EFFECTS OF OPPORTUNISTIC ORIENTATIONS AND OPPORTUNISTIC ACTIONS ON FRANCHISE SYSTEMS

By

Nathaniel Tsakani Makhubele

A thesis submitted in fulfilment of the requirements for the degree of Doctor of Philosophy at the Faculty of Commerce, Law and Management, Graduate School of Business Administration, University of the Witwatersrand, Johannesburg

Supervisor:

Prof Gregory Lee

28 February 2014

Declaration

I declare that this thesis is my own unaided work; that I have not submitted it for any degree or examination at any other university, and I have indicated and acknowledged all the sources used or quoted as complete references.

Nathaniel Tsakani Makhubele

28 February 2014

Table of Contents

Acknowledgements

I am indebted to my supervisor, Professor Gregory Lee, for his guidance and assistance.

My two children, Yolanda and Tsakani Makhubele, also deserve credit for enduring the precious family time I expended on this thesis; and trust that this will inspire them to achieve even higher goals in their lives.

Last but not least, I also thank the participants in this research, and all those who selflessly spared their time, ideas and space to help me pursue this task of seeking to contribute towards improving the social and economic well-being of the people of this country and the continent.

Abstract

The business literature has long heralded franchising as an economically efficient business strategy for sustainable job, wealth and value creation, economic transformation and small business development. However, opportunism, being the tendency of the parties involved in the franchise relationship to act in their self-interest at each other's expense resulting in misaligned incentives, may undermine the long-term efficacy of the franchising system. Such opportunism may be enacted at different times by either the franchisor or the franchisee.

For the above reasons, this thesis focuses on the role of opportunism, a key aspect of Transactions Cost Economics theory, within the franchising system. Following an extensive review of the franchising, opportunism and related literatures, the thesis goes on to theorising and investigating a two-dimensional conceptualisation of opportunism, namely 'opportunistic orientations' and 'opportunistic actions'. Secondly, the thesis theorises and investigates various key antecedents and consequences of opportunistic orientations (OO) and opportunistic actions (OA) from the perspectives of both franchisors and franchisees.

Ultimately, this thesis proposes an integrated model combining structural, contextual and strategic factors as antecedents affecting OO which, in turn, leads to OA. The model further proposes that OA impact the growth, competitiveness and survival of franchise systems. In order to test this model, this thesis used a mixed methods strategy to undertake empirical fieldwork conducted separately among

franchisors and franchisees. The franchisor study was based on questionnaire data gathered from 111 purposefully sampled franchisors analysed principally through multivariate correlational techniques including structural equation modelling and canonical correlations. The franchisee study involved gathering semi-structured interview data from a purposeful sample of 30 Johannesburg-based franchisees, analysed through content analysis.

To a large extent, while the results of the empirical fieldwork supports the proposed model as outlined above, the results of the franchisor study produced some unexpected outcomes. These relate mainly to the findings that structural and strategic factors directly affected the competitiveness of franchise systems and that contextual and strategic factors also directly affected the growth and survival of franchise systems and not through the intervening variables, that is, OO and OA.

These findings suggest that structural, contextual and strategic factors may create entrepreneurial orientations (EO) and not OO within franchise systems. Nevertheless, this thesis makes several important and unique contributions to the study of franchising in South Africa, possibly with broader applications elsewhere, which include the following:

- extending the opportunism construct by conceptualising the OO notion which helps to increase understanding of the manifestation of opportunism as a central problem within franchise relationships;

- examining the antecedents and consequences of OO and OA in the same model to test the opportunism-performance hypothesis probably as the first study to do so among franchisors and franchisees in general and particularly in this country and continent;
- applying TCE and RET theories to explain OO and OA and strategies to curb or minimise it within franchise relationships; and
- incorporating some aspects of the country's marriage laws into the franchise relationship to provide for secured tenure among franchisees by expunging the expiry clauses from franchise contracts.

Within the context of Relational Exchange Theory, this thesis mainly and uniquely suggests the use of:

- psychological contracts between franchisors and franchisees to help align the incentives of these parties largely through mutually agreed norms of acceptable behaviour, role expectations and objectives;
- independent and statutory bodies such as the Commission for Conciliation, Mediation and Arbitration (CCMA), law societies and medical or nursing councils as dispute resolution mechanisms to help mediate or resolve franchising disputes fairly, quickly and cheaply; and

- “evergreen” franchise contracts which make no provision for expiry clauses to attenuate opportunism among franchisees through secured tenure.

On the whole, this thesis recommends the use of the above interventions as governance mechanisms to help improve franchisor-franchisee relationships and the reputation of franchising in South Africa by aligning the incentives of the parties and creating an environment in which franchise relationships can flourish.

Finally, the thesis also implores future researchers to investigate the impact of existing legislation such as the Consumer Protection Act and the measures suggested above on franchising in this country and the rest of the continent; and the relationship between EO and the growth, competitiveness and survival of franchise systems.

Key words:

Franchising

Franchise relationship

Franchisors

Franchisees

Opportunism

Relational Exchange Theory

Transaction Cost Economics

Abbreviations

AA	Affirmative Action
BBBEE	Broad-Based Black Economic Empowerment
CCMA	Commission for Conciliation, Mediation and Arbitration
CFA	Confirmatory Factor Analysis
GCIS	Government Communications and Information Services
CIPC	Company and Intellectual Property Commission
CPA	Consumer Protection Act of 2008
DTI	Department of Trade and Industry
FASA	Franchise Association of South Africa
IDC	Industrial Development Corporation
IFA	International Franchise Association
MDG	Millennium Development Goals
NCC	National Consumer Commission
NRF	National Research Foundation
OA	Opportunistic Actions
OB	Opportunistic Behaviour
OO	Opportunistic Orientations
RPM	Resale Price Maintenance
SADC	South African Development Community
SARS	South African Revenue Services

SEM	Structural Equation Modelling
SME	Small and Medium Enterprises
SSA	Statistics South Africa
RET	Relational Exchange Theory
TCE	Transactions Cost Economics
TSA	Transaction Specific Assets
UFOC	Uniform Franchise Offering Circular
WFC	World Franchise Council

Key words or concepts used in this thesis

Key word or concept	**Definition or explanation**
Affirmative action	politically-motivated measures spearheaded by governments in some countries requiring businesses and other institutions to prioritise the social and economic upliftment of majority or minority groups and persons in some countries including South Africa
BBBEE	legislated and societal measures for promoting the advancement of black individuals in the business and government sectors through accelerated employment and business opportunities in this country
Business format franchises	franchise offerings comprising a full business package such as business method, training, advertising franchisors make to franchisees
Business method	intellectual capital consisting of the registered trade-marks, brand-names, logos and insignia, menus, ambiance, layout and production processes associated with a particular franchise system
Cocked gun approach	strategies that franchisors and franchisees bring into the franchise relationship to extract undeserved financial benefits at each other's expense
Canonical analysis	branch of statistics investigating relationships between multiple independent and dependent variables
Competitiveness	attractiveness or popularity of a franchise system to franchisees and customers as indicated by the demand for its franchises and products
Confirmatory factor analysis	statistical procedures aiming at confirming a reduced number of factors determined *apriori* as underlying a large set of observed variables or statements
Consumer Protection Act	refers to sections 7 and 22 of the Consumer Protection Act No 68 of 2008 which state the requirements for valid franchise agreements

Conscionability	conduct which fits decent human character, dignity and expectations as described in the Consumer Protection Act No 68 of 2008
Content analysis	techniques used to analyse quantitative and qualitative data
Contextual factors	external and institutional factors such as legislation, competitors and customers which franchisors and franchisees can or cannot manipulate to their own financial benefit
Economic efficiency	cheaper, better and faster methods or strategies of conducting a business or distributing goods and services or pursuing other business goals
Economic transformation	legislated and societal efforts aimed at creating new economic opportunities especially for black persons and women participation in the economy
Entrepreneurial orientations	inclinations to advance one's business interests through opportunity-seeking, risk taking and innovation
Franchisee	a legal or natural person who is licensed by the franchisor to trade under a particular franchise system
Franchise contract	written contract between franchisors and franchisees in terms of which franchisors allow franchisees to use the franchisor's intellectual property such as trade-marks, brand names and business method to deploy their own financial, managerial and informational resources and skills to produce or distribute certain products and services in a particular area in return for payment of up-front and on-going royalty fees and adherence to operating and quality standards by franchisees
Franchise or Franchise relationship	the relationship between franchisors and franchisees established in terms of a franchise contract, legislation, and norms and values which develop between the parties over time
Franchise system	distribution system consisting of franchisors and franchisees based on the trade-marks, brand names, business method, operating procedures that the franchisor has developed and popularly operated by franchisees in most areas, regions or countries
Franchising	a contractual arrangement between the owner of a proven business method (franchisor) to allow another person (franchisee) to use the business method to produce certain goods and services in a going

	consideration particular area over a certain period time in return for the payment of an initial and on-going fees and levies
Franchisor	the owner of the business method, intellectual capital or know how that is licensed for use by franchisees within a particular franchise system
Governance mechanisms	strategies employed by franchisors and franchisees or the authorities to influence, control or regulate the franchise relationship
Growth	year-on-year net increase in the number of franchised outlets
Live and let live strategies	strategies through which franchisors and franchisees pursue equity or zero opportunism within the franchise relationship through establishing mutually agreed norms and values of acceptable and equitable behaviour (Ouchi, 1980)
Misaligned incentives	conflicting rewards sought by franchisors and franchisees from exploiting various aspects of the franchise relationship such as franchise contracts, brand value and geographic dispersion
Opportunism	"self-interest seeking with guile" (Williamson, 1975, p47) which includes cheating, lying, obfuscating, misinforming, misleading and so on
Opportunistic behaviour or actions	franchisor or franchisee acts that exploit "grey areas" in the franchise contract or relationship for financial gain at expense of the other party by acting without good faith, fair dealing or conscionability
Opportunistic orientations	a tendency or an inclination among franchisors or franchisees to act or behave opportunistically towards each other to extract undeserved financial gain
Psychological contracts	strategies emanating from organisational psychology which aim at establishing lasting common and shared purpose, vision and objectives between franchisors and franchisees
Performance	financial and non-financial measures of success or failure of a franchise system such as profitability: return on investment, return on assets and growth, competitiveness and survival

Relational Exchange Theory	branch of social theory dealing with norms, values and habits which develop and guide relationships between franchisees and franchisors
Small business	a business owned by a natural or legal person with an annual turnover of less than R5m according to the South African Revenue Services
Socialisation	the process of developing and maintaining values and norms of shared and mutually acceptable behavioural patterns that guide the franchise relationship
Strategic factors	external factors such as leases, franchise associations, local market knowledge which franchisors and franchisees can or cannot manipulate to derive undeserved financial benefits
Structural equation modelling	statistical techniques which seek to match the empirical and theoretical model models
Structural factors	internal factors such as franchise contracts terms, bargaining power, multi-unit ownership and location of outlets which franchisors or franchisees can control to extract contrived financial benefits
Survival	continued existence of the businesses of franchisors and franchisees
Trade name franchises	franchise systems mainly providing products accompanied by fewer or no business, marketing and other services than business format franchises to their franchisees such as car dealerships
Transactions costs	costs associated with establishing, maintaining and enforcing rights and obligations in the franchise or any business relationship
Transactions Cost Economics	branch of economic theory focusing on forms of organisation or governance mechanisms firms adopt to achieve economic efficiency or reduced transactions costs

List of Figures

List of Tables

Chapter 1 Background to the study

1.1 Introduction

This Chapter provides the theoretical, empirical and contextual background to the study. Following this introduction, section 1.2 focuses on the problem statement by discussing the study's research questions, hypotheses and propositions and research design. Section 1.3 addresses the research purpose and importance. Section 1.4 discusses the delimitations and limitations of the study. Section 1.5 presents the organisation of the thesis.

1.2 Statement of the problem

Franchising, a concept defined and described more fully and formally in the next chapter, generally refers to a business arrangement in which the one party, that is, the franchisor, allows another party, that is, the franchisee, to operate outlet(s) under licence in terms of the franchisor's successful business method in return for once-off and on-going payments by the franchisee to the franchisor over a pre-determined period (Vaughn, 1979; Justus and Judd, 1989; Verbieren, Leuven, Cools, Nieuwstraat, and van den Abbeele, 2008).

According to these authors, franchising is represented by highly visible and well-known units forming chains of branded outlets supplying a variety of consumer goods and services and operated nationally and globally by entrepreneurs and in the process, employ millions of people and contribute significantly to the gross domestic product retail sales figures of most developed and developing countries, including South Africa.

However, ostensibly due to its hybrid nature signified largely by the ownership of the business method by the franchisor and the outlet by the franchisee (Williamson, 1979, 1985, Hadfield, 1990; Shane, 1996), several contradictions and paradoxes concerning the franchise relationship (Shane and Hoy, 1996; Spinelli and Birley, 1996; Tuunanen and Hyrsky, 2001), the study's unit of analysis, give rise to conflicting and intriguing issues underlying the franchising model under investigation in this thesis.

For present purposes, the most pertinent of these contradictions and paradoxes is the efficiency argument which suggests that franchise relationships provide franchisors and franchisees in particular and societies generally with a suitable strategy or model for pursuing their business and societal goals and objectives (Hunt, 1972; Caves and Murphy, 1976; Mendelsohn, 2004).

In this vein, franchising has been described as an effective method for raising capital (Caves and Murphy, 1976; Mathewson and Winter, 1985; Brickley and Dark, 1987; Rubin, 1988), expanding operations (Oxenfeldt and Kelly, 1969; Oxenfeldt and Thompson, 1969; Hunt, 1972, Dant, 1992), and distributing standardised goods and services to mass customers (Castrogiovanni and Justis, 1998; Justis and Judd, 1989; Kaufmann and Eroglu, 1999) in vastly dispersed geographically areas, in a controlled and co-ordinated manner (Brickley and Dark, 1987; Castrogiovanni and Justis, 1998; Minkler, 1990).

Similarly, other scholars have lauded franchising as a means for promoting wealth, job, and value creation (Michael, 1993; Phan, Butler and Lee, 1996; Spinnelli and Birley 1996; Grünhagen and Dorsch, 2003; Srinivasan, 2006; Aliouche and Schlentrich, 2009), small business development (Pilling, 1991; Stanworth, Stanworth, Kirby and Watson, 1999; Watson, Purdy and Healeas, 2004) and economic transformation (van Niekerk, 2003; Parker and Illtschecko, 2007 and Woker, 2012).

To a large extent, the nature of the franchise relationship presupposes or assumes that franchisors and franchisees will co-operate with each other in pursuit of mutually beneficial goals and objectives (Falbe and Dandridge, 1992; Baucus, Baucus, and Human, 1996; Shane and Hoy, 1996; Gassenheimer, Baucus and Baucus, 1996).

Yet, despite these co-operation pre-suppositions, abundant evidence suggests that franchisors and franchisees harbour and pursue conflicting economic or financial incentives especially during the existence of their franchise relationship (Brown, 1969; Burr, Burr and Bartlett, 1975; Mathews and Winter, 1985; Muris, 1986; Hadfield, 1990; Kalnins, 2004).

Principally, conflict within franchised relationships appears to originate from its hybrid or dual ownership structure (Williamson, 1975; 1985; Mathewson and Winter, 1985; Shane, 1996) in which franchisors own the intellectual assets, business methods and systems through which they control the activities of the outlets owned by their franchisees which use these assets (Williamson, 1975; Caves and Murphy, 1976; Brickely and Dark, 1987; Klein, 1993).

On the other hand, the franchised outlets consist mostly of physical and intellectual assets such as equipment, machinery and furniture (Williamson, 1979; 1985; Dnes, 1993; Klein, 1993) and the individual franchisee's knowledge of local market conditions of the outlets mostly located in vastly geographically dispersed areas (Oxenfeldt and Kelly, 1969; Brickley and Dark, 1987; Minkler, 1990; 1992; Dnes, 1993).

Apart from exercising control over the activities or operations of their franchisees such as recruiting and selecting franchisees, site selection, designating suppliers and determining operational, marketing, product and pricings policies and strategies (Vaughn, 1979; Curran and Stanworth, 1983; Justis and Judd, 1989), paradoxically franchisors also own and operate stores or brands that compete directly with their franchised outlets (Caves and Murphy, 1976; Brickely and Dark, 1987; Klein, 1993; Bradach, 1997).

Against this background, the question that begs an answer is: apart from the known financial, marketing, and operational benefits (Vaughn, 1979; Justis and Judd, 1988; Elango and Fried, 1997) traditionally associated with operating the franchise business as propounded within the agency and resource scarcity theories of franchising explained in the next chapter, what factors predispose or render the franchise relationship vulnerable to opportunistic exploitation by the transacting parties?

Put differently, considering the structural, contextual or strategic factors emanating from the micro, market or macro business environment in which franchising occurs as proposed by Curran and Stanworth (1999), what aspects of the franchise relationship, if any, attract opportunistic operators into the business; and how do the actions of these operators affect the performance of franchise systems?

Essentially, based on Williamson's (1975) opportunism construct which he describes as "self-interest seeking with a guile" (p.47), the model under investigation in this thesis investigates whether influential structural, contextual and strategic factors obtaining within and outside the franchise relationship give rise to a phenomenon conceptualised and referred to as opportunistic orientations (hereafter referred to as "OO") in this thesis.

This construct, which is defined and described more fully in Chapter 4 and amounts to an extension of Williamson's opportunism conceptualisation, can be construed as the tendency among franchisors and franchisees to exploit various aspects of the franchise relationship to derive undue financial benefits at each other's expense.

In addition, the model investigates whether OO inspire franchisors and franchisees to commit opportunistic actions against each other (hereafter referred to as "OA") such as the premature termination of franchise contracts by franchisors and the failure among franchisees to maintain quality standards; and whether these OA affect the growth, competitiveness, and survival of franchise systems?

Despite a few studies such as Dewantripont and Sekkat (1991); Dahlstrohm and Nygaard (1999); Chiharu (2007); Kidwell, Nygaard, and Silkoset (2007); El Akremi, Mignonac, and Perrigot (2010) conducted mostly outside the United States some 50 years after franchising began in that country, the above questions remain largely unanswered empirically (Hawkins, Wittman, and Beyerlein, 1995; Hawkins, Knipper and Strutton, 2009).

Similarly, important questions on the role played by franchisees in the franchise relationship (Minkler, 1990; Elango and Fried, 1997; Bradach, 1997), the involvement of franchisors as opportunistic transactors (Hawkins et. al., 2009) and the testing of the impact of opportunism on franchise systems (Hawkins et. al., 2009; Combs et al., 2011) have received little attention, if any, in the academic literature.

In addition, as most of the franchising opportunism studies emanate from Northern Europe (Dant, 1995), these issues have yet to receive attention within the context of a developing country such as South Africa, the context of this study, where the franchising industry has entered the growth phase of its lifecycle (du Toit, 2003) during which marketing theory suggests the industry should maximise its prospects (Kotler and Keller, 2008).

These issues require scrutiny especially in this country in view of the United Nations-sponsored Millennium Development Goals (MDG) (United Nations website, 2013) adopted in this country together with the National Development Plan (NDP) (GCIS, 2013), the post-apartheid government new strategy for achieving social and economic transformation and development in this country largely through education and training, job creation and poverty alleviation.

As alluded to above, the proponents of franchising in South Africa such as Makhubele (1996), van Niekerk (2003) and Parker and Illtschecko (2007) also advocate franchising as a vehicle for delivering much needed socio-economic benefits such as job, wealth and value creation, small business development, and economic transformation opportunities to many people in this country.

These views enjoy widespread support in light of the high levels of unemployment, poverty, and inequalities in the country (Zuma, 2012) particularly among its predominantly young and marginalised population, the victim of the country's post-apartheid legacy of an unequal distribution and access to financial, educational and other skills and resources.

For these reasons, it is necessary for society in general and franchising in particular in this country to address the issues which often lead to disputes between the dyadic parties involved in the franchise relationship to protect the reputation of the industry and to obviate the socio-economic hardships that flow from the disruption, disturbance or pre-mature termination or non-renewal of the franchise relationship mostly by franchisors.

To that end, this thesis contributes to meeting the need for dialogue, research, training and other interventions at a policy or strategic level which should be embarked upon at public conferences, academic and industry workshops, seminars and institutions for dissemination through public educational and marketing programmes and the electronic and printed media.

The objective of such exercises should be to build appropriate institutional and intellectual capacity necessary to design, adopt or adapt various appropriate governance mechanisms in use in the country's other highly experienced economic sectors such as mining, commerce and banking to protect the interests of the different stakeholders so as to ensure that franchising delivers its promise of socio-economic benefits to its investors, entrepreneurs and their employees and society at large.

To address the above issues, the next sub-section discusses the study's research questions.

1.2.1 Research questions

Within the context of the issues raised in the preceding-sub-section, this study examines the following three research questions:

Research question 1.

Is there a relationship between structural, contextual, and strategic factors of the franchise relationship and opportunistic orientations among franchisors and franchisees?

Research question 2.

Do opportunistic orientations serve as an antecedent of opportunistic actions among franchisors and franchisees? and

Research question 3.

What is the relationship between opportunistic actions that franchisors and franchisees commit against each other, and the growth, competitiveness and survival of franchise systems?

The next sub-section briefly discusses the hypotheses tested in the quantitative study.

1.2.2 Hypotheses tested in the quantitative study

Against the backdrop of the research questions outlined in the preceding sub-section, this sub-section presents the seven hypotheses examined in the quantitative part of this study, which will be developed and discussed in detail in Chapter 6.

Briefly stated, the hypotheses tested the relationships between a number of constructs of interest, that is, structural, contextual and strategic factors, OO and OA, and growth, competitiveness and survival of franchise systems, relating to the examination of the research questions among a purposeful sample of 111 franchisors countrywide.

Research question 1

The first set of three hypotheses postulated that there is evidence of a positive relationship between structural, contextual, and strategic factors and OO among franchisors, as follows:

H1: *Structural factors are positively related to OO*

H2: *Contextual factors are positively related to OO*

H3: *Strategic factors are positively related to OO*

Research question 2

Secondly, hypothesis 4, which tested research question 2, postulated that there is evidence of a positive relationship between OO and OA among franchisors, as follows:

H4: *Opportunistic orientations are positively related to OA*

Research question 3

Thirdly, the last set of three hypotheses 5-7 tested research question 3, and postulated that there is evidence of a negative relationship between OA, the growth, competitiveness and survival of franchise systems, as follows:

H5: *Opportunistic actions are negatively related to growth of franchise systems*

H6: *Opportunistic actions are negatively related to competitiveness of franchise systems*

H7: Opportunistic actions are negatively related to survival of franchise systems

The next sub-section discusses the propositions set for the qualitative part of the study among franchisees to examine the above research questions.

1.2.3 Research propositions for the qualitative study

Also based on a literature review and informal interviews with franchising experts, the qualitative part of this study developed and tested several propositions using interview data obtained from a purposeful sample of 30 Johannesburg-based franchisees to examine the above research questions.

For reasons explained in greater detail in the next sub-section, the qualitative part of the study tested propositions and not hypothesis because of the relatively small sample of 30 Johannesburg-based franchisees who participated in the study.

Research question 1

Firstly, the pre-research literature review and expert interviews suggest evidence of a positive relationship between structural, contextual, and strategic factors and OO among franchisees; as follows:

P1: Structural factors are positively related to opportunistic orientations

P2: Contextual factors are positively related to opportunistic orientations

P3: Strategic factors are positively related to opportunistic orientations

Research question 2

Secondly, proposition 4, which seeks to test research question 2, postulates the existence of evidence of a positive relationship between OO and OA among franchisees, as follows:

P4: Opportunistic orientations are positively related to opportunistic actions

Research question 3

Thirdly, the last three propositions 5-7 seek to address research question 3, and postulate the existence of evidence indicating a negative relationship between OA and the growth, competitiveness and survival, as follows:

P5: Opportunistic actions are negatively related to the growth of franchise systems

P6: Opportunistic actions are negatively related to the competitiveness of franchise systems

P7: Opportunistic actions are negatively related to the survival of franchise systems

The next sub-section discusses the research design in the study.

1.2.4 Research design

As discussed in the two preceding sub-sections, this study uses the concurrent mixed methods research strategy (Creswell, 2004) comprising different quantitative and qualitative methods to test seven hypotheses and propositions that examined the above three research questions among two respondent groups, that is, franchisors and franchisees, respectively.

Similarly, as discussed throughout this study, the literature suggests that franchisors and franchisees held different perspectives, motivations and bargaining positions in the franchise relationship between them.

More specifically, this South African study used quantitative and qualitative techniques, that is, correlational techniques such as structural equation modelling (SEM) and canonical correlation analysis and content analysis to analyse questionnaire and interview data obtained from a purposeful samples of 111 franchisors and 30 Johannesburg-based franchisees, respectively.

The use of the mixed methods invoking different research methods, procedures or instruments, data sources and data analysis and validation methods in this study aimed at dealing with particular theoretical and practical issues relating to the context of the study.

For example, as alluded to in the preceding sub-section, franchisors own the intellectual capital, that is, trade-marks, brand-names and the business method through which they controlled the franchise businesses owned by franchisees (Caves and Murphy, 1976).

This control of the franchise relationship by franchisors give them the strong bargaining position that they enjoy (Klein, 1980; Dwyer et. al, 1981; Butaney and Wortzel, 1988; Michael, 2000) which in most cases allowed them to determine most aspects of the relationship such as whether to allow franchisees to participate in the study in terms of the confidentiality clauses found in most franchise contracts.

For this reason, different methods had to be used for collecting and analysing data from the different respondent groups independently of the influence of the dominant group, that is, franchisors, to minimise sampling error due to selection bias (Ritchie and Lewis, 2005).

As the reasons for the use of the mixed methods are discussed in Chapter 6 and 8, suffice it to say at this stage that these methods not only addressed theoretical and methodological issues which confronted this study, but also offered pragmatic, practical and cost-effective solutions that aided its execution and triangulation which is the subject of the next sub-section.

1.2.5 **Triangulation**

Triangulation involves the use various data collection methods, data sources, analysts and perspectives to analyse the same phenomenon in the same study (Denzin, 1970). In this vein, Denzin states that the rationale behind triangulation is to silence the doubt that often surrounds singular methods, lone researchers, and single theoretical expositions.

However, Patton (2006) warns that triangulation does not necessarily produce the same results though it aims at testing for the consistency of the different methods, observers and data sources as these instruments tend to be sensitive to their use in their respective contexts to highlight real life nuances. The study uses various triangulation procedures to achieve specific objectives.

In the main, this thesis used quantitative and qualitative methods to examine the research questions among franchisors and franchisees, respectively. The purpose was to enable the self-examination of OO and OA by the franchisors and franchisees to determine their views and perceptions on the research questions.

This thesis uses mixed methods research as a triangulation strategy to address particular practical, methodological and theoretical considerations that have been dealt with in the previous section. To this end, the thesis examines the same phenomenon using two different research instruments and from different perspectives of two respondent groups, that is, franchisors and franchisees.

In line with Ritchie and Lewis (2005), this approach enriched and deepened the study because the different instruments and the different perspectives of the respondent groups complemented each other. Logically, Ritchie and Lewis (2005) caution that the use of the mixed methods research strategy raises the question of how to read the findings of the study, and the extent to which such findings complement or contradict each other.

These issues form part of the bigger debate that is currently taking place in the methodological literature about triangulation and the use of mixed methods research in the same study. The provision of answers to these questions and the broader triangulation debate is beyond the scope of this research. However, mention needs to be made of the middle road or neutral approach adopted in this study.

To that end, Ritchie and Lewis (2005) define triangulation as "the use of different methods to and sources to check or extend the integrity or inferences drawn from the data" (p43). Ritchie and Lewis (2005) regard triangulation as tools developed and adopted by qualitative researchers as a means of investigating the confluence between the data and the conclusions drawn from them and used as one of the critical methods of validating quantitative research evidence.

Consequently, the use of two different research methods in this study aimed at triangulation. Ritchie and Lewis (2005) argue that there are different ontological and epistemological perspectives on the usefulness of triangulation as a validating mechanism. The ontological arguments suggested that as there is no single way of looking at the world that is, realism, materialism and idealism, using different sources of information amounts to a fruitless exercise.

On the other hand, epistemological perspectives point to the fact that as different methods produce specific data such as positivism vs interpretivism and deductivism vs inductivism and so on, they are unlikely to yield the same evidence. As a result of these discordant views, Ritchie and Lewis (2005) suggest that the value of triangulation lies in extending the understanding of the study phenomenon through the use of different or “multiple perspectives or different types of readings” (p44).

This thesis adopted the latter approach in line with the pragmatism expounded by Ritchie and Lewis in terms of which the use of the two different research methods aimed at broadening and deepening the study of OO and OA within the franchise relationship by examining the research questions from the perspectives of both franchisors and franchisees.

A review of the literature and discussions with franchising experts suggested that the phenomena of OO and OA were reciprocal problems with different motivating factors among franchisors and franchisees. Thus, given that a quantitative study conducted among franchisors and the qualitative study among franchisees on the same research questions, the two-stage approach used in this this amounted to the use of the mixed methods.

Wengraf (2001) suggests that mixed methods are useful for the purposes of triangulation. Accordingly, mixed research methods used in this study intended to integrate the different sources and nature of data, theory, the different data analysis techniques to the study data and the findings and the reliability and validity of the study among franchisors and franchisees to improve and enhance the quality of the study.

Thus, mixed research methods used provided the flexibility that addressed multiple interests and needs in the same study. For instance, the study surveyed franchisors by means of a self-administered structured questionnaire in a less pressurised environment while conducting interviews among franchisees to obtain different and deeper perspectives on similarly sensitive issues.

It was probably less stressful to use surveys among franchisors without placing them under the spotlight of interviews at a time of increased and unprecedented political pressure. For the first time ever in this country, franchisors appeared to be under immense political and legal pressures in wake of the implementation of the CPA. The Act requires them to make drastic changes to their franchise contracts at a huge financial cost to themselves.

On the other hand, as the passing of the CPA aimed at levelling the franchising playing fields largely for the benefit of the franchisees, the interviews method seemed to provide of franchisees with an outlet to express their frustration and aspirations with the franchise relationship.

Therefore, the mixed method approach primarily triangulated data sources and research designs methods used in order to enhance the quality of the study by integrating different data sources, analyses methods, and study results. This approach helped to enrich the findings of study by achieving breadth and depth in testing the research questions.

The next section discusses the purpose and importance of the study.

1.3 Research purpose and importance

The purpose of this research is to build and test a model used to address the research questions by investigating the impact of OO and OA on franchise relationships, the unit of analysis of this thesis, with the help of seven hypotheses and propositions.

In the process, the study fills a number of gaps in the franchising theory, practice, and policy spheres. In this regard, a literature review of various academic sources suggests that very few studies examined the opportunism-performance hypothesis (Hawkins et. al., 1995; Hawkins et. al., 2009; Combs, Ketchen Jr, Shook and Short, 2011).

In addition, fewer studies combined economic and social theory as their theoretical framework (e.g. Achrol and Gundlach, 1999) for addressing an important but under-researched aspect of the franchise relationships.

Within this context, this study makes an important contribution to knowledge largely by extending the opportunism construct and examining the OO and OA-performance hypothesis within franchised relationship, which has not received much attention in the academic literature despite the wide acceptance in most social science and management disciplines of the seminal opportunism-performance hypothesis conceived mainly by Williamson (Hawkins et al., 1995; Hawkins et. al., 2009).

Most importantly, the study broadens the pool of the common and franchisor-centred antecedents of opportunism such as dependence (Emerson, 1962; Anderson, 1988; Rokkan, Heide and Wathne, 2003), information asymmetry (Rubin, 1978; Gordon and Stockholm, 1994; Achrol and Gundlach, 1999), bargaining power (Dwyer and Walker Jr., 1981; Butaney and Wortel, 1988; Michael, 2000) used in previous studies which are of a structural nature.

Probably for the first time in the academic literature, this study includes contextual and strategic factors such as the role of lack of franchise regulation or legislation (Brickley, Dark and Weisbach, 1991; Beales and Muris, 1995; Shane and Foo, 1999), independent franchisee associations (Dandridge and Falbe, 1995; Lawrence and Benjamin, 2010; 2011) and brand value (Kauffmann and Stanworth, 1995; Gallini and Lutz, 1992; Combs and Ketchen, 2003) as franchisee-centred antecedents of OO and OA.

Essentially, this study also examines the antecedents of a brand of opportunism referred to throughout this thesis as OO and OA from the point of view of franchisees using the above constructs which have hitherto been largely ignored in the academic literature (Minkler, 1990; Bradach, 1997; Elango and Fried, 1997).

In addition, this study also examines the consequences of OO and OA in franchising by focusing on its effects on the growth, competitiveness and survival of the businesses of franchisors and franchisees in the same study which two recent and relevant studies in which the firstly a meta-analysis of opportunism studies by Hawkins et al., (2009) and secondly a synthesis of the antecedent and consequences of franchising by Combs et al., (2011) suggest very few studies, if any, have done to date.

In a nutshell, this study posits that an array of structural, contextual and strategic factors from within and outside the franchise relationship give rise to misaligned incentives between franchisors and franchisees which lead to conflicting financial interests between the parties, which in turn impact negatively on the growth, competitiveness, and survival of franchise systems and businesses.

In this vein, this study conceptualised OO as an extension of the opportunism construct developed by Williamson (1975, 1985) to denote the tendency among franchisors and franchisees to exploit various governance mechanisms of the franchise relationship such as franchise contracts, brand value and the absence of legislation and regulations to their financial advantage which has given rise to a number of important studies on conflict in franchising such as Gaski (1984), Spinelli and Birley (1996) and Frazer, Giddings, Weaven and Wright (2007).

Secondly, the study posits that OO led to OA (also referred to as opportunistic behaviour in this study) which, in turn, had negative effects on the growth, competitiveness and survival of franchise systems by creating unfair financial advantages for the one party at the expense of the innocent party through for example the premature termination of the franchise contract by franchisors.

Such actions have the effect of denying franchisees the opportunity to realise the full benefit that should accrue to them because of market discovery (Bercovitz, 2000) and local market knowledge (Caves and Murphy, 1976; Minkler, 1990; Dnes, 1993) in the area where the franchised outlet is located.

Similarly, opportunistic or destructive acts (Hibbard, Kumar, and Stern, 2001) such as free riding on the franchisor's brand by franchisees using cheaper ingredients are likely to damage the reputation of the franchise system (Brickley and Dark, 1987; Muris, 1980; Hadfield, 1990).

Within the context of Transactions Cost Economics (TCE) theory, this study postulates that OO and OA are likely to increase the transaction costs of franchisors and franchisees such as the high information, bargaining and negotiation costs involved in entering into and maintaining the franchise relationship, securing or amending comprehensive and enforceable franchise contracts, searching for and screening suitable franchisors or franchisees and monitoring and enforcing performance and adjudicating or settling disputes fairly, quickly and cheaply (Williamson, 1975; 1985; Klein, 1993; Dnes, 1993).

As a result, franchisors will opt for vertical integration if they believe that the transaction costs involved in recruiting and selecting suitable franchisees and monitoring their activities exceed the benefits realisable from operating employee-managed company stores (Klein, Crawford and Alchian, 1978; Mathewson and Winter, 1985; Carney and Gedajlovic, 1991; Williamson, 1991).

In addition, franchisors will refrain from franchising where franchise laws limit their power to terminate franchise relationships (Mathewson and Winter, 1985) while franchise systems characterised by opportunistic terminations will suffer reputational damage (Muris, 1980; Hadfield, 1990; Klein, 1995).

Similarly, existing franchisees may refrain from renewing or extending their franchise contracts (Muris, 1980; Brickley and Dark, 1987; Hadfield, 1990), seeking opportunities to acquire additional outlets (Kauffmann and Dant, 1996, Grunhugen and Mittelstaedt, 2005; Weaven and Frazer, 2007) and helping to recruit aspirant franchisees and independent retailers to buy into the franchise system (Litz and Stewart, 1998; Hoffmann and Prebble, 2003).

Therefore, this thesis suggests various measures needed to curb or attenuate OO and OA to enable franchise systems to deliver their broader societal and business goals and objectives which include much-needed socio-economic benefits (Hunt, 1972; 1977) such as job and wealth creation through small business and entrepreneurship development and the transformation of the South African economy (Makhubele, 1986; van Niekerk, 2003; Parker and Illtshescko, 2007).

These initiatives are crucial for drawing into the mainstream economy the majority of the population who were both politically and economically marginalised prior to the dismantling of the oppressive and undemocratic government in 1994.

In summing up, the study's importance lies in that it contributes to theoretical knowledge by:

- conceptualising the OO construct to explain the manifestation of opportunism among franchisors and franchisees to help enhance understanding of the opportunism phenomenon within franchised relationships;

- developing the franchising model presented and tested in Chapters 5 to 9 to examine the antecedents and consequences of OO and OA among franchisors and franchisees in the same study arguably being the first study to do so;
- mainly applying economic and social theories, that is, TCE and RET as a theoretical framework for explaining OO and OA and suggesting strategies for its attenuation within franchise relationships with the aim of aligning the financial or economic incentives of franchisors and franchisees; and
- being the first study to examine the opportunism–performance hypothesis within franchised relationships at least in this country and the continent as evidenced by the absence of such research on the National Research Foundation (NRF) database.

At a practical level, the study contributes to knowledge by emphasising strategies for socialising franchisor-franchisee relationships by departing from the "cocked gun" approach that emphasises the use of traditional governance mechanisms to franchise contracting to the adoption of RET-based "live and let live" philosophy as alternative governance mechanism strategies (rooted mainly in the human rights culture of the country's constitutional democratic system) such as the development and or usage of:

- mutually agreed norms and values of ethical behaviour which aim at establishing psychological contracts between franchisors and franchisees;
- adoption of aspects of marital laws into franchising requiring removal of expiry clauses from franchise contracts to provide secured tenure to franchisees;
- independent and statutory third party dispute resolution mechanisms such as Commission for Conciliation, Mediation and Arbitration (CCMA) established in terms of the Labour Relations Act of 1995, as amended and law society or medical council-type bodies to facilitate conciliation, mediation and arbitration of franchising disputes;
- independent franchisee associations and democratically elected franchise advisory councils with Codes of Good Conduct jointly designed by franchisors and franchisees; and
- the establishment of an independent and statutory office of the Franchise Ombudsperson to help resolve franchising disputes equitably, quickly and cheaply and to protect and improve the reputation and integrity of franchising as a successful business model going forward.

From a policy point of view, the study contributes towards informing franchising debates and policy by advocating for measures such as:

- the passing of franchising-specific legislation and regulations to give effect to the prescripts of statutes such as the CPA, the Competition Act and the Constitution of the Republic of South Africa;
- the alignment of franchise contracts with the applicable legislative and regulatory measures with the aim of setting norms and standards of acceptable and conscionable conduct within the industry;
- aggressive promotion of BBBEE initiatives such as the Franchise Charter which spells out the industry's transformation agenda to encourage the growth of franchising through the participation of more previously marginalised groups in the country; and
- introducing the Charter of Franchisee Rights to provide the framework within which to promote the rights to freedom, dignity and equality which franchisees enjoy under the constitution; and
- helping to align industry practices with best practice globally and the country's constitutional imperatives and to ensure the long term sustainability and viability of the franchise system.

The next section focuses on the delimitations and limitations of the study.

1.4 Delimitations and limitations of the study

Several factors limited the focus and direction of the study without undermining its quality, relevance or importance. To mention a few, the study concentrated on franchisor and franchisee businesses which had been in existence for least 3 years as this made it possible to measure the growth, competitiveness and survival or otherwise of such businesses in this country.

On the other hand, as Price (2000) correctly lamented, the paucity of franchising research resulting in fewer studies being conducted generally and particularly in this country; and even fewer on franchisor opportunism (Muris, 1980) or on the consequence thereof on franchise systems (Hawkins et al., 1995; Hawkins et al., 2009; Combs et al., 2011).

This contributed to the limited availability of measures or constructs that could be readily adapted or replicated in the design of the questionnaire and semi-structured interview statements used this study.

In addition, the country's relatively small size of the franchising industry compared to developed countries such as the United States and United Kingdom and the lack of official information on franchising activities and its contribution to the economy in terms of sales, employment, or movement in these or any other figures required the treatment of the obtained or available information with caution as it could not be independently verified.

Similarly, the lack of official statistics on the number of franchisors, franchisees, franchising complaints and disputes lodged or resolved, new or de-franchised franchisors and franchisees and the reasons for these movements resulted in the use of self-reported information which was difficult to verify independently.

Furthermore, the unavailability of franchisee contact details resulted in a small sample of franchisees whose responses to the semi-structured interviews do not lend themselves to rigorous statistical analysis on techniques such as regression or structural equation modelling used to analyse questionnaire data obtained from franchisors.

Most importantly, the self-regulation of the industry under FASA (Woker, 2012) and its domination by franchisors was as unhelpful as is its status as an unrepresentative, voluntary and non-statutory organisation that has a limited record of meaningful participation in open and public roles such as teaching, research and education initiatives or as an *amicus curiae* or "friend of the court" in a number of franchising cases that have come before the country's courts over 35 years of its existence.

On the other hand, adjusting to the new and unfolding legislative and regulatory environment which seeks to reduce the domination of franchised relationships by franchisors seems to have made it difficult to secure their participation in this study in larger numbers than was anticipated even though the 44 percent response rate obtained is acceptable as it is in line with other franchising studies (e.g. Skinner et al., 1992).

Similarly, unlike in countries such as the United States and the United Kingdom where some level of regulation exists (Emerson, 1998), the lack of information on the industry made it impossible to obtain the financial information of franchisors and franchisees which could have been used to measure or assess the study's dependent variables, that is, the performance of franchised businesses by using objective and accurate criteria such as profitability, return on equity, and return on assets and so on.

With only 29% of franchised businesses listed on the Johannesburg Securities Exchange (du Toit, 2003), private ownership of most of these businesses possibly had a negative effect on access to the financial information with the result that this study relied on non-financial information such as growth, competitiveness and survival as proxies to measure the relationship between the independent and dependant variables.

Lastly, the obstacles involved or experienced in obtaining the contact details of franchisees affected the researcher's ability to obtain a representative sample of respondents for their inclusion in the quantitative study with the result that, as in similar studies (e.g. Falbe, Dandridge and Kumar ,1998; Withane, 2000; Clarkin and Rosa, 2005), a qualitative study was conducted among franchisees.

The next section focuses on the study's approach to its ethical challenges.

1.5 Ethical considerations

Given that the rules of the University of the Witwatersrand under which this study was conducted require research conducted on human beings as subjects to be sanctioned by the ethical committee, it was not necessary for the researcher to comply with this requirement.

However, to avoid bias or lack of objectivity or competitor concerns, the researcher deliberately omitted franchise businesses he may be associated with in any form from the study.

In addition, the researcher disclosed his business interests in a particular franchise system upfront to enable potential respondents to decide whether to proceed or withdraw from participating in the study.

Furthermore, a plagiarism software package run on the thesis did not reveal any issues which raised ethical concerns.

The next section outlines the organisation of the thesis.

1.6 Summary - Organisation of the thesis

Chapter 1. Background to the study. This Chapter outlines theoretical, empirical and contextual background to the study. It mainly states the research problem comprising the research questions, hypotheses, propositions and research design, the research purpose and importance and the delimitations and limitations of the study.

Chapter 2. The scope and dynamics of franchising in South Africa. This chapter critically discusses the regulatory, legislative and political environment which laid the foundation for discussing the profiles and activities, role, challenges and prospects of franchising in South Africa.

Chapter 3. The theoretical foundations of the franchise relationship. This chapter critically reviews definitions and explanation of franchising, the franchise relationship, franchise contracts or agreements and key franchising theories that seek to explain the philosophical foundations of the franchise relationship.

Chapter 4. Opportunism as the central problem within franchise relationships. This chapter deals with the meaning, forms, and strategies for managing opportunism within franchising relationships prior to introducing and explaining the study's OO construct.

Chapter 5. *Model development for empirical work*. This chapter focuses on the development of the franchising model under investigation in this study by identifying the constructs and sub-dimensions underlying the study's independent, intervening and dependant variables, the proposed linkages between them and hypotheses and propositions used to examine the research questions among franchisors and franchisees in Chapters 6 and 7; and Chapters 8 and 9, respectively.

Chapter 6. Research methodology - Quantitative study. This chapter focuses on the quantitative methods, that is, the questionnaire and various statistical techniques used to gather, analyse, validate, and evaluate data obtained from franchisors on the research questions.

Chapter 7. Results and Discussion - Quantitative study. This chapter presents and discusses the results of the quantitative study conducted among franchisors.

Chapter 8. Research methodology - Qualitative study. This chapter focuses on the qualitative methods such as interviews and content analysis used to conduct the study among franchisees which involved data gathering, analysis, validation, and evaluation.

Chapter 9. Results and Discussion - Qualitative study. This chapter presents and discusses the results of the qualitative part of the study.

Chapter 10. Conclusion. This chapter concludes the study by highlighting its findings and implications, contributions to franchising theory, practice, and policy, and suggesting areas for further investigation.

The next chapter provides an overview of the scope and dynamics of franchising in South Africa.

Chapter 2 Franchising in South Africa: an overview.

2.1 Introduction

Chapter 1 discussed the conceptual, theoretical and contextual foundations of the study of the franchise relationship, the study's unit of analysis. This chapter outlines the scope and dynamics of franchising in South Africa, the site of this study. After this introduction, section 2.2 briefly outlines the regulatory, legislative and political environment in which franchising occurs in South Africa.

Section 2.3 provides a profile of franchising activities in South Africa. Section 2.4 focuses on the role of franchising in pursuit of the Millennium Development Goals (MDG) and the National Development Plan (NDP). Section 2.5 deals with the challenges and opportunities facing franchising in South Africa. Section 2.6 summarises the chapter.

2.2 The regulatory, legislative and political environment of franchising in South Africa

Given the suggested need and significance of franchising in the creation of jobs, wealth and value, small business development and economic transformation in South Africa and the misalignment of incentives between franchisors and franchisees as highlighted in the previous chapter, it is important to briefly review the legal, regulatory and political environment which continues to shape the development and occurrence of franchising in this country.

This is necessary to lay the foundation for the understanding of the development, challenges and prospects of the franchising industry in this country regarding its envisaged role in social and economic transformation and development which has also been slowed down by the imposition of economic sanctions by Western countries (Woker, 2012) due to South Africa's political dispensation which prevailed prior to 1994.

Having said that, like in many countries in the Americas, Europe and Australasia whose franchise associations are affiliated to the International Franchise Association (IFA), this country's franchising industry is self-regulating under the aegis of FASA, a voluntary, non-profit organisation (Woker, 2012) dominated and sponsored by franchisors.

As some franchisors and service providers such as bankers, lawyers and consultants most of whom have vested interests in in the industry appoint the board and executive management of FASA in closed meetings or conferences, most of FASA's officials comprise current or retired franchisors or their employees or representatives which clearly affects the organisation's credibility, objectivity and legitimacy in the public generally and the investor community in particular.

Perhaps this may also explain the reluctance of the authorities to recognise FASA as the industry's mouthpiece and the failure of some franchisors and most franchisees to join it or to solicit its help as a dispute resolution mechanism.

In addition, FASA's complicated, confusing and user-unfriendly Code of Good Business Ethics which has no clear guidelines and timelines for helping franchisees to lay complaints against their franchisors compounds the lack simplified processes, procedures or record of the application of this Code in resolving any disputes in the organisation's 35 year history.

Unlike other self-regulating bodies such as the Bar Councils of advocates, law societies of attorneys or even the estate agents' board, there is no public record or evidence of FASA having taken legal action against any of its errant members which raises serious doubts about FASA's lack of intention, ability or commitment to resolving franchising disputes fairly in this country.

Similarly, there is no record of FASA appearing in court proceedings to provide expert and independent evidence as an *amicus curiae* or "friend of the court" to assist the court in determining a dispute between franchisors and franchisees more than 60 important franchising cases listed on the South African court cases website www.saflii.org.za.

As it is not compulsory for franchisors or franchisees to become members of the FASA (Woker, 2012), it is not possible for this body to keep or produce proper, accurate and official records of the players and their activities in such a massive sector that contributes R250 billion or 12% of retail sales to the economy and employs 50 000 people (Gordon, 2012).

This has led to a dearth of official statistics and secondary data on the franchising industry in this country which hinders academic and other important research activities and state bodies such as the Competition Commission, National Consumer Commission, and Statistics South Africa (SSA) to monitor and assess the activities of this important economic sector which generates billions of rand in sales to a large number of customers through the activities of many workers, entrepreneurs, lenders and other stakeholders in this country.

Similarly, it is inexplicable that the Department of Trade and Industry only introduced and implemented the Consumer Protection Act of 2008 which deals with some aspects of the franchisor-franchisee relationships more than a decade after the onset of the new constitutional dispensation.

It is equally uncomforting that the Department of Economic Development has not deemed it fit to scrutinise franchising practices and franchise contracts such as the resale price maintenance, which the Competition Commission found to violate the Competition Act of 1999 in Cancun Trading No 24 CC vs Seven-Eleven Corp SA (Pty) Ltd (Competition Tribunal, 2000).

Perhaps these delayed political and legislative interventions explain the lack of Black Economic Empowerment (BEE) or Affirmative Action (AA) initiatives or the aggressive promotion and marketing of the Franchising Charter that spells out the industry's transformation agenda and the target set and achieved from time to time in line with similar efforts by other sectors such as the financial services, mining and building construction.

Similarly, there is no Franchisees Rights Charter which spells out the franchisee's rights and how these are protected under the law and the constitution in view of the unequal distribution of bargaining power which favour franchisors country in which equality is a fundamental constitutional value.

This regulatory and legislative inertia appears to have aided the information vacuum which does not only make it difficult to conduct important policy and academic research of this nature, but also obstructs efforts to undertake a credible, independent and objective assessment of the contribution that franchising makes to the South African economy.

Furthermore, the lack of official and credible information on franchised businesses makes it difficult to determine and confront the problems that may surface in the wake of the growth or decline of franchising in South Africa.

Most importantly, the dearth of information also make it difficult to determine the extent of the conflicts and disputes that have mushroomed within this self-regulatory environment that threaten to tarnish the reputation of the franchising industry and undermine or minimise its importance and potential role in the economy of a young and developing country such as South Africa.

Some commentators such as Parker and Illetscheko (2007) allude to the enormous socio-economic benefits that franchising can play in addressing the country's high unemployment, crime and poverty levels that are exacerbated by the lack of financial and educational skills and resources for which franchising is reportedly suited.

However, it remains debatable whether the industry can be able to fulfil its potential role partly because of the self-regulatory environment within which it currently operates under FASA as it lacks independence, objectivity and the force of the law in the form of regulatory and legislative powers to be an effective organisation.

Consequently, it is clear that FASA is unable to play any meaningful role in the formulation and implementation of franchising policies and decisions aimed at protecting and promoting the interests of its stakeholders in the same manner that oversight and regulatory bodies such as the Competition Commission, Estate Agency Affairs Board or the various law societies do in this country.

Furthermore, as a voluntary body dominated by some franchisors and their service providers such as attorneys and consultants, FASA cannot lay claim to being an impartial, authoritative, or fully representative structure with a comprehensive membership of the relevant key role players over whom it exercises control or discipline.

For these reasons, it is not hard to speculate that the franchising industry is unlikely to realise its growth potential by attracting people from the majority of the country's population into the sector as franchisees and franchisors and other potential and existing franchisees may not be inclined to enter or increase their investments in a sector in which franchisors clearly pay such a dominant and controlling role.

Against this background, some 20 years after the scrapping of apartheid, statistics published by FASA (FASA, 2013) shows that white men still dominate the industry as franchisors, franchisees, and service providers and this is unlikely to change in the near future because of the absence of efforts to transformation of the organisation in meaningful manner.

Unlike other industries such as the banking, construction and mining, FASA has no programmes to aggressively promote its Franchising Charter or other initiatives spelling out a programme of action to redress past economic imbalances or promote the participation of the majority of the population in the industry and its reliance on privately funded and unofficial sources of information and data seems to harm the industry's image and credibility in the eyes of that majority.

As most franchisors sponsor or fund publications such as the bi-annual Standard Bank Franchise Factor Survey conducted and published by Gordon (2012), the South African Franchise Warehouse (2013) and whichfranchise, potential franchisees can hardly regard the information and data aimed at recruiting them contained in these publications as objective and neutral in presenting a fair and unbiased picture of franchising in South Africa.

This may possibly also explains the slow uptake of franchising among the majority of the population who represents the industry's source of potential future growth and expansion as operators and customers.

Consequently, given the criticism in the media (e.g. Zungu, 2011), it is not surprising that FASA seems to experience some difficulties inspiring confidence especially among existing franchisees and entrepreneurs such as the researcher that it is capable of dealing with franchising conflicts and disputes in an even-handed manner.

Thus, unlike in many developed countries such as the UK, Europe, and some states in the US where growing franchising complaints and disputes resulted in some famous cases such as the Chicken Delight case and passing of the so-called “good cause” or “good faith” legislation, the lack of franchising-specific legislation and regulations in this country does not help the growth of franchising through capacity building aimed at improved franchisor-franchisee relationships.

The laws requiring franchisors to show good cause or good faith before terminating or failing to renew franchise contracts with franchisees such as the Robinson-Patman Act and the anti-termination laws passed by several states in the US (Scher and Proger, 1991) suggests the need for legislation to regulate the franchise relationships (Woker, 2009; 2012) as they enter the growth and maturity of their life cycles.

This is especially the case in this country where there is a noticeable increase in complaints and disputes between franchisors and franchisees arising from violation or termination of franchise contracts mostly by franchisors as exemplified by the Woolworths case wildly reported in this country’s media (Crotty, 2010).

However, the lack of objective and credible information and body with statutory powers hinder the publication and availability of more similar cases, the nature of disputes and remedies to cure the ills of the industry in this country.

According to Woker (2009; 2012), the recently passed CPA seeks to protect consumer rights including franchisees and therefore cannot address most of the specific issues affecting the industry as only a small section of a chapter is devoted to the franchising industry.

In a nutshell, Woker advocates the passing of specific franchise legislation and regulations to consolidate all the intricate issues of the industry currently dealt with by different pieces of legislation and contract law in a coherent manner.

For example, the Competition Act deals with the resale price maintenance forbidding franchise systems from imposing prices of goods franchisees sell at their outlets, as this amounted to anti-competitive practices and also prohibits "close shop" arrangements in terms of which franchise systems prevent franchisees from sourcing raw materials and other consumables suppliers other than the franchisor-designated suppliers.

In addition, while the CPA makes provision for National Consumer Commission and the National Consumer Tribunals to hear and adjudicate on a wide range of consumer-related matters, including franchising disputes, most disputes litigated in the courts are not properly addressed under common law given the nature and complexity of the franchise relationship which requires specialist knowledge and expertise (Woker, 2009; 2012).

Therefore, the lack of a consolidated piece of franchise-specific legislation and regulation of the franchising industry is highly problematic and is likely to hinder its expected growth in South Africa.

2.3 Franchising activities in South Africa

Franchising in South Africa has developed its life cycle and character over the past 25 to 30 years (du Toit, 2003) which was shaped by the country's closed and undemocratic political system which possibly hindered its development which also cannot be properly accounted for because of the absence of official information and statistics and research on the industry largely due to self-regulation and private ownership.

As Du Toit points out, with only 29% of her debatable estimate of South Africa's 550 franchise systems listed at the Johannesburg Securities Exchange and 30 000 franchised outlets (whichfranchise, 2013), the vast majority of home-grown franchise systems are in private hands with the Famous Brands group dominating the fast food and restaurant sector of publicly owned franchise systems.

Through acquisitions and organic growth, the Famous Brands Limited, which until recently was wholly family-owned, has expanded massively from an unlisted entity worth a few million rand into a market leader in the fast food and restaurant segment of the franchise sector, with a huge market capitalisation in excess of R9 billion rand, more than 20 well-known brands and 2 163 outlets and 10 000 employees in this country, the neighbouring states, the Middle East, India and the United Kingdom (Famous Brands Ltd annual report, 2013).

The success of this group suggests that consolidation of businesses in the sector provides sustainable growth opportunities for them through the generation of pooled and centralised resources and skills even though such a strategy may be short-lived given the relatively small size of the market and the anti-competition challenges that may arise from the Competition Commission.

As to the unlisted businesses in private hands, these entities remain unaccountable to the authorities and the investing public as they have no public reporting duties with the result that their financial and other business information is inaccessible to the public in general for academic, policymaking or other purposes (Woker, 2012).

In addition, Woker observes that unlike in countries such the United States and the United Kingdom, there is no statutory body with official recognition and status that allow it to exercise authoritative control and command over franchising activities in this country; and neither is there a requirement for new franchisors to issue Uniform Franchise Offering Circular (UFOC) in respect of new franchise opportunities.

As a result, several private organisations and unofficial sources such as FASA, South African Franchise Warehouse and whichfranchise have taken the initiative to gather limited and insufficient data among willing parties for electronic publication on their respective websites, namely, www.fasa.co.za, www.safw.co.za, and www.whichfranchise.co.za.

Furthermore, despite FASA's annual directory that contains topical articles on legal, marketing, or strategic issues and profiles of their member franchisors, the lack of official statistics and information creates serious problems for conducting a thorough and deep investigation of franchising in South Africa.

As a result, it is difficult to produce a comprehensive demographic profile of franchisors and franchisees in terms of age, gender, race, educational qualifications, franchising experience and so on which has been found to have a bearing on franchising decisions (e.g. Morrison, 1996).

However, the descriptive statistics of the franchisees interviewed shown on Table 6.2 indicates no significant differences between the profile of overseas franchisees and their local counterparts other than that the profile of local franchisees reflects the exclusion of the majority of the population largely for historical and political reasons which, unfortunately, is receiving very little attention from FASA or the authorities.

For example, the franchising sector has yet to embark upon such a drive some 20 years into the new political and constitutional dispensation which seeks to eradicate past imbalances and inequalities in all strata of social, economic and political spheres where most sectors of the economy have developed transformation programmes with clear targets and timelines aimed at increasing the participation of the majority population in their different respective industries.

Nevertheless, though Table 2.1 shows that the franchise systems in this country comprise the fast food, restaurant and groceries, automative products, personal, business, and homecare services categories as do their overseas counterparts, the information on which it is based was provided by the unofficial sources referred to above and appears not to be completely reliable as it shows vast discrepancies.

For example, Benedetta Gordon who has since 1994 published a Standard Bank-sponsored bi-annual franchise survey which highlights franchising trends in this country, suggesting that there are 530 franchise systems in South Africa (Gordon, 2010), while whichfranchise (2013) and SA Franchise Warehouse (SAFW) puts the number at 550 and 746, respectively.

The SA Franchise Warehouse also profiles South African franchise systems published on its website www.safw.co.za and magazine distributed monthly to its subscribers is somewhat detailed, diverse, and usually runs special features on different franchises systems and listings of existing franchises on sale, available new franchising sites, franchising finance, legal, ethical, and marketing issues and so on.

An issue related to the lack of official information and statistics is the dearth of franchising research in this country which unlike its overseas counterparts, makes it difficult to assess a number of key factors which determine or underlie franchising decisions and strategies in this country such as the reasons for entrepreneurs to take up or leave franchising, franchisor and franchisee selection strategies, and the number and reasons for franchisor and franchisee exits or discontinuance.

These issues need attention in order to elevate franchising to higher trajectory levels required for the delivery of socio-economic benefits such as job, wealth and value creation and economic transformation that some observers suggest franchised businesses can provide in South Africa.

Based on these publications, some key aspects of South Africa's franchise systems are profiled on Table 2-1 below, as follows:

Table 2-1: A profile of South African franchising systems

Sector	No	% of total	Set up cost Min	Max	Own funds % Min	Max	Royalty fees Min	Max	FASA member Yes	No
Automative	61	8.18	R78K	R2,5m	30	50	4	10	6	55
Beauty and wellness	36	4.83	R25K	R1.4m	30	50	3	10	7	29
Business & Financial Services	44	5.8	R30K	R1.3m	25	50	3	10	2	42
Computer, Internet & Cellular	19	2.55	R95K	R1.4m	30	50	2	9	2	17
Construction-related services	58	7.77	R25K	R2m	50	50	2	9	11	47
Education & training	52	6.97	R6K	R350k	50	50	2	10	9	43
FMCG Retail	27	3.62	R55K	R350k	60	50	1.5	7.50	8	19
House, Home & Office Services	53	7.1	R5K	R1.R,	50	50	5	15	6	47
Leisure & Entertainment	31	4.16	R5K	R2.5m	50	50	3	10	3	28
Personal & Professional Services	23	3.08	R8K	R.5m	50	50	3	10	3	20
Print & Communication	23	13.27	R200K	R1.5m	50	50	3	10	5	18
Quick Service Restaurant	99	13.27	R150k	R5m	50	50	3	10	30	69
Real Estate & Property	26	3.49	R50K	R2.5m	50	50	3	10	4	22
Restaurant	84	11.26	R300K	R7m	50	50	3	10	20	64
Retail Speciality	76	3.49	R120K	R4.5m	50	50	3	10	16	60
Security	5	.67	R20K	R2.5m	50	50	3	10	1	4
Sport & Recreation	18	2.41	R10K	R2.5m	50	50	3	10	3	15
Travel & tourism	11	1.47	R50K	R2.5m	50	50	3	10	3	8
Total	**746**	**100**							**139**	**607**

Source: South African Franchise Warehouse

This profile suggests that like its counterparts in the developed countries such as the United States, United Kingdom, and Europe and Australasia, the South

African franchise market provides a broad range of home-made products and services at a wide range of prices and similar royalty rates.

However, it appears that South Africa's existing 550 or so franchise systems for its population of 50 million people compares unfavourable to those of the stated developed countries such as the United Kingdom which has two thousand franchise systems for its population of almost 50 million people (BFA, 2013).

This reflects the effects of not only the differences between the two countries ' level of socio-economic development, but also of South Africa past discriminatory policies which hampered the economic participation of the majority of its population through lack of access to educational and economic opportunities and resources.

Therefore, with appropriate educational, financial, and marketing programmes aimed at redressing these past imbalances and a fair, cheaper and equitable legal/regulatory framework, it should be anticipated that franchising will grow exponentially in the next ten years or so.

This could happen if the majority of the population take up franchising as franchisees and franchisors and expand their operations countrywide and beyond which suggests the need to alter current franchising practices in this country which have thus far excluded the products and services that are likely to emerge from the innovation and creativity of the majority of the population that meet specific needs of the hitherto marginalised communities especially in the far-flung town and villages of the country.

2.4 The role of franchising within the Millennium Development Goals (MDG) and National Development Plan (NDP)

Broadly speaking, both the United Nations' MDG (United Nations, website, 2013) and the South African government's NDP represents the global and South Africa's post-apartheid's political strategies for achieving economic and social transformation and development to fight the triple scourge of poverty, inequality and unemployment which besiege the developing world and the South African society alike.

Unlike its predecessors such as the Reconstruction and Development Programme (RDP), Growth, Equality and redistribution (GEAR) and the Growth Path Plan, which also aimed at reversing the pain and damage caused by apartheid policies of segregation and oppression which collapsed at the 1994 negotiated political settlement, the NDP is different in a number of respects.

First, despite being spear-headed and sponsored by government under the Ministry of Planning located within the Presidency, like the MDG, the NDP embodies multi-faceted efforts and aspirations of various private and public sectors of the developing world and the South African society including all spheres of the State and government departments, all political parties, business, labour, various interest groups and communities at large (Government Communication and Information Service, 2013).

Both the MDG and the NDP aim at achieving broad and specific objectives and targets of economic growth, social stability and efficient public administration through the creation of sustainable business and job opportunities, increases in productivity and competitiveness, poverty alleviation and reduction of crime and corruption and so forth.

From these lofty objectives, it is clear that the NDP sees to harness the co-operation and participation of the country as a whole in the fight against poverty, inequality, and injustice within the next 30 years and to drive the country towards achieving the goals set globally under global initiatives such as the MDG which also seek to eliminate poverty, inequality and injustice over the next few years or so.

Therefore, the question is not whether franchising has a role to play in this arena but how it should do so as there can be little doubt that franchising is ideally suited for playing an important role in the drive towards achieving the NDP goals, that is, poverty alleviation through job creation and education and training.

However, despite the adoption of the NDP by the ruling party as its policy at its last national conference, the government has yet to formally adopt the NDP as its policy or law and to build capacity to ensure its co-ordinated implementation by various private and public sector bodies in the same way as the disgraced apartheid policies it seeks to replace were executed.

For example, franchises are labour intensive businesses that can provide training and employment to large numbers of people with minimum education in vastly dispersed geographical areas in a relatively short time and at wages levels negotiated and agreed upon at the central bargaining chambers of the various economic sectors.

In addition, as potential key drivers of business development in South Africa, franchises involve minimal risk in terms of setting up, operational, marketing, purchasing, training, financial and management control in respect of which the franchisor is contractually-bound to provide assistance and guidance to their franchisees.

Similarly, through centralised and bulk purchasing of goods and services such as ingredients, raw materials and other consumables, advertising, accounting systems, franchises can provide franchisees with a competitive advantage over independent businesses.

These conditions present franchising with an opportunity to achieve its growth potential in this country following many years of the exclusion of the vast majority of the population from meaningful participation in the mainstream of the economy.

This is likely to change through the provision of training and financial resources and support to many unemployed and under-employed young people in South Africa's sprawling townships and villages to generate vast pools of skilled and productive persons and aspirant entrepreneurs who can be trained and financed into becoming franchisors and franchisees.

Thus, an increase in the number of franchisors and franchisees can have many socio-economic benefits at the heart of the NDP that include job, wealth and value creation, economic transformation and small business development that can contribute to the reduction in poverty, inequality, unemployment and increase the tax base through taxes and levies.

2.5 Franchising challenges and opportunities in South Africa

The preceding two sections suggests that the history and development franchising in South Africa reflects South Africa's politico-legal and socio-economic dynamics as the vast majority of key role players in the industry come from the privileged segment of the community.

For instance, perusal of franchise publications such as FASA, whichfranchise and SA Franchise Warehouse websites and Gordon (2012) shows that 99% of the franchisors, franchise directors and consultants and up to 80% of franchisees are white males which has possibly placed enormous strain on the development of franchising in this country considering that white males have had to cater for the needs of the majority of the population.

According to the World Franchise Council (WFC), most franchise systems are of domestic origin (World Franchise Council website, 2013) which entails that franchising requires the ingenuity, creativity, and innovativeness of a country's citizens to develop products and systems that meet local demands and tastes before exporting them to other countries abroad.

Clearly, this country's past discriminatory laws and practices have delayed the growth of franchising by denying the majority of the population opportunities to acquire educational, financial, and managerial skills and resources needed to participate and contribute meaningfully in the development of the economy in general and franchising in particular.

For instance, whichfranchise, a South African franchise consultancy estimates the number of franchisors in South Africa at 550 with 30% of whom operate in the fast food market and 40% of whom are based in the Gauteng province, unarguably South Africa's economic hub, employing 30 000 people in South Africa (whichfranchise, 2013) despite a population of some 49 million people (Statistics South Africa, 2012).

This compares unfavourably with some developed countries such as Australia, France and Ireland, which have triple the numbers of franchise systems with less than half the population of South Africa (World Franchise Council, 2013).

Similarly, the imposition of economic sanctions on the country by Western countries in the 1980's has not helped matters as mostly oil and petroleum products companies were bold and crafty enough to enter the South African franchising market.

Therefore, as discussed in section 2.3 and 2.4 above, the past challenges have slowed down franchising's development over the past 30 years which it can now reverse through the MDG and the NDP which seek to address socio-political issues which may allow franchising to achieve its growth potential by increasing the number of franchisors, franchisees, and product range by tapping into the hitherto marginalised and majority of South Africa's population.

However, such initiatives will require extensive efforts to provide franchising education and training, marketing and promotion, financing and entrepreneurship programmes to target the vast of the majority of the population at various levels of the social and economic strata such as school leavers, workers, and professionals, retired and retrenched workers in different parts of South Africa.

To this end, both public and private sector bodies such as government and semi-government institutions such as the Departments of Trade and Industry (Dti) and of Economic Development and their subsidiaries, universities; financial institutions such as banks, insurance and pension fund houses should play their part in this venture.

The same applies to non-governmental organisations and interest groups such as the Black Management Forum (BMF), National Federation of African Chamber of Commerce (NAFCOC) and Federation of African Business Councils (FABCOS) who should join hands with FASA to provide education, training and promotion on the pros and cons of franchising to their members.

On the other hand, recent initiatives to encourage and facilitate black individuals and entrepreneurs to enter the formal economy in general and the franchise sector in particular through government-sponsored measures such as BEE seems slow in making an impact because of lack of institutional capacity, access to funding and information.

For example, very few black individuals and entrepreneurs are enticed into a labour-intensive and low skill sector such as franchising in the absence of an organisation with educational, marketing and financial resources dedicated to encouraging the growth of franchising through their increased awareness and participation.

In addition, reasons ranging from bureaucratic procedures to steep collateral requirements imposed on potential franchisees by financial and development institutions such as banks, the Industrial Development Corporation (IDC) and the National Empowerment Fund (NEF) and franchise systems are equally detrimental.

These institutions usually take months to approve process loan applications and demand up to 50% in equity contributions with negative reports in the media about the unfulfilled promises and shattered dreams of some black franchisees (Zungu, 2011) are not helpful, as does the lack of efforts to provide entrepreneurial education and information in the country’s public spaces such as the media, universities, colleges for further education and schools.

On the other hand, the passing of the CPA is poised to help avoid some past pitfalls and to create an atmosphere which fosters cordial franchisor-franchisee relationships which requires considerable efforts among all the parties to embrace its challenge to develop and sustain a less adversarial climate in which to conduct business to boost the growth and development of franchising in this country.

2.6 Summary

Chapter 2 discussed the scope and dynamics of franchising in South Africa whilst briefly comparing these activities to those of the developed countries. The discussion suggests that the development of franchising in this country has followed its history and socio-political events which have arguably not made it possible for it to achieve its full potential growth and success over than 50 and more years.

To this end in pursuit of global and local initiatives such as the MDG and the NDP, the chapter highlighted the need for statutory interventions to establish regulations and institutions to co-ordinate franchising activities, generate objective and credible industry information, and attract the majority of the population into the sector as franchisors and franchisees to promote its development in the country.

The discussion also suggests the need for private and public sector bodies to develop training, financing, legal, ethical, and marketing programmes to promote and increase equitable participation in the sector by all the country's inhabitants.

The next chapter discusses the theoretical foundations of franchising.

Chapter 3 Theoretical foundations of the franchise relationship

3.1 Introduction

Chapter 2 provided the contextual background to this study. This chapter provides the theoretical foundations of the franchise relationship. Following this introductory section, section 3.2 critically reviews some of the definitions of franchising commonly used in the literature, the franchise relationship, the unit of analysis for this study; and franchise contracts or agreements.

Section 3.3 critically reviews theoretical perspectives that inform most franchising research, that is, agency, resource scarcity and TCE theories. Section 3.4 discusses RET as the bulwark against opportunism. Section 3.5 explains the combination of TCE and RET as the theoretical framework for the study. Section 3.6 summarises the chapter.

3.2 Definitional issues on franchising, the franchise relationship and franchise contracts or agreements

Curran and Stanworth (1983) advocate the need to propose a clear definition of a phenomenon prior to undertaking its theoretical discussion which is not possible in franchising mainly because it is a relatively new business concept and academic endeavour; franchising has yet to establish itself as a stand-alone field of study or discipline in the mould of disciplines such as sociology, psychology, law, economics and so on.

Consequently, it has been difficult for researchers and scholars to develop and synchronise theoretical approaches, methods and thoughts from the different perspectives such as organisation theory, economics and strategy used to analyse the concept of franchising (Stanworth and Curran, 1999; Combs et al., 2004).

In addition, franchising has yet to develop into a formal field of study with the result that a world wide web search shows very few, if any, academic institutions globally and in this country, that offer any academic programmes or courses in franchising despite its growing importance and contribution to the global and this country's economy as a creator of wealth and job opportunities and consumer of goods and services as discussed in Chapter 1 above.

