franchisees think it depends on the attitude and ability of the store supervisor. In addition, if the franchisor is the owner of the store outlet as in the FC2 system, the franchisor needs to assign somebody to check whether there is any damage by the franchisee. Finally, Some franchisees said it should be called assistance rather than monitoring, and most of them do not think monitoring is related to the incompleteness of the contract because monitoring is already specified in the contract.

As for the contract itself, most of them think the contract is unequal, especially on the sharing percentage, exclusive territory, the power to change the contract at any time without notice to the franchisees and the prices of commodities. One franchisee even said that the franchisor can sue the franchisee for breaking the rules and can terminate the relationship at any time, but on the other hand there are no contract terms to regulate the franchisor's bad service and management.

Compared with franchisees, the company-owned managers' mission is to achieve the franchisor's annual objectives. If the performance is achieved, then an extra bonus is awarded, if not, the store manager may be downgraded. Aside from the store supervisor, franchisors usually assign auditors to check the inventory and product management at regular times. If the performance is not good, then the store supervisor will be blamed by the franchisor, and in turn, the store supervisor will blame the franchisee.

After examining the case of the CVS industry, we can see that the views expressed conflict with agency theory on some points, but is it the same in the EA industry? In the estate agency case, the transaction frequency with end customers is not so high as in the CVS industry. Also, the ownership patterns are independent between the franchisors and franchisees. As a result, the franchisors have different policies from the CVS. This is what the franchisors said:

> *"No, it should be said that the contract is so efficient that the franchisor has to monitor franchisees to see whether they follow the franchisor's policy. As to whether the contract is equal, it should be. But owing that the contract is designed by the franchisor, the franchisor has to stand on the top point to see the whole view rather than view from the single franchisee. Therefore, the contract should be fair to most franchisees."* **(HB) (Local)**

> *"No, I don't think the monitoring cost is from the incompleteness of the contract. Rather, the contract is equal to both parties. The difference is just in the responsibility. The monitoring is to check whether franchisees follow the franchisor's policy so that the brand value can be reserved. If the contract were not equal, franchisees would not join the system. The contract should be an*

interactive tool, each party stands on the negotiated point to maintain and promote the brand to benefit with each other and coexist without the absence of the other party." **(Rebar) (Local)**

"... The purpose of monitoring is to protect customers rather than to make franchisees' trouble. As to whether the contract is fair, to be the truth, it is not fair. This is because the franchisor paid so much on acquiring the know-how and promotes the brand but franchisees just pay a little and then can benefit from the brand. But on rights and duty, it is equal for both parties. So, on the protection of the brand and customer satisfaction, the franchisor has its subjectivity. As a result, conflicts are usually from these two points." **(ChinaTrust) (Local)**

Again, none of the franchisors think that monitoring comes about from incompleteness of the contract. Rather, most of the franchisors think the contract terms are reasonable and fair, because they have to limit the actions of the worst franchisees and protect both themselves and the customers. In this light, monitoring is believed to protect both franchisors and customers. However, monitoring depends on the franchisor's ability to carry it out. If the franchisor has difficulty in surviving financially, then monitoring is worth nothing, as unless customers complain directly to the franchisor about a franchisee's bad service, the franchisor usually ignores the franchisees' operations.

In examining how the EA franchisees perceived the contract terms and monitoring, typical responses were:

"... Monitoring intensity relates to the degree of dependence on each other. Being an old franchisee, what I use is just the brand name. In theory, the contract should be equal, but in practice, some rules are more beneficial to the franchisor. For example, franchisees have to pay the guarantee fee that franchisors take for the prevention of franchisees' illegal behaviour. However, the contract does not specify that the franchisor has to compensate the franchisee's loss if the franchisor damages the franchisee's benefits. So, basically, the contract is not equal." **(HB) (Franchisee 8)**

"Yes, the franchisor will monitor and assist the franchisee periodically. Franchisees are graded as being A, B and C levels and each of them receives different treatment. We are one of the A level stores, and as a result, the frequency of monitoring is only once a season. The auditor will check the documented information to see whether the franchisee follows the normal operations and in addition, interactions are usually via the computer network. After grading, the A

> *stores have a 16,000 points quota on annual purchasing. For B and C, they have 12,000 and 8,000 points respectively. Aside from the auditing, there is another person who is called the store supervisor who visits franchisees more often to deal with any question or difficulty. This kind of monitoring is not related to the incompleteness of the contract but its purpose is to keep good mutual interaction with franchisees... As to the contract, I have never thought about it because provided your behaviour is legal, you don't need to care about what is specified on the contract."* **(Rebar) (Franchisee 6)**

> *"No, I have never been monitored by the franchisor, but I would welcome some kind of monitoring. As to the contract, it is not equal since if the franchisee does something, which is different from what is specified in the contract, then the franchisor has the power to terminate the contract and the franchisee cannot get back the guarantee fee. But the question is what is "Different from the Contract". There is no specification in the contract and as a result, the franchisor can give any reason to allege a breach."* **(ChinaTrust) (Franchisee 6)**

> *"Now, the franchisor has difficulties in monitoring and assisting franchisees because the franchisor faces loss owing to the outlet number not reaching an economic figure. All franchisors in Taiwan have difficulty in choosing good quality franchisees, and that leads to damage to the franchisor's brand. The frequency of the visit by the franchisor to the franchisee is about every four months. The aim is to communicate each other's concept. It is difficult for the franchisor to monitor and check the contracts of the franchisees. As a result, the visit is just to keep up a basic relationship."* **(Century 21) (Franchisee 6)**

From their comments, we can see that franchisees would normally welcome some kind of monitoring but franchisors may lack the manpower to provide it and as a result, the basic service quality is usually maintained by the formula contracts, computer networks and transactional procedures. This is quite different from the CVS industry, which is based on daily operations. Compared with CVS, franchisees in EA largely think the contract is fair. Another difference is that the purpose of monitoring within CVS is to monitor franchisees, whereas with EA, the main aim is to protect customers. However, both industries think that it should be called assistance rather than monitoring. Having examined monitoring methods, the following section will discuss another dimension highlighted in agency theory, the relationship between monitoring cost and other factors, such as service level, royalty and brand value.

6.1.3 The Relationship between Monitoring Costs and Service Levels, Monitoring Frequency and Royalty Rate

Agrawal and Lal (1995) found a negative and significant relationship between service level and monitoring costs, and a positive relationship between monitoring frequency and royalty rate. First of all, we start with one of the franchisors in the CVS industry:

> *"In theory, the monitoring costs should be lower if the franchisee's service level is good, but in practice, we don't think so, because no matter how the service level it is, the store supervisor has to score the performance twice a week. So, both of them have no relationship, but for those problematic franchisees, we will pay more attention to them, then, this kind of saying is right. As to the relationship between monitoring frequency and royalty rate, I think there is no relationship because we will do the same monitoring for RC outlets even if there is no franchisee. Finally, regarding monitoring costs and monitoring frequency, I feel that there is no relationship, as I said, the treatments for RC and FC outlets is the same no matter where the outlet is, so, the monitoring cost and frequency basically are the same."* **(7-Eleven) (International)**

All the other franchisors had the same opinion as 7-Eleven. As a result, we can suggest that all the expected relationships are not applicable to the CVS. Now, let us see how franchisees viewed it:

> *"The cost is negatively related to the franchisee's service level. If I need help, the store supervisor will come to assist me. As to the relationship with the royalty, I think it has none because the number of store supervisors is related to the number of total outlets, no matter whether RC or FC outlets."* **(Niko Mart) (Franchisee 3)**

> *"If the performance is good, then the frequency will be lower, so the monitoring cost is negatively related to service level. Monitoring frequency is positively related to the royalty; this is because the franchisor's revenue is directly related to the franchisee's sales. So, the franchisor will ask the store supervisor to solve problems. In the beginning, I was irritated by the frequency of monitoring because I was criticised when they checked the store, but now, the relationship is better because I have become used to the operations."* **(Hi-Life) (Franchisee 2)**

From these comments, we can see that the answers vary in respect to the relationship between the royalty and monitoring frequency. First, no matter how many franchised outlets the franchisor owns, store supervisors are also needed to monitor company-owned outlets. Second, if monitoring can raise the franchisees' sales, then it is directly beneficial to the franchisor. So, both statements are applicable.

In the EA sector, the leading franchisor has a similar monitoring mechanism as the CVS. One is for assistance and the other is to monitor the franchisees' service quality. However, the other franchisors do not have the resources to provide these services. The following are from the franchisors' view:

> *"There is no relationship between the monitoring frequency and royalty, or monitoring cost and service level. This is because the franchisor has a fixed annual budget to do monitoring."* **(HB) (Local)**

> *"No, it has no relationship with the cost of monitoring. The service quality is related to frequent educational training. As to the royalty, it also has no relationship with monitoring frequency. This is because in an urban area, the royalty is higher than in a rural area but has the same monitoring frequency. On the other hand, travelling expenses are higher in the rural area. Therefore, there is no direct relationship with the royalty.... Since the budget for monitoring is fixed, if the quantity of the store outlet doesn't reach an economic scale, then the operation will not be efficient. In general, the break-even outlets for the franchisor to keep in profit are 140s. Under this condition, the franchisor can offer normal support to franchisees."* **(Rebar) (Local)**

From these statements, we can understand that franchisees do not need to be monitored if they follow the franchisor's policy. In order to keep customer connections, franchisees should provide good services and therefore, only questionable franchisees should be monitored. No franchisor said that there is a relationship between monitoring frequency and royalty rate because the cost of monitoring has already been budgeted for no matter how many franchisees there are. Now, let us see how the franchisees perceive the same point:

> *"What the franchisor cares about is just whether franchisees pay the royalties on time or not rather than the service quality of franchisees. This is because the franchisor thinks that if you don't want to continue the contract, it doesn't matter, there are still many people waiting for the franchise right in this area. As a result, franchisees have to count on themselves rather than the franchisor."* **(HB) (Franchisee 4)**

> *"There is no relationship between the monitoring costs and the service level. The*

service level is up to the franchisee's attitude. As to the monitoring frequency, it also has no relationship with the royalty. In fact, it should be called assistance rather than monitoring, especially in a recession market. Actually, the market now is a buyer's (franchisee) market rather than a seller's (franchisor) market. So, how to satisfy franchisees is more important than monitor them." **(Century 21) (Franchisee 5)**

From the above descriptions, we can see that both parties in the EA think there is no relationship between these variables. So, it is clear that this result is in conflict with previous research. In addition, from some other franchisees' statements, they believe that personal relationships are still more important than mere legalities. Thus, if conflicts arise, the remedy lies first in personal contact and interaction, then followed by rationality and then lastly law. Furthermore, since most franchisors in the EA industries do not monitor their franchisees, they cannot get up to the minute information about franchisees. Some franchisees may take advantage of this to cheat customers with consequent damage to the brand value. However, customers will complain about bad services to the franchisor and then the franchisor will intervene. Usually, the franchisor stands on the customer's side to protect the brand value but this stance leads to conflict between the franchisor and franchisees.

Compared with the CVS industry, we can see only one point in common and that is the protection of the brand value. In order to protect the brand names, the franchisors have to monitor franchisees either proactively or reactively. Therefore, the brand power is the most important reason why a strong brand will get stronger and a weak one will become weaker or even disappear.

6.1.4 The Costs of Monitoring Multi-unit Franchisees

Kaufmann and Dant (1996) suggest that the costs of monitoring multi-unit franchisees should be cheaper than for a single franchisee. However, according to the field study the answers were varied. In the CVS industry, this view conflicts with the statements gathered. On the other hand, in the EA industry, the conclusion is as suggested in the literature. In order to find out the reasons for this contrast, let us see what the franchisors said in the CVS sample:

> *"It should be the same, as a store supervisor has to supervise eight outlets no matter whether they are RC or FC outlets. In theory, the supervisor will spend more time on franchisees to exchange thoughts with each other. While, for RC outlets, the supervisor just tells them what/how to do it directly rather than using a personal communication style. But for both of them, the supervisor has to do the performance evaluation four times a month, so as a result, the cost basically is the same even though it is a multi-unit franchisee."* **(7-Eleven) (International)**

All the other franchisors' comments are similar, therefore, we see that every outlet, whether company-owed or franchised is treated in the same way. Maybe this is because there are so many product lines and promotional activities that franchisors have to check to ensure a united impression is kept. However, in the EA sector, because business is based on personal interactions, the style of monitoring is very different from that in the CVS, for example, one EA franchisor said:

> *"In theory, it should be the same, but for the multi-unit franchisee, there is an advantage on communication cost. This is because we just need to communicate with the owner of these franchised outlets rather than every store manager. Concerning how to monitor, it is based on the paperwork, customers' free phone or the non-periodical check of franchisees."* **(ChinaTrust) (Local)**

From the above statement, we get the impression that it is cheaper to monitor multi-unit franchisees. Basically, in the EA industry, the franchisors just set up the game plan, which is based on the transactional process and safety between franchisees and customers. If the franchisees follow the rules, and then there will be no problems. However, if the service quality of some franchisees is not good enough, the franchisor has to get busy fire fighting. Generally speaking, the most important role, during all the transactions, is that played by the store manager. If she/he adequately checks all the details then the salesmen will not cheat customers. After all, the salesman is also an agent of the store outlet and hence agency problems take place not only between the franchisor and franchisee but also between the franchisee and salesman.

In the case of the CVS industry, we can suggest that monitoring is related to ownership and transaction frequency. However, generally speaking, it is easier to manage a multi-unit franchisee because if the franchisee's quality is not good enough, the franchisor will not give him the opportunity to damage the franchisor's brand name. Having examined the relative questions about monitoring, the following section will discuss another important agency problem: whether a franchisee could cheat the franchisor and mislead him into making wrong decisions.

6.1.5 The Potential for Franchisees to Cheat on Performance

Since franchisors and franchisees are both self-interested parties, the agent may be reluctant to share information with the principal and in that situation, information asymmetry will develop. In order to minimize this problem, franchisors design mechanisms to prevent this, but for their part, in order to get more profit from the sales or for themselves, franchisees usually know how to cheat franchisors. In the CVS, the franchisors said:

> *"No, never, this is because that all the operational details are controlled by the computer system. Also, there are other staff in the store, so, it is difficult to have the opportunity to cheat."* **(7-Eleven) (International)**

But another interviewee said:

> *"A few franchisees will do so to protect their benefits, for example, they will cheat on performance details to prevent the franchisor opening another outlet nearby. For the franchisor, not all the information from franchisees is taken into consideration."* **(7-Eleven) (International)**

> *"As to cheating on performance, I think they will not do so because once it is found out, then the relationship will be terminated. As a result, the franchisee faces a huge risk doing this."* **(Hi-Life) (Local)**

It is evident that franchisors may use computer systems to prevent cheating, but data input is by people, giving the opportunity to cheat. However, the potential cost of cheating is huge since discovery would most likely lead to termination of the relationship. Now, let us see how franchisees perceived cheating:

> *"No, I don't think so. The franchisor already knows how to prevent this kind of cheating before franchising and all transactions are recorded by computer network."* **(7-Eleven) (Franchisee 4)**

> *"Yes, of course, take the invoice for example. The franchisor says that if customers do not take away the invoices, you have to tear it up. But we think it is waste because we may win the lottery from the invoice number. From the franchisor's perspective, he will think the franchisee wants to cheat the franchisor, but if the franchisee really wants to cheat, he can do so, and he just explains that this is a sales return and then the franchisee puts the illegal money in his pocket."* **(Circle K) (Franchisee 3)**

Aside from the above ways of cheating, some franchisees mentioned other kinds of cheating. For example, the delivery companies sometimes do not check the quantity of products with franchisees so then franchisees can say there are shortages of products, although the franchisor will say this is impossible, because they also received a copy the delivery invoice. The final decision is made from the franchisor's computer system rather than franchisees'. Another franchisee said: "*I may sell products to my friends or relatives without giving them invoices, and then the items will be recorded as inventory loss.*" The reason why this is done is that both parties share the loss of inventory. However, in some systems, this kind of loss is absorbed by the franchisee so that they will not engage in that kind of cheating. These examples illustrate why the frequency of monitoring is so high.

In the EA industry, from the previous sections, we have established that there are many franchisees complaining about the franchisor's services. Hence, franchisees do not like to give the franchisor all the information that they possess. Let us see what were the franchisors' reactions to this:

> *"Yes, this is possible, franchisees may hide sales and market information. This is because they are afraid that the franchisor would raise the royalty or give another franchise right within the exclusive trading territory."* **(HB) (Local)**

> *"Yes, but this kind of cheating will not influence the franchisor's benefits, otherwise, franchisees may ally together to cheat the franchisor. Also, the franchisor can get the relative information from the public media, so, it is difficult to mislead the franchisor's decision."* **(ChinaTrust) (Local)**

From their opinions, we can see that franchisors believe that what franchisees care about are royalties and exclusive trading territories. As to whether franchisees think so, some of them said:

> *"Yes, such as sales information and information on conflicts with customers. The sales information is related to self-respect and competitions. Also, if you tell the truth, the government servant may trouble you on tax. If the franchisor knows the franchisee's performance is good, then he may give another franchise right to another person or raise the royalty."* **(HB) (Franchisee 1)**

> *"Yes, such as the house information and sales information. This is because as the franchise system is a plural system, the franchisor stands on the RC side and may offer franchisees' information to RC outlets to the harm of franchisees. Also, franchisees prefer selling the Apple cases by them than sharing with other franchisees. As a result, wrong information would be put on the computer network. As to other cases, franchisees sometimes would share it with other brands' franchisees rather than the same system's franchisees. Hence, the same brand's franchisees do not mean they must co-operate together. Basically, it is based on the personal relationship rather than the brand relationship."* **(Rebar) (Franchisee 1)**

> *"Yes, but I think it is based on the mutual trust. If the franchisor's behaviour cannot be trusted by franchisees, then, why should franchisees want to offer correct information to the franchisor?"* **(ChinaTrust) (Franchisee 8)**

From the franchisee's statements, we see that franchisors have always known where the problems are but they do not want to tackle them. This may be the reason why the degree of franchisee loyalty is so low. So, even if there are computer systems, franchisees can still input the wrong information. One franchisee said: "*mutual trust and reliance are quite low and franchisees just use the brand at most*". These conflicts between the franchisors and franchisees lower the collective power of franchising. No wonder the leading brand in the market is a regular chain brand rather than a franchise brand. Comparatively, it therefore seems that the powers of franchisors are stronger in the CVS than in the EA industry. This is because franchisors can positively intervene rather than just take the royalty and do nothing. This explains why the brand-transferring rate is so high in the EA industry.

6.1.6 Attention to Risk

One of the considerations of agency theory is 'the risk of environment factors', such as economic and technical conditions in the market. However, such kinds of risk are difficult to forecast and measure. In general, franchisors tend to be more risk-neutral because they have more resources than franchisees. But does this differ across the industries? The following section compares how both franchisors and franchisees perceive such kinds of risk. Let us see what the CVS franchisors said:

> *"The risk should be the same, the franchisor even bear a higher risk than franchisees. For example, if one franchised outlet is closed down, the loss for the franchisee is just to terminate the relationship. But for the franchisor, the public will have a negative impression of the brand to wonder whether the brand has financial problems or not. It is harmful to the brand value."* **(Circle K) (International)**

> *"Both parties stand on the same side, so, the risk should be the same. The franchisor gives franchisees an annual guaranteed gross margin. If they cannot meet that level, the franchisor will pay them the difference."* **(Hi-Life) (Local)**

From the franchisors' descriptions, we see that franchisors not only have to face the risk of the stability of the franchisee but also of external changes. For franchisees, their loss is just part of a guaranteed fee if they do not want to run the outlet anymore. But some franchisees think the risk is similar, this is because franchisors have to face competition from other brands, and franchisees have to face the potential inventory loss and the risk of theft at night. Compared with the loss of the franchisor, this is quite tiny, as most of the products in the store belong to the franchisor. As a result, we can infer that the franchisor is more risk-neutral than franchisees. Concerning the EA industry, as the ownership pattern is different; the result may be also different. Two franchisors in the EA said:

> *"The franchisor has a higher resisting ability than franchisees. The risk of the franchisor is that the franchisee offers inadequate service to customers so that it damages the franchisor's brand value. Usually, customers will ask the franchisor to intervene in such a conflict. ... The franchisee's risk is whether the brand will last or not. If the franchisor disappears someday, then franchisees will have to face this kind of loss. So, franchisees can avoid this kind of loss before signing the contract. The other risk franchisee has to face is the store manager himself. If he cannot adapt to the external change, then it is very easy to fail the business."* **(HB) (Local)**

> *"What the franchisor can dodge is the daily operations under the recession. In other words, the franchisor gets the same royalty per month, even though franchisees don't have any income. If the franchisee closes down, there are still many people waiting to enter the market. So, the franchisor on the one hand has more resources to resist the external risk, on the other hand, the franchisor can dodge the operational risk. Hence, the franchisor should be more risk-neutral than franchisees."* **(Rebar) (Local)**

From the above statements, the franchisors claimed that they were more risk-neutral; this is because they have more resources and their view is wider than that of franchisees, so, franchisors must be in charge of prevention. One franchisee stated that a source of risk for the franchisor is the stability of franchisees; this is because they may transfer to another brand, so, the franchisor's revenue will be reduced. However, if there are many people waiting to become franchisees, then the impact on the franchisor will be low. Another said there are some other risks for franchisees such as the legal funds required for being a franchisee, and the quality of salesmen. As a result, we can see that the risks franchisees face are more related to the store operations, rather than the whole system and external changes, which franchisors have to face. Hence, as far as the resistance to external risk is concerned, the franchisor is more risk-neutral than franchisees, as is specified in agency theory. Both parties have different types of risk, which were not specified, and sometimes, such risk cannot be measured to say which one is more important than another.

In comparison to the CVS, we can see a common point in that franchisors in both industries emphasise the risk to brand value. One difference between the sectors is in the ownership pattern, the CVS is characterised by combined ownership, whilst and the EA is independent. So, franchisees in the EA will face a higher risk than those in the CVS.

6.1.7 The Relationship between the Initial Investment and Company Ownership

In the CVS industry, due to the fact that most franchisees do not need any industrial experience and, as what the franchisors need is basically just a human resource, two different franchise packages are designed to attract franchisees: FC1 and FC2. As mentioned earlier, the difference is mainly in the ownership of the store outlet. In FC1, the store is the franchisee's own property; whereas, the property is owned by the franchisor for FC2. As a result, the final share of sales is different. FC1 can negotiate a higher sales percentage than FC2. Thus, in the CVS industry, the theoretical statement that higher initial investment leads to greater company ownership is true. One franchisor expressed it this way:

> *"Yes, it has a relationship with the initial investment. If the initial investment is large and the franchisor cannot guarantee how much the franchisee can earn per month, then it is difficult to franchise. Also, it is related to the recovery time of the*

franchisees' capital. In the beginning, we started with FC2, because the franchisees' burden would not be so high. She/he just has to pay about £10,000 to join the system. It also helps the franchisor expand quickly. But now, the franchisor focuses on FC1 because it has some advantages for him, such as expansion speed and capital investment. As franchisees have to pay more initial fees it leads to the stability of the franchisees. Also, the more he earns, the more he gets from the profits. If a FC2 wants to transfer to be FC1, the franchisee has to give up the company-owned store outlet and find a new one because FC2's outlets are part of the franchisors' asset." **(7-Eleven) (International)**

From the franchisor's statements, we can see that the system is quite flexible both for franchisors and franchisees. By having different kinds of franchise packages, both parties can get what they want to maximise their benefits. However, the EA industry is not so flexible because franchisees do not believe that franchisors give equally fair treatment to both regular chain and franchised outlets, as mentioned before. As a result, in the Taiwanese EA market, there are only pure regular and franchise systems, and no plural systems. As for the concept that a higher initial investment leads to greater company ownership, that is not always the case in this industry. This is because the EA needs a higher initial investment compared with CVS; however, that does not mean that it leads to higher company ownership. Rather, all of them are franchised outlets. The following are franchisors' opinions on this:

"Yes, in general, a franchisee's initial fee is about £60,000. For company-owned outlet, it depends on the scale of the retail outlet. Most franchisees have their experience in running an outlet, so, they know how much they should invest in a new store." **(HB) (Local)**

"No, it depends on the franchisor's vision and policy. No matter it is a company-owned or franchised format, both of them have their advantages and disadvantages." **(ChinaTrust) (Local)**

Compared with CVS, if the theory is applicable, EA should be run by the RC system rather than by the franchise system because the initial investment is higher than in the CVS. But why does it conflict with the theory? Two reasons may be possible. The first that is ownership is related to the franchisor's vision and policy. Second, the capital required for both of the CVS and EA industries are not excessive and can be found by individuals.

Viewing the differences between industries, it seems that the concept - that higher initial investment leads to greater company ownership - is not always true because there is no clear definition of how much investment is high enough to 'trigger' this trend and it does not take other variables into consideration, such as the company's vision and policy.

6.1.8 Summary

From this analysis of agency theory concepts, we can see how the theory is applied to franchising in Taiwan. In the research questions, many issues were explored and some interesting results were found. First, on the selection of franchisor/franchisee, both parties used different criteria. The franchisors adopted both active and passive qualifications to sort out the best franchisees. In contrast, franchisees mainly considered the percentage share, brand power and so on. For the selection of multi-unit franchisees, basically, it was no different to choosing other new franchisees. Second, concerning the relationship between monitoring costs and the incompleteness of the contract, almost every interviewee said the activity should be called assistance rather than monitoring and the cost of it is not related to the incompleteness of the contract. Monitoring is just a mechanism, which can make the franchise system run more smoothly and create a win-win-win situation among franchisors, franchisees and customers. Third, concerning the relationship between monitoring costs and other factors, such as service levels, royalty and brand value, neither CVS nor EA thought there was a relationship between monitoring cost and royalty. In addition, EA did not think monitoring was related to the service level. Only brand value was seen to be related to monitoring by most of the franchisors and franchisees. Fourth, agency theory specifies that monitoring costs should be cheaper with multi-unit franchisees, but in fact, this is not true. Within CVS, the cost is the same as monitoring a single franchisee. Fifth, both CVS and EA agreed that franchisees would cheat franchisors if they could and franchisees admitted that this was true. Sixth, on the point of risk-taking, all the franchisors thought that they were more risk-neutral than franchisees in relation to the external environment. A gap exists in the theory, since it does not take other factors into consideration, such as operational issues. In fact, many risks are very difficult to evaluate and they are quite subjective. As a result, we can say that only in some ways, are franchisors more risk-neutral. Seventh, concerning the idea that a higher initial investment leads to higher company ownership: the author would question this view because according to the research, this cannot be substantiated. Hence, the author would suggest that it should be clearly defined how much investment is high enough and whether such cost varies with each industry. Reviewing the above, the statements generated by this research show there are many question marks over the application of agency theory in this specific context.

