

Managing Transactional and Relational Quality in Indonesia: The Franchisees' Perspective

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Abstract

Transactional and relational quality have become a focal point of relationship between franchisor and franchisee. The relationship between the franchisor-franchisee relationships is dynamic and most of studies from franchisor perspective and the franchisee perspective have received little attention in the academic franchising. In fact, if seen from the success of a franchise system, not in spite of the success of franchisees. Franchisee plays an important role, because the franchisee that run the business day-to-day and also have direct access to the consumer, so the success of franchisees is the beginning of success of the entire franchise system. This research conducted on educational franchise industry in Indonesia from franchisees perspective. The result from this research prove the importance of the transactional and relational quality in the franchise industry.

Keywords: Transactional Quality, Relational Quality, Franchisee, Franchising.

1. Introduction

Franchising is one of the types of strategic alliances, in addition to diversification and synergistic alliances (Ireland, 2011). Franchising can be defined as a legal business arrangement in which the owner of a product, process or service (franchisor) licenses another party (franchisee) to use it in exchange for some sort of payment (Watson et al., 2005). A franchise agreement is defined as a contractual arrangement between two independent firms, whereby the franchisee pays the franchisor for the right to sell the franchisor's product and / or the right to use this trademark at a given place and for a certain period of time.

The successful cooperation within the franchise system is largely determined by the quality of the relationship between the franchisor and the franchisee (Monroy and Alzolla, 2005). Franchise relationship involve interplay between human actors (Dant, Weaven and Herington, 2008). Franchise relationship, in product or business format, operate as a system of interdependent relationships, leading to relational

exchange bounded by contractual agreement between both parties (Harmon and Griffiths, 2008). Relations between the two parties in a franchise system can generally be divided into two parts, namely the transactional and relational (Monroy and Alzolla, 2005).

Transactional is a contractual relationship between the parties (the franchisor and the franchisee), which describes the content of the cooperation agreement on the length of the period of cooperation, oversight by both parties, payment of royalties to be made by the franchisee to the franchisor, the source of raw materials, pricing and training provided by the franchisor to the franchisee (Cochet and Garg, 2008). Transactional quality between the franchisor and the franchisee in a franchise business is very importance and concern to researchers in the field of franchising, because the contractual aspect is intended to oversee the operations of both sides to keep it well maintained and also determines the relational quality (Pizanti and Lerner, 2003; Monroy and Alzolla, 2005).

Relational quality is a relationship of cooperation between the franchisor and the franchisees that are not contained in the agreement (Monroy and Alzolla, 2005), but the relationship is crucial relational long-term cooperation relationship as it involves factors such as relational norms of commitment, trust and communication between the two sides (Morgan and Hunt, 1996). Relational quality in the

franchise system is indispensable for the success of the franchise business, franchise business because success is not only determined by the operation, but also determined by long-term cooperation (Monroy and Alzolla, 2005).

Research on the relationship between the quality of transactional and relational qualities until now has not been much research exploring the relationship. Poppo and Zenger (2002) conducted a study to explore the relationship of formal and relational contracts in general, the results are complementary, but the contract must be made cooperative, for the long-term goals, and the mutual trust between the two sides. On the other hand, Relational will support the collaboration already underway with the contractual terms of these, but the research is still in general, not in the franchise industry. Then Monroy and Alzolla (2005) conducted a study on the relationship of the quality of transactional and relational quality in franchise systems. Monroy and Alzolla (2005) states that the concept of a franchise system, relational quality is determined by the success of transactional quality. However, their research is still a conceptual, so empirical studies needed to prove it.

Research has been done on the effects of the quality of transactional relationships in partnership within the franchise system to the satisfaction of franchisees (Choo and Bowley,

2007; Hing, 1995, 1999; Roh and Yoon, 2009). While research on the effects of relational quality on performance has also been done by Chiou, Hsieh and Yang (2004), Meek et al. (2011) and Weaven and Grace (2011). However, research involving both aspects of the transactional relationship quality and relational quality of ties together the performance is still not done, so this research can contribute.

Research on the effect of relationship quality on the performance of relational franchisees have been conducted by several researchers as Croonen (2010), Hopkinson and Hogarth (1999) and Mc Donnell et al. (2011), while research on the influence of the quality of transactional relationships franchisee performance is still not done, much less research on the effect of relationship quality on the performance of transactional and relational franchisees, so this study will contribute.

2. Discussed Problems

Agency Theory is the root of transactional quality in franchising industry. Agency theory is a theory that describes the relationship between the principal cooperation with the agent, where there is supervision connections made by each party to the organization, behavior, uncertainty and information (Eisenhardt, 1989; Jensen and Meckling, 1976; Shapiro, 2005). The unit of analysis in agency theory is a cooperative

relationship based on a contract between the principal to the agent (Eisenhardt, 1989). Cooperative relationship between the principal and the agent can be viewed from two different angles and both are necessary to align the desires of each party so as to minimize the problems that arise between the two sides (Miles, 2012). The main purpose of the agency theory is to solve the two major problems that may occur in agency relationships (Eisenhardt, 1989). The first problem is the problem of risk borne by the principal and the agent, in which both parties have different perceptions of risk may be borne by each party. The second problem is the agency problem that could potentially cause conflict between principal and agent (Dalton et al., 2007). The focus of the agency theory literature is on formal control (Fama and Jensen, 1983; Shane, 1996).

The basic assumption in agency theory where the principal and agent have different goals between each party, so that problems will arise in agency relationships are moral hazard and adverse selection, thus the need for franchisees to supervise the conduct of franchisee (Eisenhardt, 1989; Elango and Fried , 1997; Shapiro, 2005; Sharma, 1997). If the principal and the agent are both put together his own way regardless of the other party, then the agent will not act in accordance with the wishes of the principal so that eventually there is a problem between the principal and the agent (Jensen and Meckling, 1976). But the weaknesses of agency theory is

too much use of assumptions and irrespective of the social aspect, but in relation to the social aspects of cooperation were necessary (Miles, 2012).