As a result, efforts to define the concept remain murky and reflect the different theoretical backgrounds of most franchising researchers and scholars who come from such diverse disciplines such as accounting, marketing, organisation theory, strategic management, economics, law and so on, and the publications in which their dated works appear.

This thesis does not aim to provide a detailed or principled answer or solution to the academic debate pertaining to the definitional aspects of franchising except to highlight some of the broad range of views and the difficulties involved in conceptualising and developing a generally accepted or all-encompassing definition or description of the concept, discipline or field.

For instance, Garg (2005) classifies franchised businesses into trade name or product and business-format franchising where trade name or product franchises consist of franchisees operating as distributors or retailers of products manufactured by the franchisor such as petrol stations and business format franchising alludes to a packaged business method provided by franchisors to franchisees that comprises a trademarked set of procedures, designs, management approaches, and services such as fast food outlets.

Business format franchises are the most popular and visible franchised businesses (Garg, 2005). For this reason, this study confined itself to business format franchising and for simplicity's sake; it uses the word "franchising" to refer to this type of businesses.

A review by Curran and Stanworth (1983) shows the use of condescending terms towards franchisees to express the definitions of franchising and the contractual nature of the relationship. In the main, these scholars point out that the nature of business arrangements in general and where quasi- or semi-forms are common make it difficult to categorise such business arrangements as franchising.

To illustrate these points, the study reviews a few of the mostly cited definitions analysed by Curran and Stanworth, provides a working definition by these scholars and an appropriate conceptualisation formally adopted for use in this study. To start with, Vaughn (1979) defines franchising as:

> *"A form of marketing or distribution in that a parent company customarily grants an individual or a relatively small company the right, or privilege, to do business in a prescribed manner over a*

certain period in a specified place. The parent company is termed the franchisor; the receiver of the privilege, the franchisee; and the right or privilege itself, the franchise" (p1-2).

Though this definition encompasses the essence of the concept behind franchising, according to Curran and Stanworth, it falls short on two premises. First, that franchising has developed into a total business package or business format and not merely a right or privilege, and secondly that franchising involves the economic motivations of both parties, and not only of the owner of the business concept, to enter into a business relationship.

It must be added that Vaughn's definition does not explicitly allude to the underlying legal or contractual relationship that comes into existence when the two parties come together to form the relationship and the financial, managerial, or informational resources that received knowledge (e.g. Caves and Murphy, 1976) suggests that franchisees bring into the franchise relationship.

In other words, this definition puts franchisors in the position of the "haves" and franchisees the "have-nots" that is problematic given the superiority complex that franchisors tend to display when negotiating and concluding franchise contracts with franchisees.

For example, Hunt (1977) states that franchise contracts are "sold, and not negotiated, like insurance policies, to franchisees on a take-it-or-leave-it-basis" (p74) by franchisors while Hunt's own definition highlights the following aspects of the franchise relationship, that:

> *"A contract exists that delineates the responsibilities and obligations of both parties; a strong continuing co-operative relationship exist between them; and the franchisee operates the business substantially under the trade name and marketing plan of the franchisor" (p33).*

Curran and Stanworth (1983) quite correctly point out that only the third feature of this definition distinguishes franchises from other business relationships and that the widely recognized legal nature of the relationship (Brickely and Dark, 1978; Rubin, 1978) with separate its legal personality, duties and responsibilities towards the authorities, staff, suppliers and so on, is downplayed or ignored.

The inclusion of a clause in terms of which the franchisee indemnifies the franchisor from all its legal and other liabilities (Udel, 1972), underlines the importance of separate legal entities underlined in most franchise contracts by most scholars.

Third, Caves and Murphy (1976) define a franchise agreement as:

> *"One lasting for a definite or indefinite period of time in that the owner of a protected trade-mark grants to another person or form, for some consideration, the right to operate under this trade mark for the purpose of producing or distributing a product or service" (p572).*

This definition appears to embody most of the essential legal and economic aspects of the franchise relationship, but Curran and Stanworth (1983) suggest that it over-simplifies the franchise relationship because it highlights the importance of the trademark to the exclusion of the total business package including the operational procedures, business method, and organisational blue print contained in the technical specifications in respect of the physical and intellectual infrastructure, equipment, and processes used within the franchise system.

Rubin's (1978) seminal article defines the franchise agreement as:

> *"A contract between two (legal) firms: the franchisor and the franchisee. The franchisor is a parent company that has developed some product or service for sale; the franchisee is a firm that is set up to market this product or service in a particular location. The franchisee pays a certain sum of money for the right to market this product" (p224).*

Rubin's definition fails to acknowledge the legal independence of the franchisors and franchisees as it subordinates it to the economic interdependence between the parties (Curran and Stanworth, 1983) where the notion of franchisors being a parent company is a misnomer and very problematic as it incorrectly suggests that franchisees are the subsidiaries of the franchisors.

As indicated above, Udel (1972) found that most franchise contracts make it abundantly clear that franchisees are not the subsidiaries of franchisors and franchisees are separate legal entities with full and independent contractual rights and obligations with the result that most franchise contracts include an exclusion of liabilities clause in terms of which franchisees exonerate or indemnify their franchisors against any third party claims.

As a result, until the recently enacted CPA in 2008 it was highly unlikely that an employee of a franchisee could succeed in a lawsuit jointly and severally against both the franchisee and the franchisor in respect of damages for unfair dismissal or for customers to sue both the franchisors and the franchisee in respect of deficient customer service or defective goods supplied by the franchisee (Woker, 2012).

Curran and Stanworth (1983) define franchising as:

> *"A business form essentially consisting of an organization (the franchisor) with a market-tested business package centred on a product or service, entering into a continuing contractual relationship with franchisees, typically self-financed and independently owner-managed small firms, operating under the franchisor's trade name to produce and/or market goods or services according to format specified by the franchisor" (p11).*

Though this definition encompasses most of the relevant issues involved in a franchise relationship, it is strange that this definition omits two critically important issues, that is, the time and the consideration or royalties, payable to franchisors by franchisees, found in most franchise contracts.

Udel (1972) observes that most franchise contracts include expiry date and renewal or non-renewal clauses beyond that the franchise relationship cannot survive as these clauses are problematic because the franchise relationship involves sunk costs which the study considers similar to the investments that married couples in most jurisdictions presumably make into the marital relationship.

Put differently, as the researcher argues that it would be *contra bonos mores,* that is, against good public morals in most part of the democratic world for a marriage to have an expiry date.

Similarly, it is morally questionable whether franchise contracts can have an expiry date or renewal clauses given the huge personal and emotional sacrifices such as switching careers, relocating and investing life-long or even inherited assets that franchisees make into the franchise business.

This is because franchisees invest money and effort in the franchise relationship with the hope and expectation not only of earning a living and providing for their families in the short-term, but to be able to generate wealth in the franchised business which most franchisees desire to recoup through a sale to a third party, transfer or bequeath to their loved ones without any onerous restrictions (Hadfield, 1990).

Given the similarities between the franchise and the marital relationship, it seems morally unfair and improper for a bride who invests her time, effort and energy in a marriage to leave with nothing at the end of her marriage. However, unlike the franchise relationship, the Marriage Act of 1979 in this country makes provision for the division of the marital estate between the spouses or financial and material support of the one spouse by the other at the end of a marriage either through death or divorce as compensation for the investment in the defunct marital relationship.

The other issue missing in the Curran and Stanworth (1983) definition concerns the omission of the payment of royalties to franchisors by franchisees which is more straightforward than the expiry date or renewal clause matter, in the sense that non-payment thereof constitutes an obvious breach of the franchise contract that most courts are unlikely to condone; and around that, the literature shows few legal disputes revolve.

Closer to home, according to Parker and Illetscheko (2007), FASA defines a franchise as:

> *"A grant by the franchisor to the franchisee, entitling the latter to the use of a complete business package containing all the elements to establish a previously untrained person in the franchised business and enable him or her to operate it on an on-going basis, according to the guidelines supplied, efficiently and profitably" (p15).*

Like most of the definitions reviewed thus far, while this definition appears to capture the spirit and purpose of franchising, it also falls short because of its condescending attitude towards franchisees and failure to recognize both the legal personalities of the entities involved and the resources franchisees bring into the franchise relationship.

On the other hand, despite referring to the franchise relationship as the franchise agreement which this researcher considers to be misnomer, underplaying the role of franchisees and its legalistic nature, the definition contained in section 7 of the CPA appears to address most of the shortcomings found in the definitions reviewed above.

The Act defines the franchise agreement as:

> *"An agreement between two parties, being the franchisor and the franchisee, respectively, in which, for a consideration paid, or to be paid, by the franchisee to the franchisor, the franchisor grants the franchisee the right to carry on the business within all or on a specific part of the Republic under a system or marketing plan substantially determined or controlled by the franchisor or an associate of the franchisor; under that the operation of the business of the franchisee will be substantially or materially associated with advertising schemes or programmes or one or more trademarks, commercial*

symbols or logos or any similar marketing, branding, labelling or devices, or any combination of such schemes, programmes or devices, that are conducted, owned, used or licensed by the franchisor or an associate of the franchisor; and that governs the business relationship between the franchisor and the franchisee, including the relationship between them with respect to the goods or services to be supplied to the franchisee by or at the direction of the franchisor or an associate of the franchisor" (p20).

The silence of the CPA on the duration of the franchise relationship between the parties seems to address an important issue which is at the heart of this research; that is, the lack of security of tenure especially among franchisees given that most franchise contracts have an expiry date and renewal or extension clauses that are exercisable at the discretion of the franchisor (Udel, 1972).

As argued in this section, given the personal and family sacrifices that franchisees are required to invest in idiosyncratic assets; that is, site, physical and human assets which are assets of a life-long nature that are highly specific to a franchise system in the sense that they can only be gainfully deployed within a particular franchise relationship, subjecting the franchise relationship to a relatively short term period determined by the franchisor is clearly unfair and unreasonable.

As this study sought to demonstrate the need to realign the tenure requirements of both franchisors and franchisees given their respective pre-contractual and post-contractual investments, the study suggests the need for the adoption of the relevant marriage principles for use within franchise relationships.

As most democratic jurisdictions would oppose an expiry clause in marital contracts, on the grounds such a clause is *contra bonos mores,* that is, against good public morals, the researcher questions the inclusion of expiry clause in franchise contracts.

As briefly discussed above, like brides, franchisees make huge personal, financial, and social sacrifices to invest lifetime savings into a franchise system, change careers and relocate their families to operate the outlets with the result that it seems grossly unfair to build a "divorce" into the franchise contract which allows the stronger party, the franchisor, to keep its assets while the weaker party, that is, the franchisee, is expected to leave the franchise relationship virtually empty handed despite having made a significant contribution into the franchise relationship.

According to Williamson (1979) and Dnes (1993), franchisors require franchisees to invest in the so-called transactions specific assets (TSA's) or idiosyncratic assets belonging to a particular franchise system which are long-life physical assets such as machinery, equipment, and furniture; and staff and managerial training and market knowledge, which are of little value outside of a particular franchise system.

Williamson points out that an investment in these assets is aimed securing the commitment of franchisees to the franchise system; and that franchisees risk appropriation of these assets upon defaulting or committing breaches of the franchise contract, that is, free riding among franchisees which TSA's aims at curbing.

However, even in the absence of non-compliance with the franchise contract, the investment in the long-life assets in return for a fixed term franchise contract amounts to a mismatch of incentives where franchise systems allow franchisors to reap the fruits of its investment in its idiosyncratic assets such as the intellectual property, trademarks, and brand names.

Furthermore, the expiry clause unfairly limits the ability of franchisees to benefit from investing in the franchise system to the fixed term whilst granting or protecting the commercial rights of franchisors to perpetually derive financial benefits from the franchise system. In line with the foregoing, the omission of the duration of the franchise relationship from the CPA's definition of the franchise contract appears to be a step in the right direction.

The other pertinent issue the literature is silent on is the question of whether to refer to the franchise relationship as the "franchise agreement" or the "franchise contract" where it is not clear from the literature why the words "franchise agreement" are preferred, though it would seem to be politically correct, convenient or "user-friendly" to refer to the franchise relationship as a "franchise agreement" in order to "soften the blow" that comes with the stringent terms and conditions that are found in most franchise contracts.

Nevertheless, both in truth and legalistically, the words "franchise contract" seem more appropriate as the relationship between franchisors and franchisees is indeed contractual considering the onerous terms and conditions expressed in legal terminology contained in those documents.

As franchise contracts are usually the subject of costly and lengthy litigation (Porter and Rentworth, 1978), they are not mere "gentleman's agreements" that can be disregarded with impunity with the result that the phrase franchise agreement appears to be a misnomer.

As Hunt (1977) points out, franchise contracts, "are sold, and not negotiated, to franchisees, like insurance policies, on a "take-it-or-leave-it basis" (p74) by franchisors who usually ask their attorneys write the franchise contracts with the result that the contracts are standard documents or "one-size-fits-all" contracts which in some cases even bear the franchisor's insignia or logo (Muris, 1980).

Therefore, it appears to be an oxymoron to describe the relationship between franchisors and franchisees as "an agreement" given that very little agreement is involved in the negotiation and conclusion of the franchise contract.

Furthermore, most scholars (e.g. Muris, 1980; Hadfield, 1990; Klein, 1993) refer to franchise contracts as "contracts of adhesion" because of the requirement for franchisees to "adhere" to mostly restrictive and prescriptive clauses found in those contracts.

Thus, given all the definitional issues raised above relating to franchising, the franchise relationship, and franchise agreement/contract, for the purposes of this study, the researcher proposes to define a franchise as:

> *"A written contract between franchisors and franchisees in terms of which franchisors allow franchisees to use their intellectual property e.g. trade-marks, brand names and business method; to deploy their financial, managerial and informational resources and skills; to produce or distribute certain products and services in a particular area for their own benefit in return for payment of up-front and on-going royalty fees to franchisors; and on-going franchisor support services and compliance with certain operational and quality standards by franchisees" (my own).*

Within the context of this definition, the franchise contract and not franchise agreement, was be construed to refer to the rights and obligations of the franchisors and franchisees *vis-à-vis* each other where the franchise relationship refers to the day-to-day interactions between franchisors and franchisees in pursuit of the goals and objectives of the parties are usually contained in the (preamble) franchise contract.

Furthermore, the general approach adopted in the study, was one that regards both franchisors and franchisees as having an equal potential to be important players in the franchise relationship because of the contributions highlighted in Chapter 1 above which the literature suggests each party made or was capable of making towards the success or otherwise of the franchise system.

3.3 A critical overview of the philosophical and theoretical foundations of the franchise relationship

Apart from addressing franchising issues mostly from the perspective of franchisors (Fried and Elango, 1979; Minkler, 1990), other issues affecting each of the three widely used franchising theories, namely, agency, resource-based and TCE theories, to a greater or lesser extent, have not received much critical scrutiny in the literature.

This section embodies the main argument of this study, which seeks to show that as hybrid organisational forms or dual ownership structures, contrary to the views of most academic and franchising practitioners franchises are not necessarily or usually economically efficient because of the misalignment of incentives between franchisors and franchisees which breeds OO and OA, and hence the need to introduce other governance mechanisms to safeguard the interests of all stakeholders.

3.3.1 Agency Theory

The agency theory explains franchising by successful and financially endowed franchisors as a means to realign the divergent interests of principals and agents (Fama and Jensen, 1983; Einsenbhardt, 1989); that is, franchisors, and their employee-managers of company owned stores.

This theory seeks to deal with the problem resulting from under-performance among these employees (Caves and Murphy, 1976; Rubin, 1978; Mathewson and

Winter, 1985; Williamson, 1985; Brickley and Dark, 1987; Norton, 1988a) which presents itself as the so-called moral hazard to franchisors in the form of misrepresentation of skills (adverse selection) and shirking (reducing effort) by employee-managers of company-owned stores that increase operating costs through the need for monitoring (Shane, 1996).

Because of these problems, the agency theory postulates the use of franchisees in managing outlets that the franchisor is unable to manage particularly in areas lying outside the franchisor's preferred trading areas (Brickley and Dark, 1987).

In addition, research suggests that franchised outlets provide franchisees with the incentive to apply more effort than company does employees (Michael, 2002); are more profitable than company-owned stores (Shelton, 1967); and have lower payroll costs (Krueger, 1991).

On the other hand, the literature suggests that franchisors prefer to operate outlets that are located near the head-office in order to facilitate monitoring of employee-managers and to franchise those in located far from its head-office (Brickely and Dark, 1987), in foreign countries (Fladmoe-Lindquist, 1996) or rural locations (Norton, 1988).

Other reasons are that these company-owned stores play a major role in the research and development of the franchise system which serve as training centres for new franchisees and their staff and as laboratory for the franchisors to test new product, promotions, or distribution ideas (Minkler, 1990; Bradach, 1997; Sorenson and Sorenson, 2001).

Generally, the common trend among most franchisors is to franchise most if not all outlets that lie outside of their preferred trading zone arising from the franchisors' unfamiliarity with local market conditions in some areas (Brickley and Dark, 1987) and their concomitant risk-averseness in those markets (Grimes, 1976).

However, distance does not seem to deter some franchisors from buying back profitable outlets (Oxenfeldt and Kelly, 1969) outside their preferred trading areas or to encroach onto the territories (du Toit, 2003; Kalnins, 2004) of successful franchisees once the brand has generated sufficient goodwill in such areas.

Bercovitz (2000) refer to these opportunistic malpractice as "cream-skimming" as they result in the franchisor capitalising and expropriating the franchisee's market discovery or "fruit of labour" arising from his investment and development of the franchisor's brand in an area where the franchisor was not prepared to risk its money and effort.

This practice highlights the role of franchisees in developing local markets for the franchise system in geographically dispersed territories or far-flung areas (Castrogiovanni and Justis, 1998) which boosts the rapid growth of the franchise system (Hoffmann and Prebble, 1991; Shane, 1996) in new markets in which the franchisors would ordinarily not have had the courage, interest or knowledge to penetrate (Rubin, 1976).

The question begging for an answer is the reason why aspirant franchisees are prepared to take the risk, which the franchisor is not prepared to do, and establish outlets in certain areas, regions, or countries in the face of the additional risk of the franchisor opportunistic actions such as adding competing outlets owned by other franchisees in the same area and thereby reducing the sales and profitability of existing outlets.

First, there are several agency-based theoretical answers to this question often ignored in the literature such as franchisees appearing ready to assume the risk involved, particularly in areas in which they have local market knowledge of prevailing conditions (Oxenfeldt and Kelly, 1969; Brickley and Dark, 1987; Minkler, 1990; 1992; Dnes, 1993).

Second, because franchisees invest their money, time, and effort in operating the outlets, and unlike salaried employee-managers, franchisees lack the incentive to misapply themselves at their outlets (Caves and Murphy, 1976; Shane, 1996) because as franchisees are owners of the outlets, they are "claimants to the residual," that is, franchisees have a claim on the share of the profits after meeting all the overheads of the business (Brickely and Dark, 1987; Eisenhardt, 1989; Lafontaine, 1992).

Another factor supporting the agency theory to franchising is the oversupply of entrepreneurs who want to buy into well-known and popular franchise systems such as KFC, Kodak, and McDonalds (Lafontaine and Kaufmann, 1992).

These scholars point out that buying into these franchise systems present entrepreneurs with the efficiencies inherent in the franchisor's tried and tested business method with wide market appeal, well known trademarks and brand names, cheaper input goods.

On the other hand, in line with the efficiency argument, franchisors gain access to a vast pool of potential franchisees with considerable financial, motivational, and informational resources (Caves and Murphy, 1976; Brickely and Dark, 1987) from which to select among the best candidates to own franchise outlets.

This strategy reduces not only the selection costs associated with the search for suitable franchisees, but also helps to reduce the adverse selection and moral hazard risks associated with employee-managers and the monitoring costs involved in policing these employee-managers (Bradach, 1997).

However, these considerations seem to assume a lack of the profit maximisation motive among franchisees which may predispose some of them to opportunistic behaviour that involves free-riding on the franchisor's brand reputation (Brickely and Dark, 1987), failing to implement promotions (Bradach, 1997) and jeopardising quality standards by over-emphasising cost reductions (Michael, 2000).

In addition, franchising increases the cost of distributing complex knowledge system wide because franchisors cannot compel franchisees to under-go additional training, must be "sold" on any operational changes and are under no obligation to share any competitive wisdom they may generate (Dant, Kaufmann, and Paswan, 1992; Bradach, 1997; Dant and Nasr, 1998; Combs et al., 2005).

These structural issues raise the question of the efficiency of franchise systems where most franchise contracts require franchised outlets to maintain certain hygiene conditions and standards despite the difficulty involved in spelling out clearly and unambiguously the meaning of hygiene conditions in explicit and exhaustive terms which makes it almost impossible for franchisors to punish offending franchisees (Muris, 1980).

Muris points to many such vague or ambiguous clauses found in the franchise contract that are open to exploitation by greedy franchisees to extract financial benefits for themselves at the expense of their fellow franchisees and the franchise system.

These include failure by franchisees to comply with the following:

- maintaining quality standards;
- sourcing supplies from approved suppliers;
- properly appoint, train and remunerate staff;
- carrying out local advertising;
- paying full or correct royalties;
- maintaining resale prices;
- maintaining adequate stock levels; and
- maintaining buildings, equipment, and machinery in excellent working conditions.

Faced with these difficulties, Hadfield (1990) suggests that franchisors often resort to invoking the termination clause in order to terminate the franchise relationship abruptly.

However, this drastic measure is itself open to abuse where the franchisor terminates the franchise relationship under false pretences in pursuit of opportunistic goals often resulting in negative consequences amounting to high and sometimes irrecoverable transactions costs such as financial and reputational losses due to lost sales and litigation expenses to both parties.

In addition, there are other effects on the industry and society as a whole including suppliers, lenders, employees, and customers and so on reflected by noticeable increase in franchising disputes complains and conflicts have been the subject of numerous newspaper and journal articles in this country (Crotty, 2008 and 2010; Zungu 2011).

Similarly, a number of court cases have also reported instances of strife and disputes between franchisors and franchisees (PNA Stationeries (Pty) Ltd v River Stationeries CC, 2010; Mozart Ice Cream Classic Franchises (Pty) Ltd v Davidoff, 2008; Hot Dog Cafe (Pty) Ltd v Daksesh Rowen Sizzling Dogs CC and Another, 2011) which demonstrate the need for an investigation into some aspects of the franchisor-franchisee relationship in this country.

In addition, these issues also highlight the need to focus attention on the motivations for franchisees to take up franchising in order to align their incentives to those of the franchisors as misaligned incentives between the parties can threaten the stability and integrity of the franchise system through various forms of opportunistic actions the parties may embark upon at each other's expense.

3.3.2 Resource Scarcity Theory

Also addressing the franchising question largely from a franchisor-perspective, the resource scarcity theory posits that franchising exists to provide financial, managerial, and local market knowledge resources to franchisors for rapid expansion (Oxenfeldt and Kelly, 1969; Oxenfeldt and Thompson, 1969; Hunt, 1972, Dant, 1992).

This paradigm rests on the belief that franchisors who have developed proven business methods may seek to grow their businesses by moving into new markets in other areas, regions, or countries which may need additional financial, human, and local market knowledge resources to exploit those opportunities (Minkler, 1990; 1992).

By increasing their physical footprint, franchisors desire not only to increase their revenues through up-front franchise and royalty fees, but also to build the critical mass of franchisees needed to generate the economies of scale benefits normally associated with franchising (Lillis et al., 1976; Piling, 1991; Litz and Stewart, 1998).

These include bulk and central purchases of raw materials, ingredients and equipment, advertising, fittings and so on, enabling the franchise system to be competitive by offering quality products and services at reduced prices from reliable suppliers at shorter lead times to franchisees (Dant, 1995).

However, the incentive to franchise among franchisors may be traced back not only to the need to expand their operations rapidly through obtaining cheaper financial and human resources from franchisees, but to do so with other entrepreneurs in order to share risk (Rubin, 1978).

Rubin opines that this research question surfaced when it became clear that franchisors who had achieved the necessary critical mass in terms of higher numbers of franchisees and had built up sufficient reserves and other resources to be able to fund future growth themselves continued to franchise outlets.

Despite Oxenfeldt and Kelly's (1969) prediction that franchisors would buy back franchised stores once they are financially able to do so, this failed to happen on a scale that could be regarded as granting support to the store buy-back argument inasmuch as the resource scarcity theory does not explain the reasons why the other segment of the franchise relationship namely franchisees buy into franchise systems.

Therefore, while the resource scarcity theory has provided answers to some franchising questions, other questions such as whether that resource scarcity explains the franchising of outlets in order to gain first mover advantage in certain markets (Michael, 2003) remained that still require explanations.

In addition, other scholars (e.g. Combs and Ketchen, 1996b; Dant and Paswan, 1998; Kaufmann and Dant, 1996; Shane, 1996) have tried to separate the resource scarcities in an endeavour to isolate the motivation for franchising among the need for financial, managerial and informational resources.

For example, Lafontaine (1992) has argued that the capital scarcity argument does not explain the motivation for franchisors as shareholders and bondholders in a franchise system; could not be assured of the ability of company managers to properly look after their best interests as opposed to franchisees.

There is clearly no unanimity as to whether any of the three main resources can independently provide an explanation for among franchisors especially in circumstances where they have not even made an attempt to explain the motivation among franchisees to take up franchising.

It may occur that like franchisors, franchisees enter franchising for opportunistic reasons, masqueraded as the economic efficiency argument, to pursue their own selfish interests at the expense of the franchise system which is the subject of this investigation.

In other words, the parties could be entering the franchise relationship with "hidden agendas" or "cocked guns" aimed at abusing the franchise relationship to some nefarious end, which is an aspect of the franchise relationship that has not received much attention in the literature.

The nature of the franchise relationship could be such that the parties' motives remain misaligned or divergent with the result that unless a new paradigm emerges, as this study advocates, the franchise relationship is as a business strategy is more often than not doomed to end acrimoniously.

This is because of the OA of the one or both parties such as the failure to meet quality standards, termination for minor breaches and the franchisor's encroachment onto the territory of the franchisee while the resource scarcity theory also seems to ignore the motivation for franchisees to take up franchising and the desire for profit maximisation motives among franchisees.

3.3.3 Transactions Cost Economics (TCE) theory

Given the failure of the agency and resource scarcity theories to explain franchising from the perspectives of both franchisors and franchisees, and to account for the increasing levels of conflict between the parties, the TCE theory presents this study an interesting framework for analysing the franchise relationship and addressing the key issue underlying the research questions, that is, opportunism.

TCE is an offshoot of the institutional economics school of thought founded in the 1930's by the 1991 Nobel Economics laureate, Thomas Coarse to focus on the transaction, that is, the franchise relationship as the unit of analysis and the goal of organisation as the "minimization of transaction costs in a discriminating way" (Williamson, 1975, p47).

Within this theory, the moral hazard associated with the risk of lack of performance by a transactor is commonly referred to as opportunism may be regarded as the incentive to engage in behaviours or acts such as cheating, free riding and shirking by one party at the expense of the other in the franchise relationship.

TCE suggests the need for the developer and owner of the franchise system; namely, the franchisor, to select the most appropriate governance structure between the firm and market; that is, the "make" or "buy" decision as the best way for containing opportunism (Williamson, 1985).

In addition, such a mechanism needs to minimise on the transactions costs of running the franchise systems mostly revolve around negotiating and bargaining cost involved in drafting the franchise contract and monitoring cost (Williamson, 1979; Muris, 1980; Hadfield, 1990).

In other words, if the franchisor can distribute his products and services at a cost below the premium paid to franchisees in the form of profits, then the TCE logic dictates that the franchisor should embark upon vertical integration (Klein et al, 1978) by taking back or internalising the distribution of its goods and services, that is, operate company stores instead of relying on franchised outlets.

On the other hand, as an incentive to perform this function with the intention of containing the problem of free riding or shirking by its own store managers, the franchisor may franchise the outlets.

Similarly, rather than starting their own independent businesses and incurring high transactions costs involved in concept, market and product development, store layout design and so on, potential franchisees will buy into the franchise system.

Such an investment will hinge on the assumption that the aspirant franchisee will realise quasi-rents (Klein, 1995) or share of the profits in the form of revenue streams from operating the franchised outlet; and that the franchisor will continue to monitor quality standards and maintain the reputation of his brand.

In such a situation, then the potential franchisee will be prepared to invest money, time, and effort to acquire highly specific assets required to operate the franchise business (Klein et al., 1978).

Despite Williamson (1985)'s argument that TCE is applicable in any relationship situation, surprisingly very few studies exist on any TCE constructs such as opportunism within the franchising context despite franchising being generally regarded as an ideal context within that a number of theoretical constructs from the social and natural sciences have been successfully tested and applied because of its inter-organisational, contractual, and long-term orientation.

Secondly, in the relatively fewer available studies, for some obscure, un-researched and unsubstantiated reasons the assumption, suggestion or even conclusion appears to be that franchisees are more prone to behaving opportunistically than their counterparts.

It would seem franchisors and franchisees regard franchising as a means to achieving “cheaper” access to production and marketing of good and services because of opportunistic actions, which generate higher returns through lower transactions costs.

This is because the opportunistic transactor receives the full benefit of his cheating whilst bearing the least cost which TCE regards as opportunism or the moral hazard associated with the risk of lack of performance by a transactor.

Williamson (1975), himself a 2009 Nobel Economics prize winner for his work on economic governance, developed the concept of opportunism that he defines as “pursuit of self-interest with a guile”(p6) and includes “withholding or distorting information to mislead, distort, obfuscate, or otherwise confuse” (Williamson, 1985, p47).

According to Williamson, opportunism results from man’s human nature to serve his self-interests at all costs by economising on transactions costs involved in the negotiating, bargaining, and monitoring costs involved in running a business, in a calculating way.

However, as stated by Williamson (1975), for the reason that acting opportunistically is human nature particularly where doing so is rewarding and remains undetected, franchisors and franchisees should be prepared to contend with the possibility of the other party acting opportunistically at some point in the relationship.

As discussed more fully in Chapters 4 and 5, this usually involves cheating or dishonesty in one way or another for as long this yields quasi-rents or incentives and the behaviour remains profitable and undetected which tends to have a negative effect on the transactions cost of the innocent party.

Theoretically, the increase in transactions costs arises from the need to take preventative and corrective measures aimed at safeguarding and restoring the efficiency or equilibrium within the franchise relationship.

However, as a negative externality, opportunism presents a serious challenge to the TCE theory as it represents the weakest link in the explanation of the efficient functioning the franchise system and the misalignment of incentives between franchisors and franchisees.

3.4 Relational Exchange Theory (RET)

Though TCE provides useful tools such as the transactions cost framework for explaining the existence of the franchise relationships and opportunism arguably from the perspective of both franchisors and franchisees, its critics have attacked its de-socialisation stance or lack of social conscious by arguing that it lacked the "human touch" (Williamson, 1993; Granovettor, 1985; Maitland, Bryson, and van de ven, 1985; Hodgson, 2004).

In a nutshell, TCE was criticised for being too mechanistic in the sense that it propagated the formation or use of structures or mechanisms such as contracts that focused on delivering economic transactions at the lowest possible cost for the one party in the franchise relationship, that is, franchisors, at the expense of the other party, that is, franchisees.

For this reason, this paradigm attracted criticism for promoting opportunism among the transactors and failing to take into account the social interactions or context within which the franchise relationship was embedded (Granovettor, 1985; Williamson, 1993).

This criticism possibly laid the foundation for the development of the RET philosophy as a governance mechanism alongside franchise contracts and TSA's to mention but a few.

Building on the work of Macneil (1974, 1980), RET seeks to inculcate the enhanced usage of relational norms and values within franchise relationships which it argues differ from discreet transactions characterising buyers and sellers on the spot market in which buyers and sellers meet to transact without developing any relationship beyond that transaction (Dwyer et al., 1987).

According these scholars, the RET paradigm suits long term relationships such as franchise relationships in which implicit and explicit expectations of cooperation or collaboration between the exchange partners and complex, personal and noneconomic satisfactions and social exchanges necessitate the crafting of mechanisms such as franchise contracts for resolving future disputes and conflicts by third parties.

Dwyer, Kaufmann, Laczniak and Robin (1993) cite Macneil's (1980) 12-point dimensional characterisation of discreet and relational exchanges archetypes illustrated on Table 3.1 below which demonstrates the usefulness of RET in dealing with opportunism within franchise relationships.

Table 3-1 Macneil's (1980) Comparisons between discrete and relational exchange transactions

Contractual elements	Discrete transactions Example: buyer-seller relationships	Relational exchange Example: franchisor-franchisee relationships
Timing	Distinct beginning, short duration, sharp ending performance	Longer in duration reflecting on-going process
Number of parties	Two parties	Usually more than two parties
Obligations of parties	Based on offer to purchase and sell	Based on the franchise contract
Expectations for relations	Little or no future conflict is expected	Anticipated conflict of interest abounds
Primary personal relations	Minimum personal relationships	Extensive interpersonal relationships
Contractual solidarity	Governed by social norms, rules, etiquette	Legal and self-regulation
Transferability of rights and obligations	Complete transferability: It matters not who fulfils contractual obligations	Limited transferability: exchange is heavily dependent on the identity of the parties
Cooperation and coordination of activities	Joint efforts	Joint efforts related to both performance and planning over time
Planning	Primary focus is on substance of exchange: no future is anticipated	Focus on detailed planning of future of exchange to satisfy changing goals and needs
Measurement performance	Little attention to performance specifications and measurement	Significant attention to specifying and measuring performance
Power-dependence relationship	Power may be exercised when promises are made until promises are executed	Increased interdependence requires judicious exercise of power

Division of burdens and benefits	Sharp division of benefits and burdens into parcels	Likely to include some sharing and adjustment to shared parcels of benefits and burdens over time

Source: Adapted from Macneil (1980)

In addition, Macneil (1974) lists the norms for managing opportunism in franchise relationships which take into account the dynamics and complexities of long term relationships as outlined in Table 3-1.

These norms include the norms of solidarity, mutuality, flexibility, and information exchange.

Solidarity. According to Macneil, solidarity is the important contracting norm focusing on the preservation of the franchise relationship to the completion of the franchise contract term and beyond, which promotes mutual support and cooperation to sustain the mutually beneficial relationship.

Mutuality. The norm of mutuality is similar to that of solidarity which emphasises shared or mutually inclusive goals such as the growth, competitiveness, and survival pursued within the franchise relationship.

Flexibility. This norm requires that parties jointly adapt their strategies to face changing market conditions that ensures that the franchise relationship relies on good faith principles (Heide and John, 1992).

Information exchange. This norm requires that franchisors and franchisees should exchange critical information to enable either party to take appropriate steps in good time.

3.5 Justification for combining TCE and RET as the study's theoretical framework

Against the backdrop of the preceding sections, to the best of the researcher's knowledge, this thesis is the first academic work to use both the TCE and RET theories as its theoretical framework as they provide the intellectual and philosophical tools and vocabulary used to explain important aspects of the franchising model under investigation and to address some of the gaps arising from prior research.

To begin with, Klein (1985) and Dnes (1993) describe franchise contracts as providing "credible commitments" or "hostage-posting (by the giver) and hostage taking" (by the receiver) that both contracting and transacting parties, that is, franchisor and franchisee, make towards one another, which are explained in Chapter 5.

The importance of this exchange of hostages lies in that it explains the commitment of the contracting parties to the franchise relationship which refers to the importance of creating a bonding effect between the investing and receiving transactors (Rokkan et al., 2003).

However, both Klein and Dnes argue that posted hostages present a huge risk because the TSA's involved are vulnerable to expropriation through the opportunistic acts of the receiving transactors.

Therefore, while on the one hand the TSA's represent TCE's primary answer to opportunism in terms of their bonding effect (Rokkan et al., 2003), TCE also recognises the potential and propensity of specific assets to give rise to reciprocal opportunism by way of hostage expropriation on the other.

As an illustration, a franchisee who has invested in lifetime savings in purchasing equipment and undertaken building improvements he needs in his franchised outlet runs the risk of losing this investment when the franchisor terminates the franchise contract abruptly for opportunistic reasons.

On the one hand, specific investments made by franchisors include investments in the developing the business method, trademarks and brand names and operating standards and procedures in areas such as accounting, procurement, training and building the brand and monitoring systems (Klein, 1978).

As stated above, franchisees' specific investments include purchases of highly specialised equipment, making improvements on leased premises and undergoing training under the auspices of the franchisor which are of little or no value outside a particular franchise system.

Williamson (1985) refers to the TSA's as "ugly princess" because a king will only sacrifice his ugly daughters as hostages with the hope that TSA's are not ex-appropriated by their captors owing to the princess' unattractiveness.

Though this theoretical exposition of the opportunism problem has found substantial practical support in a number of marketing, law, economics and organisation theory studies, a number of gaps still exist in the franchising literature.

For example, Klein (1987) opines that reputational risk disincentives franchisors from acting or behaving opportunistically so that it can continue to attract suitable franchisees and investors.

Hadfield (1990) denounces this averment by arguing that new franchisors that had no reputation to be concerned with who have engaged in opportunistic behaviour from the start and went out of business soon thereafter.

However, considering that, new franchisors are at any one time a small fraction or an addition to an existing pool of established franchisors such as Holiday Inns, McDonalds, and KFC with a global footprint, there can be little doubt that reputational risk is still a major concern among franchisors.

Despite scholars such as Williamson (1993) and Dnes (2003) emphasising that opportunism is reciprocal and the ubiquity of anecdotal and other evidence pointing to franchisor malpractice and dishonesty, references made to opportunism in the extant literature largely allude to cheating, free riding and shirking by franchisees (Elango and Fried, 1979).

As stated above, Williamson (1993) suggests that the literature ignores or downplays “downward opportunism,” that is opportunism by franchisors ostensibly because as Klein (2003) suggests, franchisors have no incentive to cheat as they have a reputation to protect.

In contrast, Hadfield (1990) rejects the notion of reputational risk as a deterrent because new franchisors who were still trying to build their reputations have engaged in opportunism.

On the other hand, considering the contribution that franchising makes to the global economy which run into billions of rand in this country alone, the relatively handful number of studies that have examined franchisor opportunism such as Dewantripont and Sekkat (1991), Dahlstrohm and Nygaard (1999), Kalnins (2004) indicate the paucity of research in this area which this study sought to address.

These studies found that franchisors use a number of contractual clauses such as behaviour include terminating franchise contracts prematurely, establishing competing outlets owned by the franchisor or other franchisees closer to existing outlets, and restricting the sale or transfer of outlets by franchisees that allow them to carry out opportunistic behaviour against their franchisees.

In addition, both the academic and legal literature contain very few investigations of courts cases of alleged franchisors opportunism brought by franchisees especially in the United States, Europe, and Australia, which have established legal regimes and thriving franchise businesses.

Such investigations would shed more light on the manifestation and execution of franchisor opportunistic behaviour and its effects on the growth, competitiveness and survival of franchise systems as this study partly seeks to do.

For example, Oxenfeldt and Kelly's (1969) seminal paper formed the basis of the buy-back clauses found in most franchise contracts which allow franchisors to engage in opportunistic behaviour by buying back profitable outlets from franchisees which the franchising literature has overlooked and thus contributing to the dearth of franchisor opportunism research.

In the words of Williamson (1993), the literature ignores or downplays "downward opportunism," that is opportunism by franchisors ostensibly because, as Klein (2003) surprisingly suggests, franchisors have no incentive to cheat, as they have a reputation to protect.

This franchisor-sided view of opportunism suggests that the major threat to the efficacy of the franchise system that is, opportunism, resides among franchisees almost exclusively despite increasing levels of unease and complaints reported in the press, trade journals, and the legal literature about allegations and cases of franchisor opportunism.

A number of highly publicised cases such as Chicken Delight and the Kodak in the United States which attracted a great deal of attention among legal and marketing scholars and lawmakers alike in the USA and led to the passing of a number of the anti-trust laws in most states are prime examples of highly levels of conflict troubling global brands

In this country, the recent passing of the CPA appears to be a step in the direction of offering protection to franchisees in wake growing instances of franchisor opportunistic behaviour or acts.

Within this debate, reconciling accusations of OB or OA made against franchisors and counter-claims of legitimate conduct made by franchisors in self-defence is a major cause of disagreement (Hadfield, 1990).

In addressing this conundrum, Hadfield introduced the notion of "subtle opportunism" to describe franchisor opportunistic behaviour as conduct that, while it may be in line with the franchise contract, it may be against the reasonable expectations or the understanding that a franchisee attaches to the relevant clause in the contract.

In support of this view, both Muris (1980) and Williamson (1993) describes OB as conduct that respects the letter but not the spirit of the law to which the supporters and advocates of the use of contracts as governance mechanisms of exchange have responded positively adopted the RET thinking that advocates the incorporation of social relations issues such as norms and values in the interpretation of franchise contracts.

This is in line with the views of sociologists such as Ouchi (1980) and Granovettor (1985) who argued that relationships between contracting parties such as franchisors and franchisees are embedded in social relations or clans and that they should be interpreted within the context of enhancing the franchise relationship.

Possibly, the pursuit of RET principles led to the passing of the CPA in South Africa with the aim of protecting franchisees in the same manner that the Robinson-Patman Act and the Sherman Act in the USA does.

These and similar franchising laws found in some states with termination laws in the USA require that franchisors must show good cause such as material breach before terminating or not renewing the franchise contract (Muris, 1980).

As most franchised relationships are contract-based, they present difficulties better explained in TCE terms such as governance mechanisms that include the use of TSA's and franchise contracts.

For example, in franchised relationships franchisees own the physical assets whilst franchisors own the non-tangible asset, that is, brand names and trademarks enabling franchisors to control significant aspects of the franchisee's business (Cavis and Murphy, 1976).

In an archival study of 30 franchise contracts, Lebleci and Shalley (1996) found that franchise contracts that were relational often included several dispute resolution mechanisms.

Michael (2000) found that franchisors relied on factors such as selecting inexperienced franchisees, granting long-term contracts and exclusive territories to increase their bargaining power and franchisees compliance with franchisor standards and decrease litigation.

Dnes (2003) found that franchise contracts created mini-hostages that related to certain forms of contractual discipline.

Brickley, Misra, and van Horn (2006) found that larger and more experienced franchisors offered longer-term contracts while a recent study extolling the virtues of RET, El Akremi, Mignonac, and Perrigot (2010) found that social cohesion among franchisees could reduce opportunism among them because of the development of social bonds.

Despite the merit of the use of social cohesion as a governance mechanism, the misuse or misapplication of this mechanism, especially among franchisors, is problematic.

In this regard, El Akremi et al did not investigate the role of the franchisors in encouraging or discouraging social cohesion among their franchisees where evidence provided by Lawrence and Benjamin (2011) suggest support for the use of independent franchisee associations to promote social cohesion which can help curb opportunism within franchise systems.

Similarly, despite some franchisors arguing that they are duty bound to take disciplinary measures against their delinquent franchisees to protect the interests of the rest of the committed franchisees (Brickley and Dark, 1987), there is usually little evidence of any franchisees supporting their franchisors in such court battles.

Other studies using TCE to explain various aspects of the franchise relationship include brand value (Gallini and Lutz, 1992), royalty fees (Lafontaine, 1999), number of franchisor-owned outlets (Shane, 1998) as examples of sunk investments made by franchisors to signal their commitment to the franchise system.

Consequently, as part of the foundation of the study, unlike the agency and resource scarcity theories discussed above, TCE takes a more balanced and egalitarian view of franchise relationship in its endeavour to explain the motives of either party in the franchise relationship to reduce its transaction costs or conversely, increase its profitability.

Thus, TCE represents the efficiency argument that advocates the reduction of transaction costs of operating the either party’s business which range from the pre-contractual information costs relating to bargaining and negotiating around the franchise contract to post-contractual monitoring and enforcement costs facing both parties aimed at safeguarding performance.

Therefore, at least from the franchisor's point of view, the decision whether or not to franchise is unlikely to primarily depend on its financial and managerial constraints as the extant literature argues but rather on the costs involved in recruiting suitable franchisees, negotiating drafting a franchise contract, monitoring the performance of franchisees and enforcing the contract when the need arises and so forth.

In other words, even if the franchisor has access to funding from sources other than franchisees, on the one hand TCE suggest that it will not franchise until and unless it is satisfied that the transactions costs associated with franchising will yield a good return on investment and that franchisees will not necessarily take up franchising because of the benefits the system offers in terms of well-marketed brand names and the tried and tested business method on the other.

Similarly, TCE postulates that franchisees will enter franchising on the strength of the reduced transactions costs involved in negotiating and enforcing the franchise contract and operating the business which entails that despite the benefits that franchising may offer, potential franchisees will shun it if they believe that the costs involved in negotiating and enforcing the franchise contract underlying the franchise relationship are prohibitively expensive.

Therefore, from a TCE perspective, the key issues involved in establishing and maintaining the franchise relationship involve not only containing the burdens of the franchise relationship, that is, single or double-moral hazard and the adverse selection issues, but striving to achieve its benefits represented by efficiency gains deriving from reduced transaction costs.

According TCE critics such as Maitland et al., (1985) and Hodgson (2004), its inherent weakness in the study of the franchise relationship is the problem of reciprocal opportunism which potentially arises where franchisors seek to reduce transactions at the expense of the franchisees and vice versa, which can happen before, during, and after the existence of the franchise relationship by invoking any of a number of clauses in the franchise contract such the termination at will, buy back or resale restriction clauses or other aspects of the franchise relationship.

For instance, at the initiation of the franchise relationship, franchisors may behave opportunistically by misrepresenting the success of their business method to ignorant potential franchisees or fail to provide the promised back-up service such as advertising to franchisees.

To cover up its initial misdemeanour, such a franchisor may try to terminate the contract for a minor breach and take back the outlet or sell it to another franchisee without any compensation to the original franchisee or without profit guarantees (Muris, 1980).

To this end, Williamson (1979) and Hadfield (1990) support and advocate the use of franchise contracts as governance mechanisms of exchange to dispel criticisms levelled against both classical contract law and TCE theorists by suggesting the incorporation of social relations issues such as norms and values of acceptably behaviour such as co-operation, trust and teamwork in the interpretation of franchise contracts.

As outlined in the previous section, such an approach is in line with the views of sociologists such as Ouchi (1980), Schein (1980; 1982) and Granovettor (1985) who suggested that relationships between contracting parties such as franchisors and franchisees are embedded in social relations or clans and that they should be interpreted within that context.

In a nutshell, the objective of the theoretical framework adopted in this study is to explain the use of the franchise relationship as providing economic efficiency to franchisors and franchisees in a two-pronged manner.

First, through pursuit of reduced transactions costs in terms of TCE, which tends to breed opportunism; and second, by seeking to contain to opportunism through the establishment and maintenance of psychological contracts and mutually agreed norms of acceptable behaviour such as mutuality, information sharing and exchange, trust in terms of RET.

3.6 Summary

Chapter 3 critically reviewed definitions of franchising, the franchise relationship, franchise agreements – contracts; and the key foundational aspects of some of the foremost explanations or theories of franchising, that is, agency, resource scarcity and TCE; and the opportunism problem that these explanations raise which RET seems to address.

The chapter provided the reasons for the choice and use of TCE and RET as this study's theoretical framework mainly because of its the potential use to achieve economic efficiency within franchised relationships by curbing opportunism largely through the use of relational, social and legal norms to align the incentives of franchisors and franchisees.

The next chapter discusses opportunism as the central problem in franchised relationships.

Chapter 4 Opportunism as the central problem in franchised relationships

4.1 Introduction

Chapter 3 discussed the theoretical foundations of the franchise relationship focusing mainly on a critical review of the agency, resource scarcity and transactions cost economics theories. This Chapter focuses on the key concept of opportunism as the central problem in franchised relationships, the focal point of this study. After this introduction, sections 4.2 to 4.5 defines and explains various forms, outcomes, and strategies for managing opportunism within the franchising context.

Section 4.6 highlights the salient differences between a number of constructs which are usually conflated or associated with opportunism. Section 4.7 introduces and discusses the importance and relevance of the study's OO construct which it posits to be a derivative of the broader opportunism which is central to this thesis as it underscores OA and their negative effects on the growth, competitiveness and survival of franchise systems. Section 4.8 concludes the chapter.

4.2 Definition and forms of opportunism

As opportunism forms an integral part of the TCE theory and the epicentre of this study which has not been the subject of much investigation in the academic literature, it is crucially important to critically discuss its origins, various forms, outcomes, and strategies used to manage it within the franchising context in general and this study in particular.

Williamson (1985) regards opportunism as the incentive of one party for example a franchisor, to engage in behaviours or acts such as cheating, dishonesty, or untruthfulness towards the other, namely, the franchisee.

In addition, opportunism may take the form of franchisors misallocating the advertising fund for administrative purposes such as salaries, rental, or motor vehicles expenses (Muris, 1980).

Similarly, franchisees may procure and utilise cheaper ingredients to produce goods at their outlets and may be able to conceal their indiscretions from each other and from their customers to realise some cost savings because of the difficulties involved in tracing such opportunistic actions (Brickley and Dark, 1987).

Given these difficulties, it is hard to estimate the extent or magnitude of opportunistic actions within franchise relationships with the result that it is possible that cheating takes place at such a scale as to explain the motivation of franchisors and franchisees to enter into the relationship because the undeclared benefits may exceed the normal ones realisable over the duration of the franchise contract.

Williamson (1975) conceptualised the concept of opportunism as "pursuit of self-interest with guile" (p6) and includes "withholding or distorting information to mislead, distort, obfuscate, or otherwise confuse" (p47).

According to Williamson, opportunism results from man's human nature to serve his self-interest, bounded rationality; that is, limited cognitive ability to deal with all pertinent issues in one's life endeavours and uncertainty which aims at economising on transactions costs namely, the negotiating, bargaining, and monitoring costs involved in running a business, in a discriminating way.

Williamson's authoritative definition of opportunism has found wide acceptance in most disciplines, as did his explanation of the various forms of opportunism.

Ex ante and ex post opportunism. Williamson distinguishes between simple and serious opportunism; active and passive opportunism, *ex ante*; that is, pre-contractual and *ex post*; that is, post-contractual opportunism and buyer and managerial opportunism.

Briefly, according to Williamson, simple differs from serious opportunism in that the latter involves a transfer of wealth or money from the victim to the perpetrators and this is the form of opportunism with which scholarship such as the present one is ceased.

Active and passive opportunism. Active opportunism occurs when the franchisor infringes on an explicit term of the franchise contract such as establishing an outlet operated by him or another franchisee within the pre-stated geographically restricted territory of an existing franchisee's outlet.

On the other hand, passive opportunism results from the violation of an implicit contract stipulations such as when misallocates advertising revenue to administrative expenses, or when a franchisee employs fewer staff than his business warrants.

Both these misdemeanours are very difficult to detect with the result that the extent of their occurrence, and the huge benefits and losses accruing to the offending and innocent party, may serve as an incentive for the parties to enter franchising.

Similarly, ex ante or pre-contractual opportunism occurs because of adverse selection by franchisees misrepresenting their skills to the franchisors in terms of personality and psychological attributes which screening tests may fail to detect.

On the other hand, franchisors can also deceive their franchisees by misrepresenting the reputational capital or "pulling power" their trademarks and brand names (Hadfield, 1990).

These forms of misrepresentation present a serious challenge to the innocent parties, as they may be hard to prove in court with the result that the parties may have no option but to remain with each other until the expiry of the franchise contract.

Ex Post opportunism is a function of the moral hazard represented by an inability of the franchisor to render various services such as monitoring of quality and operations of franchised stores, or the failure of franchisees to declare all sales transactions determining the franchisor's royalty.

These opportunistic actions have the effect of denying customers the level of service that the brand names promise to deliver or the products and service customers may be accustomed to, and the revenue to which the franchisor may be entitled.

Buyer and supplier opportunism. Furthermore, Williamson also distinguishes between buyer and supplier opportunism, indicating the source of opportunistic activity where within the franchise relationship, the buyer is likely to be the franchisee and the franchisor, the supplier.

Interestingly, the CPA which seeks to level the franchising playing field because of the enormous bargaining power disparity that exists between franchisors and franchisees, uses this designation to afford the weaker party in the relationship, namely franchisees, the rights and obligations of consumers, and the stronger party, that is franchisors, the rights and obligations of suppliers.

Using French and Raven's (1959) power model, franchisors exercise expert and legal power because of their expertise as owners and developers of the intellectual property behind the franchise system.

In addition, franchisors exercise considerable legal power because of the control they have over the negotiating and writing of the franchise contract (Porter and Renworth, 1978; Muris, 1980; Emerson, 1998).

On the other hand, Minkler (1990; 1992) suggests that franchisees also possess market knowledge power, which franchisors leverage by appointing franchisees in the relevant areas which enable them to derive this power from their knowledge of consumer habits and tastes in the areas in which they live, most of which are located far from the franchisor's head-office.

By appointing franchisees located far away from its head-office, the franchisor runs the risk of franchisees free riding on the brand or engaging in opportunistic actions.

However, as franchisors usually appoint fieldworkers who travel to the outlying area or regions, and sometimes franchisors establish regional offices in the smaller cities and towns, the disincentive to cheat among franchisees still exists because of the threat of termination for breaches (Brickley and Dark, 1987).

Having said that, the efficacy of this disincentive is doubtful because of the noticeable deterioration in the service and maintenance of franchise outlets the further away one goes from a big city such as Johannesburg where most franchisors have their head offices.

4.3 Opportunism as an hazard in franchising

As the TCE suggests, the franchise relationship requires both franchisors and franchisees to invest in transaction specific assets (TSA's) or idiosyncratic investments which include site, physical and human assets such as machinery, equipment, and fittings in which franchisees invest; and intellectual property such as brand names, trademarks, and the business method developed and owned by franchisors that are highly specific to the franchise relationship with the result that they are of little value outside that relationship (Williamson (1975).

Williamson points out that because TSA's are vulnerable to opportunistic expropriation by the franchisors and franchisees, they present safeguarding, maladaptation and performance hazards to the parties such that the nature and effects of these hazards and the measures the parties may take to protect their interests form the central theme of this study.

Safeguarding hazards. These hazards arise from the need to protect the idiosyncratic investments of the both franchisors and franchisees against the risk of OB by the other party and these raise the issue of information and monitoring costs.

This happens in two stages: First, prior to the commencement of the relationship, the parties need to expend considerable resources screening and negotiating with each other prior to agreeing on the terms of the franchise contract with the aim at securing the interests of the respective parties against opportunism by the other party in the franchise relationship.

Thereafter, the parties have to expend additional resources putting in place monitoring mechanisms to ensure that each side keeps to its word and fully execute its obligations in terms of the franchise contract; which TCE theory suggests is not always possible because of human nature to pursue self-interest with guile (Williamson, 1975; 1985).

For example, franchisors and the entire franchise system is exposed to the risk of free riding on the brand name by some of the franchisees especially those who are not dependent on repeat or transient customers such as those located on freeways (Brickely and Dark, 1987).

Such franchisees can afford to compromise on the quality of the franchise system by rendering a substandard service such as offering poor quality service, unclean and unhygienic premises, using cheaper ingredients and so on without bearing the full cost of their shirking.

At least, theoretically and in the short term; that is, until this behaviour is detected by the franchisor, such franchisees are able to pass off their inferior products or service as genuine.

This happens on the back of the good image and reputation that customers have come to associate with a particular franchise system and pocketing whatever cost savings they are able to generate out of cutting corners.

According to Brickely and Dark (1987), this partially explains the reasons why franchisors prefer to franchise outlets are located in remote areas where they believe repeat customers will discourage free riding by franchisees.

Franchisors seem to believe that this will help safeguard their interests and reduce their monitoring costs are needed to ensure compliance with quality standards that are embodied in franchise rules, procedures and processes.

Similarly, franchisees hope that their written franchise contract with the franchisors will protect their right to trade undisturbed under the franchisor's intellectual property, comprise the use of the franchisor's brand names, trademarks, tried, and tested business methods and so on, over the pre-agreed period, and in the pre-agreed territory.

Franchisees hope to generate the revenue streams and profits from operating the franchise outlet which the franchise contracts cannot guarantee primarily because of the termination clause which allows the franchisor can invoke in order to expropriate the rents or profits of the outlet (Klein et., al 1998).

Maladaptation hazards. According to Williamson (1979) and Rubin (1990), the second hazard that faces franchisors and franchisees involved in a franchise relationship concerns the issue on adapting to changed market conditions owing to changes in customer preferences, competition, and technology.

These challenges arise from the difficulties presented by the unpredictability of the market forces leading the parties to the entering into incomplete franchise contracts because of the market uncertainty and bounded rationality, that is, limited human cognition which TCE suggests makes it not possible to spell out all future contingencies *a priori* in the franchise contract (Williamson, 1979).

According to Williamson, it is not even possible for the parties to agree on the timeframe for reviewing the franchise relationship with the result that franchisors are able to use the period prior to the renewal of the franchise contract as the time for making adjustments to the franchise contract as a *sine qua non* for entering into a new deal.

The problem with this approach is that it exposes franchises to opportunism because franchisors are able to take advantage of the opportunity to try to extract concessions from franchisees that were never in the original franchise contract (Withane and Heidi, 2001).

For instance, most franchisors use the renewal period to demand that franchisees renovate the franchise outlet as a condition for the renewal in circumstances where this may not be justifiable in terms of a return on investment or prospects of profitability.

Evaluation hazards. The last hazard facing franchisors and franchisees is the question of evaluating compliance with the franchise contract, which arises because of behavioural uncertainty (Rindfleisch and Heide, 1997).

Because of the difficulties involved in drafting a fully comprehensive franchise agreement that spells out the performance yardstick in detail mainly because of the cost involved and bounded rationality that relates to limited cognitive abilities (Williamson, 1975; 1979), it becomes very difficult to ascertain the extent of compliance with the franchise contract.

Williamson has argued that the complexity of the franchise relationship makes it extremely difficult for human beings to comprehend and spell out all the issues requiring full explanation and compliance within the franchise relationship.

Alternatively, Williamson points out that it would be extremely expensive to draft a comprehensive franchise contract that encompasses all future contingencies and spells out clear and detailed compliance requirements.

For example, as Hadfield (1990) argues, it is not possible to define cleanliness in the franchise contract in any more detail than a mere mention of the word which creates gaps or opportunities for the parties to behave in an opportunistic manner with the result that incomplete contracting is one of the structural factors that that this studies examined as an antecedent to both franchisor and franchisee opportunism.

Rindfelisch and Heide (1997) provide a summary of the three hazards discussed above, the nature transaction costs and opportunity costs they may generate for franchisors and franchisees. Table 4.1 presents this summary below, as follows:

Table 4-1: Rindfleisch and Heide's (1997) typology: transaction and opportunity costs

Costs	Asset specificity	Environmental Uncertainty	Behavioural Uncertainty
Source of transaction costs	Safeguarding	Adaptation	Performance evaluation
Type of transactions costs o Direct costs	Costs of crafting safeguards	Communication, negotiation, and coordination costs	Screening and selection costs (ex-ante) Measurement costs (ex post)
o Opportunity costs	Failure to invest in productive assets	Maladaptation: Failure to adapt	Failure to identify appropriate partners (ex-ante) Productivity losses through effort adjustment (ex post)

Source: Adapted from Rindefleisch and Heide (1997)

4.4 Forms and outcomes of opportunism within franchise systems

Building on the earlier and foundational work of scholars such as Williamson (1985) and others, Withane and Heide (2001) developed a neat but insightful synopsis of the various forms of opportunism and their short- and long-term effects on the cost and revenues structures of both the perpetrators and victims of opportunism. Table 4.2 depicts these factors below, as follows:

Table 4-2: Withane and Heide's (2001) typology of forms and outcomes of opportunism

		Circumstances	
		Existing	New
Behaviour	Passive	1 **EVASION** **Cost effect:** Decrease for O (short term) Increase for E (long term) **Revenue effect:** Decrease for E, S (long term)	2 **REFUSAL TO ADAPT** **Cost effect:** Minimal **Revenue effect:** Increase for O (short term) Decrease for E and O (long term, forgone revenues due to maladaptation)
	Active	3 **VIOLATION** **Cost effect:** Increase for E (long term) **Revenue effect:** Increase for O (short term) Decrease for E, S (long term)	4 **FORCED RENEGOTIATION** **Cost effect:** Increase for E (haggling, concessions) (short term) **Revenue effect:** Increase for O Short term, from concessions) Decrease for E and O (long-term, forgone revenues due to maladaptation)

Source: Withane and Heide (2001)

Briefly, the Withane and Heide (2001) typology firstly divides opportunistic acts or behaviours into two forms found in franchise relationships; that is, *active and* *passive opportunism,* and then into two circumstances under which to observe them; namely, *existing or new circumstances.*

Depending on a combination of these factors, Table 4.2 shows various opportunistic stances or behaviours adopted by the perpetrator; namely, 1 Evasion, 2 Refusal to adapt, 3 Violation and 4 Re-negotiation strategies.

In addition, the above Table also shows the short- and long-term effects of these strategies on the cost and revenue structures of both perpetrators and victims party (that is, the franchisor or franchisee depending on who the perpetrator is within the franchise relationship) that are represented by the 4 quadrants.

Quadrant 1: Passive opportunism under exiting circumstances (Evasion). According to Withane and Heide, this scenario represents a failure or refusal by either the franchisor or the franchisee to observe its obligations under a franchise contract with the aim of extracting cost savings at least in the short term.

For example, a franchisee may shirk on quality standards by using cheaper ingredients in the preparation of goods it produces or supplies. In the long term, the effect of the shirking franchisee will have a negative effect on the revenues of both the franchisor and other franchisees.

Quadrant 2: Passive opportunism under new circumstances (Refusal to adapt). Under this scenario, a franchisor or franchisee may display some inflexibility by refusing to adapt to changed market conditions.

TCE reckons that that challenge faces franchise systems because of the difficulty involved in predicting all future contingencies ex ante.

As a result, a party may derive cost savings in the short term, by acting in full compliance with its contractual obligations while refusing to invest money in adapting to the required change. In the long term, however, there may be revenue losses for both the franchisor and the franchisee because of maladaptation costs such as lack of competitiveness.

Quadrant 3: Active opportunism under existing circumstances (Violation). This form of opportunistic behaviour involves a blatant violation of an explicit or implicit clause in the franchise contract such as when a franchisor encroaches on the territory of an existing franchisee by establishing a competing outlet operated by the franchisor or another franchisee in close proximity to that belonging to an existing franchisee's outlet (Hadfield, 1990).

Such an encroachment increases the long-term costs of the affected franchisee while decreasing its long-term revenues because of the unwanted intra-brand competition. In the short-term, the opportunistic franchisor derives some financial benefits while the franchise system as a whole endures long-term financial losses because of the reputational damages it suffers due to existing franchisees leaving and potential franchisees shunning the franchise system.

Quadrant 4: Active opportunism under new circumstances (Forced renegotiation). In this case, a franchisor may impose new demands on a franchisee such as the renovation of an outlet at the time of the renewal of the franchise contract when such an issue was neither in the original franchise contract nor justifiable in terms of profitability prospects or a return on investment (Hadfield, 1990).

Franchisors engage in this type of opportunism even at the commencement of the franchise relationship as franchise contract are "not negotiated with franchisees, but are sold like insurance policies on a take-it-or live-it basis" (Hunt, 1977, p74).

This phase of the relationship may result in short-term gains for the franchisor due to kickbacks they may obtain from the suppliers appointed to renovate the outlet which may increase the transactions costs of the franchisee for entering or re-entering into the franchise relationship due to the haggling and the concessions it is usually required to make.

These various forms of opportunism present different safeguarding and enforcing challenges because though the franchise contract and legal action can address active opportunism, passive opportunism can only be attenuated with the use of norms of behaviour such as trust, cooperation, solidarity and so on that characterise the franchise relationship (Brown et al., 2000).

Other scholars of the RET school of thought have suggested the use of governance mechanism such as clans (Ouchi, 1980), pledges (Anderson and Weitz, 1992), incentives (Brickley, 1999; Shane, 2001; Scott and Frazer, 2006) to control opportunism.

On the other hand, Achrol and Gundlach (1999) and Cannon (2000) have suggested the use of a combination of the various mechanisms, which seems sensible, given the criticism levelled at TCE for being "under-socialised" (Granovetter, 1985).

4.5 Strategies for managing opportunism

As a point of departure, Withane and Heide (2001) suggest the need to tailor the strategy for combating opportunism to the relevant form of opportunism and the pairing of the anti-opportunism strategy to the underlying factors giving rise to the disconcerting behaviours such as information asymmetry and lock-in devices as depicted in Table 4.2 above.

Monitoring. According to Withane and Heide, monitoring is required where information asymmetry exists as the basis of opportunism and franchisors must monitor the activities of their franchisees to ensure that they comply with quality standards and operational procedures.

This is because franchised outlets are usually located far away from the franchisor's head office, and this exposes the franchise system to free riding or non-compliance with franchise rules and procedures by some unscrupulous franchisees.

As a result, the purpose of monitoring is two-fold: firstly, to discourage opportunism by placing social or peer-pressure on franchisee where this is the case and secondly, as a basis for taking action against the offender.

Monitoring also produces second-order effects such as self-selection which may result in potential franchisees from avoiding franchise systems in which they are aware the franchisor actively monitors the activities of their franchisees with the result that monitoring forces self-selection among potential franchisees and this helps reduce the problem of adverse selection.

In the process, the franchise system is able to reduce the transactions costs that could otherwise have arisen from unnecessary disputes with incompetent franchisees.

Incentives. This is the "carrot and stick" approach that can be used in franchising to align the interests of franchisors and their franchisees by offering incentives that are intended to make the short term gains derived from OA unattractive compared to the long-term gains that can be demonstrated to emanate from cooperative behaviour.

In TCE terms, this involves turning franchise contracts into the so-called self-enforcing agreements (Kaufmann and Lafontaine, 1994). In this regard, TCE scholars such as Rubin (1978) and Williamson (1993) have argued about the use of "hostages" by franchisors that normally require franchisees to invest in the so-called idiosyncratic assets referred to above.

The rationale behind this practice is to discourage franchisees from engaging in OA through the pre-mature termination of the franchise relationship by franchisors with the result that the franchisee will have no use forfeit its sunk costs in the idiosyncratic assets.

The use of incentives also has second-order effects such as quality assurance to the customers and cost reduction and high revenues for the franchisee because of their durability and reliability.

Selection. This involves subjecting potential franchisors or franchisees to screening prior to establishing a relationship with either party where franchisors usually subject their potential franchisees to various screening tests such as psychological, personality and credit checks (Shane, 1998b) in order to try to determine the extent to that the candidate franchisees may be opportunistically inclined.

Nonetheless, adverse selection poses a serious threat to most selection or screening devices because franchisees, like ordinary human beings, are capable of misrepresenting their skills to potential franchisors for opportunistic reasons (Shane, 1996).

On the other hand, Petersen and Dant (1990) suggest that aspirant franchisees usually search for information about different franchise systems before deciding on entering into a relationship with any one of them by talking to existing franchisees to ask for information about a particular franchise system in that they may be interested.

Furthermore, the reputation of a franchise system (Kumar, Scheer and Steenkamp, 1995) may serve as a screening lens through which franchisees may be able to select a particular franchise system.

However, according to Williamson (1979), it may be difficult to assess the reputation of a particular franchise system regarding to its termination record because of the unavailability of objective information on the exact reasons for the store closures or termination of a franchise contract.

Hadfield (1990) also cautions that a franchisee who was selling its business is unlikely to disclose the OB of the franchisor he may be involved with in a relationship.

Socialisation. Organisation theorists such as Ouchi (1980) and Granovettor (1985) have criticised TCE as ignoring the social context in which the franchise relationship is embedded which has resulted in franchise systems recognising the need to develop social cohesion (El Akremi et. al., 2010) by nurturing the pursuit of objectives such as goal congruence, goal clarity, information exchange, trust, and cooperation.

Within the socialisation paradigm, Schein (1980; 1982) propounds the fostering of psychological contracts between franchisors and franchisees as vehicles for striving towards setting and achieving mutually agreed norms of acceptable behaviour and role expectations regarding the contribution of the parties towards achieving these goals.

According to Schein (1980), the existence of psychological contracts among franchisors and franchisees depends on two measures:

1. *The degree to which their own expectations of what the organisation will provide to them and what they owe the organisation in return matches what the organization's expectations are of what it will give and get in return*

> 2. *The nature of what is actually to be exchanged assuming there is some agreement – money in exchange time and work, social needs satisfaction and security in exchange for hard work and loyalty; opportunities for self-actualisation and challenging work in exchange for high productivity, high quality work, creative effort in the service of organisational goals or various combinations of these and other things (p.99).*

Similarly, Ouchi (1980) alludes to "clans" as the socially determined rules of engagement within franchise relationship, which develop over time to regulate the relationship between the parties to reinforce franchise contract (market) and regulations introduced by the authorities (bureaucracies).

Socialisation may also have second-effect benefits such as serving a signalling purpose by espousing values desired by a particular customer base and may also serve as a selection device by attracting potential franchisees with values and goals acceptable to a particular franchise system but can also be of limited use where franchisors and franchisees do not share the same norms and values (Dywer et al., 1997).

4.6 Differences between opportunistic behaviour and unethical behaviour

It is also important to highlight the difference between opportunistic behaviour and unethical behaviour in order to demonstrate the seriousness and importance of OB within the franchise relationship.

On the one hand, unethical behaviour represents ordinary socially and morally unacceptable franchisor or franchisee behaviour such as gossip or back-biting or staff poaching between the parties, OA allude to conduct aimed at deriving financial reward at the expense of another party in an exchange relationship such as the franchisor-franchisee relationship in a discreet manner on the other.

Therefore, while it is apparent that opportunistic behaviour is some kind of unethical behaviour, the reverse cannot be true as logically, not all forms of unethical behaviour have financial motives or effects.

Williamson (1981) observes that as human agents franchisors will engage in OA at one time or another because of an inherent possibility that given the opportunity, that is, the presence of a financial reward and the absence of detection and sanctions, a franchisor is likely to behave in an opportunistic manner as a rule rather than an exception; and this symbolises or denotes OO, the subject of the remainder of this Chapter.

4.7 Introducing the researcher's OO construct

Within the context of the TCE part of the theoretical framework outlined in the foregoing sections, arguably the OO construct is a brand new construct the study is introducing into the franchising literature and nomenclature to denote tendencies which underlie the behaviour or actions of franchisors and franchisees to extract undeserved financial benefits from each other.

Firstly, as evidence of the newness or originality of this construct, a world-wide-web search of various engines such as Google, Amazon, and Yahoo and various social sciences, business, economics, legal or management electronic databases could not find the construct.

These databases searched include popular ones such as Proquest, Ebsco, Emerald, Science Direct, Jstor, Hein-on-line, ISI Web science, and ABI/Inform which collectively housed approximately 2000 peer-reviewed and high impact publications, books, journals and periodicals with more than 20 000 scholarly works has not returned any article, book or dissertation / thesis bearing the two words together in the same title.

Thus, there is no record from any of the above important sources of any attempt to define or conceptualise the construct in any form or shape as was done in this study, this suggests the originality of the conceptualisation of the OO construct as it may apply to franchisors and franchisees.

Arguably, this represents an important part of this study's contribution to knowledge, as this construct is likely to inform or improve the actions and decisions of franchisors, franchisees and other interested parties such as lenders, investors, and policymakers.

4.7.1 The origin, meaning and philosophical underpinnings of OO

The building blocks of the OO construct arise from the work of scholars such as Williamson (1975, 1979, 1985; Muris, 1980; Hadfield, 1990; Klein, 1997; Dnes, 2003) following the guidelines suggested by Churchill (1979) and using Williamson's (1975) widely accepted definition of opportunism as self-interest seeking with guile" (p6).

Accordingly, this researcher conceptualised the OO construct as the deep seated but contrived tendency or inclination among franchisors and franchisees to seek or identify opportunities for acting or behaving opportunistically as a rule rather than an exception.

In other words, as in the case of Williamson's opportunism construct, this study's conceptualisation of the OO suggests that opportunistic behaviour is an inherently latent and ubiquitous trait among both franchisors and franchisees.