6.2 Resource Constraint

A second explanation for franchising is found in resource constraint theory. As far as resource constraints are concerned, four are identified for franchisors; financial capital, human resource, managerial talent and local knowledge. In practice, for both the convenience store and estate agency industries, franchisors and franchisees agreed with the constraints on human resource and local knowledge. Both parties believe that franchising can speed business expansion through those who know the local market well, although the degree of importance placed upon this particular constraint is different. For the CVS, local knowledge is not as important as it is for EA. This is because most of the goods are the same in each shop and the shop is reactive to the customer, rather than in EA where salesmen have to locate customers and get access to them. For the CVS, the most important consideration of all is location, whereas the personal network is the most important factor for the EA industry. Consequently the franchisors had different views on this point:

> *"We don't need to pay the personnel costs and variable costs of the store. Therefore, the franchisor can easily see the profit level and then focus on the operations. For a company-owned outlet, the franchisor has to pave the way for his future development." **(7-Eleven) (International)***

> *"It is easy to raise the capital to open 100 outlets but it is very difficult to have 100 qualified store managers. Also, one of the advantages of franchising is the cultivation of a trading area. For company-owned employees, they may be rotated at a regular time, so as a result, it is more difficult to build relationships with local residents as franchisees." **(Rebar) (Local)***

In order to reduce the franchisor's costs, most franchisors in the CVS have tried their best to lower the proportion of company-owned outlets. According to the franchisors' statements, the ideal percentage is 80-91% Franchise Chain: 9-20% Regular Chain. The main reason for keeping some company-owned outlets is to provide for training and product testing. Take 7-Eleven Taiwan for example, its final objective is to keep 9% company-owned outlets. As to how to best utilise company employees, the franchisor encouraged them to become franchisees or to transfer to other related businesses in the group.

Regarding the other two issues, financial capital and managerial talent, each industry has a different viewpoint; so, these issues will be examined separately.

6.2.1 Financial Capital Constraints

Most franchisors in CVS do not think franchisees are the main source of financial capital since if that were true, they would have owned the outlets in the beginning. Furthermore, each CVS has a strong financial background, i.e., they do not need this capital injection from franchisees to expand, because it just takes a tiny part of their business capital. One franchisor said:

> *"If the brand is not strong enough, it is difficult to expand even though you have enough capital. So, it is related to brand reputation rather than capital scarcity. This is because that even if you can get capital from franchisees, the amount is limited. Even if you can get the capital from financial institutions, you still cannot be sure that franchisees want to join your system. Therefore, the capital scarcity is not so important, what is most important of all is whether the brand is strong enough to attract potential franchisees."* **(7-Eleven) (International)**

From this comment, we can see that the key issue is whether the brand is strong enough to attract franchisees rather than whether the franchisor has enough financial capital. In other words, if the brand is strong enough, the other potential resource constraints should disappear. For instance, if there were many people wanting to be franchisees, then the financial institutions would be very happy to lend money. Other than the franchisor and franchisee's capital, one franchisor said that another source of capital is product manufacturers who pay display costs to the franchisor.

However, for the EA cases, some franchisors and most franchisees thought that the franchisees' initial fee and royalties provided a certain proportion of the franchisor's revenue. As a result, if the franchised outlets are below the break-even point, the franchisor has a financial deficit. If this is true, most of the franchisors should have already gone bankrupt, because one franchisor in EA said that the break-even point for the number of outlets should be 140. This means that other than the franchisees' initial fee and royalties, the franchisor must have other sources of capital, otherwise he cannot survive. Consequently, we can say that financial capital from franchisees may be important but is not the most important factor of all. The main capital sources should be stockholders and financial institutions, as one franchisor said:

> "... *Franchisees can supply financial resource, but you have to bear in mind 'water that bears the boat is the same that swallows it'. In other words, the franchise system can help the franchisor expanding quickly but it can also lead to failure as well.*" **(Rebar) (Local)**

This implies that if the franchisor only cares about the number of outlets rather than the quality of franchisees, then the risk of failure will be very high. For example, franchisees may damage the brand and that kind of financial loss is far greater than income lost from franchisees' initial fee and royalties. It also means that franchisors should do extensive screening work before awarding the franchise.

6.2.2 Managerial Talent Constraints

As far as managerial talent is concerned, the CVS did not think that potential franchisees needed skills initially. What they preferred were those without previous related working experience, like a blank sheet of paper, which the franchisor can influence through training. In general, training takes one month before producing a qualified franchisee. Since all the operations are the same for all franchisees, it is easier for the franchisor to apply managerial standardisation and keep a uniform service quality by training from scratch. The premise is that the franchisors can give franchisees a guarantee of annual gross margins. Taking 7-Eleven Taiwan for example, the guaranteed annual gross margin is NT$ 2 million dollars (£40,000). In theory, what franchisees need to do is just follow the franchisor's policy without any personal input in terms of creative thinking. However, it does not always work out that way because once a franchisee has become a multi-unit franchisee, he must have developed some level of managerial talent. As one franchisee said:

> *"As far as managerial talent is concerned, it varies with experience and time as a franchisee. In the beginning, when you joined the system, you did not need to have any experience. However, when you have become familiar with the operations and want to be a multi-unit franchisee, you must have acquired that kind of talent in order to manage different stores."* **(7-Eleven) (Franchisee 5)**

This indicates that from the franchisors' viewpoint, what they need is simply a person who can manage a store rather than one with his own ideas on store operations. However, franchisees are inclined to think that if they have developed managerial talent, then they would like to apply to be a multi-unit franchisee after a period of time. During this period of time, both parties will evaluate each other. If the franchisor finds the franchisee's performance is not good enough, then such an application will be rejected; in contrast, franchisees will be evaluating the franchisors' performance to see whether it is worth being there or to become a multi-unit franchisee.

In the EA industry, knowledge is more professional; as a result, franchisors like to hire those with practical experience so that they do not need to closely supervise franchisees. In fact, only those with experience show the willingness to become franchisees. A franchisor stated:

> *"... We will never consider those without industrial experience to be franchisees. This is because if he didn't have experience, we dare to say he must have a lot of money ready to be burned, and likely, the outlet will be closed within a very short time."* **(ChinaTrust) (Local)**

Another franchisee also said:

> *"If the franchisee joins the system when the market is good, then he can survive and gain the experience. However, if the market is not good, the franchisee will*

> *find it difficult to survive unless he has a rich personal network. In other words, if somebody without industrial experience wants to be a franchisee in a recession, the failure rate is 99.9%."* **(HB) (Franchisee 6)**

From both viewpoints, we can see that managerial talent is considered necessary to run an estate agency. However, there was one exception among the interviews. One franchisee did not have any relevant experience before becoming a franchisee, but the economy was good at that time and he ran the store via 'learning on the job' to accumulate experience and knowledge. He now owns four units and also the brand has become the leading brand in that area. This confirms that aside from managerial talent, the external environment plays an important role as well.

Apart from financial capital, human resource, managerial talent and local knowledge, there is another important issue highlighted in resource constraint theory, concerning the buying back of franchisees as the franchisor gets enough resources. This kind of statement is related to the retail life cycle. The following section will explore whether this is applicable to the Taiwanese retail market.

6.2.3 Franchisor Buying Back Franchisees

Resource constraint theory argues that as the firm grows, the firm may buy back franchisees in accordance with the franchising contract. The reasons for this action may include the release of scarce resources, maintenance of service quality and quick/flexible response to meeting changing circumstances. Such repurchases provide the firm with additional control and by repurchasing the largest and most profitable franchisees first, the firm captures additional rents previously allocated to the franchisee. Therefore, the large, profitable franchisees and those outlets in urban or higher population densities will be transformed into company-owned outlets. The franchisees remaining are then those in less profitable or rural areas. However, in the Taiwanese retail market, this does not appear to work. Rather the franchisor switches the profitable outlets to franchisees. In the CVS industry, franchisors said:

> *"We will not buy back the profitable franchisees; rather, we will let profitable company-owned outlets to be franchised outlets. When franchisees are profitable, it means that the franchisor also get benefits from it. So, it is unnecessary to buy back the profitable franchisees. Also, it can save the franchisor's energy with regard to the human resource and capital requirement."* ***(7-Eleven) (International)***

> *"No, it is impossible in the Taiwanese CVS industry. This is because the cost of running a company-owned outlet is higher than a franchised outlet. The only reason to buy back the franchisee would be if the franchisee did not want to run it anymore or the franchisee broke the rules, then the franchisor will buy it back to be a RC outlet."* ***(Circle K) (International)***

Based on the above statements, it is very clear that franchisors would only buy back profitable outlets if the franchisee does not have the desire to run the store anymore. Also, this action is specified in the contract. As to the EA industry, as it is a purely franchised system, this option does not arise. During the interviews, franchisees were asked the same question and their reactions were all the same, i.e., that such a situation is impossible in Taiwan. If the franchisor started to buy back the profitable franchisees, then staff would leave the outlets and open another outlet nearby; the franchisor could then not guarantee that the outlets would be as profitable as before. Also, potential franchisees would not join the system because that they would not know when the franchisor wanted to buy them out. This reason is also related to an industrial characteristic, which is that the EA identity is based on personal interactions and networks, rather than in the CVS industry, which is concerned with the distribution of products.

As a result, the idea of buying back franchisees is not applicable to the Taiwanese market. As to why resource constraint theory specifies that the franchisor would like to buy back franchisees to become company-owned outlets, it may only see the visible profits of the store rather than other factors, such as the effect on a franchisee's efforts and his management aspirations. The theory does not specify whether the outlet would be as profitable as when franchisees ran it. So, there may be a risk in the franchisor buying back the profitable outlets. Particularly it would be difficult to keep an acceptable profit level if the industry is based on personal interaction, such as in the Estate Agency industry.

6.2.4 Summary

After this series of discussions on resource constraints, we learn why franchisors want to franchise their outlets. Both the CVS and EA industries have some points in common especially regarding the criteria of constraints in human resources and local knowledge. However, owing to particular industrial characteristics and the franchisors' financial backgrounds, there are differences of opinion on the subjects of capital constraints and managerial talent. This research has another important finding concerning the idea of buying back franchisees. In the Taiwanese retail market, this is not applicable for many reasons. The idea of buying back franchises is questionable and it should be tested out to see if the outlet could be just as profitable after the franchisor buys it back. Finally, from the interviews, it is suggested that a potential conflict arises between the franchisors and franchisees in the EA industry, i.e., although most franchisees have the necessary industrial experience before becoming franchisees, it does not follow that these franchisees are also good at running businesses. Therefore, some franchisees complain about the franchisor's training courses and services. This kind of dissatisfaction could lead to conflict once one party begins to think 'give and take' is not equal.

6.3 Transaction Cost Analysis (TCA)

Finally, transaction cost analysis has also been used to explain the development of franchising. Transaction cost analysis suggests that any problem that can be formulated, directly, or indirectly, as a contracting problem can be investigated in transaction cost terms. As franchising is a relationship based on a contract between the franchisor and franchisee; it can therefore be tested by transaction cost analysis. Transaction cost analysis suggests that the principal specific asset in franchising is the shared Trademark or the Brand Name. In the following section, some questions on the brand value were asked of both parties to examine the relationship from a transaction cost perspective.

6.3.1 The Cost of Running a Franchised Outlet Compared to a Private Brand

Transaction cost analysis proposes that under certain conditions, the cost of conducting economic exchange in a market may exceed the costs of organising the exchange within a firm. Also, this theory suggests that transaction costs include both the direct costs of managing relationships and the possible opportunity costs of making inferior governance decisions. In theory, for franchising to be preferred, the transaction costs must be cheaper than through the market mechanism. From the franchisees' viewpoint, we can learn whether it is in practice cheaper or not, or whether there are other reasons. Let us see what the CVS franchisees said:

> *"The initial fee is higher but the ongoing cost is lower than traditional stores. Because franchisees have to pay part of the revenue to the franchisor, compared with a private brand the franchisee has to pay more out. But on the other hand, the brand can attract more customers." **(7-Eleven) (Franchisee 5-FC1)***

> *"The cost of franchising is higher than the traditional store on the matters of decorations and employees salaries because the store is run for 24 hours. But the franchisee does not bear the cost of the inventory and he can order everyday."* ***(Niko Mart) (Franchisee 2-FC1)***

> *"The traditional store will cost more than a franchised outlet, because a traditional store has to pay the suppliers the cost of products. As franchisees, we do not need to deal with that kind of work; it is done by the franchisor. What we earn is sent to us by the franchisor at the end of the month."* ***(Hi-Life) (Franchisee 2-FC2)***

According to these comments, we learn that FC1 thinks the initial fee is higher than when operating a traditional store, because he has to pay the initial fee and decoration fee. But all other FC2 respondents think both costs are cheaper in a franchisee than operating a traditional store. The difference is mainly to do with the ownership and the sharing percentage, but generally speaking, franchising is believed to be cheaper and more efficient regarding merchandising, inventory and supplier management.

As to the EA franchisees, let us see what they said:

> *"The initial fee for a franchisee is higher than with a private brand. This is because that aside from the initial fee and guarantee deposit, the franchisee has to pay a royalty per month. The benefits of franchising are mainly the brand advantage, which helps franchisees attract more customers and information/experience sharing with other franchisees. A private brand has more difficulty being accepted by the public. Even so, the most important feature of all is whether the store manager and his staff can co-operate smoothly together with the same objective. If they can, then a private brand may outperform a franchised brand. As to the ongoing cost, there is no definitive answer; because that depends on how you operate the store, such as the salary system, store format, advertising and so on and each kind of running format has its own focus."* ***(HB) (Franchisee 8)***

> *"Being a franchisee, it is more expensive than being a private brand outlet in the short term. But for a long-term perspective, the franchised brand has a positive brand benefit. In other words, if a private brand wants to grow bigger, then the investment may be higher than with a franchised brand."* ***(Century 21) (Franchisee 10)***

The above statements are inclined to suggest that most single franchisees think that it is more expensive to be a franchisee, but there are advantages with regard to the brand, staff hiring, information sharing, merchandising and know-how. Some multi-unit franchisees, have different views, one franchisee said: "*if I have five outlets, why not remain a private brand and endeavour to become the leading brand in the local market*". They could use the money (initial fee, guarantee deposit and royalty) to promote their private brand. Out of the four company cases, one became a multi-unit franchisee. This led him in turn to initiating his own private brand. Multi-unit franchisees in CVS find it impossible to create their own branded stores because ownership is linked to the franchisor and they do not have experience in negotiating with suppliers.

From the perspective of transaction cost analysis, the franchise system makes franchisees invest more in the outlet. Does this mean that it is more difficult to transfer to an alternative brand? This is an interesting question and will be discussed later.

6.3.2 The Importance of the Brand

Aside from the cost of running a franchised outlet, another important consideration is whether the brand is worthy of being franchised compared to a traditional shop. All franchisees think that brand identity is a very important factor indeed in customers' consumption patterns. The franchisees of CVS said:

> *"Yes, it is. For instance, the typical customer told me that he usually shops in 7-Eleven, and he would feel quite strange if he went to shop in other chain brands stores because the internal layout and atmosphere was always a little different"* **(7-Eleven) (Manager 2)**

> *"No, I do not think so, I feel that there are two main factors influencing customers' decision. First, they will identify a preferred chain brand and then decide which*

one is closer to it. This is because one of the important characteristics of the CVS is to offer 'convenience." **(Niko Mart) (Franchisee 5)**
"Yes, it will be. For example, we are a subgroup of a milk company so that if customers want to drink that brand milk, they prefer buying at our outlets." **(Hi-Life) (Manager 1)**

These views suggest that based on convenience, the first consumer priority is distance, followed by the brand. The brand is strongly influenced by the amount of advertising, but some customers still have preferences in their choice of brands. Traditional stores have already found it difficult to survive because the product lines, internal cleanness, and customer services cannot compete with the chain brands. For the EA, the franchisees had a different viewpoint:

*"The brand name is an important criterion when customers choose the store outlet. People prefer those with high exposure on the TV or other media. As a result, franchised brands find it difficult to compete with the RC system where the advertising is much extensive than in franchised systems. However, from the perspective of competition between a RC and FC outlet, the FC outlet must outperform the RC outlet. This is because the high flexibility and long-term cultivation of the trading area." **(HB) (Franchisee 4)***

"Yes, it is, especially in the urban areas. However, if you cultivate your trading area for a long time, it makes no difference whether it is a RC or FC outlet. Also, with the RC, employees need to be rotated periodically; this is to their disadvantage because they cannot cultivate the area intensely and further, most staff of the RC are very young people who have just graduated from university. With franchisees, most of the staff are experienced salesmen and as a result, if the brand factor is not, customers will count on the characteristics of the salesman rather than the brand. The reason why the RC brand is the leading brand in the market is its TV advertising, which is much more than the franchised brands. Customers were impressed by the media presentation." **(ChinaTrust) (Franchisee 4)**

*"The brand accounts for about 70% of the customers' decision. The other 30% is up to the salesman's ability. There are two special phenomena in the industry. One is professional knowledge and the other is selling skill. Generally speaking, most franchisors offer this kind of professional training, but in practice, what customers care about is whether the salesman is very zealous about their cases. As a result, the selling skill seems to be more important than professional knowledge." **(Century 21) (Franchisee 5)***

We note, therefore, that the brand is quite important to gain the customers' trust in the first instance. Once a customer has identified the brand, then the following key issues are the skills and attitudes of the salesman. Also, the power of the brand is stronger in the urban areas. In the rural areas, personal networks seem more powerful than the brand name. In addition, some franchisees said that easy access to the store is an important choice factor, but then nearly all the important areas in the urban areas are occupied by chain brands. Franchisees also recognised that customers are not so familiar with the differences between the RC and FC systems. They just know whether it is a chain brand or not. A separate but important issue about the brand in the EA is that sellers care more about the brand than buyers. In other words, all agencies have to make efforts to gain the customers' trust so that they can sell their houses.

Overall, compared with the CVS, the franchisees felt that customers in the EA care more about the brand because of the value of transactional safety. While for CVS, what customers emphasise is convenience. Another difference is that in EA, the local brands can still survive in all rural areas, but with CVS, all towns have already been invaded by chain brands, including the isolated islands. Hence, transaction cost analysis would seem to be more useful in those areas with higher competition. In other words, in rural areas, hierarchy or market mechanism may be more likely to develop than a hybrid organisation such as franchising.

6.3.3 The Transference from One Brand to the Another

Transaction cost analysis suggests that franchisors have made franchisees undertake some specific investments in the transaction in order to keep a more stable relationship and to make it difficult to transfer. However, if the franchisor damages the relationship in some way or another franchise system offers a better package to the franchisee, then the original franchisee may transfer to another brand. In the CVS industry, franchisees said:

"It is very difficult to transfer the brand because the store belongs to the franchisor. Also, the contract regulates that the franchisee cannot run another brand within a period of time after leaving the company." **(7-Eleven) (Franchisee 9)**

"This will not arise because I would have to pay a further amount of money to the new franchisor and get used to the other system's management. In the present system, if the contract period is expired, I do not need to pay anything, I just continue to be the franchisee." **(Circle K) (Franchisee 9)**

"It is very easy, although the contract regulates that the franchisee cannot run another brand within one year, many people do so and nothing happens. If the franchisee terminates the contract in the middle, the initial fee and guarantee fee will be expropriated by the franchisor." **(Niko Mart) (Franchisee 4)**

From the above, we see it is not difficult to transfer from one brand to another, but the premise is that the original contract must have expired. Otherwise, franchisees will loose out financially. Some franchisees pointed out that they are with a leading brand, so, it would senseless to transfer to an inferior brand. In the case where FC2's property belongs to the franchisor, it makes the franchisees believe it is too difficult to transfer. In the case of FC1, franchisees have already paid the decoration fee for the store; as a result, the willingness of franchisees to transfer was very low. Many franchisees believe that all systems are similar, so it would be pointless to transfer.

For the EA industry, because ownership is independent, it is easier for them to transfer and the cost is relatively low compared with the CVS. This is illustrated by the following views:

"Now, it is very easy to transfer, but it has its cost. This is because I have used the brand for a long time and I have got a kind of identification with the brand although the franchisor is not perfect. For a franchisee, a new brand would be a challenge for employees and old customers, and you have to adapt to another kind of managing style." **(HB) (Franchisee 1)**

"Yes, it is very easy, some franchisors even give transferred franchisees the use of

> *its brand freely for two years without paying royalties to attract other franchisees. So, there is vicious competition in the industry and what franchisors want is just money, nothing else."* **(Rebar) (Franchisee 3)**

> *"It is very easy to change to another brand if you do not have a bad record in the industry. As to the old customers' doubts, I just say that the service of Brand A is not as good as Brand B."* **(Century 21) (Franchisee 5)**

Most of the franchisees in the interviewees thought that it would be very easy to transfer the brand if they were not satisfied, and, from the above statements, we can identify some benefits and costs if they did so. One benefit is that the franchisee can usually get a discounted initial fee or free royalty for a period of time. One cost would be that you have to explain to your customers and employees why you have made the change, and also, all the outlet's hardware would have to be changed with the loss of your original cases. Even so, there were still many franchisees willing to transfer brands. According to the interviews, many of the franchisees now in the ChinaTrust and Century 21 networks were originally from HB or other RC systems. This is because they were not satisfied with the original franchisor, or those who worked for the RC wanted to be bosses and realise their vision.

Compared with the CVS, it is obvious that it is easier to transfer the brand in the EA industry because it is mainly related to personal interactions. However, such a high transfer rate also leads to conflicts between franchisors and the original franchisees, for instance, the original franchisee will ask why the new franchisors royalty is lower than the one he originally paid. The franchisor's answer will be because now the industry is in recession so that they can negotiate special treatment. But old franchisees will combine together to protest about such treatment. This is typical of the vicious competition in the industry. As a result, transaction cost analysis could not be applied to such kind of case.

6.3.4 The Protection of the Franchisor's Brand

The brand is the most valuable asset of the franchisor; as a result, franchisors have to make efforts to protect the brand name and to promote it, rather than allowing it to become devalued by franchisees. Hence, let us see what the franchisors said:

> *"Brand protection can be from two perspectives; the selection of qualified franchisees and ongoing monitoring mechanisms, based on store supervisors' periodical visits. In addition, we will choose some stores to test the quality non-periodically. If a franchisee is not qualified by the test, then he has to attend re-training courses, otherwise, the parties' relationship will be terminated. Between the franchisor and franchisees, there are regular meetings to communicate with each other."* **(7-Eleven) (International)**

All the other franchisors protect their brands from being damaged through regular supervision, and indicate that the followers do what the leading brand-7-Eleven does. What they do not all include is a mutual communication session. The franchisees of the leading brand can go to the head office to talk with the management but that is not so with non-leading brands. As a result, the level of franchisees' satisfaction is highest within 7-Eleven.

As to the EA industry, two franchisors said:

> *"Protection is based on the franchisor's operational rules and norms. For example, the franchisor has got the acknowledgement of ISO 9002 and franchisees have to use the formula documents. In addition, before giving the franchise right, the franchisor has carried out a basic investigation of the franchisee. After those considerations, the interaction between the franchisor and franchisees is the next important factor of the relationship."* **(HB) (Local)**

> *"In fact, the key point in protecting the brand is to deal satisfactorily with conflicts between franchisees and customers. This is because customers' satisfaction derives from good service, and brand power from the satisfaction of franchisees. So, if conflicts arise between franchisees and customers, we will oblige franchisees to settle it as a service issue, but if conflicts arise from franchisees, then the franchisee's area representatives will do the arbitrator. If there is a serious dispute, we will terminate the relationship."* **(Rebar) (Local)**

From the above statements, we deduce that most franchisors use operational norms or contracts to regulate franchisees' behaviour. Only the franchisor of Rebar undertook monitoring similar to CVS but the frequency was not so high. The main reason for a lack of monitoring is that most EA franchisors do not have enough energy to do it. The result is that their particular brand power is not so strong as Rebar and this results in a high transfer rate.

From a comparison of both industries, the common point is that both industries undertake pre-contractual and post-contractual checks to protect their brands. The difference is that the CVS companies carry out the franchisors' policies thoroughly because the franchisors have carried out their duties, but the EA companies do not. This difference results in most EA franchisees being dissatisfied with their franchisors.

6.3.5 Summary

The use of transaction cost analysis reveals that brand and know-how are still the core values in transactions. If franchisees did not find value in franchising, then the hybrid organisation would disappear and be replaced by a hierarchy or market mechanism. In this research, most franchisees in the CVS industry thought that the cost of being a franchisee was lower than developing a private brand. In contrast, multi-unit franchisees in the EA did not think so. They preferred to create their own brands because they had the know-how and a management department, which served the same functions as the franchisor. So, to save costs and with a long-term perspective, they preferred to invest their money in promoting their own brand with the aim of becoming the market leader in the local area. Concerning the brand efficiency argument, both industries said it is very important but for different reasons. The CVS said 'distance' to the store is the main consideration, but in the EA, franchisees believed that 'personal network' is the most important factor of all. This latter view leads to a high brand-transferring rate when franchisees are not satisfied with the original franchisor. Another pull factor is that other franchisors lure franchisees by lowering the cost of transferring and franchisees are happy to take up these inducements. Finally, from this section, we can suggest that transaction cost analysis can be applied in a market characterised by fair competition, but where the market is subject to vicious competition, the benefit may be very low. Finally, franchisors in both industries agreed that brand protection could be enforced by pre-contractual and post-contractual preventative action.

6.4 Conclusion

To examine the relationships and conflicts between franchisors and franchisees, we started by exploring the motivations for franchising. Three key approaches were used based on existing perspectives; namely, the role of agency theory; resource constraint; and transaction cost analysis. From the case analyses, some of the views expressed were the same as those specified in established theories, but others were in conflict, such as the relationship between monitoring frequency and loyalty rate; the expectation that a higher initial investment would lead to higher company ownership; the motive for buying back franchisees and the transaction costs of being a multi-unit franchisee.

From a comparative perspective, the CVS and EA had some points in common, such as the scarcity of human resources and local knowledge, but they exhibited different perspectives on issues such as monitoring cost, transfer rate and so on. The most important finding of all is that different types of relationships and conflicts can be observed. For the CVS, because ownership is linked between franchisors and franchisees by stores and product ownership, the franchisors paid more attention to franchisees. However, such attention can be perceived to be excessive and becomes a burden to franchisees, e.g., the frequency of monitoring. For the EA, due to the parties' ownership being independent of each other, the relationship is just built on the exchange of royalty and brand name. Hence, the relationship is not so close as in the CVS and as a result, the relationship is more fragile. In other words, what EA franchisees need is just the brand name. Once these franchisees are dissatisfied with the franchisor or the brand name, then the transferring rate rises rapidly. Turning to the CVS, we can see the main source of conflict is the interaction between store supervisors and franchisees. By contrast, in the EA, conflicts mainly result from any service failure of the franchisors. Of course, there remain other factors affecting these relationships, and some of them will be discussed in the following chapter. Finally, the Table 6.1 provides a summary of the comparisons highlighted in this chapter, and highlights the differences.