Transactional quality from the franchisees perspective, generally can be divided into two parts: the content and the support provided by the franchisor to the franchisee business success (Monroy and Alzolla, 2005). The content dimension includes training and operational information regarding what should be done by the franchisee so that franchisees can comprehend and understand what must be done for running a franchise business (Hing, 1995; Hunt and Nevin, 1974; Monroy and Alzolla, 2005). While the dimensions of the support include things like supporting the operational activities of the managerial assistance is aimed to create uniformity in the franchise system that will support the successful cooperation between the two sides (Bradach, 1998; Fulop, 2000; Monroy and Alzolla, 2005).

Social exchange theory is one theory that can be used to explain the relational quality. An exchange perspective of franchising recognizes the important role that both the franchisor and franchisee assume in developing and maintaining sustainable relationships (Grace and Weaven, 2011). The basic assumption underlying the whole analysis in the social exchange theory is that individuals voluntarily enter and remain in relationships only as long

as the relationship is quite satisfactory (Thibaut and Kelley, 1959). In the marketing concept, a partnership needs to consider the social aspect involving the commitment factor and also the confidence of both parties to achieve good cooperation relationship yag (Morgan and Hunt, 1994). The purpose of social exchange theory is the party involved in the collaboration will mutually benefit (Blau, 1968; Das and Teng, 2002; Miles, 2012). The benefits will be felt by all parties, if there is dependence between the parties involved (Lawyer and Thye, 1999). Dependence would be felt if each party keeping with the norms of good cooperation, such as commitment and trust in the other party (Holmes, 1981).

Relational quality in a franchise system is a quality of long-term relationships aimed at improving the quality of transactional relationships and maintain the effectiveness of the cooperation contract has been made and agreed upon by both parties. In addition, the relationship is also relational relationship is dynamic, so the relational ties must go on, so the need for long-term cooperation with the confidence, good communication and commitment between both parties (Monroy and Alzolla, 2005).

3. Result and Discussion

The methodology used in this study is a quantitative method. The unit analysis of this study is the franchisees. Sample data used in

this research was 137 franchisees from 1730 education franchisees in Indonesia. The sampling technique used in this study is simple random sampling, using online questionnaire.

The results of this study indicate that the quality of the relationship is influenced by the quality of relational transactional relationship, where the quality of the transactional relationship that is based on the quality of the operational relationship between the

franchisor and franchisee contract is determined by the content and the support provided by the franchisor to the franchisee. This reinforces research done by Poppo and Zenger (2002), and this study also provide a contribution because it has not yet been any empirical research which states that the quality of the relationship is determined by the quality of relational transactional relationship in the context of the particular franchise education franchises in Indonesia.

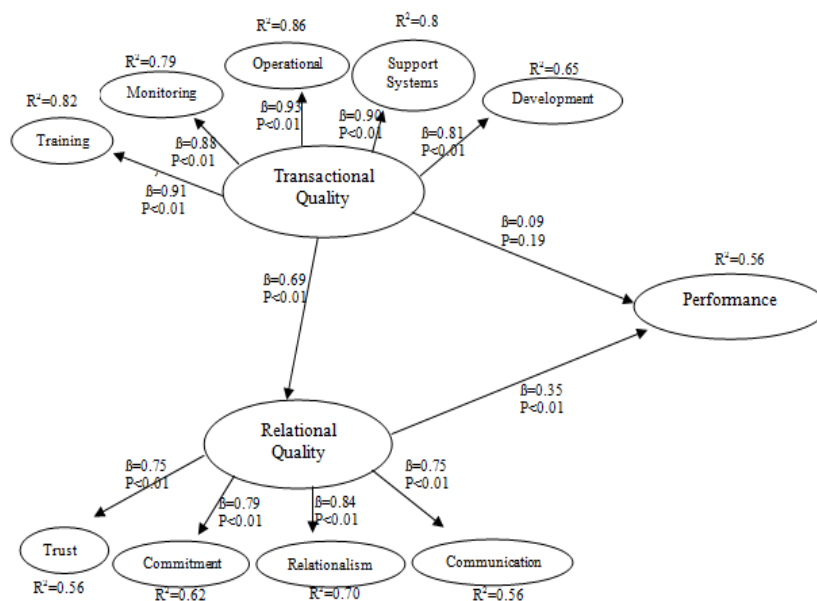


Figure 1. Result of Research Model

Based on the result of the research model, can be seen that the performance of a franchise is largely determined by the relational quality while the transactional quality is the antecedent of the relational quality. In

conceptualising an instrument to measure the transactional quality, focused on the training, monitoring, operational, support systems and development. In order to establish the effects of the dimensions of transactional quality, all dimensions

have significant effect, but development is the low effect than others. A key advantage in purchasing a franchise is operational, training and support systems from franchisor. Its shown positively impact on management and operational franchisee. Development is needed but not essentially important for franchisee, because transactional quality is only for short term period.

On the relational quality, focused on the trust, commitment, relationalism and communication between franchisor and franchisee. Overall the dimensions of relational quality between franchisor and franchisee have very significant effect. Result of research model suggest that the relationalism between franchisor and franchisee play the most significant role in shaping their relational quality.

4. Conclusions

In this research it has been revealed that there are relationship between transactional and relational quality in franchising industry. However, no relationship has been found between transactional quality and performance of franchisee. Based on this finding, it can be interpreted that the transactional quality is the antecedent of relational quality between franchisor and franchisee.

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