As a point of departure or reference, the conceptualisation of OO suggests that it owes its philosophical roots among franchisors and franchisees to different sets of circumstances or motivations inherent in the franchise relationship.

For example, the origin of the construct among franchisors owes its origin to the theoretical argument positing the life cycle of franchise systems (Oxenfeldt and Kelly, 1969) which suggested that as the franchise system evolved, franchisors would be inclined to buy or take back franchised outlets from franchisees.

To this end, this study argues that most troublesome clauses found in most franchise contracts by Udel (1972) and Dnes (1973) such as the buy-back clause amount to an expression or demonstration of OO among franchisors. Support for this argument can be found in the franchising literature (Hunt, 1977) who decried the one-sided nature of franchise contracts by observing that most franchise contracts are "sold to franchisees like an insurance policy, on a take-it-or-leave-it basis" (p74).

As evidence, most scholars (e.g. Williamson, 1975; Muris, 1980, Hadfield, 1990) point to the large number of complaints, disputes and judicial and legislative hearings instituted and investigated against franchisors and copious pieces of anti-franchisor opportunism legislation and regulations passed in most parts of the developed and developing world.

These include South Africa where the CPA that was recently passed to deal with this problem which as the above scholars argue, OB is clandestine or subtle in nature with the result that it is difficult to detect or observe, otherwise it would not be rewarding to the offending party; that is, franchisors, to behave in an opportunistic fashion.

However, this study sought to overcome this difficulty by pre-empting OO among franchisors, through examining certain aspects of franchise contracts that have been identified in the literature as one-sided in the favour of franchisors (Klein, 1980, 1995, 2000, Muris, 1980); Klein and Saft, 1985); Dnes, 1993, 1996, 2003; Elango and Fried, 1979).

Franchise contracts have been at the centre of allegations and complaints against franchisors or have the potential to inspire opportunistic behaviour among franchisors. Stated metaphorically, while OA was considered to be tantamount to "pulling the trigger"; the construct of OO was construed as a "the cocking of the franchising gun" exercise which merits more attention in this thesis than its more visible and easily recognisable twin construct, that is, opportunistic actions.

Furthermore, like opportunism, the conceptualisation OO contends that franchisors or franchisees execute it in a discreet manner which explains the secrecy behind signing and keeping of franchise contracts in most countries generally regarded as confidential despite the fact that the similarity of the structure and content of most franchise contracts (Dnes, 1993).

This study contends that other than for reasons of concealing OO especially among franchisors, no bona fide reasons exists for not making signed franchise contracts available for public or investor inspection or information in the interest of openness and transparency.

This is in light of the fact that important contracts with pecuniary or commercial value such as ante-nuptial contracts and mortgage contracts are by law public documents are filed with the Magistrates Court and the Deeds Office.

Therefore, this study makes a case for the authorities at least in this country, to require the filing of franchise contracts with the newly created National Consumer Commission (NCC) established in terms of the CPA as only members of FASA are required to file copies of the disclosure document and franchise contracts with the association which does not make records available for public access or usage.

However, as indicated in Chapter 3, FASA is a voluntary association that only keeps copies of disclosure documents of its members that forms part of the application for membership by such members (FASA website).

Thus, filing copies of signed franchise contracts with the NCC will greatly enhance the availability of information that can enable aspirant franchisees and other investors to make informed decisions in assessing OO of the franchise systems in which they may be interested.

This study argues that the disclosure document does not serve any useful purpose as it amounts to no more than a watered down version of the franchise contract because it provides no more than the elementary information such as the credit, profitability and financial history of the franchisor, number of existing outlets, contact details and so on, that most franchisors already publish on their websites which makes it difficult to detect undesirable or suspicious inclinations.

Some franchisors require payment of a certain sum of money before making their disclosure document available to an interested party which can prove to be a costly hindrance to some potential franchisees who may be considering a number of different franchise systems with the objective of choosing one from them.

Similarly, the recently introduced 10-day "cooling off" period under the CPA within that a new franchisee can withdraw from a franchise contract (Woker, 2012) is a formality that serves very little purpose as it amounts to no more than closing the stable door after the proverbial franchising horse has bolted.

Generally, the "cooling off" period is usually preceded by huge financial and emotional commitments and investments into the franchise system that new franchisees make early in their franchise buying decision process with the result that the argument that franchise contracts contain confidential information and should therefore kept secret appears aimed at concealing the OO of franchise systems.

4.7.2 Differences between entrepreneurial orientation and OO

In conceptualising the OO construct, it was important to distinguish between normal opportunity seeking, identifying, and exploiting, that is, entrepreneurial orientation (Stevenson and Jarillo, 1990; Lumpkin and Dess, 1996; Rauch, Wiklund, Lumpkin and Frese, 2009) which is a positive-oriented and key value-creating characteristic among entrepreneurs.

It is necessary to juxtapose this construct against the negative-oriented, value-destroying, and unscrupulous opportunistic inclinations that is, OO others may harbour or display when the opportunity arises, on the other.

Interestingly, a vast number of studies have specifically identified and recognised the successful entrepreneurial role of franchisors as developers, maintainers and owners of franchise systems (Withane, 1991; Castrogiavanni, 1995; Strutton, Petton, and Lumpkin, 1995; Phan, Butler, and Lee., 1996; Shane, 1996; Tuunanen, 2001; Clarkin and Rosa, 2005).

These studies have focused on the part played by franchisors as classical entrepreneurs or opportunity seekers who have allocated considerable amounts of effort, money, and time to identify a gap or an opportunity in the market and to develop a product or service offering to satisfy or take advantage of that business opportunity.

Others studies have lent support to the entrepreneurial orientation hypothesis among franchisors has propelled them into developing, sustaining and expanding their franchise systems by exploiting the opportunity or niche they have identified in the market using the intellectual capital or property they possess.

In pursuit of their entrepreneurial goals, some over-zealous franchisors may plan or prepare to indulge in opportunistic behaviour with the intention of deriving undeserved financial rewards from their own franchisees.

Such franchisors may engage in pre-contractual opportunism and rig the franchise contract that is, the "cock the franchising gun" in a manner that will allow them in due course to terminate the franchise contract or refuse to renew it where they may be not be legitimate or sound business reasons for doing so.

It is probably inconceivable to view this conduct, as a demonstration of entrepreneurship as most observers, but a clear case of OO among the affected franchisors underlines it.

Stevenson and Jarillo (1989) regard entrepreneurship as "a process by those individuals–either on their own or inside organizations-pursues opportunities without regard to the resources they currently control" (p43).

This definition places emphasis on seeking opportunities and resources in the marketplace and by normal commercial means which entails that within the franchise relationship, the “opportunity” for franchisors does not reside within the franchise system and similarly, “resources” do not translate into taking unfair advantage of their relationship with franchisees.

Therefore, this study regards entrepreneurial orientation among franchisors as displayed by their role associated with the development and maintenance of the franchise system while OO represent the antithesis of entrepreneurial orientation as it has the potential to generate the opposite of the desirable outcomes of entrepreneurial orientation.

OO produce negative and destructive conflict that increases transactions costs through litigation and negative publicity that it attracts and thus weakens the efficiency of the franchise relationship as a mode of business.

4.7.3 Differences between positive and negative OO

Up to this point, OO have been conceptualised as having negative implications that flow from the conduct of franchisors and franchisees towards each other.

However, it is important to point out that there may be some opportunistic acts or behaviours of franchisors which may yield some financial, marketing, or other benefits which may emanate from the entrepreneurial efforts of franchisors for instance in negotiating favourable discounts with suppliers at the expense of its competitors in the marketplace (Muris, 1980).

As franchisees may reap the financial benefits from these kinds of initiatives, positive OO need to be distinguished from its negative counterpart because the latter can destabilise the dyadic franchise relationship by precipitating financial conflict between the parties.

The franchise relationship presumed to be a co-operative and symbiotic relationship aims at pursuing and achieving common goals and objectives for the parties involved in the relationship (Clarkin and Rosa, 1995).

The same does not exist between franchisors and their competitors with whom a "dog eats dog" type of relationship appears to exist or prevail.

On the other hand, there may be differences in the justifications that franchisors and franchisees can provide for committing opportunistic actions towards each other.

Typically, franchisors may justify their actions as efforts aimed at protecting and enhancing the reputation of the franchise system on which the growth, competitiveness, and survival of the system may be dependent.

For instance, given the general belief in franchising that the franchise chain is ''as strong as its weakest link", by terminating or failing to renew a particular franchisee's franchise contract, a franchisor may claim that it was merely acting to remove a weak, incompetent or uncommitted franchisee from the system.

Such a franchisee may not able to run its business profitably and competitively with the result that this researcher argues that such a franchisee tarnishes the reputation of the franchise system and that this has far-reaching and unfavourable long-term implications for the growth, competitiveness, and survival of the system.

Similarly, in an "eye-to-eye" or tit-for-tat" argument, some franchisees may feel justified in acting opportunistically because the franchisor acts in a similar manner. This may be the case where the franchisor may not be performing the supportive role it may have promised such as its failure to advertise or provide training and new product offerings.

By acting opportunistically, such franchisees may be hoping to produce positive outcomes by forcing the offending franchisors to perform or face going out of business which highlights the reciprocal nature of opportunism (Brown et al., 2000) suggests that OO by the one party begets the same by the other or "fighting fire with fire"; and that the long-term effect of this practice can be mutual destruction or extermination.

This may be the case particularly in a highly competitive environment where profit margins are on the decline or when the franchise system has entered the decline phase of its life cycle or when control of the franchise system changes hands.

4.7.4 Differences between franchisor and franchisee OO

The conceptualisation of OO in this study suggests that both parties involved in the franchise relationship are equally capable or inclined to act in an opportunistic manner with the result that OO are likely to surface where the incentive to act in this manner exists which Williamson described as the attractiveness of financial benefits and the absence of sanctions.

This is where the similarities between the parties to a franchise relationship end from that point different mechanisms and strategies emerge that each party employs towards achieving its opportunistic goals where for instance, a franchisor may desire to own a particular profitable franchised outlet it has failed to buy back from a successful franchisee through normal above board negotiations or bargaining.

Such a franchisor may then decide to establish and own another outlet in close proximity to an existing outlet with the intention of competing directly with an existing franchisee.

Though such a franchisor may be perfectly entitled to do in terms of the franchise contract that may have been strategically designed to limit the franchisee's right to a particular geographical area, this may be in violation of the norms and values of franchise relationships.

Despite the allocation of restricted territories, it is common practice for franchisors to grant their existing franchisees the so-called right of first refusal before establishing a new competing or sister outlet close to an existing one.

Such a franchisor may wish to capitalise on the goodwill that the franchisee has developed in the area that it was neither aware of nor prepared to risk investing its money and effort.

Similarly, a franchisee may not to buy the required ingredients or may replace these with inferior and cheaper substitutes it believes the franchisor or its customers are unlikely to detect.

Such a free riding franchisee hopes to benefit through cost savings from the reputation of the franchise system built on the franchisors' successful business method, brand names, and trademarks that its customers may associate with that particular franchise system.

Once again, the problem here is that the franchisee in question may seek to derive undue financial benefits from cheating on the franchise system by taking unfair advantage of the fact that it may be difficult for the franchisor to detect its misconduct and apply any appropriate sanctions such as a reprimand or termination.

4.7.5 Reasons for focusing on franchisor and franchisee OO

Almost by definition, this study revolves on negative effects of OO and OA because of their overwhelming and far-reaching socio-economic consequences as outlined throughout this study.

However, unlike most other studies, this study also focuses on the inclination, culpability, or susceptibility of franchisors to the OO problem that almost by conventional wisdom, most studies and commentators largely attribute to franchisees.

There is abundant anecdotal and some academic evidence suggesting that franchisors also engage in OA (Muris, 1980) as reflected by franchisees being the complainants in most of franchising disputes or court cases against their franchisors.

In addition, most articles in the media and academic journals especially legal and strategy journals deal with issues and practices adopted by franchisors in carrying out various opportunistic acts.

On the contrary, as pointed above, very few marketing studies have focused on franchisor opportunism ostensibly because most scholars seem to believe that opportunism is a franchisee problem, which this study seeks to address.

As pointed out by Hadfield (1990), these scholars seem to believe that as owners and developers of the franchise system, franchisors have no incentive to cheat for fear of reputational risk.

This is despite the fact that in most cases new franchisors with limited or no reputation whatsoever have been found wanting upon establishing “fly-by-night” businesses that collected massive franchisees fees by opening a large number of outlets, and then disappearing after failing to provide the promised support and back-up services.

Such franchisors have no reputational risk to worry about, as their focus is short-term in an industry with no industry, legislative or regulatory barriers that prevent them from entering the market or ensuring that operators in the industry meet certain minimum requirements or standards of any nature.

However, the quick “in and out” and “hit and run” actions of these franchisors have immense potential to cause reputational damage not only to the franchising sector as whole, but also threaten the normal functioning of the economic system that relies on protection from exploitation, fair and just trading.

The actions of these operators usually results in negative publicity devolving from financial losses and litigation costs suffered by franchisees at the hands of unscrupulous franchisors, in its entirety that is also the reason for the approach adopted in this study.

By comparison, franchisors have elaborate means at their disposal such as financial, psychographic, and educational criteria that they can use to assess potential franchisees.

In addition, as stated by Williamson (1985), franchisors take “hostages” from franchisees by requiring them to pay up front franchise fees and investing in equipment and training that is specific-designed to that franchise system with the result that any franchisee guilty of misconduct runs the risk of losing.

On the other hand, even reputable franchisors have strategies for countering any negative publicity such as pointing to the increase in the number of new outlets while playing down closed outlets by manipulating statistics and facts such as disguising store closures and terminations of franchise contracts as non-renewals and taking over or reselling failed stores.

The aim is to maintain equilibrium by trying to keep the interest in the franchise system high to continue to retain existing franchisees and to attract new ones into the franchise system particularly when others could be silently exiting the system due to franchisor opportunistic practices.

4.7.6 The importance and relevance of OO

OO as a multi-dimensional construct. From the forgoing discussion, it clear that OO represents a multi-faceted construct that permeates the franchise system.

As this study suggests, the construct derives from various sources and influences within the micro, market and macro franchise environment.

For instance, a number of studies have found that the lack of legislation and regulation of the franchise industry contributes to an increase in franchisee complaints and disputes with franchisors.

Other distinguishing features of the construct are that it affects various aspects of the franchise relationship, assumes various forms, and occurs at different stages of the franchise relationship.

For instance, Grimes (1986) has raised the issue of information asymmetry at the initiation of the franchise relationship manifests itself in terms of the information advantage that franchisors have over franchising in concluding the franchise contract.

Cochet and Garg (2008) found that having gained invaluable knowledge, experience and expertise gained over many years, franchisors often adapt certain clauses of their franchise contracts to meet their changing needs over time.

This is a luxury potential and experienced franchisees do not have as in most cases franchisors present the franchise contract to franchisees for signature in the franchisor's offices, as *a fait accompli.*

One way of minimising this problem is for aspirant franchisees to consult a franchise attorney before signing the franchise contract (Porter and Renworth, 1978).

In addition, the newly enacted CPA provides for a 10-day "cooling off period" during that a potential franchisee can withdraw from a franchise contract without incurring any financial penalties (Woker, 2012).

However, as indicated above, there are emotional and social attachments, that develop among newly, signed up franchisees and their families upon signing the franchise contract and establishing what in most cases is the individual's first business venture and new career.

It must be a very difficult and painful decision for some budding entrepreneurs having to withdraw from a business deal on the 11th hour due to legal technicalities after resigning or retiring from one's job or profession to buy the franchise.

OO as dynamic phenomena. As indicated above, studies have found that franchisors adjust their franchise contracts to meet changing market situations.

In fact, Williamson (1975, 1988, 1989) suggested that due to human being's bounded rationality; that is, limited cognitive ability and the complexity of the franchise relationship, it is not possible provide for all aspects of the franchise relationship.

Williamson referred to this situation as incomplete contracting that suggests that franchise contracts are incomplete and that this warrants the use of social norms and values that develop over time to support the franchise contract in carrying out the franchise relationship.

This is likely to happen particularly in wake of the passing of franchising laws aimed at dealing with franchisor opportunism in different countries including South Africa.

Thus, opportunistic oriented franchisors study the legal and political environment in which they are operating to find ways and means of overcoming obstacles before making strategic decisions.

Mathewson and Winter (1985) found that states that passed franchising laws restricting opportunistic terminations of franchise contracts by franchisors in the US experienced an increase in company stores and a decline in franchised stores.

This trend shows that OO represents dynamic phenomena that undergoes regular metamorphosis to ensure its continued existence in one form or another over time.

Once again, these adaptive mutations indicate support for the Williamson's (1975) view of an inherent human tendency to cheat which is the target of legislation such as the Competition Act and the CPA which requires franchisors to make changes to their franchise contracts to address the prescripts of these new pieces of legislation.

However, neither the legal profession nor the authorities have attempted to educate franchisees about their legal rights which shows that franchisees are isolated in the middle of the significant changes in the legal and regulatory environment, which have a major effect in their business lives.

Hence, franchisees join peer organisations such as franchisee associations and councils, which serve their interests.

OO as strategic intervention. Despite the negative connotations of OO, it is important to consider some views expressed by franchisors and franchisees in their own self-defence.

Scholars such as Muris (1980), Grimes (1986) and Hadfiled (1990) have posited that some franchisors may justify their opportunistic actions such as premature terminations of franchise contracts as necessary strategic interventions aimed at protecting the brand reputation of the franchise system against failure to meet quality standards and free riding by franchisees.

In other words, franchisors accused of acting in an opportunistic manner are likely to argue that their efforts are intended to counter OB that may be practiced by franchisees that may threaten the investments of their fellow franchisees and the continued existence of the franchise system as a whole.

This conceptualisation ordinarily suggests that franchisors anticipate OA from some franchisees and seek to prevent or protect their interests and those of innocent franchisees by adopting OO themselves by adopting a "fighting fire with fire" strategy.

Similarly, some franchisees seem to regard certain factors as creating opportunities for them free ride on the franchisor's strong brand which may include the physical distance between the franchisor and franchisees in distant and remote areas that may render monitoring difficult or expensive for the franchisor.

Another possible factor is the problem of incomplete contracting that may result in grey areas in the franchise contract may create loopholes or incentives for OB among franchisees.

For instance, Brickley and Dark (1987) suggest that it may be cumbersome to define the required level of cleanliness or hygienic conditions in the franchise contract in detail; or to anticipate market changes that may require a strategic change in the marketing or operations of the franchise system (Muris, 1980).

For these reasons, it would seem that franchisors and franchisees adopt OO as an insurance against each other. This may be the case especially where the parties may have difficulty curbing through the intervention of the courts or other third party mechanisms.

OO as the epitome of signalling. One of the objectives of this study is to profile some of the behavioural patterns characterising opportunistically oriented franchisors and franchisees.

The OO construct lies in the predictive value it imbues as a “screening device” or an “early warning system” that can enable franchisors, potential franchisees and other interested parties such as franchise practitioners, lenders and law makers to make informed decisions when selecting or evaluating a franchise system for a variety of reasons.

These include appointing potential franchisees by franchisors, selecting a franchise system by potential franchisees and their advisors, considering loan funding for acquiring a franchise by a bank and deciding on whether to initiate or support public policy aimed at regulating the industry.

As an illustration, Shane and Spell (1988) point out that franchisees generally prefer a franchise contract has a longer term so that they can be able to realize the benefit of their investment in the franchised business.

Lenders will also be inclined to shun a shorter-term contract or a fixed term contract offering a potential franchisee limited future prospects of success or one that they believe is too restrictive as this exposes them to increase legal and financial risks.

Similarly, an understanding of the construct will sensitise franchise lawyers and consultants often called upon to give advice to franchisors and franchisees for the purposes of drafting and negotiating a franchise contract.

OO as the antithesis of symbiotic franchise relationships. Various scholars have described the franchise relationship as cooperative, requiring joint strife between franchisors and franchisees in pursuit of common goals and objectives.

Within the dyadic relationship, each party has certain a role it must perform in order to justify the rewards it derives from the relationship as for instance, franchisors invest their money, time, and effort in developing, maintaining and monitoring a successful business method or formula they retail to franchisees in return for franchise fees and royalties.

The business method comprise various products and services such as sources of cheaper supplies and ingredients, store décor and image, advertising, bookkeeping, product menu and so on, that enable the franchisee to operate a successful business in an area allocated to him.

On the other hand, the franchisee also undertakes to invest money, time, and effort in establishing a running the franchise business in a manner that upholds set quality standards and procedures and to pay royalties at regular intervals to the franchisor.

This scenario represents a symbiotic relationship needs to exist in order to maintain sound relations between the parties.

However, OO introduce parasitism in the relationship as franchisors and franchisees allocate to themselves certain rights and privileges that enable them to act in a manner that unfairly transfers wealth from each other.

This result in one party receiving more financial rewards from its counterpart than it may be entitled to in terms of the franchise contract and the norms of the franchise relationship such as mutuality, information sharing, and solidarity developed between them over time.

OO as threats to entrepreneurship and SME development. As this study describes OO negative phenomena in a preceding section, there can be little doubt that where it is found in a franchise system to exist that it is likely have a negative effect on entrepreneurship and SME development.

This is because of the fact that new entrepreneurs may not consider franchising as a mode of business where OO are norms that encourage franchisors to load the proverbial dice against franchisees.

As a result, some franchisees may be disinclined to enter into a business relationship because of the omnipresent termination threat for minor violations of the franchise contract or the establishment of a competing outlet operated by another franchisee in close proximity to an existing outlet and similar practices.

For the same reasons, existing franchisees are unlikely advise potential franchisees to buy franchises as they themselves may be unwilling to seek opportunities to expand their operations by acquiring additional units within the franchise system seek the renewal of their franchise contracts when they expire.

Similarly, OO among franchisees may lead to a decline in franchising with the result that, faced with this problem, franchisors are unlikely to expose their brands for exploitation by unscrupulous franchisees and may opt for vertical integration to own company stores.

In the long-run, OO of either kind will result in a decline in entrepreneurship and SME development that have been described as vital tools in the creation of sustainable employment, wealth and enterprise ownership opportunities particularly for new entrants into the formal economy in a country such as South Africa with its history of socio-economic divisions and inequalities.

4.8 Summary

Chapter 4 discussed opportunism as a central problem in franchised relationships ostensibly resulting from their hybrid nature that seem to yield misaligned incentives or conflicting financial interests between franchisors and franchisees (Williamson, 1975; 1985).

The chapter discussed the meaning, patterns, and strategies for managing opportunism as they applied within the context of franchised relationships.

The chapter also presented the origin, meaning, and importance of the researcher's OO construct, which apart from extending the opportunism construct, this thesis also describes OO as the foundation for OA that the franchising model under investigation posits to have a negative effect on the growth, competitiveness and survival of franchise systems.

The next chapter discusses the development of the model for the empirical studies.

Chapter 5 Model development for empirical work

5.1 Introduction

Chapter 4 discussed opportunism as the central problem in franchised relationships. Building on the previous chapter, this chapter presents the development of the theoretical model underlying the two fieldwork undertaken in this thesis which involved quantitative and qualitative methods. However, the empirical work among franchisors and franchisees share the same underlying model which examines the impact of OO and OA on franchising systems.

To this end, this thesis involves examining the research questions among franchisors and franchisees using the same constructs but different measures and their sub-dimensions which the literature suggests mostly pertain to each respondent group, this chapter is divided into four sections.

After this introductory section, section 5.2 focuses on the development of the study model among franchisors and section 5.3 on the development of the study model among franchisees. Section 5.4 integrates the two parts of the model to demonstrate the functioning of the franchise system as a single unit that comprises two interdependent components. Section 5.5 concludes the chapter.

5.2 Model development for studying franchisors

The following sub-sections first describe and build the constructs to be studied in the quantitative part of the study of franchisors which, as discussed previously, were developed from both the literature and informal interviews conducted prior to the main study with some franchising experts.

The constructs, which comprise the model's dependent, intervening and independent variables, also involve sub-dimensions discussed below in the light of literature.

5.2.1 Dependent constructs in the franchising system

The quantitative part of the study employed the following constructs as dependent variables in the model under investigation.

A. Growth of the franchise systems

Within franchising theory, system growth or expansion is often seen as a critical and desirable outcome especially for early stage operations. The following paragraphs discuss aspects of growth that formed the dimensions of the subsequently developed survey measurement instrument.

i). New franchisees entering into the system.

The resource scarcity explanation of franchising posits that franchisors use franchised outlets primarily as a means to achieving rapid expansion of their brand through the managerial skills, financial resources and the local market knowledge that franchisees bring to the franchising table (Castrogiovanni et. al, 2006).

Expansion by way of new franchisees as proxy for growth is important to franchisors largely for efficiency reasons that arise mainly from the strength of the economies of scale that comes from the centralized purchasing power of the franchise system that facilitates cheaper sourcing of ingredients, advertising, equipment, and so on (Oxenfeldt and Kelly, 1968; Castrogiovanni et al., 1993; Dandrige and Falbe, 1995; Kauffmann and Dant, 1996).

ii). Renewal of franchise contracts by existing franchisees.

The desire among existing franchisees to seek renewal of their expiring franchise contracts suggests their decision to remain within the franchise system (Muris, 1980; Hadfield, 1990).

iii). Franchisees seeking multi-unit ownership opportunities.

From the franchisor's perspective, Kaufmann and Dant (1996) found that franchise systems that encouraged multi-unit ownership attained faster overall growth than those that did not.

However, the decision to seek additional units within a franchise system is a function of the franchisee's desire to extend his or her relationship with the franchisor which suggests that franchisors have an important role in determine whether franchisees will seek to acquire additional units.

On the other hand, Grünhagen and Marko (2005) found that multi-unit ownership provided franchisees with opportunities to pursue entrepreneurial goals, that is, personal growth.

iv). Conversion of independent stores into franchised outlets.

Another growth path for franchise systems is the conversion of independent, stand-alone, businesses into franchised outlets, which owners of such outlets may allow to gain competitive advantage from franchise branding (Hoffmann and Preble, 2003).

This is because of the benefits that franchisees enjoy such as centralised advertising, purchasing, training, use of the franchisor's well-known trademarks, brand names, operating standards and business method that provide various forms of economies of scale to franchisees.

In addition, these scholars found that franchisors target their brand advertising to independent retailers for reasons such as tapping into their entrepreneurial zeal and demonstrated experience that lowers the franchisor's adverse selection problem.

B. Competitiveness

Franchise systems need to be competitive in order to attract new franchisees and to retain existing ones.

For this reason, Porter (1985) reckons that firms should leverage their competitive advantage so as to outperform their rivals on three competitive strategies: cost leadership, product differentiation, and focus.

i). Cost leadership via lower operating costs.

Generally, it is believed that franchise systems strive to lower the operating costs for their chains through efficient sourcing and bulk purchasing of production raw materials and equipment and services such as advertising, accounting, information systems and training (Lillis et al, 1976; Porter, 1985; Pilling, 1991).

Such franchise systems are able to pass these benefits of economies of scale to their franchisees through lower franchise and royalty fees and cheaper production and operational costs to boosts the profitability and sustainability of their franchisees.

ii). Differentiation through innovation and renewal.

Porter's second competitive strategy; that is, product differentiation, suggests the need for franchise systems to develop and sustain their unique features that distinguish them from their competitors which involves devoting considerable time and money on research and development and innovation strategies with the aim of introducing new products, designing attractive adverting campaigns and better store layouts, décor and so on.

In order to generate a pool of ideas that would enable franchisors to come up with the necessary innovative and creative ideas to carry out these tasks, franchisors need to have a good communication system with his franchisees (Drucker, 1985; Kanter, 1985).

Chiou, Hsieh and Young (2004) found that satisfaction with the franchisor's communication strategy among franchisees reinforced their desire to remain within the franchise system which suggests that it was important for franchisors to be transparent and to have regular meetings and discussions with his franchisees on matters such as advertising, menu development, training budget and so on.

Kauffmann and Benjamin (2010) suggest that franchisors with good and open communication systems with their franchisees will establish a franchisee association and encourage their franchisees to join and participate actively in the matters of the association.

Therefore, franchisors who are known to act or behave opportunistically towards their franchisees and do not have good communication with them may not be in a position to tap into the innovativeness and creativity of their experienced pool of franchisees who interact daily with the customers of the franchise system and watch competitors closely (Bradach, 1997).

iii). Focus on core business.

Porter (1985)'s third and last competitive strategy; that is, focus requires franchisors to devote their attention to the implementation of either their cost leadership or differentiation strategies or competencies or both the implementation of which will be compromised when franchisors elect to act or behave opportunistically towards their franchisees by encroaching on their territories or misallocating advertising fees to administration expenses.

C. Survival

Survival is an important construct in the study of franchised and non-franchised businesses in marketing and strategy research which can be seen from a number of studies which have focused on various aspects of the construct.

For instance, Bates (1988; 1995) examined the survival patterns of small businesses the failure rate among the franchised businesses, respectively while

Shane (1996) examined the implications of hybrid organizations on firm growth and survival.

Shane and Spell (1998) examined factors for new franchise success and Shane and Foo (1999) studied the survival of new franchisors suggest the impact of franchisee retention on the survival of franchise systems.

Undoubtedly, the importance of the survival of a franchise system stems from the need for continuity to preserve the TSA's of the franchisors and franchisees so as to ensure that these parties achieve a return on their investments.

Therefore, the following discussion focuses on issues which may have a negative impact on the survival of franchise systems.

i). Existing franchisees exiting the system.

An important task challenge facing franchise systems is not only to attract suitable potential franchisees to grow their chains, but to minimise franchisee attrition to prevent the "revolving door" syndrome from happening as franchisees are the lifeblood of the franchise system (Elango and Fried, 1997).

Morrison (1997) found that job satisfaction played an important role in ensuring that franchisees remained within the franchise system while Chiou et al., (2004) suggest that the existence of communications channels such as franchisee associations help promote franchisee retention.

ii). Closing down of existing stores.

Stanworth (1983) and Hoy (1994) state that the failure rate among franchisees is very hard to determine as most failing stores are taken over by franchisors before they collapse so as to protect the reputation of the franchise system. However, store closures still occur mostly where there are disputes between franchisors and franchisees that may manifest in the non-renewal or premature termination of the franchise contract and the subsequent closure of the store.

iii). Disruption of business activities.

Conflict within the franchise relationship often results from various factors relating to the implementation of the franchise contract by the franchisor. This often leads to tensions and legal action that may take time to resolve. Frazer and Winzar (2005) found that conflict between franchisors and franchisees led to intermittent disruptions of business activities that resulted from constant disagreements and tensions between the parties over an array of issues.

Dnes (1993) suggests that franchisors face disruption costs when franchisees leave the franchise system such as lost royalties, relocation, training and promotional costs which prompt franchisors take various steps such as requiring franchisees to find replacements within a short time after announcing their decision to exit, reserving the right to withhold transfer of the outlet to a third party and taking a right of first refusal.

For these reasons, Ozanne and Hunt (1971) suggest that these measures make it possible for franchisors to act opportunistically by withholding approval of a potential purchaser in order to force a new franchise contract.

On the other hand, Muris (1980) opines that disruptions are symptomatic of the so-called "last period" scenario which is typically the period preceding the lapse of a franchise contract which can be tumultuous following a difficult relationship between the parties can damage the reputation of the franchise system.

iv). Buying back of profitable stores by franchisors.

There is a noticeable trend among certain franchise systems involving the taking back of franchised stores by franchisors which often leads to speculation as to the reason for this action.

Hunt (1977) states that this trend was quite rife in the late 1970 that led to Oxenfeldt and Kelly's (1969) prediction franchisors will buy back successful outlets in a strategic move which within the context of this study can be described as being opportunistic in the same manner.

Muris (1980) suggests that the buying back of stores by franchisors can be seen as disciplinary measures taken against difficult or recalcitrant franchisees.

v). Depletion of resources and goodwill through litigation.

Litigation often results from the failure of the franchise system to resolve a dispute internally (Williamson, 1983) which may be part of the franchisor's strategy for resolving disputes through the exclusion of an arbitration clause from the franchise contract which may force the parties to settle their disputes by means of protracted court action that favour the franchisors because of costly legal fees and wasted time and effort that franchisees cannot sustain.

Thus, it would appear that some franchisors may avoid arbitration which as Drahozal and Hylton (2003) argue, is more reconciliatory than litigation and aims at the restoration of the franchise relationship which the franchisor may be unwilling to do with a franchisee it may consider to be defiant or bellicose.

Having defined the constructs that allude to the dependent variables in the study, the next section describes intermediate opportunism constructs that signify acts which may harm the growth, competitiveness and survival of franchise system.

5.2.2 Intermediary opportunism constructs

In Chapter 3, opportunism was defined as the pursuit of self-interest with guile (Williamson, 1979; 1985). As explained in that chapter, for analytical and philosophical reasons this study sub-divides opportunism into opportunistic orientations and opportunistic actions and their sub-dimensions, with the first being predicted to be positively associated to the second and the sub-dimensions.

A. Opportunistic orientations

Hadfield (1990) lists a detailed number of behaviours, practices, or acts of franchisors, which tend to result from OO among some franchisors in terms of the "cocked gun" conceptualisation suggested in this study.

As stated in Chapter 1, most of these acts or behaviours have found expression as explicit terms in most franchise contracts found to be problematic especially by Udel (1972) in a comprehensive study of franchise contracts in the United States.

These clauses form the basis of the concepts, practices, or constructs used as proxies to measure OO among franchisors in this study where their preponderance indicates high levels of OO among the franchise system concerned.

i). Resale Price Maintenance.

As some 28% of franchisors surveyed by Udel (1972) controlled the prices that franchisees must charge for goods sold at their outlets which allows franchisors tend to build their profit margins into the prices they set in terms of the so-called Resale Price Maintenance (RPM), there are complaints that some franchisees are unable to make a profit from their businesses because franchisors RPM set at a level that may comprise the profitability and competitiveness of franchised outlets.

These critics point out that the RPM is unilaterally determined by the franchisors and often does not take into account differences in economic conditions and cost structures of the different areas, regions and even countries in which the franchised stores may be located.

This is largely because the outlets of most franchise systems spread over a wide geographic area, with some even transcending country and continental borders with the result that some cultural, economic, and legal/political issues may have a direct bearing on the RPM which may potentially create or widen differences in the overhead costs of all affected franchisees that cannot be easily standardised in line with the RPM.

The net effect of this practice is that as the RPM favours company stores on which franchisors model the RPM. These stores are located close to the franchisor's head-office with the result that franchised outlets in effect subsidise company stores. Most importantly, Udel's finding that only 0.6% or franchisors gave guarantees that sales will reach a certain level at the resale prices further illustrates the problem with RPM.

ii). Tying agreements.

The so-called "tying agreements," as they commonly referred to in the franchising literature, are the most serious legal problem in franchising as they allow franchisors to restrict franchisees from sourcing supplies or purchases from third parties other than those they designate (Hunt and Nevin, 1975).

For example, Udel (1972) found that 50 % of franchise contracts require franchisees to source operating supplies and from franchisor-approved vendors and 54.2% require purchases or leases of signs from the franchisor itself.

Hunt and Nevin (1975) point out that the seriousness of this problem has led to the intervention of trade association, federal and state legislatures and the Federal Trade Commission in the United States. In this country, the Competition Act of 1998 and the newly enacted CPA also targets this problem among others.

Most franchisors justify the necessity of tying agreements on benefits of bulk buying and the need to ensure quality control, critics maintain that franchisors charge prices that are far above those of the competitive market for supplies that franchisees are required to buy from these suppliers.

Therefore, critics of the RPM policy aver that tying agreements are uncompetitive as they deny franchisees the opportunity to source supplies at the lowest prices and on the best available terms on the open market. Tying agreements appear to allow the franchisor to interfere with the normal operation of the market place (Hunt and Nevin, 1975).

In addition, Udel (1972) found evidence of kickbacks that franchisors received from suppliers from whom franchisees are required to purchase certain supplies and that franchisees that were required to purchase a significant proportion of their supplies from franchisors were less satisfied with the franchise relationship and their businesses were less profitable than those who purchase a small portion of their supplies from franchisors.

iii). Non - exclusive territories.

Up to 59.3% of franchise contracts examined by Udel (1972) provide for exclusive territories within which a particular franchisee may trade without the franchisors establishing a rival outlet to protect a franchisee against a practice known as "territorial encroachment" (du Toit, 2003; Kalnins, 2004) which amounts to unfair competition from within the franchise system.

However, some franchisors try to by-pass this principle by establishing other brands or distribution methods in the same territory as an existing franchisee (Hadfield, 1990) which can have a negative effect on the sales and profitability of the affected franchisee that are not felt by the franchisor whose income remains constant or increases as a result of the introduction of the new outlet from that it also earns royalties and other fees.

Azoulay and Shane (2001) found that franchisors who grant exclusive territories to their franchisees ensure the survival of their franchise systems as franchisees that enjoy exclusive territories are able to maximize their return on the investment they made into acquiring local knowledge of the market and developing goodwill in the area in that their businesses are situated.

Udel found that only 6% of franchise contracts protected franchisees against territorial encroachment which suggests that most franchisors want to establish more outlets in territories belonging to existing franchisees to increase their revenue at the expense of the profitability of these franchisees without giving them the right of first refusal (Kalnins, 2004).

iv). Short term fixed contracts.

Most franchise contracts run for an initial 10-year period with an option to renew for a further 10-year period against payment of a new franchise fee (Udel, 1972) which tends to be attractive to most franchisees (Brickley, 2006).

Similarly, in an experimental exercise Shane and Spell (1998) also found that along with other factors such as a strong brand name, lengthy franchising experience, capital requirements and so on franchise contracts that have a 7-year lifespan served as a criterion for running a successful franchise business.

According to Shane and Spell, a longer-term contract therefore signals quality of the franchise system to potential franchisees; that the franchisor is not a "fly-by-night" or "get-rich-quick" scheme, and that the franchisor appreciates the need to build or grow a business in a particular area over a longer period.

B. Opportunistic actions

This study proposes that opportunistic orientations lead franchisors into committing various opportunistic action.

i). Buying back of profitable outlets.

One of the most contentious matters found in most franchise contracts is the so-called buy back clause that allows the franchisor the right of to acquire an existing profitable franchised outlet.

Apparently, this clause owes its origin to Oxenfeldt and Kelly's (1969) hypothesis predicted that franchisors would ultimately own all successful outlets once they have overcome their initial resource scarcity issues.

According to Burr et al., (1975), the buy-back clause allows the franchisor to purchase a targeted outlet at rock-bottom prices which may aggrieve the affected franchisees.

Though Udel (1972) did not directly include this item in his study, it appears that the franchisor's right of first refusal, which arises from a franchisee's decision to sell his franchised outlet in respect of which Udel found that 32.4% of franchise contracts had the buy-back clause, serves as a proxy for the buy-back clause.

In addition, Udel also found that 26.2% of franchise contracts require franchisees to exclude any goodwill from the sale price of an outlet which, together with clause allocating outlet goodwill to the franchisor, seem aimed at facilitating buy back of profitable outlets at rock bottom prices.

On the other hand, Dnes (1993) suggests that it is common for franchisors to buy out any franchisee they may consider “unsuitable” to operate an outlet where the definition of “unsuitable” is often unclear, but speculation suggests this to be the result of franchisor opportunism.

ii). Restricted resale or transfer of franchised outlets.

Closely related to the “ominous” buy-back clause is the restricted resale or transfer clause that Udel found to exist in 32.4% of franchise contracts in terms of that the franchisor has first right of refusal in the event of a franchisee deciding to sell its outlet which requires the franchisee intending to sell his business to inform the franchisor first of its intentions, and to give the franchisor the opportunity to decide whether it wishes to take over the business.

Once again, this clause places the franchisor in a seemingly unfair advantageous position where it can circumvent the normal operations of the market by offering the lowest price that the franchisee may be compelled to accept.

The rationale for this practice appears to be the principle that the goodwill of the business resides in the franchisor as the registered owner of the trademarks and brand names.

Similarly, this clause also restricts the franchisee from transferring the outlet to anyone including an heir without the approval of the franchisors under a number of conditions which may render any such contemplated transfer well - nigh impossible.

This may leave the franchisees with a financial dilemma as it cannot sell the business freely in an open market if at all and this translates into financial losses often accompanied by a restraint of trade imposed on the franchisee.

iii). Termination of franchise contracts "at will."

The termination at will clause refers to a clause in most franchise contract that allows franchisors to terminate the contract "willy-nilly" or without "principles" (Dnes, 2003), a right which franchisees do not enjoy under the contract.

The termination clause exists in 98.4% of franchise contracts, and in almost all cases is only available to franchisors (Udel, 1972), and has become a common feature amongst nearly all franchise disputes with its devastative financial consequences for franchisees, suppliers, lenders, customers and employees following the disruption or closure of an existing outlet.

This is yet another thorny issue some franchisees cite to illustrate the bias of franchise contracts against them because as stated above, most franchise contracts make no provision for them to cancel the contract in the event of violation of the contract by the franchisor.

Most franchise litigations are about terminations of franchise contracts by franchisors where franchisees allege unlawfulness (Emerson, 1998). This usually follows the failure on the part of the franchisor to meet the good cause, good faith, fair dealing, conscionability or reasonable expectations test.

iv). Imposition of the restraint of trade on franchisees.

Udel (1972) found that franchise contracts he examined contain a restraint of trade clause that debars a franchisee from becoming involved in the same sector (56.4%) for a period up to two years and within a stated geographical area (48%) after the termination or expiry of the contract.

Generally, franchisors believe that this clause protects their businesses against unfair competition from their ex-franchisees who may use to their disadvantage knowledge or information such as trade secrets and client or supplier databases may have gained during the existence of the franchise relationship (Frazer, Merrilees, and Wright, 2007).

On the other hand, terminated franchisees may argue against the restraint of trade as being unconstitutional, unfair, and anticompetitive business practices. Because of the so-called "double tragedy" used in legal parlance, the argument de-franchised franchisees strengthens the view that the termination could have led to their economic deprivation and impoverishment.

Similarly, the imposition of the restraint of trade took away their constitutional right to earn a living for themselves and their families. This is because of the restraint of trade prevents franchisees from realising the fruit of their idiosyncratic investments that is, the applying their skills, experience and knowledge they may have gained by operating a franchise outlet in the past.

In addition, ex-franchisees can also point out that unlike in other relationships such as the employer-employee relationship, they receive no financial compensation in respect of the restraint of trade in the event of the termination or cancellation of the franchise contract.

Furthermore, a restraint of trade may infringe on the ex-franchisee's right to practice a trade or profession of his choice that is a right enshrined in the Constitution; and may offend the Competition Act.

Having defined the constructs to do with opportunism, the next section describes independent constructs that may act to encourage or inhibit opportunism.

5.2.3 Independent variable constructs

The study proposes three sets of independent variable constructs which may promote or hinder opportunism among franchisors.

A. Structural factors as antecedents of opportunism

Several factors linked to the structure or nature of the franchise relationship seem to create opportunism among franchisors to behave in an opportunistic manner towards each other. These include:

i). Transaction specific assets (TSA's).

TCE theory regards TSA's as assets invested in the business that are difficult to redeploy or switch over to another venture without incurring a huge cost (Williamson, 1983). For franchisors, TSA's include investments such as the business method, trademarks, and brand names, operating standards and procedures used in the franchise system, which serve the proverbial "hen that lays the golden egg. TSA's invested by franchisees into the franchise system include money, effort and time invested in acquiring and running the franchise business.

According to TCE theorists, the TSA's need to be safeguarded against the opportunism of the weaker party in the exchange namely, franchisees (Williamson, 1985) or shirking (Shane, 1988) that allegedly increases the transactions costs of operating the franchise system.

These theorists posit the need to bring opportunism and shirking under control before it spreads among all franchisees to avoid causing systemic damage to the entire franchise system due to contract violations.

However, despite evidence of increasing levels of complaints and litigation initiated by franchisees against their franchisors, the franchising literature is not so vociferous about allegations of opportunism on the stronger party in franchise relationship that is contained in most franchise contracts (Hawkins et al., 2009).

Therefore, it appears that in line with TCE theorists, franchisors use franchise contracts to safeguard the TSA's against franchisee opportunism; issues of franchisor opportunism escape scrutiny in a manner that seemingly reinforces the suspicions levelled against franchisors.

ii). Posting of "hostages" or bonds.

One of the hallmarks of franchise relationships is the use of franchise contracts as the basis of the relationship between franchisors and franchisees which prescribe the "credible commitments" or "hostage-posting (by the giver, that is, franchisees) and hostage taking" (by the receiver, that is, franchisors) that both transacting parties make towards one another in respect of guaranteeing the required level of performance (Williamson, 1983; Klein, 1995; and Dnes, 2003).

Hostages differ from idiosyncratic investments or specific assets in that unlike sunk costs, they represent future-based incentives such as future royalty or revenue stream, and the lower operating cost advantage that franchised outlets provide (Williamson, 1983; Klein, 1995).

In addition, hostages have the effect of inducing franchisors to remain committed to the franchise system as they are specific to the franchise relationship and as such are of little value elsewhere with the result that they have a bonding effect on both the investing and receiving transactors.

On the one hand specific assets are TCE's primary answer to opportunism in terms of their bonding effect, the TCE theory also recognizes the potential and propensity of specific assets to give rise to opportunism by way of hostage expropriation.

As an illustration, a franchisee who has invested in lifetime savings in making building improvements on property leased to him by the franchisor runs the risk of losing this investment when the franchisor terminates the franchise to run the outlet himself or sell it to someone else (Klein, 1980; Dnes, 1993). This is the huge risk that posting "hostages" presents to the hostage giver as they are vulnerable to expropriation or hold-up through the opportunistic acts of the receiving transactors; that is, franchisors.

iii). Incomplete contracts.

Under classical contract law, Macneil (1973) opines that the franchise contract should deal fully with all future contingencies that might arise between franchisors and franchisees that include opportunism in that they bring about a higher degree of certainty, discreetness and *presentiation* (that is, to cause the future to be observed now) to the franchise relationship as they represent a "sharp in by clear agreement and sharp out by clear performance" arrangement in terms of which the letter of the franchise contract provides clear and unambiguous relief.

But according to Williamson (1985), Klein (1980, 1995) and Dnes (1993) and Hadfield (1990), this is not possible as the franchise relationship is characterised by a great deal of uncertainty and complexity occasioned mostly by market forces such as changing consumer, legislative or competitive demands that invariably lead to incomplete contracting.

Thus, under incomplete contracting, it is not possible to spell out every detail of expected performance in the franchise contract. Williamson (1985) suggests that it would be very costly to do so *ex ante,* such as when a franchisee needs to revamp a store or the frequency, media and budget of advertising the franchisor needs to embark upon.

As expressed in TCE terms, the transactions costs involved in drafting a complete contract would be prohibitively expensive because of the complexity of market conditions worsens as gaps arising from incomplete contracting may create room for franchisors to act or behave opportunistically against their franchisees in terms of the so-called "hold up" process, which represents the taking advantage of unenforceable provisions of the contract.

iv). Information asymmetry.

Gordon and Storholm (1994) found that the nature of some clauses in most franchise contracts mostly drawn up by franchisors often lead to opportunistic behaviour among franchisors because of some restrictive and unfair demands that such contracts tend to make upon franchisees.

According to Hunt (1972), franchisors do not negotiate franchise contracts with franchisees, but are "sold like an insurance policy on a take it or leave it basis" (p74). Clarkin and Rosa (2005) make similar remarks by observing that franchise contracts "are crafted by the franchisor and contain both prescriptive and restrictive provisions and leave little or no room for entrepreneurial creativity by franchisees" p8).

Similarly, Rubin (1978) emphasises this point when he describes franchise contracts as containing unilateral specifications of standard operating procedures, incentive systems, monitoring mechanisms, and termination clauses.

It appears that in most cases the franchise contract is a standard document; that is, a "one size fits all" that every new franchisee signs "chapter and verse" (Burr et. al, 1975); Hadfield, (1990) which indicates that very little room exists for exchange of information through deliberations, negotiations, and bargaining around the matter.

On the other hand, Baucus and Baucus (1998) who found that communication between franchisors and franchisees mediated opportunism. Withane and Heide

(2001) suggest that information asymmetry between franchisors and franchisees often produce OO.

v). Bargaining power.

By virtue of their market power as owners and developers of franchise systems, Hunt (1977) observes that franchisors have built the "capricious" termination "at will" clause built into their franchise contracts allowing them to cancel their agreement with franchisees virtually at their whims.

The justification for the existence of the "at will" termination clause depends on the need to protect the idiosyncratic specific investments of the franchisor; that is, brand name and trademarks, business method and operating procedures and so on.

Similarly, the literature suggests the need for franchisors to protect the TSA of their well-behaving franchisees; that is, sunk costs invested in equipment, buildings and training against the opportunism of opportunistic franchisees.

TCE theorists (Williamson, 1979; Klein, 1980, 1987; Dnes, 2003) regard idiosyncratic investments as physical, financial and human resources invested in specific relationships outside of which they have zero salvageable value which gives franchisors disproportionately enormous bargaining power over franchisees on the exercise of its right franchisors to terminate the relationship at will.

Given the theoretical explanation of the human tendencies to act opportunistically whenever the occasion arises and the rewards provides as explained by Williamson (1985), it is not hard to see the ever-present threat and danger that franchisees face that may result in them losing their hard-earned livelihoods and lifelong savings and investments at the whims of the franchisors.

vi). Dependence.

Dependency arises when one firm exercises control over the strategic activities of another (Emerson, 1962) in terms of which franchising provides a classic case of dependence because the franchisee owns the business while the franchisor controls the outlet by virtue of its ownership of its intellectual capital; that is, trademarks, brand names and the business method.

This is in respect of all key aspects of the business such the design of the premises, décor and ambiance, product menu, staff uniforms, sources of supplies and so on which render franchisees dependent on franchisors in terms of the control franchisors exercise on franchised outlets through franchise contracts and the operations manual.

B. Contextual factors as antecedents of opportunism

Apart from the structural factors discussed in the preceding section, a number of contextual factors which relate to the legislative or regulatory environment within which the franchising takes place also seem to create opportunism franchisors.

i). Lack of regulation of the franchising industry.

In most countries including South Africa, the franchising industry is self-regulating with the result that franchisors and franchisees relate to one another because of the franchise contract they enter into at the commencement of their relationship.

In nearly all cases, as franchisors write the franchise contract, there is an asymmetrical distribution of power in favour of franchisors (Storholm and Scheuing, 1994) which invariably enables them to act or behave in opportunistic manner particularly when it comes to termination or non-renewal of the franchise relationship.

ii). Lack of legislation.

The absence of franchising-specific legislation to control franchising in this and other countries has left franchisees at the mercy of their powerful franchisors whose malpractices may begin prior to the actual commencement of the franchise relationship through the sale of the franchises to potential franchisees based on deceptive information or after the signing of the franchise contracts that often contain restrictive clauses (Hunt, 1972).

iii). Competitive pressures.

In the "Franchising and the ominous buy-back," Burr et al. (1975) capture the essence of some franchisors' propensity to compete with their franchisees for lucrative sites in terms of their strategy to buy back successful or promising outlets.

In addition, the life cycle hypothesis mooted by Oxenfeldt and Kelly (1969) suggest that franchisors would buy back all franchised stores once they are in a strong financial position to do so.

Despite lack of widespread support for this hypothesis, major franchisors such as McDonalds and KFC in the 1970's embarked upon aggressive drives to invoke the buy-buy clause in the franchise contracts and attempts by others to embark on underhand strategies aimed at capturing back successful stores from their franchisees caused a great of consternation among franchisees (Burr et al. (1975).

However, this practice mutated over the years and has manifested in various forms where for example a successful film distribution franchisee who bought the franchise at an early stage in the development of the franchise only to face the competitive wrath of the franchisor whose own company-owned stores were not as successful (Hadfield, 1990).

The franchisor in question started setting up competing outlets close to the successful franchisees outlet, and reneged on supplying contractually agreed services which reduced the sales of existing outlet in half so that the franchisor could buy back the outlets at a reduced price.

Interestingly, most franchise contracts grant the franchisor the right of first refusal whenever a franchisee decides to dispose of his outlet which .incentivises franchisors to exert unwarranted pressure on a successful franchisee to drive him out of the system so that he could take the store back and operate it himself or sell it to someone else at a premium (Hadfield, 1990).

C. Strategic factors as antecedents of opportunism

In addition to structural and contextual factors, strategic factors arise from the help that franchisors usually provide to their franchisees also seem to lead to OO within franchise systems and include the provision of financial or contractual assistance to franchisees as they tend to grant franchisors strategic control of franchise relationship.

i). Joint ventures.

It is common for franchisors to offer joint venture opportunities or other similar arrangements to potential franchisees to establish outlets in some areas, region, or countries and between franchisors and some of their soon-to-be-ex-employees or store managers who after serving the franchisor in one capacity or another, may seek to broaden their horizon by becoming franchisees (Mendelsohn, 2004).

In some cases, the arrangement is between the franchisor and a sub-franchisor in a master franchising arrangement that gives the sub-franchisor the right to appoint and control franchised outlets in a foreign country into which the global franchisor may be expanding its operations (Justis and Judd, 1989).

In both cases, the parties enter into an ordinary franchise contract that confers rights to them in the usual fashion and where such aspirant franchisees may lack the financial ability to acquire the franchise in their own right, some franchisors offer to pay for the establishment of the outlet on the understanding that the new franchised business will reimburse them their capital outlay plus interest and dividends until the full repayment of the loan (Dnes, 1993).

Often the parties enter into a loan agreement in terms of which failure by the franchised business to meet its financial obligations towards the franchisor results in conversion of the loan capital into share capital. In addition, the franchisee ceases to be a part owner of the business and its franchise contract falls away.

In this situation, the franchisor-franchisee relationship carries the burdens of the business on his own and does not have the opportunity to bring in an outside partner or help. On the other hand, the franchisor enjoys the benefits but not the burdens of the business. In the event of a dispute between the parties, the franchisor can terminate the franchise contract between itself and the other party and either take over control of the business or sell the business at a profit to a new franchisee.

ii). Financial assistance.

As in the case of joint ventures, in a quest to establish outlets in certain areas or regions of the country where funding may be a problem to certain potential franchisees, franchisors have a propensity to provide financial assistance to such franchisees through arranging loans for their franchisees with their own bankers (Stern and Stanworth, 1993; Clarklin, 2002).

In a study using the signalling theory, Shane et al (2006) found that franchisors applied strategic decisions such as financing their franchisees in order to attract franchisees and to increase system size where the new franchisee signs a loan agreement in addition to the franchise contract in terms of which the franchisee agrees to surrender the business to the franchisor should the business fail to meet its financial obligations to the franchisor.

Despite funding an outlet, the franchisor does not become a shareholder in the business and is therefore not entitled to a share of the profits but both the loan agreement and franchise contract allows the franchisor to take over the business in the event of a default on the loan repayments as the franchisee may be debarred to selling the business to a third party.

iii). Lease control.

Franchisors often insist on signing the main lease with property owners and then enter into a separate sub-lease agreement with franchisees (Klein, 1980, 1990; Dnes, 1993) where the site in question may be a prime siting on which the franchisor may wish to exercise control even after a particular franchisee's contract has expired.

According to Dnes, in other cases property owners particularly of main street shopping centres demand that the franchisor should sign the main lease in the hope that the franchisor will not default on rentals given his better financial position and greater reputational risk.

In such cases, a default on the rentals or any explicit contract violation by the franchisee allows the franchisor to abscond with the hostage, that is, evict the franchisee, and terminate both the franchise and lease contracts.

In addition, Dnes observes that control of the lease gives the franchisor an additional source of revenue by levying an administrative charge to the property rent.

iv). Poor social relations.

Sociologists such as Ouchi (1980) and Granovetter (1985) criticised the TCE conceptualisation of the relationship between franchisors and franchisees as being "under-socialised."

These scholars argued for the recognition of the embeddedness of the franchise relationship in social norms and values which gave rise to the notion of relational contracting that is based on the principles of RET that was supported by legal scholars such as Macaulay (1963) and Macneil (1974) who raised the need for interpreting contracts in an implicit manner.

In the main the principles of RET postulated that when interpreting contracts, emphasis should be given no so much to the explicit terms, but to the understanding that the parties sought to achieve.

Chapter 4 discussed Macneil (1980)'s list of norms used for managing opportunism in exchange relationships, namely the norms of solidarity, mutuality, flexibility, and information exchange.

The next section discusses the development of the hypotheses.

5.2.4 Hypotheses in model

Based on the discussion on the quantitative study measures and constructs in the preceding sub-sections, this sub-section presents the hypotheses that examine the linkages between its dependent, intermediate and dependent variables in the franchising model under investigation.

A. Links between opportunistic actions and dependent variables

Based on franchising and signalling theories, the first set of three hypotheses discussed in this sub-section suggest that opportunistic actions among franchisors will harm the important outcome or dependent variables in the franchise system, namely, the growth, competitiveness and survival of franchise systems.

i). Opportunism and growth.

Franchising theory discussed in the Chapter 3 and 4 suggest that opportunistic actions among franchisors may have negative associations with growth (Oxenfeldt and Kelly, 1969; Castogiovanni et el., 1993 and Shane, 1996).

Sub-section 5.1.2 above discussed the forms and nature of opportunistic actions that franchisors may embark upon which include the imposition of restrictions on the sale of franchise businesses, the termination of franchise contracts at will and the buying back of franchised outlets on their own terms (Muris, 1980; Hadfield, 1990).

On the other hand, opportunism theory as fully discussed in 0 also suggests that franchise systems that are characterised by higher levels of opportunistic actions or behaviours will experience a decline in franchising (Muris, 1980, Hadfield, 1990).

Opportunism theory suggests that opportunism by franchisors may harm the growth of franchise systems through damaging its reputation which may make it difficult for them to attract new franchisees as existing franchisees are unlikely to encourage potential franchisees to buy into the business (Hadfield, 1990; Dnes, 1993).

In addition, existing franchisees are unlikely to seek or accept opportunities to acquire additional units or renew their franchise contracts within franchise systems

(Kauffman and Dant, 1996). Similarly, independent retailers will avoid converting their business into franchises (Hoffman and Prebble, 1993). Therefore:

Hypothesis 1: Opportunistic actions are negatively associated with the growth of franchise systems.

There is one conceptual issue with the opportunism-growth association. It may be possible that non recursively exists, i.e. that instead of opportunism affecting growth that growth – or the lack thereof, i.e. decline – may affect the franchisor's tendency towards opportunism. This possibility is discussed in the methodology and results sections.

The next section discusses the possibly impact of opportunistic actions on the competitiveness of franchise systems.

ii). Opportunism and competitiveness.

Section 5.1.1 discussed the possible negative associations between opportunism and the competitiveness of franchise systems through imposing resale restrictions of franchisees, terminate franchise contracts for minor infringements and without due process and buy back profitable outlets from their franchisees are likely to be less competitive in the market place.

As opportunism theory suggests, opportunism begets opportunism (Brown (2000) which entails that opportunistic franchisors may inculcate a culture of opportunistic behaviour within their franchise systems with the result that franchisees may act opportunistically themselves in retaliation to opportunistic behaviour which franchisor may mete out to them.

Within Porter (1985) competitiveness strategy framework which is based on cost leadership, differentiation and focus, opportunism may lead to increases in operating and marketing costs because of the need for franchisors to invest considerable sums of money and time monitoring the activities of their franchisees and marketing their businesses to doubtful aspirant franchisees.

Such franchise systems may also lose focus on their core business by devoting inordinate time and resources on monitoring their franchisees instead of concentrating on brand development and promotion, pricing strategies and human resource development.

In addition, franchisees within opportunistic franchise systems may be unwilling to contribute ideas and suggestions which franchisors need to innovate and improve their businesses (Minkler, 1990). Therefore:

Hypothesis 2: Opportunistic actions are negatively associated with competitiveness of franchise systems.

The next section discusses the relationship between opportunism and the survival of franchise systems.

iii). Opportunism and the survival of franchise systems.

Using signalling theory, a number of scholars (e.g. Castrogiovanni et. al 1993; Hoy, 1994, Michael and Combs, 2008) have devoted their attention to the survival of franchise systems which suggest that for their survival, franchise systems need to avoid engaging in opportunistic actions such as the unnecessary termination of franchise contracts as these could signal lack of secure tenure which may lead to the departure of existing franchisees and failure to attract new ones, store closures, disruptions and buy backs and expensive and unnecessary litigation.

According to Muris (1980), such events may attract negative publicity and reputational damage for the franchise system which may discourage aspirant franchisees, investors and lenders from entering or remaining within the franchise system.

Other unintended effects of opportunistic franchisors could be expensive and time-consuming litigation and political and legislative interventions which may discourage potential local and foreign franchisors from entering the sector. Therefore:

Hypothesis 3: Opportunistic actions are negatively associated with the survival of franchise systems.

The next section discusses hypothetical links to be modelled between opportunistic orientations and opportunistic actions.

B. Links between the intermediary variables (Hypothesis 4)

The second set of hypothesised linkages suggest that opportunistic orientations will be positively associated with opportunistic actions among franchisors.

i). Opportunistic orientations and opportunistic actions.

As discussed in sub-section 5.1.2 above, this linkage proposes that opportunistic orientations may lead to opportunistic actions which may be premised on various behavioural theories such as the theory of planned behaviour (Ajzen, 1985), which proposes that behavioural intentions usually precede actions.

Opportunistic orientations as defined here suggests positioning by franchisors in a manner that enables or allows them to act opportunistically in the future presumably by designing franchise systems with that goal in mind.

Hence, the concept of opportunistic orientations which posits some franchisors are likely to behave in an opportunistic fashion at some point in time through having signed the head lease for a franchised outlet which can make it possible for the franchisors to buy back the outlet if it proves to be lucrative in future (as Woolworths group did in this country and Nigeria recently).

Should the franchisor decide to buy back the franchised outlet, it could terminate or refuse to renew the outlet's franchise contract or refuse to process the sale or transfer of the franchised outlet in question.

As stated above, most franchise contracts grant franchisors the right to purchase the outlets or equipment from departing franchisees at prices unilaterally determined by the franchisor's auditor for own use at company stores or resale to new franchisees at inflated prices (Udell, 1972). Therefore:

Hypothesis 4: Opportunistic orientations are positively related to opportunistic actions among franchisors.

The last part of this section focuses on the hypothesised linkages between independent variables and opportunistic orientations.

C. **Links between the independent variables and opportunistic orientations**

What may cause opportunistic orientations among franchisors? As discussed in sub-section 5.2.3 above, this thesis proposes structural, contextual and strategic aspects of franchising systems that may act as antecedents of opportunism which form the basis of the last set of three hypotheses positing the linkages between the independent variables and opportunistic orientations among franchisors.

i). Structural factors and opportunistic orientations.

As stated in sub-section 5.1.3 above, in line with TCE theory (Williamson, 1979), structural factors including aspects such as the transactions specific assets, that is, the equipment, future profits of the franchised outlet and market discovery into which franchisees invest their money and time when they buy franchises will give rise to opportunistic orientations among franchisors in the sense that franchisors know that they can acquire these resources from franchisees at a fraction of the original cost at some future date.

This principle encapsulates the metaphorical "cocked gun" which represents the danger that awaits franchisees at some point in time where for example the franchise contracts which franchisors draft and design to serve as the basis of the franchise relationship with their franchisees, allows franchisors to impoverish or dispossess the franchisee off their assets through expropriation for the benefit of the franchisor at some time in future. Therefore:

Hypothesis 5: Structural factors will be positively related to opportunistic orientations among franchisors.

The next sub-section consider the relationship between opportunistic orientations and contextual factors.

ii). Contextual factors and opportunistic orientations.

Sub-section 5.1.3 described the contextual or market factors which have a bearing on the conduct of the franchise relationship which include the lack of legislation and lack of regulation (Brickley et., al, 1991; Beales and Muris, 1995; Shane and Foo, 1999), and competitive pressures (Williamson, 1979) which afflicts the franchising industry.

According to these TCE scholars, the lack of franchise-specific legislation and regulations make it difficult for franchisors, franchisees and other role players to resolve disputes between them.

Franchising theory suggests that the complex ownership and control structure of the franchised outlets in terms of which the franchisor owns the trade-marks, brand-names and business method used in the outlet which the franchisee owns (Dnes, 1993; Dant and Gundlach, 1999).

Accordingly, the franchisor may seek to protect its commercial interests by imposing a plethora of operational standards and procedures which may be at odds with the commercial interests of the franchisee.

Therefore, the absence of legislation and regulations may give rise to opportunistic orientations among franchisors by granting them financial and commercial advantages over their franchisees through writing one-sided franchise contracts (Hunt, 1972, Muris, 1980 and Hadfield, 1990).

According to these scholars, such contracts granted franchisors the power to offer restricted trading territories, no arbitration to franchisees and forced them to purchases of supplies from authorised suppliers and allowed franchisors to buy back or terminate non-performing franchised outlets at drastically reduced prices and to add new outlets close to the territories of existing franchisees increase the profit of franchisors at the expense of their franchisees. Therefore:

Hypothesis 6: Contextual factors will be positively related to opportunistic orientations.

The last sub-section deals with the hypothesised relationship between strategic factors and opportunistic orientations.

iii). Strategic factors and opportunistic orientations.

As discussed in sub-section 5.1.3 above, TCE theory alludes to strategic factors or initiatives such as franchisors helping aspirant franchisees to establish franchised outlets by providing them with financial assistance and entering into joint venture ownership structures with them and signing the lease with the landlord to secure well-located premises (Dnes, 1993).

However, over time this practice may prove disadvantageous to the franchisee as the franchisor also becomes the franchisee's lender and landlord which limits the franchisee's options in times of distress.

This may result in the franchisor opportunistically terminating the franchise contract so that it can take over the business from the franchisee at a reduced price in a forced sale and operate it or re-sell it at a higher price to another franchisee in the event of the franchisee failing to make rental or loan repayments to the franchisor on time.

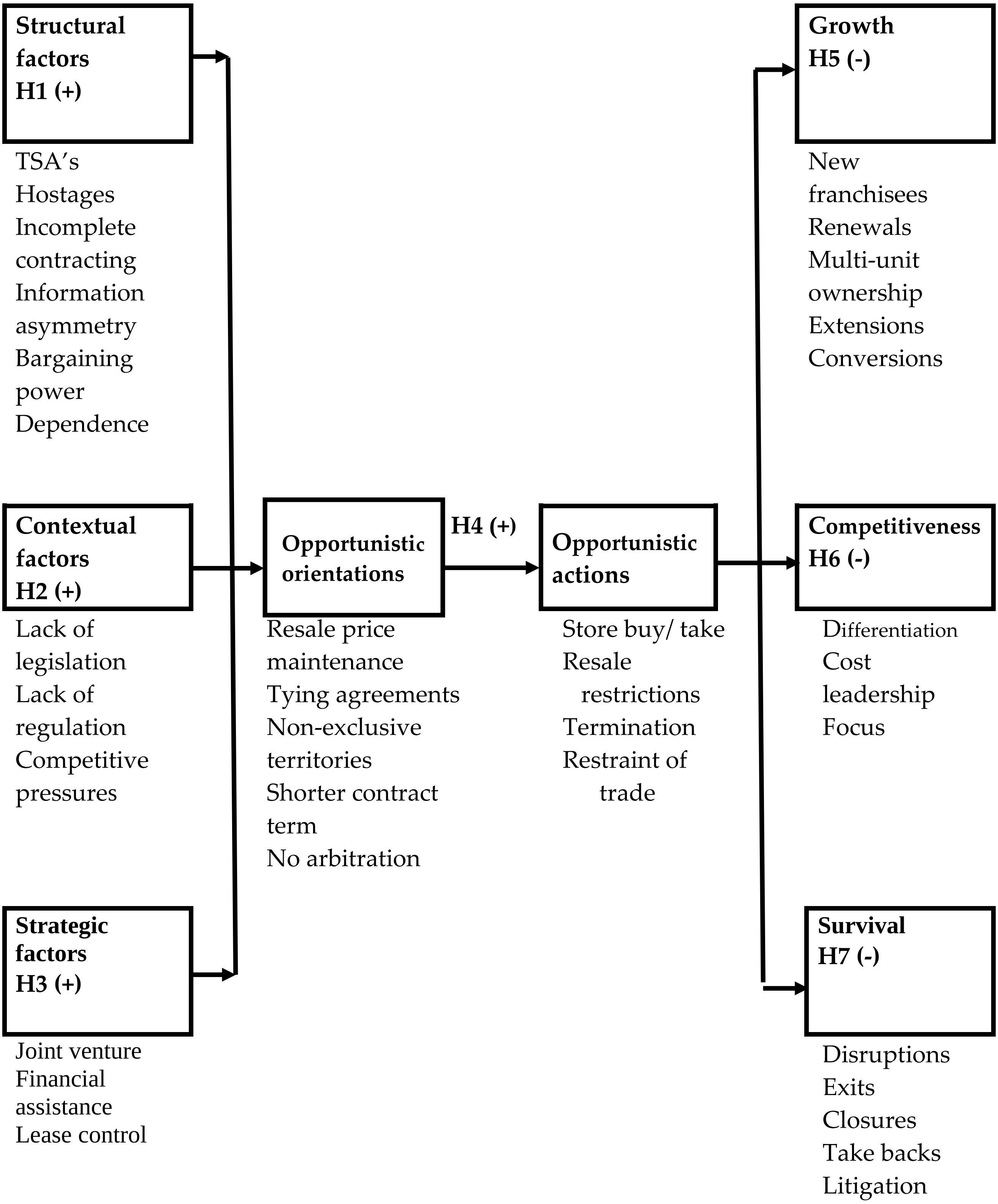
This is unlikely to happen where the franchisor is neither the lender nor the landlord as the franchisee may re-arrange his financial affairs with the third party lender or landlord without the opportunistic interference of the franchisor.

Therefore:

Hypothesis 7: Strategic factors will be positively related to opportunistic orientations.

Given the foregoing discussion in this section, the various aspects of the franchisor model indicating the proposed theoretical linkages between the various latent constructs of the quantitative study that form its conceptual model may be diagrammatically presented as shown on Figure 1.

Figure 1: Conceptual model for the quantitative study



Source: Developed for this study
Legends = H1+ to H7- and P1+ to P7- represents the study's hypotheses

Based on Figure 1, the next section discusses the extension of the study's model among franchisees using the same key theoretical constructs marked as H1 to H7 but different sub-dimensions which the literature suggests pertain specifically to franchisees.

5.3 Model development for studying franchisees

This section focuses on the extension of the study model depicted on Figure 1 above to the study of the effects of opportunism on franchise systems from the perspective of franchisees.

Essentially, since franchising is a dyadic relationship, the examination of the study model among franchisors in the preceding section should have a reflective analogue in the actions and reactions of franchisees.

As such the franchising model under investigation outlined in the preceding sub-section can be seen as representing two sides of the same coin in that it addresses the research problem discussed in section 1.2 above among franchisors and franchisees with the necessary adjustment to the construct sub-dimensions which highlight the different nuances of the issues that apply to each study group.

Accordingly, this extension of the model to franchisees suggests that structural, contextual and strategic factors for a particular franchise system may give rise to opportunistic orientations and actions by the franchisees under its wings which, in turn, may affect the growth, competitiveness and survival of the franchised business which may ultimately have a direct bearing on the growth, competitiveness and survival entire franchise system.

Therefore, this and the next sections highlight the franchisee-specific constructs and sub-dimensions and how the links between them would fit into the model developed in the previous section and inform the propositions addressing the study's research questions discussed in sub-section 1.2.1 above.

5.3.1 Possible effects of opportunistic actions among franchisees on franchise systems

As in the case of franchisors, opportunistic actions among franchisees such as non-compliance with the operating standards, procedures and policies of franchise systems discussed in the foregoing sub-section may pose a threat to the growth, competitiveness, and survival of franchise systems in the market place.

A. Growth of the franchise system

Franchise systems need to grow in order to generate the economies of scale that arise from bulk and centralised purchasing of resources such as equipment, ingredients and services (Castrogiovanni et al., 1993; Kauffmann and Dant, 1996; Shane, 1996).