Table 6.1 The Summary of the Motivational Comparisons

Item	Variables	CVS (Franchisee)					EA (Franchisee)				CVS (Franchisor)				EA (Franchisor)			
		RC	FC (S)	FC (M)	I	E	S	M	O	T	7-Eleven	Circle K	Niko Mart	Hi-Life	HB	Rebar	China Trust	Century 21
A/T	The monitoring is from the incompleteness of the contract	N/A	✘	✘	✘	✘	✘	✘	✘	✘	✘	✘	✘	✘	✘	✘	✘	✘
	The contract is unequal	N/A	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✘	✘	✘	✘
	The monitoring cost is negatively related to the service level	✔	✔	✔	✔	✔	✘	✘	✘	✘	✘	✘	✘	✘	✘	✘	✔	✔
	The monitoring frequency is positively related to the royalty	N/A	✘	✘	✘	✘	✘	✘	✘	✘	✘	✘	✘	✘	✘	✘	✘	✘
	Monitoring multi-unit franchisee is cheaper than single unit	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	✘	✘	✘	✘	✔	✔	✔	✔
	The potential for franchisees to cheat on performance	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔
	Franchisors are more risk-neutral than franchisees	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔
	Higher initial investment leads to greater company ownership	N/A	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✘	✔
R/C	Resource constraints on human resource and local knowledge	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	✔	✔	✔	✔	✔	✔	✔	✔
	Resource constraint on financial capital	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	✘	✘	✘	✘	✔	✔	✔	✔
	Resource constraint on managerial talent	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	✘	✘	✘	✘	✔	✔	✔	✔
	Franchisor buying back franchisees	N/A	✘	✘	✘	✘	✘	✘	✘	✘	✘	✘	✘	✘	✘	✘	✘	✘
TCA	It is cheaper to run a franchised outlet than a private outlet	N/A	✔ FC2 ✘ FC1	✔ FC2 ✘ FC1	✔ FC2 ✘ FC1	✔ FC2 ✘ FC1	✘	✘	✘	✘	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Brand is an important factor when customers choose the store	✔	✔	✔	✔	✔	✔	✔	✔	✔	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	It is very easy to transfer brands	✘	✘	✘	✘	✘	✔	✔	✔	✔	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

✔ : agree or the majority agrees ✘: it depends, the same, has no relationship, disagree or the majority disagrees

N/A: it means the case is not suitable for the party

RC: Regular Chain (company-owned outlet), **FC(S)**: Single-unit franchisee, **FC(M)**: Multi-unit franchisee, **I**: Internal franchisee, **E**: External franchisee, **S**: Single-unit franchisee, **M**: Multi-unit franchisee, **O**: Original franchisee, **T**: Transferred franchisee

CHAPTER SEVEN: ANALYSIS AND DISCUSSIONS-II (RELATIONSHIP AND CONFLCIT)

7.0 Introduction

In the previous chapter, the motivations for franchising were analysed in relation to existing theories. This uncovered not only the motivations but also potential conflicts between franchisors and franchisees. In this chapter, two topics will be analysed in order to explore further the relationships and conflicts between both parties. First, the roles and characteristics of the decision-makers will be considered: because the decision-maker usually influences the direction of corporate strategy, and the interactions with the first line franchisees. Related issues such as leadership, power, entrepreneurship and experience will be discussed. After that, concepts developed in relational exchange theory will be explored in order to find out how both parties rely on each other, how both parties would react to each other if the relationships became unfair and how the relationship could be improved.

7.1 The Roles and Characteristics of Decision Makers

7.1.1 The Relationship between Leadership and Franchisee Satisfaction

Generally speaking, there is a close relationship between interaction and satisfaction. In theory, three kinds of leadership: supportive; participative; and achievement are specified. In franchising, interaction is based on either the franchisor's policy or the store supervisor's characteristics. Hence, how to satisfy the other party is an important issue in maintaining the relationship. As in the previous chapter, we start with the CVS industry and CVS franchisors:

> *"We usually adopt a mixed leadership, which includes supportive, participative and achievement styles. In general, such leadership is closely related to the supervisor's characteristics. Sometimes, the supervisor has to play the role of*

policeman or even a doctor. It depends on the situation of the interaction and the ability of the franchisee." **(7-Eleven) (International)**

"The leadership should be the same for every store supervisor, as this means that being a supervisor, the franchisor will evaluate whether he is qualified to the work." **(Niko Mart) (International)**

From the above two different expressions, we can see that the franchisor has two distinct concerns, one is related to the store supervisor's characteristics, and the other is to ensure that the franchisor's policy is followed thoroughly. However, in practice, the quality of interaction is related to three factors: the store supervisors' characteristics, their ability and the franchisees' reactions. No matter what kind of leadership style is used, the final objective is to maximise the store's profit. Usually, if the store supervisor's leadership is not accepted by franchisees then, conflicts occur. According to CVS franchisees:

"The leadership is a kind of achievement style, however, I am not satisfied with it. I had hoped the leadership would be like a kind of supportive style. Now, my feeling is that I spent so much money joining the system but just act like a RC store manager. In other words, the franchisor treats franchisees as RC outlets." **(Circle K) (Franchisee 4)**

Although this franchisee is not satisfied with the store supervisors' leadership, most franchisees said they could accept it and that this kind of leadership is quite flexible. After all, the store supervisor is the communication bridge between the franchisors and franchisees. Aside from the interaction with the store supervisor, some franchisees can use the Internet to express their opinions. Even so, dissatisfaction still occurs, primarily from the one-way communication style or inadequate leadership. As stated, the most common point of conflict is that store supervisors always deem franchisees as company-owned managers and therefore they usually use coercive powers to interact with franchisees.

In the EA industry, the franchisors said:

> *"The leadership is composed of three different kind of styles, supportive, participative and achievement. So, for those follow the franchisor's policy, we will give them more resources than those who disobey the policy."* **(HB) (Local)**

> *"As to the leadership, it is related to the leader of the franchisor. In fact, most of the regulations have become standardised because of ISO 9002. So, the leadership is just an intangible power to franchisees and it is not clear if franchisees follow the contract."* **(Rebar) (Local)**

> *"We adopt a mixed leadership and it is related to the issue itself. On the execution of the franchisor's policy, we take a coercive leadership approach, however, for daily affairs, we adopt a supportive leadership. The leadership is closely related to the franchisor's corporate culture and the person who manages the business."* **(ChinaTrust) (Local)**

From the above expressions, it is very clear that franchisors use different kinds of leadership in different situations. The leadership style is determined by the franchisee's attitude, the senior manager's attitude, the corporate culture and the issue itself. After all, the franchisor has more resources than the franchisees. Nevertheless, not all franchisors like to assist their franchisees; some may dodge the responsibility and do nothing. Conflicts come about in the EA example, and the frequency is far more common than in the CVS. Some EA franchisees said:

> *"There is no, so called, satisfaction or dissatisfaction with the franchisor's service, as this means that both party's objective is to co-operate together in order to promote the brand reaching a win-win status. The leadership should be related to the stage of the franchisee and the franchisor's characteristics. Now, the franchisor adopts a supportive leadership, it means that if franchisees need help, they will come and give an aid."* **(HB) (Franchisee 6)**

> *"The leadership is related to the corporate culture. Now, it is not too strong and is directly related to characteristics of the leader. The franchisor adopts a mixed leadership to franchisees. For example, there is an award of Top 100 (achievement style), and the support of advertising (supportive style)."* **(Rebar) (Franchisee 6)**

> *"The franchisor's leadership is like a kind of laisser-faire or achievement style, because its power is quite weak. In general, franchisees do not welcome the franchisor's assistance on the store operations, because they do not know the consumer behaviour in the local market, so, it is difficult for them to develop an appropriate strategy. Hence, even if the supervisor stays at the outlet for 2 months,*

it is still useless. The most important factor of all is based on 'people', it means what customers identify with is the salesman rather than others." **(Century 21) (Franchisee 2)**

From the other franchisees' comments, we realise that only the Rebar Company has good interaction with franchisees. The others pointed out that if they pay their royalties on time, the franchisor would not find fault with them. Some franchisees even said that the franchisor had never visited the store, in other words, leadership means nothing for some franchisees.

From the comparison between CVS and EA, it seems that most of the communication between franchisors and franchisees in the CVS are via the store supervisor rather than the head office like in the EA industry. Further, it is forbidden to organise an association in the CVS industry. However, in the EA industry, every system has this kind of association. The other difference in leadership is that the CVS usually adopts a mixed leadership. Instead, the EA franchisors seldom adopt participative leadership, because franchisees do not want franchisors to intervene in their operations. The final difference is in the communication channels; franchisees in the CVS cannot reflect their opinions to higher-level managers, however, within the EA, franchisees can reflect it to anybody even the managing director.

7.1.2 The Preference for an Entrepreneur

Regarding the issue of entrepreneurship, previous researchers have different opinions on whether franchisors and franchisees are entrepreneurs. In this research, there are different results between the CVS and EA industry. First of all, we start with a discussion of which kind of franchisees the franchisors prefer. Some franchisors commented that:

> *"It would be better to choose an entrepreneur. Their characteristics should be not too clever but with the spirit of innovation. One senior manager pointed out that the franchisor has to be very clever and the franchisee should be very stupid. This kind of argument has its advantage and disadvantage. The advantage is that policies can be carried out thoroughly, however, the disadvantage is that franchisees cannot response to local market quickly. As far as my experience is concerned, I prefer an entrepreneur."* **(7-Eleven) (International)**

> *"I prefer a franchisee who is a mix of two different kinds of characteristics. From the franchisor's viewpoint, the reason why this is comes from consideration of loyalty to the corporate policy. The disadvantage is on the effort of store management. For an entrepreneur, he may have his own ideas on store management; nevertheless, the franchisor does not allow him to do so. Hence, I prefer a mixed style."* **(Circle K) (International)**

From the franchisors' comments, we can see that they are quite contradictory. On the one hand, they hope that franchisees follow the franchisor's policy without any argument. On the other hand, they also want franchisees to try their best to maximise the store's performance. Hence, conflicts may occur because franchisees think that the franchisors intervene too much in store operations. However, within the EA industry, franchisors may have a different view, they stated that:

> *"In theory, franchisees should be highly self-motivated and with the spirit of creation. However, we prefer a franchisee who does not have too many arguments about the franchisor's policy and just does what the franchisor asks."* **(HB) (Local)**

> *"We prefer entrepreneurs because of the changeable environment. It is useless to choose one who always follows the franchisor's instructions without any creation."* **(ChinaTrust) (Local)**

From the above comments, there is more evidence that the EA franchisors prefer those franchisees with entrepreneurial skills. This can be explained from the perspectives of quick expansion and self-motivation. Comparatively, there is a clear difference from the franchisor's viewpoint concerning the preference for an entrepreneur. Within the CVS, since the franchisors are powerful enough, they do not need or want strong franchisees. However, the EA franchisees have to face the external changes by themselves, hence, the franchisors prefer choosing those with entrepreneurship.

7.1.3 Franchisors are Entrepreneurs

According to the '2001 World Competencies Yearbook', Taiwan was ranked the 7th among the 49 countries selected on the item of entrepreneurship. This implies that the Taiwanese have a quite high level of competence in entrepreneurship. Nevertheless, could this be applied to franchising? In theory, most researchers suggest that franchisors are entrepreneurs because of risk-taking, leadership and so on. In practice, this seems true because one CVS franchisor said that:

> *"Yes, the reason why the franchisor wants to franchise is because that it can minimize the cost of thinking about the know-how for franchisees and they just do what the franchisor says. Therefore, the franchisor should serve the functions of innovation, marketing and logistics. What franchisees need to do is to reflect whether policies could be carried out in practice, and then the franchisor knows how to amend it."* **(Hi-Life) (Local)**

All the other franchisors thought that they were entrepreneurs because of the characteristics of risk-taking, leadership, motivation and the ability to solve crises. As for the EA industry, they said:

> *"Yes, of course, because the franchisor has to evolve the vision and strategies in order to be followed by franchisees. So, the franchisor should be the head to guide franchisees. If the franchisor is very weak, then franchisees will not gather together for the same objective and it will be like dispersed sands. Further, as franchisees cannot get something from the franchisor, franchisees will not treasure the franchisor's brand."* **(Rebar) (Local)**

From this comment, it is very clear that all franchisors in both industries view themselves as entrepreneurs. All of them have the spirit of risk taking and innovation. With this kind of thinking, franchisees can follow the franchisors' policy and direction without missing the collective power of franchising.

7.1.4 Franchisees are Entrepreneurs

Many arguments occur over whether franchisees are entrepreneurs. In this research, franchisees in CVS expressed different kinds of ideas, some agreed and others disagreed. For those that agreed, they expressed that this kind of entrepreneurship is limited. According to the CVS franchisees:

> *"Just some parts of the operations can be decided by myself, because most of the operations have to follow the franchisor's policy. What I believe is that once you join the system, you will not fail."* **(7-Eleven) (Franchisee 5)**

> *"No, I do not think so, because all the operations have to follow the franchisor's instructions."* **(Niko Mart) (Franchisee 2)**

According to their views, some franchisees believe it is possible to be creative in some areas however, others do not. In this research, most of them believed that they had some leeway to be creative but not too much. One multi-unit franchisee even said it is necessary to have the particular entrepreneurial spirit when you run different stores. So, such spirit is dependent on the characteristics of the franchisee and the stage of a store. As for the EA franchisees, they said:

> *"Yes, it should be. The reason for becoming a franchisee is because that the owner has his own mission to realise. So, the owner of a franchisee is an entrepreneur. Basically, the operation of a franchised outlet is composed of the franchisor's know-how and the franchisee's strategy."* **(Rebar) (Franchisee 5)**

> *"Yes, it should be. For example, I invested so much money on the store decoration to be a franchisee. If I am not an entrepreneur, I can invest the money in other aspects. So, I believe that the franchisee has the characteristic of risk running."* **(ChinaTrust) (Franchisee 1)**

The majority agreed that franchisees are entrepreneurs, those who disagreed thought that the trading territory and operations were still confined by the contract. However, generally speaking, franchisees have 100% independence in store management. Comparatively, the franchisees in the EA industry would seem to have a higher flexibility on creation.

7.1.5 Franchisor's Experience is Directly Related to Franchisees' Satisfaction

In theory, franchisee satisfaction is positively related to the franchisor's experience, because of the franchisor's learning curve. This means that the more experience the franchisor has, the more efficient it should be. In response to this the CVS franchisors said:

> *"Yes, the higher ability of the store supervisor's maturity and communicative ability. The higher satisfaction franchisees will have."* **(7-Eleven) (International)**

> *"Yes, the franchisor should be experienced in the logistics and information gathering. Moreover, the franchisor should organise different promotional activities according to different festivals. What franchisees care most about is the product mix, i.e., whether new products or services can be served quicker than competitors."* **(Circle K) (International)**

All franchisors agreed that franchisors should be more experienced, and in particular in product management, information systems, logistics and store supervisor's ability. As to what franchisees think about the franchisor's ability, two franchisees said:

> *"The franchisor should be more creative rather than so conservative on product lines. Moreover, the franchisor should be good at advertising in order to promote its brand."* **(Circle K) (Franchisee 5) (Internal)**

> *"The franchisor should be good at product development. In addition, they should have a good vision and insight. For example, another franchisor is doing e-commerce, although the result is not sure nevertheless, it gives franchisees positive inspiration."* **(Niko Mart) (Franchisee 5)**

Generally speaking, franchisee satisfaction comes from two perspectives, product management and the quality of interactions. Therefore, franchisees felt that franchisors should be good at leadership, product management, computer systems, advertising and so on. Some franchisees pointed out that the franchisor should give some authority to franchisees, allowing some changes in the product mix according to local difference. Besides, the attitude of staff in the head office should be improved, because franchisees felt that they were being treated as company-owned employees. On the whole, most franchisees agreed that the more experience the franchisor has, the higher their satisfaction would be.

When EA franchisors were asked such a question, their answers were:

> *"Yes, they are related and the satisfaction is directly related to the franchisor's know-how and innovation. Take the army for example, the franchisor is just like the back-up department, which gives support rather than fighting in the front line. Therefore, the satisfaction of franchisees is related to the franchisor's know-how."* **(HB) (Local)**

> *"No, I do not believe that there is a positive effect. It means that a successful franchisor does not need good industrial experience, whereas, the franchisor has to equip the franchisee with know-how on its operations and management. Like a coach, he does not need to be a very good player before being a coach; nevertheless, he knows how to guide a group and how to motivate them. This is more important than the experience."* **(ChinaTrust) (Local)**

Although one franchisor said that there is no relationship with the franchisor's experience, the views expressed still indicate the importance of franchisor know-how and experience. Both party's role is different; the role of a franchisor is to drive the business in the right direction and make franchisees satisfied with their policy. Aside from the know-how, the interaction between both parties seems more important. As for how franchisees perceive this kind of relationship, they said:

> *"Yes, nevertheless, the most important factor of all is their attitude, i.e., if they are not zealous to franchisees, all experience is worthless. In practice, some persons may know a lot, however, they give less support to franchisees."* **(Rebar) (Franchisee 2)**

> *"Yes, I believe the franchisor staff should be more alert to the market tendency, however, they do not have that particular sense. Hence, they do not know how to help franchisees or may even develop improper marketing activities, which cause franchisees' trouble and complaints."* **(ChinaTrust) (Franchisee 4)**

Most EA franchisees agreed with the view, nevertheless, most of them felt that franchisors did not do what they should do, in particular regarding brand promotion and educational training. They also thought that franchisor experience was more useful to a new franchisee. Experienced franchisees felt that what they need is just the exposure of the brand.

In summary, EA franchisees are more independent; they can survive even without any support from the franchisor. However, in the CVS industry because they are reactive to customers, they have to count on the franchisor's support and service. Hence, the ability and experience of the franchisor becomes more important in establishing franchisee satisfaction.

7.1.6 Franchisors Should Run Company Owned Outlets before Franchising

The franchisees were asked about whether franchisors need to run company owned outlets before franchising. The answers varied between the CVS and EA franchisees. Franchisees in the CVS answered that this was necessary, however, EA franchisees did not think that it was necessary. Let us see what the CVS franchisee said:

> *"Yes, it should be, otherwise, franchisees will be treated as the white mice."* **(7-Eleven) (Franchisee 4)**

Almost all CVS franchisees agreed that franchisors should run company-owned outlets before franchising, and this seems to be true in practice. The reason could be the complexity of retail store operations. If the franchisor does not know how to deal with daily operations, complaints will arise from franchisees. So, all franchisors started by setting up the know-how of store operations, purchasing and logistics. After the successful operation of company-owned outlets, they started to franchise. Within EA, since franchisees do not need to count on franchisors so much, their answers were different. The following are typical:

> *"No, I do not think so. From the perspective of standardisation, the franchisor needs some experimental outlets. So, in the beginning, the franchisor may just*

choose some good franchisees learning from them, and set it as an example to other franchisees. In fact, the owner of the franchisor has got the experience on how to run a store before. Hence, the franchisor does not need to raise an ox for the purpose of drinking a cup of milk." **(HB) (Franchisee 9)**

"I do not think that it is necessary. I just believe that if the franchisor's flexibility is good enough to support franchisees, then it will be fine." **(Rebar) (Franchisee 5)**

From the EA franchisees' comments, they do not think the franchisor has to run company-owned outlets in the beginning. However, most of interviewees believe that staff in the head office should have industrial experience so then they can help the franchisees. Comparatively, the difference is quite clear because in the EA, franchisees can count on themselves even if the franchisor disappears but with CVS franchisees, if they do not have the franchisor, the sourcing of products is an immediate problem. In other words, they would have to face thousands of suppliers rather than just the franchisor. In short, whether franchisors have to run RC outlets before franchising is related to the supply chain and franchisees' profession in this case.

7.1.7 Summary

From this section, we get the impression that the decision-makers can be either the franchisor leaders or the store supervisors. In the CVS sample, leadership is directly related to the store supervisor, which is different from the EA franchisees' interaction with the franchisor's office. No matter which industry, 'attitude' and 'professionalism' are the two key issues in the quality of interaction. In this research, EA franchisees do not believe that leadership plays an important role in interaction because the franchisor's power is quite weak. Further, participative leadership is not welcome in the EA industry. Concerning entrepreneurship, there is an implicit difference between both industries. The CVS franchisors hope that the franchisees are not entrepreneurs, but EA franchisors hope that they are. As to whether franchisors and franchisees are entrepreneurs per se, all franchisors and franchisees agreed that they were. However, disagreements and conflicts occur as franchisors and franchisees have different opinions, and in particular in the CVS industry. On the relationship between the franchisor's experience and franchisee satisfaction, although all respondents agreed with this view, differences still exist between industries. Within CVS, experience is focused on the logistics and product development. In the EA industry, it is more related to invisible know-how. However, both agreed that the respondent's attitude is very important. Finally, both industries have different viewpoints on whether franchisors need to run company owned outlets before franchising. The CVS franchisees deem that it is necessary so that they can minimize franchisee risk. For EA franchisees, they do not think so, because almost all franchisees have got industrial experience and what they need is just the power of the franchisor's brand.

7.2 Relational Exchange Theory

Relational exchange theory assesses the attitude of parties to transactions between entities. Transactions, aside from the price, also include emotional and belief exchange. Therefore, economic and non-economic satisfaction will be achieved by a transaction. Kaufmann and Stern (1988) view franchising as the prototype relational exchange. In franchising, the alliance between the franchisor and franchisee is established in order to maintain and promote the trademark. If the franchisee perceives the relationship as inadequate and therefore values of trademark as not having the long-term potential to fulfil their requirements, then the franchisees will have a short-term view of the relationship. In the following section, issues arising from relational exchange will be explored in order to uncover how both franchisors and franchisees perceive and preserve this particular relationship. In addition, the section considers how, if conflicts occur, both parties react to each other from the perspective of relationship maintenance.

7.2.1 The Way to Maintain Good Relationships

In the franchise organisation, since the franchisor holds the dominant position, the franchisor has to think how to maintain good relationships with franchisees in order to maximise franchising efficiency. In the CVS, the franchisors said:

> *"First, the franchisor has to make franchisees satisfied with their revenues. We give a guarantee to franchisees on the annual gross margin, if they do not make so much money, the franchisor will pay them the difference. As to the management of relationship, the store supervisor usually does this work. ... In addition, the franchisor will give awards to those franchisees with good performance to set a good example to other franchisees. Finally, the stronger the logistics, the higher satisfaction franchisees will have."* **(7-Eleven) (International)**

> *"The relationship can be managed before being a partner, the franchisor has to make franchisees clear about the contract and the operations. Once the contract is signed, the training and communications become more important. Honesty is the best policy, the franchisor should not cheat franchisees at any time and let franchisees know which policy will be carried out before it is executed."* **(Hi-Life) (Local)**

Aside from store supervision, strong logistics, rich product lines and guaranteed gross margin, the franchisors also suggest that senior managers should sometimes visit stores to listen to the franchisees' voice. In addition, staff attitudes in the franchisor office are very important for mutual communications. After all, the purpose of relationship maintenance is not just between the store supervisor and franchisees. It should be everybody's responsibility in the head office. As to how franchisees seek to keep a good relationship with their franchisors, they said:

> *"Follow the franchisor's policy and a good relationship will be maintained. In the beginning, I will negotiate with the supervisor if I am not satisfied with operations. If he cannot agree with me, then what I can do is to follow policy."* **(7-Eleven) (Franchisee 4)**

> *"I believe that a good communication channel is the best policy. Now, customers*

> *sometimes come to the store to buy some promotional products, however, we do not know about this particular policy. Therefore, customer will complain about our service. I think the franchisor should let franchisees know first before carrying out any policy."* **(Circle K) (Franchisee 6)**

"*Following the franchisor's policy is the best policy*" is the most common viewpoint. This implies that the franchisor will use coercive power on franchisees if they do not follow the policy. So, no matter what franchisees think, they have ultimately to follow the franchisor's policy. However, if the franchisor's policy is not good and franchisees are forced to follow it, interaction will become passive. However in the EA industry, some franchisors said:

> *"The franchisor should care about franchisees and manage the relationship by the contract. Under the accepted dimension, informal relationship should be taken into consideration. In other words, a good relationship is elastic rather than just does what the contract specifies. So, affection takes a stand first, then followed by rationality and law."* **(HB) (Local)**

> *"Take franchisees as partners of your business rather than employees of the franchisor."* **(ChinaTrust) (Local)**

From these statements, we can see that flexibility is higher than for the CVS in respect of the maintenance of the relationship. Besides, a difference between the two industries is also reflected in their attitudes towards communication. Within the CVS, the policy is enforced by law if there is a difficulty, and then followed by rationality and affection. This is a quite different approach that found in the EA. This is the reason why the EA franchisors' policy is sometimes not carried out thoroughly by franchisees. Only if the franchisor's power is great will franchisees carry policy out; otherwise, different franchisees will have different policies. The other difference is in what is communicated. The EA franchisors communicate 'managing spirit' rather than 'operational issues', which is the case in the CVS. As to how the franchisees view the maintenance of relationships, they said:

"Follow the franchisor's policy and attend the routine meetings. However, the franchisor always ignores franchisees' suggestions and it results that franchisees do not want to waste time communicating with the franchisor. Finally, franchisees just use the brand and sharing information with other franchisees at most." **(HB) (Franchisee 7)**

"Pay the royalty on time; basically, franchisees will not proactively interact with the franchisor because our targets are customers rather than the franchisor. By contrast, the franchisor should be proactive to franchisees because we are his customers." **(Rebar) (Franchisee 1)**

"I do not care about the relationship with the franchisor, what I need to do is to pay the royalty on time and the franchisor does not come to bother me." **(Century 21) (Franchisee 1)**

Reviewing these comments, we can see that the relationship between franchisors and franchisees are quite unstable. Although the franchisor offers some kind of communication channels and meetings, the franchisees still think that it is pointless to attend these meetings because their opinions are ignored. Most franchisees choose to behave themselves and hope that the franchisors will not bother them. For those with good relationships with franchisors, they said that the franchisee should sometimes be more proactive towards the franchisor because if you are in trouble, the franchisor will help you more if the relationship is good. Hence, the franchisees' opinions are quite diverse, some care about the relationship but the others do not. One franchisee pointed out that the ideal relationship should be like a Chinese proverb, "*fish helps water and water helps fish*"; this means that one party cannot survive without the other.

In comparison, most franchisees in the CVS said they do not have the opportunity to communicate with senior managers. They also commented that the franchisors always ignore the franchisees' opinions. This leads to the same result; namely, the franchisees just care about themselves and are passive towards the franchisor's policy. In order to maintain a good relationship, each party must have some expectation from the other;

the following section will explore what their expectations are.

7.2.2 Expectations from the Other Party

Expectation is the desire for something. In the franchise relationship, expectation relates to how one party behaves to make the other feel more comfortable. First, let us see what the franchisors' expectations are from franchisees in the CVS. They said:

> *"I hope that franchisees can cultivate their trading area well and build a good relationship with customers. In addition, their performance had better outperform last year standardisation. Finally, we hope they can offer some constructive suggestions."* **(7-Eleven) (International)**

> *"I hope that franchisees' attitude can be more positive. They always stand only from their viewpoints to see why the operation is done by this way rather than see the whole view to see the franchise system. Therefore, the gap has to be minimised by the communication with store supervisor."* **(Hi-Life) (Local)**

The franchisors stated that they hoped that franchisees would be more proactive on store operations and customer service. The aim is to maximise profit. Beside these store issues, some franchisors expressed the view that if franchisees have any questions, they can inform the store supervisor, however, sometimes, the store supervisor cannot reflect franchisees' opinions to the franchisor. Therefore, dissatisfaction will occur between both parties. Some franchisees said:

> *"I hope that the franchisor can fasten the expansion speed; otherwise the RC store managers have to be rotated to other places. Further, the expansion speed is too slow for those who want to be franchisees."* **(Circle K) (Manager 1)**

> *"I hope that the franchisor can offer correct product selling information and offer hot products in time. Now, since we do not the POS computer system, franchisees cannot get the latest information and must be informed reactively by the franchisor. Therefore, I cannot give the instant response to customers and it will lead to potential losses."* **(Niko Mart) (Franchisee 5)**

> *"I wish that the franchisor would offer the opportunity to communicate with the senior managers directly. Now, the store supervisors just preach the franchisor's policy but they do not have the authority and ability to solve the franchisee's complaints. The communication is done by paper work, it takes time and cannot solve the related problems."* **(Hi-Life) (Franchisee 4)**

Aside from the above expectations, some franchisees felt that the sharing percentage could be higher, brand advertisement could be more frequent and logistics could be stronger. From the above expressions, we can also see that the RC manager's expectation is different from the franchisees. Returning to the franchisor's expectations, this reveals that both parties want to know how the other party thinks. However, the communication channel, the store supervisors, seem unqualified to do this. We can suggest that complaints and misunderstanding sometimes arise from the ability and characteristics of the store supervisor.

Regarding the expectations from EA franchisees, the franchisors said:

> *"Aside from following the franchisor's policy, I hope that franchisees can understand that the franchisor also has difficulties. So, if both parties can think more about each other, the relationship will be better and longer."* **(HB) (Local)**

> *"I hope franchisees have positive feedback and correct managing concepts on the store operation."* **(Century 21) (International)**

From these comments, we can see that the franchisors hope that the franchisees can be loyal to the franchisors' policy and contract; in addition, they also hope that franchisees will get along with one another and perform good store management. Therefore, franchisors hope a good relationship can be built from the store level (point) to the franchisee level (line and surface) and finally to a system level (franchisee, franchisor and the brand). If this kind of relationship can be built like a network, the franchise power will be very strong, even stronger than RC systems. However, different entities have different objectives, hence, it is difficult to ally together and this is one of the reasons why the reputation of franchised brands is not as strong as RC brands. For franchisees, let us see what they said:

> *"I hope that the franchisor can inform the franchisee when its decision is related to the benefit of the franchisee, like setting up a new franchisee nearby. Now, the*

franchisor just sets it up and without noticing neighbouring franchisees till they complain about it. However, it is too late, and both parties' relationship will become worse. In a short time, the franchisor may get the benefit from the new franchisee, nevertheless, from the long-term perspective, the franchisor will lose more because the original franchisees now distrust the franchisor. In addition, I hope the franchisor can give an aid to franchisees, as they need help. For me, I have never encountered difficulty in growth; however, I got nothing from the franchisor's assistance. **(HB) (Franchisee 1)**

"I hope that the franchisor can give a response to franchisees' questions rather than dodge it. Otherwise, the franchisees will do the same thing by ignoring the franchisor's policy. It is the same rule if we do not offer instant response to customers; they will choose another store. So, if the franchisor still ignores franchisees' opinion, I will consider transferring to the another brand." **(Rebar) (Franchisee 2)**

"I hope that the franchisor has a long-term perspective rather than just offering the brand only. Hence, I hope the franchisor can pay more attention to the brand promotion. After all, the word of mouth of the brand is built on the franchisees' service. So, if both parties can ally together to strengthen the brand value, it will be good to both parties. However, it has its difficulties, because every franchisee's objective is different." **(Century 21) (Franchisee 5)**

Summarising the franchisees' opinions, they believed that franchisors should try their best on brand promotion, information sharing and educational training. In other words, the ideal situation is that the franchisor should provide what a single franchisee cannot do himself and give up those activities which franchisees can manage by themselves. Another interesting point is that many franchisees thought about transferring the brand. Nevertheless, in this research, the transferred franchisees were still not satisfied with their current franchisor. For these, we can say that no franchisor is good enough. Moreover, from the franchisees' opinions, we can see that the potential conflicts between the franchisor and franchisees arise from many perspectives. Finally, franchisees will treat the franchisor as the franchisor treats the franchisees. Returning to the CVS, there is a common point and a different point. The common point is that franchisees in both industries have communication problems with franchisors. The difference is that the CVS franchisors at least keep the daily operations smooth, with

EA franchisees, the basic service from the franchisor sometimes looks like 'fish in the air'.

Both the franchisors and franchisees have expectations from the other party, and this means that they are not so satisfied with the current relationship. As to how to face the conflicts, the following section will provide a discussion.

7.2.3 Attitude to Conflicts

From the previous comments, we can see that there are some visible and invisible conflicts between both parties. As they face the conflicts, how will both parties react? The CVS franchisors said:

> *"It depends on the issue of conflicts. Usually, conflicts will be deflected to senior managers if it cannot be solved at the supervisor's level. With franchisees, communication will be tried first, and followed by coercive actions. The RC managers have to follow the franchisor's policy without doubt."* **(7-Eleven) (International)**

> *"Coercive actions will be taken for either RC or FC outlets."* **(Niko Mart) (International)**

From the franchisors' comments, we can see that there are two different attitudes to dealing with conflicts. One is using coercive powers to force franchisees to follow the franchisors' policy; this is the reason why many franchisees complain that there is no difference between being RC managers and franchisees. The other is that the franchisors use different ways to deal with RC and FC questions. Therefore, the satisfaction of their franchisees is higher. Do franchisees have the same viewpoint? They stated:

> *"It depends on what kind of question. If the issue has been regulated in the contract, then coercive action will be done. If it is about the conceptual gap, it will be solved through communication."* **(7-Elven) (Franchisee 8)**

"The franchisor usually adopts a coercive attitude to ask franchisees rather than using a communicative attitude to ask franchisees and clearly, many complaints will occur. In addition, franchisees cannot ally together to protest against the franchisor, otherwise, all of them will be terminating the relationship." **(Circle K) (Franchisee 5)**

Returning to the franchisors' comments, we can see that some franchisors have a problem of mutual communication because most franchisees did not like the communication style. For RC managers, they have to follow the franchisor's policy; otherwise, their performance will be discounted by the store supervisor. Therefore, the attitude of the store supervisor depends on two factors, one is his own characteristics and the other is the franchisor's policy. Regarding the EA industry, the franchisor said:

"It depends on what kind of problem. If it is related to the whole system or other franchisees' benefits, the franchisor will use coercive power to do with it. However, if it is not related to other franchisees, we will communicate with each other to solve his problem." **(HB) (Local)**

All other franchisors have the same perception, hence, from this view; the franchisee's status in the EA is higher than in the CVS. However, if conflicts take place, it is more serious and harmful to EA franchisors. Usually, both parties will resort to the courts. This will indirectly damage the franchisor's brand value. The franchisees said:

"Few conflicts will occur because of few interaction. The franchisor doesn't want the franchisees to terminate the relationship so then the franchisor usually takes non-coercive action during conflicts." **(HB) (Franchisee 10)**

"It depends, if it is about customer's complaint, coercive action will be taken by the franchisor." **(Rebar) (Franchisee 8)**

"Now, it is more coercive because of the leader's characteristics in the franchisor office. However, generally speaking, it is based on affection rather than law. I feel the franchisor takes a stand on the dominant position during the communication." **(ChinaTrust) (Franchisee 2)**

"Non-coercive action will be taken by the franchisor because the franchisor cannot and will not use coercive action, otherwise, franchisees will terminate the relationship. It will be harmful to the franchisor's finance because this is a buyer's (franchisee) market rather than a seller's (franchisor) market." **(Century 21) (Franchisee 2)**

Comparing the attitude of the EA franchisor with that of the franchisees, the latter seems comparatively softer. This could be explained by the ability of the franchisor. If the franchisor is very weak, franchisees will ignore him. Franchisees also stated that the attitude is also related to the leader's characteristics or how familiar they are with the franchisor. If you are a new franchisee, the franchisor may have a more coercive attitude to you. Therefore, it seems that there is no rule for dealing with relationships and conflict; it varies with individuals.

7.2.4 The Development of Conflict

From the above section, we observe that there are many sources of conflict between franchisors and franchisees. When conflict occurs, how did it develop and how was it resolved? A leading CVS franchisor said:

> *"Generally speaking, the conflicts go through stages and finally there will be two possible results. One is that the conflict is reflected in many franchisees, then the franchisor will correct the operational issues. The other is that if the problem is just issued by one franchisee, then the store supervisor will communicate with him and solve the problem as soon as possible because there are too many policies, there is no time for franchisees to stay complaining. In practice, the marketing promotion activities are renewed every two weeks. Hence, if franchisees cannot throw away their complaints, it will influence the following operations. Finally, if both parties cannot negotiate with each other, the relationship will be terminated or resort to the court."* **(7-Eleven) (International)**

All franchisors pointed out that they would be proactive in solving the problems, however, in practice; this kind of interaction is still handled by the store supervisor. In order to prevent potential conflict between store supervisors and franchisees, store supervisors will usually be rotated every six months. In addition, from the franchisors' comments, we can see that they take a stand on the dominant positions to deal with conflicts to keep the system operating normally. Regarding the franchisees' reactions to conflict, their attitudes were:

"The final relationship will become no relationship or even worse. I just do what I should do and the franchisor just gives me what I should get. As to the interaction, no one will be proactive because I had been proactive in reflecting problems; nevertheless, the store supervisor pointed out that I should wait and see and the final responses were always nothing. Hence, I have become reactive to this kind of reflection. The worse result is to terminate the relationship." **(Circle K) (Franchisee 10)**

"The relationship will be worse and no party will be proactive. Now, I have been lazy to reflect problems because it takes time and the result is not satisfying. I haven't encountered any problem which cannot be solved." **(Hi-Life) (Franchisee 4)**

Summarising the franchisees' comments, we find that there are three kinds of reflection for franchisees. Franchisees may ignore it, take it, or co-operate with the franchisor to solve it. Most franchisees said that the relationship will be worse once conflict occurs because they are usually proactive on the problems, however, the responses from store supervisors or franchisors are time consuming or do not exist. Consequently, franchisees will become reactive to the franchisor policies. Returning to the franchisors' comments, we can learn that both parties said they would be proactive. The difference may be that franchisors are more proactive in asking franchisees to follow the policy and franchisees are more proactive in reflecting the difficulties of operations, because it causes them inconvenience and disrupts their benefits. With EA franchisors, their expressions were:

"The relationship is dependent on the final solution and usually, the franchisor is more proactive because it is related to the brand value. Once the conflict cannot be solved, both parties will terminate the relationship or even resort to the courts." **(Rebar) (Local)**

All the other franchisors said they would be more proactive, this may be because of the brand value, and they said that if conflicts cannot be solved, then both parties would resort to the law. In fact, conflicts will at first be negotiated by the area representatives and store supervisors. If the problem cannot be solved, it must be a serious case and most franchisees will complain about it. For example, HB had developed a second brand name without informing franchisees in advance; this aroused a lot of resistance. Some franchisees even allied together to sue the franchisor and the result was that the franchisees defeated the franchisor. Even so, these franchisees exited the brand and transferred to other brands. Therefore, nobody won from the conflict. As to how franchisees perceived the development of conflicts, their viewpoints were:

> *"Conflicts will lead to no interaction with each other, like a cold war. Franchisees will reflect the problem proactively and throw it to the meeting between the franchisor and franchisees. If the situation is worse, the franchisor will terminate the relationship."* **(ChinaTrust) (Franchisee 1)**

> *"Generally speaking, the franchisor is quite friendly, they deem franchisees are customers. As to which party will be proactive, it depends, if the issue is related to the transaction itself, the franchisor will be more proactively solving the problem. However, if it is about the store issues, the franchisee will be more proactive to reflect problems. Once the conflict cannot be solved, then both parties' relationship will be terminated, and then transfered to another brand name, it is quite easy."* **(Century 21) (Franchisee 5)**

From the above comments, we can see that the franchisor will be more proactive if the problem is related to its brand value, otherwise, he will ignore it until many franchisees complaint about it. Even so, after the meeting with the franchisors, some franchisors still ignore the franchisees' complaints. In this case, the interaction between both parties will get even worse. Comparatively, the main obstacle between the franchisor and franchisees in the CVS is the store supervisor, however, within the EA, the characteristics of leaders in the head office are the main factor.

7.2.5 Evaluation of the Other Party's Performance

The performance of one party is sometimes directly related to the satisfaction of the other party. In other words, if franchisees show a good performance on revenue or loyalty, then the franchisors will be satisfied. With the franchisees, they also hope that the franchisor performs well on the logistics or brand management. Hence, this section will discuss how one party evaluates the other party's performance. First, the CVS franchisors said:

> *"The performance could be evaluated from two perspectives, which are managerial and operational performance. The managerial performance is measured by his effort on the store management such as product and personnel management. Regarding operational performance, it is related to non-store issues, such as the competition. The franchisor usually helps franchisees solve these problems. However, if the managerial performance is not good enough, the franchisor will resort to the contract, or even terminate the relationship."* **(7-Eleven) (International)**

> *"The performance is mainly from three perspectives, they are sales, store management and customer service. The score of the performance is directed related to the application to be a multi-unit franchisee."* **(Circle K) (International)**

From the above comments, we learn that the performance evaluations of franchisees are mainly from two perspectives: daily sales and store management. However, this kind of evaluation is sometimes not welcomed by the franchisees themselves because the franchisees will think that the franchisors try to find fault as mentioned before. With franchisees, their evaluations are based on:

> *"The performance is evaluated from the number of store outlets and the expansion speed."* **(7-Eleven) (Franchisee 4)**

> *"I think the performance is evaluated from the advertisement and the communication channel. Now, there is no advertisement for the brand name and the communication channel is quite closed and passive. Hence, it let me feel there is no difference between an RC manager and a franchisee."* **(Circle K) (Franchisee 5)**

From these views, we can see that franchisees' expectations of the franchisor are varied, however, the final expectations are mainly of monetary revenue and the quality of interactions. Compared with franchisees, RC managers have a different kind of thinking: they question if the franchisor is good enough to let them stay in the business forever. From their expectations, only one point is the same as the franchisor's expectations, namely, the maximisation of the store profit. The difference is between the store management and interactions. Therefore, this kind of gap may be a source of conflict. The EA franchisors said:

> *"The performance can be evaluated from the computer information. In addition, we organise many competitions among franchisees to see which ones are good performers. The store supervisor can also offer franchisees' performance and relative information. So, the franchisor is very clear about all the information."* **(Rebar) (Local)**

> *"The performance is evaluated from the difference between the cost and performance. Usually, franchisees do not want the franchisor to know about this kind of information. However, from it, the franchisor can give franchisees some constructive suggestions."* **(ChinaTrust) (Local)**

From the above comments, we can see that performance is evaluated from the sales and computer system. However, as mentioned before, the information on the computer can be false. Hence, the visit to the store becomes more important, however, this kind of interaction seems difficult for franchisors. Finally, the franchisor sometimes cannot get the latest information from franchisees until something happens. With franchisees, their viewpoints were:

> *"It can be evaluated from three perspectives, which are the number of franchisees, the ranking of the brand name and the professional support when you need it."* **(HB) (Franchisee 8)**

> *"It is based on the interaction, if the interaction is good, then the relationship will be good."* **(ChinaTrust) (Franchisee 1)**

Basically, what franchisees focus on are educational training, brand name advertisements, market share and the quality of interaction. However, from the previous sections, we can see that most franchisors are not good at brand name advertisement and interaction. Therefore, some franchisees take a passive attitude to the franchisor's performance; they just ask themselves rather than seek out the franchisor's help. Returning to CVS franchisees, their requirements are the same, which are the monetary revenue and interaction. However, the focus is different, CVS franchisees want to have a better interaction with franchisors and EA franchisees hope that the brand exposure can be higher. From this phenomenon, we can suggest that the relationship in CVS between the franchisor and franchisees is more stable than in EA.

7.2.6 Co-ordination of Both Party's Objectives

The franchise organisation is not like general organisations whose objectives are carried out from top to bottom. In the franchise organisation, every franchisor and franchisee have their own objectives, which may differ. Hence, co-ordinating these objectives to create the maximum efficiency is very important. Otherwise, it will be like dispersed sands, which cannot compete with the RC system. Within the CVS, one franchisor said:

> *"The final objective for the franchisor is to create profit for both the franchisor and franchisees."* **(Circle K) (International)**

From the above comment, we can confer that the franchisors' objectives are the maximisation of profits and store outlets. However, some conflicts exist between both parties such as the sharing percentage and exclusive trading territory because of self-interest. Some franchisees highlighted their objectives as:

> *"The final objective is to make the store profitable enough to be franchised. In other words, when a new franchisee comes running the store, its performance can be at least the same as before. Therefore, being a RC store manager, my objective is to let the RC outlet become a FC outlet."* **(Circle K) (Manager1)**

> *"There are two objectives, one is to make money and the other is gain some experience on how to run a store."* **(Circle K) (Franchisee 4)**

> *"Making money and being a multi-unit franchisee are my objectives."* **(Niko Mart) (Franchisee 1)**

From the franchisees' expressions, we can see that beside money, there are other objectives such as self-growth or being a multi-unit franchisee. Hence, the franchisors have to know how to design a better management mechanism from the perspectives of monetary and non-monetary angles. With EA, some franchisors said that their objectives were:

> *"The objectives are to manage the brand well and attract more franchisees. The retail channel is not only a positive impression of the business group but also an advantage for future products or services. We hope we can be the leading brand name in China in the future."* **(Rebar) (Local)**

> *"The final objective is to copy the successful model and then make profit."* **(Century 21) (International)**

From the franchisors' expressions, we can see that franchisors cannot survive without franchisees; hence, franchisors tend to have a positive attitude to franchisees. However, maybe this is just an ideal situation, in fact, how franchisees perceived the objectives is reflected here:

> *"Being the leading brand in this area is my objective."* **(Rebar) (Franchisee 5)**

> *"The final objectives are considered on the perspectives of making money, staff stability and organisational development."* **(ChinaTrust) (Franchisee 1)**

A comparison between the objectives of franchisors and franchisees shows a clear conflict regarding the exclusive trading territory mentioned in the previous section. Before, franchisors used the line distance for this criterion, but now some change to use the number of households. Even so, when the economic situation is good, this kind of conflict will still exist. Comparatively, franchisees in the EA do not have the desire to be multi-unit franchisees now because of the recession; the number of EA store outlets is decreasing. However, with CVS, many franchisees want to be multi-unit franchisees, this kind of phenomenon has been mentioned before.

7.2.7 The Relationship Between the Franchisor's Performance and the Franchisee's Performance

Little and Pride (1985) suggest that the overall franchisee satisfaction is intensified when the member perceives a strong association between performance and channel related rewards. From the previous discussions, we know that the franchisors' performance can be evaluated from logistics, supervision, communication, educational training, brand name and so on. If the franchisees believe that the relationship between both parties is important and treasure it, then there will be a positive effect; otherwise, there is no relationship between both parties' performance. Some CVS franchisees said that:

> *"Yes, because we are in the store everyday and sometimes we cannot see our defects, the supervisor can remind us and improve it."* **(7-Eleven) (Franchisee 10)**

> *"The performance is mainly based on the franchisee's effort. As to the relationship with the franchisor's performance, it is limited. If the franchisor's performance on advertising and product mix management can be better, it would be helpful."* **(Circle K) (Franchisee 4)**

From the franchisees' comments, we can learn that that the franchisor's performance is mainly judged from the supervisor's assistance, advertising, product mix and the logistics. However, some franchisees highlighted that location, interaction with employees and customers are the most important factors of all for a store's success. Therefore, we can suggest that there are three critical success factors, which are the franchisor's ability, the franchisee's effort and the location. Comparatively, franchisees in the EA pointed out that:

> *"No, there is no relationship because of three reasons, they are the experience of the supervisor, the franchisees' attitude to the franchisor and the franchisor's response. Regarding the final point, the franchisor always ignores franchisees' opinions; so, it is useless to argue with the franchisor. Therefore, the leader in the franchisor becomes very important because he can influence the organisational atmosphere."* **(HB) (Franchisee 10)**

> *"It depends on how you take advantage of the franchisor's resources. If you know, then the percentage will be higher, otherwise, there is no relationship."* **(Century 21) (Franchisee 10)**

Most of the EA franchisees said that the brand name is the first impression for customers, after that, the ability of salesmen is the most important feature of all. However, as far as brand name promotion is concerned, they are not satisfied with the franchisor's efforts. Instead, the franchisees promote the brand name for the franchisor. Hence, improper interactions and conflicts occur quite often. Returning to CVS, the difference is quite clear that most franchisees in EA do not think that performance is related to the franchisor's performance, what they use is just the brand name at most.

7.2.8 The Relationship Between 'give and take'

From the perspective of relational exchange theory, the attitude of both parties to the transactions between entities can be uncovered. During a transaction, aside from the price factor, there are also emotional exchanges and other non-price exchanges. Therefore, economic and non-economic satisfaction will be achieved by the transaction. In franchising, the price factor means the royalty and emotional exchange typifies the quality of interactions. In this section, both parties will comment on whether there is a fair "give and take". This kind of feeling will influence the development of both parties' relationships. One franchisor stated that:

> *"I believe that the franchisor gives more than what is got from franchisees. Now, the franchisor is releasing more and more resources to franchisees and we believe that franchisees' income is good enough, nevertheless, why can they not make more effort to create more profit."* **(7-Eleven) (International)**

From this comment, the franchisor believes that the balance is either fair or that the franchisor is paying more. Nobody says that he gets more in return. This may be because the franchisor has to create a good operating environment for franchisees and this task is costly, and the cost is far more than the royalties. With franchisees, their opinions are:

> *"It depends, if the comparison is between the revenue and the effort. I believe that I pay more. However, aside from the revenue, I believe that I can gain the intangible reward, such as achievement."* **(7-Eleven) (Manager 3)**

> *"I think that it is quite fair, so I am satisfied with the relationship so far."* **(Circle K) (Franchisee 3-internal)**

> *"I believe that I pay more than I get from the franchisor."* **(Niko Mart) (Franchisee 4-external)**

From their comments, we can observe an interesting phenomenon, that is internal franchisees tend to be satisfied with this kind of relationship. However, external franchisees felt that they pay more than they can get from the franchisor. Hence, the relationship between the franchisors and internal franchisees seems better than external franchisees. In addition, the satisfaction of multi-unit franchisees is higher than single franchisees; this suggests that multi-unit franchisees are more loyal to the franchisor's policy. Regarding the RC managers, most of them think that they pay more than they get from the monetary income. However, they also get the achievement from the store management. From the respondents' answers, the franchisor could design different rewarding system for each group to make the relationship better. One EA franchisor highlighted that:

> *"I believe that the franchisor pays more than the franchisor gets from the royalties because there are too many competitors in the market so then the franchisor has to lower the royalty."* **(HB) (Local)**

All the other franchisors pointed out that they pay more than they get from franchisees. Two reasons may explain this; one is that in a competitive market, in order to attract new customers, the franchisor has to lower the royalties. Second, during the recession, franchisees asked to pay a lower royalty; some franchisors agreed to keep the original franchisees. As to what are the franchisees' opinions, they said:

"It is difficult to evaluate, it should be said, how much you can create from the franchisor's support. In addition, it is closely related to the franchisee's ability." **(HB) (Franchisee 2)**

"It depends, in a booming market, I believe that it is worthy, now, in the recession market, I believe that I pay more than I can get." **(Rebar) (Franchisee 9)**

"It should be evaluated from two perspectives. The first is with regard to the investment of the brand name and the second is whether the brand name is powerful enough to attract new employees." **(Century 21) (Franchisee 5)**

From this analysis, we can see that most franchisees in Rebar and Century 21 felt that it is quite fair; nevertheless, the reasons may be varied. With Rebar, the brand is the leading franchise brand and the franchisor's ability is higher than the others. However, with Century 21, most of the franchisees are transferred; therefore, they already have a view on what the quality will be and will not ask too much from the franchisor. In the analysis, many franchisees pointed out that it is very difficult to evaluate whether it is equal in the exchange because it depends on the stage, market and so on. So, there is a gap between franchisors and franchisees. Most franchisees felt they paid more and if this kind of dissatisfaction grows, they may transfer to another brand name.

7.2.9 Summary

In this section, relational exchange theory provided a framework to explore the perspectives of relationship maintenance and conflict development. Concerning the maintenance of relationships, they should be managed from the pre-contractual stage rather than wait till conflicts occur. The CVS franchisors tended to resort to the contract, if franchisees are not loyal to the franchisors' policy. However, in the EA, the franchisors were inclined to use non-coercive power to communicate with franchisees first. This results in a bad situation, in that there are many different treatments and grey areas. Even so, both industries agree that having a good communication channel is the way to maintain relationships. With regard to this point, the EA seems to outperform the CVS; however, the result is the same because franchisors in both industries seem to always ignore the franchisee's opinions. The relationship between EA franchisors and franchisees is just built on the exchange of royalty and brand name. The relationship becomes very volatile and franchisees can transfer the brand name at any time. By contrast, in the case of CVS, franchisors have provided the basic service to keep the business running, hence, what franchisees are dissatisfied with, are issues related to details of operations and communication mechanisms. This is the reason why CVS franchisors are more powerful than EA franchisors.

Concerning the development of conflict, in the beginning, franchisees tend to influence the franchisors but finally, they find that they cannot, all they can do is to follow the franchisor's policy passively (CVS) or ignore the policy (EA). As to the performance evaluation, CVS franchisees think that the quality of interactions is the most important factor of all, while EA franchisees believe that brand power is the key criteria. Regarding the relationship between the franchisor's performance and franchisee's performance, the CVS franchisees think that franchisors should be good at logistics, product management, supervision, computerisation, expansion and so on. The EA franchisees still think that the performance of brand management is the critical success factor. After all, EA franchisees can survive without the franchisors' assistance. Finally, in the relationship between 'give and take', internal franchisees and multi-unit franchisees in the CVS seem most satisfied with the franchisors and thought that they got more from the franchisors. Within EA, the franchisees suggested that it is related to how you utilise the franchisor's resources. If you know how to use these resources, you will feel that it is worthy; otherwise, you will feel unfairly treated because you just use the brand name.