Usually, the growth of the franchise system is usually measured by a net increase in the number of franchised outlets or new franchisees over a period of time (Dandridge and Falbe, 1995).

i). New franchisees entering into the system.

The resource scarcity explanation of franchising posits that franchisors use franchised outlets primarily as a means to achieving rapid expansion of their brand through the managerial skills, financial resources and the local market knowledge that franchisees bring to the franchising table (Castrogiovanni et. al, 2006).

According to these scholars, expansion by way of new franchisees is proxy for growth is important to franchise systems largely for efficiency reasons that arise from the centralised and bulk purchasing power of the franchise system that facilitates cheaper sourcing of ingredients, advertising, equipment, and so on.

However, an increase in opportunistic actions among franchisees within a franchise chain may hamper the growth of the franchise systems by encouraging vertical integration, that is, company ownership of outlets by franchisors (Klein et al 1978).

In other words, opportunistic franchisees are likely to discourage franchisors from seeking new franchisees so as to save on the monitoring and litigation expenses that are required to detect and punish offensive behaviour.

ii). Renewal of franchise contracts by existing franchisees.

The renewal of franchise contract by existing franchisees signals the robustness of the franchise system as non-renewals will reduce the number of franchised outlets because of the preponderance of opportunistic actions among franchisors.

In other words, franchisors should encourage franchisees to renew their expiring franchise contracts by offering favourable contract terms such as longer terms and dispute resolution mechanisms so as to maintain the base of existing franchisees on which to grow its franchise system.

iii). Multi-unit ownership.

Grünhagen and Marko (2005) found that multi-unit ownership provided franchisees with opportunities to further their entrepreneurial goals; that is, growth or expansion of their businesses.

Indeed, from a franchisee perspective, it seem that the opportunity to own several units within the franchise system presents a growth prospects akin to the growth desired by the franchisor or any growth-oriented business.

Similarly, Kaufmann and Dant (1996) suggest that franchise systems that encouraged multi-unit ownership attained faster growth than those that did not, and that there was a negative relationship between the establishments of new franchised outlets by franchisors and multi-unit ownership of outlets by franchisees.

However, the decision to seek or grant additional units within a franchise system is a function of the satisfaction between the franchisee and franchisor with their relationship with the result that an increase in opportunistic behaviour with discourage either party from seeking or granting additional units resulting in the stunted growth of the franchise system.

iv). Conversion of independent stores into franchised outlets.

Hoffmann and Preble (2003) found that independent retailers tended to convert their stand-alone, street corner businesses into franchised outlets to gain competitive advantage through operating franchised outlets because of the benefits that may accrue to franchisees from the use of the franchisor's well-known trade-marks, brand-names, business method and through centralised purchasing of supplies, advertising, training and so on that provide various forms of economies of scale to the franchisees.

In addition, these scholars found that franchisors target their brand advertising to independent retailers for reasons such as tapping into their entrepreneurial zeal and demonstrated experience that lowers the franchisor's adverse selection problem.

Shane (1996) defines the adverse selection as the problem created by potential franchisees that misrepresent their abilities, skills, and experience to franchisors with the unfavourable result that such franchisees lack the qualities or abilities to operate franchised outlets.

On the other hand, it is inconceivable that franchisors with a bad reputation involving opportunistic behaviour will succeed in attract independent retailers into their chains and similarly, converted independent retailer who engage in opportunistic behaviour may discourage franchisors from targeting that sector of the market as potential franchisees in future.

B. Competitiveness of the franchise system

Porter (1985) reckons that firms leveraging on their competitive advantage can out-perform their rivals by leveraging on three competitive strategies: cost leadership, product differentiation and focus.

i). Cost leadership via lower operating costs.

In pursuing a strategy of cost leadership strategy, franchisees can become low-cost producers or suppliers of services by acting opportunistically and under-spend or direct financial resources away from essential services such as training, advertising and promotions.

Such franchised outlets will not be able to compete with their rivals in the market place as it they will deliberately allocate less money for marketing or promotional, training and administrative purposes.

ii). Differentiation through innovation and renewal.

On Porter's second competitive strategy; that is, product differentiation, for the franchised outlet to develop and sustain its unique features that should distinguish it from its competitors, the franchisee needs to devote considerable time and money designing attractive local advertising campaigns and offering better service levels clean and hygienic facilities to their customer than their competitors.

In addition, franchisees can play a major role in generating a pool of ideas that would enable franchisors to introduce innovative and creative products (Minkler, 1990, Bradach, 1997).

However, franchisees who act or behave opportunistically towards their franchisors may not be keen to foster good communication ties with their franchisors (Bradach, 1997; Chiou et al., 2004).

Such franchisees may deprive their franchise systems invaluable insight on local market conditions by withholding information which may frustrate the efforts to franchisors to strive for innovativeness and creativity and hamper its competitiveness in the market place.

iii). Focus on core business.

Similarly, Porter's (1985) last competitive strategy; that is, focus, requires franchisees to devote their attention to the maintenance of quality standards and the generation of creative ideas to boost cost leadership and product differentiation of the franchise system.

However, franchisees who act or behave opportunistically towards their fellow-franchisees by failing to meet quality standards, under-investing in local advertising fees or staff recruitment and training may damage the reputation of the franchise system in their territories.

C. Survival of franchise systems

As this sub-section shows, survival is an important construct in the study of franchised and non-franchised businesses in marketing and strategy research. Some scholars usually juxtapose survival studies against studies aiming at determining the failure rate among the franchised businesses. Thus, by definition, businesses that have survived have a low failure rate. The importance of the survival of a franchise system stems from the need for continuity required to ensure the realisation of the return on investment made into to the franchised business by both franchisors and franchisees.

i). New franchisees entering and remaining within the franchise system.

A number of studies that have examined issues relating to the survival of franchised businesses include those that found a higher survival rate franchised businesses compared to independent retailers (Bates, (1995), identified factors for new franchise success which include longer contract terms and membership of franchise associations (Shane and Spell, 1998) and studied the survival of new franchisors (Shane and Foo, 1999).

From these and other survival studies, their findings indicate the importance of attracting and retaining good quality franchisees who do not engage in opportunistic behaviour as a strategy for ensuring the survival of the franchise system.

ii). Closing down of stores.

Stanworth (1983) and Hoy (1994) state that the failure rate among franchisees is very hard to determine as most failing stores are taken over by franchisors before they collapse so as to protect the reputation of the franchise system.

However, store closures still occur mostly where franchisee misconduct leads to the non-renewal or premature termination of franchise contracts and the subsequent closure of stores which precedes the demise of the franchise systems.

iii). Disruption of business activities.

Frazer and Winzar (2005) found that conflict between franchisors and franchisees led to intermittent disruptions of business activities that resulted from constant disagreements and tensions between the parties over an array of issues.

On the other hand, Dnes (1993) suggests that franchisors face disruption costs when franchisees leave the franchise system such as lost royalties, relocation, training and promotional costs.

To attenuate the effects of disruptions, Dnes states that franchisors take various steps such as requiring franchisees to find replacements within a short time after announcing their decision to exit, reserving the right to withhold transfer of the outlet to a third party and taking a right of first refusal.

For these reasons, Ozanne and Hunt (1971) suggest that these measures make it possible for franchisors to act opportunistically by withholding approval of a potential purchaser in order to force a new franchise contract.

Muris (1980) opines that disruptions are symptomatic of the so-called "last period" scenario which is typically the period preceding the lapse of a franchise contract because of uncooperative franchisees.

An increase in systemic disruptions caused by opportunistic franchisees will damage the survival of the franchise system.

iv). Buying back of profitable stores by franchisors.

Oxenfeldt and Kelly's (1969) predicted that franchisors would buy back profitable outlets from franchisees. However, franchisors seem to take or buy back stores as disciplinary measure taken against difficult or recalcitrant franchisees (Muris, 1980; Hadfield, 1990).

This reduces the number of franchised outlets and therefore threatens the survival of the franchise system which is premised on the existence of a large number of similar independently-owned outlets operating and enjoying the benefits of being part of a franchise chain.

v). Depletion of resources and goodwill through litigation.

Litigation often results from the failure of the franchise system to resolve a dispute internally (Williamson, 1983). This may result from the absence of an arbitration clause in franchise contracts that would force the parties to settle the matter without protracted court action that can be costly because of legal fees and wasted time and effort.

In some cases, it would appear that some franchisors avoid arbitration because it is more reconciliatory than litigation, and aims at the restoration of the franchise relationship (Drahozal and Hylton, 2003). This is because litigation tends to harm franchise relationships, especially where franchisees have disobeyed franchise rules and regulations. This often results in negative publicity, which damages the reputation of franchise systems, and makes them unattractive to potential investors or entrepreneurs.

The next sub-section discusses some of the common opportunistic actions among franchisors.

5.3.2 Some common opportunistic actions among franchisees

Hadfield (1990) lists a number of ways in which franchisees can engage in undesirable behaviour at one time or another with the aim of increasing their wealth at the expense of the franchise system or their fellow-franchisees mainly by withholding or distorting information and effort.

A. Withholding or distorting information

Opportunism theorists (e.g. Muris, 1980; Rubin, 1988; Hadfield, 1990) suggests that franchisees may withhold or distort information relating to sales and expenses of their outlets from their franchisors which may hamper the ability of the franchisors to determine the overall performance of the outlet.

i). Failure to account for sales.

Udel (1972) suggests that most franchise contracts entitle franchisors to earn royalties and advertising fees based on a percentage of sales in respect of the franchisor's brand names and trademarks that entitle franchisees to trade under the franchisor’s licence.

In return, franchisors need compensation for on-going support services such as training, research and development and advertising that they render to franchisees so as to ensure their competitiveness and survival in the market. For these reasons, franchisors often design, install, and monitor computerised cash registers and software used in the franchised outlets to control the sales they generate to determine royalties and advertising fees payable to the franchisor by such outlets.

However, an unscrupulous franchisee can install and operate a parallel cash register system that it may surreptitiously use at night or on weekends when it does not expect inspection visits by the franchisor's representative to conceal some sale transactions it wishes not to disclose or declare franchisor at the end of the reporting period for the purpose of determine the royalties and advertising fees payable to the franchisor.

Some franchisors may not have the financial resources needed to instal proper intelligence systems that may enable them to detect cheating with the result that they may incur immense financial losses due to undeclared sales and revenue.

ii). Failure to pay full or correct royalties.

Moll (1986) suggests that royalties are payable in respect of the use of the franchise license and the on-going support services such as research and development, training, information technology provided by franchisors to the franchisees. Generally, the payment of royalties should be a straight forward matter as the royalties payable are easy to determine and formula for doing so is normally spelt out quite clearly in the franchise contract.

However, this has also become a contentious issue because some franchisees use different ways and means to avoid paying royalties due to their franchisors and others even question the rationale for paying royalties once they think they no longer require franchisor's support services because of their experience and knowledge of operating the franchise business with no help from the franchisor.

Some franchisees refuse to pay royalties for a myriad of reasons most of which are not provided for in the franchise contracts. For example, most franchise contracts exclude setting-off of royalties against any monies that may be owed to the franchisee by the franchisor.

B. Withholding or distorting effort

Hadfiled (1990) also discusses several forms of opportunistic behaviour franchisees may engage in to increase their profitability and wealth such as failing to maintain quality standards, employ and pay trained staff and sourcing supplies from authorised suppliers.

i). Failure to maintain quality standards.

Franchise systems lay down uniform procedures, processes and practices that all franchisees must adhere to in order to leverage on the franchisors tried and tested business method, its well-known trademarks and brand names and so on. These activities relate to the ambiance and decor of the store, menus, and staff uniforms and so on, aimed at ensuring common experiences for customers at different outlets belonging to a particular franchise system.

Uniformity is widely regarded as the hallmark of most franchise systems and is at the root of the economies of scale derived from the marketing and advertising of the franchisor's brand. To this end, franchisees are required to spend money to meet the set quality standards relating to the ingredients, packaging, cleanliness, local advertising and so on.

In this vein, Brickley and Dark (1987) aver that some highway-based franchisees or those that serve transient customers, that is, non-resident customers tend to believe that they can use cheaper or inferior ingredients or other forms of poor service delivery with impunity.

Their suggestion is premised on the belief that travelling customers are not inclined to complain as they do not live in the area from that they received an unpleasant service experience and are unlikely to return there in the near future. Thus, such franchisees believe they are unlikely to suffer the close of customers, as they will continue to free ride on the brand name of the franchise system.

ii). Failure to source supplies from approved suppliers.

Most franchise contracts require franchisees to source supplies of equipment, machinery, and ingredients from certain approved suppliers. There are several reasons for this type of "closed-shop" arrangement. First, reasons for uniformity and the maintenance of standards throughout the franchising system appear to reside in the argument that as franchised outlets must offer the same customer experience irrespective of their location in all the areas, regions and countries in that the franchise system is found, a need exist to standardise operating procedures, menus, appearances and so on (Kauffmann and Eroglu, 198).

The overall objective is to ensure enhanced brand value and equity in the marketplace by offering the same quality of products and services at the same prices and distribution points. Critics of this practice present different arguments. Some researchers are of the view that franchisors favour the closed shop purchases because of kickbacks they receive from the approved suppliers.

Muris (1980) and Hadfield (1990) point out that such an arrangement serves a control function by enabling franchisors to monitor the purchases of franchisee with the view to determining almost by stealth, the sales that take place at the franchised outlets.

To the extent that this may be so, it highlights the degree of mistrust between franchisors and franchisees. However, most franchisors in this country insist on the closed shop purchases despite the recent promulgation of Competition Act that allows franchisees to source supplies in the open market for as long as they can prove that such goods are of the same quality as those supplied by the official suppliers raises suspicion.

The Act aims at increasing the profitability of franchised outlets by allowing them to source supplies in the open market where they can get competitive prices. However, this point is hard to believe given the cost savings that bulk purchases deliver to franchise systems through discounts, search, negotiations, and transport costs and so on.

iii). Failure to appoint, train, and remunerate staff adequately.

The quality and uniformity themes seem to run through the entire being of most franchise systems. Employees of franchised outlets receive training and remuneration that has been determined by the franchisor. This practice aims at protecting the employees of franchised outlets from exploitation by franchisees. In certain cases, some franchisors approve the appointment of store managers.

The objective is of this practice appears to be aimed at further discouraging employees of franchised outlets from franchise-hopping as most franchise systems forbid the employment of staff from sister outlets. This practice may be violating the constitutional rights of workers to freedom of movement and choice.

Franchisees that may be hard-pressed by competitive and other adverse market challenges may be tempted to underpay or employ fewer staff than may be necessary to conduct the franchised outlet optimally as may be determined by the franchisor from time to time or in line with the growth needs of the business.

Similarly, some franchisees may try to save new staff training costs that in most cases may include travel, accommodation, and uniform costs especially for franchisees located far away from the head office-based training centres. Therefore

iv). Failure to carry out local advertising.

Most franchise contracts require franchisees to spend a certain percentage of their sales, usually 1%, on local advertising per month. This is in addition to the monthly advertising fee usually calculated at 5% of gross sales that most franchisees are required to pay to the franchisor towards the national or regional advertising budget of then franchise system.

The local advertising requirement hopes to supplement the national or regional campaign and may take such forms as sponsoring a local school, sport club or sport person. The rationale behind local advertising is to foster and develop closer ties between the outlet and its immediate or surrounding communities.

In addition, local advertising also serve other purposes such as performing a public relations role that enables the outlet to be seen as a socially caring and responsible community participant. As this spend is at the discretion of the franchisees, in bad economic times such as the present the possibility of franchisees not complying with this request or properly account for it cannot be excluded.

Ordinarily, it can be easy for the franchisor to verify local advertising expenditure but in certain cases this may not be possible especially where franchisees can claim that they have made cash or kind donations to needy individuals, families or communities or unregistered charities.

Some franchisees may intend mirroring the practice of most franchisors in handling the advertising levies received from franchisors in respect of which most of them are not accountable to anyone. Thus, the cash flow difficulties that confront most franchisees can also lead franchisors into diverting advertising fees towards meeting their administrative expenses with impunity.

Most franchisees complain about the misuse of advertising funds by their franchisors. Michael (2000) deals with this issue in an article aptly entitled: *"Do franchises advertise enough?"*

The next section discusses the predictors of opportunistic orientations among franchisees.

5.3.3 Predictors of opportunistic orientations among franchisees

The literature and informal discussions with franchising experts suggest that the motivating factors for OO among franchisees may also be categorised into structural, contextual, and strategic factors in respect of which three statements were used to measure the perceptions of the franchisees on the sub-dimensions of each construct of the model.

A. Structural factors as antecedents of OO among franchisees

The structural factors involved include head office staff per franchisee ratio (Shane and Spell, 1988; Carney and Gedajlovic, 1991; Lafontaine, 1992), incomplete franchise contracts (Williamson, 1979; Mathewson and Winter, 1985; Hadfield, 1990; Klein, 1995; Dnes, 2002), and multi-unit ownership of outlets by franchisees (Kauffman and Dant, 1996; Dant and Gundlach, 1999; Shane 2001).

Three statements were used to represent each one of these sub-dimensions of the structural factors construct and its association with the sub-dimensions opportunistic orientations among franchisees (discussed in section 5.2.2 below).

i). Head office staff per franchisee ratio and OO.

According to Shane and Spell (1988), the ratio between the number staff at the head office of the franchisor and the number of franchised outlets determines the ability of the franchisor to monitor the activities of its franchisees to ensure compliance with its operating standards.

Shane and Spell suggest that the higher the number of head office staff, the more the franchisor is able to deploy sufficient numbers of field staff in different areas for monitoring the activities of the franchisees to ensure that compliance with franchise rules, procedures and quality standards which have a bearing on the brand capital or values of the franchise system.

However, when there are fewer head office staff to conduct regular or frequent store visits during which thorough inspections can be conducted, franchisees located in faraway places will experience fewer and less frequent or regular of these visits with the result that deviations from set standards and procedures are likely to become the norm rather the exception.

The actions tend to have a negative effect of the brand value of the franchise systems because of the failure of franchisees to procure the right quality of ingredients and other supplies, to provide staff training and to maintain building and equipment in a good condition in order to save costs and increase the profitability of their outlets at the expense of the franchisors and fellow-franchisees who must bear the full cost of maintaining the image and reputation of the franchise systems (Brickley and Dark, 1987).

ii). Incomplete contracts and OO.

Leblebici and Shalley (1996) suggest that the major task facing franchisors and franchisees is the regulation of those aspects of their relationship that are not stated or spelt out in the franchise contract which by definition, are incomplete contracts.

As indicated in the section 4.3, many such undefined or unspecified issues in the franchise contract make the franchise relationship even more complicated. The incompleteness of franchise contracts presents difficulties relating particularly to the enforcement of ambiguous clauses and resolving disputes that arise from such clauses (Muris, 1980; Williamson, 1985; Hadfield, 1990).

For instance, most franchise contracts require their franchisees to maintain the premises of the franchised outlets in hygienic conditions but no details exists regarding the meaning or required level of hygienic conditions that must be maintained.

However, given the level of ambiguity and complexity involved in franchise relationships, resolving most such matters by the courts could be costly and dilatory with the possibility of the stalemate outliving the remaining franchise contract period.

As opportunism theory posits, the gaps in the franchise contracts may tempt franchisees to take advantage of some loopholes and under-invest or under-capitalise some aspects of the business band utilise cheaper ingredients, hold back on promoting certain products or bringing in-house cleaning or other services with the aim of saving on costs to increase their profitability.

iii). Multiple-unit ownership of outlets and OO

A common trend that has developed in franchising is the granting of serial ownership of units by franchisors to individuals to create area or territorial franchisees (Kauffman and Dant, 1996; Dant and Gundlach, 1999; Shane 2001). Though research done in this area is inconclusive, it provides several explanations for this trend from the perspectives of both franchisors and franchisees.

In the main, it appears that franchisors grant additional units to franchisees who have proven themselves as single unit franchisees (Kauffman and Dant, 1996). This strategy seems to reward franchisees who have successfully demonstrated their capabilities to operate single outlets in their areas.

In addition, there is support for the hypothesis that franchisors employ multiple unit ownership as a cost effective and cheaper source of franchisee recruitment and selection. However, this approach may not be immune to criticism that it lacks transparency and objectivity particularly among franchisees who may feel overlooked for such a role. The cause of disenchantment or disapproval of this practice seems to stem from the non-disclosure of the criteria used to appoint multi-unit franchisees.

Such a practice may draw accusations of favouritism and cronyism that franchisors use the multiple unit ownership system which provide the benefit of the growth of the franchisee's business through acquiring the additional outlets as a weapon to punish "troublesome" and to reward "blue-eyed" franchisees.

Thus, the clamour for additional outlets cannot be regarded as ill-founded or insignificant because of the accompanying financial benefits and that most franchise contracts prohibit their franchisees from owning other businesses or competing brands even for up to three years after the expiry of the franchise contracts in terms of restraints of trade (Udel, 1972).

As a backlash, franchisees who are not so rewarded with additional outlets may feel unwanted and decide to apply underhand tactics with the aim of retaliating against the franchisor for denying them what most would consider being internal growth opportunities.

This may result in such disgruntled franchisees seeking alternative methods of supplementing the revenues and profitability of their businesses by engaging in corner cutting tactics and other opportunistic actions described in section 5.2.2 below.

B. Contextual factors as antecedents of OO among franchisees

The study identified the membership of franchisee associations (Dandridge and Falbe, 1995); Lawrence and Kaufmann, 2010 and 2011), lack of regulation and legislation (Brickley et al, 1991; Beale and Muris, 1995; Shane and Foo, 1999), and the last years of the franchise contract (Muris, 1980; Klein, 1995, Blut et. al, 2010) as the contextual factors predisposing franchisees to opportunistic behaviour.

i). Membership of Franchisee Associations.

Though not much research exists on the purpose or operation of franchisee associations (Lawrence and Kaufmann, 2011), Dandridge and Falbe (1995) suggest that franchisees belonging to a particular franchise system or sector usually formed franchisee associations to represents their interests in their interactions with their franchisors.

However, it is not clear how franchisee associations are intended to perform this task in general and particularly where there are allegations that some franchisors disallow their franchisees to belong to a franchisee association or accord no recognition to such bodies.

It would appear that franchisee associations serve the same purpose and role as trade unions in representing and articulating the concerns and grievances of franchisees to their franchisors.

There is, however, neither a record of collective bargaining between franchisors and franchisees nor that of the recognition of these bodies by franchisors in the literature or the media (Emerson, 1988).

On the other hand, Lawrence and Kaufmann (2011) distinguish between franchisee associations and advisory councils by pointing out that while franchisors play no role in establishing franchisee associations, they often appoint and sponsor advisory councils in which they serve with their hand-picked franchisees.

Possibly for this reason, Lawrence and Kaufmann suggest that most franchisors formally or informally discourage the formation or affiliation of their franchisees to franchisee associations which have democratically elected office bearers, mandate and constitution.

On the other hand, prohibiting franchisees to form and belong to a franchisee association by franchisors could be unlawful as it may infringe on the constitutional right of franchises to freedom of association or assembly under section 18 of the country's constitution.

As a possible result of this negative disposition that franchisors appear to have towards franchisee associations, most of the bodies appear to exist in name only or functioning as secret or underground organisations with no formal structure or purpose.

Despite this confused state of affairs, Lawrence and Kaufmann suggest that franchisee associations can help reduce the tension that exists between cooperation and conflict in franchise relationships; and that the failure of franchise systems to recognise franchisee associations has the potential to create a number of counter-productive outcomes.

For example, the lack of a communication mechanism within the franchise system could result in rumour-mongering and dysfunctional relationships between the parties. Dandridge and Falbe (1995) support this point of view by suggesting that the existence of formalised communication structure within franchise system helped improved relationships. These scholars found that such mechanisms could serve as think tanks for generating innovative ideas and sharing information.

This input can be useful in designing, informing and implementing the business strategy of the franchise system in areas such as completion, product development, pricing and so on. Therefore, franchise associations can be useful to strengthen the relationships between franchisors and franchisees (Lawrence and Benjamin, 2010; 2011).

This could also help fill the gaps that franchise contracts are not able to because of the need to adapt to market changes at short notice, particularly in respect of issues that arise during the currency of existing franchise contracts (Williamson, 1975, 1979 and 1985; Klein, 1993; Dnes, 2003).

According to these scholars, it is usually cumbersome, expensive and most probably undesirable to change contracts mid-term because of negotiating and bargaining costs and the time it may take before consensus is reached could result in financial difficulties vowing to lost opportunities.

However, Dandridge and Falbe (1995) suggest that for one reason or another, some franchisee associations may play an antagonistic and destructive role within the franchise system by encouraging their members to engage in opportunistic behaviour such as withholding royalty fees, legally withdrawing from the system and sourcing supplies from non-approved suppliers and so on. These scholars suggest that such behaviour may have a negative effect on the growth of franchise systems.

Scholars such as Shane and Spleen (1988); Dandridge and Falbe (1995); Leblebici and Shalley (1996); Combs et al., (2005) recommend the use franchisee associations as a communication channel between the franchisors and their franchisees which can be used to discuss matters of mutual interest between the parties such new product and advertising ideas or concepts.

Baucus et al., (1996) found that better communication between franchisors and franchisees improved cooperation between the parties and reduced motivations for opportunistic behaviour.

Similarly, Chiou et al., (2004) found that job satisfaction and the intention to remain within the franchise system to be high among franchisees within franchise systems with established channels of communication such as franchise associations.

Cochet and Ehrmann (2007) and Lawrance and Kauffmann (2010) found that franchisees are likely to establish franchise associations to protect their mutual interest when franchisors make more decisions about the franchise system.

On the other hand, Kidwell et al. (2007) found that increased centralisation of decision-making among franchisors encouraged free riding among franchisees which may involve the misuse of franchisee associations.

Thus, the desire among franchisees to achieve lower transactions costs (Cochet and Ehrmann, 2007) indicates the benefits of better communication and decentralisation of decision-making through the use of the franchisee associations that can play a significant role in reducing opportunistic behaviour.

ii). Lack of franchise regulation and legislation.

As in most countries such as the US, Europe and Australasia, the franchising industry is self-regulated in this country. As stated in Chapter 2, FASA, which purports to represent the interests of franchisors and franchisees in this country, is a voluntary non-statutory organisation (Woker, 2012) that is not endowed with the legal power to build administrative and intellectual capacity to hear, preside and adjudicate fairly, informatively and judiciously over franchising disputes.

Therefore, unlike the law, medical and nursing councils, FASA is unable to make legally binding and enforceable decisions to enforce discipline or good ethical or governance conduct on franchising players in this country.

Worse still, unlike in some states in the US, there are no franchising-specific laws in this country that are needed to regulate or govern the franchise relationship that has been described by various scholars (e.g. Brickley et al, 1991; Beale and Muris, 1995; Shane and Foo, 1999) as complex and intricate.

There is also lack of adequate peer review mechanism and specialist knowledge to address franchising disputes and to close most loopholes found in the incomplete franchise contracts referred to in this section.

As in most countries such as the US, Europe and Australasia, the franchising industry is self-regulated in this country. As indicated above, FASA, which purports to represent the interests of franchisors and franchisees in this country, is a voluntary non-statutory organization that is not endowed with the legal power to build specialist legal and administrative capacity.

As such, FASA is unable to hear, preside, and adjudicate fairly, informatively, and authoritatively over all franchising disputes and to make legally binding and enforceable decisions on all franchising players in this country. Worse still, unlike in some states in the US, there are no franchising-specific laws in this country that are needed to regulate or govern the franchise relationship that has been described by various scholars as complex and intricate.

Scholars such as Emerson (1978), Brickley (1991), and Storholm and Scheuding (1994) suggest the use of franchise-specific legislation and regulation to address franchising disputes and to close most loopholes that franchisors and franchisees exploit to generate undeserved financial gain because of the lack of peer review mechanism and specialist knowledge in the courts.

On the other hand, Dant, Perrigot and Cliquet (2008) found high company-ownership of outlets by Brazilian franchisors to avoid the effects of the dilatory and costly legal system in disciplining errant franchisees.

Similarly, section 5.2.2 below discusses how franchisees bent on lowering their transactions costs by for example withholding information and efforts to increase the profitability of their outlets at the expense of the franchise system exploit these gaps.

iii). Last years of the Franchise Contract.

Blut, Backhaus, Heussler, Woisetschläger, Evanschitzky (2010) use a 4-stage U-curve to describe the life cycle of franchise a relationship: the honeymoon, routine, crossroads and stabilisation phases. During each phase, there are cooperation, dependence, and relationship variables that prevail. Blut et al's model suggest that the cooperation, dependence and relationship variable are high during the honey and stabilisation stages, and reach low levels during the crossroads phase.

According to these scholars, the crossroad stage is characterised by low levels of satisfaction, trust, commitment, loyalty, and outcomes. Clearly, the crossroad stage, which is similar to the last days of the franchise contract stage discussed in this study, is the most difficult period for the franchise relationship for both parties. Firstly, from the perspective of franchisees, franchisors in this phase could create a myriad of problems for by for example cutting back on support services such as training, advertising, product development and so on.

Similarly, franchisors on the last days of a franchise contract with a franchisee they intend not renewing or whose contract is expiring could expect havoc especially from a franchisee with whom they had a stormy relationship.

During this period, as a result of possibly unpleasant experiences and unfulfilled financial and other expectations or dreams, disgruntled franchises could have already made their minds that they are leaving the franchise system by either cancelling the franchise contract or not seeking or accepting a renewal.

It can reasonably be anticipated that during this period, such franchisees may "try to make as much money and cause as much trouble as possible" on their way out of the franchise system. Such a mind-set will clearly be at odds with the behaviour of these franchisees at the time of their joining the franchise system, as any new franchisees at the honeymoon phase seem inclined to comply with franchise rules and regulations.

This can have drastic implications for the franchise relationship as franchisees in the crossroad phase are unlikely to observe and honour the rules of the franchise system, and this requires a change of management strategy by the franchisor.

C. Strategic factors as antecedents of opportunistic orientations among franchisees.

The study identified strategic factors as external and internal factors to the franchise relationship which may predispose franchisees towards opportunistic behaviour. These include brand value (Caves and Murphy, 1976; Mathewson and Winter, 1985; Brickley and Dark, 1987; Rubin, 1988), geographic dispersion (Rubin, 1978; Brickley and Dark, 1987; Norton, 1988), and local market knowledge (Minkler, 1990; Carney and Gedajlovic, 1991, Bradach, 1997).

i). Brand value.

The single most important asset that franchisors possess that they are able to market to investors is the brand that represents the value embedded in their franchise system that attracts capital and other resources into the franchise system (Caves and Murphy, 1976; Mathewson and Winter, 1985; Brickley and Dark, 1987; Rubin, 1988).

According to these scholars, franchisors inevitably expose their brand value or equity represented by its trade-mark, brand-names, insignia, logos, business methods and so on to the vagaries of the market by entering into franchise contracts with some unscrupulous franchisees attracted to the franchise system by its strong brand which they may seek to exploit for their own benefit in their areas through under-spending and under-investment in their outlets.

On the other hand, McNeil (1974) suggests that franchise contracts protect the franchisor's brand equity by providing for the sanctions such as the termination of the franchise relationship. However, scholars such as Muris (1980) and Hadfield (1990) suggest that it is not possible for franchise contracts to provide for all contingencies in a constantly changing business environment because of their incompleteness.

For this reason, it may not be possible for franchisors to provide 100% cover or protection for their brands in the franchise contract because the difficulties franchisors may experience in spelling out in clear and unambiguous terms issues such as adequate stock levels or hygienic conditions to be maintained in franchised outlets with the aim of protecting the franchisor's brand against opportunistic behaviour that can withstand the rigorous scrutiny of the courts.

Therefore, by entering into franchise contracts, franchisors run the risk of exposing their brand to erosion or devaluation by the unscrupulous acts of certain franchisees (described more fully in section 5.2.2 below) through the use of inferior products, untrained staff providing sub-standards service to customers and un-kept premises in the franchised outlets with the nefarious intention to increase their profitability at the expense of the franchise system.

ii). Geographic dispersion.

According to several scholars (Brickley and Dark, 1987; Norton, 1988; Carney and Gedajlovic, 1991; Fladmoe-Lindquist and Jacque, 1995; Kaufmann and Dant; 1998; Shane, 1998), the strength franchise system lies in its ability to grow and expand beyond its home market into new markets regionally, nationally, and even globally.

According these scholars, the aim of achieving outlet growth is to give the brand closer and maximum exposure to bigger and diversified markets which is supplementary to the *raison d'etre* for franchising to achieve rapid growth by expanding into new and unfamiliar territories.

This may present serious challenges to the franchise system because of cultural, legal, and economic-political shocks found in different markets it may enter. For example, there are huge differences in franchising laws in different states in the United States with the result that it may be difficult or a certain franchise systems to straddle jurisdictions.

This may have a negative impact on its business strategy to leverage on the economies of scale that the franchise system is supposed to generate through bulk purchases of goods and services supplies such as ingredients, equipment, legal services, advertising, training and so on.

Similarly, the above scholars suggests that the distance between the franchisor’s head office and franchised outlets that are located in far-away towns and cities, regions or countries exposes franchise systems to franchisee opportunistic behaviour. This is because the monitoring of franchisees forms an important part of ensuring compliance with franchise standard operating procedures and process.

Brickley and Dark (1987) found that franchisees located near the franchisor's head office are more compliant than those located in remote areas, and it is easier and cheaper for the franchisor's representatives to monitor the activities of local franchisees. A perception exists among franchisees that distant franchisees receive infrequent or less visits from by the franchisor’s representatives, and that this creates room for complacency and misdemeanour.

iii). Local market knowledge.

As explained above, researchers have traditionally offered two theories that sought to explain the existence of franchising as a business model: resource scarcity and agency theories. Briefly, the resource scarcity theory posits that new franchisors seeking rapid expansion will franchise their businesses in order to obtain scarce resources; that is, financial informational and human resources (Dant, 1998) from entrepreneurs.

On the other hand, agency theorists postulate that franchisors are not able to rely on salaried-managers to run outlets that belong to the company (Brickley and Dark, 1987). These theorists argue that store managers lack the incentive to apply themselves in the same manner, as a local entrepreneur who has invested his money in the business is able to because of the residual or share of the profits he is able to claim.

For this reason, owners of franchise systems will grant franchises to entrepreneurs whom they believe will have the motivation and local market knowledge (Caves and Murphy, 1976; Norton, 1988; Minkler, 1990; Dnes, 1993) to make a success out of the franchised outlet. This disposition is not without difficulties as one of the problems that researchers have identified is the tension and conflict that is often occurs between franchisors and franchisees due to differences in the strategy to serve the market in the franchisee's territory.

Generally, franchisees are inclined to believe that because they live and work in the area where the outlet is located, they have a better market knowledge hand than the franchisor, and that they should have a say in the overall business strategy such as advertising, pricing, products and so on, of meeting customer needs in their respective areas.

Most franchisors are unlikely to relinquish control of this important aspect because of their ownership and custodianship of the brand and their desire to leverage off the brand's power regionally, nationally or internationally. It is inconceivable that franchisors will allow franchisees to tamper with any aspect of the brand strategy to meet local conditions in a particular outlet.

Usually, franchisors offer their mass-based customers and compete with the same product at the same price, from similar outlets and using the same advertising message (Brickley and Dark, 1987). Thus, any adaptations that a franchisee may be tempted to make to the overall business strategy is likely to harm the brand.

The next sub-section discusses the manifestations of opportunistic actions among franchisees.

5.3.4 Propositions in model

As in the case of the discussion on the study model among franchisors presented in the previous section and based on the foregoing discussion in this section, the literature and informal discussions with franchising experts informed the propositions developed on the linkages between the different components of the study’s model to examine the research questions among franchisees.

5.3.5 Links between opportunistic actions among franchisees and the performance of franchise systems

As in the case of the study among franchisors, the propositions served as the foundation for addressing the research questions in the study that focussed on the relationship between opportunistic actions and the growth, competitiveness and survival of franchise systems.

A. Proposition 1

As discussed in section 5.3.2 above, opportunism (Muris, 1980; Williamson, 1985; Hadfield, 1990) and agency (Caves and Murphy, 1976; Rubin, 1988) theorists suggest that opportunistic actions among franchisees revolving around withholding or distorting of information and efforts such as the failure to account for sales and royalties, maintain quality standards, source supplies from authorised supplies and so on may be negatively related to the growth of franchise systems.

As discussed in section 5.1 above, franchisors experiencing high levels of opportunistic behaviour from their franchisees may be forced to embark upon vertical integration (Mathewson and Winter, 1985) and abandon franchising in favour of operating company-owned stores run by salaried managers with the intention to reduce or minimise the transactions costs involved in monitoring non-performing franchisees.

Such franchisors may cease recruiting new franchisees (Dandridge and Falbe, 1995) or independent retailers into the franchise system (Hoffman and Preble, 2003), not renewing expiring franchise contracts (Dnes, 1992) and not granting additional units to existing franchisees (Kauffmann and Dant, 1996). Therefore:

Proposition 1: Opportunistic actions are negatively associated with the growth of franchise systems.

B. Proposition 2

Against the backdrop of the discussion in sections 5.3.2 above, opportunistic actions such as the withholding or distortion of information and efforts by franchisees such as the failure to account properly for sales and royalties, maintain quality standards and maintain equipment and premises in good conditions raised by opportunism (Muris, 1980; Williamson, 1985; Hadfield, 1990) and agency (Caves and Murphy, 1976; Rubin, 1988) theorists may lead to a weakening of the competitiveness of the franchise systems.

Within the context of Porter (1985)'s competitive strategy framework, opportunistic actions among franchisees could result in the increase in the operational and marketing costs of franchise systems because of the need to invest in monitoring, litigation and publicity costs required to detect, punish and defend actions they may have taken against offending franchisees to protect the image and reputation of the franchise system.

Similarly, franchise systems confronting opportunistic behaviour among franchisees may lose focus on the core functions of their businesses such as developing competitive products, pricing, distribution and marketing strategies because of the need to devote considerable amounts of time and energy on detecting and punishing opportunistic franchisees.

On the other hand, franchisors may disinclined to seek or utilise the ideas and inputs of opportunistic franchisees who because of their local market knowledge are presumed to be well-placed to provide franchisors with invaluable information on the changing needs, tastes and habits needed to generate innovative and creative products needed to differentiate the franchise system from its competitors (Bradach, 1990). Therefore:

Proposition 2 posited that opportunistic actions among franchisees were negatively associated with the competiveness of franchise systems.

C. Proposition 3

By virtue of the discussion in section 5.3.2 above, opportunistic actions among franchisees such as the withholding or distortion of information and effort referred to in the previous two sub-sections could threaten the survival of franchise systems.

Franchise systems experiencing rampant non-compliance with quality standards such as cleanliness, customer care and staff training; non-disclosure of sales and royalties and failure to maintain premises in good and working conditions may be forced to curtail their operations.

This may involve taking measures such as closing down franchised stores (Tuusnanen and Torrikka, 1989; Bates, 1995; Stanworth, 1995), dealing with intermittent disruptions (Muris, 1980; Frazer, 2001), buying back stores (Oxenfeldt and Kelly, 1969; Hunt, 1972; Burr et. al, 1975) and depleting the goodwill and resources of their businesses because of litigation and reputational damage (Emerson, 1989, Gundlach and Murphy, 1993; Leblebici and Shalley, 1996). Therefore:

Proposition 3: Opportunistic actions are negatively linked to the survival of franchise systems.

The next sub-section focuses on the links between OO and OA among franchisees

5.3.6 Links between opportunistic orientations and opportunistic actions

Proposition 4 suggested that factors predisposing franchisees opportunistic orientations, that is, structural, contextual and strategic factors discussed in section 5.3.1 above could lead to a preponderance of opportunistic actions among franchisees discussed in section 5.3.2 above.

A. Proposition 4

Opportunism theorists such as Muris (1980) and Hadfield (1990) suggest that opportunistic franchisees may be inclined to take advantage of the incompleteness of franchise contracts that are unable to spell out offensive behaviour such as cleanliness in specific terms and use sub-standard and cheaper products in their outlets in order to by-pass franchise rules and regulations that require adherence to quality standards in order to protect the brand value of the franchise system. Therefore:

Proposition 4: Opportunistic orientations are positively related to opportunistic actions

The next sub-section deals with the links between the structural, contextual and strategic factors and OA.

5.3.7 Links between the structural, contextual and strategic factors and opportunistic orientations

The study postulated that structural, contextual and strategic factors discussed in section 5.3.1 could lead opportunistic orientations among franchisees.

A. Proposition 5

Proposition 5 suggested that structural factors were positively related to opportunistic orientations among franchisees. Franchise systems with lower headoffice staff to franchisee ratio may experience staff shortages which can result in overworked headoffice field staff only being able to conduct infrequent store visits or spending less time in the stores during their visits.

This may result in franchisees developing opportunistic tendencies of non-compliance with quality standards with impunity. Therefore:

Proposition 5: Structural factors are positively related to opportunistic orientations among franchisees.

B. Proposition 6

Proposition 6 posited that contextual factors were positively related with opportunistic orientations among franchisees. The literature referred to in this section suggests that membership of franchise associations, lack of legislation and lack of regulation may create an atmosphere in which franchisees can become difficult to manage and control with the result that it may be costly to operate the franchise system because of the resources requires to monitor performance and enforcement of rules and regulations. Therefore:

Proposition 6: Contextual factors were positively related to opportunistic orientations among franchisees.

C. Proposition 7

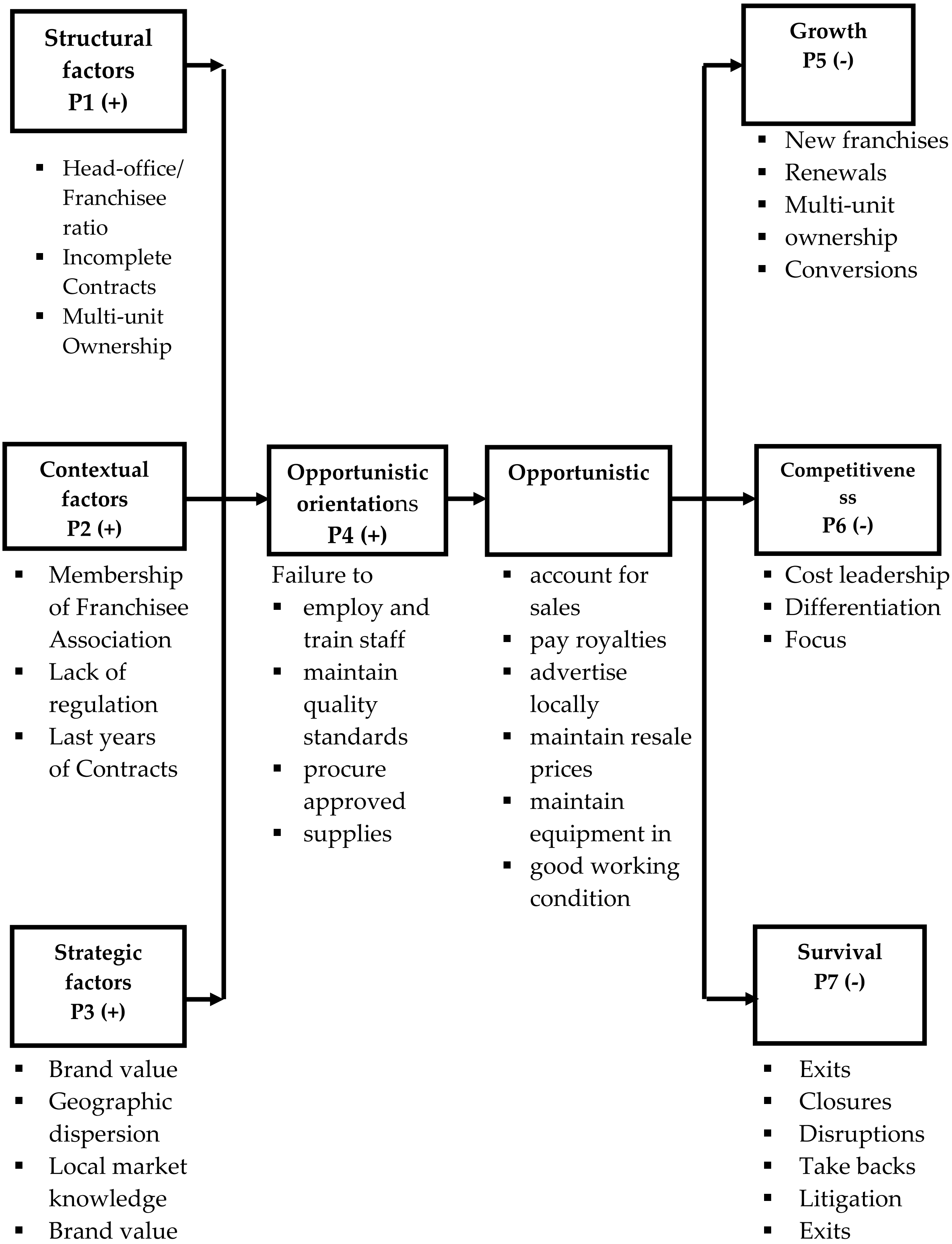
Proposition 7 posited that strategic factors were positively related with opportunistic orientations among franchisees.

On the basis of the literature reviewed in this section, strong brand, outlets located far from the franchisor's headoffice may lead to some franchisees into using inferior and cheaper ingredients and offering sub-standard service levels at their outlets to enrich themselves at the expense of the franchise system. Therefore:

Proposition 7: Strategic factors were positively related with opportunistic orientations among franchisees.

Based on the foregoing discussion, Figure 2 below depicts the conceptual model of the qualitative study among franchisees.

Figure 2: Conceptual model for the qualitative study



Source: Developed for the study

Legends = P1 to P7 means propositions 1 to 7

The next section briefly summarises the discussions in sections 5.2 and 5.3 above and seeks to highlight the integration of the quantitative and qualitative parts the study model depicted on Figures 1 and 2 above.

5.4 Integrated model

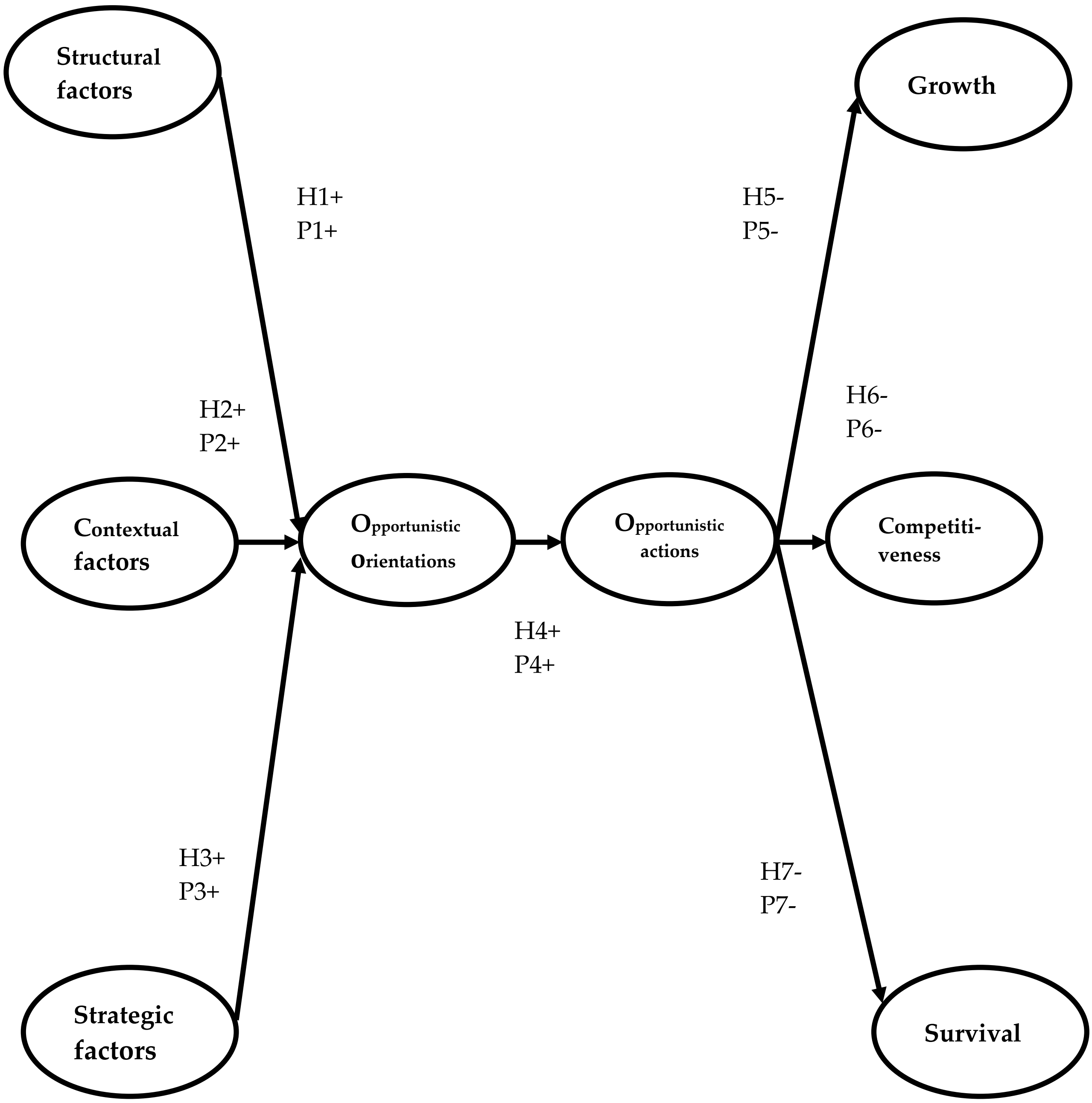
As discussed in sections 5.2 and 5.3 and depicted on Figures 1 and 2 above, the under investigation in this study proposes to examine the inter-linkages between predictor (structural, contextual and strategic factors), intervening (opportunistic orientations and opportunistic actions) and dependent variables (growth, competitiveness and survival) among franchisors and franchisees, respectively.

In addition, this model proposed to examine the research questions among franchisors and franchisees stated in section 1.2 with the help of quantitative and qualitative methods used to gather, test and validate survey and interview data using several hypotheses and propositions, respectively.

Based on the literature and informal discussions with franchising experts, it was important to split the model into two different sets of constructs and their sub-dimensions in order to conduct the study among franchisors and franchisees separately but concurrently in line with the adopted mixed methods research strategy discussed in section 1.2 above.

Overall, the study used the integrated model depicted on Figure 3 below with the hypothesised and proposed directions of the franchisor and franchisee constructs depicted on Figures 1 and 2 above and their different underlying sub-dimensions (omitted for the sake of simplicity) used to examine the research questions in this thesis as its conceptual model.

Figure 3: Integrated model



Source: Developed for the study

Accordingly, the use of the model depicted on Figure 3 above to examine the research questions among franchisors and franchisees in an integrated fashion in this study seeks to illustrate and signify that although a franchise system comprises has two different but inter-dependent components represented by franchisors and franchisees, it functions as a single unit and should be viewed and understood as such.

5.5 Summary

This chapter discussed the development of the model used to examine the study's research questions among franchisors and franchisees with the help of quantitative and qualitative methods.

It focused on identifying and explaining the constructs and sub-dimensions which comprised the different components of the model, that is, predictor, intervening and outcome variables.

The chapter also developed the hypotheses and propositions used to examine the research questions among franchisors and franchisees, respectively.

The next chapter discusses the research methodology used to conduct the quantitative study among franchisors.

Chapter 6 Research methodology - Quantitative study

6.1 Introduction

Chapter 5 presented the theoretical model used to examine the study's research questions among franchisors and franchisees. Chapter 6 discusses the research methodology of the quantitative part of the study conducted among franchisors, whereas Chapter 7 presents and discusses the results of that component of the study.

Chapters 8 and 9 then present and discuss the research methodology and results of the qualitative part of the study conducted among franchisees, respectively. The entire methodology and results of each part of the study are presented separately because, although the two parts are related, they adopted very different approaches for reasons primarily explained in section 1.2.4 above.

In this light, section 6.2 below describes and justifies the methods used in the quantitative part of the study of franchisors. Section 6.3 discusses the population and sampling of the quantitative component. Section 6.4 examines the measures and hypotheses used to address the research questions, based on the more general hypotheses developed in the literature and model development chapters. Section 6.5 deals with the data collection methods used. Section 6.6 presents data analysis methods. Section 6.7 discusses the pre-testing of the questionnaire. Section 6.8 concludes the chapter.

6.2 The quantitative research design

The quantitative research design follows a survey-based data collection approach, with a traditional correlational approach to quantitative data analysis.

Accordingly, this approach follows a positivist-realist research philosophy which primarily assumes that knowledge resides in the objective and real world constituted by the experiences and aspirations of the respondents (Ritchie and Lewis, 2005).

The use of quantitative designs is common in marketing studies (Deshpande, 1983; Peter and Olson, 1983), which incorporate franchising as part of the distribution or 'place' in the 4 pillars of marketing (Kotler and Keller, 2008).

This predominance of quantitative methods in marketing studies such as this one is demonstrated in highly rated journals such as those published by the American Marketing Association, a professional body of established marketing practitioners, academics, and scholars.

In explaining the dominance of the quantitative design in marketing studies, Peter (1982) opines that marketing borrows theory construction and research methods from older disciplines such as psychology and economics that mostly employ quantitative research methods.

The following methodology sections expand on the hypothesis development which follows the broader principles of the literature review, survey design and measures, the population and sample, the data analytic techniques, and methodological limitations. Thereafter, section 6.7 presents the results of the study.

6.3 Population and sampling: issues and strategies

The following sections discuss the population and sampling issues and strategies for the quantitative part of the study.

6.3.1 Population

Due to lack of official information and records mainly because of the self-regulation of the franchising industry or sector in South Africa, the study population consisted of all foreign and domestic franchisors estimated on unofficial but important sources such as www.fasa.co.za, www.whichfranchise.co.za and www.safw.co.za to number between 550 and 750 that operate in some or all of South Africa's nine provinces in various categories such as the food, restaurant and groceries, automative, personal, business and home care services.

6.3.2 Sampling frame

The sampling frame used in this study is a reduced subset of the South African franchisor population, since it is not possible to authoritatively define and list the entire set.

As indicated in Chapter 3, the franchising industry in South Africa is self-regulating under the aegis of FASA, with the result that no official or definitive database exists that provides detailed information and records on important matters such as the profile and the activities of current and past franchisors and franchisees.

Although confidential databases are held by the South African Revenue Services (SARS), the Company and Intellectual Property Commission (CIPC) and Stats South Africa, these are not open to common access (Dnes, 1993).

As a result, this study attempted to consolidate and use data lists obtained from the websites of franchising service providers or consultancies such as the www.fasa.co.za, www.whichfranchise.co.za and www.safw.co.za as its sampling frame.

In total, approximately 250 franchisors who had been in existence for a period exceeding three years were drawn from the above combined databases over the time of this research, which by estimates of the population (FASA, 2013; whichfranchise, 2013; SAFW, 2013) is approximately 43% of all franchisors in South Africa.

6.3.3 **Sampling method**

Using the sampling frame consisting of lists of franchise systems found on the websites of the above franchising service providers, this study used a purposive sampling method.

This involved contacting every franchisor in the sample frame that met the required condition: namely, selecting for inclusion only franchise systems which have been in existence for at least three years from all various categories of products and services.

This three-year cut-off point aimed at ensuring the assessment of two of the three dependent variables, namely growth and survival evaluated over time.

The next section deals with the franchisor constructs used in the model.

6.4 Franchisor constructs and measures in the model

Based on the literature and model development from prior chapters, as well as informal interviews with franchising experts such as academics, lawyers and consultants, the study developed or adapted a number of constructs, associated measures and hypotheses used to examine the research questions.

This section describes the constructs and measures of the model pertaining to quantitative part of the study which are divided into broader constructs – which focusses on the important concepts being measured and possible sub-dimensions of these, followed by a second sub-section describing the actual operationalisation of these construct sub-dimensions used in the study.

6.4.1 Constructs in the franchisor model

This sub-section discusses the constructs used to compose the franchising model under investigation shown on Figure 1.

The sub-section comprises three levels or sets of interlinking variables each with at least three sub-dimensions, that is, dependent, intervening and independent variables used in the quantitative part of the study which focused on franchisors. Table 6-1 summarises these constructs and their sub-dimensions and labels.

Table 6-1: Constructs and sub-dimensions of the franchising model

Level	Construct	Sub-dimension
Dependent variables	**Survival (H7)**	Disruptions Exits Closures Buy backs Litigation
	Competitiveness (H6)	Cost leadership Differentiation Focus Innovation
	Growth (H5)	New franchisees Renewal of contracts Multi-unit ownership Conversions
Intervening variables	**Opportunistic orientations (H4)**	Non-exclusive territories No arbitration clause Resale price maintenance Tying agreements
	Opportunistic actions (H4)	Shorter contract terms Fixed term contracts Store buy or take back Resale restrictions Termination at will Restraint of trade
Independent variables	**Structural factors (H1)**	Transactions specific assets Hostages Incomplete contracting Information asymmetry Bargaining power Dependence
	Contextual factors (H2)	Lack of regulation Lack of legislation Competitive pressures
	Strategic factors (H3)	Joint ventures Financial assistance Lease control

Source: Developed for the study

Having summarised the broad constructs used in this study, the next sections describes the formal operationalisation of the measures for these constructs.

6.4.2 Measures of constructs in the survey instrument

The measurement of the dependent variables in the survey involved the following scales. Unless otherwise mentioned, the survey assesses all items through a 7-point Likert scale.

A. Measurement of the dependent variables

The following discussion focuses on the measures for the study's three independent variable, that is, growth, competitiveness and survival and their sub-dimensions.

i). Growth

The construct of growth is measured by five items, measuring those sub-dimensions of growth discussed above in section 5.2.1 above, incorporating new franchisees, renewal of expiring contracts, multi-unit ownership and conversions.

A sample item states: "Because of franchising benefits, most independent retailers are inclined to convert their businesses into franchised outlets".

ii). Competitiveness

The construct of competitiveness is measured by four survey items, namely, cost leadership, differentiation, focus and Innovation, each of which reflect one sub-dimension of the construct as discussed in section 5.2.1 above.

A sample item thus: “A franchise contract granting favourable terms to franchisees is unlikely to provide a competitive advantage to the franchise system”.

iii). Survival

The construct of survival is measured by five survey items, that is, disruptions, exits, closures, buy backs and litigation. Each of these items reflect one sub-dimension of the construct as discussed in the previous section 5.2.1 above.

A sample item states thus: “It is uncommon for franchisors to take back failing and non-performing outlets to operate them or for re-sale”.

The next paragraphs describe measures for the opportunism constructs.

B. Measurement of the intermediary variables

As discussed in section 5.2.2 above, two sub-constructs, namely opportunistic orientations and opportunistic actions constituted opportunism. These sub-constructs were measured as follows:

i). Opportunistic orientations

The sub-construct of opportunistic orientations is measured by five survey items: non-exclusive territories; no arbitration clause; resale price maintenance; tying agreements; shorter contract terms. Each of these items reflect one sub-dimension of the sub-construct as discussed in the previous section 5.2.2 above. A sample item states thus: “Granting non-exclusive trading areas to franchisees allows franchisors the flexibility to add new outlets in particular areas”.

ii). Opportunistic actions

The sub-construct of opportunistic actions is measured by four survey items: store buy or take back; resale restrictions; termination at will and restraint of trade. Each of these items reflect one sub-dimension of the sub-construct as discussed in the previous section 5.2.2 above.

A sample item states thus: "Franchise contracts are terminated even in the event of franchisees committing minor breaches".

The ensuing paragraphs focus on the measures of the independent variables.

C. Measurement of the independent variables

As discussed in section 5.2.3 above, three sets of constructs described the study's independent variables. This section describes the measures of the constructs.

i). Structural factors

The construct of structural factors is measured by six survey items: transactions specific assets; hostages; incomplete contracting; information asymmetry; bargaining power and dependence. Each of these items reflect one sub-dimension of the sub-construct as discussed in the previous section 5.2.3 above.

ii). Contextual factors

The construct of contextual factors is measured by three survey items: lack of regulation; lack of legislation and competitive pressures. Each of these items reflect one dimension of the construct as discussed in the previous section 5.2.3 above.

A sample item states thus: "The government should not regulate the franchising industry".

iii). Strategic factors

The construct of strategic factors is measured by three survey items: joint ventures; financial assistance and lease control. Each of these items reflect one sub-dimension of the sub-construct as discussed in the previous section 5.2.3 above.

A sample item states thus: “It is usually desirable for franchisors to enter into joint ventures with franchisees”.

The next paragraph discuss the data collection methods.

6.5 Data collection

The design of the survey, expanded on below, involved conducting an extensive literature review and expert interviews with franchising experts such as academics, lawyers and consultants to obtain constructs used to develop and adapt a 7-point Likert scale questionnaire ranging from strongly agree to strongly disagree.

6.5.1 The survey method

Using a web-based self-administered questionnaire, this study surveyed 250 locally and foreign-owned franchisors comprising business format and trade name franchise systems operating in nearly all sectors of franchising. At least two weeks in advance, the researcher emailed a letter of introduction sanctioned by the university (Annexure A) to all potential respondents to introduce him and the purpose of the contemplated study.

The questionnaire was prepared, pre-tested and then posted on www.surveymonkey.com, a password secured web-based survey product that allowed the respondents access to the questionnaire via an emailed or faxed link for its completion and return to the researcher by the same means.

6.5.2 The survey instrument

Based on constructs drawn from the franchising literature and interviews with franchising experts that underlay the research questions, the questionnaire (Annexure B) comprised of two sections: Parts A and B.

Part A contained variables aimed at ensuring that the participating franchisors possessed the necessary knowledge, experience, and qualifications required to add value to the study by controlling for franchising age, experience, size, and sector differences.

Part B consisted of 36 items on a 7 point Likert-type scale (1=strongly agree – 7=strongly disagree randomly placed on the questionnaire representing items measuring the study's seven constructs of interest, that is, structural, contextual, and strategic factors, OO and OA, growth, competitiveness and survival of franchise systems.

The web-based questionnaire was the most cost effective and practical method considering that most franchisors operate in high technology environments where they are in daily use of electronic equipment that serve as payment, security, and communication methods using their smartphones and laptop computers.

In addition, as opposed to telephonic or personal interviews with a relatively large number of franchisors expected to participate in the study, the researcher believed that the electronic method would facilitate a better response rate and the speedy completion and return of the questionnaire.

This hinged on the consideration that most businesspeople appear to respond quickly to electronic messages such as text and email messages using smartphones, tablets, and laptops.

Furthermore, the advent of electronic platforms in the form of websites and social media such as Twitter, Whatsup and Facebook provided a practical solution as nearly all the major franchisors in most sectors of interest host websites that they use for monitoring customer experiences and marketing their brands and products to potential customers, investors, funders and franchisees (Dixon and Quinn, 2004).

A perusal of these websites showed that most franchisors in this country provided their physical addresses, telephone and fax numbers and email addresses but for some unknown reasons, only the physical addresses and telephone numbers for their franchisees are provided.

Preliminary interviews with franchise experts indicated that time constraints, competitive pressures and sensitive questions may weaken the ability of most franchisors to participate in detailed and involved quantitative techniques such as structured and unstructured interviews, as these would limit their option to opt out once the interviews had begun.

As evidenced by fewer than ten franchising studies at master’s and doctoral level listed in the National Research Foundation (NRF) database, the dearth of franchising research in this country and the unavailability of suitable measures that could be adapted from prior empirical studies on the subject matter under investigation necessitated the researcher to use constructs found in the literature and discussions with franchising experts to develop measures contained in the survey instrument.

In addition, this research vacuum necessitated careful and thoughtful planning of the research process to enhance participation which resulted in most of the usual steps to improve participation being taken which included providing a cover letter to accompany the questionnaire with the aim of assuring the potential respondents of the confidentiality of their personal or company details and making repeated phone calls to encourage them to participate in the survey.

Furthermore, the researcher also assured the respondents of the importance of the research to them and the industry, and the free availability of the final report for perusal by them and other interested parties at the management library of the University of the Witwatersrand and on the theses and dissertations databases on completion of the study.

6.6 Analytical methods

The following sections briefly describe the analytical methods used in the thesis.

As shown in Section 5.2, the core of the quantitative study involves complex dependence relationships between multiple constructs, including mediation between independent variable constructs in section 5.2.3 opportunism constructs in section 5.2.2 and multiple dependent constructs in section 5.2.1.

In addition, as discussed in Section 6.4.2, each of these major constructs is measured with multiple survey items reflecting multiple sub-dimensions. This design reflects latent variable modelling.

Given that each survey item is measured on a 1 to 7 point scale, which many methodologists believe is at least semi-continuous (Churchill, 1979), correlational-type studies are appropriate.

Given the complex path structure with latent modelling, the core analytical technique of the quantitative study is structural equation modelling (Kline, 2011). The study supplements SEM with other correlational-type techniques such as factor, regression and canonical analyses where appropriate.

6.6.1 Descriptive statistics on franchisor activity

As the values of skew-ness and kurtosis are minimal, this permitted the use of the maximum likelihood procedures. Most importantly, the researcher computed the Cronbach (1951) alpha to measure internal consistency, that is, the extent to which the individual items that constitute a test correlate with one another or with the test total, with a cut-off point of .70 being generally regarded as an acceptable an indicator of the reliability of the variables.

As shown in Annexure E, though the questionnaire used in this study achieved a Cronbach alpha at least .70 for the instrument as a whole, but not for some of its sub-scales, some methodologists reject the use of the Cronbach alpha where the survey instrument consists of multiple sub-scales which tend to result in deflated

Cronbach alpha statistics (SAS, 2012) as was the case in this study, with the result that this statistic is not used in the study.

6.6.2 Methods for establishing construct reliability and validity

Given the problems with the Cronbach relating mainly to the existence of fewer constructs per item, and that the quantity methodology used in this study involves latent variables each measured through multiple sub-items, it is first necessary to investigate empirical construct reliability and validity, as well as aggregate sub-items into final construct scores.

As per usual practice, the following methods are employed.

Factor analysis. Given that the research designed the study with specific sub-dimensions of constructs in mind each linked to survey items, confirmatory factor analysis (CFA) would usually be the approach for investigating factor structure. As explained in the results section below, CFA proved problematic due to statistical considerations (Heywood cases arose), as a result of which exploratory factor analysis (EFA) was used as a final approach. The EFA yielded the following construct reliability and validity indicators:

Kaiser's measure of sampling adequacy (MSA). The MSA is a summary of how small the partial correlations are relative to the ordinary correlations and used to determine face or content validity (Churchill, 1979).

As values greater than 0.8 are good as opposed to values less than 0.5 require remedial action by deleting the offending variables or by including, other variables related to the offenders, the study's acceptable MSA of 0.68 indicates face or content validity for the constructs used in this study.

Bartlett's chi-square. According to SAS (2012), the Bartlett's chi square test determines the statistical significance of the factor model by considering the Chi-square, *df*, and Prob for H: No common factors and H (SAS, 2010).

Factors retained are sufficient to explain the correlations. The H test for no common Factors is equivalent to Bartlett's test of sphericity. The notation Prob>chi**2 means "the probability under the null research questions of obtaining a greater statistic than that observed."

The chi-square value is displayed with and without Bartlett's correction and was found to be acceptable at 0.000 and this can be interpreted as providing further evidence of face or content validity.

Akaike's Information Criterion. Akaike's (1973) information criterion (AIC) provide general criterion for estimating the best number of parameters to include in a model when maximum likelihood estimation is used.

The number of factors that yields the smallest value of AIC is best. Like the chi-square test, AIC tends to include measures that are statistically significant but inconsequential for practical purposes.

The low AIC criterion obtained in this study is acceptable and when compared to the low Schwarz's Bayesian Criterion value (shown below), both values were considered to provide convergent validity.

Schwarz's Bayesian Criterion. Schwarz's Bayesian Criterion (SBC) (Schwarz, 1978) is another criterion, similar to AIC, for determining the best number of parameters with the number of measures that yields the smallest value of SBC is considered best.

SBC seems to be less inclined to include trivial measures than either AIC or the chi-square test. Accordingly, the acceptable low SBC and AIC criteria obtained in this study provides convergent validity.

Tucker and Lewis's Reliability Coefficient. Though a Tucker and Lewis (1973) coefficient of 0.5 and above is usually desirable as it indicates reliability, given the population and sampling issues discussed above, a Tucker and Lewis's Reliability Coefficient of 0.4 obtained in this study was considered acceptable as providing further evidence of convergent validity to the study.

Low correlations between different factors. In line with Churchill (1979), the relatively high and salient factor loadings of the different items onto the seven different factors that were determined by factor analysis suggest that the items measured different variables that underlay the different constructs.

Accordingly, these strong and marginal statistically significant factor-variable relationships and the low correlations between these combinations provide evidence of discriminant validity among the factors.

6.6.3 Methods for investigating relationships between constructs

Having established the reliability and validity of the constructs, the study employs the following methods to study relationships between the constructs in terms of the hypotheses:

- Correlations between construct scores:
- Regression analysis
- Canonical analysis
- Structural equation path modelling between construct scores.

6.7 Pre-testing of the research instruments

The pre-testing of the questionnaire and interview statements took place among 12 franchising experts consisting of attorneys, consultants, and academics prior to its dispatch to potential respondents.

This aimed at ensuring that the questionnaire and the semi-structured interview statements contained items that are simple and understandable to minimise interpretation errors and not to hinder or frustrate participation of the respondents.

The pretesting of the research instruments aimed at improving the reliability of these instruments by ensuring that they measured what they purported to measure.

Most of the pre-tested franchising experts indicated that both the questionnaire and interview statements were fit for purpose.

6.8 Summary

Chapter 6 discussed the research methodology used to conduct the quantitative study among franchisors. The chapter described and justified the methods used in the quantitative study of franchisors. It also discussed the population and sampling issues involved in the study before it examined the measures and hypotheses used to address the research questions, the data collection and analysis methods.

Having also discussed the pre-testing the research instruments, the next chapter presents and discusses the results of the quantitative study.

Chapter 7 Results and discussion - Quantitative study

7.1 Introduction

Chapter 6 discussed the research methodology used to conduct the quantitative study among franchisors. Following this introduction, in line with the approach adopted in this study thus far, to a large extent the remaining sections of the chapter presents and discusses the results of the quantitative component of the study derived from the statistical analysis of questionnaire data obtained using purposive sampling method from the South Africa’s 111 purposefully sampled franchisors represented by their senior representatives such as chief executive officers, franchise directors or managers mainly using SEM on SAS (For reasons explained mostly in section 6.1 above, Chapters 8 and 9 present and discuss the results of the qualitative part of the study conducted among franchisees).

After this introduction, section 7.2 discusses the assessment of construct reliability and validity. Section 7.3 discusses the relationship between the constructs and testing of hypotheses. Section 7.4 discusses the results of the quantitative study. Section 7.5 summarises the chapter

7.2 Franchisor sample profile

The final franchisor sample profile appears on Table 7-1 below.

Table 7-1: Franchisor respondent profile

Item			Number	Percentage
1. No. of franchised outlets				
	300		36	32.4
	200		32	28.8
	100		21	18.9
	50		22	19.8
	Total		**111**	**100**
2. No. of stores opened in the past 5 yrs				
	30		x	
3. No. of store closed in the past 5 yrs				
	20		x	
4. No. of stores bought back in the past 5 yrs				
	10		x	
5. Reason for store closures				
	Terminated		x	
	Non-renewal		x	
	Bad location		x	
	Relocated			
	Weak franchisee	x		
	Lease expired			
6. Reason for store buy back				
	Terminated			
	Non-renewal		x	
	Death			
	Bankruptcy			
	Incapacity	x		
	Profit			

Source: Developed for the study

Table 7.1 shows certain expected characteristics such as the 50% of the sampled franchisors operating in the fast food, restaurants and groceries sector in the sample, 30% of those formed some 25 years ago started franchising a few years after their formation and that the largest franchise system consisted of some 300 outlets while the smallest 50. The demographics of the franchisors in Table 7-1 is similar to those found in other studies such as du Toit (2003).