From the examinations of relationships and conflicts in chapters 6 and 7, we found that the relationship between franchisors and franchisees is influenced by many variables. Minimising the gaps between both parties is important; hence, communication takes an important role in the interactions. Only by good and effective communications, can both parties ally together to maximise the brand value.

The following Table 7.1 summarises the comparisons between franchisors and franchisees from the perspectives of decision-makers and relational exchange theory.

Table 7.1 The Summary of Decision-Maker and Relational Exchange Theory

Item	Variables	CVS (Franchisee)					EA (Franchisee)				CVS (Franchisor)				EA (Franchisor)			
		RC	FC (S)	FC (M)	I	E	S	M	O	T	7-Eleven	Circle K	Niko Mart	Hi-Life	HB	Rebar	China Trust	Century 21
Decision Maker	There is a close relationship between leadership and franchisee's satisfaction	✔	✔	✔	✔	✔	✘	✘	✘	✘	✔	✔	✔	✔	✔	✔	✔	✔
	Preference of an entrepreneur	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	✘	✘	✘	✘	✘	✔	✔	✔
	Franchisor is an entrepreneur	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	✔	✔	✔	✔	✔	✔	✔	✔
	Franchisee is an entrepreneur	N/A	✔	✔	✔	✔	✔	✔	✔	✔	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Franchisor's experience is positively related to franchisees' satisfaction	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔
	Franchisor has to run company-owned outlets before franchising	✔	✔	✔	✔	✔	✘	✘	✘	✘	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
R/E	Satisfaction of the relationship	✘	✘	✔	✔	✘	✘	✘	✘	✘	✔	✘	✘	✘	✔	✔	✔	✔
	Give more than take	✔	Δ	✘	✘	✔	✔	✔	✔	✘	✔	✔	Δ	Δ	✔	✔	✔	✔

✔ : Means the majority agree Δ : Means no firm option ✘: it means it depends, the same, has no relationship or the majority disagrees

N/A: it means the case is not suitable for the party; **RC**: Regular Chain (company-owned outlet), **FC(S)**: Single-unit franchisee, **FC(M)**: Multi-unit franchisee, **I**: Internal franchisee, **E**: External franchisee, **S**: Single: Single-unit franchisee, **M**: Multi-unit franchisee, **O**: Original franchisee, **T**: Transferred franchisee

CHAPTER EIGHT: CONCLUSION

8.0 Introduction

From the discussions and analysis presented in chapters 6 and 7, we have a view of what the franchisors' and franchisees' viewpoints are concerning specific issues. In this section, those findings, which are in conflict with existing theories will be presented. The purpose of this chapter is to elaborate, extend and test theories. Hence, the following discussion is based on the theoretical concepts used to deduce findings rather than the sequence of research questions. From the previous chapters, it is evident that the industrial characteristics for both convenience store (product based) and estate agency (service based) are different. As a result, the interactions between the franchisors and franchisees are also different. The following section will discuss and compare the differences between existing theories and practices. This section is divided into two parts, general issues and management issues.

8.1 General issues

In this section, issues relating to franchising in general will be discussed to explore differences between the research findings and the existing theories.

8.1.1 Failure Rates

Stanworth, Purdy, Price and Safiris (1998) confirmed Shane's (1996) finding and believed that, although franchise business failure rates are similar to conventional small businesses, franchising may be more risky during the first four to five years of a system's life. Bates (1990) has demonstrated that franchised outlets can both under-perform and out-perform comparable independent businesses, not only in the same sector but also in the very same franchise system, depending on factors such as whether franchisees are newcomers or entrenched, multi-establishment franchisees taking on additional outlets. After comparing US and UK data, Storey (1994) concluded that the broad pattern which emerges is that the young are more likely to fail than the old, the very small are more likely to fail than their larger counterparts, and that, for young firms, probably the most powerful influence on their survival is whether or not they grow within a short period after start-up. Therefore, we can suggest that the failure rate is closely linked with the age and the scale of the franchise system.

Based on Bates' argument, the author draws the same conclusion that there is no definite answer about the failure rate between franchised and conventional outlets. According to the comparison between US and UK data, Storey concludes that the failure rate is closely linked with the age and the scale of the franchise system. In this research, the researcher finds something that the previous researchers have not mentioned, for example, the critical success factors are the internal management and the store manager's style in both industries. Besides, in the EA industry, if your personal network is wide enough, then a private brand may outperform a franchised outlet. During the economic recession, the failure rate for franchisees may higher than private brands, because they still have to pay royalties every month, even if they do not have any sales for that month. Therefore, the author suggests that the failure rate in the EA industry is not only related to whether this is a franchise brand or not but also internal management, managers' ability, personal networks and external changes, such as economic cycles.

8.1.2 Franchising as an Organisational Form

- *In theory, with this kind of organisational form, not only should the franchisor co-operate with franchisees but also the franchisees should ally together to compete with other brands.*

The above statement is the ideal situation and this is not true in real life based on this research. Some franchisees said that their competitors are other franchisees with the same brand name rather than other brands' franchisees. This is because the exclusive trading distance is only 500 square meters in the case of EA. If two franchisees find the same potential customers, they may speak ill of each other to gain the customer. Hence, their relationships with other brands' franchisees may be better than that with franchisees from the same brand. This phenomenon is quite prevalent in the EA industry. Also, within the same brand, there are different kinds of operational norms and commission systems, which sometimes confuse customers; hence, the collective power of franchise brands cannot compete with RC brands in the EA industry.

8.1.3 Multi-unit franchisees outperform single-unit franchisees

- *In the USA, it is not uncommon for 50% of a franchise company's outlets to be owned by less than 20% of its franchisees. A single large franchisee may own several hundred outlets (Bradach, 1995). Bradach (1995) suggests that multi-unit franchisees outperform single franchises in respects of unit growth. However, multiple ownership in UK appears less common and it is estimated that 82% of franchisees operate just a single unit (The NatWest Bank/British Franchise Association Franchise Survey 1993).*

In this research, the author suggests that the prevalence of multi-unit franchising is related to the ownership patterns and nature of industry. With a combined ownership patterns in the CVS sector, franchisors can share the risk with franchisees even if the external environment is unstable and people need to go shopping in the CVS for daily necessaries. In contrast, in the EA sector, due to franchisees are totally independent from franchisors, therefore, as the external changes are over franchisees' abilities, they choose to close some outlets to dodge the risk. Therefore, under the same environment, two different industries have different development in the multi-unit franchising. As to the concept between multi-unit franchising and unit growth, unit growth is due to many factors, such as the ability of the store manager, location, brand reputation and competition. Therefore, the author suggests that a single unit franchisee becomes a multi-unit franchisee because of good performance, however, one established or a multi-unit franchisee, each store has a difference in location, manager's ability and customer preference. All of these variables will influence the overall performance of a multi-unit franchisee. As a result, although the overall performance is better than single franchisees, the unit growth for each outlet within the multi-unit franchisee may not outperform that of a single franchisee. This is the reason why many multi-unit franchisees in the EA closed their additional stores and just kept one, as the economic situation is not good.

8.1.4 The preference of existing franchisees

- *Kaufmann (1992) suggests that franchisors interested in expansion often look to existing franchisees to reduce the risk associated with placing their concept in the hands of an unknown prospective franchisee. However, Felstead (1993) finds an interesting case involved a Prontaprint franchisee in the UK and suggests that* *franchisor preference for franchisees without prior experience in the operational line of the franchise.*

So, there are different arguments on hiring a new prospective franchisee. In the research, within the EA, franchisors said that the opportunity is the same for both existing and potential franchisees. The main considerations are his former operating record, moral standard, and the acceptance of the franchisor's regulations. As for CVS, franchisors used different kinds of criteria to evaluate new franchisees. Take 7-ELEVEN for example; potential candidates have to pass eight tests before becoming franchisees whereas existing franchisees have to undergo performance evaluation for a period of time. So, the evaluation is different in both industries and cannot be compared. In addition, franchisors highlight that existing franchisees may have the opportunity to cheat franchisors, in contrast, new franchisees are more loyal to franchisors' policy. Based on the above arguments, the author suggests the risks that franchisors face are different, one is the potential for cheating from existing franchisees and other is from new franchisees' unfamiliarity of the operations.

8.2 Management issues

The following section will discuss management issues. All of these issues are theory based drawn from agency theory, resource constraint, transaction cost analysis and relational exchange theory, the purpose is to help the researcher to see process variation, and to make connections among concepts. In addition, some findings can be evolved into a model, especially with respect to the interactions between franchisors and franchisees.

8.2.1 Monitoring issues

- *Mathewson and Winter (1985) suggest that monitoring costs arise from incomplete contracts; so, the franchisor should give franchisees most of the profits from the operations to prevent agency problems.*

Regarding the contract, franchisors and franchisees within the EA thought that it was quite equal, because if the contract was not equal, franchisees would not join the franchise system in a competitive market. As to the theoretical relationship between monitoring costs and the incompleteness of the contract, nobody agreed with this view. Within CVS, most interviewees suggested that monitoring is there to help franchisees perform well rather than find fault with them. Within EA, the purpose of monitoring is to communicate each party's concepts. Most of the EA franchisees also mentioned that the monitoring mechanism is closely related to the franchisor's ability. In addition, all the interviewees said that this should be called assistance rather than monitoring.

- *Brickley and Dark, (1987); and Carney and Gedajlovic (1991) suggest that franchising is cost effective when the marginal cost of monitoring company-owned units is higher than that associated with franchise contracts. These costs are viewed to be lower because the franchisee is seen as exhibiting a similar perspective to the franchisor: revenue growth.*

From the previous analysis, we find that in the case of CVS, the monitoring cost is the same for both company-owned and franchised outlets. There are two reasons for this: one is that the franchisor wants to keep a unified impression of the store, the other is based on ownership within this industry where the franchisor partly owns the store, the franchisor has to check whether the store runs smoothly. Hence, the author suggests that the main difference is based on the ownership pattern.

- *Kaufmann and Dant (1996) suggest that the costs of monitoring multi-unit franchisees should be cheaper, and the revenues accruing from them higher.*

Within CVS, the view that the revenues accruing from franchisees is higher but the costs of monitoring multi-unit franchisees is cheaper, is not correct. The reasons are that there are too many product lines (over 3000 items) and promotional activities (every two weeks). Hence, the franchisor has to monitor each outlet's operations for both company-owned and franchised outlets. Each store will be scored at a regular time no matter if it is a single or multi-unit franchise. The other purpose of monitoring is to keep a unified store image.

- *Theory suggests that with the improvement in telecommunications, the advantages of scale in monitoring will be reduced. Therefore, geographic distance will not be so important.*

In the EA, the monitoring frequency is low; hence, most of the interactions with the franchisor are by the Internet. However, based on self-interest, franchisees may input false information, for example, if the franchisee does not want to share a particular case with other franchisees, he will cheat on the price of the property. Hence, technology sometimes cannot solve problems, which are based on personal interaction. Technology based monitoring may not be accurate.

- *Agrawal and Lal (1995) found a negative and significant relationship between service level and monitoring costs, and a positive relationship between monitoring frequency and royalty rate. Also, they suggested that monitoring costs are inversely affected by monitoring frequency.*

Respondents within the EA did not agree with the expected relationship between monitoring frequency and royalty rate. Most franchisors do not monitor franchisees because of resource constraints and the independent ownership of franchisees. Only after receiving complaints from customers, will questionable franchisees be monitored for most franchise brands. With CVS, the franchisor's monitoring frequency is the same for either company owned or franchised outlets. So, there is no relationship between monitoring frequency and royalty rate. Consequently, for both EA and CVS, the theory is not applicable to these cases. As for the relationship between monitoring cost and service level, both CVS and EA agreed with this point. If the service level is good, franchisors will pay less attention to franchisees. Regarding whether monitoring costs inversely affect monitoring frequency, those within the CVS did not agree because even if the franchisees are far away from the head office, the franchisor will still assign supervisors to monitor them. This means that even the cost of transportation is higher than the average; the frequency of monitoring is the same for the remote outlets.

8.2.2 Screening issues

- *In theory, it is suggested that there are some screening skills, such as pen and paper tests, interviewing and so on before a franchise is issued.*

In this research, both of the above skills were adopted by CVS, but for EA, the most useful screening method is 'word of mouth' because most potential franchisees have worked in the industry for a period of time. For those who want to be a franchisee, no matter if he/she is from other brands or just an employee for a store, the franchisor usually investigates his/her background from other people who know him in the industry. Existing theory just specifies screening for new franchisees rather than for those who are transferred franchisees. In addition, if the work is related to personal interactions, pen and paper tests sometimes cannot uncover the applicant's characteristics. In other words, the nature of industry gives the differences.

8.2.3 Both parties are self-motivated

- *Theory suggests that once the contract has been signed by both parties; based on self-interest, both the franchisors and the franchisees should try their best to maximise their mutual interests, in other words, they will be highly motivated.*

However, in the CVS, some franchisees did not think so, this is because of the reward system. The more they work, the less they get (in relative terms), hence, they will not try their best once the sales reach a specific level. With EA, franchisors also have this kind of problem, they do not try their best to maximise the brand value, just take the royalties and do nothing. This creates complaints from franchisees and the result is a high brand-transferring rate. This implies that the franchisor does not have enough resources to promote its brand because the number of store outlets is under the break-even point.

8.2.4 High initial investments lead to greater company ownership

- *Brickley and Dark (1987) suggests that all other things being equal, high initial investments will lead to a greater company ownership of retail outlets.*

Based on the comparative analysis of CVS and EA, we find that this point is questionable. If the theory is correct, EA should be run by company ownership rather than by franchising because its initial fee is higher than CVS. The author suggests that the owner's attitude and motivations are other important criteria because he can decide how to run the business based on his own viewpoint and vision.

8.2.5 Buying back franchisees

- *Oxenfeldt and Kelly (1968-69), Hunt (1974) and Lillis, et al (1976) suggest that the advantage of rapid penetration will encourage franchising during the early life cycle stages. However as the firm grows, the firm may buy back franchisees in accordance with the franchising contract. The reasons for this course of action may include the release of scarce resources, maintenance of service quality and quick response to the market. Therefore, the large, profitable franchisees and those outlets in urban or areas with higher population densities will be transformed into company owned outlets. The only franchisees remaining are those in less profitable or rural area. Thomas, O'Hara and Margrave (1990) also support this suggestion. Dant, Paswan, and Stanworth (1996) also suggest that despite well-documented buying back in particular franchises, no trend towards a general increase in direct ownership by franchisors appears possible to establish. Dant, Paswan and Stanworth (1996) use meta-analysis to test 17 US-based empirical studies on the* *subject of ownership redirection phenomenon. They suggest that ownership redirection may not be universally valid across business sectors.*

From the above literature, we know that buying back franchisee is not a trend and cannot be applied to every industry. Actually, in the Taiwanese retail market, buying back does not seem to work. Within CVS, franchisors said that they would not buy back franchisees because franchising covers the resource constraint of human resources. Instead, only the profitable outlets will be franchised, because franchisors usually give the franchisees a guaranteed annual gross margin. Buying back franchisees only happens under two circumstances, one is when the franchisee does not want to run the store any more and the other is when the franchisee breaks the regulations, then franchisors will buy the store back. Within EA, they specified that this kind of situation would not happen in the Taiwanese market, if the franchisor buys back the profitable outlets, two things would happen. One is that nobody would join the system because they would not know when the franchisor would seek to buy back these outlets, the other is that once the franchisor buys the store back, the franchisee would set up another store next to the original one, and compete. Revenues of the original store would fall, as one of the most important characteristics in the EA industry is personal networks. In practice, what the franchisor does is to open another outlet nearby to share the market rather than buy back the profitable franchisee. However, this kind of action usually causes franchisees' complaints because of the exclusive trading territory.

8.2.6 Resource constraints of management talent

- *Resource constraint theory suggests that management talent is one of the constraints encouraging franchising.*

In practice, this view is not wholly applicable to CVS, because the franchisors prefer franchisees without any work experience so that a unified store impression and management can be kept. Hence, within CVS, this kind of constraint does not exist until the franchisee becomes a multi-unit franchisee. By definition, a multi-unit franchisee must have some ability to manage different stores; hence, some kind of management talent is required. For this reason, the author suggests that the theory may be suitable for some other industries, such as EA, or may be applied to a later stage in development. In addition, management talent is also related to whether franchisees can be regarded as entrepreneurs. The author suggests that this only applies to multi-unit franchisees because a multi-unit franchisee has to face more risk than a single franchisee.

8.2.7 Resource constraints of financial capital

- *Oxenfeldt and Kelly (1968-69) suggest that capital scarcity should be considered as a potential explanation of the decision to franchise. Lafontaine (1992) also points out that franchising might be a less expensive source of capital if there are incentive issues at the outlet level. In addition, Lafontaine and Kaufmann (1994) agree that capital may be more efficiently obtained from franchisees than from investors.*

With CVS, finance is not a resource constraint for the franchisors because all of them belong to big business groups. The franchisors said that the capital from franchisees is just a tiny part of the business operations, so, the author argues that the resource constraint of financial capital only applies to young or small businesses. Within the EA, franchisors offer another kind of thinking, they said that the most important issue of all is brand power rather than financial capital because once the brand is strong enough, not only will franchisees join, but banks will be happy to lend money. The other valuable point coming out of the interviews is that the franchisors cannot just look at the money; they also have to care about the selected franchisee. If the quality of the franchisee is poor, then he will damage the franchisor's brand, and this kind of loss is higher than the initial fee and royalty obtained from the franchisee. Hence, one franchisor cited a Chinese proverb: "*water that bears the boat is the same that swallows it*". In this context, this means that franchisees are just like water and the franchisor typifies the boat. If the water (franchisees) is unstable, the boat has a high risk of sinking.

8.2.8 The cost of brand transference

- *Williamson (1985) suggests that transaction cost analysis includes both the direct costs of managing relationships and the possible opportunity costs of making inferior governance decisions. His micro-analytical framework rests on the interplay between two main assumptions of human behaviour (i.e., bounded rationality and opportunism) and two key dimensions of transactions (i.e., asset specificity and uncertainty). The uncertainty arises from environmental and behavioural uncertainty.*

In Taiwan, due to vicious competition in the EA market, transaction costs do not arise. In other words, the asset specificity (brand value or store investment) is not as valuable as expected. As mentioned before, the brand-transferring rate is quite high in the EA market. First, if the theory is applicable, EA franchisees should bear a high cost of transferring. However, this is not true in practice because the market now is a buyer's (franchisee) rather than seller's (franchisor) market. Hence, as franchisees become dissatisfied with the original franchisor, or other franchisors use different incentives to attract franchisees, it is possible for them to transfer the brand. They believe transfer is worthwhile because the new franchisor usually offers is a royalty free deal for one or two years. Second, no EA franchisor can offer guaranteed sales like CVS, as a result, if the franchisees feel that the pay on offer from an alternative brand is more than that from the franchisors, they may be motivated to transfer the brand. Based on this point, the author suggests that if the market is under vicious competition, the theory may not be applicable.

8.2.9 Transaction Cost Analysis

Coase (1937) suggests that under certain conditions, the cost of conducting economic exchange in a market may exceed the costs of organising the exchange within a firm. From the previous review, we know that the franchise organisation is a kind of inter-organisational form. Hence, the costs of transaction between franchisors and franchisees should be lower. In the franchise system, one of the advantages is "mass purchasing power." However, instead of being able to purchase supplies less expensively through the franchisor, many franchisees found themselves paying exorbitant prices for supplies. One disillusioning study found that (1) the practice of requiring franchisees to purchase supplies from their franchisors is widespread; (2) franchisees believe they are being overcharged on their supplies; and (3) franchisees who must buy supplies from their franchisors suffer lower profits (Hunt and Nevin, *1975). From this point, one can doubt the cost of transaction within an organisation. In theory, it should be cheaper, but actually, many franchisors overcharged on their supplies.*

In this research, the result is also conflict with Coase's argument. Generally speaking, the franchisor should have a stronger buying power than franchisees and pass on the benefits to them. However, in the CVS, the price offered by the franchisor is sometimes higher than outside the system. Some franchisees said this arises because the franchisor gets too much commission from suppliers or the franchisor does not have the ability to find a good supplier. Hence, in this case, we cannot say that the cost of exchange within a firm (the franchise system) is definitely cheaper.

8.2.10 The franchisor's experience is directly related to franchisees' satisfaction

- *Stanworth, Kaufmann and Purdy (1995) suggest that in the longer term, as franchisees find themselves paying ever increasing royalties in line with increasing sales, and as their level of reliance upon the expertise of the franchisor in day-to-day problem-solving tends to decline, then the franchisor's power-base relies increasingly upon (a) the marketing power of the franchise tradename and (b) the fact that the franchisee has gained access to his/her knowledge and understanding of the field of operation exclusively via the franchisor.*

In this research, due the marketing power of the franchise tradename is not promoted by the franchisors but the franchisees. In addition, in the EA market, if the knowledge of the field of operation is not what the franchisees want, it is useless. Franchisees reflected that the most important of all are the attitude and ability of the franchisor rather than the professional knowledge. The other situation, which arises in EA, is that there is often no interaction between the franchisor and franchisee. In this case, there is no support for this proposition because the franchisees only use the brand name. One franchisee argued that an experienced supervisor does not mean that his/her judgement is always correct, because some situations may arise which he/she has never encountered.

8.2.11 The franchisor should run company owned outlets before franchising

- *Tikoo (1996) suggests that it is impossible for a firm to have a fully franchised system in the initial stage. This implies that the firm must start with company-owned outlets, as the operations and systems must be developed and tested successfully, then the franchisor can sell its company-owned outlets to franchisees and become fully franchised.*

In practice, this is not true at least in the Taiwanese EA market. Some EA franchisors chose good franchisees, learning from them and using them as examples to other franchisees in the initial stage. The franchisees also said that franchisors do not need to raise an ox for the purpose of drinking a cup of milk, what they need to own is just the operational know-how and flexibility.

8.2.12 Relational exchange

- *Spinelli and Birley (1996) suggest that both franchisors and franchisees may discount observed behaviour to maintain the relationship, and to work towards developing high relational norms of solidarity and mutuality, with strong role integrity to benefit each other.*

In the general situation, this view is reasonable, however, if the market is under vicious competition or if the external incentives are higher than the cost of maintaining the relationship, the relationship will be very fragile. Taking EA for example, although conflicts between franchisors and franchisees are quite obvious, the degree is not high enough to terminate the relationship. If there is another franchise system offering higher incentives, and the relationship is just built on the exchange between trademark and royalty, rather than non-economic exchange, then the relationship may be terminated. This is because the franchisee will think that he has the operational know-how, and there is nothing special to be gained from staying with the original brand. Therefore, the franchisee just uses the brand name at most. In this circumstance, which brand to join is not the key point, the important thing is whether the other brand is also a chain brand and can give him a better franchise package. If this is true, then he will transfer to another brand and the original relationship will be terminated. This point is also linked to the previous point within transactional cost analysis.

8.2.13 Summary

From the above section, we know that there are many points, which are different from existing theories which, were developed from western countries like US and UK. This does not mean that the existing theories are not correct. The reason may come from the difference of the nature of industry. In other words, some theories can be just applied to either CVS or EA industry, such as buying back franchisee is just applied to the CVS industry. In addition, the critical factors for either industry is different. For example, in the CVS, logistics is an important factor on the daily operations, whereas brand power is the key issue in the EA industry. Aside from the above conflict points, in the following section, the author tries to develop a couple of models to uncover the potential relationships and conflicts between franchisors and franchisees.

8.3 Models of Relationships and Conflicts

Aside from the above theoretical findings, the author attempted to build models from the perspective of practical implications. The models are developed gradually and are based on previous theories and findings; hence, the following models will help franchisors and franchisees to understand each party's needs and expectations. In order to explain how the models are evolved, the author built up the relationships between the different theoretical backgrounds, such as motivations, decision-makers and relational exchange theory. These backgrounds will help one understand how the story was organised. Figure 8.1 shows the development of the franchise relationship from the perspectives of key theories.

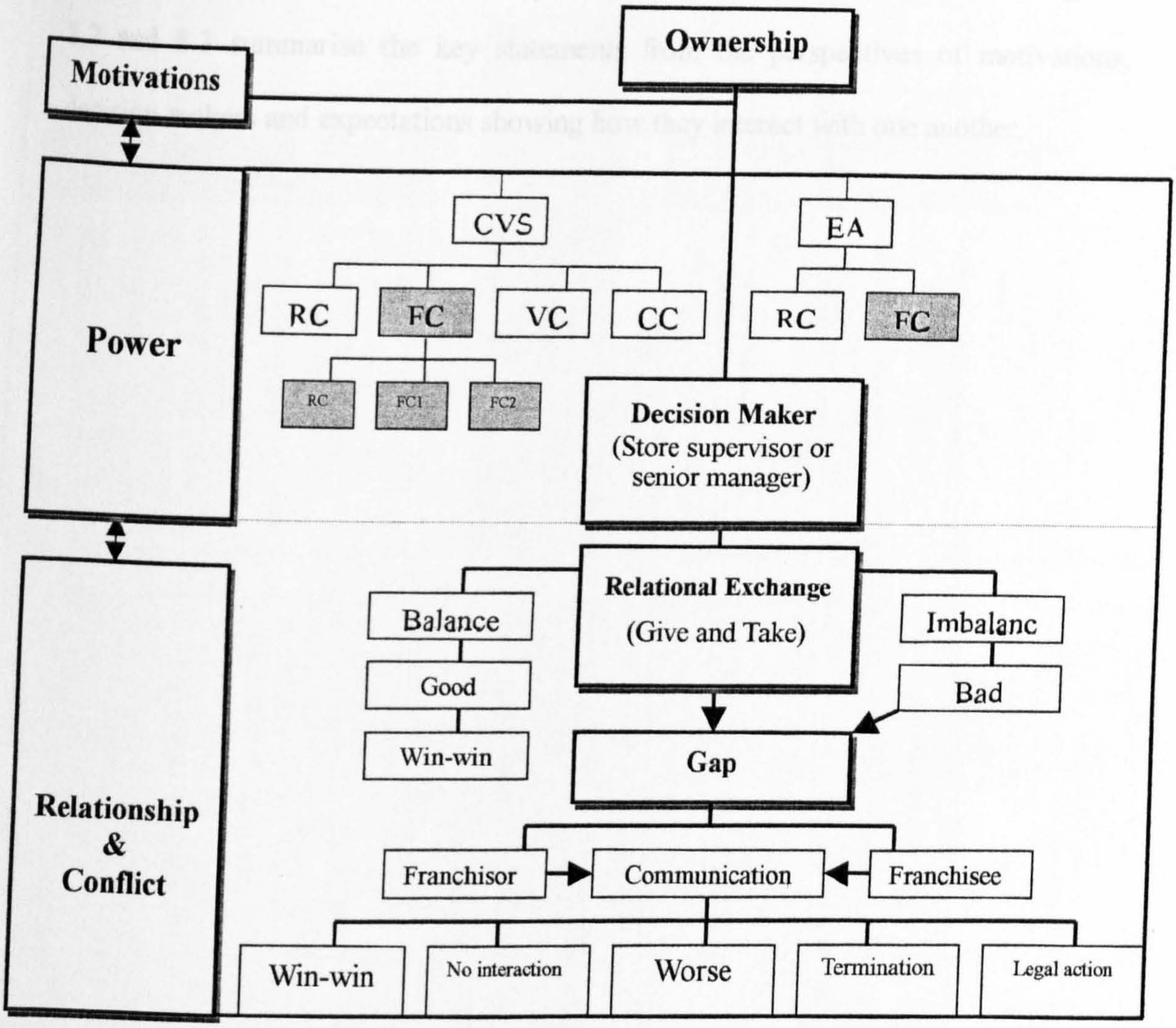


Figure 8.1 Interactions with key theories

Source: the author

The above figure starts with the ownership pattern because this is the main difference between CVS and EA aside from industrial characteristics. Then existing theories considering motivations, power, decision-maker characteristics and relational exchange were taken into consideration to understand the interactions between franchisors and franchisees. According to the previous discussion and analysis, we know that as gaps occur, there are five possible reactions from either party: 'win-win'; 'no interaction'; 'worse'; 'termination' and 'legal action'. Each kind of situation arises in either industry.

In order to have a clearer perspective of the differences between the industries, Figures 8.2 and 8.3 summarise the key statements from the perspectives of motivations, decision-makers and expectations showing how they interact with one another.

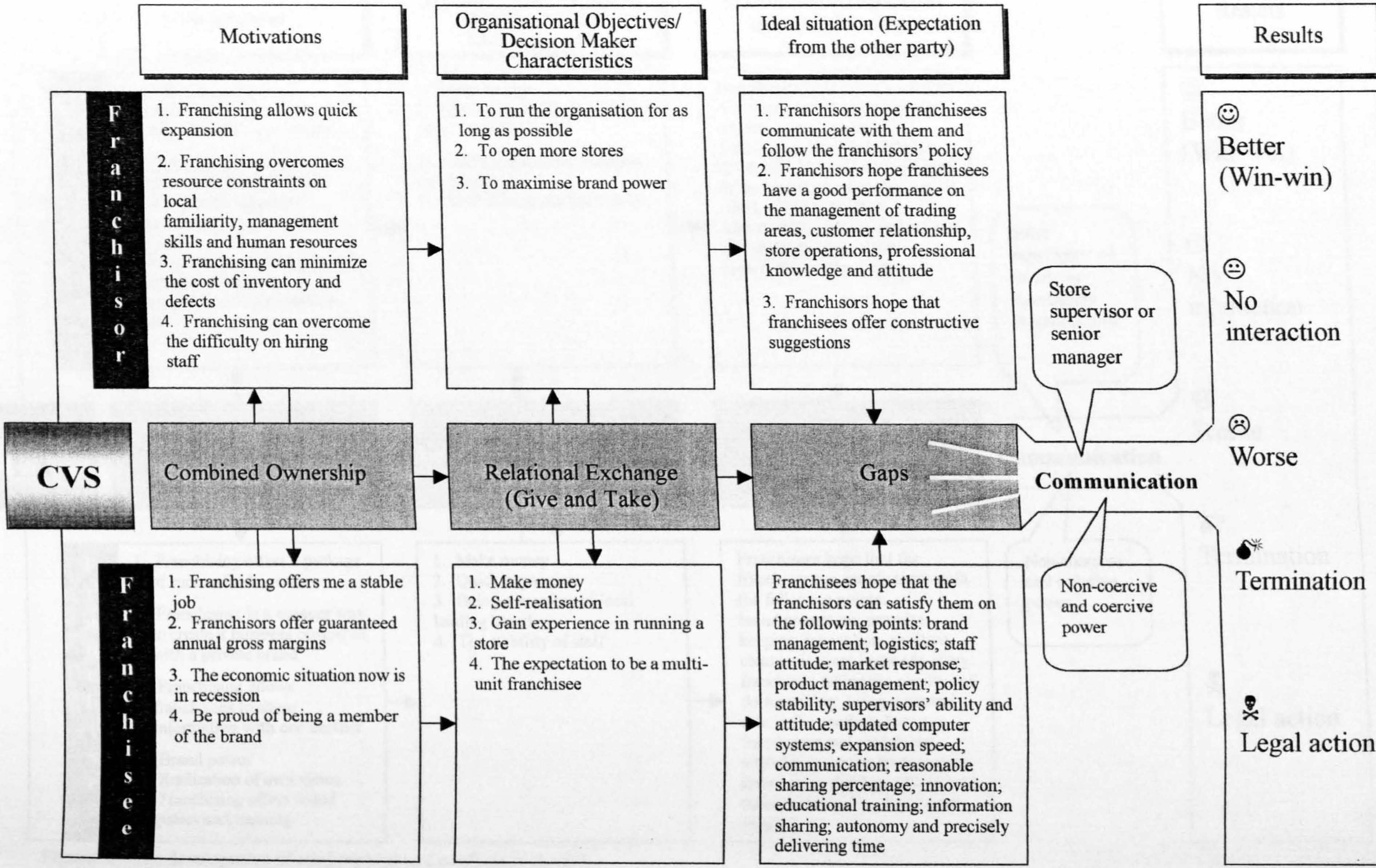


Figure 8.2 The development of relationships and conflicts in the CVS

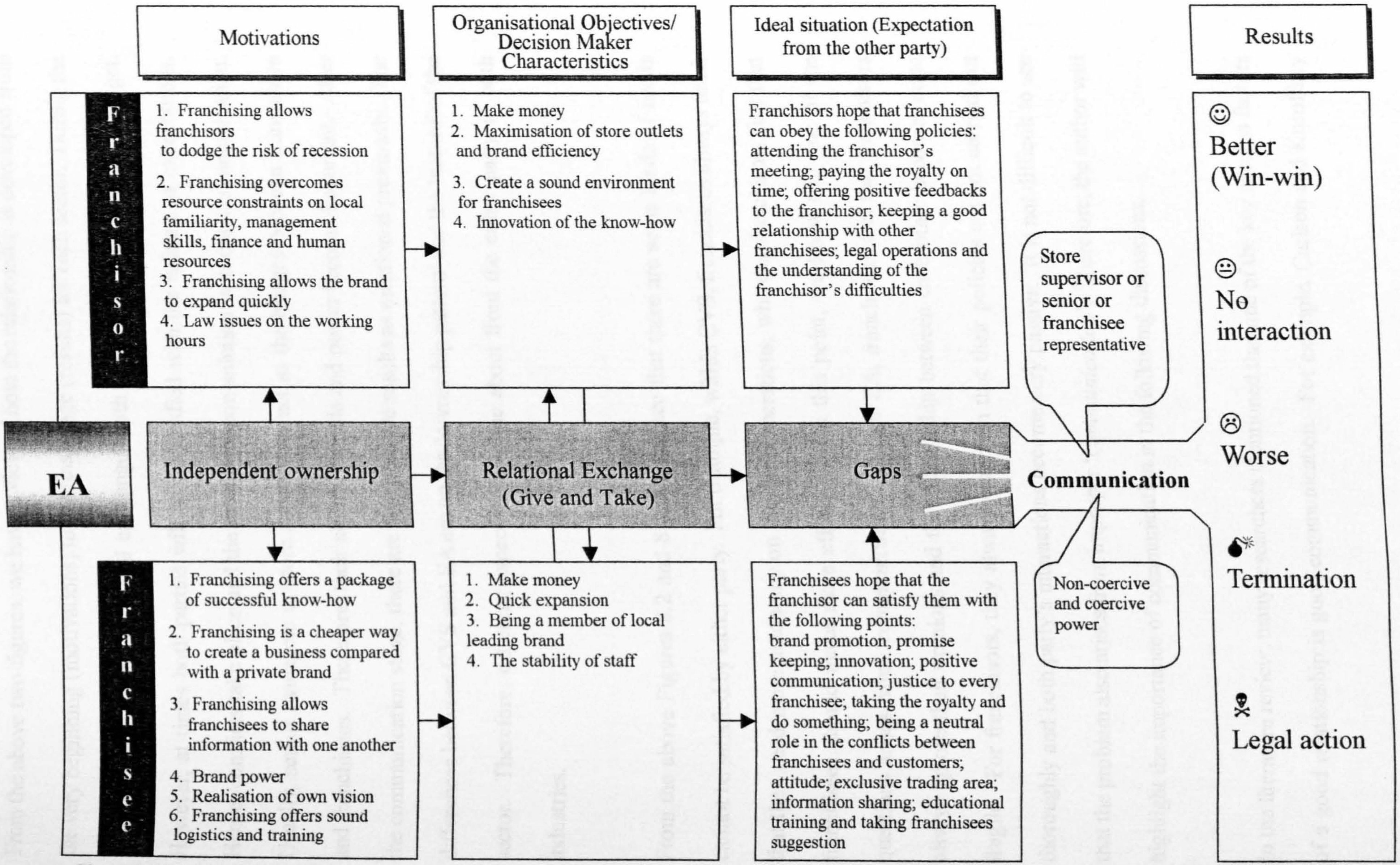


Figure 8.3 The development of relationships and conflicts in the EA

From the above two figures, we have a view of how the relationship is developed from the very beginning (motivations) to the final stage (results) for each sector. During the process, based on the relational exchange, both parties get what they want to get. However, at times both parties will be dissatisfied with the balance of expectations. Hence, conflicts take place and the most common solution is through communication. Usually, senior managers or store supervisors act as the bridges between franchisors and franchisees. Therefore, their ability, attitude and power become important. After the communication stage, there are five possible results as mentioned previously. The differences between CVS and EA are on the 'ownership pattern' and the 'nature' of the sector. Therefore, different expectations come about from the either party in both industries.

From the above Figures 8.2 and 8.3, we can see that there are some kinds of needs cannot be satisfied by either party. For example, within CVS, franchisees always think that they need more autonomy on the store operations, whereas franchisors feel that franchisees should make more effort. From this point, we know that one of the questions arises from '*communication*'. As for EA, franchisees feel that franchisors always ignore their opinions and the relationship between each other becomes quite fragile. For franchisors, they always complain that their policies are not carried out thoroughly and both party's interactions become very passive. It is not difficult to see that the problem also arises from improper '*communication*'. Therefore, the author will highlight the importance of communication in the following discussions.

In the literature review, many researchers mentioned that one of the key success factors of a good relationship is good communication. For example, Carlson and Kusoffsky

(1969) classify conflicts from the perspectives of organisational goals, decisions, and *communications*. Achrol and Etzel (1990) suggest that the mutual franchisee-franchisor goals should include concepts of co-operation, *communication*, co-ordination and commitment. In addition, Guiltinan, Rejab and Rodgers (1980) also suggest that a good relationship is related to the effectiveness of channel *communication*, the degree of uncertainty reduction and the extent of participative decision making. All researchers highlighted the importance of communication. In this research, the author also finds that communication is the most important factor of all. The difference from previous research is that the author has compared two different sectors with different industrial characteristics within the franchise market in Taiwan.

Generally speaking, good communication can minimize the perceptual gaps between franchisors and franchisees. However, in practice, the result shows that one of the most serious problems is the mutual mistrust of each other, especially in the EA industry. More even communication occurs in CVS; but some of the store supervisors' abilities and senior managers' attitudes are questioned- this may be seen as an issue of the communication channel. Therefore, communication is the common problem in both industries although the nature of industry is different.

Communication, aside from attitudes and perceptions, requires the right people, right policy, right time and right place. Generally speaking, communication occurs to minimize both parties' perceptual gaps from the perspectives of the internal (store operations) and external environment (external competitions). In practice, in the EA market, because the ownership pattern is fully independent, there is a tendency for a kind of horizontal communication. In addition, what the franchisees care about most is whether the brand power is strong enough to attract customers, hence, if the franchisor cannot give franchisees a satisfying answer at the right time with the right attitude and policy, then the relationship might break. Within the CVS, where there is combined ownership pattern, communication is more in a top-down style. Franchisees have to follow the franchisor's policies and therefore, franchisees sometimes feel that the franchisors intervene too much, and therefore they ask for a higher autonomy in the store operations. Usually, the communication is done inside the store through the store supervisor. However, if the store supervisor cannot solve the problem, he has to refer to a senior level. As a result, the problems arise from the perspectives of right time, right place and right person. Based on the above arguments, another model is developed in Figure 8.4.

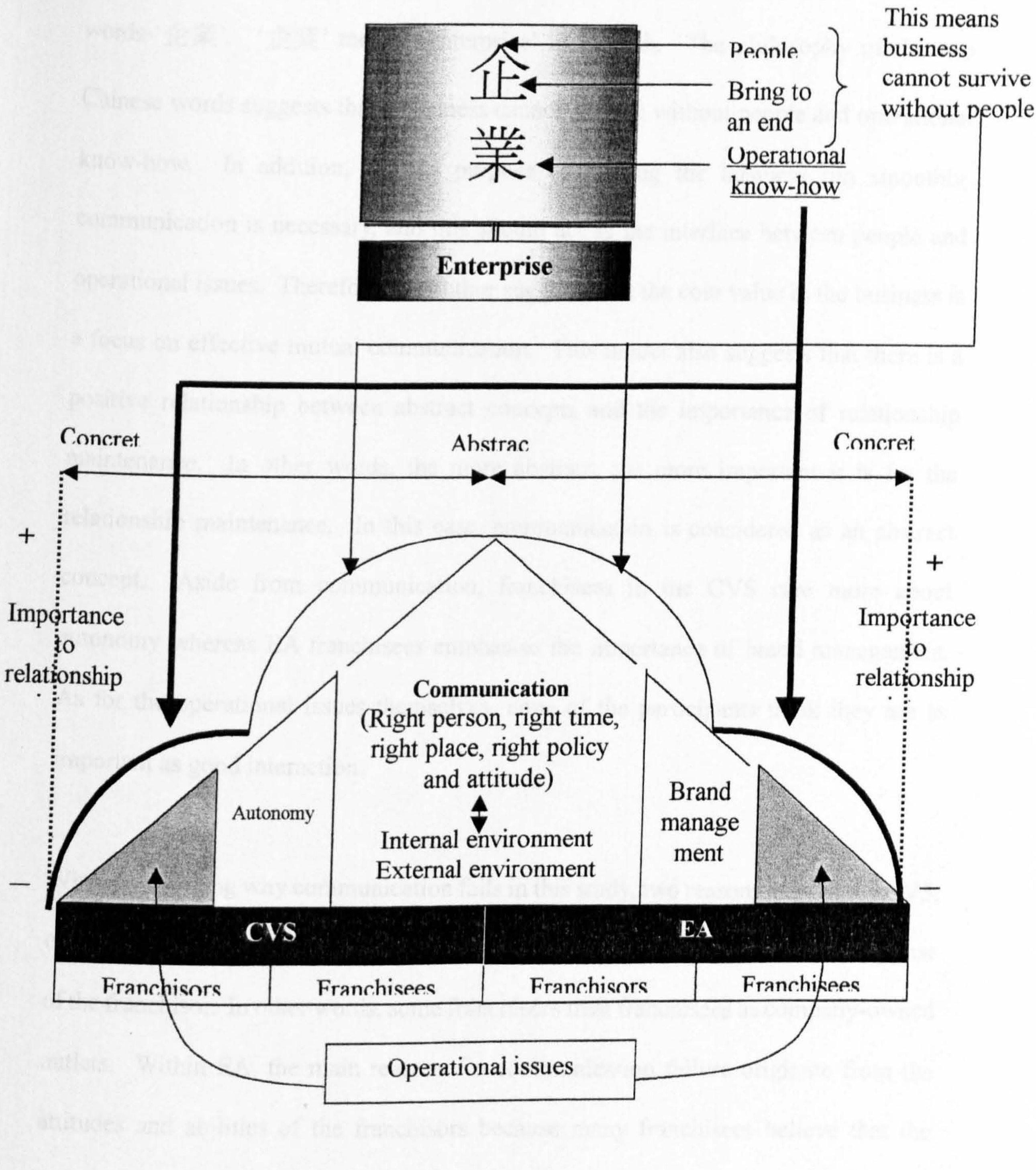


Figure 8.4 Hierarchy of organisational climate

Source: the author

In the model, in order to highlight communication, the author tried to apply the Chinese words-'企業'. '企業' means 'Enterprise' in English. The philosophy of the two Chinese words suggests that a business cannot survive without people and operational know-how. In addition, for the purpose of making the business run smoothly, communication is necessary, and this should act as the interface between people and operational issues. Therefore, the author suggests that the core value in the business is a focus on effective mutual communication. This model also suggests that there is a positive relationship between abstract concepts and the importance of relationship maintenance. In other words, the more abstract, the more important it is for the relationship maintenance. In this case, communication is considered as an abstract concept. Aside from communication, franchisees in the CVS care more about autonomy whereas EA franchisees emphasise the importance of brand management. As for the operational issues themselves, none of the participants think they are as important as good interaction.

When considering why communication fails in this study, two reasons exist in the CVS, one is a failure in the store supervisor's attitude and ability, and the other is the response of the franchisor. In other words, some franchisors treat franchisees as company-owned outlets. Within EA, the main reasons for communication failure originate from the attitudes and abilities of the franchisors because many franchisees believe that the franchisors always break their promises, so, they prefer not to attend this kind of meeting to waste their time. As a result, the author suggests that leadership in the franchise head office needs to be enhanced and improved. Based on the above arguments, the author developed another model, which is related to the previous concepts. The model, which is shown in Figure 8.5, specifies the interaction between the franchise relationship and organisational development.

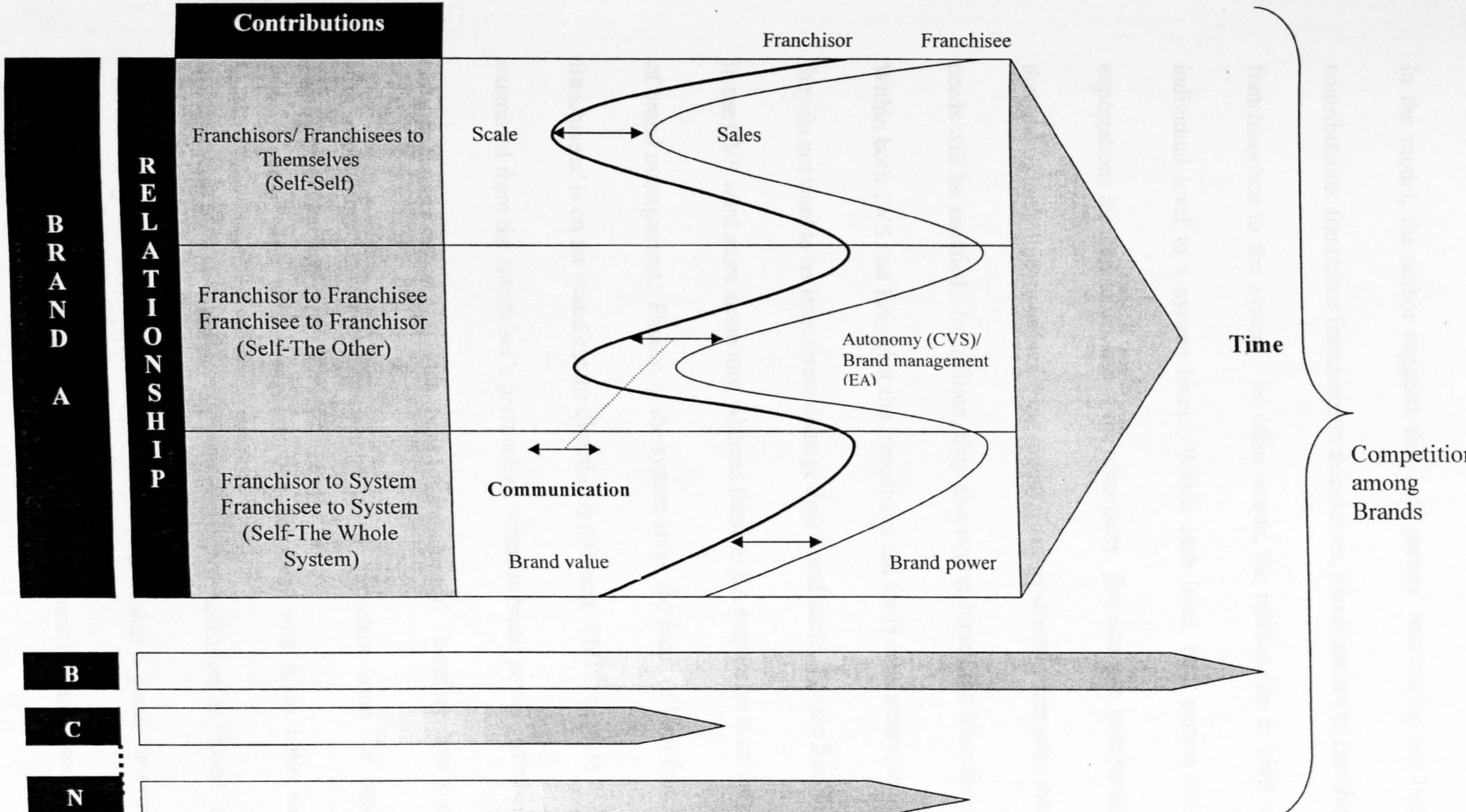


Figure 8.5 The Interaction between Franchise Relationship and Organisational Development

In the model, the author suggests that both parties' relationship are built on three contributions: franchisor/franchisee to themselves, franchisor/see to franchisee/sor and franchisor/see to the system. In other words, the relationship is built up from an individual level to a system level. Within each level, both parties have different expectations for themselves and of the other party. For example, both parties highlight that one of their objectives is making money, in other words, when sales increase, their needs will be satisfied. In addition, they also expect something from the other party. Within both CVS and EA, what the franchisors ask for is consistency, in other words, they do not want to let franchisees damage their brand name. For the franchisees, those in the CVS want more autonomy, whereas those in EA emphasise is on the importance of brand management. Finally, at the system level, the focus of both franchisors' and franchisees' is on the brand but the direction is different. This is because brand value is examined from the franchisor's perspective, whereas brand power (whether the brand can attract more customers) is the focus for franchisees. Therefore, how to co-ordinate with each other on these expectations is an important issue for organisational development. The author suggests that the best way is to have an effective communication. In practice, an effective communication is based on mutual understanding. In other words, if both party's relationship is good, the synergy of the brand power will outperform other brands and both franchisors and franchisees can get what they want from the other party and the system. Finally, the ideal situation-win-win-win status among the franchisee, franchisor and brand can be achieved.

Based on the above concepts, the following section will discuss another model, which is considered from the perspective of organisational expansion. From the above research, the author finds that there are three different kinds of system for a retail chain, which are a pure franchising system, a pure RC system and a plural system. The difference between them is based on ownership. In this section, the author wants to compare these three different kinds of systems from the perspectives of ownership pattern and expansion speed.

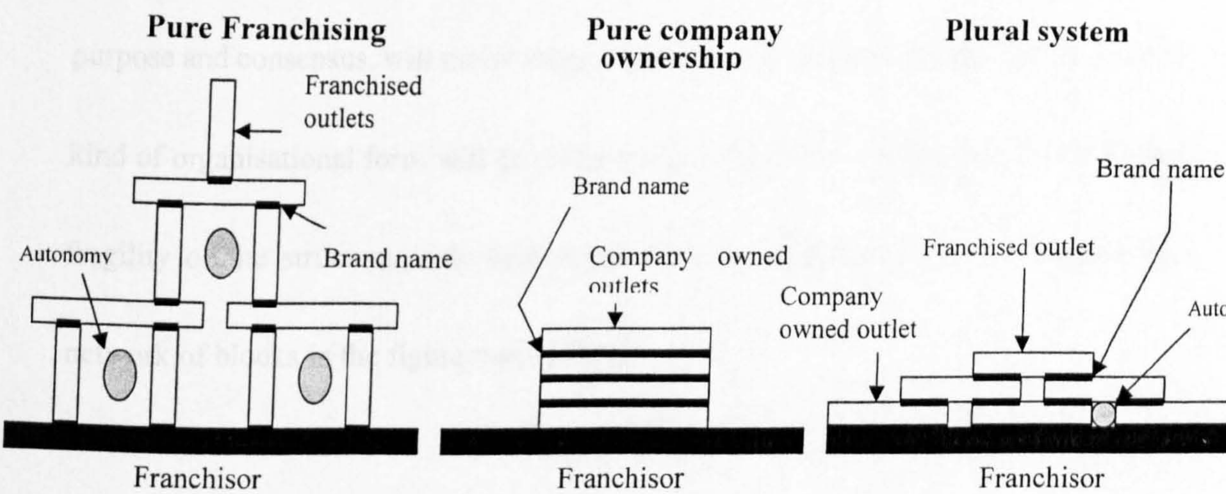


Figure 8.6 The Relationship Between Franchise Ownership and Expansion Speed

The above figure is divided into three groups based on differences in ownership. In order to visualise the difference among the three ownership types, the author highlights the relationship between franchise ownership and expansion speed from the perspective of autonomy and brand name. In this figure, we can see that within pure franchising, franchisees have higher autonomy than the other two, e.g., EA franchisees are linked to one another by sharing the same brand name. Growth of the network can be rapid (visualised by the height of the building blocks in the figure). However, if one franchisee offers poor service and the franchisor does not intervene in time, then the other franchisees will be damaged, and the relationship between either franchisor/franchisee or franchisee/franchisee will be fragile. Therefore, the franchisor has to monitor franchisees to make the system run smoothly. So, pure franchising is a kind of 'thought' industry; only when the franchisor and franchisees have a common purpose and consensus, will the synergy of brand power be maximised. Otherwise, this kind of organisational form will be corrupted quicker than the other two. The internal fragility of the structure, only held together by the brand name may fail, and the network of blocks in the figure may collapse.

The opposite of pure franchising is pure company ownership, like a hierarchy organisation, its growth speed is slow. However, based on operational consistency, the head office pays more attention to brand management designed to attract customers' attention. In contrast to the pure franchise system, the company managers have little space for creation because what they have to do is to follow the corporate policy. Therefore, we can say that this kind of organisation is a kind of 'management' industry and there is no autonomy. This centralised management approach and lack of autonomy; means that the network is very stable and built on 'strong foundations' (visualised in the figure). It is, in theory, less likely to collapse because of how this network is 'bound' together.