In addition, this breakdown seems to suggest that the study drew respondents from the relevant population and that the sample is relatively representative.

This is in light of the similarities between the profile of franchise systems shown on Table 3-1 which was based on data obtained from sources such as the www.whichfranchise.co.za, www.safw.co.za and www.fasa.co.za.

This breakdown shed some light on some of the important characteristics of the size of the self-reported final franchisor sample.

For instance, the breakdown shows that the largest franchise systems consisted of some 300 outlets and the smallest 50.

The breakdown also shows that in the past 5 years the surveyed franchise systems opened 30, closed down 20 and bought back 10 outlets which suggests that on average, not much growth has taken taking place in the past years.

As such this stunted growth reflects the possible effects of the unfavourable economic conditions prevailing in the country which can be seen in the high unemployment and poverty levels.

In addition, these figures also show signs of franchisee distress or failure in the form of closed or terminated outlets due to financial or contractual problems that may result in the buying or taking back of such outlets by franchisors.

However, as suggested by the Hoy (1994), it is often difficult to determine objectively whether a franchised outlet has failed as franchisors have a tendency to buy or take back outlets from failing franchisees and converting them into coming stores or selling them on to other franchisees without any advertising.

According to Hoy, franchisors take back outlets to protect the image and reputation of the franchise system, as closed outlets to generate negative publicity for the franchise system that may discourage existing franchisees from renewing or extending their franchise contracts or seeking additional units within the franchise system.

Similarly, failed outlets tend to discourage aspirant franchisees and other investors from investing their money and effort in particular franchise systems that may also attract the attention of public authorities.

Later, the discussion chapter extends analysis of these company profiles in discussions regarding the challenges and prospects facing franchising in terms of the need to transform and grow the industry through initiatives such as BBBEE, AA and the study's proposed Franchising Charter.

The next section discusses tests for reliability and validity of the constructs since, as discussed previously, these are measured using multi-item scales.

7.3 Construct reliability and validity

Typically, the major approach to investigating construct validity and reliability is factor analysis (Kline, 2011).

7.3.1 Initial confirmatory factor analyses

Initially, as explained in the analytical techniques section 6.6, confirmatory factor analysis was attempted as the technique for investigating factor structure. However, substantial Heywood cases arose in these CFA models that led to impossible solutions.

The researcher attempted multiple solutions to this problem, including the parcelling the items. As noted by various SEM theorists, many solutions require parcelling of items where fewer constructs per constructs were used.

Therefore, instead of abandoning an investigation of factor structure, the researcher attempted a solution using exploratory factor analysis (EFA) techniques. Therefore, the next section discusses the outcomes of the EFA process.

7.3.2 Exploratory factor analysis

Exploratory factor analysis (EFA), unlike CFA, allows each manifest variable to have an association with each latent variable. This approach seems feasible in the current study, since many of the variables may indeed reflect to a small extent other issues – for instance, a growth factor like opening of new stores may predominantly reflect growth but also be reflective of competitiveness.

The important investigation in EFA is whether items satisfactorily load on one factor to a far greater extent than others, or conversely that each item loads strongly on one factor and no more than weakly on others.

Thereafter, if satisfactory factors are found individual sub-items may be aggregated into overall factor scores.

The study conducted three factor analysis models for the predictor, opportunism and outcomes variables. As described in the previous section, the predictor and outcomes suggested a three factor solution with three sub-items each, and the opportunism model indicated a two factor solution with three sub-items each.

Each factor model was analysed using principal axis factoring (priors equal to squared multiple correlations), with a Promax rotation utilising a CVMIN pre-rotation routine. Analyses of scree plots and eigenvalues suggests a three factor solution for the predictor and outcomes models respectively, each of which is in line with expected loadings of items on factors, and a two factor model for opportunism items that also lines up with expectation.

Table 7-2 shows the overall fit statistics for each the three models, noting that because this is principal axis factoring the proportion of variance explained can and does exceed 1.

Table 7-2: Fit statistics for factor analysis models

Factor model	Proportion of variance explained	Factors returned
Predictors	1.05	3
Opportunism	1.50	2
Outcomes	1.11	3

Source: Extracted from SAS (2010)

Notes: Because this is principal axis factor analysis, it is possible for the proportion of variance explained to exceed 1. Overall average KMA scores exceed .65 for pooled analyses

Table 7-3 shows the rotated factor pattern for the predictor variables. As can be seen and with the exception of factor 2, three items were returned for the factors 1 and 3 and 4 factors for factor 2 in line with expectations.

Table 7-3: Rotated factor pattern for predictors

Sub-dimension	Factor1 (Contextual factors)	Factor2 (Structural factors)	Factor3 (Strategic factors)
Lack of regulation	.78		
Lack of legislation	.65		
Competition	.55		
Information		.77	
Bargaining power		.38	
Contracting		.37	
Hostages		.62	
Financial assistance			.56
Joint ventures			.43
Dependence			.39

Source: Extracted from SAS (2010)
Notes. 'Competition' refers to competitive pressures, 'information' refers to information asymmetry, 'contracting' refers to incomplete contracting

Table 7-4 shows the rotated factor pattern for the outcomes variables. As can be seen, three items were returned for each factor.

Table 7-4: Rotated factor pattern for outcomes

Sub-dimension	Factor1 (Competitiveness)	Factor2 (Growth)	Factor3 (Survival)
Differentiation	.65		
Cost leadership	.60		
Exits	.50		
Multi-unit ownership		.64	
Renewal of contracts		.59	
New franchisees		.47	
Store closures			.65
Focus			.63
Buy backs			.37

Source: Extracted from SAS (2010)

Table 7-5 shows the rotated factor pattern for the opportunism variables indicating the retention of two factors with three items each. These loadings were as expected in that the buying back of stores by franchisors, provision of non-exclusive territories to franchisees and the imposition of restraint of trade on franchisees constituted some of the most common opportunistic actions franchisors take against franchisees.

Similarly, tying agreements, shorter contract terms and RPM indicate opportunistic orientations among franchisors as these represent methods franchisors use to extract extraneous financial benefits from franchisees.

Table 7-5: Rotated factor pattern for opportunism

Sub-dimension	Factor1 (Opportunistic actions)	Factor2 (Opportunistic orientations)
Store buy back	.63	
Non-exclusive territories	.56	
Restraint of trade	.36	
Tying agreements		.36
Shorter contract terms		.34
Resale price maintenance		.33

Source: Extracted from SAS (2010)

Having established factor structure through the above EFAs, the researcher therefore aggregated factors through averaging to maintain scale meaning. This provides scores for each of the final constructs.

As contemporary methodology theory does not advocate using Cronbach alphas for as few items as three or four or instruments with multiple sub-scale items, which is what the final factors contain, this thesis does not analyse this statistic.

7.4 Relationships between constructs and hypotheses testing

Having established factor structure and aggregated to final constructs, the following sections proceed to empirically test the critical inter-construct relationships that allows for the assessment of the hypotheses.

As discussed in the summary of analytical methods in section 6.3.3 above, this thesis approaches the analysis of inter-construct relationships through correlation-based methods, including factor and regression analyses and canonical analyses and SEM.

7.4.1 Inter-construct correlations and descriptive statistics

The means, standard deviations and correlations of the major constructs appear in Table 7-6 below.

Table 7-6: Inter-Construct Correlations and Descriptive Statistics

Variable	M	SD	1	2	3	4	5	6	7
Structure	4.36	1.17	1.00						
Context	4.91	1.46	-.30***	1.00					
Strategy	3.42	1.01	.07*	.20**	1.00				
OA	4.59	1.26	.01*	.30***	.32***	1.00			
OO	4.40	.94	.27**	.18*	.24**	.36***	1.00		
Growth	5.08	1.14	-.43***	.47***	.42***	.64***	.23**	1.00	
Competitive	4.32	1.07	-.53***	.44***	.24**	.40***	.05*	.81	1.00
Survival	4.40	1.32	-.33***	.65***	.03*	.46***	.25***	.69	.52

Source: Extracted from SAS (2010)
Notes. "M" and "SD" refers to mean and standard deviation, respectively.
*p = 0 - .01=***; p = .01 - .05**; p = .05 - .1**

The correlations range from .25 to .81 suggests that multicollinearity in the data that allowed its further use in the study is probably not problematic.

Correlations do suggest some interrelatedness of the constructs. Contextual factors seem to correlate with most of the other variables. Considering the sub-dimensions of this construct, that is, lack of legislation, lack of regulation and competitive pressures, contextual factors appear to influence the functioning of various aspects of the franchise model under investigation.

It is makes sense for this construct to play such an influential role in franchising in this country's considering the implications of legislation and regulations such as the Constitution Act, the Competition Act and the Consumer Protection Act which were passed in the past years which have an impact on the franchise relationship..

The important piece of legislation which has far reaching implications on franchising in particular and society in general is the Constitution which guarantees the freedoms of and rights of individuals and corporations.

Quite unexpectedly, opportunistic actions seems to be strongly correlated with most of the dependent variables which suggests that opportunism creates growth, competitiveness and survival opportunities for franchise systems under the present market conditions which may be related to changing consumer profile and lifestyle following the growth of the black middle class in this country and the rest of the continent.

The next two section focus on the use of regression and canonical analyses to preliminarily analyse the direct relationship between the predictor and outcome variables. The section thereafter uses structural equation modelling to examine the impact of mediation on the relationship between the predictor and outcome variables as suggested by the study's three-pronged model.

A. Regression analysis

The objective of this part of the study was to use quantitative methods to examine the relationship between the independent and intervening variables, that is, structural, contextual and strategic factors, OO and OA and the dependent variables, that is, growth, competitiveness and survival of franchise systems described in section 5.2 above.

As a precursor to the use of the more robust canonical analysis and structural equation modelling to preliminarily and finally test the study's hypotheses discussed in section 1.2, respectively, regression analysis was used to test the relationship between the predictor variables represented by structural, contextual and strategic factors and OO; and dependent variables represented by OA and the growth, competitiveness and survival of franchise systems.

Table 7-7 through Table 7-11 show the results of the regression analysis conducted on SAS (2010) to examine the model fit, influence and diagnostics tests with the full reports contained in Annexure E.

i). Model 1

Table 7-7 shows that the model 1's regression equation is significant at .05 level with an *F* statistic of 10.23. In addition, the model shows that the predictor variables, that is, structural, contextual and strategic factors accounted for 58 per cent of the dependant variable's variation, that is, OO among franchisors.

Similarly, the influence and diagnostics tests such as the Cook's D, Rstudent and the residual statistics indicate an acceptable model with no indications of outliers or observations with large influences on the dependent variable. These results provide strong relationship between structural, contextual and strategic factors and OO among franchisors.

Table 7-7: Regression Model 1 OO=*f*(Structural, contextual and strategic factors)

Variable	Estimate	Standard error	t value	Pr>[t]	Standard estimate	Variable inference
Intercept	-3.776	.050	-.00	1.000	0	0
Structural factors	.243	.062	3.93	.000	.351	1.098
Contextual factors	.224	.062	3.72	.000	.339	1.138
Strategic factors	.230	.073	3.25	.002	.283	1.044

Source: Extracted from SAS (2010)
Multiple regression = .53; R = .22; Adj R = 21 F = 10.23; df = 1; Sum of squares = 17.7; Mean square = 42.7

ii). Model 2

Table 7-8 shows the results of Model 2. These results show that the model's regression equation is significant at .05 level with an *F* value of 10.64. On the other hand, the predictor variables namely, structural, contextual and strategic factors accounted for a mere 28 per cent of the dependant variable's variation, that is, OA among franchisors.

Similarly, the influence and diagnostics tests such as the Cook's D, Rstudent and the residual statistics indicate an acceptable model with no indications of outliers or observations with large influences on the dependent variable. Therefore, model 2 provided moderate support for relationship between structural, contextual and strategic factors and OO and OA among franchisors.

Table 7-8: Regression model 2 OA = *f*(Structural, contextual and strategic and OO)

Variable	Estimate	Standard error	t value	Pr>[t]	Standard estimate	Variable inference
Intercept	-3.58E-17	.060	-0.00	1.00	0	0
Structural factors	.022	.079	.28	.780	.026	1.256
Contextual factors	.282	.079	3.62	.000	.338	1.286
Strategic factors	.344	.091	3.84	.000	.37	1.145
OO	.267	.118	2.29	.024	.213	1.284

Source: Extracted from SAS (2010)

Multiple regression = .63; R = .31; Adj R = 28; F = 10.64; df = 1; Sum of squares = 17.7; Mean square = 42.7

iii). Model 3

Table 7-9 shows the results for Model 3. These results show that model 3's regression equation is highly significant at .05 level with an *F* statistic of 50.89. In addition, Table 7-9 also shows that the predictor variables, that is, structural, contextual and strategic factors account for 59 per cent of the dependant variable's variation, namely, growth of franchise systems.

Similarly the influence and diagnostics tests such as the Cook's D, Rstudent and the residual statistics indicate an acceptable model with no indications of outliers or observations with large influences on the dependent variable. Therefore, model 3 provided strong support for the relationship between structural, contextual and strategic factors and the growth of franchise systems.

Table 7-9: Regression Model 3 Growth = *f*(Structural, contextual and strategic factors)

Variable	Estimate	Standard error	t value	Pr>[t]	Standard estimate	Variable inference
Intercept	1.217	.053	.00	1.0000	0.000	0.000
Structural factors	-.333	.066	-5.05	<.0001	-.328	1.099
Contextual factors	.468	.065	7.21	<.0001	.477	1.138
Strategic factors	.644	.076	8.49	<.0001	.530	1.044

Source: Extracted from SAS (2010)

Multiple regression = .56; R = .59; Adj R = .58; F = 50.89; df = 1; Sum of squares = 17.7; Mean square = 42.7 *iv). Model 4*

Table 7-10 shows the results for Model 4. These results show that, with an F statistic of 33.29, the model's regression equation is highly significant at .05 level. Similarly, the model shows that the predictor variables represented by structural, contextual and strategic factors accounted for 47 per cent of the dependant variable's variation, that is, competitiveness of franchise systems.

In addition, the influence and diagnostics tests such as the Cook's D, Rstudent and the residual statistics indicate an acceptable model with no indications of outliers or observations with large influences on the dependent variable. These results indicates a strong relationship between structural, contextual and strategic factors and the competitiveness of franchise systems.

Table 7-10: Regression Model 4 Competitiveness = *f*(Structural, contextual and strategic factors)

Variable	Estimate	Standard error	t value	Pr>[t]	Standard estimate	Variable inference
Intercept	4.805	.49	9.71	<.0001	0.00	0.00
Structural factors	.512	.067	7.76	<.0001	.565	1.098
Contextual factors	.084	.054	1.56	.1212	.115	1.093
Strategic factors	.399	.074	5.37	<.0001	.375	1.010

Source: Extracted from SAS (2010)

Multiple regression = .78; R = .45; Adj R = 47; F = 33.29; df = 1; Sum of squares = 17.7; Mean square = 42.7

v). Model 5

Table 7-11 shows the results for Model 5. An *F* statistic of 31.94 suggests that the model's regression equation is significant at .05 level. In addition, the predictor variables represented by structural, contextual and strategic factors accounted for 46 per cent of the dependant variable's variation, that is, survival of franchise systems.

Similarly, the influence and diagnostics tests such as the Cook's D, Rstudent and the residual statistics indicate an acceptable model with no indications of outliers or observations with large influences on the dependent variable. Hence, model 5 provides evidence of a strong relationship between structural, contextual and strategic factors and the survival of franchise systems.

Table 7-11: Regression Model 5 Survival=*f*(Structural, contextual and strategic factors)

Variable	Estimate	Standard error	t value	Pr>[t]	Standard estimate	Variable inference
Intercept	1.543	.718	2.15	.0339	0	0
Structural factors	.006	.098	.05	.962	.004	1.098
Contextual factors	.470	.079	6.4	<.0001	.516	1.093
Strategic factors	.157	.109	1.46	.1474	.120	1.010

Source: Extracted from SAS (2010)
Multiple regression = .59; R = .48; Adj R = 46; F = 31.94; df = 1; Sum of squares = 17.7; Mean square = 42.7

The next section focuses on canonical correlation analysis or canonical analysis used to further analyse the survey data.

B. Canonical analysis results

The responses of 111 franchisors to the study's 24 variables contained in the 7 point Likert scaled (1 = strongly agree and 7 = strongly disagree) questionnaire were cross tabulated and subjected to canonical analysis on the SAS statistical package (SAS, 2012).

Primarily, canonical analysis was used in a supporting role or a preliminary step towards determining support or rejection for its seven hypotheses through structural equation modelling (discussed in the next section) to examine the perceptions of franchisors on the relationship between OO and OA on the growth, competitiveness, and survival of franchise systems.

As stated above, as the SEM tests the whole model with emphasis on examining the effect of mediation on the relationship between the predictor and outcome variables the tests form the basis of the final interpretation and discussion of the results of the study.

More formally, canonical analysis tested the hypotheses that the first canonical correlations or variates and all the others are zero in respect of each of the seven sets of independent and dependent variables used to address the research questions by examining the model fit of the canonical correlations, the statistical and practical significance of the canonical relationships.

Examining the model fit of the canonical correlations between the variables involved assessing the magnitude and directional signs of statistics such as the canonical functions, F statistics and multivariate significance tests, that is, Wilks' lambda, Pillai's trace, Hotellings's trace and Roy's gcr.

In addition, the relative importance of the canonical weights, canonical loadings, and canonical cross loadings tabulated on Table 7-12 through Table 7-18 were also used to determine and interpret the significant canonical relationships as preliminary examinations of the hypotheses the results of which were compared and subjugated to structural equation modelling path analyses test results where the two tests results conflicted each other for reasons stated above.

i). Hypothesis 1 – Structural factors and OO

Canonical functions. Hypothesis 1 posited that a positive relationship existed between structural factors and OO among franchisors. Table 7-12 shows canonical correlations analysis results of the three structural factors variables, that is, information asymmetry, incomplete contracting and transactions specific assets as independent or predictor variables and the three OO variables, that is, resale price maintenance, non-exclusive territories and shorter contract terms as the dependent or criterion variables which are discussed in section 5.1.1 above, used to preliminarily test hypothesis 1.

Statistical and practical significance. Table 7-12 shows the data yielded three canonical functions with three pairs of linear composites. The first canonical function contains an acceptable significant pair of linear composites of 0.49, a second has a marginally significant pair of 0.43, and the last insignificant pair of near zero. The magnitude of the first pair of linear composite representing the size of the canonical correlations between the first set of dependent and independent variables indicates its practical significance.

This provides support for the identification and interpretation of the first canonical function. Secondly, considering the F statistic of 6.33, the probability level of 0.0001 is statistically significant at alpha = .05.

This suggests the rejection of the null hypothesis that the first canonical function and the other two are zero. Thirdly, the multivariate test statistics represented by Wilk's lambda, Pillai's Trace, Hotelling-Lawley Trace and Roy's Greatest Root also show the statistical significance of the first canonical function at the alpha = .05 level.

Interpreting the canonical weights, loadings and cross loadings. Table 7-12 shows significant contribution to the first canonical function's canonical weights, canonical loadings and cross loadings of the predictor variable set, that is, structural factors dimension represented by hostages, incomplete contracting and transactions specific assets and criterion variable set, that is, OO dimension represented by non-exclusive territories.

Hypothesis 1 test results. Therefore, together with the statistical and practical significance indicating an acceptable model fit testing hypothesis 1, the evidence presented in Table 7-12 provides support for the hypothesised positive relationship between structural factors and OO among franchisors.

Table 7-12: Results of canonical analysis relating structural factors and OO

Canonical function	Canonical correlation	Square canonical correlation	Eigen value	Wilk's lambda	Den df	F statistic	Significance
1	.60	.36	.57	.42	275.45	8.96	<.0001
2	.45	.31	.26		210	8.39	<.0001
3		.18	.21		106		<.0001

Predictor set – Structural dimensions	Canonical weights	Canonical loadings	Canonical cross loadings
Hostages	.53	.26	.16
Transactions specific assets	.06	.14	.09
Incomplete contracting	.59	.50	.30
Information asymmetry	.96	.-98	.35

Criterion set – OO dimensions	Canonical weights	Canonical cross loadings	Canonical weights
Resale price maintenance	.03	.24	.10
Shorter contract terms	.21	.21	.30
Non-exclusive territories	-.91	.98	.59

Canonical correlation coefficient = .60
Canonical root eigenvalue =.57
F statistic = 8.96
df = Canonical correlations = 12

Source: Extracted from SAS (2010)

ii). Hypothesis 2 – Contextual factors and OO

Canonical functions. Hypothesis 2 posited that the existence of a positive relationship between contextual factors and OO among franchisors. Table 7-13 shows canonical correlations analysis results of the three contextual factors variables, that is, lack of regulation, lack of legislation and competitiveness as independent or predictor variables and the three OO variables, that is, non-exclusive territories, shorter contract terns and no arbitration clauses as the dependent or criterion variables discussed in section 5.1.1 above, that preliminarily tested hypothesis 2.

Statistical and practical significance. Table 7-13 shows the various statistical tests for the canonical analysis on the SAS statistical package. Firstly, the data yielded three canonical functions with three pairs of linear composites. The first canonical function contains an acceptable significant pair of linear composites of 0.53, a second has a marginally significant pair of 0.37, and the last insignificant pair of near zero.

The magnitude of the first pair of linear composite representing the size of the canonical correlations between the first set of dependent and independent variables indicates its practical significance. This provides support for the identification and interpretation of the first canonical function.

Secondly, considering the F statistic of 6.30, the probability level of 0.0001 is statistically significant at alpha = .05. This suggests the rejection of the null hypothesis that the first canonical function and the other two are zero. Thirdly, the multivariate test statistics represented by Wilk's lambda, Pillai's Trace, Hotelling-

Lawley Trace and Roy's Greatest Root also show the statistical significance of the first canonical function at the alpha .05 level.

Interpreting the canonical function or variate. Table 7-13 shows a substantive interpretation of the results indicating that lack of legislation and lack of regulation contributed significantly to the canonical weights and canonical loadings of the contextual factors dimension and to the cross loadings of the OO dimension of the first canonical variate.

Hypothesis 2 test results. The statistical and practical significance indicating an acceptable model fit testing hypothesis 2 provide supporting preliminary evidence for the hypothesised positive relationship between contextual factors and OO among franchisors.

Table 7-13: Results of canonical analysis relating contextual factors with OO

Canonical function	Canonical correlation	Square canonical correlation	Eigen value	Wilk's lambda	Den df	F statistic	Significance
1	.53	.28	.40	.614	255.69	6.30	<.0001
2	.37	.13	.15		212	4.21	<.0003
3	.10	.01	.01		107	.98	<.3253

Predictor set – Contextual factors dimensions	Canonical weights	Canonical loadings	Canonical cross loadings
Lack of legislation	.73	.95	.51
Lack of regulation	.36	.38	.47
Competitive pressures	-.07	.47	-.23

Criterion set – OO dimensions	Canonical weights	Canonical cross loadings	Canonical weights
Resale price maintenance	.84	.88	.47
Shorter contract terms	.15	.38	.20
Non-exclusive territories	.43	.47	.25

Canonical correlation coefficient = .53
Canonical root eigenvalue =.34
F statistic = 6.30
df = Canonical correlations = 255.69

Source: Extracted from SAS (2010)

iii). Hypothesis 3 – Strategic factors and OO

Canonical functions. Hypothesis 3 posited the existence of a positive relationship between strategic factors and OO among franchisors. Table 7-14 shows canonical correlations analysis results of the three strategic factors variables, that is, financial assistance, joint ventures and competitive pressures as independent or predictor variables and the three OO variables under statements, that is, non-exclusive territories, shorter contract terns and no arbitration clauses as the dependent or criterion variables discussed in section 5.1.1 above to test hypothesis 3.

Statistical and practical significance. As shown on Table 7-14, the data produced three canonical functions with three pairs of linear composites. The first canonical function contains an acceptable significant pair of linear composites of 0.53, a second has a marginally significant pair of 0.37, and the last insignificant pair of near zero. The size of the first pair of linear composite representing the size of the canonical correlations between the first set of dependent and independent variables indicates its practical significance.

This provides support for the identification and interpretation of the first canonical function. Secondly, the F statistic of 6.13 shows that the probability level of 0.0001 is statistically significant at alpha = .05. This suggests the rejection of the null hypothesis that the first canonical function and the other two are zero. Thirdly, the multivariate test statistics represented by Wilk's lambda, Pillai's Trace, Hotelling-Lawley Trace and Roy's Greatest Root also show the statistical significance of the first canonical function at the alpha .05 level.

Interpreting the canonical function or variate. Table 7-14 indicates that the provision of financial assistance to franchisees by franchisors and joint ventures between franchisors and franchisees contributed significantly to the canonical weights and canonical loadings of the strategic factors dimension and to the cross loadings of the OO dimension of the first canonical variate.

Hypothesis 3 test results. Therefore, together with the statistical and practical significance indicating an acceptable model fit testing hypothesis 3, Table 7-14 presents preliminary evidence that supports the hypothesised positive relationship between strategic factors and OO among franchisors.

Table 7-14: Results of canonical analysis relating strategic factors with OO

Canonical function	Canonical correlation	Square canonical correlation	Eigen value	Wilk's lambda	Den df	F statistic	Significance
1	.49	.24	.31	.67	522.69	5.03	<.0001
2	.34	.11	.13	.89	212	3.32	<.0116
3	.03	.00		.10	107	0.12	<.7316
Predictor set – Strategic factors dimensions					**Canonical weights**	**Canonical loadings**	**Canonical cross loadings**
Financial assistance					.88	.95	.47
Joint ventures					.29	.49	.24
Competitive pressures					-.12	-.13	.-06
Criterion set – OO dimensions					**Canonical weights**	**Canonical cross loadings**	**Canonical weights**
Resale price maintenance					.51	.70	.35

Shorter contract terms	.50	.48	.24
Non-exclusive territories	.63	.06	.30
Canonical correlation coefficient = .49			
Canonical root eigenvalue =.32			
F statistic = 5.03			
df = Canonical correlations = 255.69			

Source: Extracted from SAS (2010)

Research question 2

This research question sought to determine whether there was any relationship between OO and OA among franchisors.

iv). Hypothesis 4 – OO and OA

Canonical functions. Hypothesis 4 posited the existence of a positive relationship existed between OO and OA among franchisors. Table 7-15 shows canonical correlations analysis results of the three OO variables under statements, that is non-exclusive territories, shorter contract terns and no arbitration clauses as independent or predictor variables and the three OO variables under statements, that is, store buy back, resale restrictions and termination at will as the dependent or criterion variables also discussed in section 5.1.1 above that tested hypothesis 4.

Statistical and practical significance. Table 7-15 shows the data yielded three canonical functions with three pairs of linear composites. The first canonical function contains an acceptable significant pair of linear composites of 0.49, a second and third significant pairs of 0.34, and near zero, respectively. The size of the first pair of linear composite representing the size of the canonical correlations between the first set of dependent and independent variables indicates its practical significance.

This provides support for the identification and interpretation of the first canonical function. Secondly, considering the F statistic of 5.03, the probability level of 0.0001 is statistically significant at alpha = .05. This suggests the rejection of the null hypothesis that the first canonical function and the other two are zero.

Thirdly, the multivariate test statistics represented by Wilk's lambda, Pillai's Trace, Hotelling-Lawley Trace and Roy's Greatest Root also show the statistical significance of the first canonical function at the alpha .05 level.

Interpreting the canonical function or variate. Table 7-15 shows that weighted sum of non-exclusive territories and shorter term contracts contributed significantly to the canonical weights and canonical loadings of the OO dimension and to the cross loadings of the OA dimension of the first canonical variate.

Hypothesis 4 test results. Therefore, together with the statistical and practical significance indicating an acceptable model fit testing hypothesis 4, this evidence provides support for the hypothesised positive relationship between OO and OA among franchisors.

Table 7-15: Results of canonical analysis relating OO with OA

Canonical function	Canonical correlation	Square canonical correlation	Eigen value	Wilk's lambda	Den df	F statistic	Significance
1	.52	.28	.38	.66	255.69	5.22	<.0001
2	.29	.08	.09	.91	212	2.42	<.0494
3	.03	.00	.00	.10	107	.010	<.0751

Predictor set – OO dimensions	Canonical weights	Canonical loadings	Canonical cross loadings
Resale price maintenance	.20	.06	.03
Shorter contract terms	-.42	-.72	.19

Non-exclusive territories	.79	.87	-.40
Criterion set – OA dimensions	**Canonical weights**	**Canonical cross loadings**	**Canonical weights**
Store buy back	.57	.45	.23
Resale restrictions	.38	.36	.19
Termination at will	-.81	-.75	.-40
Canonical correlation coefficient = .52			
Canonical root eigenvalue =.38			
F statistic = 5.22			
df = Canonical correlations = 255.69			

Source: Extracted from SAS (2010)

Research question 3 (Hypothesis 5 – 7)

Through three hypotheses, research question three examined the relationship between OA and the growth, competitiveness and survival of franchise systems.

v). Hypothesis 5 – OA and the growth of franchise systems

Canonical functions. Hypothesis 5 postulated that a positive relationship existed between growth and OA among franchisors. Table 7-16 shows canonical correlations analysis results of the three growth variables under statements, that is, store buy back, resale restrictions and termination at will as independent or predictor variables and the three growth variables, that is, new franchisees, renewal of franchise contracts and multi-unit ownership as the dependent or criterion variables analysed to test hypothesis 5.

Statistical and practical significance. Table 7-16 shows that the first canonical function contains a significant pair of linear composites of 0.57, and a second and third insignificant pair of 0.20 and near zero. 3. This leaves only the first pair of linear composite as practically significant for allowing its identification and interpretation of the first canonical variates. Secondly, considering the F statistic of 6.17, the probability level of 0.0001 is statistically significant at alpha = .05.

This suggests the rejection of the null hypothesis that the first canonical function and the other two are zero. Thirdly, the multivariate test statistics represented by Wilk's lambda, Pillai's Trace, Hotelling-Lawley Trace and Roy's Greatest Root also show the statistical significance of the first canonical function at the alpha .05 level.

Interpreting the canonical function or variate. Table 7-16 indicates that lack of arbitration clauses in franchise contracts contributed significantly to the canonical weights and canonical loadings of the growth dimension and to the cross loadings of the OA dimension of the first canonical variate.

Hypothesis 5 test results. Therefore, together with the statistical and practical significance indicating an acceptable model fit testing hypothesis 5, this evidence provides support for the hypothesised positive relationship between growth and OA among franchisors.

Table 7-16: Results of canonical analysis relating OA with growth

Canonical function	Canonical correlation	Square canonical correlation	Eigen value	Wilk's lambda	Den df	F statistic	Significance
1	.59	.34	.52	255.69	.62	6.17	<.0001
2	.20	.04	.04	212		1.53	<.1953
3	.12	.01	.02	107		1.66	<.2000

Predictor set – OA dimensions	Canonical weights	Canonical loadings	Canonical cross loadings
Store buy back	.84	.90	.52
Resale restrictions	.-32	-.39	.-23

Termination at will	.30	.41	.24
Criterion set – Growth dimensions	**Canonical weights**	**Canonical cross loadings**	**Canonical weights**
Multi-unit ownership	.59	.81	.48
Renewal of franchise contracts	-.17	.38	.02
Non-exclusive territories	.60	.86	.51
Canonical correlation coefficient = .59			
Canonical root eigenvalue =.52			
F statistic = 6.17			
df = Canonical correlations = 25.69			

Source: Extracted from SAS (2010)

vi). Hypothesis 6 – OA and the competitiveness of franchise systems

Canonical functions. Hypothesis 6 posited that a positive relationship existed between OA and the competitiveness of franchise systems among franchisors. Table 7-17 shows canonical correlations analysis results of the three competitiveness variables, that is, cost leadership, product differentiation and focus as independent or predictor variables and the three OA variables under statements, that is, store buy back, resale restrictions and termination at will as the dependent or criterion variables analysed to test hypothesis 6.

Statistical and practical significance. Table 7-17 shows the three canonical functions with three pairs of linear composites for this canonical relationship. The first canonical function contains a marginally significant pair of linear composites of 0.38, a second and a third insignificant pair of r composites of 0.26 and near zero which indicates the limited practical significance of the canonical relationship.

Secondly, considering the F statistic of 2.80, the probability level of 0.0001 is statistically significant at alpha = .05. This suggests the rejection of the null hypothesis that the first canonical function and the other two are zero. Thirdly, the multivariate test statistics represented by Wilk's lambda, Pillai's Trace, Hotelling-Lawley Trace and Roy's Greatest Root also show the statistical significance of the first canonical function at the alpha .05 level.

Interpreting the canonical function or variate. Table 7-17 shows that termination of franchise contracts and store take or buy back of franchised outlets by franchisors and contributed significantly to the canonical weights and canonical loadings of the competitiveness dimension and to the cross loadings of the OA dimension of the first canonical variate.

Hypothesis 6 test results. Therefore, together with the statistical and practical significance indicating an acceptable model fit testing hypothesis 6, this evidence provides support for the hypothesised negative relationship between OA and competitiveness of franchise systems.

Table 7-17: Results of canonical analysis relating OA with competitiveness

Canonical function	Canonical correlation	Square canonical correlation	Eigen value	Wilk's lambda	Den df	F statistic	Significance
1	.36	.15	.80	.80	255.69	2.86	<.0038
2	.26	.07	.07			1.85	<.1196
3	.01	.00	.00			0.01	<.9068
	Predictor set – OA dimensions				**Canonical weights**	**Canonical loadings**	**Canonical cross loadings**
	Store buy back				.58	.68	.26
	Resale restrictions				-.39	-.45	.17
	Termination at will				.64	.70	.27

Criterion set – Competitiveness dimensions	Canonical weights	Canonical cross loadings	Canonical weights
Differentiation	-.37	-.05	.02
Focus	.93	.93	.36
Cost leadership	.17	.37	.07
Canonical correlation coefficient = .36			
Canonical root eigenvalue =.80			
F statistic = 2.86			
df = Canonical correlations = 255.69			

Source: Extracted from SAS (2010)

vii). Hypothesis 7 – OA and the survival of franchise systems

Canonical functions. Hypothesis 7 posited that a positive relationship existed between OA and the survival of franchise systems. Table 7-18 shows canonical correlations analysis results of the three OA variables under statements, that is store buy back, resale restrictions and termination at will as independent or predictor variables and the three survival variables under statements disruptions, store closures and exits as the dependent or criterion variables analysed to test hypothesis 7.

Statistical and practical significance. Table 7-18 shows three canonical functions with three pairs of linear composites. The first canonical function contains a marginally significant pair of linear composites of 0.31 and insignificant second and third pairs. The small magnitude of the first pair of linear composite representing the size of the canonical correlations between the first set of dependent and independent variables indicates its limited practical significance.

Similarly, the F statistic of 1.66 against the larger probability level of 0.098 statistically insignificant at alpha = .05. This suggests the failure to reject the null hypothesis that the first canonical function and the other two are zero. Thirdly, the larger multivariate test statistics represented by Wilk's lambda, Pillai's Trace, Hotelling-Lawley Trace and Roy's Greatest Root also show the statistical insignificance of the first canonical function at the alpha .05 level.

Interpreting the canonical function or variate. Table 7-18 indicates that store buy or take backs and termination of franchise contracts by franchisors contributed significantly to the canonical weights and canonical loadings of the OA dimension and to the cross loadings of the survival dimension of the first canonical variate.

Hypothesis 7 test results. Therefore, together with the statistical and practical significance indicating an acceptable model fit testing hypothesis 7, this evidence provides lack of support for the hypothesised negative relationship between OA and the survival of franchise systems.

Table 7-18: Results of canonical analysis relating OA with survival

Canonical function	Canonical correlation	Square canonical correlation	Eigen value	Wilk's lambda	Den df	F statistic	Significance
1	.31	.10	.11	.87	255.69	1.66	<.0982
2	.17	.03	.03		212	.97	<.4260
3	.08	.01	.01		107	.75	<.3877

Predictor set – OA dimensions	Canonical weights	Canonical loadings	Canonical cross loadings
Store buy back	.51	.60	.19
Resale restrictions	.70	-.75	.23
Termination at will	.37	.46	.14

Criterion set – Survival dimensions	Canonical weights	Canonical cross loadings	Canonical weights
Exits	.65	.80	.25
Disruptions	.50	.77	.24
Store closures	.07	.-27	-.08
	Canonical correlation coefficient = .31		
	Canonical root eigenvalue =.11		
	F statistic = 1.66		
	df = Canonical correlations = 255.69		

Source: Extracted from SAS (2010)

The canonical analyses presented above examined the relationship between the sub-dimensions of two constructs at a time, for example structural factors and opportunistic orientations. The next section discusses the structural equation modelling path analysis which examined the aggregate relationships between the sub-dimensions of the all the constructs in the entire franchising model under investigation.

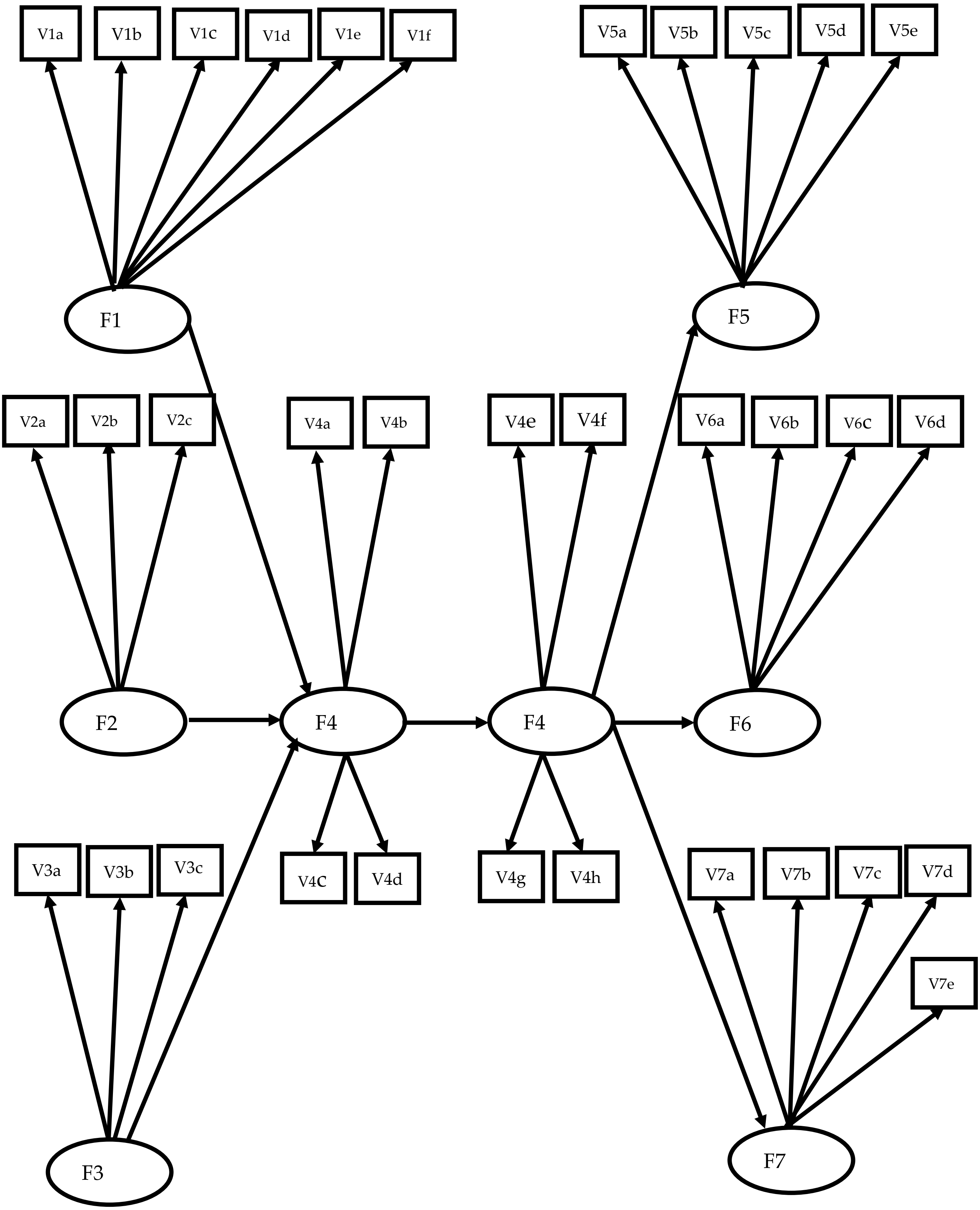
C. Structural equation modelling: final model

As this is a doctoral thesis requiring a thorough testing of the constructs in the franchising model under investigation and the need to demonstrate the inter-relationships between all the constructs with each other in one model, structural equation modelling (SEM) was used to examine the study's research questions by assessing the fit between the theoretical and empirical models to test its seven hypotheses and therefore the SEM results were given primacy over both the regression and canonical analysis results.

i). Structural and measurement models.

In structural equation modelling, it is customary to translate the verbal model into a mathematical model consisting of two parts: a structural model and a measurement model (Anderson, 1987). The structural model is the conceptual model shown on Figure 1. It specifies the hypothesised causal relationships among the latent variables while the measurement model shown on Figure 4: Initial SEM model describes the relationship between the latent or unobserved variables (that is, hypothetical constructs) and the observed variables.

Figure 4: Initial SEM model



Source: Developed for the study

Table 7-19 below describes the legends of the initial SEM model shown on Figure 4: Initial SEM model which consists of 7 latent variables marked F1 through F7 to represent the study's seven endogenous variables, that is, structural, contextual and strategic factors, OO and OA and growth, competitiveness and survival. The model also shows the study's 36 manifest variables marked V1a-V1f, V2a-V2c, V3a-V3c, V4a-Vh, V5a-V5e, V6a–V6c and V7a-V7e representing the exogenous variables. In the main, the model suggests direct effects between the latent variables with OO and OA as intervening or mediating variables.

Table 7-19: Legends of the initial model

Level	Construct	Sub-dimension	Labels	Sub-hypotheses
Dependent variables	**Growth (H5)**	New franchisees	V14	H5a
		Renewal of contracts	V20	H5b
		Multi-unit ownership	V12	H5c
		Conversions	V7	H5d
	Competitiveness (H6)	Cost leadership	V13	H6a
		Differentiation	V6	H6b
		Focus	V18	H6c
		Innovation	V5	H6d
	Survival (H7)	Disruptions	V26	H7a
		Exits	V11	H7b
		Closures	V30	H7c
		Buy backs	V19	H7d
		Litigation	V32	H7e
Intervening variables	**Opportunistic orientations (H4)**	Non-exclusive territories	V35	H4a
		No arbitration clause	V28	H4b
		Resale price maintenance	V29	H4c
		Tying agreements	V34	H4d

		Shorter contract terms	V25	H4e
		Fixed term contracts	V33	H4f
	Opportunistic actions (H4)	Store buy or take back	V15	H4g
		Resale restrictions	V17	H4h
		Termination at will	V16	H4i
		Restraint of trade	V27	H4j
Independent variables	**Structural factors (H1)**	Transactions specific assets	V22	H1a
		Hostages	V8	H1b
		Incomplete contracting	V24	H1c
		Information asymmetry	V31	H1d
		Bargaining power	V36	H1e
		Dependence	V21	H1f
	Contextual factors (H2)	Lack of regulation	V9	H2a
		Lack of legislation	V2	H2b
		Competitive pressures	V23	H2c
	Strategic factors (H3)	Joint ventures	V3	H3a
		Financial assistance	V1	H3b
		Lease Control	V11	H3c

Source: Developed for the study

ii). Chi square test.

The model yielded a chi-square is 9.5 with 5 degrees of freedom and p-value of 0.09 at 5% significance level. These insignificant figures show no statistical support for rejecting the study's SEM model. However, given the limitation of the chi square to determining statistical significance of models because of its sensitive to sample size (Tanaka, 1987), the goodness-of-fit measures also assessed the model fit.

iii). Fit indices.

SAS produces three sets of fit indices with different measures which assess different model aspects. These are the absolute, incremental and parsimony indices. Briefly stated, these indices differ in respect of their composition and as such they are useful in giving in different perspectives of the model. For example, the absolute fit measures only focus on the model at hand whilst the parsimony fit index compares the model under scrutiny to the baseline or null model. Of these measures, the absolute measures are the most commonly used and received attention in this study. However, the measures of the other fit indices are mentioned for the sake of completeness.

The *absolute fit indices* are fit measures that interpret them without referring to any baseline model. These indices do not adjust for model parsimony and always favour models with a large number of parameters. The chi-square test statistic is the best-known absolute index in this category, which in this study is 9.42 with an insignificant a *p*-value of 0.05, which is larger than the conventional value.

From the statistical hypothesis testing point of view, it is not plausible or desirable to reject this model. The Z-test of Wilson and Hilferty is also insignificant at 1.65, which echoes the result of the chi-square test. Other absolute indices also deserve attention. The SRMR of 0.00 and Goodness of Fit Index (GFI) of .97 also indicates good model fit when taking into account the conventional values of 0.05 and .90, respectively.

Parsimony fit indices. These indices take the parsimony of the model into account. These indices adjust the model fit by the degrees of freedom (or the number of the parameters) of the model in certain ways. The advantage of these indices is that merely increasing the number of parameters in the model might not necessarily lead better model fit measures. These fit indices penalise models with large numbers of parameters. There is no universal way to interpret all these indices. However, for the relatively well-known Adjusted GFI of 0.81, smaller AIC of 73, CAIC of 192, SBC of 160, McDonald of 0.99 and RMSEA estimate of 0.11 all indicate a very good model fit.

Last, the *incremental fit indices* are computed based on comparing the target model fit against the fit of a baseline model, which is usually the so-called uncorrelatedness model where all manifest variables are assumed not to be correlated. This is the baseline model that PROC CALIS uses.

The baseline model fit statistic appears under the Modeling Info category of the same fit summary table. Various incremental fit indices exist. In the fit summary table, there are six of such fit indices. Large values for these indices are desirable. The rule of thumb suggests that values larger than .90 for these indices indicate acceptable model fit.

In this study, most of incremental indices, that is, BCI of 0.98, Bentler-Bonnett NFI of 0.97, Bentler NNI of 0.89 and Bentler N Delta 2 of 0.98 show that the hypothesised model fits well. There is no consensus as to which fit index is the best to judge model fit.

Probably, with artificial data and model, all fit indices can be defective in some aspects of measuring model fit. Conventional wisdom is to look at all fit indices and determine whether the majority of them are close to the desirable ranges of values. In this study, almost all fit indices are good, and so it is safe to conclude that the model fits well.

LM multipliers. An assessment of the LM statistics also indicates the absence of highly significant chi squares with the result that no new paths need to be added considering that the above chi square and fit indices suggested that the model fit is good.

Wald statistics. The Wald statistics also showed no highly insignificant chi squares which indicated a need to remove some paths from the model without damaging the overall model fit.

Residuals. None of the model's residuals were above 2 which further indicated a good model fit.

iv). Measurement model and hypotheses testing.

Table 7-20 summarises the results of the measurement model shown on Fig 3 which display the paths indicating the loadings of the standardised parameter, standard error, and t-values of the manifest variables for the SEM model.

The process of testing the hypotheses involved determining the statistical significance of the parameter estimates by examining the magnitude of these values and comparing the *t* values with the critical value of a standardized normal variate, that is, the z-table.

Therefore, estimates with parameter estimates larger than 0.1, error estimates smaller than 0.5 and *t* values greater than 1.96 were significant at alpha =.05. As shown on Table 7-20 below, variables and hypotheses passed the significance test by having t-values greater than 1.96. These results show support for 5 hypotheses.

Table 7-20: Summary of hypotheses test results based on SEM paths

Path		Parameter estimate	Standard error	t value	Hypotheses test results
Structural factors	OO	0.18	0.10	1.98	Supported
Contextual factors	OO	0.11	0.10	1.33	Unsupported
Structural factors	OA	0.25	0.10	2.81	Supported
Structural factors	Competitiveness	0.31	0.10	4.00	Supported
Structural factors	Growth	0.03	0.10	-0.31	Unsupported
Structural factors	Survival	0.49	0.10	7.06	Supported
Contextual factors	OA	0.58	0.10	-8.86	Supported
Contextual factors	Competitiveness	0.41	0.10	-6.77	Supported
Contextual factors	Growth	0.05	0.10	0.64	Unsupported
Contextual factors	Survival	0.09	0.10	1.17	Unsupported
Strategic factors	OA	0.06	0.10	0.97	Unsupported
Strategic factors	Competitiveness	0.40	0.10	4.92	Supported
Strategic factors	Growth	0.33	0.10	4.18	Supported
Strategic factors	Survival	0.20	0.10	3.14	Supported
OO	Growth	0.06	0.10	0.70	Unsupported
OO	Competitiveness	0.03	0.10	0.38	Unsupported
OO	Survival	0.03	0.10	0.46	Unsupported
OA	Growth	0.32	0.10	-4.14	Supported
OA	Competitiveness	0.09	0.10	1.11	Unsupported
OA	Survival	0.61	0.10	9.80	Supported

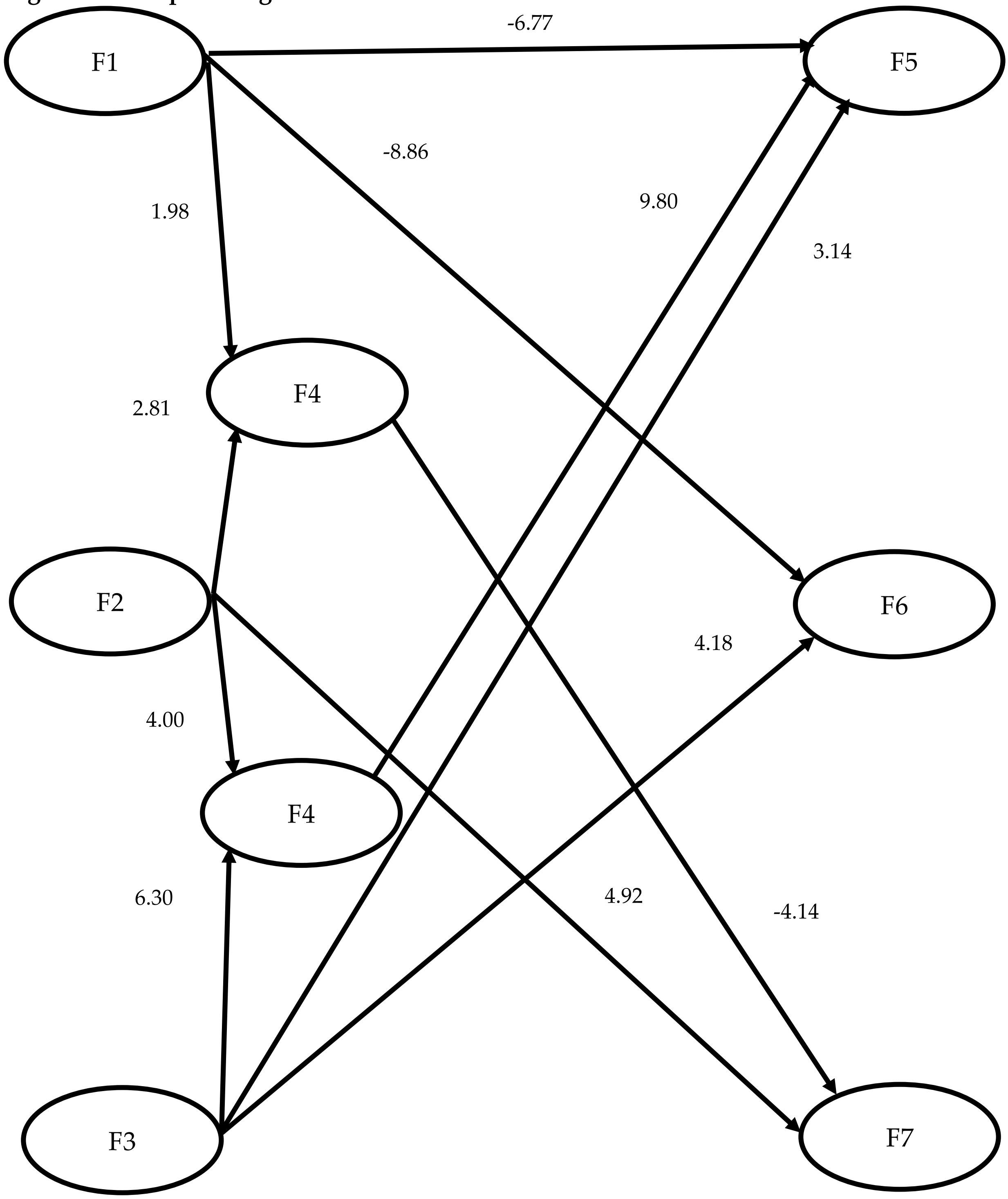
Source: Extracted from SAS (2010)
p = 0.05 significance level

Table 7-20 above shows a number of paths that supported the data and five of the study's seven hypotheses as discussed in the next section.

v). Final path diagram.

Based on the paths shown in Table 7-20 above, Fig 5 shows the study's final path diagram. Briefly stated, the lack of association between opportunistic orientations and opportunistic actions highlights the unexpected differences between the initial and the final model which may suggest the similarity between the sub-dimensions of the opportunism constructs.

Figure 5: Final path diagram



Source: Extracted from SAS (2010)

λ = 9.5; DF= 5; GFI; p = 0.900; SRMR = 0.002; RMSEA = 0.111; GFI = .97; BCI = .98; = BBNFI = .97; Bentler NNI = .89; AIC = 73; CAIC = 192; SBC = 160 *vi). Reliability and Validity.*

One of the advantages of using latent variable analysis in SEM is the possibility to assess the reliability and validity of the variables of the study (Hatcher, 1994). Apart from the EFA construct reliability and validity reported in section 6.2.2 above, SAS performs convergent validity and discriminant validity using a multitrait, multimethod (MTMM) approach to validation (Campbell and Fiske, 1959) that assesses multiple constructs using more than one assessment method.

Accordingly, convergent validity is demonstrated when different instruments are used to measure the same construct, and the scores from these different instruments are strongly correlated.

In most cases, factor loading t-values of measures were used to determine convergent validity. On the other hand, discriminant validity obtains where different sub-scales of the instrument are used to measure different constructs, and the correlations between measures of these constructs are relatively weak.

Evidence of discriminant validity exists where the variance extracted for each measure exceeds the respective correlation estimate between factors (Fornell and Lacker, 1981).

Similarly, the variance-extracted statistic estimates the proportion of variance explained by a construct compared to variance due to random measurement error. As such, Fornell and Lacker aver that this proves the convergent validity of a measure.

vii). SEM caveats.

Given that SEM was used as the main technique for conducting the hypotheses tests, it is important to address some of the concerns relating to its usage and interpretation of its results.

Briddle and Marlin (1987) caution against the misuse of SEM. First, this may result from employing the techniques incorrectly or misinterpreting the results and thus producing improper solutions by failing to take into account an important variable that can skew the results one way.

The other problem is to confound confirmation of a theory with an acceptable fit as an acceptable fit does not necessarily confirm theory.

Another possible problem is that while SEM is a powerful technique, its use particularly with the maximum likelihood estimation method requires compliance with strict assumptions such as the requirement for high-quality data in the form of conditioning statements on which inferences that must be true.

This calls for the use of carefully developed measures which are based on sound theoretical constructs and this study attempted to achieve this goal by using 36 measures which were based on a thorough literature review of articles which featured in high impact journals such as the Journal of Marketing, Journal of Retailing and the Journal of Business Venturing.

In addition, SEM techniques using a large number of variables require that large samples to be available for analysis (Tanaka, 1987). As a benchmark, Tanaka suggests a minimum size sample of 100 to be able to compute meaningful results using the maximum likelihood estimation method which this study exceeded.

Similarly, SEM techniques generate latent variables from multiple indicators to minimize the error in the estimation of the latent variables. This manipulation yields higher regression coefficients and less error than when individual indicators were as was the case with canonical analysis.

Given the effort invested in drafting and pre-testing the web-based questionnaire, the researcher anticipated that this would enhance participation in the study and would facilitate easy and rapid responses with a higher response rate of up to 44%.

Briddle and Marlin (1987) also question the cost involved using SEM packages which they state are expensive and take up more computer memory than least square methods.

Furthermore, Briddle and Marlin caution against the complexity of SEM procedures and user misunderstanding of their implications in the sense that these techniques are capable of generating meaningless information and that users may be tempted to use the options in their causal models without any justification in their research designs.

In addition, Briddle and Marlin caution that as these techniques usually aim at producing the best fit to the data, they have the effect of changing the research process into being inductive where no hypothesis is tested, no theory assessed, and no causal model is confirmed.

Thus, among the many decisions made in using these technique was the intention or purpose of the exercise, that is, whether to test or generate a model. In this study, the intention was to test the model and therefore nothing suggests that the misapplication of the technique.

In the main, the problem associated with the use SEM raised by the above scholars relate largely to its misinterpretation and misapplication and care was taken in this study to minimise these mishaps by paying special attention to the caveats which have been raised in the foregoing discussion.

Table 7-21: Effects decomposition of the integrated SEM model

		Endogenous variables										
Cause	**Effect**	**Survival**			**Growth**			**Competitive**			**Opportu Actio**	
		B	**SE**	**β**	**B**	**SE**	**β**	**B**	**SE**	**β**	**B**	**SE**
Structure	*Direct*	.06	.09	.05	-.39***	.05	-.41***	-.53***	.07	-.58***	.11***	.09
	Indirect	-.05	.04	-.05	.07	.05	.07	.01	.02	.01	-	-
	Total	.01	.10	-	-.33***	.07	-.34***	-.52***	.07	-.57***	.11***	.09
Context	*Direct*	.37***	.08	.40***	.05	.05	.06	.07	.06	.09	.27***	.07
	Indirect	.10**	.04	.11***	.14***	.04	.18***	.02	.02	.02	-	-
	Total	.47***	.08	.52***	.19***	.06	.24***	.08	.05	.11***	.27***	.07
Strategy	*Direct*	.08	.12	.06	.22***	.07	.20***	.35***	.08	.33***	.61***	.10
	Indirect	.06	.06	.05	.34***	.06	.30***	.05	.04	.05	-	-
	Total	.15	.10	.11***	.56***	.08	.49***	.40***	.07	.38***	.61***	.10
OA	*Direct*	.11	.10	.10	.55***	.06	.61***	.08	.07	.09	-	-
	Indirect	-	-	-	-	-	-	-	-	-	-	-
	Total	.11	.10	.10	.55***	.06	.61***	.08	.07	.09	-	-
OO	*Direct*	-.46***	.11	-.32***	.03	.07	.03	.03	.08	.03	-	-
	Indirect	-	-	-	-	-	-	-	-	-	-	-
	Total	-.46***	.11	-.32***	.03	.07	.03	.03	.08	.03	-	-

Notes. B = unstandardized path coefficients, β = standardised path coefficients, SE = standard error. *** = p < .01, ** = p < .05, ** = p < .10.

7.4.2 Comparative SEM models

Four SEM models for the each of the dependant variables and one for the full model comprising all dependent variables appearing on Table 7-22 show the consistency of the model fits.

Table 7-22: Comparative SEM models fit

Model	λ^2 (df)	SRMSR	RMSEA	CFI	NNFI
Growth	.81 (2)	.00	.00 .00 (95% ucl) .12 (5% lcl)	1.00	1.06
Competiveness	.81 (2)	.01	.00 .00 (95% ucl) .12 (5% lcl)	1.00	1.11
Survival	.81 (2)	.00	.00 (95% ucl) .12 (5% lcl)	1.00	1.11
Full model	9.52 (5)	.23	.09 .00 (95% ucl) .18 (5% lcl)	.99	.92

Source: Extracted from SAS (2010)

7.5 Discussion of the quantitative results

This section presents a discussion of the results of the quantitative study conducted among franchisors to examine three research questions, that is, the relationship between structural, contextual, and strategic factors and OO, between OO and OA, and between OA and the growth, competitiveness, and survival of franchise systems.

These results emanate from the statistical analyses using various procedures on SAS such as factor and regression analyses, canonical analysis and SEM conducted on 111 observations on the study's variables (which were reduced from 36 to 26 through factor analysis) used to address the above research questions by testing seven hypotheses.

As discussed in section 7.4 above, the ensuing discussion focuses on the interpretation of the results of the hypotheses tests mainly based on the SEM results shown on Table 7-20 above, for the sake of completeness reference will also be made to the magnitude, fit indices and significance tests of the statistics generated by factor analysis (Table 7-3 through Table 7-5), regression analysis (Table 7-7 through Table 7-11 and canonical analyses (Table 7-12 through Table 7-18).

7.5.1 Discussion on research question 1 (Hypotheses 1–3)

This section focuses on hypotheses 1 to 3 which tested research question 1 by measuring the relationship between structural, contextual, and strategic factors and OO among franchisors.

Hypothesis 1: Structural factors and OO.

Hypothesis 1 postulated a positive relationship to exist between structural factors and OO among franchisors. Raw data and factor analysis identified three independent or predictor variables that is future profits, incomplete contracting and Information asymmetry with a significant t value of 3.93 $p > 0.0002$ at alpha = 0.05 as the predictor in the regression model shown on Table 7-7 above in the regression model which presented relationship between structural factors and OO.

Similarly, raw and factor analysis identified three dependent or criterion variable, that is, non-exclusive territories, no arbitration clause and tying agreements with a significant t value of 2.29 $p > 0.0240$ at alpha = 0.05 in the regression model shown on Table 7-7 above which presented the OO construct.

An F statistic of 10.23 ($p < .0002$) between these sets of independent or predictor and dependent or criterion variables suggest the existence of a statistically significant relationship between structural factors and OO.

Similarly, as shown in Table 7-12, canonical analysis and most importantly, Table 7 20 shows that SEM found a statistically significant relationship between structural factors and OO represented by a significant t value of 1.98 between these variables which suggests support for hypothesis 1 by indicating that structural factors lead to OO among franchisors.

These results seems to confirm the view expressed by scholars such as Muris (1980), Williamson (1985) and Hadfield (1990) and others that the lure of future profits serves as a governance mechanism that controls opportunism among franchisees.

In other words, these scholars suggest that franchisees are likely to adhere to their contractual obligations out of fear of losing future profits that flow from the execution of the franchise contract they have signed with their franchisors.

Therefore, profits serve as an incentive or a self-enforcing mechanism (Klein, 2000) for contractual performance among franchisees that is the standpoint of agency theorists that is generally offered in research as one of three reasons for franchising, the others being resource constraints and transactions costs as was explained in Chapter 3 above.

However, as Brown (2000) argues that opportunism begets opportunism, the finding of this study on this issue suggests that what is proverbial "sauce for the goose if sauce for the gander" because the lure of future profits especially from a profitable franchised outlet is enough to entice a franchisor to act in an opportunistic manner against a particular franchisee.

This is probably the reason why most franchisors insist on including a buy-back clause or severe territorial restrictions in the franchise contracts they conclude with franchisees so that they can act opportunistically whenever a suitable moment arises in order to "appropriate the rents" Dnes (2003).

For example, the on-going story involving the listed leading department store referred to a number of times above that is seeking to buy back its profitable franchised food outlets is a case in point.

It would seem that the incentive among franchisors to buy back outlets is their actual or potential profitability so that they can run them as company stores or sell them on to other franchisees at higher profits as there could be no reason for buying back a failing store and closing it down.

Brickley and Dark (1987) alluded to the tendency among franchisors to franchise outlets they are unwilling to assume the risk involved in setting up and operating such outlets that seems to change as soon as the outlet proves to be profitable.

As discussed above, the pursuit for undeserved profits among franchisors with an OO survives the expiry, termination, or cancellation of the franchise contract because most franchise contracts require departing franchisees to sell the businesses or any salvageable assets to them at prices determined by themselves (Udel, 1972).

As is the case with the departmental store mentioned above, franchisors refuse to renew the franchise contracts of franchisees who sell their businesses to their franchisors and the sale of franchises to third parties are not be approved (Muris, 1980).

This entails that the soon-to-be-ex-franchisee has no option but to sell the business or its assets to the franchisor at possibly low prices set by the latter as it has no market to dispose of the asset to.

In addition, the restraint of trade clause found in most franchise contracts prohibits terminated or cancelled franchisees from converting their sites or put the assets of the business to similar or alternative use for a period stipulated in those franchise contracts, usually a year or two (Udel, 1972).

By the end of the restraint period, the ex-franchisee would have lost the site or its goodwill because of non-usage and probably be saddled with damages because most lease agreements require the tenant to carry out a particular trade from the leased period or face cancellation of the lease and damages even by the franchisor where he is the property owner.

At the end of either the short term fixed contract either because of the effusion of time or premature termination of the franchise contract, the franchisee is forced to leave the franchise system it developed goodwill for in an area in that the franchisor was not prepared to risk its money, time and effort.

This seems to force the franchisee to leave the franchise system with far less equity than it had brought into the franchise system or a negative balance sheet, especially if the initial loan is not fully repaid that the case in the event of an abrupt termination.

The franchisee forfeits even the ability to exploit the local market knowledge it had spent money, time and effort acquiring while the franchisor retains the goodwill that the franchisee generated for the franchisor in the area and acquires the right to purchase the assets from the departed franchisee at drastically reduced prices and the right to lease to the site to another franchisee at a premium because of the associated goodwill.

This confirms the view expressed by the researcher in Chapter 3 in terms of which he described OO as a zero sum game in the sense of it creating a "winner-takes-it-all" scenario for the franchisor in this case.

Hypothesis 2: Contextual factors and OO

Hypothesis 2 postulated a positive relationship to exist between contextual factors and OO among franchisors. Raw data and factor analysis (Table 7-3) identified three independent or predictor variables, that is, lack of legislation, lack of regulation and competitive pressures which produced a statistically significant t value of 3.72 $p > 0.0002$ at alpha = 0.05 in the regression model shown on Table 7-7.

In addition, as shown on Table 7-13, canonical analysis also found a statistically significant relationship between contextual factors and OO which suggested the existence of a relationship between these variables.

As it appears on Figure 5: Final path diagram, SEM confirmed these results by yielding a statistically significant results with a t value = 2.81 which suggested support for hypothesis 2 by indicating that contextual factors such as lack of legislation regulating the relationship between franchisors and franchisees encouraged OO among franchisors represented by the lack of exclusive territorial areas within which franchisees are allowed to trade freely without competing with sister outlets.

V2. The government should regulate the franchising industry

This expected negative response highlights the views expressed in the literature about the conduct of most franchisors vis-à-vis government intervention given that Mathewson and Winter (1985) found a decline in franchising in states that introduced anti-termination laws in a number of states in the United States.

The widespread resentment of government involvement in the franchising revolves around perceived interference with the self-regulation that most franchise systems have grown exponentially under in most countries over the past 50 years.

However, this spectacular growth has not been without casualties as can be seen from the increasing number of complaints and cases against franchisors reported in the daily press and law reports and journals such as the Minnesota Law review, Michigan law report, Pennsylvania Law review.

As discussed in Chapter 1, the main source of disagreement has been about the conclusion and implementation of certain franchise contracts, perceived to be one-sided in favour of franchisors.

This stems largely from that most franchisors or their attorneys write their franchise contracts that as Hunt (1972) points out, “are sold, and not negotiated, like insurance policies on a take-it-or-leave-it-basis” (p74).

According to Hunt, franchisees are required to adhere to some very restrictive clauses such as those requiring franchisees to charge certain pre-determined prices and purchasing stocks from the so-called approved suppliers that resulted in the franchise contracts referred to as the “contracts of adhesion” (Hadfield, 1990).

Hadfield refers to numerous cases in which franchisors deny their franchisees the opportunity to seek legal advice before signing the franchise contract, which takes place on presentation at the premises of the franchisor.

Until recently, franchisees in this country could not even see the franchise contract before paying a non-refundable deposit that amounted to thousands of rand.

In addition, franchisees also make other financial and emotional commitments that made it impossible for them to review, reflect, or withdraw after signing the franchise contract that franchisees sign without obtaining legal advice.

On the other hand, Porter and Renworth (1978) found that most franchising disputes often arose where franchisees sign franchise contracts without consulting attorneys.

In addition, abundant evidence in the literature suggests that most franchise contracts are incomplete due to limited cognitive abilities of franchisors and franchisees; and the difficulties involved in predicting future changes due to market and technological factors (Williamson, 1985).

Most franchisors, however, have continued to adopt a classical law interpretation of franchise contracts that has been criticised for focusing on the explicit terms while ignoring the implied terms of the franchise contract informed by the evolving social norms and values in which the franchise relationship is embedded (Granovettor, 1985).

Adopting such an approach suggests an interpretation of the franchise contract in a manner that takes into account the “spirit” and not only the “letter” of the contract which would be as less adversarial as referring a dispute for arbitration or mediation instead of a court of law.

Thus, the use of classical contract law could possibly have led to widespread terminations of franchise contracts on the grounds of the interpretation of vague and ambiguous clauses in terms of the letter of the law or explicit meanings that have resulted in public outcries for legislative intervention.

In this country, the CPA came into being *inter alia*, to level the franchising playing fields, with the results that new franchise contracts must comply with the Act with effect from 01 April 2011. Failure to do so would result in the terms of the Act taking precedence above any terms of the franchise contracts not amended by that date.

Most importantly, the CPA requires the incorporation of RET principles in the interpretation of franchise contracts seen to be one-sided in favour of franchisors that drew them in respect of which; franchisees have little chance of success in the event of a dispute.

Franchisors are able to use legal tricks to exploit the grey areas that they could build into franchise contract that as Williamson (1987) observed, were defective as they were incomplete.

According to Williamson, franchise contracts were incomplete principally for because of the high transactions costs involved in drafting, negotiating and concluding a comprehensive franchise contract and that such franchise contracts are difficult to write because of the limited human cognitive abilities of franchisors and franchisees and their lawyers.

In addition, unpredictable market conditions caused by customer and technological changes make it difficult to accurately predicting future market contingencies that may require re-negotiating of franchise contracts to adapting them to the changed circumstances.

However, while under the self-regulatory regime franchisors could almost write anything they liked in the franchise contract irrespective of how it disadvantages franchisees, under the newly enacted CPA franchise contracts are now required to comply with the Act in a number of respects discussed throughout this study.

As Muris (1980) points out, allegations abounded that franchisors received kickbacks and dividends from companies listed as suppliers franchised outlets in the chain.

Until recently, franchisors never accounted to the franchisees for such benefits that accrued to the franchise system from such “closed shop” arrangements which the approved supplies.

The CPA requires now franchisors to disclose whether franchisors are shareholders in these companies, and whether they received any dividends or kickbacks and how franchisors distributed these benefits among the franchisees (Woker. 2012).

Another provision of the CPA that has always been a source of disagreement between franchisors and franchisees is the handling of advertising fees that franchisees pay to franchisors (Justis and Judd, 1988).

Disputes have involved on advertising policy with franchisors preferring national advertising that is cheaper because of scope while franchisees preferred local advertising tailored made for specific target market (Love, 1990; Sanderson, 1995).

Similarly, Porter and Rentworth (1978) found that sharing advertising expenses costs was one of the common and most frequent causes of tension and litigation in the franchise relationship.

As was raised by a number of franchisees during the interviews conducted by the researcher, franchisees complained that they were not getting fair value for the advertising fees they paid to their franchisors (Tomzack; 1994; Shivelli and Banning, 1997).

There are allegations that franchisors misuse the advertising fund by allocating them to cover their other overheads such as salaries and bonuses (Hadfield, 1990). Generally, franchisors had a complete discretion as to how to spend these funds with the result that there were complaints that some franchisors were acting opportunistically by diverting these funds to pay the administrative expenses of the companies such as rent, fuel, salaries and bonuses (Muris, 1980).

For this reason, Michael (2000) addressed these concerns in a study aptly entitled: "Do franchise chains advertise enough." Michael found that franchisors tended to advertise less than their corporate counter-parts.

Generally, franchisees complained during interviews reported in the next Chapter about inadequate or insufficient levels of advertising by their franchisors or the irrelevance or ineffective or infrequent advertising campaigns that did not take into account geographical differences.