As for the plural system, this stands between the previous two. In other words, franchisees have limited autonomy and the franchisor can enjoy the achievement of expansion. But, how to treat company owned managers and franchisees in different ways is the key issue in this kind of organisation. In this paper, CVS typifies this structure. The network is less rigidly 'bound' together than the pure company ownership model, but is more stable than the pure franchise network.

To summarise, there is a Chinese proverb, which says, "*water that bears the boat is the same that swallows it*". In this context, this means that if franchisors just think about how many resources can be gained from the franchisees, rather than developing strong brand power, then franchising will speed up the corruption of the organisation. Therefore, once the organisation chooses franchising as an operational system, the franchisor has to be careful with the balance between expansion speed and organisational stability.

8.4 Limitations of the Study

In this research, limitations arose from several of perspectives. First, as far as the geographical dimension is concerned, the research was placed in the Taiwanese retail market rather than providing a comparison with other countries. In order to minimize this limitation, two different industrial sectors were compared to provide a deeper understanding of the franchise market in Taiwan.

Second, in the methodology, Hoffman (1989) suggests that if the presentation or publication is in a country other than the one in which the data were collected (i.e., if the language is different), key passages and their codes can be translated. However, a possible situation may happen, which is that many valuable meanings can be lost in trying to translate all of one's material. Also, many of the original subtleties of meaning are lost in translation. This is true; especially when the author wants to cite a Chinese proverb, the meaning of translation may lose its original implication.

Third, due to the constraints of time, money and the author's experience, only 84 interviews were conducted. Even so, from this information, the author still obtained sufficient information, because he found that the answers gained in the later interviews were similar to those observed previously. Therefore, the author chose to stop and started to do the analysis. As for the experience, if the author had had some training on how to do interviews, the research quality might be better.

Finally, as an analyst, the author wanted to build concrete, grounded models; to do so requires sensitivity as to what the data are saying and the ability to recognise his own biases. The author knows he never can be completely free of biases; many are unconscious and part of his cultural inheritance.

8.5 Future Research

Based on the previously presented research and findings, below are suggestions for future research.

8.5.1 Initial Fee and Royalty

Many franchisees in both CVS and EA industries said that the royalties are too high, especially as the market is in the recession. The CVS franchisees, said the sharing percentage is unreasonable and this lowers their motivation to work hard. Franchisees in the EA specified that the franchisors still charge the same royalty even when the market is not so good, as a result, the payment of royalties sometimes became a source of conflict between parties. As a good franchise package is important for organisational development, future research may focus on incentives, other than initial fee and royalty, to explain the invisible factors behind the franchise relationship.

8.5.2 Relationship and Conflict

The research only explores the relationship and conflict between franchisors and franchisees. However, from the previous discussions, we know that there are some conflicts that happen within the channel members. Therefore, the author suggests that some franchisees just use the franchisor's brand name; they do not care about the other channel members. If some of them damage the brand, conflicts will take place between franchisees especially within the same trading area. As a result, there is an interesting phenomenon in the estate agency industry that the interaction is mainly based on personal relationship rather than the brand. So, future research may focus on the quality of interactions among franchisees *within* the brand and its impact on brand power.

8.5.3 Ownership Pattern

In this research, only a franchise chain and a regular chain were investigated because of their outstanding positions in the retail market. However, aside from them, there are the other two forms, the voluntary chain and the co-operate chain, which were not taken into consideration in this research. In other words, the results from them may be different from the franchise chain and regular chain. Therefore, future research could pay more attention to voluntary chains and co-operate chains.

8.5.4 Brand Power

In this research, we saw that both industries highlighted the importance of brand value or brand power. With a strong brand name, the interactions between both parties will be better; as a result, future research may pay more attention to how brand power is formulated and the relationship between brand power and initial fee or royalty.

8.6 Summary of Key Contributions to Knowledge

As far as the contributions of this thesis are concerned, this could be examined from both an academic and practical perspective. From the previous discussions, we know that there are many points, which are in conflict with the existing theories; therefore, the contributions to theories are that the author used different angles to see the marketing phenomenon in the franchise market for example culture and localisation. In addition, based on the author's personal insight, models were developed for the practical implications. Hence, based on both academic and practical contributions, the following section will summarise the key points from the perspectives of general issues and management issues. The statements will be brief as all have been previously detailed in earlier chapters.

8.6.1 General Issues in Franchising

- Buying back franchisees

Many researchers, such as Oxenfeldt and Kelly (1968-69), Hunt (1974) and Lillis, et al (1976) suggest that as the firm grows, the firm may buy back franchisees in accordance with the franchising contract. The reasons for this course of action may include the release of scarce resources, maintenance of service quality and quick response to the market. However, this is not true in the Taiwanese retail franchise market. The reasons have been specified in a previous section (8.2.5).

8.6.2 Management Issues in Franchising

- Agency theory

Agency theory suggests that with the improvement in telecommunications, the advantages of scale in monitoring would be reduced, in other words, the constraints of geographic distance will be reduced. However, in practice, based on self-interest, franchisees might put wrong information into an electronic system so that the franchisors might make the wrong decision and this will lead to an even higher cost, than the cost of monitoring. The author suggests that cheating still happens in both sectors. Hence, the design of a better monitoring and awarding mechanism is the key issue for franchise development.

- Monitoring issues

In the previous section, we have talked about the concept that the costs of monitoring multi-unit franchisees should be cheaper, and the revenues accruing from them higher, which was suggested by Kaufmann and Dant (1996). However, from this research, we found that due to the ownership pattern and promotional activities in the CVS, franchisors have to monitor each store no matter if this is a single or multi-unit franchisee. Hence, this kind of argument may be varied with ownership pattern and industrial sector.

- Resource constraint

Past research suggested that one of the key constraints for the franchisor is capital. However, from the research, the author found that the question which should be asked is whether the brand is strong enough to attract attention, rather than which kind of source of capital is cheaper. This is because once the franchise brand is very strong, not only will many potential franchisees join, but also financial institutions or stockholders are happy to invest money in the franchise organisation. By contrast, if the franchisor has enough capital, but the brand is too weak to attract new franchisees, then this is useless for the development of a franchise system. So, the author suggests that if the brand power is strong enough, then other variables will be minimised.

■ Transaction cost analysis

Williamson (1985) suggests that transaction cost analysis includes both the direct costs of managing relationships and the possible opportunity costs of making inferior governance decisions. His micro-analytical framework rests on the interplay between two main assumptions of human behaviour (i.e., bounded rationality and opportunism) and two key dimensions of transactions (i.e., asset specificity and uncertainty). The uncertainty relies on environmental and behavioural uncertainty. As mentioned previously, in a highly competitive market, this kind of argument may not work because many franchisors just focus on the near future rather than a long-term perspective.

■ Entrepreneurship

In the literature, Kaufmann and Dant (1998) give definitions of entrepreneurship and most of the definitions are applied to franchisees. But in practice, especially in the CVS, due to the ownership pattern, the franchisees' potential to exhibit entrepreneurship is confined by the franchise contract. In other words, franchisors treat franchisees as company managers. So, the author suggests that whether franchisees are entrepreneurs, is concerned with ownership pattern and sector. In other words, if franchisees want to have higher autonomy, they should choose a voluntary chain rather than a franchise chain.

■ Relationship and conflict

From the previous models, the author has made an effort to apply his insight and the background of Chinese culture to specify the importance of communication and how the organisational atmosphere influences organisational development. From these models, both franchisors and franchisees in practice can find out where there are gaps in their concepts; this will help both parties understand each other's needs and to negotiate with each other to reach a win-win status.

In summary, this research has examined a series of general and management issues in franchising through a comparison of retail and service sectors. Most of the existing theories were developed in western industrialised countries, and as a result, when they were applied to Taiwan, a newly industrialised country, many results are different from the previous research. This may be because of differences in sectors, culture and localisation. This research has not only uncovered some academic issues in franchising but also generates some useful models for practical applications between franchisors and franchisees. From these findings, future research can focus on surrounding issues of franchising like brand power to have a further understanding of franchising.

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Appendix 1: The Advantages and Disadvantages of Franchise Chain

1) From the Franchisors' Perspective

Advantages:

- Able to secure present and future market share due to buying restrictions within the agreement.
- Lower unit costs of materials due to increased bargaining power over suppliers.
- Wider brand awareness and dispersion permitting greater brand valuations.
- Increased direct control over promotional take-up and own-label marketing than is possible with voluntary symbol groups.
- Greater return on capital because the franchisee is required to invest in fixed assets.
- Ownership advantages without the associated problems of staff, payroll and day-to-day administration. The opportunity cost of this is lower return, but higher return on capital.
- Lower head office staff requirement (Churchill, 1991; Sanghavi, 1990).
- Franchisees could be a good source of innovation and, hence, competitive advantage.
- Franchisees will often shun unionism and have knowledge of local labour markets (Jordans, 1988).
- Increased flexibility in the management of labour through distancing.
- Motivated management since income is related to profit. Empirical literature has generally been supportive of the idea that incentive ideas are important issues in terms of the extent to which firms rely on franchising as opposed to company ownership and the extent to which they rely on royalties. However, a franchisee has the incentive to free ride on the franchisor's trademark if the outlet is frequented by non-repeat customers and cheats by substituting low quality for

high quality in order to reduce costs (Klien, 1980; Minkler, 1990).

- As franchisees pay a fee based on a percentage of their sales, franchisors should enjoy a positive cash flow (albeit possibly short-term) from the franchisees even if the franchisees are not making a profit.
- Lowers risk of testing particular markets/products. However, there has been some suggestion that this option may be the preserve of large companies. For example, Marks & Spencer has seventy-four franchises in overseas markets but none in the UK. There is some suggestion that small companies tend to employ franchising as a vehicle to growth rather than market testing (Gourlay, 1994).
- Franchising should enable the franchisor (depending on the costs of entry, the highest and nature of barriers to entry, and the 'saleability' of the franchise) to increase the number of distributive outlets, market coverage, market share and build brand equity with limited capital investment.
- Business units more likely to be accepted as local, however, given the level of uniformity inherent to franchises there may equally be a perception that it is in fact not franchised.

Disadvantages:

- May be difficult to exercise tight control over the franchisee because the lack of a traditional employer-employee relationship.
- Contrary to popular myth, the costs of entry and franchisee recruitment can be expensive.
- Franchising may be viewed as a form of business restructuring since it alters the franchisor's capital structure, asset mix and organisation through the redeployment of assets (Rock and Rock, 1990). Whilst such restructuring potentially offers a rapid means of implementing a new product or concept

(Housden, 1984), it results in a more difficult and slower process in subsequently altering the system, than may occur in wholly owned business. This is due, in part, to the need to sell the benefits to, and persuade the franchisee and overcoming the expansion of usurpationary power, to make the alterations.

- Changes in corporate strategy may take longer to implement, perhaps allowing competitors to quickly negate or realize first mover advantages (Robinson, *et al*, 1992; Kerin *et al*, 1992; Leiberman and Montgomery, 1988).
- There is a necessary to develop an organisational culture and structure geared toward the management of franchisees (Forward and Fulop, 1993).
- Activities of unscrupulous franchisors and franchisee demotivation can be damaging to brand equity.
- Communication and motivation highly dependent upon trust between the two parties (Lewis and Lambert, 1991; Lusch, 1977; Meloan, 1988).
- Franchisee motivation changes over time (Hall and Dixon, 1989), with distinct periods of disconfirmation and demotivation being evident. Given that franchisees join a system at different times and illustrate differing rates of maturity, such sentiment could have a multiple effect and 'colour' new franchisees' perceptions of the franchisor.
- The franchisor may experience difficulties in recruiting franchisees with the necessary investment capability and who are risk averse but want to be self-employed.

2) From the Franchisees' Perspective

Advantages:

- The business concept is a proven, or should be. The Franchise Association have laid down guidelines as to what constitutes proven, as outlined above, which includes more than just one business outlet for a short period.
- The way to operate the business has already been worked out and tested. Starting up should be easier and faster.
- Training and support is given including technical training, business training, site selection and choice of suppliers.
- Statistically, fewer franchises fail than other business start-up; therefore it can be easier to obtain finance for the franchise.
- National branding will often have been established.
- Research and development, and competitive analysis will usually be undertaken by the franchisor to keep abreast of environmental changes.
- Economies of scale may apply, for example in nationally agreed terms with suppliers, which take account of the total franchised business.
- Economies of experience should apply, for example in knowing the marketing techniques that have worked best for other franchisees

Disadvantages:

- Not your own creation. This is someone else's idea; the franchisee is implementing not creating.
- Lack of independence. The franchisor makes the rules, which the franchisee has to follow.
- The financial costs can be considerable with large up front fees and high royalties. Set up costs can also be higher as they have to follow a prescribed formula.

- The franchise may not be suited to your area.
- The goodwill your business builds up is never all yours, as it is dependent on a continuing franchise agreement. This could cause problems when you decide to sell the business.
- The franchisor needs to ensure regular disclosure of information by the franchisee to protect their royalties and the franchise agreement. This can become intrusive into the financial affairs of the franchisee.
- The brand image of the franchisor can become a distinct liability if things go wrong. The franchisee is dependent on the stability of the franchisor; a national problem with the franchise can dramatically affect the franchisee that has no control over events.

Source: Price (1997)

Appendix 2: Related Researches in Franchising

Author(s)	Method of Data Collection	Sample	Statistical Analysis
Agrawal &Lal (1995)	Personal Interviews and Secondary Data	43 Franchisees	SUR Regression
Franchisors charging higher royalty rates made greater brand name investments and were involved in frequent supervision. Franchising systems with high monitoring cost were visited less frequently for monitoring by franchisors and were offered fewer service.			
Anand (1987)	Questionnaire	99 Franchisees of a single Franchise	t-test
The franchisee is more likely to relinquish control over decision making if the franchise attributes the success of the unit to franchisor.			
Anand & Stern (1985)	Lab study, Questionnaire	40 students, 140 Franchisees of a single Franchise	Canonical correlation analysis, regression
Franchisees were willing to relinquish decision control over unit operations when the franchisee's expectancy of success independent of the franchisor was low.			
Anderson (1984)	U.S. Department of Commerce: Secondary Data	All Franchisees in U.S. Roughly 442000	T, w statistic, regression analysis establishments
The percentage of units owned by franchisors has systematically increased over the period of ten years. It was unclear whether there was any difference in sales performance between company owned and franchisee owned unit.			
Ayal & Izraeli (1990)	Conceptual		
The authors present a case for franchising of high tech products over other common forms of marketing, due to the inherent advantages involved. The advantages cited are 1) higher value accrued to the product due to the services provided by the franchising system (e.g. Training), 2) scale advantages being a part of the franchising system, and 3) higher commitment to the product.			
Aydin & Kacker	Nationwide mail survey	70 Franchisors	Descriptive statistics

(1989)		responses	
Perception of ample growth opportunities in the U.S. lack of expertise, and limited financial resources were reasons for franchisors remaining domestic. Competition and lack of demand was not barrier to going international. All types and sizes of franchisors were interesting in internationalising.			
Ayling (1988)	Conceptual		
Presents evidence that the chances of franchising business surviving over a period of then years is eighty percent but the chances of survival of small business in five years is little over twenty percent in the U.K. Presents three types of formats for franchising.			
Baron & Schmidt (1991)	Personnel Interviews Telephone interviews	Convenience sample of four Franchisees, five Franchisors	Qualitative Data
Franchisees wanted to run their business independently, but felt that availability of backup and help, proven concept and name, and reduced risks justified being a franchisee.			
Bacus & Human (1993)	Sourcebook of Franchise opportunities; Entrepreneur: Annual Franchisee 500: Secondary Data	278 Franchise contracts	Correlation, Regression, Factor analysis
Base fees and royalties were positively related and varied across industries, depending on the length of the franchisor's performance history, market representation, number of retail employees, the type of service offered to franchisees, and the franchisor's trademark value.			
Bates (1995)	Characteristics of Business Owners	20554 Franchises and Small businesses	Logistic Regression
Failure rate of franchises was higher than independent small firms during the period 1984-1987. Differences in characteristics of unit owners were observed between franchised firms and independent small firms. Returns to franchising in the retailing sector of the industry are declining.			
Bernstein	Conceptual		

(1968-69)			
Risk of failure of the franchisee is reduced by franchisor providing training, and continuing management assistance. The personnel opportunities and limitations imposed by the franchising are also discussed.			
Blair & Kaserman (1982)	Mathematical Modelling		
The following are recommenced to the franchisor for optimal franchising using discounting principles, 1) When demand is certain: fixed fees from the franchisee, 2) when demand is uncertain: fixed fees and output royalty. The franchisor is likely to earn less in case of demand uncertainty and the franchisee is better off.			
Bracker & Pearson (1986)	Questionnaire	265 Franchisees/independent firms	Manova, Scheffe's test
Franchised units in the dry-cleaning industry showed no performance difference from independent units in revenue, compensation & labour ratio growth.			
Brickley & Dark (1987)	Franchise disclosure Secondary Data	36 Franchisee listed in Siegel	F tests, Spearman documents: directories tests
High employee monitoring costs, low initial investments cost per unit, and high frequency of repeat customers per unit favoured franchising over company owned units.			
Brickley, Dark & Weisbach (1991)	Franchising in the Economy: Secondary Data	10299 Franchisees of 36 Franchisors	Regression, Stock market returns
The passage of 'franchise termination laws' leads to an increase in the number of company owned units in industries where the number of repeat customers is few. Stockholders of franchising firms are not benefited when termination laws are passed.			
Bush, Tatham, & Hair (1976)	Questionnaire	12 Franchisors	Descriptive statistics
According to franchisors, they often disagree with franchisees over location criteria for individual units.			
Carman & Klein (1986)	Conceptual		

A review and synthesis of literature on power and property rights and its implications to franchising system performance if provided.			
Castrogiovanni, Bennett, & Combs (1995)	Entrepreneur Survey: Secondary Data	717 Franchisors	Factor Analysis; Cluster Analysis
This study unsuccessfully attempted to replicate the franchisor types reported by Carney and Gedajlovic (1991) with a U.S. based franchisor sample.			
Castrogiovanni, Justis, & Julian (1993)	Uniform Franchise Offering Circulars (UFOCs) from a mail survey	103 Franchisors	t-tests
Empirical support is provided for the commerce department's franchise failure rate estimate of 4%. Age of the franchisor affects the failure rate of a franchise unit.			
Carner (1986-87)	Case study	3 banks	Descriptive analysis
Local banks benefit form joining franchise chains by being able to set themselves apart from independent operators through access to technology, extended product portfolios, cost savings, and on-going support, yet at the same time retain control.			
Carney & Gedajlovic (1991)	Secondary Data	128 Franchisors	Regression, Factor analysis
Path model of franchise ownership patterns is specified. This model incorporates both the vertical integration and resource explanations. Four strategic types were identified: repaid growers, expensive conservatives, converters, mature franchisors, and unsuccessful.			
Caves & Murphy (1976)	Conceptual		Regression
Franchising contract involves a sharing of intangible assets, especially trademarks and goodwill, between firms. Franchising is preferred for minimizing the costs of coordination and production, providing entrepreneurial discretion and flexibility. Hence, franchising is also socially advantages even though franchising is a form of vertical integration.			
Chan & Justis (1992; 1993)	Conceptual		

Franchising opportunities in the European Community and Spain are discussed with various options and barriers.			
Chan & Justis (1990)	Conceptual		
Properties that master franchising, joint venturing, licensing, direct investment, or governmental agreements could be starting strategies for franchises trying to enter the East Asian market. Information on relevant regulation and taxation is provided for the countries of East Asia.			
Combs & Castrogiovanni (1994)	Entrepreneur. Annual Franchise 500: Secondary Data	558 Franchisors	Regression
Number of units franchised by a firm is determined by the size of the firm, geographical spread of units, investment needed per unit and royalty fee charged.			
Current & Storbeck (1994)	Mathematical Modelling		
An econometric model for generating many alternative locations for franchisee outlets considering inherent conflicts between franchisor and franchisee objectives is developed.			
Dewatripont & Sekkat (1991)	Mathematical programming		
Franchise contract renegotiations could provide franchisees insurance in case of demand uncertainty or new opportunities even though contract renegotiations allows for possible franchisor opportunism.			
Dahlstom & Nygaard (1994)	Questionnaire	181 Norwegian Retailers	Logic Regression
Company owned outlets had generally higher sales and were located near to freeways. Franchising is more likely in low population density areas.			
Doutt (1984)	Questionnaire, Interview	50 fast food retailers	Regression t tests
Franchised units have higher value added per year and higher service capacity than independent units. It was argued that franchised units are able to reach efficient scale quickly.			
Eroglu (1992)	Conceptual		

A conceptual model is provided on the factors that influence a franchisor's decision to go international. Perceived risk and benefits are presented to be the major factors.			
Gal-Or (1991)	Mathematical Modelling		
Delegation of the pricing to franchisees allows the franchisor to reduce price competition among firms, if franchisor lacks information about local demand. If the product is differentiated this may not be optimal for the franchisor as the increased profit is likely to be concerned by the franchisee.			
Gallini & Lutz (1992)	Mathematical Modelling		
In case of newly introduced products, franchisors will be able to signal the availability of private information to potential franchisees by using a mix of company owned and franchised units along with royalty fees.			
Guiltinan, Rejab & Rodgers (1980)	Questionnaire	154 Franchises form a single Franchisor	Factor Analysis
Franchisee cooperation is more likely if the franchisees perceive 1) that they are part of the decision making structure, 2) that the individual unit uncertainty is reduced, and 3) that the communication channel is effective.			
Hackett (1976)	Nationwide mail survey	85 Franchisors	Descriptive statistics
Motives underlying international entry were desired to take advantage of market with great potential and establish a brand name. Majority of the firms entered overseas market without any change in their marketing strategy. Statistical profiles of U.S. firms with international operations are also presented.			
Hadfield (1991)	Mathematical Programming		
Franchising is an superior organisational form due to franchising legal characteristics and the competitive incentives of franchisees			
Hadfield (1990)	Conceptual		

<table>
<tr><td colspan="4">The contract between a franchisor and franchisee is incomplete because it address the problem of quality control of the franchisor but fails to address the issue of franchisor opportunism. Courts use these franchise contracts as a guiding mechanism to resolve disputes. This may not be right always. Courts need to take to into account of the context of the relationship by taking into account the true relational structure of the relationship.</td></tr>
<tr><td>Hall (1964)</td><td>Conceptual</td><td>Convenience sample of 5 firms</td><td></td></tr>
<tr><td colspan="4">Presents a classification of franchising firms: 1) Manufacturer-retailer, 2)Manufacturer-wholesaler, 3) Service sponsor-Retailer, and 4)Wholesaler-retailer. Presents some conceptual ideas on how to run a wholesaler retailer operation successfully. Major problems faced by wholesalers were need to supply more than 50% of the goods, and the independent behaviour of some of the franchisees.</td></tr>
<tr><td>Hing (1995)</td><td>Questionnaire</td><td>9 Franchisors; 127 Franchisees</td><td>Factor analysis; P_M Correlation</td></tr>
<tr><td colspan="4">A model of franchising buying behaviours is presented. It was found that franchisees trait (high need for achievement) and the type of support services offered by the franchisor influenced the satisfaction of the franchisee.</td></tr>
<tr><td>Hunt (1973)</td><td>Mail Questionnaire</td><td>Random sample of 1000 Franchisees, 146 Franchisors</td><td>Chi square, t tests, descriptive statistics</td></tr>
<tr><td colspan="4">Fast food franchising firms are moving towards company owned units. Older and larger systems were more likely to move towards company owned units.</td></tr>
<tr><td>Hunt (1977) and Hunt & Jacobs (1976)</td><td>Conceptual</td><td></td><td></td></tr>
<tr><td colspan="4">Franchising holds out the promise of ‘making it big’ with reduced risk but it has also been detrimental to social welfare in many ways. Analysis on the 1) benefits of franchising to society, franchisees, and franchisors; 2) misfortunes/ disadvantages of franchising; 3) future of franchising. Advice on legal rights, and information sources for a potential franchisee are provided.</td></tr>
<tr><td>Hunt (1972)</td><td>Conceptual</td><td></td><td></td></tr>
</table>

Beneficial results of franchising were increased opportunities for individual businessmen, lower failure rates, decreased economic concentration, increased opportunities for minorities, and encouragement of consumerism. Unfavourable impacts were anticompetitive systems of distribution, one-sided contracts favouring franchisors and unethical franchise selling tactics.			
Hunt & Nevin (1974)	Mail survey, Franchisee opportunity handbook: Secondary Data	102 Franchisees	Descriptive statistics
The passing of full disclosure benefited franchisees by 1) reducing the incidence of franchisors misleading prospective franchisees on the units potential profitability, and 2) franchisee having increased legal remedies.			
Hunt & Nevin (1974, 1975)	Secondary Data	815 nationwide responses from Franchisees	Descriptive statistics, Multiple Classification Analysis
Seventy percent of franchisees are expected to purchase at least fifty percent of their supplies form their respective franchisor. Legal implications, franchisee and franchisor perceptions are presented. Coercive sources of power were used by franchisors to achieve power over the franchisees. Franchisor who did not use coercive sources of power had higher satisfaction among franchisees.			
Huszagh, Huszagh & McIntyre (1992)	Franchising in the Economy: Secondary Data	367 Franchisors	Chi-square
Franchisors who are older, or/and those who have a large number of units are more likely to be operating internationally.			
Inaba (1980)	Mathematical Modeling		
Econometric techniques are used to prove that royalty and tie in sales franchisors earns monopoly profits when demand is certain. To earn high profits in situations of high demand uncertainty, franchisors should use tie in sales rather then royalties.			
Julian & Castrogiovanni (1995)	Entrepreneur Data Survey: Secondary	1005 Franchisors	Regression, f Tests

Franchisors expanding abroad are likely to be larger and generally seeking to grow domestically too. The degree of geographic expansion of a franchisor varies with industry.			
Justis & Judd (1986)	Conceptual		
Master franchising is an alternative approach to traditional franchising because it offers increased speed of development, ability to address local competition, rapid cash flow, and utilizes little cash to start-up. The major disadvantages are long term contracts, delegation of power to master franchisee, and lower income per unit.			
Justis, Olsen & Chan (1993)	Conceptual		
Marketing research's usefulness for franchising system management is provided.			
Katz & Owen (1992)	Mathematical Modeling		
Franchisors may benefit by offering differing contacts to franchisees based on franchisee's willingness to take risk, expend effort and attitude towards effort. However such information on the franchisee is not available. Common 'non-linear' contracts currently used by franchisors is an option to attract desirable franchisees.			
Kaufmann & Rangan (1990)	Mathematical Programming		
A mathematical model is developed by integrating elements of store choice, site allocation and a proactive management system in order to reduce conflict between the franchisee and the franchisor while adding new units. The model optimises the counteracting effects of spatial competition and relative system attractiveness.			
Kedia, Ackerman, Bush, & Justis (1994)	Questionnaire	142 Franchisors	T tests
Tables comparing international franchisors and domestic franchisors with respect to factors constraining international expansion is provided.			
Kedia, Ackerman & Justis (1995)	Questionnaire	142 franchisors	Wilks Lambda
The attitude of franchisor management towards international franchising was more related to international expansion than firm size or firm age.			

Klein (1980)	Conceptual		
Reasons for termination-at-will and exclusive-dealing contractual arrangement are discussed. These are required because if the franchisee 'free rides', and if the contract is terminated by the franchisor, the franchisee will be inflicted with a loss. The loss would arise due to the difference between long term potential capital investment gains (which would be large) and short run wealth gain. Hence governmental regulation preventing any 'unfair' contractual arrangements may not be always appropriate.			
Klein & Leffler (1981)	Mathematical Programming		
A mathematical model is developed to examine contract enforcement mechanism for difficult to measure product characteristics like 'taste' of hamburger. They received support for the notion that market prices above the competitive price and the presence of non-salvageable capital are means of enforcing quality contracts.			
Klein & Saft (1985)	Conceptual		
Antitrust law implications of ties in sales are discussed. It is argued that tie in sales do not necessarily bring market power to the franchisor, and hence there is no need to be regulated by antitrust law: Moreover, tie in sales also do a social purpose by assuring quality to customers.			
Krueger (1991)	National Institute for Work and Learning: Secondary Data	7000 employees of 273 fast food restaurants	Regression, Chow tests, Probit modelling
Employees of company owned and franchisee owned restaurants have similar demographic characteristics. In company owned units, wages were9 percent higher for lower level managers, 1 to 2% percent higher for crew workers, and tenure profiles were steeper.			
Knight (1986)	Questionnaire	Random sample of Interviews 48 Franchisors, 105 Franchisees	Descriptive statistics

<table>
<tr><td colspan="4">The benefit of a known trade name, higher independence and job satisfaction than a salaried employment, and ease of development was the primary advantages of franchising according to franchisees. Willingness to work hard and desire to succeed were viewed as important characteristics of successful franchisees. Recognized trademark, advice, information bulletins, and operating manuals were important variables which effected franchisee satisfaction with the relationship.</td></tr>
<tr><td>Knight (1984)</td><td>Questionnaire</td><td>Random sample of 105 Franchisees, 102 entrepreneurs</td><td>Descriptive statistics</td></tr>
<tr><td colspan="4">Independent entrepreneurs were perceived to be more self-reliant, experienced, independently minded and highly motivated than franchisees. The author also commented that franchisees could have a high failure risk.</td></tr>
<tr><td>Lafontaine (1992)</td><td>Sourcebook of franchise opportunities; Entrepreneur. Annual Franchise 500: Secondary Data</td><td>548 Franchisors</td><td>Regression</td></tr>
<tr><td colspan="4">The incidence of franchising is prevalent when incentive problems exist for franchisors and franchisees. Firms use franchising to grow faster, even though the constraint may not be financial always.</td></tr>
<tr><td>Lafontaine & Kaufmann (1994)</td><td>Questionnaire</td><td>130 Franchisors</td><td>Regression</td></tr>
<tr><td colspan="4">Franchisors use a combination of company owned and franchised units due to the advantages offered by franchising even when there are not resource constraints. However, resource constraints drive the need towards more franchisee owned units during the earlier stages of growth.</td></tr>
<tr><td>Lal (1990)</td><td>Mathematical programming</td><td></td><td></td></tr>
<tr><td colspan="4">Royalty payments provide the necessary incentives for franchisors to act in the best interest of the franchising system. Enforcement of contractual obligations through monitoring avoids free-riding by franchisees.</td></tr>
<tr><td>Lewis & Lambert</td><td>Questionnaires</td><td>107 Franchisee</td><td>Liseral analysis,</td></tr>
</table>

(1991)		of a single Franchisor	Multiple group Analysis
Financial dependence by the franchisee on the franchisor lead to the franchisee performing according to franchisor expectations. Satisfaction of the franchisee was also dependant on the franchisee attributing unit success to the franchisor.			
Lillis, Narayana, & Gilman (1976)	Questionnaire	55 Franchisors U.S. Dept of Commerce	H statistic
Franchisors perceived that high franchisee motivation is the most important advantage offered by franchising no matter what stage of the life cycle.			
Markland & Furst (1974)	Mathematical programming		
A two stage model is provided to produce on optimum number of units for a franchise. In the first stage of the model uncertainties involving cash flow are incorporated for each franchise. In the second stage, based upon information from the first stage and limited capital being available, integer programming techniques are used to optimise franchise performance.			
Martin (1988)	Franchising in the Economy, 1985 Franchising Annual, Source Book of Franchising Organisations: Secondary Data	949 Franchisors	Logic modelling, t, f tests, Regression models
Capital needs, market competition, monitoring costs and the need/desire to reach the minimum efficient scale effect the decision of the franchisor to franchise or to have company owned units. Legal regulation would not be appropriate in such a case.			
Martin & Justis	Entrepreneur Annual Survey 1980-89: Secondary Data	521 Franchisors	Regression
Franchisor decision to franchise extensively positively influences system wide growth in size. Franchising is found to be an efficient form of organisation as takes care of monitoring problems and capital scarcity.			
Mathewson &	Conceptual		

Winter (1985)			
Based on the agency theory, dioceses various clauses in franchising contracts.			
Mathewson & Winter (1994)	Franchise Contracts	25 Franchisors	Econometric Modelling
An econometric model is developed and validated through 25 franchise contracts which argues for giving franchisees territorial guarantees which franchisees' effort is important for the success of the system.			
Morgan (1987)	Conceptual		
Franchisor are held liable in courts when consumers are hurt by products or services sold by franchisees. Past cases involving product liability are analysed and guidelines are provided.			
Norton (1988)	U.S. Census of Retailing, Transportation, Statistical Abstract: Secondary Data	Industries listed on SIC code 5812 (Eating Places)	Regression
Franchising is more likely than company owned units when: 1)units are physically dispersed, 2) there are high sales per employee, 3) sales are growing, and 4) the brand name is important.			
Oxenfelt & Kelly (1968-69)	Conceptual		
Conceptual framework on the life cycle o franchising along with a push/pull model is provided. Presents a topology to explain the likelihood of a franchised unit being sold back to a franchisor.			
Oxenfelt & Thompson (1968-69)	Conceptual		
Franchising is presented form a historical background.			
Peterson & Dant (1990)	Questionnaire	74 Franchisees of single Franchisee	Descriptive statistics Chi square tests
Training, established name, independence, better profitability than a independent business, and lower development costs were the perceived advantages of the franchisees. The was little difference between various types of franchisees.			

<table>
<tr><td>Pilling (1991)</td><td>Questionnaires</td><td>80 Franchisors</td><td>ANOVA, MANOVA</td></tr>
<tr><td colspan="4">Independent business owners who are currently competitive are not interested in joining a franchising system (and vice versa).</td></tr>
<tr><td>Pirkul, Narasimham, & De (1987)</td><td>Mathematical Programming</td><td></td><td></td></tr>
<tr><td colspan="4">A mathematical model is provided to maximize the expected return while expanding a franchise system. The model leads the user to select between opening company owned or franchised units. The constraints built into the model are capital budgeting and distance between units.</td></tr>
<tr><td>Preble (1992)</td><td>Conceptual</td><td></td><td></td></tr>
<tr><td colspan="4">The international expansion of U.S. fast food franchisors are reviewed with illusions.</td></tr>
<tr><td>Preble & Hoffman (1994)</td><td>Conceptual</td><td></td><td></td></tr>
<tr><td colspan="4">Beneficial aspects of ‘Mobile Franchising’ are discussed.</td></tr>
<tr><td>Preble & Hoffman (1995)</td><td>Questionnaire</td><td>13 Directors of Franchise Associations</td><td></td></tr>
<tr><td colspan="4">Descriptive information is provided on many factors relating to franchising across thirteen nations.</td></tr>
<tr><td>Rothenberg (1967)</td><td>Conceptual</td><td></td><td></td></tr>
<tr><td colspan="4">Presents the history of franchising and lists basic requirements of a business to franchise/technical knowledge, management techniques, commercial knowledge, financial instruction, accounting controls, and protective safeguards.</td></tr>
<tr><td>Rubin (1978)</td><td>Conceptual</td><td></td><td></td></tr>
<tr><td colspan="4">Property rights, incentives and monitoring costs are used to explain the nature of a franchise contract. The explanation that franchising is a means to overcome a shortage of capital is rejected by arguing that the franchisor is able to reduce risk by investing in the entire system, and hence has a lower cost of capital than the franchise.</td></tr>
<tr><td>Schul, Little, & Pride (1983, 1985)</td><td>Questionnaire three Franchisors</td><td>349 Franchisees of Canonical Analysis</td><td>Factor Analysis</td></tr>
</table>

Franchise satisfaction was found to be positively correlated with franchisees' perceptions of autonomy, clear franchise system objectives/policies/procedures, leader consideration, and performance-reward relationship. Directive leadership by the franchisor was found to be appropriate to reduce perceived inter-channel conflict rather than supportive or participative leadership.			
Sen (1993)	The Source Book of Franchising in the Economy: Secondary Data	996 Franchisors	Regression Franchise Opportunities
Franchisor characteristics determine the initial fees charged by a franchisor. Royalty rates are determined by franchisor characteristics, services offered by franchisor, and the risk of franchisee. New franchisors charge a higher initial fee than older franchisors.			
Shelton (1967)	Franchisor operational data	22 units of the Franchisor	Descriptive Statistics
Units owned by franchisee owners outperformed units supervised by company managers in sales and profits, even thought the company managers were paid on the basis of incentive compensation.			
Sibley & Michie (1982)	Questionnaire	Random sample of 140 Franchisees from a single Franchisor	Correlation, Regression
Perceived channel cooperation was highly correlated with noncoercive sources of power. However, there was no relationship between coercive sources of power and channel cooperation.			
Stadfeild (1992)	Conceptual		
Merits and implications of the Federal Franchise Disclosure and Consumer Protection (FFDCPA) and Federal Fair Franchise Practice Act (FFPA) are discussed.			
Stockstill (1985)	Conceptual		
Multilevel franchising is recommend to small business investors based on its availability, minimal capital requirements, and flexibility.			
Storholm & Scheuing (1994)	Conceptual		

Ethical and legal factors relating to business format franchising are discussed.			
Thomas, O'Hara, & Musgrave (1990)	Franchising in the Economy: Secondary Data	10 Franchisors	Time series, Crossectional Analysis
High unit sales cause the franchisor to convert a franchised unit into a company owned unit. The study also found no support for the life cycle theory of franchise development as proposed by Oxenfelt & Kelly (1968-69).			
Thompson (1994)	U.S. Department of Commerce: Secondary Data	200 Franchisors	Regression
The life cycle effect of franchising could be due to both the lack of managerial capabilities and capital while the firm is in a growth stage. Limited evidence is offered in this regard.			
Thompson (1992)	Franchising in the Economy: Secondary Data	547 Franchisors	Regression, t tests
Company ownership of units occurs in urban and/or high population density areas, and large unit size. Company ownership is less likely when there is need for high capital investment or when the franchisor is growing rapidly. Regulation of franchising does not affect the growth of franchising.			
Thompson (1968-69)	Conceptual		
Four court cases on franchising antitrust law are analysed. Proof is required by franchisor of the reasonableness of their tie in sales and the absence of less restrictive means to achieve the same ends.			
Thompson (1968-69)	Conceptual		
A classified bibliography of articles in franchising is provided.			
Walker & Etzel (1973)	Questionnaire	149 Franchisors	Descriptive statistics
Internationalisation of U.S. franchise system is an emerging trend. Franchisors internationalising have had problems (mostly legal) but seem to have overcome them. Opinions of franchisors on a number of issues related to franchising are provided.			
Wattel (1968-69)	Conceptual		

Differences in managerial abilities required by a franchisee and an independent entrepreneur are discussed. The franchisee needs to be more of a conformist in order to function well in a franchising system.			
Weinrauch (1986)	Conceptual		
Prescriptive guidelines for franchising an existing business are offered. It is felt that high gross margin, in store value, secret processes, real estate profits, and easy implementation are necessary condition for successful franchising.			
Welch (1992)	Conceptual		
Reviews recent developments in international franchising using examples of both U.S and non-U.S franchisors.			
Welch (1989)	Conceptual		
The international spread of franchising has been in two stages. Initially, it spread to countries characterized by high per capita income and a developed retail service sector, and then to the second stage countries which were characterized by greater diversity in culture, income and political systems.			
Withane (1991)	Questionnaire	Random sample of 85 Canadian Franchisees	Analysis of variance, Sheffe tests
Franchisees' self reports were used to determine the important of personnel characteristics for success. Risk taking, and ability to operate autonomously were considered important.			
Whitehead (1991)	Case Study		
International franchising provides an opportunity for companies to establish a presence in countries where population or per capita spending is not sufficient for a major expansion effort.			
Woll (1968-69)	Conceptual		
The major sources of revenue for franchisor are initial franchisee fee, royalties, rental of premises, sale or leasing of equipment, supplies and raw materials, sale of franchise products, and sale of territorial rights. A discussion of each of these options is provided.			
Zeller, Achabal, Brown (1980)	Mathematical Programming		

A mathematical model is developed to evaluate alternative scenarios and effects of various franchise policies. It was found that market penetration goals and location goals of the members of the franchising system do not coincide easily. The franchisor would like to maximize system revenue, the master franchisee maximizes revenue in its territory, and the individual franchisee maximizes unit sales.

Source: Elango and Fried (1997)

Appendix 3: Growth Competitiveness Ranking 2002

Country	Growth Competitiveness Ranking 2002	Growth Competitiveness Ranking 2001
United States	1	2
Finland	2	1
Taiwan	3	7
Singapore	4	4
Sweden	5	9
Switzerland	6	15
Australia	7	5
Canada	8	3
Norway	9	6
Denmark	10	14
United Kingdom	11	12
Iceland	12	16
Japan	13	21
Germany	14	17
Netherlands	15	8
New Zealand	16	10
Hong Kong SAR	17	13
Austria	18	18
Israel	19	24
Chile	20	27
Korea	21	23
Spain	22	22
Portugal	23	25
Ireland	24	11
Belgium	25	19
Estonia	26	29
Malaysia	27	30
Slovenia	28	31
Hungry	29	28
France	30	20
Thailand	31	33
South Africa	32	34
China	33	39
Tunisia	34	
Mauritius	35	32
Lithuania	36	43
Trinidad and Tobago	37	38
Greece	38	36
Italy	39	26
Czech Republic	40	37
Botswana	41	
Uruguay	42	46
Costa Rica	43	35
Latvia	44	47

Mexico	45	42
Brazil	46	44
Jordan	47	45
India	48	57
Slovak Republic	49	40
Panama	50	53
Poland	51	41
Dominican Republic	52	50
Namibia	53	
Peru	54	55
Morocco	55	
Colombia	56	65
El Salvador	57	58
Croatia	58	
Sri Lanka	59	61
Jamaica	60	52
Philippines	61	48
Bulgaria	62	59
Argentina	63	49
Russian Federation	64	63
Vietnam	65	60
Romania	66	56
Indonesia	67	64
Venezuela	68	62
Turkey	69	54
Guatemala	70	66
Nigeria	71	74
Paraguay	72	72
Ecuador	73	68
Bangladesh	74	71
Nicaragua	75	73
Honduras	76	70
Ukraine	77	69
Bolivia	78	67
Zimbabwe	79	75
Haiti	80	

Source: www.weforum.org

Appendix Four: Interview Questions for Franchisors and Franchisees

Objective	1. To understand the development of franchising in the Taiwanese retail market, especially in the convenience store and estate agency industries and to comprehend why this kind of business format is so popular.	
Questions	Secondary Data	
Objective	2. To explore the relative issues in franchising, such as regular and franchise chain, single and multi-unit franchisee, local and international franchisee, internal and external franchisee, original and transferred franchisee and so on.	
Questions	Franchisor	Franchisee
	Being a franchisor, which kind of retail outlet (company owned or franchised) reliably executes corporate policy?	Being a franchisee, do you wish to be a multi-unit franchisee?
	Before franchising, did you run company-owned outlets to test the operational know-how? If not, why not?	What is the reason for being a franchisee rather than running your own business?
	Is multi-unit franchising prevalent in your system? Do you encourage this kind of format? Do you think that multi-unit franchisees outperform single unit franchisees from the perspectives of unit growth, uniformity, local responsiveness and system wide adaptation?	What are the differences between a company-owned brand and a franchise brand?
	As far as the percentage between company-owned and franchised outlets is concerned, what ratio rate do you think is most appropriate and what is the ratio for your company?	Do you think the failure rate for a franchise brand is lower than a private brand?
	Do you worry that a multi-unit franchisee could create his own brand in the future?	Being a multi-unit franchisee, do you plan to create your own brand in the future?
	Do you think that the failure rate for a franchised outlet is lower than a private brand?	Do you think that the failure rate for a franchised outlet is lower than a private brand?
	As far as organisational form is concerned, do you think a hybrid organisational form is better than a hierarchy?	Being a multi-unit franchisee, do you think multi-units outperform single units from the perspectives of unit growth, uniformity, local responsiveness and system wide adaptation?
Objective	3. To understand what was transferred during the process of internationalisation for both convenience store and estate agency industries, and to identify any difference in international franchise path.	

	Franchisor	Franchisee
Questions	Which kind of international market entry mode did your company choose and why?	Being a member of an international brand, what do you think the differences are between a local and an international brand?
	What was transferred in the process of internationalisation?	
	Being a master franchisee, how did you find the balance between internationalisation and localisation?	
	Which kind of problems did you encounter in the process of internationalisation?	
	Which stage do you think your company is presently at (reluctance, caution and ambitious)?	
Objective	4. To explore the motivations for franchising from the perspectives of agency theory, resource constraints and transaction cost analysis.	
Questions	Franchisor	Franchisee
	What are the reasons for choosing franchising as a running format?	
	What criteria do you use to choose a qualified franchisee?	What criteria do you use to choose a qualified franchisor?
	When selecting a potential franchisee, which source do you prefer, a new franchisee or an original franchisee?	
	Do you think that company-owned outlets are more reliable than franchised outlets?	
	Do you think that the contract is equal and monitoring arises from it?	Do you think that the contract is equal and monitoring arises from it?
	Do you think that there is a relationship between monitoring frequency and service level; monitoring cost and royalty; monitoring cost and brand value?	Do you think that there is a relationship between monitoring frequency and service level; monitoring cost and royalty; monitoring cost and brand value?
	Do you think the cost of monitoring a multi-unit franchisee is cheaper than a single-unit franchisee?	
	Do you think that franchisees cheat on performance?	Do you think that franchisees cheat on performance?
	Do you think that the franchisor is more risk-neutral and the franchisee is more risk-averse?	Do you think that the franchisor is more risk-neutral and the franchisee is more risk-averse?
	Do you think that higher initial investment leads to greater company ownership?	Do you think that higher initial investment leads to greater company ownership?

	Do you think franchising is a quick way to expand without sufficient resources (financial capital, human capital and local knowledge)?	Why do you think that the franchisor wants to franchise his business?
	As far as capital scare is concerned, do you think that it is more efficient to get it from franchisees rather than stockholders or lenders?	Do you think that it is cheaper to be a franchisee than to run a private brand from the perspectives of initial and ongoing fee?
	Why do company-owned outlets transfer to franchised outlets as time goes by?	Do you think that the brand value is an important criterion when customers choose the store?
	Does the franchisor buy back profitable franchisees?	Does the franchisor buy back profitable franchisees?
	How do franchisors protect their brands from being damaged by franchisees?	Do you think that it is very easy to transfer from one brand to the other if you are not satisfied with the original brand?
		Do you think that the cost of purchasing from the franchisor is more expensive than from unauthorised suppliers? If so, could you purchase from other suppliers?
Objective	5. To evaluate the importance of the decision-maker on the interactions between franchisors and franchisees, including the decision-maker's characteristics, leadership, attitude, and the role of entrepreneurship.	
Questions	Franchisor	Franchisee
	What kind of leadership (participative, achievement or supportive) does the franchisor adopt toward company-owned and franchised outlets?	What kind of leadership (participative, achievement or supportive) does the franchisor adopt? Do you like it?
	What kind of power do the franchisor exert on franchisees?	What kind of power do you feel from the franchisor?
	Which kind of franchisees do you prefer, a manager or an entrepreneur?	
	Do you think that the franchisor is a typical entrepreneur?	Do you think that the franchisee is a typical entrepreneur?
	Do you think that the franchisor's experience is positively related to the franchisee's satisfaction?	Do you think that the franchisor's experience is positively related to the franchisee's satisfaction?
	Do you think that the franchisor should run company-owned outlets before franchising?	Do you think that the franchisor should run company-owned outlets before franchising?
Objective	6. To explore what was exchanged between the franchisor and franchisee, and how this kind of inter-organisational form was maintained to maximise both parties' benefits. If both parties' exchange behaviour is not balanced, how will one party react to the other?	
Questions	Franchisor	Franchisee

	Being a franchisor, how do you keep a good relationship with franchisees and prevent the occurrence of conflict?	Being a franchisee, how do you keep a good relationship with the franchisor and prevent the occurrence of conflict?
	From a franchisor's view, what do you expect from a franchisee in order to keep a good relationship?	From a franchisee's view, what do you expect from a franchisor in order to keep a good relationship?
	Are you satisfied with both parties' relationship? If not, why?	Are you satisfied with both parties' relationship? If not, why?
	If conflicts occur, what approach (coercive or non-coercive) do you take with your franchisee? Do you think it is good for organisational development? What about the different role of the store manager in the conflict?	If conflicts occur, what approach (coercive or non-coercive) do you take with your franchisor? Do you think it is good for organisational development? What about the different role of store manager in the conflict?
	What kind of situation is the most common for the occurrence of a conflict?	Which kind of situation is the most common for the occurrence of a conflict?
	Generally speaking, how do conflicts evolve? Does it have a positive or negative effect?	Generally speaking, how do conflicts evolve? Does it have a positive or negative effect?
	How do you evaluate the franchisee's performance? Is it important to your relationship?	How do you evaluate the franchisor's performance? Is it important to your relationship?
	Which party is more proactive on problem solving?	Which party is more proactive on problem solving?
	Do you think there is a positive relationship between the franchisor's support and the franchisee's performance?	Do you think there is a positive relationship between the franchisor's support and the franchisee's performance?
	What is the franchisor's objective and how do you co-ordinate with each party's objective?	What is the franchisee's objective and how do you co-ordinate with each party's objective?
	Being a franchisor, do you think it is equal between give and take?	Being a franchisee, do you think it is equal between give and take?

Appendix 5: Interview Inquiry Letter

1F, NO. 11, LANE 101, SECTION 1, WEN-WHA RD,
PAN-CHIAO CITY, TAIPEI, 220

TELEPHONE: 02-29656862
MOBILE: 0912393378

UNIVERSITY OF
STIRLING

Department of
MARKETING

Dear

I am a doctoral research in the University of Stirling, UK and I am undertaking research into the relationship and conflict between franchisors and franchisees. After careful consideration, your company was selected. This means that, with your participation, your company could help me to develop an understanding of the interactions between both parties. Therefore, if you could assist by allowing me to interview you, I would be very appreciative. The interview would last for approximately an hour.

The aim of the research is to explore the relationship and conflict between franchisors and franchisees. The results will help both parties find the perceptual gaps and evolve efficient solutions to reach a win-win status.

Your assistance would be very important to my research and I can assure you that your treasured opinions would be not revealed to others and it would only be used for academic purposes. In addition, the interviewee's name will be revealed on the report. ***So, you can feel relieved on your answers responded.***

Finally, the list of interview questions is offered for a preview. After a couple of days, I will contact with you to inquire your willingness to be interviewed. Thank you for your treasured help.

With Best Regards,

Chen-I Huang
Doctoral Research Student
University of Stirling

Appendix 6: The Characteristics of Franchisees (Interviewees) in Both Convenience Store and Estate Agency Industries

-Convenience Store Industry-

7-Eleven	*Manager 1*	*Manager 2*	*Manager 3*	Franchisee 4	Franchisee 5	Franchisee 6	Franchisee 7	Franchisee 8	Franchisee 9	Franchisee 10
Regular Chain										
FC1 (Single-unit)										
FC1 (Multi-unit)										
FC2 (Single-unit)										
FC2 (Multi-unit)										
Internal Franchisee										
External Franchisee										

Circle K	*Manager 1*	*Manager 2*	Franchisee 3	Franchisee 4	Franchisee 5	Franchisee 6	Franchisee 7	Franchisee 8	Franchisee 9	Franchisee 10
Regular Chain										
FC1 (Single-unit)										
FC1 (Multi-unit)										
FC2 (Single-unit)										
FC2 (Multi-unit)										
Internal Franchisee										
External Franchisee										

(There is no FC1 format in Circle K)

Niko Mart	Franchisee 1	Franchisee 2	Franchisee 3	Franchisee 4	Franchisee 5	Franchisee 6
Regular Chain						
FC1 (Single-unit)						
FC1 (Multi-unit)						
FC2 (Single-unit)						
FC2 (Multi-unit)						
Internal Franchisee						
External Franchisee						

(There is no FC1 format in Niko Mart)

Hi-Life	*Manager 1*	Franchisee 2	Franchisee 3	Franchisee 4	Franchisee 5
Regular Chain					
FC1 (Single-unit)					
FC1 (Multi-unit)					
FC2 (Single-unit)					
FC2 (Multi-unit)					
Internal Franchisee					
External Franchisee					

-Estate Agency Industry-

HB	Franchis ee 1	Franchis ee 2	Franchis ee 3	Franchis ee 4	Franchis ee 5	Franchis ee 6	Franchis ee 7	Franchis ee 8	Franchis ee 9	Franchis ee 10
Single unit										
Multi-unit										
Original										
Transferred										

Rebar	Franchis ee 1	Franchis ee 2	Franchis ee 3	Franchis ee 4	Franchis ee 5	Franchis ee 6	Franchis ee 7	Franchis ee 8	Franchis ee 9	Franchis ee 10
Single unit										
Multi-unit										
Original										
Transferred										

ChinaTrust	Franchis ee 1	Franchis ee 2	Franchis ee 3	Franchis ee 4	Franchis ee 5	Franchis ee 6	Franchis ee 7	Franchise e 8	Franchis ee 9	Franchis ee 10
Single unit										
Multi-unit										
Original										
Transferred										

Century 21	Franchis ee 1	Franchis ee 2	Franchis ee 3	Franchis ee 4	Franchis ee 5	Franchis ee 6	Franchis ee 7	Franchis ee 8	Franchis ee 9	Franchis ee 10
Single unit										
Multi-unit										
Original										
Transferred										