The CPA addresses some of these issues by requiring that a separate bank account be set for keeping the advertising or marketing fund into which advertising fees paid by franchisees, keep proper accounts, and distribute audited financial statements among their franchisees every three months (Woker, 2012).

Hypothesis 3: Strategic factors and OO or OA.

Hypothesis 3 postulated a positive relationship to exist between strategic factors and OO among franchisors. Raw data and factor analysis identified three independent or predictor variables, that is, joint ventures, financial assistance and lease Control which achieved a statistically significant t value of 3.72 $p > 0.0016$ at alpha = 0.05 in the regression model shown on Table 7-7. This suggested that strategic factors predicted OO among franchisors.

Similarly, Table 7-14 shows that canonical analysis found a statistically significant relationship between strategic factors and OO among franchisors. However, SEM found a strong statistically significant relationship between strategic factors and OA not OO, path coefficient = .271 and t value = 4.00.

This suggests support for hypothesis 3 by indicating that strategic factors such as the provision of financial assistance to franchisees by franchisors led to OA such as the non-provision of exclusive trading areas among franchisors.

As discussed in Chapter 5, franchisors usually extend financial assistance in the form of business loans, guarantees, and credit facilities to franchisees to enable them to own and operate franchised businesses.

Such deals form part of the franchisor's strategy to achieve rapid growth in new geographical areas or markets in which it seeks to expand and could soon be used by franchisors in this country as part of their social responsibility or BBBEE programmes on the back of State, bank, or foreign agency funding or guarantees.

To that end, the franchisor would normally sign the head lease that it subleases to its franchisee-partner with the result that an interlinked three-tier relationship involving the franchisor-franchisee, lender-borrower, and landlord-tenant elements with back-to-back agreements is established.

Such an interlocked relationship stacks odds heavily in favour of the franchisor and give the franchisee little room to organise or streamline its business and financial affairs without falling foul of one or the other agreements with equally disastrous consequences.

Thus, any disagreement between the parties on any of the issues covered by any of the tri-partite agreements can spell disaster for the franchisee such as the case where a franchisee may experience cash flow problems for one reason or another at different times cannot always succeed in rescheduling its commitments.

Under these conditions, the franchisee virtually faces the same creditor on three or four fronts when taking into account the influence that franchisors have on the suppliers of consumables and raw materials used in the production system (Muris, 1980).

This gives the franchisee very limited financial leeway to conduct its business with the result that upon defaulting on any one of the agreements, the franchisee faces termination or cancellation of the rest of the stacked deal.

In addition, the unfairness of such deals lie in that while the parties share the upside that is the "bottom line" or profit that the business makes, the franchisor does not suffer the any losses simply because it can capitalise any losses and increase its stake in the business at the expense of the franchisee with the result that the franchisor can buy out the franchisee at a fraction of the market value of the business whenever it may decide to do so (Muris, 1980).

Once again, the embattled franchisee forfeits whatever equity it may have invested in the business and sometimes faces damages on the cancelled lease and penalty interest on the foreclosed loan and so forth.

Thus, joint ventures or any forms of financial assistance granted to franchisees by franchisors may turn out to be a poisoned chalice or straightjacket. This is because in such a "close-shop arrangement" that can be compared to "an arranged marriage," the franchisee is at a considerable disadvantage from the start.

Such arrangements place franchisees in a position where they cannot freely negotiate favourable terms as they would in an open market where prescribed legal requirements which may provide them with favourable loan terms and protection against over-zealous creditors.

7.5.2 Discussion on research question 2 (Hypothesis 4)

Hypothesis 4 postulated a positive relationship to exist between OO and OA among franchisors.

Hypothesis 4 – OO and OA among franchisors

Raw data and factor analysis identified three independent or predictor variables, that is, resale price maintenance, non-exclusive territories and shorter contract term, achieved a significant t value of 2.29 and $p > 0.0240$ at alpha = 0.05 in the regression model shown on Table 7-8 above in the regression model presenting OO.

Similarly, as shown in Table 7-8 raw data and factor analysis identified three dependent or criterion variables with a statistically significant t value of 3.39 $p > 0.0012$ at alpha = 0.05 as a dependent variable presenting the OA construct.

In addition, as shown on Table 7-15, canonical analysis found support the hypothesised relationship between OO and OA.

However, SEM found no statistically significant or direct relationship between the OO – OA dimensions. This suggests lack of support for hypothesis 4 by indicating that OO such as the provision of non-exclusive territories to franchisees by franchisors do not lead to OA among franchisors such as the termination of franchise contracts by franchisors.

Therefore, other than stating that the findings of the study suggests that OO and OA are unrelated; that they are in fact substitutes that serve as intervening variables between some of the dependent and independent variables, no further discussion of these findings is warranted.

7.5.3 Discussion on research question 3 (Hypotheses 5 – 7)

Hypotheses 5 to 7 examined research question 3 to test the postulated negative relationship between OA as the independent variable and growth, competitiveness and survival as the dependent variables.

Hypothesis 5: OA and the Growth of franchise systems

Hypothesis 5 postulated a negative relationship to exist between OA and the growth of franchise systems. Raw data and factor analysis identified structural, contextual and strategic factors, that is, three independent or predictor variables as predictors of growth with a significant t values -5.05, 7.21 and 8.49 $p > 0.001$ for all independent variables at alpha = 0.05 in the regression model shown on Table 7-9.

As shown on Table 7-16, canonical analysis also found a statistically significant between the above OA predictor variables and the growth variables.

In addition, Table 7-20 shows that SEM found a highly statistically significant relationship between structural factors and growth of franchise systems at t value = -4.14 and between strategic factors and the growth of franchise systems at t value = 4.18.

These unexpected results show new paths which, while not directly providing support for hypothesis 5 as originally envisaged, indicate that structural and strategic factors directly and not through the mediating or intervening variables, that is, OO or OA, contribute to the decline of franchise systems.

This response answers the research question 3 in the desired direction by suggesting a negative relationship between structural and strategic factors among franchisors and growth of franchise systems.

As discussed in section 5.2.3, the presence of structural factors such as incomplete contracting, hostages and unequal bargaining power in the franchise relationship may encourage franchisors to take drastic measures against their franchisees for minor breaches in order to terminate or refuse to renew the franchise contracts of some outlets they may wish to buy back and own or on-sell to other franchisees at a profit.

This was the case in the various court cases referred to Chapter 1 involving the Woolworths group after the company took a policy decision to buy back all their franchised outlets in in the last few years upon realising that the franchise model was highly profitable and it did not want to share profits with its franchisees.

The company offered to buy back the outlets at a price it unilaterally determined and franchisees who refused to sell were confronted with notices of non-renewal of their franchise contracts despite the fact that some franchisees had options to extend their franchise contracts.

Woker (2012) also decries a local fast food franchise which "rationalised", a euphemism for closing down some 30 outlets costing the affected franchisees some R1.8 million per outlet in preparation for a planned listing and a BEE deal that never materialised ostensibly due to unfavourable market conditions.

Furthermore, the reputational damage that results from the termination and non-renewal of outlets and the closure of outlets creates a negative publicity for the franchise system may discourage existing franchisees from renewing or extending their franchise contracts or seeking opportunities to acquire additional outlets within that franchise system.

Similarly, potential franchisees or independent retailers may also be repelled from buying into the franchise system characterised by the frequent closure of existing outlets or acrimonious legal battles involving a particular franchise system and its franchisees.

For example, the Woolworths saga received massive unfavourable coverage in the local press that possibly discouraged some potential franchisees and investors from taking up franchising.

The public outcry against franchisors that has found its way into the local press and the courts of the land resulted in screaming headlines such as "Franchisees phased out at Woolworths" (The Star, Business Report, 3 September 2010), "Days of milk and honey are over"(City Press, 04 October 2010) and "Franchisee assisted" (Zungu, 15 June 2011).

Thus, the existence of OO among franchisors in some franchise systems as suggested by this study appears to have a negative effect on the psychological climate (Strutto, Petton and Lumpkin, 1995) within the affected franchise relationships.

As a result, there are unlikely to be prospects for growth within such franchise systems especially when bearing in mind that as most franchise systems are composed of more franchised outlets than company stores, the growth of franchise system hinges on the plans and actions of existing and potential franchisees.

Thus, if existing franchisees are unhappy and dissatisfied with the franchise system because of OO among their franchisors, such franchisees are unlikely to seek an extension or renewal of their franchise contracts or even seeking opportunities to acquire additional outlets within the franchise system.

As Peterson and Dant (1990) suggests, most aspirant franchisees contact and interact with existing franchisees to look for inside information on the franchise system before they finalise their choice of a franchise system, disgruntled franchisees are unlikely to recommend or encourage aspirant franchisees to enter their particular franchise system.

Similarly, an aspirant franchisee considering buying into a particular franchise system or converting its independent retail outlet is (Pebble and Hoffmann, 2003) likely to review or even withdraw from its plans once it notices the closure of a seemingly profitable outlet.

Furthermore, newspaper reports featuring a story about a protracted dispute between a particular franchise system and any of its franchisees may also discourage potential franchisees from entering the industry (Muris, 1980).

It is perhaps for this reason that some franchisors refrain from closing down outlets belonging to franchisees they may have de-franchised and elect to operate them as company stores until they appoint a new franchisee (Dnes, 1993).

Franchisors normally adopt this practice to avoid the negative publicity that comes with the closing down of outlets, which has the potential to cause reputational damage to the franchise system (Hadfield, 1990).

However, it is doubtful whether the damage suffered can be reversed by awarding additional outlets to some well behaving franchisees (Blare and Lafontaine, 2005) to bolster growth where more outlet closures are a rule rather than an exception.

Hypothesis 6: OA and the competitiveness of franchise systems

Hypothesis 6 postulated that negative relationship existed between OA and the competitiveness of franchise systems. Structural, contextual and strategic factors were used as the three independent or predictor variables with three dependent variables, that is, cost leadership, differentiation and focus representing the competitiveness construct yielded statistically significant results (t values: 7.76, 1.56 and 5.37 $p > 0.0001$, 0.1212 and 0001 at $\alpha = 0.05$) shown in the regression model shown on Table 7-10 above.

In addition, Table 7-17 shows that canonical analysis found a statistically significant relationship between the OA variables and the competitiveness variables.

On the other hand, Table 7-20 shows that SEM found direct (that is, not through OO and OA) and highly statistically significant relationship between structural factors and competitiveness at t value -8.86 and strategic factors and competitiveness at t value -4.18.

In an indirect way, these findings suggest support for hypothesis 6 which posited that OA are negatively related to the competitiveness of franchise systems. This suggests that franchise systems capitalise from entering into joint ventures with franchisees, providing them with financial assistance and controlling the lease of the franchised outlets.

As discussed in Chapter 5, within the context of Porter (1985)'s competitiveness model, competitive franchise systems strive to achieve lower operating and marketing costs, focus and differentiation which TCE theory suggests opportunistic franchisors pursue at the expense of their franchisees.

Firstly, reduced costs will arise not only because of their economies of scale through bulk and centralised purchasing, but also interest, dividends and kickbacks franchisors receive from their franchisees and suppliers (Muris, 1980).

Franchisors who enter into joint ventures, grant loans and leases to their franchisees effectively also become creditors and landlords to them with the result that franchisors acquire additional rights in terms of the franchise contract.

This entails that the franchisor can terminate the franchise contract not only on operational grounds such as failure to maintain hygiene standards on the business premises, but also once the franchisee defaults on its loan, dividend or rental obligations (Dnes, 1993).

As such, the granting of financial assistance and leased premises to the franchisees renders them more vulnerable to opportunistic actions of their franchisors such as terminations of the franchise contract and eviction from leased premises and attachment and resale of their businesses without having to follow onerous foreclosure procedures (Hadfield, 1990).

Ordinarily, a franchisee who defaults on a bank loan or rental repayment would have the option to make suitable arrangements with its creditors without their franchisors taking advantage of their plight or misfortune and invoke the termination clause upon calling up the loan or cancelling the lease agreement with the distressed franchisee.

As a result, prospective franchisees will avoid buying into a franchise system which insists on entering into joint ventures, providing loans and leases to franchisees.

In addition, existing franchisees will refuse opportunities to acquire additional units from such franchisors for fear of losing their businesses to the franchisors for defaulting on loans, dividend or rental payments to the same creditor who is unlikely to enter into repayment arrangements with a struggling franchisee because of the huge sums of money that may be owed.

Similarly, independent retailers may also refuse the temptation to convert their operations into franchised outlets because of the negative publicity which may follow the attachment of franchised outlets established through joint ventures, loans or leased premises provided by franchisors.

By serving as creditors and landlords to franchisees, such roles may place additional undue stress on the franchisors with the result that they may lose focus on the core business which involves developing and maintaining its relationship with their franchisees through improved performance and satisfaction with the franchise offering.

In addition, franchisors involved in financial or rental disputes with their franchisees may not realise the benefit arising from the local market knowledge that their franchisees possess which they may lose out on by being unable to utilise the creativity and innovativeness of their franchisees to differentiate their franchises from their competitors (Minkler, 1990; Bradach, 1997)

According to these scholars, because of their proximity to their customers, franchisees acquire better insight into and knowledge of customer needs and habits, tastes and lifestyle changes which can enable them to make an important contribution into the product development, pricing and marketing strategies of the franchise system.

Hypothesis 7 – OA and survival

Hypothesis 7 postulated a negative relationship to exist between OA and the survival of franchise systems with structural, contextual and strategic factors being used as the three independent or predictor variables with four dependent variables, that is, disruptions, exits, store closures, and buy backs representing the survival construct to yield statistically significant results (t values: 6.04 $p > 0.0001$ at alpha = 0.05) only between structural factors and the survival as shown in the regression model shown on Table 7-11 above.

On the other hand, Table 7-18, canonical analysis also found a statistically significant relationship between the OA variables and the survival variables.

However, Table 7-20 shows that SEM found a direct and highly statistically significant relationship between contextual factors and survival at t value = -4.92 and OO and survival at t value = -4.14.

The findings that contextual factors such as the lack of regulation and legislation and competitive pressures are directly (and not through intervening variables, that is

OO and OA) and negatively related to survival of franchise systems through the franchisees leaving the franchise system, store closures, disruptions and store buy backs by franchisors, were unexpected.

These findings underlines the important narrative which states that because of the self-regulation of the franchise industry in this country, there is an absence of appropriate dispute mechanisms which can help resolve disputes between franchisors and franchisees cheaply, quickly and fairly (Woker, 2012).

Within this context, disputes between franchisors and franchisees often lead to the termination of franchise relationship by franchisors through the cancellation or non-renewal of the franchise contract (Mathewson and Winter, 1985; Tuunanen and Torikka, 2001).

This invariably results in financial losses, bankruptcy and hardships to the franchisees, their families, staff and creditors who lose their income, investments and jobs following the closure of the franchised outlet (Hunt, 1977).

As discussed in Chapters 1, 3 and 5 of this study, the plight of the franchisees who are the weaker party in the franchise relationship lies in the hands of their more stronger, powerful and well-resourced franchisors.

This is because self-regulation of the industry under FASA is inadequately equipped in terms of resources and power to resolve franchising disputes as it is a voluntary organisation with no statutory power to force franchisors and franchisees to submit to its authority (Woker, 2009; 2012).

In addition, because of its apparent dominance by franchisors who appoint its board and management and pay for its expenses through membership and advertising fees, FASA is generally perceived to be biased against franchisees and cannot therefore not fairly adjudicate disputes between franchisors and franchisees.

Therefore, a need exists for specific legislation and regulation to address the relationship between franchisors and franchisees which has unique features that ordinary common law may not adequately deal with (Woker, 2009; 2012).

The need for legislation is also premised on the adversarial nature and the cost of litigation which tends to favour franchisors in that most franchisees cannot afford the protracted and costly legal battles it would take to challenge them in court (Drahozal and Hylton, 2003).

In addition, Udel (1972) also found that very few franchise contracts made provision for the arbitration or mediation of disputes between franchisors and franchisees which forces the parties to litigate their disputes.

The use of the courts is an adversarial process that usually results in the disintegration of the franchise relationship which may lead the courts into dissolving the franchise relationship that tends to deteriorate even further because of the litigation process (Drahozal and Hylton, 2003).

Therefore, in line with Drahozal and Hylton, the preferred usage of the courts to settle franchising dispute among franchisors suggest OO among them because, unlike the courts, the usage of arbitration or mediation to iron out franchising disputes tends to be more reconciliatory and can result in an amicable resolution of a dispute.

As a result, high litigation costs and reputational damage that can result from the negative publicity that normally surrounds litigated disputes between franchisors and franchisees can lead to the closure of stores, disrupted business activities (Muris, 1980).

In addition, the negative publicity that court cases attract has the potential to harden attitudes as parties vie for the moral high ground which can harm the franchise system by alienating prospective franchisees (Drahozal and Hylton, 2003).

According to these scholars, financial institutions may be unwilling to expose themselves to high-risk franchise systems with a history of incessant legal battles which present the risk of franchisee failure because of the possible terminations at will and disruption of the activities of their franchised businesses.

Store closures usually occur because of the termination of the franchise contract by the franchisors for a myriad of reasons some of which may be opportunistic through the "capricious termination clause" which grants franchisors the so-called "termination-at-will" right to terminate franchise contracts even for minor breaches of an explicit term of the franchise contract (Hunt and Nevin, 1975).

Udel (1972) found that more than 67% of franchise contracts he examined have a clause used by most franchisors to terminate their franchise contracts with franchisees and the closure of outlets.

As discussed above, the closure, disruption or buying back of franchised outlets may generate negative publicity that has the potential to harm the image of the franchising system because existing franchisees are unlikely to renew or extend their franchise contracts or seek or accepts opportunities to acquire additional units within the franchise system (Hadfield, 1990).

The frequent closure, disruption or buying back of franchised outlets may also repel prospective franchisees and their funders away from a particular franchise system as they result in huge social and economic upheavals that often lead to financial and job losses that often befall the franchisees, their creditors, staff and families (Hunt, 1977).

Lenders such as banks and credit guarantors and creditors such as suppliers of stock, premises, and equipment also suffer losses because of the closure, disruption or buying back of franchised outlets and this has the potential to undermine their confidence in the franchise system with the result that they may decide to abandon the sector to look for more secure business opportunities elsewhere.

Hence, the passing of the CPA in this country with far-reaching implications for the franchising industry which came into effect on 01 October 2011 aimed at regulating the franchise relationship between franchisors and franchisees (Woker, 2012).

Under the CPA, franchise contracts are now required to comply with the Act in a number of respects discussed throughout this study such as granting franchisees a 10-day “cooling off” period within which they can withdraw from a franchise contract without forfeiting any deposit they may have paid to their potential franchisors (Woker, 2012).

As Muris (1980) points out, allegations abounded that franchisors received kickbacks and dividends from companies listed as suppliers franchised outlets in the chain which until recently franchisors never accounted to the franchisees for such benefits that accrued to the franchise system from such “closed shop” arrangements.

The CPA requires franchisors to disclose whether franchisors are shareholders in the companies that they appoint to supply products and services to their franchisees and whether they received any dividends or kickbacks from such companies and how franchisors distributed these benefits among the franchisees (Woker, 2012).

According to Woker, another important issue which the CPA addresses that has always been a source of disagreement between franchisors and franchisees is the handling of advertising fees that franchisees pay to franchisors.

Disputes have involved on advertising policy with franchisors preferring national advertising that is cheaper because of scope while franchisees preferred local advertising tailored made for specific target market (Love, 1990; Sanderson, 1995).

Similarly, Porter and Rentworth (1978) found that sharing advertising expenses costs was one of the common and most frequent causes of tension and litigation in the franchise relationship.

As was raised by a number of franchisees during the interviews conducted by the researcher, franchisees complained that they were not getting fair value for the advertising fees they paid to their franchisors (Tomzack; 1994; Shivelli and Banning, 1997).

There are allegations that franchisors misuse the advertising fund by allocating them to cover their other overheads such as salaries and bonuses (Hadfield, 1990).

According to Muris (1980), franchisors had a complete discretion as to how to spend these funds with the result that there were complaints that some franchisors were acting opportunistically by diverting these funds to pay the administrative expenses of the companies such as rent, fuel, salaries and bonuses.

Michael (2000) addressed these concerns in a study aptly entitled: "Do franchise chains advertise enough." Michael found that franchisors tended to advertise less than their corporate counter-parts.

Generally, franchisees complained during interviews reported in the next section about inadequate or insufficient levels of advertising by their franchisors or the irrelevance or ineffective or infrequent advertising campaigns that did not take into account geographical differences.

The CPA addresses some of these issues by requiring that a separate bank account be set for keeping the advertising or marketing fund into which advertising fees paid by franchisees, keep proper accounts, and distribute audited financial statements among their franchisees every three months (Woker, 2012).

7.6 Summary

This chapter discussed the quantitative methods used in the study involving the design of the survey instrument and statistical techniques and procedures, that is, factor, regression and canonical analyses and SEM to produce the study's quantitative results based on questionnaire data gathered, analysed, and validated among a purposeful sample comprising 111 franchisors nationwide.

The study models produced relatively good and acceptable model fit and results which indicated marginal to strong support for some of the hypotheses that addressed its three research questions.

The next Chapter discusses the research methodology of the qualitative part of the study conducted among franchisees.

Chapter 8 Research methodology - Qualitative study

8.1 Introduction

Chapter 6 and 7 presented and discussed the quantitative methods and results of the study conducted among franchisors on the effects of OO and OA on franchise systems. For reasons explains in section 1.2.4, this and the next chapter present and discuss the qualitative methods and results of the study conducted among franchisees on the same issues as the quantitative study conducted among franchisors.

After this introduction, section 8.2 describes and justifies the qualitative methods used. Section 8.3 discusses the population and sampling issues and strategies. Section 8.4 explains the use of interviews as the data collection methods in the study. Section 8.5 presents the measures and propositions developed to address the research questions. Section 8.6 discusses the pre-testing of the interview statements among franchising experts. Section 8.7 discusses content analysis as the data analysis method used in the study. Section 8.8 concludes the chapter.

8.2 The qualitative design

This part of the study used qualitative methods, that is, purposeful sampling, interviews and content analysis to source, analyse and validate data obtained from franchisees to examining the research questions using the study's seven propositions discussed in section 1.2 above.

In addition, several studies have also used the qualitative methods to examine various franchising phenomena such as the use of franchising as a small business development strategy (Kirby and Watson, 1999), growth strategy (Watson, 2008) and market and partner selection processes (Doherty, 2009).

In the main, qualitative methods were used as part of the adopted concurrent mixed research methods research strategy explained in Chapter 1. Briefly, this strategy involved the use of different data sources and collection methods, data analysis and validation methods to conduct the study (Creswell, 2003).

This strategy helped to improve the quality of the study and address some of the study's theoretical, methodological, and practical issues and challenges (Ritchie and Lewis, 2005).

8.3 Population and sampling issues and strategies

This section addresses the composition of the population and sample of franchisees for this study.

8.3.1 Franchisee population

This population comprised all the country's franchisees in various sectors of the franchising industry such as fast food, restaurant and groceries, automative, oil and petroleum products, personal, business and homecare services.

However, because of the general lack of official franchising information, facts and statistics in this country, as referred to in previous chapters, it is difficult to accurately describe the demographics of the franchisee population in terms of the number of persons, age, race, gender, educational qualifications, business experience, location and so on.

This information could have been useful in the profiling of franchisees with the view to gaining relatively easy access and a better understanding of decision-making process among them on matters such as the motivations or reasons for existing and potential franchises to enter, leave or expand their franchise businesses. These issues play an important in this study as they underlie or inform the measures and constructs forming the bedrock of its variables, research questions and propositions.

The availability of demographic information about franchisees could also have been helpful in segmenting the population and composing samples for this study to ensure that appropriate respondents are selected who have the necessary depth and breadth in terms of knowledge, experience and ability to provide rich and relevant information.

However, Gordon (2010) estimates that the country has a total population of almost 30 000 franchisees in all nine provinces from whom it was decided to constitute a subpopulation comprising Gauteng-based franchisees with at least 3 years' experience from any sector.

This researcher believed that such franchisees met the minimum criteria were used in similar previous studies in terms of age, race, education marital status, business and or franchising experience and so on (e.g. Edens et. al, 1976; Morrison,1996).

On the other hand, Edens et al (1976) found that most franchisees in the United States were urban, middle-aged, married white males with undergraduate qualifications and a few years non-franchising business experience. Interestingly, the respondents to the interviews conducted for this study matched this profile of franchisees.

8.3.2 Sampling frame

In light of the foregoing population issues, it was also challenging to derive a sample frame from which to draw a representative or informative sample of franchisees. The absence of existing lists of franchisees because of the lack of detailed franchisor records, administrative records or published lists on the telephone directory, yellow pages, websites of franchisors or service providers was equally unhelpful.

The websites of most franchisors only provide telephone numbers and physical addresses of franchisees and no email addresses or fax numbers. These issues made it practically implausible and cost ineffective to communicate directly and quickly with franchisees or to send questionnaires to them because most of them could not be found on their telephone numbers for a variety of reasons.

As a result, the lists of franchisees published on the websites of franchisors were used to painstakingly set up appointments with franchisees that could be contacted and agreed to be interviewed. For these reasons, most of these franchisees were based in Johannesburg where the researcher lives and works with the result that only a limited number of franchisees could be reached using the limited financial resources and time available.

However, this was done not at the expense of obtaining useful information as qualitative research such as interviews sometimes involves smaller and purposeful samples which are data rich (Ritchie and Lewis, 2005; Patton, 2006).

8.3.3 Sample designing and choice

Having decided on the sample frame, the next task involved choosing the actual sample. Given the decision to conduct interviews with potential respondents for the reasons outlined in the preceding sub-section, in line with Ritchie and Lewis (2005), less robust, non-statistically representative and non-probability sampling methods that is purposive sampling was used to choose the sample make-up.

This involved selecting a sample that merely resembled characteristics of the population where the chance of selection of each element is unknown. According to Ritchie and Lewis, qualitative methods have been developed for this purpose and possess features designed to suit small-scale, in-depth studies of some phenomenon such as the present sought to do.

The qualitative part of the study conducted among franchisees was exploratory because it formed part of the study which arguably was among the first to be conducted on a conceptualisation of a relatively new construct, that is, OO, with the result that information-richness of informants and not sample size or statistical representation was the main priority. The study's purposeful sample consisted of 30 franchisees which was based on the recommendation of Creswell (1998) among other scholars who suggest that larger numbers of respondents do not necessarily yield better results in qualitative studies

The next step of purposeful sampling strategy involved identifying and including franchisees who met a particular primary selection criterion into the sample. These were the first three franchisees on the combined brand lists of fast food, groceries and restaurants, automative, fuel and petroleum, business services (such as telecommunications, insurance, bookkeeping and so on) and personal and home services such as educational, cleaning, gardening and so on, in the northern, eastern, western and southern suburbs of Johannesburg most of whom belonged to the franchise systems who participated in the qualitative part of the study.

As discussed in section 1.2.4 above, this formed part of the triangulation of the study by examining the same research questions among two different respondent groups and using two different research methods and instruments. In addition, franchisees with at least 3 years franchising experience and ownership of one outlet currently with the intention to acquire more or those with, two or more outlet constituted the study's sample of 30 franchisees.

In line with Ritchie and Lewis (2005), the researcher believed that the selected franchisees possessed the information, experience and knowledge required to address the research questions. Similarly, as most franchisors having their head-offices in Johannesburg, the researcher also believed that the proximity of these franchisees to their franchisors provided them with deep insights and understandings of the issues concerning the research questions on account of their regular interaction and contact with their franchisors.

Consequently, as Johannesburg is generally regarded as the biggest and most vibrant and sophisticated economic city in the country and on the continent, franchisees based in the city appeared to be suitable key informants for the study.

For example, one of the constructs – the Last Years of the Franchise Contract, required insight into the experience of a franchisee whose contract was about to expire and therefore this excluded new franchisees. In addition, secondary criteria were used to select the sample and these included demographic factors such as age, race, gender, marital status, educational background, business experience that were used in previous studies to profile sampled franchisees as these were believed to provide a rich context within which the behaviour and perceptions of sampled franchisees could be understood or interpreted.

8.3.4 Designing a sample quota and sample matrix

After selecting the location of the study subpopulation, the sample frame, a sampling method and criteria, the next task was to design a sample quota and matrix. These items gave a diagrammatical representation of the selection criteria and the number of sample units that comprised the sample. The matrix consisted of horizontal and vertical cells that contained a breakdown of primary selection criteria alongside the allocated quota of sample units that is, interviewed 30 Johannesburg-based franchisees.

The purpose of compiling a sampling matrix amounted to drawing up a plan that would ensure that the investigation was carried out in a meaningful and goal-directed manner. In line with Ritchie and Lewis (2005) this meant that the purposive sample designed for the study would achieve the desired objectives of the enquiry as this was necessary to obtain sample elements or units that resembled or bore the characteristics of the study population (and not the kind of statistical representation that qualitative studies strive for); and diversity within that representation, the so-called breadth and depth configuration or composition of the sample.

This entailed the selection of franchisees based on the broad characteristics of the population of franchisees in South Africa. To this end, use was made of Gordon (2010)'s characterisation of the franchisees as a guide, and not as a definitive road map.

Briefly, the sample matrix designed for this study is summarised in Annexure C. The matrix shows the primary purposeful sample selection criteria of the subpopulation consisted of franchisees in the main sectors of the business, that is, food and restaurants, fuel and petroleum, business services for example, telecommunications, insurance, bookkeeping and so on, and personal and home services for example, educational, cleaning, gardening and so on.

As discussed above, the purposive selection criteria included primary measures such as franchising experience, multi-unit ownership, and membership of franchisee associations among the 30 Johannesburg-based franchisees. In addition, secondary criteria comprising mostly of demographic factors such as race, gender, marital status, educational and business experience that were considered as the qualities of the population elements that addressed the research questions by providing the required breadth and depth of information.

8.4 Interviews as a data gathering method

This section discusses the use of interviews to gather data among a purposeful sample of 30 Johannesburg-based franchisees from a wide spectrum of restaurants, fast food and groceries, automotive and petroleum products, personal, business and home care services.

8.4.1 Introduction

Silverman (2006) and Myers (2009) categorise interviews into three: structured, semi-structured, and structured interviews. According to these scholars, structured interviews based on a pre-determined set and order or sequence of statements covering specific issues the researcher wished to canvass during the course of the interview over a set time limit agreed to between the researcher and the interview.

Myers (2009) opines that structured interviews are intended to *"ensure consistency across multiple interviews" (p122)* and to eliminate the need to improvise as the interview proceeds over a pre-specified period that removes the researcher's role to improvise and ask probing or follows up questions to seek clarity and more information.

Furthermore, Myers cautions that such interviews require careful planning beforehand to ensure that all issues are included in the list of questions to be asked.

However, one of the main benefits of structured interviews is their usefulness during telephone interviews.

On the other hand, Myers states that unstructured interviews are the opposite of structured interviews and that they require few if any pre-determined questions and may not have a pre-set time limit. The challenge with unstructured interviews is that the researcher must be prepared to think on his feet and be prepared and able improvise as soon as the interviewee has finished answering a particular question.

On other hand, semi-structured interviews are a combination of structured and unstructured interviews, which allows the use of pre-formulated questions without requiring a strict adherence to a specific sequence of questions or time limits. Thus, semi-structured interviews enable the interviewer to use his initiative and ask follow up questions as the interview progresses.

As the contact details of most franchisees were difficult to find on printed and electronic platforms such as the websites of their franchisors, telephone directory, or yellow pages, the researcher took the decision to conduct semi-structured interviews among a purposeful sample of 30 Johannesburg-based franchisees that he could secure appointments with during his unscheduled door-to-door visits.

8.4.2 Reasons for the choice of semi-structured interviewing.

Bradach (1997) suggests that a large number of franchising studies use structured or semi-structured interviews as a research methodology. For that reason and the fact that as this part of the study focused on addressing the research questions among franchisees, the semi-structured interviewing method was considered appropriate for the study because it provided a wide scope for contextual, exploratory, and evaluative examinations (Ritchie and Lewis, 2005) of the issues relating to the research questions.

Furthermore, these scholars suggest that it would have been very difficult, tedious and cost ineffective to try to obtain the required data from franchisees using naturally occurring data.

Based on the positivistic outlook of this study, no other method would have been more suitable than semi-structured interviewing which as described above, allowed for the simultaneous use of pre-determined questions and follow up open ended questions.

Similarly, this method provided the depth and breadth of coverage of the research issues that the researcher needed to interrogate the participants on a face-to-face basis.

In addition, Silverman (2006) points out that most qualitative research studies use the interview method primarily because of their cost effectiveness in saving time and other resources.

On the other hand, Aaker, Kumar and Day (2007) poignantly observe that semi-structured interviews are popular among researchers because of the following reasons:

More quality. Unlike in focus groups, one-on-one interviews can avoid responses influenced by other people. Interviewers may ask respondents directly and find out their personal thoughts on the product. This avoids “group think” and enhances the quality of the information.

More quantity. Researchers can obtain twice the amount of information per respondent in structured interviews, where the interviewer speaks at most to 20 per cent of the time, as in a typical 10-member focus group.

More depth. Structured interviews capture all the relevance and salience of the qualitative information of focus groups. The researcher can tape and transcribe every word the respondent speaks use it in multiple ways. Well-designed surveys can go beyond surface answers and produce a rich database of interviews to produce analyst report, identify broad themes, understands the ranges and depths of reactions.

More representation. Semi-structured interviews allow a much more representative approach as the researcher can carefully select represent respondents to represent the marketplace as accurately as possible

More efficiency. The researcher can interview participants via a 15-45 minutes phone conversation. Incentives of food and money in focus groups are not necessary for semi-structured interviews.

More value. One-on-one interviews can double or triple the number of minutes that the respondent is talking, and that is the true goal of research: understanding your consumer better.

In the main, the foregoing considerations fundamentally accounted for the choice of this method of enquiry for this part of study in that they fulfilled the minimum needs of both the research and the researcher alike. Furthermore, given the positivistic approach to the study, as Silverman (2006) indicates, qualitative research makes it possible *"to access directly what happens in the world, that is, to examine what people actually do in real life rather than asking them to comment upon it" (p 113).*

8.4.3 Ethical and legal issues

The sensitivity of the issues canvassed during the interviews also required personal discussions with franchisees in situations where the researcher could guarantee the confidentiality and anonymity of the franchisees especially when taking into account that most franchisees have confidentiality clauses in their franchise contracts that require them to obtain the franchisor's consent prior to engaging in discussions about the franchise system with third parties (Dnes, 1993).

However, legal advice informally obtained by the researcher indicated that as franchisees enjoyed freedom of speech, association, and exchange of information under the country's constitution, the interviews with the franchisees did not require the franchisor's consent as the exercise of their constitutional rights by franchisees ranked above their contractual obligations.

As in the case of franchisors, the researcher undertook to protect the privacy of the franchisees by not disclosing their personal or corporate identities in the final report and the interviews were arranged on the basis that the information required had much to do with the franchisee's views on the research questions and not on aspects of their franchise contracts *per se* the bad-mouthing or spying on their franchisors.

The next sub-section focuses on the theoretical assumptions underlying semi-structured interviews conducted among a purposeful sample of franchisees.

8.4.4 Theoretical assumptions of semi-structured interview data

Having selected the interview as the data collection method, an important question concerned the value attached to the data obtained during interviews with franchisees (Silverman, 2006).

This scholar suggests that it is vitally important to understanding various ways of generating and analysing data during the interview, as this helps with the assessment of the reliability and validity of the gathered data.

To this end, Silverman suggests three theoretical perspectives depicted on Table 8-1 of which one, that is, positivism, was used in this study for the reasons provided below.

Table 8-1: Three interview perspectives

Perspective	Nature of data	Methods	Verification
Positivism	Facts about behaviour and attitudes i.e. franchisee OO Biographical and statement facts Checks and balances needed to verify facts	Random samples Standardised questions Tabulations	Cross checking Further enquiry Measure ment
Emotionalism	Genuine experiences	Unstructured, open ended interviews	Further enquiry
Constructivism	Mutually constructed	Any interview between any interested parties	Further enquiry

Source: Adapted from Silverman (2006)

To briefly elaborate on these perspectives, within *positivism* interview data has the potential to describe reliable and valid measures for addressing the researching questions regardless of the research setting.

The researcher achieved this by the random selection of a sample of franchisees interviewed with the help of structured statements with multiple-choice answers were tabulated as the interview progressed.

Secondly, *emotionalism* interviews involve viewing sessions of franchisees constructing their social world with the aim of generating genuine facts and views about their experiences on the research questions. To achieve this goal, this study had to use unstructured, open-ended interviews which were considered inappropriate given the specific research issues under investigation.

On the other hand, *constructivism* does not restrict itself to the use of interviews between the researcher and franchisees to construct meaning on the research questions but also considers discussions between other interested parties with a common interest as a research tool.

8.4.5 The interview process

In line with Patton (2006), the conducting of the positivistic interviews in this study involved random purposeful samples, semi-structured interviews comprising fixed-choice and open-ended statements was a 3 stage process that consisted of the planning, execution and evaluation or analysis phases that followed each other consecutively

Pre-interview stage. This planning stage aimed at ensuring that rich data was obtained from franchisees, that is, informative data on the research questions in an interview through direct answers to specific research questions from the researcher and where necessary, respondents had to explain some of their answers.

In this study, obtaining rich data albeit from a smaller sample was as important as having a representative sample in a qualitative study (Ritchie and Lewis, 2005). Therefore, in planning for the interviews, a number of steps were taken with the aim of ensuring that rich data was obtained and tape-recorded.

Firstly, a thorough review of the literature conducted helped determine existing theories relating to the research questions which complemented a series of open-ended and unstructured exploratory interviews conducted with a number franchising experts such as attorneys, consultants and current and past franchisees on the relevant research issues.

The views and opinions of past franchisees received particular attention as they were expected to give more honest and candid views than their active counter-parts as existing franchisees who could be seeking to expand their outlets or renewing their franchise contracts could be loath to express some radical and critical views on the weaknesses of the franchise system.

In most cases, such franchisees may even be bound by confidentiality clauses of their franchise contracts not to comment on issues that pertain to their businesses (Dnes, 1993).

After collecting and collating all the expert views and ideas from the above sources, a structured interview guide with open-ended statements was prepared in order to guide the interviews and the collection and analysis of the data. As in the case of the quantitative part of the study, the research questions formed the basis of the interviews.

In addition, as the principle of standardisation forms the bedrock of most franchise systems (Kaufmann and Eroglu, 1999), it made sense to partly use standardised questions to gather data from the franchisees.

According to these scholars, standardisation ensured that all the outlets belonging to a particular franchise system offered the same products, at the same price, in the same quantities, and from similar premises and so on.

On the other hand, as most franchise contracts bind franchisees to secrecy through confidentiality clauses (Dnes, 1993), it was necessary to offer assurances to the franchisees concerned and to excuse the sceptical ones from participating in the study.

As discussed below, the researcher randomly visited the prospective respondent franchisees at their businesses in the western areas of Johannesburg closer to where he lived and made appointments with the staff of the franchisees.

In line with Bailey (1994), the preparations involved scheduling and confirming the interview appointments on site or later by telephone and providing the respondents or their assistants with the reasons for, the amount of time required as well as the confidentiality of the interviews and drawing up of an interview timetable.

The appointments were held at a mutually convenient time on the premises of the respondents.

Interview stage. As depicted on Table 8-2, Ritchie and Lewis (2005) discuss the steps involved in conducting a research interview that were followed in this study which aimed at removing the interviewee from his or her normal daily social frame of mind and placing him into a deep thinking and creative mind-set in order to tap into his information and belief system.

Table 8-2: The interview stage

Stage	Activities
Arrival	During this stage: - The interviewer arrived on the participant's premises - The researcher eased the participant into the interview - The relationship between the researcher and the participant was established - The researcher made conversation but not about the interview - Once the participant seemed comfortable, the interview began
Introducing the research	- The researcher introduced the research topic - The researcher explained the nature and purpose of the interview - The researcher affirmed the confidentiality of the interview and sought permission to record the interview - The researcher switched on the tape
Beginning the interview	- The researcher began by collecting contextual information e.g. biographical data - Informal questions were asked as not being pre-determined - Interview question were then posed - Follow up questions were asked to probe the participant's responses - The researcher assessed the replies and adjusts his questioning style accordingly
During the interview	- The researcher guided the participant through key themes - Each subject was explored in-depth with a series of iterative follow ups and probes - The participants were working at a deeper, more focused level than normal - discovering ideas, thoughts and feelings - The researcher asked questions that sought breadth and depth coverage of the research issues

Ending the interview	- The researcher signalled the approach of the end of the interview - The researcher checked if the participants had nothing more to discuss and that all their questions and concerns have been addressed - The researcher packed his bags, switched off the tape recorder

Source: Adapted from Richie and Lewis (2005)

Post-interview stage. On completion of the interview, the researcher thanked the participant warmly and stated how the information obtained during the interview will make an invaluable contribution to the research. The researcher reiterated the assurance of confidentiality given at the beginning of the interview.

In moving away from the interview, the researcher engaged in casual talk with the participants and listened carefully to what the participants said and assessed the need to restart the interview to deal with any new ideas or facts that the participants may wish to discuss with the researcher.

Thereafter, the researcher took leave of the participant to pursue his next interview and finally to transcribe and begin analysing the data. Annexure D presents a summary of the statements used to conduct the interview.

8.5 Franchisee constructs and measures in the model

This section highlights the constructs and measure discussed in section 5.3 above which were developed and mostly adapted for this study from previous studies and formed the basis of the semi-structured interviews conducted with franchisees to gather data needed to test the research questions.

These measures consisting of three items each appear on Table 8-3 through Table 8-15 and franchisee responses to each item were tallied to indicate the importance or otherwise of each measure to the respondents as discussed in section 8.6.2 below.

8.5.1 Measure 1: Structural factors as antecedents of OO among franchisees (Proposition 1)

Three sets of sub-propositions, that is, head-office to staff ratio, incomplete contracting and multi-unit ownership contained statements which measured proposition 1.

A. Head-office staff to franchisee ratio and OO.

The statements shown on Table 8-3 below measured relationship exists between the number of head office field staff and franchisee lapses or deviations from operating standards and procedures.

Table 8-3: Measurement of headoffice staff to franchisee ratio

1. Head-office staff conduct few and infrequent inspection visits
2. Inspectors usually spend an adequate amount of time during their visits
3. Regular store visits help to improve outlet performances

Source: Adapted from Shane and Spell (1998); Carney and Gedajlovic (1991); Lafointane (1992)

B. Incomplete Contracts

The statements shown on Table 8-4 below measured the relationship between the incompleteness of franchise contracts and exploitation of gaps in the franchise contract by franchisees.

Table 8-4: Measurement of Incomplete Contracts

4. Franchise contracts do not always cover aspects all the franchise relationship
5. At times franchise contracts fail to protect the interests of the parties
6. It is possible for franchisees to use the franchise contract to their own advantage

Source: Adapted from Williamson (1979, 1981, 1987); Muris (1980); Hadfield, (1990); Klein, 1995; Dnes (2000, 2002); Kidwell et al., (2007).

C. Multi-unit ownership

Table 8-5 contains statements which proposed to measure relationship between multiple unit ownership by franchisees and retaliatory behaviour by disgruntled franchisees.

Table 8-5: Measurement of Multi-unit Ownership

7. Multi-unit franchisees have more bargaining power than single-unit franchisees
8. Franchisors are inclined to be more considerate towards multi-unit franchisees than to single-unit franchisees
9. Multi-unit franchisees are entitled to "favours" from their franchisors because of their high contribution to success of the franchise system

Source: Adapted from Kaufmann and Dant (1996); Dant and Gundlach (1999); Shane (2001)

8.5.2 Measure 2: Contextual factors as antecedents of OO among franchisees (Proposition 2)

Three set of statements under sub-dimensions of membership of franchisee associations, lack of legislation and regulation and last years of the franchise contract examined the relationship between contextual factors and OO among franchisees.

A. Membership of Franchisee Associations

The statements shown on Table 8-6 below propose to measure the relationship between the absence of formalised franchisee associations and uncooperative franchisees.

Table 8-6: Measurement for Membership of Franchisee Associations

10. Franchise systems should allow and sponsor franchisee associations
11. Franchisee Associations are needed to advance the cause of franchisees
12. Some franchisees often abuse their membership of franchisee associations

Source: Adapted from Shane and Spleen (1988); Dandridge and Falbe (1995); Leblebici and Shalley (1996); Combs et al. (2004)

B. Lack of Franchise Legislation and Regulation

The statements which proposed to measure relationship between the lack of franchise regulation and an OO among franchisees appear on Table 8-7.

Table 8-7: Measurement of Lack of Legislation and Regulation

13. FASA should be granted legal powers to discipline errant franchisors and franchisees
14. There is a need for stringent franchise-specific laws
15. Franchising disputes should be handled by FASA only

Source: Emerson (1978); Brickley et al. (1991); Storholm and Scheuding (1994); Shane and Foo (1999)

C. Last Years of the Franchise Contract

For some obscure reasons, Penrose's (1959) promising franchise life cycle theory has not succeeded in stimulating much debate among scholars. However, there can be little doubt that the franchise relationship remains the same throughout the contract period.

The most challenging period could be the last years of the franchise contract that Muris (1980) refers to as "the last period" effect. The statements depicted on Table 8-8 proposed to measure the relationship between the crossroad phase of the franchise relationship and non-compliance with franchise standards and procedures by franchisees.

Table 8-8: Measurement of the Last Years of the Franchise Contract

16. It is much easier to operate a franchised outlet in the last years of the franchise contract
17. The last years of the franchise contract are the most profitable for franchisees
18. Franchisees are more cooperative towards the last years of franchise contract

Source: Adapted from: Muris (1980); Dant and Gundlach (1998); Dnes (2003)

8.5.3 Measure 3: Strategic factors as antecedents of OO among franchisees (Proposition 3)

Three sets of statements on brand value, geographic dispersion and local market knowledge proposed to measure the relationship between strategic factors and OO.

A. Brand Value

Table 8-9 shows the statements which proposed to measure the relationship between a strong brand and an inclination among franchisees to free ride on the franchisor's brand.

Table 8-9: Measurement for Brand Value

19. A strong brand offers many advantages to franchisees
20. Most franchisees prefer to be associated with a strong brand
21. It is easy for franchisees to make money from a strong brand

Source: Adapted from Klein (1980); Klein and Leffler (1981); Peterson and Dant (1990); Kaufmann and Stanworth, 1995; Combs and Ketchen, 2004.

B. Geographic Dispersion

Table 8-10 contains the statements which proposed to measure relationship between the locations of franchised outlets and franchisee tendencies of non-compliance with franchise standard operating procedures and processes.

Table 8-10: Measurement for Geographic dispersion

22. Most franchised outlets are situated far away from the franchisor's head-office
23. Franchisees prefer outlets that are located far away from the franchisor's head-office
24. Franchised stores that are located near the franchisor's head-office receive more inspections than usual

Source: Adapted from Brickely and Dark (1987); Norton, 1988; Kaufmann and Dant (1998); Castriogiovanni and Justis (1998); Combs and Ketchen, 2003)

C. Local market knowledge

Table 8-11 contains statements which proposed to measure the relationship between the franchise business strategy and the uncoordinated use of the franchisee's local market knowledge.

Table 8-11: Measurement for Local Market Knowledge

25. Franchisors value the local market knowledge that franchisees possess
26. Franchisees use their local market knowledge to their own advantage
27. Once-off customers present less problems to franchisees

Source: Adapted from Caves and Murphy (1976); Brickely and Dark (1987); Norton (1988); Minkler, 1990; Bradach (1997); Combs et al., 2004

8.5.4 Measure 4: Opportunism among franchisees (Proposition 4)

Hadfield (1990) lists a number of ways in that franchisee acts that indicate a manifestation of OO within the conceptualisation of the construct in this study. The literature shows that some franchisees engage in undesirable behaviour at one time or another with the aim of increasing their wealth at the expense of the franchise system or their fellow-franchisees. Franchisees that are likely to engage in these forms of behaviour may display certain tendencies that franchisors need to heed.

Therefore, the statements consolidating the issues into two categories, that is, failure to account for sales and to maintain quality standards discussed in this section and shown on Table 8-12 proposed to measure the relationship between franchisees who fail to account for sales and maintain quality standards and OA among franchisees.

Table 8-12: Measurement for opportunistic actions among franchisees

28. Franchisees deserve higher returns than their normal business activities can provide
29. It is too much to ask franchisees to comply with all franchise rules and regulations
30. Franchisees should be allowed to ignore some rules in order to maximize their returns

Source: Adapted from Muris (1980); Hadfield (1990); Dnes (2003)

8.5.5 Measure 5: Growth (Proposition 5)

A number of statements examined the relationship between OA and the growth of franchise systems among franchisees represented by new franchisees entering into the system, renewal of franchise contracts by existing franchisees, franchisees seeking multi-unit ownership opportunities and conversion of independent stores into franchised outlets

In a consolidated fashion, the statements shown on Table 8-13 which proposed to measure proposition 5.

Table 8-13: Measurement for Growth

31. It is sometimes not possible or desirable for franchisees to comply with franchise rules
32. It often does not pay for franchisees to adhere to operating standards
33. Sites for new stores are usually allocated to the "blue-eyed" franchisees of franchisors

Source: Adapted from: Oxenfeldt and Kelly (1969); Hoffmann and Preble (1983); Shane (1996)

8.5.6 Measure 6: Competitiveness (Proposition 6)

The statements shown on Table 8-14 proposed to measure the relationship between opportunistic actions of franchisees and the competitiveness of franchise systems.

Table 8-14: Measurement for Competitiveness

34. Brand building is not the responsibility of franchisees
35. At some point in the franchise relationship, most franchisees feel discouraged from providing ideas that may help to improve the franchise offering
36. Franchisees are sometimes of the view that they are not getting full value for the advertising fees they pay to their franchisors

Source: Adapted from Lillis et al (1976); Kaufmann and Rangan (1990); Bradach (1997); Litz and Stewart (1998); Sorenson and Sorenson (2001); Combs and Ketchen (2003)

8.5.7 Measure 7: Survival (Proposition 7)

The statements shown on Table 8-15 proposed to measure the relationship between the opportunistic actions of franchisees and the survival of franchise systems.

Table 8-15: Measurement for Survival

37. Franchisees usually expect their franchise contracts not to be extended or renewed
38. Because of the conflictual relationship, disputes between franchisors and franchisees are unavoidable
39. Stores closures and take-backs are not helpful in resolving some franchising disputes

Source: Adapted from Castrogiovanni et al. (1993); Kaufmann and Dant (1996); Stanworth et al. (1998); Lafontaine and Shaw (1998); Shane and Azoulay (2000).

Having presented statements representing the measures of the different propositions, the next section focuses on the use of content analysis to analyse the interview data gathered from franchisees.

8.6 Content analysis as the data analysis method

This study uses content analysis to examine the data gathered from 30 Johannesburg-based franchisees to examine the propositions that addressed the research questions.

8.6.1 Content analysis: Its meaning and application in this study

Given the many different definitions of content analysis, Neuendorf (2002) provides the most useful in this study. He defines content analysis as:

> *"a summarizing, qualitative analysis of messages that relies on the scientific method (including attention to objectivity, inter-subjectivity, a priori design, reliability, generalisability and research questions testing) and is not limited as to the types of variables that may be measured or the context in that the messages are created or presented" (p.10)*

According to Krippendoff (1980 and 2004), content analysis is used in both quantitative and qualitative studies. As this chapter focuses on qualitative studies, only the relevant aspects of content analysis are discussed.

Generally, qualitative studies invoke content analysis to analyse any kind of communication content such as speeches, written text, interviews, images and so on from which keywords are counted and frequencies, categorized and classified. This study followed this procedure upon conducting the interviews with the franchisees.

In line with the framework proposed by Silverman (2006), the analysis of interview data hinged on the epistemological assumptions adopted in the study. In this regard, Silverman identified three assumptions: positivism, emotionalism, and constructivism, which prescribed specific research tasks and obligations outlined on Table 8-1 above.

As discussed above in this section, positivism, the theoretical platform for this study, assumes that interview data should yield cold, real life facts about the social phenomenon under investigation that is, the effects of OO and OA on franchise systems.

Accordingly, Silverman's framework suggests the use of random samples, standardised questions, and tabulations to analyse the interview was in line with the positivistic paradigm outlined above.

Firstly, the semi-structured interviews conducted in line with a research protocol for naturalistic examinations required generating data that was independent of the research setting, the researcher or the interviewee, that is, franchisees.

Though using these guidelines can be criticised for their lack of flexibility and ignoring the dialogue that takes place between the interviewer and interviewees, positivist scholars believe this is necessary to ensure the reliability of the instrument and thus achieve the benefit of accurate measurement that is difficult to obtain from other instruments especially unstructured and open-ended questions.

The latter are open to subjective interpretation and as such may be difficult compare among a number of respondents, are time consuming and can be more difficult to analyse than structured questions.

As a point of departure, the conducting of the content analysis on the interview data aimed at producing knowledge that addressed the study's three research questions discussed in section in 1.2.1 above.

The design of the structured statements and schedule used in this study aimed at facilitating the content analysis of the interview data. The schedule or grid items consisted of manifest and latent factors that represented explicit and implicit facts, beliefs, perceptions that underpinned the behaviour of franchisees and the effects of OO and OA on the performance of franchise systems, respectively.

As discussed in the next sub-section, the schedule or grid consisted of an expanded nine theoretical constructs or measures, which in turn, comprised 3 manifest variables or items each that amounts to 39 items to which each of the participants responded.

8.6.2 Content analysis: coding and interpretation used in this study

As this thesis uses content analysis to analyse and interpret the interview data, it is important to briefly explain its use. To start with, content analysis requires the coding of data in order to determine categories or themes into which they may be classified on the basis of theoretical evidence (Brenner, 1981; Kvale, 1986; Lincoln and Cuba, 2000).

In line with Krippendorf (2004), propositions testing involved finding, aggregating and interpreting common responses among the respondent franchisees to the closed and open - ended statements during the interviews to indicate support for the research questions or otherwise.

Thus, based on literature review, the items shown on Table 8-16 below and contained in the interview guide (Annexure D) represent the theoretical constructs that proposed to measure the motivators of franchisee OO, the relationship between

OO and OA, and between OA among franchisees and on the growth, competitiveness, and survival of franchise systems.

Table 8-16: Summary of qualitative measures

Measures/Constructs and sub-dimensions	Number of items
Growth	3
Competitiveness	3
Survival	3
Opportunistic actions among franchisees	
Structural factors	
Head-office staff to franchisee ratio	3
Incomplete contracts	3
Multi-unit ownership	3
Contextual factors	
Membership of Franchisee Associations	3
The Last Years of the Franchise Contract	3
Lack of franchise regulation	3
Strategic factors	
Brand value	3
Geographic dispersion	3
Local market knowledge	3
Total	**39**

Source: Developed for this study

As indicated in Table 8-17 below, the coding used in the study amounted to the researcher placing a tick or a cross to signify the interviewee's agreement or disagreement with the statement, as the case may be.

At the end of the interviews, the interviewer or coder simply had to count each interviewee's tick and crosses for each item and work out the percentage score for that item among all the interviewees to determine support for or against the statement or proposition.

Table 8-17: Content analysis scoring system used in this study

Statement	Number (yes)	Total achievable	%	Results
Franchisees deserve higher returns than their normal business activities can provide	15	20	75	Supported

Source: Developed for the study

For example, a situation in which 15 out of 20 respondents place ticks next to item 1 of measure 1 indicates support for the relevant statement as it would have received 75% support from the respondents.

To test each proposition, the researcher added the scores obtained after tallying the number of responses to each of the sub - propositions that is, 3 items measuring each construct; and the total thereof divided by the total number of achievable responses for all 3 constructs combined and multiplied by 100 to obtain a percentage score for that proposition.

A percentage score of 50 or more indicates support for the construct. For example, for sub- proposition 1, the 3 statements on 3 items receiving ordinal scores of 11, 13, and 15 out of 20 possible responses.

These added individual responses give us 39, divided by 90, that is, the total possible number of responses achievable and multiplied 100 to get a percentage score of 65% for that proposition.

As this number is greater than 50%, this indicates support for the proposition. This coding and scoring system applies to the rest of the measures and items on each item and proposition.

8.7 Summary

This chapter discussed the qualitative methods such as population and sampling strategies and issues, the interviews and content analysis used to gather, analyse, validate and evaluate interview data obtained from a purposeful sample of 30 Johannesburg-based franchisees from a broad spectrum of products and services in South Africa on the effects of OO and OA on franchise systems.

The next chapter presents and discusses results of the qualitative study.

Chapter 9 Results and discussion – Qualitative study

9.1 Introduction

Chapter 8 discussed the research methodology for the qualitative study. This chapter presents and discusses the results of the qualitative study conducted among 30 purposefully sampled Johannesburg-based franchisees using data obtained from semi-structured interviews. Following this introduction, section 9.2 presents the breakdown of the characteristics of the sampled franchisees. Sections 9.3 and 9.4 present and discuss on the results of the qualitative study. Sections 9.5 and 9.6 deal with the validation and assessment of possible bias in the methods and results of the qualitative study. Section 9.7 discuss the study's triangulation strategy followed by a summary of the chapter.

9.2 Breakdown of interviewed franchisees

Table 9-1 presents a summary of the demographic profile of the interviewed franchisees.

Table 9-1: Breakdown of interviewed franchisees

Item	Number	%
Sector		
Food and Restaurant	13	43.33
Fuel and Petroleum	6	20.00
Business Services	8	26.67
Personal and Home Care	3	10.00
Total	**30**	**100.00**
Biographical information (Average)		
Age	40 yrs	
Race	White	

Gender	Male
Marital status	Married
Education	Grade 12
Business experience	10 yrs
Franchising experience	8 yrs
Franchisee Association membership	No
Single or Multi-unit ownership	Single-unit ownership

Source: Developed for the study

As depicted on Table 9-1 above, the profile of the interviewed franchisees consisted mostly of fast food operators of an average age of 40 years, Grade 12 education, married, white male with 10 years business experience and 8 years franchising experience as a single-unit owners who are not members of any franchisee association.

This profile is in line with that of an earlier study by du Toit (2003) and is similar to ones found in most franchising studies in the US and the UK. By way of preliminary comments, it must be pointed out that this profile reflects the skewed ownership of wealth that the post-apartheid government is trying to reverse through its political instruments such as the AA, SME development, and BBBEE.

Yet, there are still no clear or specific strategies developed to transform the franchising industry. This is despite media statements by FASA and other role players about the role that franchising can play in drawing black entrepreneurs into the mainstream of the economy.

It is clear that very little is being done by FASA, franchisors or the authorities to enforce or implement government policies referred to above to ensure that more black entrepreneurs are encouraged to enter and remain in the franchising sector as franchisors and franchisees.

As argued in the next chapter, such initiatives are necessary not only to transform the sector, but also to help create job opportunities in the communities from that black entrepreneurs originate. These communities suffer from high employment and poverty levels but have low skill levels that franchising appears to be ideally suited. This is mainly because of franchising being a turnkey or “ready-to-go” exercise, operated on a repetitive basis to produce and distribute goods and services to vastly dispersed geographical areas.

9.3 Results of the interviews and testing of propositions

The results obtained from the interviews conducted among the 30 purposeful sample of franchisees mentioned in the preceding section that show strong support for all but two of the 39 statements on the seven themes used to examine the study’s propositions.

As shown on Table 9-2 through Table 9-14 below, this section summarises the results of the examination of the research questions through the testing of seven propositions. In the ensuing discussion, for analytical and interpretation purposes the responses of the interviewed franchisees to the study measures or statements are categorised into three.

First, common comments representing the views expressed by most of the interviewed franchisees on the closed ended questions are processed as discussed in section 7.7.2 above and second, common responses to specific open-ended statements or measures are italicised and lastly, open-ended responses to specific responses made by some of individual franchisees on specific statements or measures are both italicised and indented.

9.3.1 Research question 1 (Propositions 1-3)

Research question 1 sought to determine whether there was a relationship between structural, contextual, and strategic factors and OO among franchisees. To this end, the study set three propositions 1–3 testing research question 1.

A. Testing of proposition no 1: The relationship between structural factors and OO

Several sub- propositions representing the sub-dimensions of the structural factors construct tested its relationship with opportunistic orientations.

i). Head-office Staff to Franchisee Ratio and OO.

As reflected in the statements on Table 8-3 above, based mainly on Shane and Spell (1998) this sub-proposition suggested a negative relationship between head office field staff to franchisee ratio and the frequent occurrences of franchisee deviations from operating standards and procedures. As shown on Table 9-2 below, this construct received strong support at 82%.

Table 9-2: Test results for Headoffice Staff to Franchisee Ratio

Statements	Number (yes)	Total achievable	%	Result
Head-office staff conduct few and infrequent inspection visits	25	30	83	Supported
Inspectors usually spend adequate amounts of time during their visits	26	30	87	Supported
Regular store visits help to improve outlet performances	23	30	77	Supported
Total	**74**	**90**	**82**	**Supported**

Source: Adapted from Brickley and Dark (1987); Shane and Spell (1998); Minkler (1990)

As discussed in section 8.5.1 above, the head-office staff to franchisee ratio refers to the number of field workers or quality controllers employed by the franchisor to monitor and enforce compliance with franchise rules, regulations and procedures expressed as a percentage of the total number of franchisees within the franchise system.

As all three statements 1-3 used to measure the relationship between head office to staff ratio and OO received a strong support of 82%, it seems for plausible for franchisors to match the number of field workers or quality controllers to the percentage of the number of franchisees.

To this end, information such as the perceived level of free riding within the franchise system, the total number and the geographical dispersion of franchise outlets within franchise systems seem to influence the appointment of field workers by franchisors.

The importance of having an adequate number of well-trained and highly qualified and knowledgeable field workers cannot be over-emphasised. According one interviewee, this team of officials:

> *serves as the franchisor's ears and eyes*

Another franchisee opined that:

> *the word of these people (field workers) goes* in as far as most franchisors are concerned,

as most franchisors rely on the reports and observations of their field workers (Brickley and Dark, 1987).

In addition, these scholars highlight the importance of the field workers by suggesting that most franchise systems have far more franchised outlets than company-owned stores. However, one franchisor informed the researcher that:

> *his field workers also conducted regular inspections on the company stores and compiled reports used by the franchisor to improve service quality and so on.*

Further responses of the franchisees to the statements measuring the head-office staff-to-franchisee ratio and explanations related thereto follow below.

Statement 1.

Head-office staff conducts regular and frequent inspection visits.

Although most the interviewed franchisees supported this statement at 82% indicating that franchisors were committing resources to the franchise system, most franchisees complained about the quality of the inspections in the sense that most of them stated that *the field workers did not add any value to their businesses.*

The commitment of franchisors plays a critical role in the success of the franchise system as it ensures that franchisees comply with their contractual obligations (Muris, 1980).

This serves as some kind of insurance policy that the franchisors monitor the maintenance of quality standards and cheating by franchisees is discouraged to protect the reputation of the brand and he integrity of the franchise system. However, one interviewed franchisee complained that:

> *the field workers arrived with a checklist and started ticking off a whole range of things off the list and left without making any useful inputs that the franchisees could be put to good use.*

It would seem that these field workers were carrying out their duties in accordance with the instructions of their employers as most of them never changed their approach.

Another franchisee moaned about:

the high staff turnover rate among the field workers of their franchise systems which indicated low job satisfaction.

This could perhaps explain the frustration and exasperation of most franchisees with the mundane inspections carried out by these field workers. On the other hand, another franchisee complained about:

the rate at which these field workers were rotated that made it cumbersome for it to explain its business to a different official all the time.

Another franchisee commented about the:

high rate of job-hopping among field workers across different franchise systems that spread confusion, gossip, and rumour.

Therefore, it would appear that franchisees were concerned about the limited knowledge and skills of the relatively inexperienced field workers which may have arisen from the inability of these field workers to carry out their duties expertly, with the result that some experienced franchisees could either manipulate these officials into not reporting their misconduct to the franchisor.

Statement 2.

Inspectors usually spend enough time during store visits.

This statement aimed at determining whether there were enough field workers within the franchise system as this could affect their performance. This could result in the field workers spending less time at any outlet, which could create opportunities for OO among franchisees.

As this statement received strong support of 83%, it confirmed the view held by scholars such as Shane and Spleen (1998) that there should be a higher field worker-franchisee ratio in order to minimize or curb the development of franchisee OO and vice versa.

However, sensible and valid as they are, the complaints expressed by most franchisees regarding the quality of the inspections are a matter that deserves the attention of the given the important role that the store visits and inspections play in enforcing franchise rules, procedures, and regulations (Brickley and Dark, 1987).

The expenses that franchisors incur to ensure that the store visits and inspections take place evince the significance of these activities such that where these expenses exceed the benefit of monitoring, franchisors resort to vertical integration which results in the decline of franchising (Klein et al., 1978; Williamson, 1979; Hadfield, 1990).

Statement 3.

Regular store visits help to improve outlet performances.

Having received such strong support of 77%, this statement indicates the high expectations that franchisees have of the inspections. However, most franchisees felt that they would have supported the statement even more had it read that *regular store visits should help to improve outlet performances.* Most franchisees seem to suggest that *they would welcome the inspections with open arms if they felt that such inspections were adding value to their businesses*.

It was not clear from their responses whether some of the franchisees resented the idea of having field workers visiting their outlets, as this would have made it difficult for them to free ride on the franchisor's brand. However, as discussed above, the complaint about lack of skilled and knowledgeable inspectors poses a serious threat to the reputation of franchise systems, which may also lead to vertical integration.

However, one franchisee succinctly stated that:

> *you know some times we need what you call a kick up the backside here. Every now and again and they sort of come in and just make sure that you are portioning correctly again, you know that you are using the right amount of spices because we do a lot of in-house cooking. So make sure you are using the right gramage of spices and the right equipment and things like that. So it very good because a lot of the times you know we forget and we get a little comfortable and you know we forget maybe to put a little of this or a little bit of that or, so yes it's very important.*

ii). Incomplete Contracts and OO.

The statements on Table 8-4 above postulated a positive relationship between the incompleteness of franchise contracts and the exploitation of gaps in the franchise contract by franchisees. Overall, the proposition received strong support at 68%. The results of the test on this sub- proposition appear on Table 9-3 below, as follows:

Table 9-3: Test results on Incomplete Contracts

Statements	Number (yes)	Total achievable	%	Result
Franchise contracts form the foundation of the relationship between franchisors and franchisees	30	30	100	Supported
Some aspects of the franchise relationship are not found in the franchise contract	15	30	50	Supported
Franchise contracts protect the interests of both parties equally	16	30	53	Supported
Total	**61**	**90**	**68**	**Supported**

Source: Adapted from Williamson (1979, 1981, 1983); Klein (1993); Dnes (2002)

Chapters 4 and 5 discussed the uniqueness, complexity, and complicated nature of franchise contracts in detail. Suffice to mention that the contradiction of two main issues that involve franchise contracts: their incompleteness and position as the so-called "contract of adhesion" exacerbated some difficulties involved.

One of the difficulties is that this is not a legal thesis, and therefore, it was not possible to deal with some of the principles that underlie contracts. In addition, as various scholars have pointed out, like most other contracts, franchise contracts are incomplete contracts because they do not spell out some critical aspects of the franchise relationship.

Furthermore, the literature suggests that franchise contracts are one-sided because franchisors or their attorneys write them in their own favour. As another franchisee complained, he signed the franchise contract without an opportunity to consult his attorney with the purpose of making an input.

TCE scholars (Williamson, 1987; Muris, 1980; Hadfield, 1990 and Dnes, 2000) accounted for the incompleteness of the franchise contracts on the need for franchise systems to adjust to changing market conditions. For this reason, legislation is required to ensure the protection of the franchisees in the event of the franchisor deciding to change franchise contract terms midstream (Woker, 2012).

The CPA is trying to address this issue as both old and new franchise contracts are required to comply with this Act, with effect from 01 April 2011. It must be noted though that the Act opened a six month "window" for old franchise contracts to comply with the Act.

Statement 5.

Franchise contracts form the foundation of the relationship between franchisors and franchisees.

Despite all the interviewed franchisees supporting this statement, most of them perceived it to *represent the interests of their franchisors*. These franchisees did not seem to appreciate or understand that franchise contracts granted rights or privileges and not only imposed duties and obligations on them. The literature explains this anomaly in terms of the one-sidedness (Hunt, 1977), the restrictive and prescriptive clauses (Porter and Renworth, 1978) of franchise contracts described as the contracts of “adhesion” (Hadfield, 1990).

In addition, Udel (1972) found that most franchise contracts imposed far less duties and obligations on franchisors than on franchisees, some of which survive the expiry or cancellation of the franchise contracts.

For example, most franchise contracts have the so-called “covenant not to compete” or the restraint of trade clause debarring franchisees from establishing a business that competes with the franchisor in the same premises or area for a certain period upon the cancellation or termination. It is noteworthy that no such obligations bind franchisors as this illustrates the inequality or one-sidedness of franchise contracts.

This accounts for the perceptions and feeling of apathy or disconnect that franchisees have towards franchise contracts. Franchisors do not negotiate, but like insurance policies, sell franchise contracts to their franchisees on a “take-it-or live” basis (Hunt, 1977).

On the other hand, Porter and Renworth (1978) found that most franchisees are not afforded the opportunity to consult an attorney prior to signing the franchise contract and that this often leads to disputes and litigation. For this reason, the CPA requires grants aspirant franchisees a 10 day cooling off period after signing the franchise contract.

This aims at allowing time and space for potential franchisees to consult his attorney or other advisors without incurring any penalties should they decide to withdraw or cancel the franchise contract.

Perhaps it is important to state that franchise contracts merely provide the legal basis or foundation of the franchise relationship and that its social aspects merit attention. As argued by Granovettor (1985), one of the flaws of franchise contracts and the relationships they underpin lies in their under-socialisation. This criticism addresses the little recognition accorded to the social relations or context in which the franchise relationship resides.

Ouchi (1980) refers to the "clans" formed or established through social interaction and exchanges to govern relationships within markets or bureaucracies. This highlights the role played by social norms and values such as trust, commitment, and cooperation, which develop between and within organisations such as franchise systems over time, as governance mechanisms for regulate relationships.

The socialising of franchise relationships in terms of the RET is important because of its potential to augment franchise contracts. As alluded to in Chapter 4 above, scholars such as Williamson (1985), Hadfield (1990) and Klein (2000) point to franchise contract as being "incomplete" contracts.

Generally, the inability of franchise contracts to make provision for all future contingencies caused by market and technological changes. Berkowitz (2007) also raises the complexity of the franchise relationship as another factor exposing the limitations of franchise contracts. This arises from the difficulties involved in specifying some of the obligations of franchisors and franchisees in explicit terms in the franchise contract (Williamson, 1979; 1985).

For example, it is difficult to state in unambiguous terms the requirement for franchisees to maintain premises in hygienic conditions. Therefore, as argued by most scholars (Dywer et al., 1997; Gundlach and Murphy, 1999; Achrol and Gundlach, 1999), it seems plausible that social relations should support franchise contracts.

Statement 6.

Some aspects of the franchise relationship are not found in the franchise contract.

Despite best endeavours to explain the phrase, *most franchisees could not comprehend the meaning of "incomplete contracts."* This is understandable given that none of the interviewed franchisees had a legal background and most probably, as stated above, *the franchisor did not give the franchisees or their legal representative the opportunity to check the franchise contract*. This explains the marginal support of 50% that this statement received from the interviewed franchisees.

However, one franchisee highlighted the difficulties that incomplete franchise contracts present by alluding to:

> *grey areas, it's because, you know, that book is either designed on or it's written as a business that is not even open, but it's a showroom or it's run as an operating business. As an operating business you've got to understand that there's things, there's going to be [indiscernible] there because they've made a big [indiscernible].*

They can't keep cleaning that, there's nothing wrong with it. Health department is happy with it, so there is, I would call it 'grey areas' with regards to that.

Otherwise, the response would probably have been different. For instance, in matured markets such as the US, Canada and Australia, there are case records that show that both franchisors and franchisees have clashed in court over the interpretation of the implicit contract terms.

In other words, the cases have often required the reading of some meaning into the franchise contracts by presiding officers in order to provide a meaningful and purposeful interpretation of a contract where it has been shown not have been explicit (Muris, 1980), which is the approach to the interpretation of franchise contracts that RET scholars such as Macneil (1974) recommend.

That means that the principles of the true intention of the parties, good faith and others that fall outside the scope of this research used as key criteria for interpreting vague contract clauses. Otherwise, as suggested in the literature, the importance of the question was to address situations where franchisees believed that their contracts were incomplete as this would lead them into seeking opportunities to exploit whatever gaps they could find in those contracts and this is likely to result in an increase in the level of OO among franchisees.

This may be the case among franchisors who may delay taking appropriate steps to amend their franchise contracts to meet the requirements of the CPA with effect from 01 April 2011.

Statement 7.

Franchise contracts protect the interests of both parties equally.

Given the abundant anecdotal evidence that appears in the daily press and other publications, the researcher expected no support for this statement, which received marginal support among the interviewed franchisees. As described by the scholarly work discussed above, most franchisees complained that *their franchise contracts were one-sided in favour of their franchisors.*

Most franchisees stated that this was because *franchisors or their attorneys wrote the franchise contracts;* and that the contracts *were a one size fit all contract" that every franchisee was required to sign, warts, and all*. In addition, *franchisees signed these contracts in the premises of the franchisors or his attorney, without legal representation, and witnessed to by the franchisor or its attorneys' staff.*

One particular franchisee indicated that:

> *the cover page and header of each page of the franchise contract bore the franchisors logo!*

It is therefore not surprising that this statement received a lukewarm response. This is despite the franchise contract being such an important document as it contained the legal rights and obligations of franchisors and franchisees.

However, because the issues surrounding the signing of franchise contracts, it appears that franchisees lack a sense of ownership of these documents, or that franchisors design these contracts to achieve this goal. This attitude towards franchisees is common not only among franchisors, but among scholars as well.

But one franchisee disagreed with his colleagues and stated that:

> *it (franchise contract) protects both interests. It covers me and it covers them because if they don't come and help me out when I need them then I can use that contract against them as well. So it's good for both.*

In Chapter 3, the study provides examples illustrating how the bulk of the franchising literature addresses issues largely from the franchisor's perspective. For example, while the agency and resource scarcity theories describe franchising in terms of the benefits to franchisors that is, managerial, financial, and informational resources; the literature hardly mentions that franchisees actually provide those resources.

To encourage franchisees to take ownership of franchise contracts, as in the case of mortgage bonds, it may be necessary for the parties to appoint independent attorneys to draw up the contracts. This will ensure that the contracts cater for the interests of both parties by addressing the issues raised in this section. In this way, franchisees will forcefully address the clauses that require them to carry out their obligations.

iii). Multi-unit ownership and OO.

The statements on Table 8-5 forming part of proposition 1 suggest that a positive relationship between multiple unit ownership by franchisees and OO among franchisees. As depicted on Table 9-4 below, overall this sub- proposition received no support at 49%, mainly because of statement 9 not receiving any support.

Table 9-4: Test Results on Multi-unit Ownership

Statements	Number (yes)	Total achievable	%	Result
Franchisors pay more respect to multi-unit franchisees than to single unit owners	19	30	63	Supported
Multi-unit franchisees contribute more to the franchise system than single unit franchisees	17	30	57	Supported
Multi-unit franchisees deserve more “favours” than single unit franchises	8	30	27	Unsupported
Total	**44**	**90**	**49**	**Unsupported**

Source: Adapted from (Kaufmann and Dant, 1996; Dant and Gundlach, 1999; Shane, 2001)

As discussed in section 8.5.1 above, multi-unit ownership refers to the practice where a franchisee may be licenced to operate two or more outlets within the same franchise chain. Various studies (Kauffmann and Dant, 1996; Dant and Gundlach, 1999; Shane, 2001) examined the reasons for both franchisors and franchisees engage in this practice.

However, this proposition sought to examine the effect of this practice on the relationship between franchisors and franchisees. Generally, multiunit ownership requires an individual franchisee to spread him or herself in managing, controlling, or operating several outlets simultaneously.

This often results in franchisees creating “mini-chains” within the franchise system and experiencing the same agency problems facing franchisors by having to appoint store managers to operate franchised stores (Bradach, 1997). One of these problems is that multi-owning franchisees must appoint managers to run some if not all the outlets that belong to the multi-franchisee.

As stated in Chapter 3, agency theorists describe the problems that managers present to the franchise system, that is, adverse selection and the moral hazard.

On the one hand, adverse selection relates to the possibility that appointed store managers may misrepresent their skills and abilities to their employers with the result that they may not be able to perform their duties properly or optimally.

Similarly, as store managers are salaried employees, they may lack the motivation and enthusiasm that franchisees may have because of being claimants to the residual, namely, franchisees are entitled to a share of the profits of an outlet whilst store manager are not even where they may receive bonuses.

These problems may result in the outlets of the multi-unit owner not being able to meet the operating standards laid down in the franchise handbook. Faced with these difficulties, the multi-unit owning franchisee may find itself at loggerheads with the franchisor with whom up to that point the relationship has been excellent as probably evidenced by the decision to award licences to operate additional outlets.

These problems may not easily be resolved by sacking and appointing new managers as the agency theory suggests these may be long-term problem that are inherent in the multi-unit ownership model. However, Krueger (1991) found that franchised stores operated by franchisees tended to outperform manager-run company stores. Though this suggests that multi-unit ownership of outlets benefits the franchise system, as the ensuing discussion will show, there may be problems associated with this practice.

Statement 7.

Franchisors pay more respect to multi-unit franchisees than to single unit owners.

This statement received strong support of 63% among the interviewed franchisees. Franchisors create multi-unit franchisees by allowing successful franchisees to acquire and establish a series of outlets. However, as briefly indicated above, multi-unit ownership presents the same agency problem facing franchisors (Kauffmann and Dant, 1996).

Generally, multi-unit owners themselves become “mini-franchisors” by having to appoint managers to run some of their outlets (Bradach, 1997). The response to statement 7 suggests that as multi-unit outlets enjoy the respect of the franchisors, they receive less tight supervision or monitoring than single-unit franchisees.

This may lead to under-performance or the lowering of quality standards because of shirking and the adverse selection of store managers. As result, franchisors may face the challenge or embarrassment of having to discipline these multi-unit franchisees, whom they created, handpicked, and groomed into “mini-franchisors” perhaps in an endeavour to reward good behaviour and to use them as role models for the rest of their franchisees.

This also raises the question whether multi-unit ownership strengthens the position of such franchisees *vis-a-vis* the franchisors. In other words, the question is whether the franchisor can afford to alienate multi-unit franchisees by taking drastic actions against them.

Furthermore, multi-unit ownership questions whether the franchisor can risk exposing its brand to reputational damage that may result from having to close down one or several multi-unit franchisees, simultaneously. Though these questions require further investigation by future researchers, support for this statement suggests, in the words of one franchisee:

> *multi-unit ownership places a chip on the shoulder of the concerned franchisees.*

Statement 8

Multi-unit franchisees contribute more to the franchise system than single unit franchisees.

Like statement 7, this statement received marginal support of 57%. This response suggests that some of the franchisees feel that *multi-unit franchisees earn their stripes by growing the franchise system over the years.* In particular, one franchisee lauded:

the financial contribution that multi-unit franchisees make to the franchise system in the form of the pro rata royalties and advertising fees paid and stock purchases.

These contributions enable the franchise system to build the brand and to earn bulk discounts that ideally benefit the franchise system as a whole. One franchisee stated that:

because of their status, multi-unit franchisees believe that they can get away with murder because their contribution keeps the franchise system alive.

This illustrates the undesirable effects of multi-unit ownership, which franchisors may embark upon in an endeavour to encourage good behaviour among their franchisees.

This behaviour is similar to the question posed by Dandridge and Falbe (1995) on whether the formation of franchisee associations within franchise systems can lead to a shift in the balance of power. While this may not be the desired goal, franchisors need to be aware of this possible outcome and to find ways of dealing with this challenge.

As one franchisee commented thus:

Yes, look, when you own more than one, you do get a little bit of a better treatment, but you know what, it's not really so, but in some, I've been with a few franchises in some, you know the guys who maybe do the bigger turnovers, they get a bit of a more *of a smile, so to speak then the guys that don't. If you own four stores or one store, yes, but in a lot of the franchises I mean now we are very much a family and it's important that you take care of family.*

Statement 9.

Multi-unit franchisees deserve more "favours" than single unit franchises.

Despite being complimentary towards their multi-unit owning colleagues in terms of statement 8, the interviewed franchises did not support the view that multi-unit franchisees deserve more "favours" than they do. As an explanation, one franchisee stated that:

> *multi-unit franchisees only make a pro rata contribution to the financial success of the franchise system and that this alone did not entitle them to have more privileges.*

Another franchisee commented that:

> *franchisors should subject multi-unit franchisees to the same trials and tribulations that single-unit owners face for their indiscretions.*

As one franchisee commented:

in terms of producing the guy with one store that's really pumping and really busy, sometimes his a lot more hands on then the guy that's got four stores. You know the guy with the one store is concentrating on his store and his concentrating on how to make his store better. Whereas the guy who has got 4 stores he's got to run from the one store to the other.

This response suggests that multi-unit franchisees should enjoy the same rewards and suffer any sanctions as the single franchisees.

B. Testing of proposition no 2: Contextual factors and OO

A number of sub- propositions represented the sub-dimensions of the contextual factors construct tested its relationship with opportunistic orientations.

i). Membership of Franchisee Associations and OO.

As depicted on Table 8-6 above, three statements measured the relationship between membership of franchisee association and OO among franchisees. Table 9-5 below shows that there was overall strong support of 74% for the predicted positive relationship between the absence of formalised and independent franchisee associations and uncooperative franchisees.

Table 9-5: Test Results on Membership of Franchisee Associations

Statements	Number (yes)	Total achievable	%	Result
Franchisors should allow and sponsor Franchisee Associations	27	30	90	Supported
Franchisee Associations play a major role in promoting the interests of franchisees	25	30	83	Supported
Most franchisees would like to join Franchisee Associations	15	30	50	Supported
Total	**67**	**90**	**74**	**Supported**

Source: Adapted from Dandridge and Falbe (1995); Leblebici and Shalley, 1996; Shane and Spleen (1998); Comb et al 2005

A small number of scholars have expressed their views on Franchisee Associations have suggested their use as communications mechanisms between franchisors and franchisees for exchanging ideas and information.

Baucus et al (1996) had found that communication had enhanced co-operation between franchisors and franchisees while Clarkin and Rosa (1986) had found that better communication within the franchise system had increased the willingness of franchisees to remain within the franchise system.

Statement 10.

Franchisors should allow and sponsor Franchisee Associations.

Though 92% of the interviewed franchisees supported this statement, the general comment was that Franchisee Associations did not exist in their franchise systems and those franchisees were not members out of fear of victimisation. However, those who were members of such bodies regarded Franchisee Associations as protection against franchisor power. These comments suggest that, support for the franchise associations motivated by OO who felt that the associations could defend them better than the courts.

As suggested by Hunt (1977), this could because the court would take long to grant them relief, if any, at the end of a bitter, costly, and drawn out legal battle that they can least afford as opposed to their well-resourced opponents. A number of scholars (Clarkin and Rosa, 1986; Baucus et al., 1996; Dandridge and Falbe, 1995; Chiou et al., 2004) suggest that improved communication help ensure that franchisees remain within the franchise system.

The interviewed franchisees think that communication makes it possible for franchisees to air their grievances, wishes, and aspirations. These scholars believe that franchisee associations can play a major role in improving relationships between franchisors and franchisees.

Through regular meetings and discussions between, one franchisee believed that:

> *the parties, ideas can be exchanged which not only address issues of mutual concern, but also provide a forum for designing innovative and attractive product, pricing, and marketing strategies*.

Another franchisee stated that:

franchisee associations can also serve as a peer-review mechanism through which franchisees can benchmark their own behaviour and activities against their colleagues.

And yet another franchisee felt that:

a formalised structure of this nature can help provide platforms for generating ideas and communicating strategies aimed at improving profitability and competitiveness.

Another franchisee thought that:

the absence of structures such as franchisee associations leaves the door wide open for conjecture, rumour, and gossip.

In addition, one franchisee justified the need to stronger ties among franchisees thus:

Yes, because you know what there's a lot of times we maybe forget to order an extra dough or an extra box of chees or whatever and you just phone your next door mate and say hey listen buddy, borrow me something, sure and you make mistakes like that sometimes and it's important to know that you have colleagues that you rely *on too. You can't always go to Head Office, and this is where the once a month and the getting together is so important, because when we do get together we eat together, we have coffee together, you know, we have a cold drink together…*

However, contrary to the advocate of solidarity among franchisees in terms of the fledging identity theory propounded by scholars such as Lawrence and Benjamin (2010) there have also been suggestions for the use of Franchisee Associations as guilds or unions for challenging the autocratic, corrupt, and secretive practices of franchisors wherever these existed.

This school of thought appears to have drawn some inspiration from the work of Galbraith (1967) in trying to implement his countervailing power argument that sought to galvanise or mobilize powerless retailers such as franchisees to challenge the hegemonic tendencies of powerful suppliers such as franchisors.

For example, one franchisee stated that:

some franchisees have questioned the discounts and any kickbacks that franchisors ostensibly received from suppliers, the advertising budgets and dividends paid in respect of shares that some franchisors may hold in the companies listed as approved suppliers to the franchise system.

This appears to have led to a dichotomy of views between support for and opposition to these councils. As the former could consist of franchisees seeking peaceful co-existence, the latter could comprise franchisees who may believe in misusing the strength of the numbers that Franchisee Associations may represent to fight their hopeless causes. Similarly, there may be franchisors that behave like "union-bashers" and try to crush any form of organization that franchisees may try to establish within their franchise systems.

This may be despite such action being unconstitutional as it could infringe on the franchisees' right to freedom of association. The prospect that the countervailing power as propounded by Galbraith (1967) may to represent to the franchise system in the form of a franchise association could trouble-some franchisors. The option would be for franchisors to be proactive and open the door to a properly constituted independent franchisee associations through which they could engage their franchisees and thrash out matters of common interest (Lawrence and Kaufmann, 2011).

In addition, the establishment of franchisee associations across sectors of the industry can even be more useful to harmonise the triadic franchisee-franchisee-franchisor relationships.

Statement 11.

Franchisee Associations play a major role in promoting the interests of franchisees.

The 83% support for this statement and comments made during the interviews suggest that the most franchisees regarded Franchisee Associations in a union-like fashion and another referred to it as shop floor democracy. One franchisee opined that franchisee associations:

were one way of dealing with and challenging the unfair and one-sided franchise contracts that favoured their principals.

Another franchisee comment was that:

Franchisee Associations belonged to the franchisees just as the franchise association, namely FASA belonged to the franchisors.

Another franchisee commented that:

as franchisors sponsored and controlled FASA, it served the interests of the franchisors.

The response to this statement displayed a belligerent attitude among the franchisees.

One franchisee thought that:

the franchisee association can help them discipline their franchisor and get him to back down or mend his ways.

And yet another franchisee also thought that:

the franchise association will fight for them or rescue them from their struggles with the franchisor.

Such an attitude could lead some franchisees into reneging on their contractual obligations. Franchisees need to understand that it is one thing to fight franchisor injustices with or without the help of the franchise association, but that it is quite another to deliberately infringe on franchise rules with the hope that the franchise association or courts will still intervene.

Franchisee associations must ensure that their members keep their side of the bargain, because no one is likely to succeed where a franchisee who blatantly disregards his contractual obligations. Therefore, the franchise association or the court as the case may be, is only able to intervene to the extent that the franchisee's hands are clean.

Dandridge and Falbe (1995) alluded to this aspect when describing the role of franchisee associations within franchise relationships. The common interests of the franchisees do not translate into engaging in opportunistic actions as this attracts punitive sanctions in terms of not only the franchise contract, but also the common law of contracts in most countries.

Franchisors have rights and responsibility to protect their interests, and those of their other franchisees against the reckless actions of some franchisees. Failure to do so could cause financial ruin to themselves and their franchisees, and reputational damage to franchising as a business model.

However, this task does not licence franchisors to ride roughshod over their franchisees. Franchisors also have a duty to observe due process in protecting the interests of the franchise systems. In line with the RET, compliance with the law, especially the CPA, and the development of social norms and values of acceptable behaviour within franchise systems, may help ensure effective enforcement of socialised franchise contracts.

Statement 12.

Most franchisees would like to join Franchisee Associations.

Given the overwhelming support received by statements 10 and 11, it came as a surprise to the researcher that this statement did not receive support. One franchisee indicated that:

> *the lack of support for this statement arises from the fear of victimisation by franchisors that franchisees have of joining franchisee associations.*

In support of this response, another franchisee stated that:

> *most franchise systems forbade their franchisees from belonging to franchisee associations*.

In addition, the confidentiality clause in franchise contracts forbade franchisees from discussing their turnovers or other contractual matters with another person

(Dnes, 1993). As discussed in detail under statements 10 and 11 above, however, franchises could not join franchisee associations for ulterior motives.

Similarly, contractual stipulations that forbid freedom of speech and association among franchisees are unlawful as they infringe on the constitutional rights of franchisees. As a result, the CPA excludes these stipulations because they are absent from section 7 of the Act.

In addition, section 2 of the Act clearly states that any practice, contract, or conduct, which infringes on any constitutional or legal rights of individuals, is unlawful. However, one franchisee commented thus:

> *on the hypocrisy of his franchisor by pointing out at how he found it strange that his franchisor was so against his franchisees being members of a franchisee association while the franchisor was a member of FASA.*

With the history of political oppression, suppression, and confrontation in this country, it is not surprising that most franchisors did not, at least until recently, practice or tolerate democratic tendencies. The banning of political parties and trade unions, and the concomitant lack of free political and trade union activity, infiltrated many aspects of life in this country.

Therefore, just as the Labour Relations Act paved the way for the recognition of worker rights in this country, the passing of the CPA is a step in the right direction.

As discussed under statements 10 and 11 above, franchisee associations can help improve franchisor-franchisee relationships. Hence, franchisors should not only allow or encourage franchisees to form or affiliate to these bodies, they should go and step further to form and join franchise associations across sectors.

While this will not resolve the provocative question Little (1970) poses on who should lead the franchise relationship, these bodies can develop into franchise chambers such as the CCMA. These structures hear, mediate, and arbitrate labour between employers and employees in this country.

Most commentators agree that the CCMA's have proved to be cheaper and effective dispute resolution mechanisms than the courts. The establishment of similar bodies can play a major role in resolving disputes between franchisors and franchisees.

In addition, as franchisee associations can establish Codes of Good Conduct for their members to comply with or face exclusion or isolation. This will not only improve franchisor-franchisee relationships, but may also improve the reputation and image of franchise industry.

As a result, the industry may be able to attract more players such as franchisors, franchisees and other investors and this may help to grow the business and realise its potential for creating jobs and wealth, promoting small businesses, and transforming the economy.

ii). Lack of franchise legislation and regulation and OO.

As the statements on Table 8-7 above show, this sub-proposition postulated a positive relationship between lack of franchise regulation and an OO among franchisees. At 69%, the results shown on Table 9-6 below suggests strong support this proposition, and strong support for statement 15 even though statement did not receive any support.

Table 9-6: Test results on Lack of Legislation and Regulation

Statements	Number (yes)	Total achievable	%	Result
FASA should be granted legal powers to discipline errant franchisors and franchisees	24	30	80	Supported
There is a need for stringent franchise-specific laws	25	30	83	Supported
Franchising disputes should be handled by FASA only	13	30	43	Unsupported
Total	**62**	**90**	**69**	**Supported**

Source: Developed for the study

Like in most countries, the franchising industry in this country is self-regulating under FASA, a voluntary association dominated and sponsored by franchisors. As a non-statutory body, FASA lacks the legal capacity to compel franchisors and franchisees to become its members and as such cannot discipline or impose legal sanctions on anyone.

As explained in most parts of this study, because of its dependence on franchisors for its human, financial and logistical resources, FASA is highly compromised to serve any meaningful purpose in the resolution of disputes between franchisors and franchisees, as it is not an independent and objective organisation.

Coupled with the lack of franchise-specific legislation in most countries including South Africa, this study suggests that this regulatory vacuum creates loopholes for opportunistic behaviour within franchise systems. This proposition tested this relationship and found strong support for it among the sampled franchisees.

Statement 13

FASA deserves legal powers to discipline errant franchisors and franchisees

This statement received overwhelming support of 83% among the interviewed franchisees. While it was not immediately clear whether this response arose from the recent coming into effect of the CPA that introduced some drastic changes into the franchising arena, it became clear that these developments had raised the expectations and hopes for a better future among most franchisees.

This is understandable considering that the franchising industry, like the rest of the South African society, has been characterised by the unequal distribution of power and resources along racial and class lines. Most franchisees expressed the view that FASA, the body under whose auspices the self-regulating franchising industry operates, is a *toothless bulldog.*

This is because FASA does not have any statutory power to discipline any of its member and non-member franchisors and franchisees. In addition, most franchisees regard FASA as an *old boys club* that only *existed to serve the interests of the franchisors.*

This is because most franchisees stated that they had yet *to hear of any franchisor suspended or expelled from FASA*.

One of the franchisees referred to:

> *FASA's deafening silence about complaints against some franchisors that appeared in the daily press.*

Another franchisee complained that:

> *apart from a handful of seminars advertised in some of the newspapers, FASA provided very little useful and insightful information about the rights and duties of the franchisors and franchisees.*

Another franchisee more scathingly stated that:

> *FASA poster means nothing to me, that membership means nothing to me, it's just so that they could put it on the bottom of here, that says, oh FASA. That's all it says.*

One franchisee opined that his perception of FASA was that:

it was a franchisor organisation because franchisors appoint or elect most of the organisation's office bearers at the organisation's publicly unadvertised annual conference attended almost exclusively by franchisors.

This probably accounted for one franchisee's assertion that:

FASA did not seriously take complaints made against franchisors.

Thus, most franchisees stated, *they did not know that they were members of FASA,* which they in fact were simple because their franchisors' were members of that organisation. As a result, these franchisees felt that *they could not complain to FASA, as they did not consider themselves its members; and thus its Code of Good Business Ethics did not bind them.* In any event, most of the franchisees indicated, and correctly so, that because of FASA's domination by franchisors, *they did not consider FASA to be in a position to serve as a neutral or impartial arbiter of franchising disputes.*

As one franchisee put it:

most franchisors to pretend not to be active FASA members with the intention of discouraging their franchisees from directing any of their complaints to that organisation.

Most disconcertingly, the researcher's written request to give FASA a right of reply on some of these allegations, did not even elicit the courtesy of an acknowledgement of receipt from the organisation. Therefore, the views of the franchisees endorsing their support for this statement suggest the need for an independent and impartial statutory body to regulate the industry and to hear franchising disputes.

This is because the prevailing unequal bargaining power between franchisors and franchisees allows franchisors to dominate the franchise relationship in a country in which the principle of equality to foundational to its founding values that are enshrined in its constitution.

As discussed under the preceding proposition, franchisors control most aspects of the franchise relationship; especially the writing of the franchise contract which serves as the heartbeat of the franchise relationship. Therefore, the passing of franchise-specific legislation and regulations, which most franchisors surveyed in this study oppose, can help level the playing fields.

The CPA is a good start, but more work still lies ahead and should culminate in the establishment of the office of the Franchise Ombudsperson to adjudicate on franchise disputes in a fair, faster, and cheaper manner. This approach differs from the use of the courts, which because of the costs and delays involved appear to favour the financially strong party; namely franchisors.

The passing of legislation and regulations may stabilise the franchise relationship in the same manner that labour legislation appears to have helped normalise the employer-employee relationship in this country through the Labour Relations Act 65 of 1995.

For example, this Act created specialist alternative dispute resolution mechanism such as the CCMA's, which proved to be effective in resolving labour disputes fairly, quickly and cheaply. This is because the CCMA's facilitate a conciliation, mediation and arbitration of labour disputes in a less hostile and adversarial atmosphere than is the case in the courts.

In addition, the CCMA's provide for far less legalities than the courts and this avoids unnecessary costs and delays caused by legal manipulations of the court processes. Drahozal and Hylton's (2003) proposed use of mediation and arbitration in franchising can generate similar benefits. This can result in the release of much needed resources away from protracted and costly legal battles into improving the business.

Statement 14

There is a need for stringent franchise-specific laws

Contrary to the response of franchisors to a similar question; namely, statement 23 on the franchisor's questionnaire that formed part of the quantitative study, this statement received one of the highest levels of support of 83% among franchisees. This suggested that a disconcerting and deepening gap in franchisor-franchisee outlook. While most of the franchisees seemed to be pleased with the introduction of the CPA, they felt that *the Act did not address all the issues that affected the franchising industry.*

Most of them expressed the view that *the CPA was too broad in that it was trying to be everything to everyone.* This is probably because the Act aimed at protecting consumers in all sectors of the economy by including *franchisees as consumers and franchisors as suppliers.* In addition, one franchisee felt that:

> *because of the growing importance of the franchising industry as an economic institution, the billions of rands that it generated and the thousands of job and wealth opportunities it created, there was a definite need for franchise-specific laws that would pay special attention to the issues and challenges facing the industry*.

Some of the issues that concerned franchisees include *the dreaded termination and other restrictive clauses found in most franchise contracts that they believed favoured their franchisors.* Most franchisees felt that they needed specific franchise laws that would *protect them against their powerful franchisors in the same manner that labour laws protect workers.*

The need for legislative protection among franchisees appear to be grounded in the literature (Williamson 1975, 1985, 1993; Muris, 1980 and Hadfield, 1990) that suggests that franchise system require franchisees to invest in idiosyncratic assets.

These physical and intellectual assets such as machinery, equipment and fittings, skills, experience, and knowledge are highly specific to a particular franchise system.

These scholars point to the risk of expropriation of these assets through the OA of franchisors through the termination or non-renewal of fixed term short franchise contracts, the buy-back clause, territorial encroachment and so on.

For example, the quantitative part of this study found that franchisors with OO are inclined to grant short term fixed franchise contracts to their franchisees so that they can exercise their contractual rights by, for example, *buying the business or assets of the erstwhile franchisee at rock bottom price*s upon the termination, cancellation or expiry of the franchise contract.

This is because most franchisors enjoy the right of first refusal that entitles them to the preferential or pre-emptive right to buy a franchised outlet on sale or its assets at the end of the term of such an outlet's franchise contract. In addition, by invoking the clause of the franchise contract, franchisors are able to influence the price at which an out-of-contract franchisee must sell or dispose of its assets to the franchisor or any other franchisee. Such a price usually excludes the goodwill of the business, which normally accrues to the franchise systems.

This takes away the franchisee's investment in market discovery (Klick et al., 2007) or local market knowledge in an area in which the franchisor was not prepared to invest its own money and time (Minkler, 1997) which illustrates the "cocked gun" approach to franchising by some franchisors to allow franchisees to establish an outlet and then to dispossess them of their investment in the franchise system for some dubious or inconsequential reasons.

Statement 15

FASA should handle all franchising disputes

The lukewarm response of 43% to this statement suggests higher levels of uncertainty or confusion among franchisees. On the one hand, this response may indicate the concerns that franchisees have about the neutrality, impartiality, or objectivity of FASA in resolving franchising disputes, and their desire for a specialized and independent dispute resolution mechanism on the other. As expressed by some of the franchisees, *the current dispute resolution mechanisms appear to favour their franchisors.*

This is because, as discussed under statements 13 and 14 above, most franchisees regard FASA as the *"lapdog of the franchisors."* This is because franchisors elect or appoint most of FASA's office bearers (FASA usually does not publicly advertise its annual conferences attended mostly by franchisors) and pay most of its overheads through their annual subscription and advertising fees.

Instead of relying on FASA to resolve disputes, one particular franchisee stated that:

> *Yes, you know what you will always have a niggle here and there, but we always sit down and sort it out. That's why fights has never worked in our group, that's why I was, when you asked me about fights, ok, you yes… but that has never worked in our group because we have always, always had an open door policy, where my door's open and his door is open and the boys have come here many a time and hey are you*

okay, is everything alright. And I've had a problem their door has always been open to me as well and we have always worked it out over a cup of coffee.

Expressing the dangers involved in litigation, one franchisee opined:

Are you really going to get into such a problem where you are going to need courts, really? I mean, out of the relationship, yes, you know that's really relationship gone man. I think, your relations will be nearly gone just by going to FASA and then still going to court then you might as well sell your shop and go get into another franchise that maybe they've got different rules or whatever because every Franchise does have its own rules of course.

In addition these sentiments, alternative dispute resolution through FASA can avoid the country's over-worked courts which also have to contend with the dilatory tactics used by expensive counsel franchisors employ to help drag out the cases *ad infinitum* to financially strangle the franchisee to the point where it capitulates and withdraws the matter due to lack of funding.

For this reason, most franchisees expressed *support the need for the establishment of a statutory body such as the CCMA*. As discussed above, CCMA's were formed in terms of the Labour Act of 1965 as amended, to try and settle all labour disputes between employers, and their employees in impartial, less adversarial but cost effective platforms.

The CCMA's are staffed by specialised and focused professionals who over the past few years have developed institutional capacity and resources such as case law, procedures, and processes that are readily accessible to any of the concerned parties.

One franchisee expressed disappointment that:

> *despite large amounts of money invested and many people dependent of the franchising industry for the livelihoods, there is no specialised institution that can deal with the industry's disputes expeditiously and cost-effectively.*

On the other hand, while most of the surveyed franchisors also appeared to support the usage of dispute resolution mechanisms other than the courts, this seemed to be a case of paying lip service to the idea.

As Udel (1972) observed, very few franchise contracts made provision for the referral of disputes to arbitration. Instead, most franchise contracts require the high court to settle disputes between the parties. This seems to suit franchisors with an OO because of the high litigation costs, the protracted and adversarial nature of the courts, which the literature suggests are often not fully equipped to deal with the complexity of a franchise relationship.

In addition, Drahozal and Hylton (2003) suggest that the courts have a tendency to focus on the "letter of the contract" in interpreting contracts; and this may ignore the norms, customs, and values of the franchise relationship. In addition, the courts also emphasise the “freedom to contract” principle, which holds that contract terms are binding on the parties until a costly litigation proves otherwise.

Furthermore, these scholars point out that the courts are notorious for their reluctance to enforce contracts where the underlying relationship between the parties appears to have broken down irretrievably. This may result in a court confirming the termination of a franchise relationship by the franchisor even where there are no legal grounds for doing so, but for the irretrievable breakdown in the underlying relationship.

However, one franchisee expressed support for in-house dispute resolution by stating that:

> *Of course, of course. You know lets work it in house. See what we can do. You know if you can’t come to an agreement or solution, well maybe get an outside opinion, but then your relationship is strained, rather sit down and work it out the differences in house. Just like your worker, you know, rather sit him down in the office and say look, how was it, what happened, why did you do it like that.*

iii). The Last Years on Franchise Contract and OO.

There results of the testing of the statements shown on Table 8-8 above which predicted a positive relationship between the maturity and decline phases of the franchise contract and non-compliance with franchise standards and procedures by franchisees appear on Table 9.7 below. These results show strong overall support for the predicted relationship at 77%, as follows:

Table 9-7: Test Results on the Last Years of the Franchise Contract

Statements	Number (yes)	Total achievable	%	Result
Franchise relationships usually do not change much over the years	26	30	87	Supported
There is more stability and cohesion in established franchise systems than in new ones	28	30	93	Supported
The last years of the franchise relationship are the most enjoyable	15	30	50	Supported
Total	**69**	**90**	**77**	**Supported**

Source: Adapted from Muris (1980); Dant and Gundlach (1998)

Statement 16

Franchise relationships usually do not change much over the years.

This statement received 87% support among the franchisees. Clearly, most of the franchisees *felt the relationship with franchisors has remained the same over the years,* whilst two franchisees observed contrasting changes. One franchisee reported:

> *a sea change in the improvement of its relationship with the franchisor and attributed this to his role as chairperson of the franchise council recognised and sponsored by the franchisor.*

Another franchisee of a cleaning service franchise commented about:

a worsening of the relationship that led it to surrendering shop keys to the franchisor, and when refused, the franchisee started engaging in opportunistic behaviour by taking some laundry home to avoid declaring the income from the service.

Blut, et al (2010) describe the last years of the franchise contract that is, the maturity phase as the crossroads phase. During these stages, the franchisee no longer shows commitment or loyalty to the franchise relationship and seeks to derive as much gain for him as he can regardless of the effects his actions have on the franchise system.

This behaviour fits Williamson's (1975) definition of opportunism as "self-interest seeking with guile" (p47). Once the franchise relationship reaches these stages, it may be prudent for the franchisor to terminate the franchise contract immediately to prevent a disenchanted franchisee from inflicting harm on the franchise system.

Statement 17

There is more stability and cohesion in established franchise systems than in new ones.

This statement received a massive support of 93%. This perhaps signified *the concern and apprehension that franchisees have with newly established franchised systems that could turn out to be quick money schemes for the franchisors concerned.* Within the context of newly established franchise systems, the comment from the franchisees was that *because of the high risk involved it may be wise to make hay whilst the sun shines* that clearly illustrates OO among the concerned franchisees.

For this reason, it may be useful for a future study to examine the effects of OO on failed newly established franchised systems. This is could be the result of the various early warnings systems that established franchise systems have that are able to detect OO among franchisees beforehand or where any level of franchisee OO may have escaped these factors, then tried and tested coping mechanisms could swing into action.

Statement 18

The last years of the franchise relationship are the most enjoyable.

This statement received marginal support at 50% of the franchisees who seemed intrigued by the question. This is because the one half had considered the last few years to be *the most difficult and anxious years as that was the time the franchisor could decide not to extend an expiring franchise contract*.

Clearly, this group had hopes for a continuation of the relationship because of *the need to protect their bread and butter*. Most probably, this group of franchisees tried to fulfil or honour their contractual obligations.

However, one franchisee indicated that:

> *because the renewal of the franchise contract is often at the discretion of the franchisor even where the franchisee has that option, good behaviour does not guarantee automatic renewal or extension*.

This is because the renewal or extension of franchise contracts is often subject to conditions such as payment of a renewal or extension fee by the franchisee, willingness of the franchisor to continue to enter into a new franchise contract with the franchisee, and that the franchisee must be in good standing.

Though the first condition can be a simple contractual matter, in the sense that the contract may explicitly state the fee involved, the other two issues are open to opportunistic exploitation by the franchisor. For example, as in the Woolworths, case discussed in Chapter 4, in line with Oxenfeldt and Kelly (1969), a franchisor willing to buy or take back a profitable outlet from a franchisee, may refuse to renew or extend a franchise contract.

Such a franchisor may justify its actions on "contractual" grounds that may allow him to buy or take back the outlet. However, such grounds are dubious because most franchisors claim the goodwill of franchised outlets (Muris, 1980) with the result that the franchisor buys back the outlet at rock-bottom prices because of the exclusion of goodwill.

Therefore, the franchisor virtually determines the price at which it buys back the outlet from the franchisee. Similarly, most franchisors have the final say on the issue of franchisees in "good standing" for the purposes of renewing or extending the franchise contract (Muris 1980).

This is because most franchise contracts fail to define "good standing." Consequently, a franchisee with several breach letters for a myriad of minor reasons, the franchisor may declare them *persona non grata.* This uncertainty and anxiety may drive some franchisees into a state of disenchantment and disillusionment with the franchise system.

Upon realising that theirs is a "no-win" situation, such franchisees may decide not to seek a renewal or extension start engaging in opportunistic behaviour or actions, in the words of one such franchisee:

> *to make hay while the sun shines*.

This seems to be a case of opportunism begetting opportunism (Brown et. al. 2000) as these franchisees embark upon retaliatory actions towards their franchisors. As a result, disenchanted franchisees may find the last years of the contract enjoyable because of a lack of commitment to and fear of termination from the franchise system.

As discussed in Chapter 1, this may embolden some franchisees to start cutting corners and under declaring sales in order to generate as much revenue and profits as they can in the remaining years of the franchise contract. For one such cleaning service franchisee with a contract terminable by 30-day notice, and whose business was on the market, and another:

> *contemplating the life in the hereafter,*

the last years of the franchise contract filled them with a sense of *de ja vu.*

One franchisee, believing that because it had gained some invaluable local market knowledge, expressed the feeling that it was looking forward to setting up its own businesses in the same industry in order to:

> *teach their ex-franchisor a thing or two*

through direct competition.

Frazer (2005) reported limited success for ex-franchisees who competed head on with their ex-franchisors. Therefore, the last years of a franchise contract represent a difficult period for both franchisors and franchisees. In the absence of research on the so-called "evergreen" franchise contracts, that is, franchise contracts with no expiry date, which are uncommon, it would be important for future research to examine the effects of such contracts on franchise systems.

C. Testing of proposition 3 – Strategic factors and OO

This proposition postulated that a positive relationship existed between strategic factors and OO among franchisees. The three sub-dimensions or sub- propositions used to measure this proposition included brand value, geographic dispersion, and local market knowledge.

i). Brand value.

This sub-proposition or sub-construct postulated a positive relationship between a strong brand and an inclination among franchisees to free ride on the brand. As shown on Table 8-9 above, statements 19-21 measured the responses of franchisees to this sub-proposition. Table 9 8 depicts the overwhelming support for the sub-proposition at 98%, as follows:

Table 9-8: Test Results on Brand Value

Statements	Number (yes)	Total achievable	%	Results
A strong brand offers many advantages to franchisees	29	30	97	Supported
Most franchisees prefer to be associated with a strong brand	30	30	100	Supported
It is easier for franchisees to make money from a strong brand	29	30	97	Supported
Total	**88**	**90**	**98**	**Supported**

Source: Adapted from Brickley and Dark (1987); Klein and Saft (1985); Bradach (1998)

At 98%, the results of these interviews suggest a very strong relationship between a strong brand and OO among franchisees. The reasons for this strong association suggest that the strength of the franchising system resides in its brand.

Studies (e.g. Brickley and Dark, 1987; Klein and Saft, 1985; Bradach, 1998) show that franchisors devote considerable amounts of time, energy, and money building the brand around which they mould their "tried and tested" business method. According these scholars, the brand represents the quality of a franchise system through the ambiance, logo, and décor that distinguishes rival or competing offerings at the market place.

For example the difference between chicken fast food chain KFC and humburgher kings McDonalds is not that the former sells chicken products and the latter humburghers, but the Colonel Sanders head and the golden capital M insignia that represent these two competing brands. In a similar vein, most scholars (Knight, 1986; Petersen and Dant, 1990; Lafontaine and Kauffman, 1992) found that a strong brand serves as a major attraction to most franchisees.

This suggests that a strong brand may be vulnerable to opportunistic franchisees who decide to enter franchising with an ulterior motive to free ride on the brand to increase their profitability. Such franchisees may take that risk because it is difficult for franchisors and customers to detect cheating behaviour.

In addition, franchisees may free ride on the brand to retaliate against a franchise system they feel does not reward them adequately. At 97%, the very strong response to statement 28 stating that *franchisees deserve higher returns than their normal business activities can provide* bears testimony to this possibility.

These sentiments may also arise from that until the passing of the CPA in this country recently, franchisees were not privy to any bulk-buying discounts, kickbacks or price-breaks their franchisors received from the approved suppliers. Similarly, franchisors had *carte blanche* on the use of advertising revenue paid to them by their franchisees. In this regard, franchisees expressed their strong views when only 35% supported the statement 36 suggesting that franchisees were getting fair value for the advertising fees they paid to the franchisors.

In addition, free riding among franchisees on the brand could arise by a desire among franchisees *to make hay whilst the sun shines*. This is because most franchisors offer short-term franchise contracts to their franchisees (as expressed in statement 28 of the questionnaire: *longer-term contract make it difficult for franchisors to deal with market changes).*

This may create problems for some franchisees as they may require a longer period over which to earn a return on their investment in the physical and human assets associated with a particular franchise system. Most scholars (Williamson (1979; Klein, 1995; Hadfield, 1990) point to this conflict between short term franchise contracts franchisors offer, and the investment in long term assets franchisees make into the franchise system.

Similarly, as Brown et al (2000) argue that opportunism begets opportunism, the ability of most franchisors to terminate franchise contracts especially for opportunistic reasons (as indicated by support statement 20 in the questionnaire), may also encourage free riding among some franchisees.

Statement 19

A strong brand offers many advantages to franchisees

Statement 20

Most franchisees prefer to be associated with a strong brand

Statement 21

It is easier for franchisees to make money from a strong brand

Because of their close relatedness as measures of the relationship between a strong brand and an OO among franchisees, and all three statements having obtained 100% support from the interviewed franchisees, this section discusses the results of statements 19-21 sequentially.

Firstly, statement 19 suggested that *a strong brand offers many advantages to franchisees.* Knight (1996) found that most franchisees expressed the importance of a strong brand in the decision of choosing a franchise system. Most importantly, Knight also showed that the decision on brand choice preceded the decision whether or not to take up franchising among most franchisees. This is because of the power that the brand seems to represent in delivering customers and returns to potential franchisees.

The brand appears to represent the visible part of the franchise offering and the stronger the brand the better the prospects of success seem to be for most aspirant and existing franchisees. These benefits emanate from the bulk purchasing of ingredients, raw materials and other services such as advertising, training, and product development flowing from the economies of scale and competitive advantages that strong brands normally generate.

However, it would appear that a strong brand soon becomes the casualty of its own success. This seems to occur when franchisees decide to enter the franchise system in order to exploit the power of the brand for their own benefit, especially considering the short term and in some cases, non-renewal franchise contracts offered to them. Another franchisor opportunistic practice with the potential to yield franchisee opportunism strongly supported by franchisors is statement 33 of the questionnaire.

This statement suggested that *granting of non-exclusive territories to franchisees allows franchisors the flexibility to add new outlets in particulars areas.*

This may ordinarily appear to be a strategic lever franchisors may rely on in case of need, other scholars have pointed to its misuse to punish recalcitrant franchisees (Klein, 1995; Hadfield, 1990; Kalnins, 2004). Such a practice usually results in the franchisor establishing a competing outlet operated by the franchisor or another franchisee in close proximity to an existing outlet.

This may result in the erosion of the existing franchisee's profitability and sales while benefitting the franchisor through additional royalties derived from the new outlet. Such franchisees probably realise that *because of the strength of a particular brand, they can offer less than satisfactory levels of service with impunity*.

Chapter 5 lists a number of ways in that franchisees can show a tendency to cheat on the franchise system. In the main, these methods involve withholding information and effort in order to derive financial benefits that they do not intend to share with their franchisors. It would seem that franchisees bent on misusing the brand of the franchise system do so by withholding effort (Klick et al., 2007).

This became clear during the interviews where comments in this regard largely revolved around franchisee failure to adhere or follow standard operating procedure regarding procurement, preparation, staffing, and maintenance of buildings and equipment.

Examples of these short cuts include failure to recruit, train and remunerate adequate levels of staff necessary operate a particular store size or meeting certain customer requirements or expectations, the use of cheap inputs and an inability to service machinery and equipment at regular intervals (Muris, 1980).

This behaviour is in line with statement 19 suggesting that *most franchisees prefer to be associated with a strong brand.* This is not only because of the benefits of economies of scale and competitive advantages generated by being associated with a strong brand, but a desire to free ride on the brand.

Williamson (1975 ; 1985; Brickley and Dark (1987) suggests that such behaviour is rewarding, at least in the short term, as the franchisees concerned are able to realise cost savings by cutting corners without bearing the full costs of such malpractices, and in the process, increase their profitability. Such franchisees believe that because of the hype surrounding the success story of a particular franchise system, *they believe that minor deviations and breaches can escape franchisor and customer scrutiny*.

These franchisees entertain the feeling that because franchisors with strong brands are likely to focus their attention achieving higher targets and more success. This would require the franchise system to grow rapidly, be more competitive and profitable than their rivals. As a result, franchisees believe that *they could get away with the small things that do not matter too much or cannot be easily notice* by the franchisors at least in the short term.

These franchisees believe that *they can carry on with these malpractices until cautioned or their contracts expired.* By that time, they hope to have *accumulated enough money, local market, or product knowledge* they can use to set up competing businesses in the same sector or in others. The non-renewal of the franchise contracts will not concern such franchisees.

These franchisees are not interested in becoming multi-unit owners, as they believe, in the words of one particular franchisee: *one unit is presenting them with enough headaches already.* This particular franchisee expressed the view that becoming a multi-unit owner can result in efficiencies arising from *the franchisee spreading him too thinly and losing control of his businesses.* Franchise systems need to find ways of identifying and turning these negative feelings and sentiments of their franchisees into sources of positive drive and energy.

Commenting on this issue, one franchisee stated that:

> *Well, if everybody did whatever they wanted to do you wouldn't really have a good brand would you and it's really a common knowledge. If this guy's wants to skimp on the cheese and this guy's wants to skimp on the dough, and this one wants to skimp on the food portioning, you don't get regularity so you go to the one shop here in the one area and get a nice pizza and you go to the other one and get a not so good pizza, then all of a sudden its ag you know what I had a good one there but a crap one there, so it destroys the brand. Its common knowledge.*

For example, Bradach (1997) and Sorenson and Sorenson (2001) suggests that franchisors and franchisees can learn from each other with the aim of improving the innovativeness of the franchise system.

Similarly, Strutton et al (1995) suggest the importance of cultivating a healthy psychological climate within a franchise system to achieve superior performance. This however, does not entail condoning opportunistic behaviour among franchisees, as this jeopardises the interests of the franchisors and innocent franchisees.

ii). Geographic dispersion and OO.

As shown on Table 8-10 above, statements 22-24 measured responses to this sub-proposition which postulated a positive relationship between the widespread location of franchised outlets and franchisee non-compliance with franchise standard operating procedures and processes. Overall, this sub- proposition received good support at 59%, with a very strong support for statement 23 and a lack of support for statement 24. Table 9-9 shows the results of the test on the sub-proposition, as follows:

Table 9-9: Test Results on Geographic Dispersion

Statements	Number (yes)	Total achievable	%	Result
Most franchised outlets are situated far from the franchisor's head-office	19	30	63	Supported
It is better for a franchised outlet to be located far away from the franchisor's head-office	19	30	63	Supported
Franchised stores that are located near the franchisor's head-office receive more inspections than usual	15	30	50	Supported
Total	**53**	**90**	**59**	**Supported**

Source: Adapted from Oxenfeldt and Kelly (1969); Brickely and Dark (1987); Minkler (1990)

Statements 22-24 measured the postulated positive relationship between geographic dispersion of franchised outlets and OO among franchisees. There was strong support for this proposition at 59%. This indicated a strong association between the two variables. Geographic dispersion has to do with the distribution of franchised outlets across different areas, regions, and even parts of the world.

The need for rapid expansion among franchise systems include the pursuit of critical mass distribution of products and services to generate and sustain the economies of scale on which the franchising business model depends.

The literature (e.g. Brickley and Dark, 1987; Norton, 1988; Minkler, 1990) shows that through many units distributed across various areas, regions and parts of the world, franchises are able to pool resources. These enable them to acquire efficiencies in the procurement of products such as the machinery, equipment, raw materials and ingredients, and services such as advertising, accounting systems and information technology.

These resources deliver the franchise offering at competitive prices throughout the supply chain. But these scholars point out that the spread of outlets presents unique challenges the owners of the franchise system as most of the outlets are owned by multi-unit owners and serial unit owners who themselves employ managers to run these outlets that creates "mini chains" within the chain (Bradach, 1997).

A key aspect of franchising is the monitoring of the activities of franchise outlets to ensure that they comply with the standard set by the franchisor in order to main the quality of the products and services offered at those outlets. To this end, franchisors employ quality controllers or inspectors charged with the responsibility of visiting the outlets to perform monitoring and enforcement duties.

Statement 23

Most franchised outlets are situated far from the franchisor's head-office.

The literature (Brickley and Dark, 1987; Norton, 1988; Minkler, 1990) suggests that most franchised outlets exist far from the franchisor's head office and abroad in cases of well-known global brands such as KFC, McDonalds, and Hertz. Regional and area offices perform the monitoring of franchisee performance and the enforcement of franchise rules.

However, in most cases, these scholars argue that the increase in the number of geographically dispersed outlets has presented serious challenges to franchise systems. This is because *some franchisees take advantage of the situation and withhold information and effort* as discussed in Chapter 4 in order to engage in activities intended to *generate additional financial benefits for themselves that they do not declare or share with their franchisors.*

Most of the interviewees supported the view that the distance between the franchisor's head offices and the outlets created opportunities for mischief based on the *"out-of- sight-out of-mind"* principle. It would seem these franchisees believed they enjoyed a higher degree of pseudo independence and self-control by being located far from the franchisor's head office.

Statement 23.

It is better for a franchised outlet to be located far away from the franchisor's head-office.

This statement received an overwhelming support of 63% among the interviewed franchisees. As supported by scholars such as Minkler,(1990), Carney and Gedajlovc (1991); Combs and Ketchen (2003), these franchisees believed that they had space and time to *imprint their style and character* on the franchise system in their areas.

Franchisees believed that that they had *better local market knowledge* that enabled them to *offer a better service to the customers in their areas* by *tweaking and adapting some aspects of the franchise system here and there*. It would appear that these franchisees enjoyed some *psychological space* that they seem to believe allowed them to *improvise and adapt the franchise system to suit their markets.*

Statement 24

Franchised stores located near the franchisor's head-office receive more inspections than usual.

It is strange that this statement received weak support at 40% as this suggests a desire among franchisees to be located close to the franchisor's head office could indicate an intention to *avoid more and frequent inspections* from representatives of the franchisors. Such officials could *hop- in- and- out* of the franchised outlets *to check things out* regularly, as this would be cost effective.

However, it would seem the sampled franchisees got things right because the literature suggests that most *franchisors are located in the big and economically vibrant cities.* Minkler (1990) suggests franchisors establish company stores in these areas as they have lower monitor costs.

Possibly the sampled franchisees were aware of the fact that it is not easy to get a site close to the franchisor's head office any way or that there were no sites as these would have been taken up by the franchisors already or reserved for them.

On the other hand, it is questionable whether franchisors would like to *take a chance and establish a franchised outlet close-by,* and *risk running battles with a franchisee* who possibly cannot cope with the franchisor *breathing down its neck now and then.*

A number of studies (Brickley and Dark, 1987; Norton, 1988; Kauffmann and Dant, 1998) suggest that most franchisors reserve the rights to establish company owned stores nearer to their head offices as training centres and laboratories where new product concepts and ideas experimented with and new equipment tested before spreading out to the different franchised outlets.

According to these scholars, company stores are also located near the head office to facilitate control of those stores by franchisors and to allow the local market knowledge principle to work for the franchisor in the same manner, as franchised outlets seem to provide to the franchisees.

On the other hand, Minkler (1990) has explained the simultaneous existence of company and franchised stores in the same area on the need for franchisors to learn from franchisees about customer preferences with the view to taking over the franchised outlets and establishing company stores in similar areas.

Contrary to Brickley and Dark (1987), this suggests franchisor incentives to establish outlets near their head-offices. Though this practice provides search cost savings, it also has the added benefit of reduced monitoring costs; it does not remove the opportunism risk associated with geographically dispersed outlets, especially where the region is large (Minkler, 1990).

However, lack of support for statement 6 suggests that franchisees in geographically dispersed areas are still subject to franchisor control because of regular store visits despite the high costs involved in setting up regional offices in those area or commuting staff, which also shows the commitment of franchisors to maintain quality standards and protect the reputation of their brands.

In addition, as does the revenue stream incentive (Klein, 1996), the risk of termination should remain a potent self-reinforcing mechanism (Klein, 1991) even to franchisees in geographically dispersed areas. Therefore, the location of franchised outlets far from their head-office does not necessarily give their owners *carte blanche* to engage in opportunistic behaviour.

iii). Local Market Knowledge and OO.

The statements shown on Table 8-11 above examined the postulated positive relationship between the franchisee's local market knowledge and OO. Very high scores received both individually and collectively for these statements 25-27 show very strong support for this proposition at 83%. Table 9-10 presents the results of the test on the sub- proposition, as follows:

Table 9-10: Test Results on Local Market Knowledge

Statements	Number (yes)	Total achievable	%	Result
Franchisors are unable to dispense with the local market knowledge that franchisees possess	24	30	80	Supported
Franchisees must use their local market knowledge to their own advantage	30	30	100	Supported

Franchisees are not being adequately or fairly rewarded for their local market knowledge	21	30	70	Supported
Total	**75**	**90**	**83**	**Supported**

Source: Adapted from Brickley and Dark (1987); Minkler (1990 and 1992); Bradach (1997)

The overwhelming support of 83% that the three statements 7-9 measuring this sub-proposition received from the interviewees strongly suggest that *franchisees believe that they are in charge in their areas.* As the preceding section indicated, it is difficult for franchisees to find sites closer to the franchisor's head office.

At any rate, responses to statement 9 suggested that franchisees expressed preference to be located far away from the franchisor's head office. In most cases, franchisors prefer to franchise outlets located far from their head offices as this minimized their financial and control risks.

On the other hand, Brickley and Dark (1987) and Minkler (1990 and 1992) suggest that franchisees prefer to take up sites closer to where they live and work, in areas removed from the cities located near franchisor's head offices. This is probably because franchisees believe that they have local market knowledge that enables them to implement the franchisor's strategy better than the franchisor can do.

It would also seem these franchisees believe that because of proximity to their markets, they would be able to exert control over their outlets and have a better understand of local customer needs. In addition, the agency theory seem to support the view franchisees are better suited to run franchised outlets instead of store managers because they are claimants to the residue, that is, profit sharing with the franchisor.

Statement 25

Franchisors are unable to dispense with the local market knowledge that franchisees possess.

This statement received very high support of 80% among the interviewee franchisees. At least at face value, there appears to be unanimity of minds between franchisors and franchisees about the competency of franchisees to operate franchised outlets.

This is in line with Brickley and Dark (1987) that franchisors appoint franchisees who agree to risk their money and invest in franchise systems to establish outlets in their own areas. It would also appear that franchisors believe franchisees possess the zeal and ambition to own outlets in their areas.

This explains franchisor investment through training and product development to match franchisee capital and intellectual investment in the business. However, it appears the consensus ends just there because over time, some franchisees *start believing and trusting their own gut-feel and instincts too much*.

Once franchisees seem to become too content with their ability to service their markets, one franchisee stated that:

> *they begin to question the very existence of the franchisor*. Suddenly, *the franchisor becomes irrelevant in their minds* and *they start questioning the need to pay royalties;* and *to comply with the operating standards laid down in the franchisor's handbook; and to procure supplies from the approved suppliers*.

Generally, these franchisees believe as *they have sufficient local market knowledge,* that they are therefore *well equipped and better positioned to provide for the needs of the customers in their own areas* on their own and that *the franchisor no longer has a role to play* in their businesses.

Similarly, since Oxenfeldt and Kelly (1969), franchisees owning profitable outlets have faced the prospect of losing their businesses to franchisors because of the buyback policy built into most franchise contracts.

In some cases, territorial and transfer restrictions and the termination clause have served this purpose in disguise as evidenced by the strong support for statements 15, 33 and 20 among the franchisors surveyed for the quantitative part of this study.

Once again, this raises the spectre of *dog-eat-dog* that seems to characterise the franchise relationship because of the tendency among franchisors and franchisees to engage in opportunistic actions against each other.

Strangely, much of the franchising literature has acquiesced to these malpractices, especially the Oxenfeldt and Kelly proposition (Woker, 2012). Despite its unfairness, unreasonableness and unlawfulness in most mature constitutional democracies such as the US and Europe, to this day, the buy-back of franchised outlets seems acceptable as a "natural progression" in franchising philosophy.

This probably underscores the severely limited number of studies on franchisor abuses in the literature despite a plethora of cases heard in the US and European courts over the years. Though this has resulted in legislative mechanisms in some states including South Africa, the franchisors in most countries including this one, still oppose legislation and regulation intended to level the playing fields, possibly because of self-interest. For instance, franchisors in this study overwhelmingly rejected statement 2 of the questionnaire addressing this issue.

Statement 26

Franchisees must use their local market knowledge to their own advantage.

For these foregoing reasons, most of the interviewed franchisees have difficulty paying the royalties and *listening to the advice offered by the franchisor's representatives*. They believe that *they must use their local market knowledge to their own financial advantage* as *they and not the franchisor, work hard and long hours* and are therefore *entitled to the fruits of their labour.*

However, because of the franchise contract franchisees are bound to pay royalties, which they do grudgingly. In retaliation, franchisees responses suggest that believe they have to *find ways and means of rewarding themselves.* This probably explains their decision to engage in OA despite the obvious risk of termination once detected. It would appear franchisees take this decision in retaliation to opportunistic actions by franchisors.

As suggested by Brown et al. (2000), *opportunism seems to beget opportunism* as instances such as the opportunistic termination of franchise contracts in pursuit of the buy-back clause. Similarly, as stated above, the imposition of territorial and transfer restrictions and provision of short term and non-renewable contract terms on franchisees seems to *push them over the limit.*

The dominant use of the *stick approach* in the industry calls for new ethos to replace the *winner-takes-all* mentality with the researcher's *"live and let live* approach aimed at a *win-win scenario.* Briefly, the *"live and let live* approach proposes the levelling of the franchising playing fields through a reversal of most of the above franchisor practices. This is because self-regulation is not working, as does the resistance to legislation and regulation evident in the franchisor response to statement 23 of the questionnaire.

Similarly, the failure of franchise systems to award shares or stakes to franchisees in the parent holding company does not help matters. In addition, as Muris (1980) argues, the failure of franchise systems to account for kickbacks, discounts and any dividends received from suppliers; and the failure to account for the advertising fund could provide an excuse for franchisees to engage in opportunistic behaviour. Perhaps this is the rationale behind the passing of the CPA in this country, which franchisor response to statement 23 opposes.

Statement 27

Franchisees are not being adequately or fairly rewarded for their local market knowledge.

This is one of a few statements in the study to have received 100% among all the interviewed franchisees supported this statement. This highlights deep-seated feelings among franchisees suggesting that despite playing such an important role in franchising, franchisees seem to feel that franchisors and scholars alike do not appreciate their efforts.

This is ostensibly because apart from the appointment of some of as multi-unit owners (Kauffmann and Dant, 1996; Dant and Gundlach, 1999; Shane, 2006) franchisees received very little rewards for their efforts. For example, as discussed above, most franchise systems do not offer shares in the holding company to their franchisees.

In addition, until the recent passing of the CPA, most franchisors did not account for the discount, kickbacks, or dividends they received from the approved suppliers from whom franchisees in a particular franchise system are required to source their supplies.

Furthermore, most franchisors use the *stick approach* that offer short-term, non-renewal franchise contracts, restricted geographical trading areas and so on, where better contract terms in terms of the researcher *live and let live* philosophy could serve as positive rewards or incentives to well-behaving franchisees.

While some franchisees pointed out their franchise systems offered prizes and gifts for best performing outlets in the forms of free holiday trips and the like, most franchisees felt *this was inadequate and far in-between.* This is because there are so *many franchisees who feel they deserve these rewards while there is only a handful that the franchisors are able to dish out at any one time* that leaves most of them frustrated.

9.3.2 Research question 2 (Proposition 2)

Research question 2 sought to test the relationship between opportunistic orientations and opportunistic actions among franchisees.

A. Testing of proposition 4 - The relationship between OO and OA

To test this proposition, the statements shown on Table 8-12 above were tested to determine whether there was a relationship between OO and OA among franchisees. As depicted on Table 9-11 below, responses to each of the three statements marked 28-30 below that measured this item indicate overwhelming support for the proposition with a high collective score of 73%.

Table 9-11: Test Results on opportunistic actions among franchisees

Statements	Number (yes)	Total achievable	%	Result
Franchisees deserve higher returns than their normal business activities can provide	26	30	87	Supported
It is too much to ask franchisees to comply with all franchise rules and regulations at all times	17	30	57	Supported
Franchisees sometimes ignore some rules in order to maximize their returns	23	30	77	Supported
Total	**66**	**90**	**73**	**Supported**

Source: Developed for the study

These results also provide an overwhelmingly positive answer to research question 2 that examined the relationship between OO and OA among franchisees.

Proposition 4 found strong support for the relationship between an OO and OA among franchisees as measured by statements 28-30 of the interview guide at 73 %.

This proposition formed an important part of the research because it tested research question 2. In addition, to borrow a phrase from quantitative research, together with OO, OA among franchisees were the predictor variable in the study.

However, as this was an exploratory study given that very few studies conducted on this phenomenon, no measures existed on this variable. To that end, the theoretical foundations of OO discussed in Chapter 4 centred on the opportunism construct defined by Williamson (1987 and 1988) as "self-interest seeking with guile" (p47), proved useful.

Statement 28.

Franchisees deserve higher returns than their normal business activities can provide.

At a support level of 87%, the support for this statement came as no surprise when *the responses to the statements both individually and collectively indicated strong support for the first proposition* that *there was a high level of OO* among the sampled franchisees. A close examination of the response to each statement will illuminate more information and facts for the rationale that belied this support.

The purpose of this statement was to determine whether franchisees were satisfied with the returns obtained from operating the franchised outlet. As *most of the interviewees informed the researcher that their franchised outlets were profitable,* this was overwhelming supported that is, 87% of the interviewees for the first statement.

However, it appeared that despite and perhaps paradoxically, because of the profitability of their outlets, franchisees had long-run concerns of franchisor OO that alluded to in Chapter 5. It appears franchisees feared that the success of their outlets could attract the interest of their franchisors. Oxenfeldt and Kelly (1969) predicted that franchisors are likely to buy back profitable outlets from their franchisees whenever it suited the franchisors.

These fears became reality in 2010 for Woolworth food franchisees when the company announced its offer to buy back all their franchised outlets at prices determined by the company. Furthermore, Woolworths announced that it would not renew franchise contracts of franchisees rejecting the franchisor's buy back offer.

The concern among most of the Woolworth franchises was that they were *not receiving fair market value or compensation* for their businesses; and *the local market knowledge they have acquired in a business located in areas in which the franchisor was not prepared to risk its own investment.*

The risk argument suggests that *franchisors avoid the financial risk involved in operating the business in certain markets or territories by franchising the outlet*. A similar response surfaced in franchisor responses to statement 22 of the questionnaire dealt with in Chapters 6 and 7 of this study.

Paradoxically, as per statement 39 on the interview guide used to interview franchisees in this study, *franchisees supported the taking or buying back of stores by franchisors as helpful in resolving some franchising disputes.*

It would appear other concerns gave rise for the franchisee support for the first statement. These include the termination clause, the restraint of trade clause, restricted store re-sale or transfer clause and similar clauses in the franchise contract.

Therefore, by stating that *they are entitled to higher returns than their normal business activities was providing*, franchisees in the present were inadvertently admitting to their own OO. They were expressing *a desire or an inclination to extract financial value from* *conducting their franchised outlet by methods or means other than those that form part of their normal business activities*.

Clearly, this refers to the issues raised in Chapter 5 representing the manifestation of franchisee OO. These include the failure by franchisees to properly account for sales (for example by under-declaring sales), failure to maintain operating standards (for example by purchasing cheaper raw materials), and sourcing ingredients from third party or unapproved suppliers. These activities pertain to the withholding information or effort with the view to generating additional income that franchisees will hide away from the franchisor.

However, a deviant case of an interviewee franchisee who did not agree with the statement suggested that a franchisee who complied with franchise regulations at all times at any rate obtained higher returns from the normal activities associated with conducting his business. To the respondent in question, "higher returns" were not mutually exclusive with the normal business activities; and this response was at odds with that of the other respondents who supported this statement.

Statement 29.

It is too much to ask franchisees to comply with all franchise rules and regulations at all times.

Similarly, a scrutiny of responses to the second statement shows support for the first proposition at 77%. By supporting this statement, franchisees were admitting to an OO for a number of reasons. Firstly, *franchisees accept the obligation to comply with all franchise standards, rules, and regulations at all times upon entering into the franchise* *relationship*. By so doing, franchisees accepted the financial and other implications that underlie these obligations.

One franchisee expressed his practical difficulties in adhering to franchise rules and regulations at all times by stating that:

> *It's not that it's a written rule, it's just the risk [indiscernible] things [indiscernible] no it's fine, but for the next one to be [indiscernible] but there's no dough lying around [indiscernible] it must now be kept clear. If another one comes in, in ten minutes' time then why must I worry. I think if anything it's audited level of knowledge in regards to also running this type of business. The auditors, if they've had training of what to look out for, [indiscernible] broken and they tell me this, this, and whatever, make sure it's nice and clean and whatever.*

As a result, during the interviews, it came out clearly that *77% of the respondents felt that they could not commit to what would ordinarily amount to compliance with the basic terms of their contractual obligations.* The reasons for non-compliance are not hard to fathom as these clearly relate to the financial implications involved as explained above. Brickley and Dark (1987) point out at franchisees pursuing *cost savings* arising from OA.

As part of the franchise system, *such franchisees hope to free ride on the reputation of the franchise system* by using cheap raw materials or ingredients. These franchisees recognise that *they will sustain their businesses because of the strong brand* represented by their franchise system.

Brickley and Dark suggest that such franchisees do *not bear the full cost of any backlash that may result from disillusioned and dissatisfied customers walking away from the franchise system;* and that this tendency is common among the so-called *highway franchisees.* This is because the outlets of the se franchisees cater mainly for transient customers that are, moving customers who are unlikely to return to the particular outlet he may not have received a pleasant experience.

Statement 30

Franchisees sometimes ignore some rules in order to maximize their returns.

While the so-called self-enforcing theory (Dnes, 1979) suggests that, future revenue generated by operating the franchised outlet should serve as a disincentive for non-compliance with franchise rules and regulations, researchers are baffled with continued non-compliance among franchisees. At 77%, this statement received quite a high support among the sampled franchisees.

The marginal utility theory appeared to explain this conundrum in terms of which franchisees who choose not to comply with franchise rules and regulations, it means that the extra benefit associated with non-compliance should be higher than the extra benefit derived from the last chunk of revenue obtained from operating the franchised business.

According to one franchisee*:*

Again, not in my case. I've never had issue with them. Generally as I've seen with other previous experiences with other Franchises. There is always an issue where that they, a Franchisee doesn't like a certain way a Franchisor is doing it, something or a product that's being supplied from Head Office. Franchisee doesn't like that product and he will look for it elsewhere and then the Franchisor will be like, "hang on you have to buy this product from me". Things like that. People do funny things in the Franchise industry. Franchisees will outsource certain items that you have to get from Head Office, they will shop around, they look for other things.

Therefore, it would seem that the incentive to cheat by breaking some franchising rules is far more rewarding to some of the responding franchisees than the sanctions associated with the breach of the franchise contract or incentives aimed at discouraging cheating behaviour.

There is an array of governance mechanisms used by franchisors against errant franchisees. These methods and strategies are discussed extensively in the literature and include the use of power (French and Raven, 1959), incentives (Anderson, 1988), self-reinforcement (Dnes, 1993) and hostages (Williamson, 1987).

However, of these methods and strategies, it would seem French and Raven's classical 5 bases of power model consisting of legitimate, reward, coercive, referent and expert power has been used extensively by franchisors who have been are able built them into the franchise contract to perform various enforcement tasks.

For instance, in outlining the "top-down" disciplinary regime the franchise contract would state that a franchisee breaching the contract by infringing on some rules for the first time would receive a warning letter in terms of that the franchisor would be exercising referent power by referring to the obligations of the parties under the franchise contract.

Normally, such a letter would include a demand for remedial action taken by the franchisee within a given time period failing that some element of coercive power such as cancellation or termination of the franchise contract in the form of sanctions taken against the franchisee by the franchisor.

In a manner that succinctly displays the one-sidedness of most franchise contracts that often escapes even the purview of scholars, the disciplinary protocols are top-down in the sense that the entire process assumes that the culprit will in all cases be the franchisee and the victim, the franchisor.

There are *"no bottom-up"* disciplinary processes in in the franchise contract, which franchisees can take against the franchisor in the event of a suspected breach by the latter. In all likelihood, a disgruntled franchisee would have to seek outside help to enforce its rights in terms of the contract.

Thus, unlike the "cordial letter" that a franchisor can ordinarily address to a franchisee, a franchisee has no such option and has to get its attorney to commence legal action that is essentially adversarial and only serves to indicate irreversible deterioration in the level of the franchise relationship.

This possibly explains the inappropriateness or failure of the various governance mechanisms mentioned above to deter cheating in the franchise relationship. It would appear that this gets out of control the moment once the relationship reaches "rock-bottom" at that point none of the available methods and strategies seems to work in enforcing compliance with franchise rules.

This issue seems to lend support to the issues examined under the statements 13-16 which dealt with the *Last Years of the Franchise Contracts theme.*

This theme was borrowed from Muris' (1980) so-called the "last days" syndrome which can be illustrated by one particular franchisee's behaviour. The franchisee in question was so disgruntled and disillusioned with its franchise system that she reported:

> *having surrendered the shop keys to the franchisor and being prepared to walk away with nothing instead of trying to transfer or sell the business to a third party*.

Therefore, it came as no surprise that this particular franchisee and another responded in the positive to statement 18 in the structure interview questions by stating that *they did not expect the franchisor to extend or renew their franchise contract*.

Such franchisees excuse themselves from honouring franchise rules. The first mentioned franchisee admitted to engaging in opportunist behaviour:

> *by doing some of the cleaning franchise's laundry at its home and not declaring the revenue to the franchisor.*

Generally, an aura of *I do not care attitude* seemed to reverberate among most sampled franchisees when discussing the tendency *to break some franchise rules with no guilt feelings.* It would seem this group of franchisees had decided that *they were on their way out of the franchise system.*

This is either because they thought, *they had caused damage to the brand* by their OA; and that their franchise contracts were on the verge of *expiring with no prospect of the franchisor renewing it.* In addition, that such franchisees *may have had enough of the franchise system,* which *they would not seek renewal or extension or even abandon their option to renew.*

One such franchisee commented that:

> *it had come to the realisation that it had accumulated so much (local market) knowledge,*

an aspect examined by statement 10, that *its customers often asked for its personal name to put on the cheque instead of the franchisor's brand.* That particular franchisee expressed the view that:

> *its business would not suffer* in the event of a severance of the franchise relationship as *it derived very little value from the franchise system after 19 years in the business.*

This franchisee stated that she engaged in OA by:

> *sourcing supplies from competing suppliers who was not on the franchisor's list of approved suppliers.*

Fortunately, the franchisor imposed a fine on this franchisee and did not have the dagger of termination dangling above its head. This franchisee justified its opportunistic behaviour on the:

> *un-competitiveness of its franchisors in terms of aggressive pricing and stock unavailability.*

This point confirms or triangulates *albeit* obliquely, an issue canvassed in the structured questionnaire addressed to franchisors regarding the study of opportunism among franchisors. It related to the *taking or buying back of franchised stores from failing or incompetent franchisees, because of the need for franchise systems to be competitive*.

9.3.3 Research question 3 (Propositions 5-7)

The last research question sought to determine whether there was a relationship between OA among franchisees and the growth, competitiveness, and survival of franchise systems.

A. Testing of proposition no 5 - OA and the growth of franchise systems.

The results of the testing of the statements shown on Table 8-13 ap1pear on Table 9-12 below. These results indicate that the proposed negative relationship between growth of franchise systems and OA among franchisees received overwhelming support at 80%.

Table 9-12: Test Results on the growth of franchise systems

Statements	Number (yes)	Total achievable	%	Result
It is desirable and advantageous for franchisees to comply with franchise rules at all times	27	30	90	Supported
Most franchisees aim at owning more units in future	25	30	83	Supported
Franchisees play no part in the growth of the franchise system	20	30	67	Supported
Total	**72**	**90**	**80**	**Supported**

Source: Developed for the study

The growth of the franchise system is important as it generated the economies of scale needed to sustain the franchise system. The study used a net increase in the number of franchised outlets over time as measure of growth. The literature shows that franchised outlets usually comprise more than two thirds of the franchise system.

As discussed in Chapter 3 above, received knowledge has explained the use of franchisees to run franchised outlets in terms of the agency and resource constraint theories. Briefly, the agency theory suggested that franchisees are more likely to be more motivated than store managers to operate the outlets are.

On the other hand, the resource scarcity theory suggested that franchisees provided the intellectual and financial capital that the owners of franchise systems needed for the rapid expansion of their business concepts or strategies. Over the years, there have been debates in the literature about a combination of the two approaches and the importance of theories such as TCE in explaining various aspects of the franchise relationship.

Nevertheless, franchisees have always played a central role in the growth of franchise systems as can be seen from the exponential increase in the number of franchised outlets in most countries. As discussed in Chapter 3, some concerns raised in the literature and practice relating to the tendency among some franchisees to behave in an opportunistic manner threatens the growth of franchise systems.

Therefore, this sub-proposition aimed at assessing the extent to those franchisees believed some of their tendencies to behave opportunistically could affect the growth of franchise systems.

Statement 31

It is desirable and advantageous for franchisees to comply with franchise rules at all times.

This statement received overwhelming support of 90%. As explained in Chapter 5, OA among franchisees normally falls into two categories: withholding of information, effort, and non-compliance with franchise rules. Statement no 28 focused on the latter.

This is because compliance with the franchise rules does not ensures that the franchise system remains intact, but is also used by franchisors as a yard stick to award additional outlets to existing franchisees as a strategy to grow the franchise system. Therefore, to the extent that franchisees are willing and able to comply with the rules, it is possible to predict the growth of franchise systems.

However, studies such as Kauffmann and Dant (1996), Dant and Gundlach (1998) and Shane (2001) show that multi-unit ownership of outlets by franchisees is very common in most franchise systems. The reasons for the use of existing franchisees to grow the franchise system revolve mainly around to minimize selection costs as the franchisor already know these franchisees; and the franchisees are familiar with the franchise system.

Therefore, recruiting existing franchisees is not only a case of *the devil you know is better than the one you don't*, growing franchise systems by allocating additional units to existing also provides opportunities for franchisees to improve the profitability through economies of scale in their businesses and this helps to increase their wealth.

Therefore, the overwhelming support for this statement suggests awareness among the interviewed franchisees that compliance with franchise rules is important for the growth of the franchise system and vice versa.

Statement 32.

Most franchisees aim at owning more units in future.

This statement also received overwhelming support of 83% among the franchisees as an indication of their understanding of the need for the growth of the franchise system and their role and benefits in this process. The sampled franchisees appeared to understand that owning additional units is to their own advantage as it meant that their own businesses were growing and that this translated into money going into their pockets.

As one franchisee put it:

> *Well, I mean, you know speaking from my side here, I am very good friends with the owners of the Franchise. The one guy I've known for over 20 years, so, you know, it's basically just a phone call, just to say hey guys you know, I'm looking for another store. Where there's a new mall and then they will go there for me and say ok look how about this, and they would discuss the rental and this and where and what and how and then it's okay it's going to cost so much, either we go forward or we don't go forward and if it's a store that wants to open near you, you'd have first choice. So if there….*

Statement 33.

Franchisees play no part in the growth of the franchise system.

The 67% response of the franchisees to this negatively worded statement was negative, clearly indicating that franchisees believed they played an important role in the growth of the franchise system. Franchisees play this role not only by acquiring additional units, but also by renewing or extending their contracts when these expire at the end of their contracts and by helping to attract and recruit new franchisees into the franchise system.

Lafontaine (1992) suggests that most aspirant franchisees make it their business to solicit the views of existing franchisees before deciding whether to buy into a franchise system. However, this understanding of their role in the growth of franchise systems seems to be at odds with their responses to statements 28 to 30 that seemed to suggest OO among them.

Once again, the work of Festinger comes into play here as there appears to some inconsistency between the thought processes and the actions of these franchisees. On the one hand, their responses seem to suggest that they believe it is important to comply with franchise rules in order to grow the franchise system whilst at the same time their behaviour indicates the opposite.

B. Testing of proposition no 6 – OA and the competitiveness of franchise systems

Table 8-14 above contains the statements which measured this proposition. As shown on Table 9-13 below, there was strong support of 66% for the proposition suggesting a negative relationship between the competitiveness of the franchise system and OA among franchisees, as follows:

Table 9-13: Test Results on the Competitiveness of Franchise Systems

Statements	Number (yes)	Total achievable	%	Result
Brand building is not the responsibility of franchisees	16	30	53	Supported
Most franchisees feel encouraged to provide ideas that may help to improve the franchise system	27	30	90	Supported
Franchisees are getting fair value for the advertising fees they pay to their franchisors	16	30	53	Supported
Total	**59**	**90**	**66**	**Supported**

Source: Adapted from Porter (1985), Brickley and Dark (1987), Bradach (1997), Sorenson and Sorenson (1987), Minkler (1990), Michael (2000)

This proposition posited negative relationship between the competitiveness of the franchise system and OA among franchisees. The measures for this proposition, that is, statements 34–36, yielded mixed support. The issues examined by this proposition revolved around the role of the franchisees in building of the brand, their willingness, and ability to contribute ideas and information that could help build the competitiveness of the franchise system and their attitude towards the advertising fees that that pay to the franchisor.

Like growth, the competitiveness of the franchise system is critically important. This is because franchise systems need to be competitive in order to continue to satisfy the wants, needs, and aspirations of their current and future customers. To this end, franchise systems need to ensure that they attract customers by offering them a unique and lasting experience through quality products and services that meet their price expectations and use suitable messages that inform them about the availability of these offerings from attractive and conveniently located facilities and so on.

Statement 34.

Brand building is not the responsibility of franchisees.

Though this statement received significant support at 53%, this was rather below expectations considering the overwhelming support that statement no 34 to 36 received in respect of the perceived importance of the brand among them.

Perhaps this has to do with the misunderstanding that most of these franchisees have that by paying the advertising fees to the franchisors in the form of between 2 and 6% of their monthly sales, the responsibility to build the brand shifted to their franchisors.

This line of thought could also be reflective of fact that those franchisees played no role whatsoever in the development of the advertising strategy of their franchise system. Generally, it is not possible for the franchisor to involve each franchisee in the planning and execution of the advertising strategy.

However, scholars such as Bradach (1997) and Sorenson and Sorenson (2001) suggest how and why it is important for franchisors to find ways and means to accommodate the views of most franchisees in designing and executing advertising strategy and to learn from their franchisees (In fact, the next statement dealt with this aspect) especially when considering that, generally speaking, franchised outlets are more profitable than company stores (Minkler, 1990).

However, one franchisee opined that:

You know and when I make suggestions they listen to them, if I've make fifteen suggestions and not one of them have come through, they loved all of them, they liked all the ideas, in two years not one of them has come through. They don't care.

In addition, as part of their brand building responsibility, most franchisees are not only required to pay the advertising fees, which in itself confirms their responsibility in this process, they are also required to spend between 1 and 3% of their monthly sales on local advertising (Dnes, 1993).

One particular franchisee succinctly commented thus:

it was its responsibility to build its franchisors brand in its area by upholding and keeping the franchisor's brand in high regard,

while another franchisee explained the role of franchisees in building the brand of the franchise systems by referring to the impact of the reckless of a franchisee on the entire chain thus:

Yes, imagine you go to somewhere and then you have a very bad experience. You are going to think hang on, but then it's all going to be like this.

Similarly, another franchisee stated that:

> *they (franchised stores) all look the same, the same menus, the same brand and the person, especially a first time customer, they come in they don't know what your stuff is supposed to be like, the quality, how it really is and then they go through a bad store and then they have this and they are like hang on this is gross. They are not going to go to another one. Let's say they move to a different area and they will see the same Franchise, they are not going to go there, because their first time experience was not great. Would you go and waste money to try it again?*

Statement 35.

Most franchisees feel encouraged to provide ideas that may help to improve the franchise system.

This statement received overwhelming support of 90% among the interviewed franchisees. It would seem that most franchise systems have various mechanisms that they use for collecting inputs from their franchisees for developing new advertising material and products.

According to one franchisee, these methods included:

> *suggestions boxes, in-house competitions, and feedback provided through in-house websites, newsletters, and communication between the field workers and the franchisees, road shows or annual national, regional or meetings between the*

representatives of the franchisor and the franchisees and franchisor-appointed franchise council meetings used for this purpose.

Chiou et al., (2004) found that open communication between franchisors and franchisees did not only serve improve relationships, but also helped generate ideas that could be used to improve the competitiveness of the franchising system through the introduction of innovative products and strategies.

This is because franchisees who feel encouraged to contribute ideas are able to feed through their local market knowledge to the franchisor who is the in a position to collect, collate and synergise the information from the different franchisees in the different areas and markets to inform its strategies.

Statement 36.

Franchisees are getting fair value for the advertising fees they pay to their franchisors.

Surprisingly, most of the franchisees supported this statement at 53% despite the generally negative sentiments expressed in the media and the literature. This included the franchisees from some major franchisors with a reputation for running interesting and regular print, billboard, and electronic advertisements such as television, radio, Internet and so on.

The general complaint was that *the advertisements did not speak to the customers of each franchisee within the franchise system*. This showed that different strategies are required to meet the advertising needs of the different sub-markets found within the same franchise system.

However, most importantly, most franchisees also felt that *their franchisors were not spending enough money on advertising*. This complaint represented an age-old franchising conundrum addressed in an aptly captioned paper by Michael (2000): *Do franchises advertise enough?* Michael's findings concur with the complaints raised by the interviewed franchisees in this study.

In fact, Muris (1980) raises the problem of franchisors misallocating advertising fees to pay for the franchisor's administration expenses as an example of franchisor opportunism. This is because at least until the passing of the CPA in this country, franchisors had *carte blanche* control of the advertising revenue and budget.

There was no mechanism for getting franchisors to account to the franchisees for the millions of rand paid to them *in lieu* of advertising fees. The CPA has changed all that by requiring among other things that the advertising fees paid into a separate trust account from that all advertising expenses paid and that this account audited and made available for inspection by any franchisee on request.

C. Testing of proposition no 7 – OA and the survival the franchise systems

Table 9-14 depicts of the results of the testing of the statements shown on Table 8-15 above which sought to measure the relationship between the survival of franchise systems and OA among franchisors. These results show strong support of 73% for the proposition, as follows:

Table 9-14: Test Results on the Survival of Franchise Systems

Statements	Number (yes)	Total achievable	%	Result
Franchisees usually expect their franchise contracts to be extended or renewed beyond the initial period	24	30	80	Supported
Disputes between franchisors and franchisees are unavoidable	18	30	60	Supported
Stores closures and take-backs are helpful in resolving some franchising disputes	24	30	80	Supported
Total	**66**	**90**	**73**	**Supported**

Source: Muris (1980); Brickley and Dark (1987); Hadfield (1990)

This proposition postulated that a negative relationship existed between the survival of franchise systems and OA among franchisees. The interview respondent supported statements 37 to 39 used to measure this proposition. There can be little doubt that survival is the challenge that faces most franchise systems in the face changing market conditions in most countries especially South Africa.

For example, the entry of foreign brands such as McDonalds in the local fast food market and Europcar in the care hire market probably had an effect on the market share of the local companies; and this is likely to grow and spread to other product segments. While this scenario presents opportunities for choice and cheaper prices among consumers, franchise systems have to find ways and means of retaining and protecting their market share and profitability.

The other challenge that threatens the long-term survival of franchise system globally is the unemployment rate that has a negative effect of consumer demand because of the decade long recession that appears far from bottoming out. The political/legal situation arising from the passing of the CPA in this country also presents immense challenges for the franchising sector. For instance, the CPA requires franchise contracts amended, re-negotiated, and re-signed with franchisees by 01 April 2011.

This entails high legal expenses for the re-drafting of franchise contracts that must be borne by franchisors alone that due to dwindling sales and profit margins and increasing input costs they may find difficulty in recovering from franchisees by increasing the 2–7% administration fees they impose on them.

Franchisors may also face legal battles on the duration of the revised franchise contracts as the law requires new contract to have been signed by 01 April 2011 failing that such contracts will not become invalid or void, but voidable on account of being unlawful.

Udel (1972) found that most franchise contracts have a “severance clause” that states that an invalid clause does not affect the rest of the contract, the CPA attacks the contract as a whole. Thus, franchisees with OO may use this opportunity to demand an extension and may refuse to sign the revised contract unless and until franchisors meet their demands.

On the other hand, franchisors caught up in this trap may not be able to rely on the defective contracts to act against such un-cooperative franchisees. Such franchisees may use the principles such as the need for good faith, fair business practices, and conscionability between franchisors and franchisees enshrined in the Act to launch legal battles against their franchisors.

Such battles may carry on for a few more years until they decide to abandon their claims and walk away from the franchise system should it prove to be a fruitless or too costly for them to keep the matter in the courts of law.

Statement 37.

Franchisees usually expect the extension or renewal of their franchise contracts

Invariably, 80% of the franchisees supported this statement and expressed the need, in the words of one franchisee *to protect their bread and butter.*

In support of this statement, one franchisee stated that:

> *I think so, because if I am going to sit here and work for your brand and make it better, then why shouldn't, it's not something that I am going to go and beg for. It's something that you go and say if I need to renew it then I will sign then I'll sign the paper. It's like a process, like getting the lease; this is a big story, in inverted commas as well.*

Ordinarily, these franchisees would comply with franchise rules and regulations, as this would be in their best interest. However, counterbalancing the responses of franchisees to statements 1 to 3, and this one, clearly illustrates Prof Festinger's theory of cognitive dissonance referred to above.

The thought processes of these franchisees appear to be inconsistent with their actions as they expect their franchise contracts to be renewed yet they show an inclination to behave in an opportunistic manner that could threaten the renewal of franchise contracts.

An explanation that can be provided for this inconsistency is that as Williamson (1987) argued, it is human nature for franchisees to behave in an opportunistic fashion whenever they believes it was opportune for them to do so, and whenever this yielded some rewards for them.

Statement 38.

Disputes between franchisors and franchisees are unavoidable.

This statement received strong support of 60% as most of the franchisees seemed to believe that the question missed the point given the many issues of that the parties can disagree so rather *the question should have been how the parties resolve their disputes amicably as failure to do so harms the image of the business.* To this end, franchisees indicated that, *a three warning letter system was in use in most franchise systems usually followed by drastic action.*

This included *termination of the franchise contract by either cancellation or non-renewal even where an option to renew exists, as renewal is contingent upon the franchisee being in good standing at the time of the renewal*. It would seem this elaborate system is based on the desire to resolve disputes amicably, and not, in the words of one particular franchisee:

to go for the "jugular" rather too quickly.

However, as established by Udel (1972), the lack of mediation and arbitration clauses in most franchise contracts reflects the cognitive dissonance that has been discussed in the preceding sections, this time on the part of the franchisors.

Statement 39.

Store closures and take-backs are helpful in resolving some franchising disputes.

While 80% franchisees supported this statement, most of them questioned its desirability as a dispute resolution mechanism. This is because most franchisees felt that *ailing franchisees needed support until they are able to find their feet again to stand on their own.*

Only thereafter could franchisors take drastic measures against the franchisees. These include *cancellation or termination gives the franchising industry the bad reputation it is fast gaining in the eyes of the South African public.* One franchisee pointed out that:

> *in order to protect the image of reputation of their brands, some franchisors usually took back stores from incompetent or failing franchisees to rehabilitate them before hand them over to other franchisees.*

More specifically, one franchisee stated that:

They didn't just say "Oh, hang on you're not a Franchise anymore". They did steps trying to do the things properly and then they just, (inaudible) they haven't resolved the issue and they still carried on doing what they are doing. So they said "Hang on, if you carry on doing what you're doing, then you are not part of us". So they took away the brand and they are doing whatever they're doing.

However, one franchisee criticised this strategy by pointing out that*:*

some outlets get recycled among franchisees without the franchisors conducting a thorough viability of the site concerned to determine the probably causes of the site to fail and that often, the reason why a particular outlet failed is usually not disclosed to subsequent franchisees.

One franchisee alleged that:

foremost in the franchisor's mind is to keep the outlet in a particular site open regardless of whether such a site is viable or not.

Another franchisee made the point that:

while it may be in their own best interests to remove some bad guys from the franchise system to protect their investments, this should be done as humanly as possible and as a last resort.

Similarly, another franchisee expressed the hurt that store closures bring to his ilk by stating that:

so my argument is, I know the woman that owns that, and I'm very upset that she's gone bust… very upset for her, that she lost a lot of money, but my argument is, why is that shop there in the first place.

9.4 Summary of the propositions test results

The results of the testing of the propositions based on the constructs and some of their most important sub-dimensions are summarised on Table 9-15 below, as follows:

Table 9-15: Summary of the propositions results

Construct	Sub-dimension	%	Results
Growth		80	Supported
Competitiveness		66	Supported
Survival		73	Supported
Opportunistic actions		73	Supported
Structural factors	Head-office staff to franchisee ratio	82	Supported
	Incomplete contracting	68	Supported
	Multiple unit-ownership	49	Unsupported
Contextual factors	Membership of Franchisee Associations	74	Supported
	Lack of regulation and legislation	69	Supported
	Last years of the franchise contract	77	Supported
Strategic factors	Brand value	98	Supported
	Geographic dispersion	59	Supported

	Local market knowledge	83	Supported

Source: Developed for the study

Table 9-15 shows that the data supported nearly all the study's propositions. The next section discusses the methods used to validate the data

9.5 Validation of the qualitative interviews: issues and processes

Semi-structured interviews in respect of exploratory qualitative studies such as this one involve personal observations that are subject to individual perceptions and judgments which most scholars aver are difficult to measure statistically (Ritchie and Lewis, 2005).

However, despite the above methodological issues, a number of alternative research techniques that rely less on statistical analysis suggested by scholars such as Bailey (1994), Ritchie and Lewis (2005) and Patton (2006) validated the methods and data obtained from the purposeful sample used in this study.

Enhancing the quality and credibility of the study. Within Richie and Lewis (2005)'s framework, rather than assessing the reliability that is, the ability of one study to repeat or replicate by another study's results, this part focused on the equivalent of reliability as it is understood in qualitative studies, that is, transferability, and confirmability of results.

Similarly, instead of assessing validity, "credibility and defensibility" assessed the extent to which the data was relevant to the subject matter under investigation.

This aimed at ensuring that the data, methods, and findings of a study are "sustainable" and "well grounded" to meet the requirements of a qualitative study outlined above.

Most of these approaches use concepts such as credibility, transferability, dependability, confirmability and others interchangeably as substitutes for the factors of reliability and validity, a strategy that paradoxically facilitates methodological triangulation as suggested by Denzin (1970).

A similar approach adopted in this study revolved around Patton's (2006) 3-phase framework to enhance the quality and credibility of the study. The first batch of strategies aims at assessing the rigour of methods used in the study and includes generating and assessing rival conclusions, negative cases, triangulation, review by inquiry participants, and audience review.

The second lot addresses the question of the credibility of the researcher. In this regard, issues examined include the researcher's professional background, interest in the study, investigator effects, or biases, intellectual rigour.

The last one deals with the issue of the researcher's philosophical belief in qualitative investigations as determined by his "appreciation of the naturalistic inquiry, qualitative methods, inductive analysis, purposeful sampling, and holistic thinking" (p553). The ensuing discusses the application of these techniques in this study.

Generating and assessing rival conclusions. The purpose of this exercise is to counter claims and suspicion of bias having informed the findings of the researcher that have taken place unconsciously, inadvertently or even intentionally. One way of dealing with this problem is to be proactive, intellectual honesty and openly disclosing one's predispositions upfront and thereby declaring any biases explicitly.

By offering alternative explanations for the phenomena under investigation, the investigator made a clean break with his stereotypes by showing evidence of objectivity having taken the intellectual trouble and inconvenience to consider alternatives. To do this, data was organised in themes that could lead to unexpected results or findings and other logical approaches to the handling of the data that could lead to different conclusions, respectively in search for the best fit.

Negative or deviant cases. Searching for cases that negate or challenge existing stereotypes, approaches, or thinking created avenues for new thought processes that could unveil new patterns and trends to introduce new dimensions to the study.

The process involved in identifying and exploring negative or deviant cases is iterative and involves trial and error until the examination of several such cases. The size of such cases is immaterial, as emphasis was devoted to the analysis of identifiable items that defy the norm.

In this study, three ex-franchisees, two known and one not known personally to the researcher whose franchise contracts were not renewed at their own instance or that of franchisors were considered to negative or deviant cases were interviewed by telephone. In the main, these individuals corroborated most of the findings of the study although their views were more radical than those of existing franchisees were.

This reaction was anticipated given the findings by Frazier (1997) in an Australian study that found that most ex-franchisees tend to be disgruntled and disparaging towards their ex-franchisors especially where their franchise contracts were terminated prematurely.

Design checks: Keeping methods and data in context. Patton (2006) identified three possible limitations that might arise from sampling mistakes that may affect the quality of the data or the findings of the study. These relate to limitations in the significance of study that may arise from observed situations, times of observations and people who are sampled to participate in the study.

The importance of understanding this strategy is that in qualitative studies, the findings of a sample are not intended to be generalised to a population, but are merely used to highlight the purpose and limitations of the sample studied (Ritchie and Lewis, 2005).

High quality lessons learnt. This aspect forms an important caveat applied in qualitative research by applying or adapting the results of the study to other situations. In dealing with this issue, instead of recommending the generalising the findings to other settings, this study states the learned lessons as principles of practice that may be adapted to suit the context of situations in which they may be applied.

Lessons may be transplantable or transferable to other contexts only where such lessons have received triangulated support from a multiple of sources and types of learning.

Assessing the credibility of the researcher. In what may be described as some form of intellectual honesty, Patton (2006) suggests that it is significant for the researcher to give an account of his personal involvement or interest in his investigation that may have affected the data collection, analysis, or interpretation of the findings in a positive or negative way. This has the potential to enhance or detract from the value of the study depending on how the researcher's background has enhanced or detracted from data gathering and analysis.

Investigator effects. Patton (2006) discusses four reportable factors involving the effect of the presence of the researcher in the research scene that enhances the credibility of the finding of a study. These include the reactions of participants to the researcher's presence; changes in the research team or field workers; the researcher's predispositions; biases and selective perceptions and the researcher's incompetence.

Given the researcher's experience as a franchisee, the respondents may have been more forthright than otherwise with the result that the findings of the study may be beyond doubt or unquestionable.

Naturalistic inquiry. This explains the researcher's decision to conduct a real-life investigation of phenomenon under study, that is, under franchisee OO and OA by way of interviews and not through experimental or other methods underlie his epistemological and ontological stances.

The study took the view that franchisee OO and OA exists as a social reality; and that it is examinable and objectively measurable with the use of techniques such as semi-structured interviews and content analysis described in the above sections.

Qualitative methods. In planning the research design for the study, the researcher realised that the best way to obtain better insights and understanding of the views, beliefs, and perceptions of franchisees on an exploratory topic would be through a qualitative study which provided deeper and complex issues defied examination.

This was despite conducting the quantitative study to examine the same phenomenon among franchisors, as explained in Chapter 6. As suggested by Ritchie and Lewis (2005), quantitative methods supplemented the qualitative inquiry by examining the research questions among franchisees.

Inductive analysis. The use of the hypothetico-deductive approach on the quantitative study intended to test the research questions among franchisors. The purpose of inductive analysis in the examination of franchisee OO and OA was to discover patters, themes, and categories compared with the canonical correlations factors loadings identified in the in the study.

This is in line with Patton's (2006) supposition that the inductive analysis involved in qualitative analysis can be very useful when developing a code book for content analysis as was the case in this study.

Purposeful sampling. The use of purposeful sampling in this study has enabled the researcher to try to extract information-rich data from a sample by having to think carefully and strategically in order to determine the criteria that delivered a sample consisting of franchisees with the necessary experience, knowledge, and information that addressed the research questions.

The researcher decided that against the use of ordinary random sample methods that could have yielded a more representative sample than an informative sample, as is normally required in qualitative studies. For example, the sample used in this study consisted of franchisees with a minimum 3 years' experience which was considered a key selection characteristic which displayed the qualities sought in an ideal franchisee respondent capable of understanding the various study constructs and sub-dimensions.

Holistic thinking. This skilful exercise requires taking a broad view of the research setting in order to consider a wide range of factors that affected the research problem. To this end, the use of qualitative research to triangulate the quantitative methods in this study was an attempt to address the research questions not only from the point of view of different sources of data, that is, franchisors and franchisees, but also from different theoretical and methodological perspectives. The objective was to achieve a rounded view of the phenomena under study, that is, the effects of OO and OA on franchise systems.

The next section discusses an assessment of possible bias in the methods and results of the qualitative study.

9.6 Assessment of bias

The use of the interview method carried the risk of bias which could emanate from the interviewer's misunderstanding of the respondent's answers or his mistaken recording of such an answer (Bailey, 1994). Most importantly, Bailey also states that bias can arise from "the respondent's reaction to the interviewer's sex, race, social class age, dress physical appearance, or accent" (p175).

Ordinarily, these social or demographic factors could have introduced bias during the interviews, the researcher expected bias to arise from the sensitivity of the subject matter that involved examining the franchise relationship which revolves around an unequal distribution of power between franchisors and franchisees.

For instance, scholars such as Hunt (1977) and Dnes (1993) regard franchise contracts as being one-sided in favour of franchisors, while Udel (1972) alluded to the confidentiality clause that clearly undermines the franchisees' constitutional right of freedom of speech and association. As was anticipated, some franchisees were reluctant to participate in the study out of fear of the consequences of breaching their franchise contracts.

Similarly, the satisfactory response rate of 44% to the questionnaire survey suggested that franchisors were not particularly keen to participate in a study conducted by an independent researcher other than one they of FASA commissioned. In addition, the coming into effect of the CPA on 01 April 2011 with its far-reaching implications for the franchising industry appears to have had a negative effect on the participation of franchisors in this study.

This explains the reluctance of most franchisors to provide the contact details of their franchisees to the researcher and this made it impossible to use the questionnaire to gather data from the franchisees

On the other hand, researcher bias may have been factor in assessing franchisor OO and OA because of his background and experience as a franchisee of more than 10 years standing. However, the positivistic approach adopted and the robustness of the measures used in this study could have a mitigating effect on the researcher's personal views and perceptions towards franchisors.

In this regard, the researcher developed the statements used as the research instruments after consultations with franchising experts and nearly all the measures emanated from the literature. In addition, pre-tests conducted with the experts were found to be acceptable which indicated that the instruments had inter-rater reliability.

The next section concludes the chapter.

9.7 Summary

This chapter presented and discussed the qualitative results of the study obtained from examining interview data using content analyses to test seven propositions which addressed three research questions among franchisees. As in the case of the study among franchisors, the results indicated marginal to strong support for most of the propositions. The chapter also addressed various methods and strategies used to validate, assess possible bias in the methods and results of the qualitative study.

Chapter 10 Conclusions

10.1 Introduction

Chapter 6 and 7 and 8 and 9 presented and discussed the research methodologies and results of the quantitative and qualitative parts of the study conducted among franchisors and franchisees using questionnaire and interview data analysed mainly using SEM on SAS and content analysis, respectively.

In this concluding chapter which largely also serves to integrate the quantitative and qualitative parts of this study, section 10.2 summarises the study's integrated findings and implications of its results. Section 10.3 discusses the study's contribution to franchising research, practice, and policy. Section 10.4 focuses on possible areas of investigation by future researchers.

10.2 Conclusions of the study: integrated findings and implications

This section presents a conclusion on findings and implications of the study's quantitative and qualitative results testing questionnaire and interview data mainly using structural equation modelling and content analysis among franchisors and franchisees to examine three research questions using seven hypotheses and propositions which were presented and discussed in Chapters 6 and 7, 8 and 9, respectively.

10.2.1 Conclusions on research question 1 (Hypotheses and propositions 1-3)

Unlike in the case of franchisees where significant support was found for propositions 1 to 3 measuring the relationship between structural, contextual and strategic factors and OO among franchisees, the expected support for most of the predicted relationships between these constructs measuring hypotheses 1 to 3 among franchisors did not occur.

Rather, contextual and strategic factors were found to be directly related to OA and the growth and survival of franchise system and not through OO as postulated. These findings indicated situations in which contextual and strategic decisions such competitive pressures and the provision of financial assistance by franchisors to franchisees leading to the positive results that were not predicted by the model.

These findings suggest that structural, contextual and strategic factors may create entrepreneurial orientations (EO) and not OO among franchise systems to pursue growth and survival through new franchisees taking up franchisees and existing ones extending their franchise contracts or taking up opportunities to own additional units within the franchise system.

However, support for research question 1 among franchisees imply that franchisors and franchisees need to embrace the Act and to use it to develop new paradigms and attitudes for approaching and conducting their relationship with franchisees.

In this vein, RET scholars such as Macneil (1974), Ouchi (1980) and Granovetter (1985) suggest the formation of social norms and values such as co-operation, trust, mutuality, information exchange, and solidarity to underpin the franchise relationship.

These norms and values could offer credible commitments and better protection for the contractual rights of the parties against each other's opportunistic actions (Klein, 1993, 2000) than franchise contracts. The use of RET principles such as cooperation, trust, and mutuality could foster better ties between franchisors and franchisees by developing mutually agreed norms and values of acceptable behaviour.

As Leblebici and Shalley (1996) argue, the use RET principles might encourage a departure from a neoclassical contract law approach that emphasises strict adherence to contract provisions to the exclusion of implicit understanding of such terms by the parties in resolving franchising disputes.

As an example, the removal of the expiry or renewal date clause from franchise contracts to provide security of tenure especially to franchisees by removing the incentive to "make as much money as possible," which may encourage OO among franchisees.

Similarly, removing the expiry or renewal date clause should be considered with the view to discouraging opportunistic terminations or non-renewal of franchise contracts by franchisors and to embrace and implement the relevant clauses of the CPA in their franchise contracts.

In addition, franchisors and franchisees should jointly engage the authorities through aggregated franchisee associations and franchise advisory councils to address issues in the CPA which are likely to impact negatively on the growth, competitiveness, and survival of franchise systems.

10.2.2 Conclusions on research question 2 (Hypothesis and proposition 4)

The study found no support for hypothesis and research question 2 among franchisors while propositions 4 to 7 found strong support for this research question among franchisees. This suggests the existence of a positive relationship between OO and OA among franchisees which suggests support for Brown et al (2000)'s observation that opportunism begets opportunism.

In addition, these findings support the allegations franchisors make against their franchisees regarding the failure to maintain quality standards by taking advantage of issues such as incomplete contracting and lack of monitoring and supervision capacity among franchisors.

However, because of the harm that OO and OA among these parties visit upon the franchise system, the study suggests the need for them to adopt the so-called "live and let lives" strategies based on RET principles to seek win-win solutions for the franchise relationship by establishing psychological contracts (Schein, 1980; 1982) between franchisors and franchisees.

The psychological contract between the parties should encourage the parties to build and maintain their relationship based on implicit rather than explicit terms of franchise contracts to deal with disputes that might arise between them. This implies applying non-legal rather than legal factors such as cooperation, trust, solidarity, mutuality, information exchange, flexibility as governance mechanisms in the franchise relationship.

Such an approach will make it possible for franchisors to quickly and painlessly adapt to the new legislative landscape under the CPA that requires them to amend their franchise contracts to give effect to the constitutional rights that franchisees are entitled to such as the right to fairness and dignity.

To this end, franchisors need to ensure that both their conduct and franchise contracts at all times display fairness, reasonableness, conscionability, good faith and so on; and that franchisees recognise and respect the contractual rights of franchisors which are also enshrined in the constitution.

10.2.3 Conclusions on research question 3 (Hypotheses and propositions 5-7)

Thirdly, hypotheses 5 to 7 also produced mixed and unexpected results. The statistical support found for the unpredicted direct relationship between contextual factors and the survival and between strategic factors and the competitiveness of franchise systems and not through OO or OA can be interpreted as representing the support for hypotheses 6 and 7 and research questions 3 among franchisors.

On the other hand, the qualitative study found strong support for propositions 5 and 7 which also indicates important support for proposition 3 which suggests support for the predicted negative relationship between OA and the growth and survival of franchise systems and not for the relationship between OA and the competitiveness among franchisees.

These findings suggest that the negative relationship between OA and the growth and survival of franchise system among franchisees arises from their reluctance to renew or extend their franchise contracts.

This could be the result of the high levels of tensions and conflict within the franchise relationship caused by the misaligned incentives between the parties such as the requirement for franchisees to invest in lifelong assets in return for short-term franchise contracts; and the right of franchisors to purchase such assets at the end of the contract term.

Accordingly, the study suggests the need for franchisors to amend such practices by offering long-term franchise contracts to match the long-term investments franchisees make into the franchise system which will demonstrate RET values such as good faith, fairness, reasonableness and conscionability, which will make it possible for franchisors to achieve growth of their franchise systems by retaining existing franchisee, attracting new ones and existing franchisees expanding their operations.

This study also found marginal statistically significant evidence of a negative relationship between OA and the competitiveness of franchise systems only among franchisors possibly relating to the cancellation or termination of franchise contracts by franchisors for non-performance reasons, lack of trust and confidence in franchisees by franchisors, and unwillingness to provide franchise contracts with favourable terms to franchisees.

Therefore, in order for franchise systems to grow by attracting new franchisees and retaining new ones, they need to be competitive by offering favourable franchise contracts terms (Shane and Spleen, 1988) by using favourable franchise contract terms such as longer and renewable contract terms, extended territorial zones, purchases of quality goods from non-approved suppliers and so forth.

As predicted, the study found strong evidence of a negative relationship between OA and the survival of franchise systems among franchisees which suggests that the closure of outlets because of malpractices such as the “at-will” termination of franchise contracts threaten the survival of franchise systems because of the negative publicity and court battles that follow such decisions.

As a result, the lack of secured tenure may force existing franchisees not to renew or extend their franchise contracts, seek or accept opportunities to acquire additional outlets and encourage aspirant franchisees to buy into the franchise system.

Similarly, the unwillingness of franchisees to provide favourable franchise contract terms to franchisees may lead to an exodus of franchisees and this may discourage prospective franchisees from coming into the franchise system.

10.3 Contributions of the study

This study contributes to existing theoretical and practical knowledge and application of franchising as a business model. It pays attention to existing concerns whilst raising a number of issues, practices and strategies requiring the consideration, debate and implementation by scholars, franchisors and franchisees, FASA and authorities such as politicians and policy makers, the NCC, the Competition Commission and the courts and so on.

10.3.1 Theoretical contributions

Despite the wide acceptance in most disciplines of the opportunism-performance hypothesis developed mostly by Williamson (1975, 1979, 1983 and 1985) that sought to explain the governance of economic organizations such as franchise relationships, thus far few marketing or franchising studies have examined or tested this hypothesis or proposition in general and its consequences in particular.

To this end, this study sought to contribute to existing knowledge by broadening the categories and testing the role of structural, contextual and strategic factors mainly identified by Williamson and others as antecedents of OO among franchisors and franchisees, the relationship between OO and OA as well as the impact of OA on the growth, competitiveness and survival of franchise systems.

Accordingly, hypotheses and propositions 1 to 3 were developed, tested, and found structural, contextual, and strategic factors to be positively related to OO among franchisees and only between structural and strategic factors and OA among franchisors.

Similarly, hypothesis and proposition 4 suggested that OO led to OA among franchisees but not among franchisors. On the other hand, hypotheses 5 to 7 also provided mixed support for the view that OA had a negative impact on growth, competitiveness, and survival of franchise systems.

These findings imply that franchisors, franchisees and other stakeholders should debate and consider implementing various legal and non-legal mechanisms suggested in this chapter to minimise the occurrence and effects of OO and OA on franchise relationships.

In this vein, the study suggested incorporation of RET principles that emphasised the development and adoption of norms and values such as cooperation, trust, mutuality, solidarity, information sharing within franchised relationships into other governance mechanisms such as franchise contracts, legislation and franchisee association.

By conceptualising the OO construct, this thesis study not only contributed to the lexicon of franchising research and thinking, but it also provided a new way of approaching, interpreting and understanding the opportunism problem within franchise relationships.

This knowledge may be useful in areas such as the drafting, negotiating, and implementation of new franchise contracts in future by franchisors who must appreciate that compliance with both the letter and spirit of the CPA, the constitution and RET principles is in their own interest.

As Woker (2012) argues, the Act requires franchisors and franchisees to conduct their relationship in a manner that shows good faith, fairness, reasonableness, conscionability, and fair dealing while the constitution makes far reaching demands on franchisors to water down the considerable power they enjoy under their franchise contracts to promote its foundational values of equality, freedom and dignity.

Thus, the findings of this study require a review of some of the controversial and adversarial clauses such as the buy-back clause, non-renewal of contracts, shorter-term contracts found in most franchise contracts that may be in conflict with the RET principles or relational norms of the franchise relationship, spirit and letter of the CPA and the constitution.

A key intellectual output of this study was the conceptualisation of the OO construct, the testing of the relationship between structural, contextual, and strategic factors and OO, OO and OA and OA on the growth, competitiveness, and survival of franchise systems.

For this reason, the testing of seven hypotheses and propositions using SEM on the SAS statistical package and content analysis among franchisors and franchisees, respectively, contributed to the increasing application of quantitative and qualitative techniques and the generation of meaningful and credible knowledge in franchising research.

In addition, the use of the mixed methods research strategy enriched the study by facilitating the triangulation of data sources and methodological approaches, the analysis and interpretation of data and the study's findings.

On the other hand, rather than the usual emphasis that prior studies placed on franchising as a means for achieving the objectives of franchisors for raising cheaper financial and human capital in pursuit of rapid expansion, this study sought to highlight the important role that franchisees can also play in the franchise relationship for the mutual harm or benefit of the parties within the context of RET as discussed particularly in Chapter 3 above.

As Elango and Fried (1997) argued, franchisees play an important role in the franchise relationship as they provide not only financial and human capital that franchisors need but also provide invaluable local market intelligence into the development of competitive and operational strategy of the franchise system.

In addition, the use of TCE in this study suggests that unlike the agency and resource scarcity theories of franchising, franchising should be seen as a business strategy which can also be adopted by franchisees to realise economic efficiency or lower transactions costs through centralised and bulk buying of equipment, ingredients and services such as advertising, training and accounting systems.

On the other hand, instead of relying largely or solely on traditional governance mechanisms such as franchise contracts and TSA's (as discussed in Chapter 5) based on the researcher's so-called "cocked gun" approach to safeguard their idiosyncratic investments in the franchise relationship and to mitigate or counter-balance the effects of opportunism, the study suggests the need for franchisors and franchisees to adopt the so-called "live and let live" approach to franchising by adopting RET-based norms such as use of cooperation, trust, mutuality, solidarity, information sharing and flexibility to establish psychological contracts between the parties.

Having said that, one of the difficulties involved in conducting this study was the lack of testing of most measures in prior studies, which could have served as a guide for this study were it not for the dearth of research on the consequences of opportunism which is an important research area alongside franchise initiation, royalties and fees and control and management issues (Hawkins et al., 1995).

However, in line with Price (2000), the use of robust techniques supported by the complicated procedures found in SEM which produced good model fit on most of the indices and the development and testing of propositions indicates this study's significant contribution to franchising research with the result that some of its measures could be adapted or replicated in future studies.

According to Chen, Bollen, Paxton and Curran (2001) avoiding improper and non-convergent solutions suggests correct specifications of parameter estimates in the franchising model, use of an adequate sample size and other important statistical assumptions. The same principle applies to the methods referred to in Chapter 9 which were applied to validate the qualitative results of this thesis.

10.3.2 **Practical contributions**

It is argued that this thesis provides aspirant and existing franchisors and franchisees and various other role players such as advisors, lenders, lawyers and policy makers with information or tools for assessing franchisors and franchisees with a significant degree of certainty before signing up, renewing or recommending a particular franchisor to a potential franchisee.

On the other hand, studies by Hunt (1977) show the disastrous social and economic consequences of a bad franchise relationship which include huge financial losses and bankruptcy resulting from litigation, disruptions or closures of businesses caused by disputes and conflicts between franchisors and franchisees that often result in opportunistic acts such as the "at will" terminations of franchise contracts, encroachment upon franchisees territories, use of RPM and so on.

Having established the link between certain clauses found in some franchise contracts and OO, aspirant franchisees can use the findings of this study as "screening devices" to help them arrive at informed decisions and choices when assessing and selecting potential franchisors.

Similarly, existing franchisees may use the findings of this study as an "early warning system" to revisit their franchise contracts with the aim identifying potential hiccups and to re-adjust their behaviour and improving their relationship with their franchisors.

In addition, franchisors should consider these findings to amend their franchise contracts to remove controversial and adversarial clauses and to replace them with franchisee-friendly franchise contracts as a marketing tool to attract potential franchisees and lenders by for example subjecting their franchise contracts to the "OO test" suggested by hypotheses 1 to 3.

In addition, the integrated use of the constructs of growth, competitiveness, and survival of franchise systems in the same study as proxies for measuring performance represents a significant contribution to knowledge where most previous studies have used financial criteria which require the use of financial information which is not readily accessible to researchers as most franchised businesses are small businesses and privately owned.

Arguably, this study's approach offers practical and objective performance measures into the franchising equation for testing the opportunism-performance hypothesis which should help inform the decisions of key stakeholders such as franchisors, franchisees, lenders and the authorities.

On the other hand, applying Porter's (1985) generic competitive strategies to the franchise relationship within the study's TCE - RET framework represents another academic contribution which is likely to re-energize franchisors into re-sharpening and re-focusing their strategies around the need to design franchise contracts as a tool for achieving the growth, competitiveness and survival of their franchise systems.

As such franchise contracts that embrace the RET principles and emphasise trust, teamwork and cooperation within the franchise relationship have the potential to minimize disputes and conflicts and thereby reduce transactions costs of running a franchised business.

Similarly, the findings of this study should provide helpful information to various franchising role players such as franchisors, franchisees, lenders, lawyers, and policy makers in advising their clients and making various business and policy decisions.

For instance, a lender may use the findings of this study to assess a franchise contract with the view to determining the level of various forms of business and financial risks, that is, legal, regulatory, and failure risks involved in providing funding to a prospective franchisee who wants to buy a particular franchise.

Furthermore, lawmakers may do the same in deciding whether to initiate, recommend or support adverse action against particular franchise systems or the industry as a whole following complaints or reports of malpractice as any judicial or regulatory action taken against the industry undermines the confidence of the market and the investment community on the country.

Therefore, this study sensitises franchisors to the need to distance their franchise contracts and franchise systems from OO and OA to avoid reputational damage to their franchise systems and financial losses that may result from any negative publicity which may be generated by media reports, public hearings and court cases.

As a result, potential and existing franchisees may use the findings of this study to assess and possibly avoid entering or remaining within franchise systems with opportunistic tendencies which may jeopardise their investments in the franchise relationship through pre-mature termination of their franchise contracts.

Similarly, these findings should also help franchisors to minimise their risk of making incorrect decisions of appointing wrong franchisees as multi-unit franchisees and reducing the transactions costs involved in monitoring the compliance of such franchisees with franchise rules and regulations as well as resolving disputes with such franchisees.

10.3.3 Policy contributions

Most significantly, as part of the researcher's "live and let live" philosophy, the findings of this study will hopefully help the franchising community that is, franchisors, franchisees, lawyers, regulators law makers and so on, to align their franchise contracts and conduct to the Competition Act, CPA and the Constitution of the Republic of South Africa.

For instance, the application of the termination clause virtually "at will" clauses that is found nearly in all franchise contracts needs to be reconciled with section 22 of constitution which guarantees franchisees the right to choose and practice a trade, occupation or profession of his or her choice without any interference.

Similarly, franchisors need to align their franchise contracts and practices with a number of legal principles such as good cause, good faith, fair dealing, reasonable expectations, and conscionability contained in sections 48 and 52 of the CPA for use in conducting the franchise relationship with their franchisees.

In addition, the introduction of compulsory arbitration and mediation in franchise contracts by franchisors could signal an anti-OO strategy and a desire to resolve disputes cheaply and amicably.

At a policy making level, the recommends establishment of institutional capacity in the form of independent and statutory institutions such as Franchise Ombudsperson with statutory powers similar to those of Pensions Ombudsperson, independent franchisee associations to replace undemocratic franchisor-appointed franchisee councils and operating along the lines of the bargaining councils, and the CCMA's and bodies such as law societies, medical and nursing councils that must be used to resolve franchising disputes quickly, cheaply and amicably.

Furthermore, the study lays a foundation for legislators and regulators to consider initiating public debates and consultations that may culminate in the passing of specific franchise legislation along the lines of the Robison-Patman and the Sherman Act in the USA which will provide more space for the application of legal principles such as the good faith, fair dealing, reasonable expectations, conscionability and so on in the interpretation of franchise contracts and the conducting of the franchise relationship.

In addition, the study recommends the aggressive promotion of BBBEE initiatives such as a Franchising Charter established in a consultative and transparent process as was done in the banking, building and construction and mining sectors and others which should spell out details of the industry's transformation programmes aimed at bringing the previously marginalised section of the population into the industry.

Such a Franchise Charter can be expected not only to introduce much-needed transformation in the sector, but will also contribute to the growth, competitiveness and survival of franchise systems through an anticipated increase and retention of franchisees and franchisors from the hitherto under-represented communities.

Similarly, a Franchisee's Rights Charter should be drawn up in conjunction with franchisees or independent franchisee associations to protect the rights of franchisees and to facilitate the laying and resolution of complaints against their franchisors.

These processes are in line with the use of clans (Ouchi, 1980), psychological contracts (Schein, 1982) and embedding franchise contracts in social relations (Granovettor, 1985) as governance mechanisms in franchising by ensuring socialisation of the relationships.

10.4 Recommendations for further study

This study recommends further investigation by future researchers of a number of some important aspects of the franchise relationship.

To start with, given the legislative and regulatory measures primarily arising from the implementation of the provisions of the Bill of Rights enshrined in the Constitution Act, the CPA and the Competition Act that have an impact on the franchising sector, mention can be made of the need for future studies to examine the effect of these new measures on the strategies and activities of franchisors and franchisees in this country.

To this end, studies may need to determine the extent to which the new legislative and regulatory framework boosts or impedes the growth, competitiveness, and survival of franchise systems in this country and beyond its borders as some states in the US experienced a decline in franchising after the passing of the so-called anti-termination laws as franchisors relocated to other states that did not have those laws (Mathewson and Winter, 1985; Woker, 2012).

However, as South Africa is a unitary and not a federal state, the laws of the country apply in every part within its borders with the result that franchisors that may be unhappy with the new laws and its regulations may not be able to continue with their malpractices.

Therefore, future studies must assess the level of compliance with the new laws and regulations and the possible effects of such compliance on the growth, competitiveness, and survival of franchise systems in this country and beyond.

For instance, to the extent that franchisors decide to comply with the laws, studies may report an upsurge in franchising in this country because of entrepreneurs and investors feeling protected under the new legal dispensation.

It may be important to determine whether the new legislative and regulatory environment could have led to a decline in franchising in this country due to some disgruntled franchisors having sought opportunities in the neighbouring countries in the region and beyond where such laws may not exist given the low tolerance for human rights in those countries political systems.

This may possibly suggest that future studies may also need to investigate the status of franchising in the rest of Africa, especially the Southern African Development Community (SADC) countries such as Angola, Zambia, Democratic Republic of the Congo, and other regions.

Similarly, in light of the recent decision by McDonalds to sell its master franchise licence to a South African businessperson after investing several million dollars nearly a decade ago, future studies may need to examine the impact of the new regulations on foreign direct investment by overseas franchisors into the country.

The sell-off by McDonalds suggests that this leading and global company will not invest any of its own money in this country in the near future which raises the disconcerting possibility that other major global franchisors could emulate its example and disinvest or refrain from committing to new not investments in this country.

Another issue requiring investigation is the question of security of tenure for franchisees in light of the terminations and expiry clauses found in most franchise contracts which tend to favour franchisors which may encourage retaliatory opportunism among franchisees with the result it may be vitally necessary to investigate the effect of "evergreen" or everlasting franchise contracts on opportunism especially among franchisees.

Within the context of the CPA, it may be unfair and unconscionable to offer shorter contract terms to franchisees making huge investments in expensive and highly specific physical and intellectual assets tied to a particular franchise system for short periods within which the franchisees may not be able to recoup their investments.

In this vein, future studies may need to investigate the possible use and effect of some of the principles of the Marriage Act providing for the division of the joint marital estate or financial and material support between the spouses at the end of a marriage which may be adopted to regulate the termination of the franchise relationship to ease the economic hardships that often befall franchisees through the removal of the expiry and restraint of trade clauses from franchise contracts.

On the other hand, as proposed by Lawrence and Kauffman (2011), future studies may also need to investigate the effect of the use of independent franchise associations within franchise systems to try to attenuate the incidence of opportunism among franchisors and franchisees as such bodies may develop norms and values agreed upon between the parties as the “rules of engagement” which unlike most existing franchise contracts, will not be imposed on franchisees by franchisors.

Lastly, in light of the findings of this study especially on the relationship between structural, contextual and strategic factors and the growth, competitiveness and survival of franchise systems, it may be useful to examine the relationship between EO and the growth, competitiveness and survival of franchise systems in greater detail.

References

Aaker, D. A., Kumar, V., and Day, G.S. (2007). *Marketing Research*. 9th edition. New Jersey: Wiley.

Achrol, R. S., & Gundlach, G. T. (1999). Legal and social safeguards against opportunism in exchange. *Journal of Retailing*, 75(1): 107−124.

Achrol, R. S., Reve, T., and Stern, L. W. (1983). The environment of marketing channel dyads: A framework for comparative analysis. *Journal of Marketing*, 47(4), 55-67.

Akaike, H. (1973). Information theory and an extension of the maximum likelihood principle. *Second International Symposium on Information Theory*, 1: 267-281.

Aliouche, E. H., and Schlentrich, U. (2009). Does franchising create value? An analysis of the financial performance of US public restaurant firms. *International Journal of Hospitality and Tourism Administration*, 10(2): 93-108.

Anderson, E., and Barton Weitz. (1992). The use of pledges to build and sustain commitment in distribution channels. *Journal of Marketing Research*, 29(1): 18-34.

Anderson, J. C., and Narus, J. A. (1984). A model of the distributor's perspective of distributor-manufacturer working relationships. *Journal of Marketing*, 48(4): 62-74.

Anderson, J. C., and Narus, J. A. (1990). A model of distributor firm and manufacturer firm working partnerships. *Journal of Marketing*, 54(1): 42-58.

Antia, K. D., and Frazier, G. L. (2001). The severity of contract enforcement in interfirm channel relationships. *Journal of Marketing*, 65(4): 67-81.

Argyres, N. S., and Liebeskind, J. P. (1999). Contractual commitments, bargaining power, and governance inseparability: Incorporating history into transaction cost theory. *The Academy of Management Review*, 24(1): 49-63.

Armstrong, S and Overton, T.S (1977), Estimating Nonresponse Bias in Mail Surveys. *Journal of Marketing Research*, Vol. 15, No. 3, Special Issue: Recent Developments in Survey Research: 396-502.

Azoulay, P., and Shane, S. (2001). Entrepreneurs, contracts, and the failure of young firms. *Management Science*, 47(3): 337-358.

Bailey, K. D. (1994). *Methods of social research*, Free Press, Princeton.

Barthélemy, J. (2004). The administrative productivity of U.S. franchisors: An empirical investigation. Economics Letters, 83(1): 115-121.

Barthélemy, J. (2008). Opportunism, knowledge, and the performance of franchise chains. *Strategic Management Journal*, 29(13): 1451-1463.

Bates, T., and Nucci, A. (1989). An analysis of small business size and rate of discontinuance. *Journal of Small Business Management*, 27(4): 1-7.

Bates, T. (1995). Analysis of survival rates among franchise and independent small business startups. *Journal of Small Business Management*, 33(2): 26-36.

Baucus, D. A., Baucus, M. S., and Human, S. E. (1996). Consensus in franchise organizations: A cooperative arrangement among entrepreneurs. *Journal of Business Venturing*, 11 (5): 359-378.

Baucus, D. A., Baucus, M. S., and Human, S. E. (1993). Choosing a franchise: How base fees and royalties relate to. *Journal of Small Business Management*, 31(2): 91.104.

Beales, J. H., and Muris, T. J., ((1995). The foundations of franchise regulation: Issues and evidence. *Journal of Corporate Finance*, 2: 157-197.

Berkovitz, J. E. L. (2000). An analysis of the contract provisions in business-format franchise agreements. Duke University. Working Paper. 1-50.

Bernstein, L. M. (1968). Does franchising create a secure outlet for the small aspiring entrepreneur? *Journal of Retailing*, 44 (4): 21-38.

Berry, L. L. (1973). Franchising: Some words of caution for the small businessman. *Journal of Small Business Management*, 11 (2): 1-7.

Blair, R. D., and Herndon, J. B. (1997). Franchise supply agreements: Quality control or illegal tying? *Academy of Marketing Science Journal*, 25(2): 177-178.

Bleby, M. (2010). Woolworths to buy out its franchisees, The Star, Sep 2010.

Blut, M., Backhaus, C., Heussler, T., Woisetschläger, D. M., Evanschitzky, H., and Ahlert, D. (2010). What to expect after the honeymoon: Testing a lifecycle theory of franchise relationships. *Journal of Retailing*, 87 (3): 306-319.

Bradach, J. L. (1997). Using the Plural Form in the Management of Restaurant Chains, *Administrative Science Quarterly*, 4: 276-303.

Bradach, J. L. (1998). *Franchise Organisation*. Harvard Business School Press: Boston, MA.

Brickley, J. A. (1999). Incentive conflicts and contractual restraints: Evidence from franchising. *Journal of Law and Economics*, 42(2): 745-774.

Brickley, J. A., and Dark, F. H. (1987). The choice of organisational form: The case of franchising. *Journal of Financial Economics,* 18(2): 401-420.

Brickley, J. A., Dark, F. H., and Weisbach, M. S. (1991). An agency perspective on franchising. FM: *The Journal of the Financial Management Association*, 20(1): 27-35.

Brickley, J. A., Misra, S., and Van Horn, R. L. (2006). Contract duration: Evidence from franchising. *Journal of Law and Economics*, 49(1): 173-196.

Briddle, J., and Martin, M. (1987) Causality, Confirmation, Credulity, and Structural Equation Modeling. *Child Development,* 58(1): pp. 4-17.

Brill, J. E. (1994). Beyond managerial opportunism: Supplier power and managerial compliance in a franchised marketing channel. *Journal of Business Research*, 30(3): 211-223.

Brown, H. (1969). *Franchising: Trap for the Trusting*. Little Brown and Company: Boston.

Brown, J. R., Dev, C. S., and Lee, D. J. (2000). Managing marketing channel opportunism: The efficacy of alternative governance mechanisms. *Journal of Marketing*, 64(2): 51-65.

Brown, J. R. (1981). A cross-channel comparison of supplier-retailer relations. *Journal of Retailing*, 57(4): 3-18.

Brown, J. R., Dev, C. S., and Lee, D. (2000). Managing marketing channel opportunism: The efficacy of alternative governance mechanisms. *Journal of Marketing*, 64(2): 51-65.

Bryman, A. (1998). Quantitative and qualitative research strategies in knowing the social world. *Knowing the Social World*: 138-156.

Bürkle, T., and Posselt, T. (2008). Franchising as a plural system: A risk-based explanation. *Journal of Retailing*, 84(1): 39-47.

Burr, P., Burr, R., and Bartlett, P. (1975). Franchising and the ominous "buy-back" clause. *Journal of Small Business Management*, 13(4): 39-41.

Burrell, G., and Morgan, G. (1979). *Sociological Paradigms and Organizational Analysis: Elements of the Sociology of Corporate Life*. London: Heinemann.

Butaney, G., and Wortzel, L. H. (1988). Distributor power versus manufacturer power: The customer role. *Journal of Marketing*, 52(1): 52-63.

Cancun Trading No 24 CC vs Seven-Eleven Corp SA (Pty) Ltd Competition Tribunal Case No 18/IR/Dec 1999.

Cannon, J. P., Achrol, R. S., and Gundlach, G. T. (2000). Contracts, norms, and plural form governance. *Academy of Marketing Science Journal*, 28(2): 180-194.

Carman, J. M., and Klein, T. A. (1986). Power, property, and performance in franchising: A review and integration of theory. *Research in Marketing*, 8: 71-130.

Carney, M., and Gedajlovic, E. (1991). Vertical integration in franchise systems: Agency theory and resource explanations. *Strategic Management Journal*, 12(8): 607-629.

Castrogiavanni, G. J., Bennett, N., and Combs, J. G. (1995). Franchisor types: Reexamination and clarification. *Journal of Small Business Management*, 33(1): 45-55.

Castrogiovanni, G. J., Combs, J. G., and Justis, R. T. (2006). Resource scarcity and agency theory predictions concerning the continued use of franchising in multi-outlet networks. *Journal of Small Business Management*, 44(1): 27-44.

Castrogiovanni, G. J., Combs, J. G., and Justis, R. T. (2006). Shifting imperatives: An integrative view of resource scarcity and agency reasons for franchising. *Entrepreneurship Theory and Practice*, 30(1): 23-40.

Castrogiovanni, G. J., and Justis, R. T. (1998). Franchising configurations and transitions. *Journal of Consumer Marketing*, 15(2): 170-190.

Castrogiovanni, G. J., and Justis, R. T. (2002). Strategic and contextual influences of firm growth: An empirical study of franchisors. *Journal of Small Business Management*, 40(2): 98-108.

Castrogiovanni, G. J., Justis, R. T., and Julian, S. D. (1993). Franchise failure rates: An assessment of magnitude and influencing factors. *Journal of Small Business Management*, 31(2): 105-114.

Cavaliere, F. J., and Swerdlow, M. R. (1988). The pros and cons of franchising: Two views. *Business Forum*, 13(3): 11-13.

Caves, R. E., and Murphy II, W. F. (1976). Franchising: Firms, markets, and intangible assets. *Southern Economic Journal*, 42(4): 572-586.

Chanen, J. S. (2006). Troubled kingdoms. *ABA Journal*, 92(7): 52-57.

Cheng, P. C., and Kregor, J. J. (1973). Some guidelines to the potential franchisee. *Journal of Small Business Management*, 11(2): 35-40.

Chiou, J., Hsieh, C., and Yang, C. (2004). The effect of franchisors' communication, service assistance, and competitive advantage on franchisees' intentions to remain in the franchise system. *Journal of Small Business Management*, 42(1): 19-36.

Choy, L., and Goh, M. (1997). Franchising a vehicle for entrepreneurship development in Singapore. *Small Enterprise Development*, 8(2): 47-53.

Churchill, G. A.,Jr. (1979). A paradigm for developing better measures of marketing constructs. *Journal of Marketing Research*, 16(1): 64-73.

Churchill, G. A.,Jr., and Peter, J. P. (1984). Research design effects on the reliability of rating scales: A meta-analysis. *Journal of Marketing Research*, 21(4): 360-375.

Churchill, G. A.,Jr., (1991). *Marketing Research: methodological foundations*, 5th edition, Hinsdale, IL: The Dryden Press.

City Press, "Days of milk and honey are over." 04 October 2010 blog.

Clarkin, J. E. (2002). *Entrepreneurial opportunities and performance in franchising firms*. Unpublished PhD thesis. Stirling: University of Stirling.

Clarkin, J. E., and Rosa, P. J. (2005). Entrepreneurial teams within franchise firms. *International Small Business Journal*, 23(3): 303-334.

Clarkin, J. E., and Swavely, S. M. (2006). The importance of personal characteristics in franchisee selection. *Journal of Retailing and Consumer Service*: 13(2), 133-142.

Coarse, R. H. (1937). The nature of the firm. 4 *Economica*, 4(16): 386-405.

Cochet, O., Dormann, J., and Ehrmann, T. (2008). Capitalizing on franchisee autonomy: Relational forms of governance as controls in idiosyncratic franchise dyads*. *Journal of Small Business Management*, 46(1): 50-72.

Cochet, O., and Garg, V. K. (2008). How do franchise contracts evolve? A study of three German SMEs. *Journal of Small Business Managemen*t, 46(1): 134-151.

Cochet, O., Dormann, J., and Ehrmann, T. (2008). Capitalizing on franchisee autonomy: Relational forms of governance as controls in idiosyncratic franchise dyads. *Journal of Small Business Management*, 46(1): 50-72.

Cochet, O., and Ehrmann, T. (2007). Preliminary evidence on the appointment of institutional solutions to franchisor moral hazard: The case of franchisee councils. *Managerial and Decision Economics*, 38: 41-55.

Combs, J. G., Michael, S. C., and Castrogiovanni, G. J. (2009). Institutional influences on the choice of organizational form: The case of franchising. *Journal of Management*, 35(5): 1268-1290.

Combs, J. G., and Castrogiovanni, G. J. (1994). Franchisor strategy: A proposed model and empirical test of franchise versus company ownership. *Journal of Small Business Management*, 32(2): 37-48.

Combs, J. G., and Ketchen, D. J., Jr. (2003). Why do firms use franchising as an entrepreneurial strategy: A Meta-Analysis. *Journal of Management*, 29(3): 443-465.

Combs, J. G., and Ketchen, D. J.,Jr. (1999). Can capital scarcity help agency theory explain franchising? Revisiting the capital scarcity proposition. *Academy of Management Journal*, 42(2): 196-207.

Combs, J. G., Ketchen, D. J., Jr., and Hoover, V. L. (2004). A strategic groups approach to the franchising-performance relationship. *Journal of Business Venturing*, 19(6): 877-897.

Combs, J. G., Ketchen, D., J., Jr, Shook, C., L and Short, J.C. (2011). Antecedents and Consequences of Franchising: Past Accomplishments and Future Challenges. *Journal of Management*, 3: 37: 99.

Combs, J. G., Michael, S. C., and Castrogiovanni, G. J. (2004). Franchising: A review and avenues to greater theoretical diversity. *Journal of Management*, 30(6): 907-931.

Cox, J., and Mason, C. (2007). Standardisation versus adaptation: Geographical pressures to deviate from franchise formats. *Service Industries Journal*, 27(8): 1053-1072.

Crawford, R. G., and Alchian, A. A. (1978). Vertical integration, appropriable rents, and the competitive contracting process. *Journal of Law and Economics*, 21(2): 297–326.

Creswell, J. W. (1998). *Qualitative inquiry and research design: Choosing among five traditions*, Sage Publications: Carlifonia.

Creswell, J. W. (2003). *Research design: Quantitative. Quantitative, and Mixed Methods Approaches,* Sage Publications: Carlifonia.

Cronbach, L. J. (1951). Coefficient alpha and the internal structure of tests. *Psychometrika*, 16(3): 297-334.

Crook, T. R., and Combs, J. G. (2007). Sources and consequences of bargaining power in supply chains. *Journal of Operations Management*, 25(2): 546-555.

Cross, J. C., and Walker, B. J. (1987). Service marketing and franchising: A practical business marriage. *Business Horizons*, 30(6): 50-58.

Crotty, A. (2008). Ex-franchisees of Mr Video challenge contract, 3 July 2008

Crotty, A. (2010). Woolies 'will shut franchise stores', The Star, 10 Dec 2010

Curran, J., and Stanworth, J. (1982). The small firm in Britain: past, present and future. *International Small Business Journal*, 1(1): 16-25.

Curran, J., and Stanworth, J. (1983). Franchising in the modern economy-towards a theoretical understanding. *International Small Business Journal*, 2(1): 8-26.

Dahlstrom, R., and Nygaard, A. (1999). An empirical investigation of ex post transaction costs in franchised distribution channels. *Journal of Marketing Research*, 36(2): 160-170.

Dahlstrom, R., and Nygaard, A. (1999). Ownership decisions in plural contractual systems. *European Journal of Marketing*, 33(1): 4-87.

Dailey, M. J. (1998). Franchise rules you should know. *Journal of Accountancy*, 186(3): 57-61.

Dandridge, T. C., and Falbe, C. M. (1994). The influence of franchisees beyond their local domain. *International Small Business Journal*, 12(2): 39-50.

Dant, R. P., and Gundlach, G. T. (1999). The challenge of autonomy and dependence in franchised channels of distribution. *Journal of Business Venturing*, 14(1): 35-67.

Dant, R. P., Kacker, M., Coughlan, A. T., Emerson, J., and Nwogugu, M. (2007). A cointegration analysis of the correlates of performance in franchised channels. Economics and Management of Networks: *Franchising Networks, Cooperatives, Joint Ventures and Alliances*: 168–189.

Dant, R. P. (1995). Motivation for franchising: Rhetoric versus reality. *International Small Business Journal*, 14(1): 10-32.

Dant, R. P. (2008). A futuristic research agenda for the field of franchising. *Journal of Small Business Management*, 46(1): 91-98.

Dant, R. P., and Kaufmann, P. J. (2003). Structural and strategic dynamics in franchising. *Journal of Retailing*, 79(2): 63-75.

Dant, R. P., Kaufmann, P. J., and Paswan, A. K. (1992). Ownership redirection in franchised channels. *Journal of Public Policy and Marketing*, 11(1): 33-44.

Dant, R. P., and Paswan, A. K. (1996). What we know about ownership redirection in franchising: A meta-analysis. *Journal of Retailing*, 72(4): 429-444.

Dant, R. P., and Paswan, A. K. (1998). The effect of financial resource availability and system size on ownership redirection in franchised channels of distribution. *Asia Pacific Journal of Marketing and Logistics*, 10 (2): 85-107.

Dant, R. P., Perrigot, R., & Cliquet, G. 2008. A cross-cultural comparison of the plural forms in franchise networks: United States, France and Brazil. *Journal of Small Business Management*, 46: 286-311.

Dant, R. P., and Schul, P. L. (1992). Conflict resolution processes in contractual channels of distribution. *Journal of Marketing*, 56 (1): 38-54.

Deshpande, R. (1983). "Paradigms lost": On theory and method in research in marketing. *Journal of Marketing*, 57 (5): 101-110.

Denzin, N. K. (1970). *The research act in Sociology*. Chicago: Aldine.

Denzin, N. K., and Lincoln, Y. S. (2000). The discipline and practice of quantitative research. *Handbook of Quantitative Research*, 2: 1-28.

Dewatripont, M., and Sekkat, K. (1991). Producer opportunism in retailing contracts. *The Journal of Industrial Economics*, 39(5): 595-620.

Dixon, H., and Quinn, B. (2004). Franchising and the internet: An exploratory study of franchisor web sites. *Internet Research*, 14(4): 311-322.

Dixon, D. F., and Wagar, R. D. (1973). Antitrust: Some problems for franchising and small business. *Journal of Small Business Management*, 11(2): 26-30.

Dnes, A. W. (1992). Unfair contractual practices and hostages in franchise contracts. *Journal of Institutional and Theoretical Economics*, 148(3): 484-504.

Dnes, A. W. (1996). The economic analysis of franchise contracts-survey article. *Journal of Institutional and Theoretical Economics*, 152: 297-324.

Dnes, A. W. (2003). Hostages, marginal deterrence and franchise contracts. *Journal of Corporate Finance*, 9(3): 317-331.

Dnes, A. W. (1993). A case-study analysis of franchise contracts. *Journal of Legal Studies*, 22(2): 367-393.

Doherty, A. M. (2009). Market and partner selection processes in international retail franchising. *Journal of Business Research*, 62: 528-534.

Drahozal, C. R., and Hylton, K. N. (2003). The economics of litigation and arbitration: An application to franchise contracts. *The Journal of Legal Studies*, 32(2): 549-584.

du Toit, A. H. (2003). An exploratory study of encroachment in multi-brand franchise organisations. *Journal of Marketing Channels*, 10(3): 83-110.

Dwyer, J. G., Kaufmann, P., Laczniak, G., and Robin, D. (1993). Ethical and legal foundations of relational marketing exchanges. *Journal of Marketing*, 57: 35-46.

Dwyer, F. R., and Oh, S. (1988). A transaction cost perspective on vertical contractual structure and interchannel competitive strategies. *Journal of Marketing*, 52(2): 21-34.

Dwyer, F. R., Schurr, P. H., and Oh, S. (1987). Developing buyer-seller relationships. *Journal of Marketing*, 51(2): 11-27.

Dwyer, F. R., and Walker, O. C., Jr. (1981). Bargaining in an asymmetrical power structure. *Journal of Marketing*, 45(1): 104-115.

Eaton, J. (1986). Self-employment or self-exploitation: The case of franchising. *Employee Relations*, 8(4): 14-16.

Eaton, M M., Hosner, C. F., Jones, R., Lowell, B. H and Prezant W. A. (1980). Franchising as a distribution channel: Outline of relevant law. *Antitrust Law Journal*, 49(3): 791-803.

Edens, F. N., Self, D. R., and Al., E. (1976). Franchisors describe the ideal franchisee. *Journal of Small Business Management,* 14(3): 39-47.

Ehrmann, T., and Spranger, G. (2007). Beneficially constraining franchisor's power. Economics and Management of Networks: *Franchising, Strategic Alliances, and Cooperatives*: 145-168.

Eibenhardt, K. M., (1989), Agency theory: An assessment and review. *Academy of Management Review*, 14: 57-74.

El Akremi, A., Mignonac, K., and Perrigot, R. (2010). Opportunistic behaviors in franchise chains: The role of cohesion among franchisees. *Strategic Management Journal*, 32 (9): 930-948.

Elango, B., and Fried, V. H. (1997). Franchising research: A literature review and synthesis. *Journal of Small Business Management*, 35(3): 68-81.

Emerson, R. W. (1998). Franchise termination: Legal rights and practical effects when franchisees claim the franchisor discriminates. *American Business Law Journal*, 35(4): 559-645.

Emerson, R. M. (1962). Power-dependence relations. *American Sociological Review*, 27(1): 31-41.

Espinoza, G. (2008). Franchisors' encroachment in the Eyes of the beholder: How to protect a franchisee? SSRN:http//ssrn.com. Working paper series: 1-55.

Etgar, M. (1976). Channel domination and countervailing power in distributive channels. *Journal of Marketing Research*, 13(3): 254-262.

Etgar, M. (1976). The economic rationale for becoming a franchisee in a service industry. *Journal of Business Research*, 4(3): 238-254.

Falbe, C. M., and Dandridge, T. C. (1992). Franchising as a strategic partnership: Issues of cooperation and conflict in a global market. *International Small Business Journal*, 10(3): 40-52.

Falbe, C. M., Dandridge, T. C. and Kumar, A., 1998, The Effect of Organizational Context on Entrepreneurial Strategies in Franchising, *Journal of Business Venturing,* 14: 125–140

Fama E.F., and and Jensen, M. C., (1983). Separation of ownership and control. *Journal of Law and Economics*, 26, 301-325

Famous Brands Ltd annual report. (2013).

Fenwick, G. D., and Strombom, M. (1998). The determinants of franchisee performance: An empirical investigation. *International Small Business Journal*, 16(4): 28-45.

Festinger, L. (1957). *A theory of cognitive dissonance*. Stanford University: Princeton.

Fladmoe-Lindquist, K., (1996), International Franchising: Capabilities and Development, *Journal of Business Venturing*, 11(5): 419-438.

Forward, J., and Fulop, C. (1993). Elements of a franchise: The experiences of established firms. *Service Industries Journal*, 13(4): 159-178.

Frazer L, Giddings J, Weaven, S and Wright, O. (2007). Searching for Answers: The Cause and Resolution of Franchising Conflict, *Paper presented at the International Council of Small Business World Conference, Turku School of Economics and Business Administration* (Finland, 13 June 2007): 1-22.

Frazer, L. (2001). Causes of disruption to franchise operations. *Journal of Business Research*, 54(3): 227-234.

Frazer, L. (2001). Why franchisors discontinue franchising but continue operating. *International Small Business Journal*, 19(3): 29-38.

Frazer, L., Merriless, B., and Wright, O. (2007). Power and control in the franchise network: An investigation of ex-franchisees and brand piracy. *Journal of Marketing Management*, 23(9): 1037-1054.

Frazer, L., and Winzar, H. (2005). Exits and expectations: Why disappointed franchisees leave. *Journal of Business Research*, 58(11): 1534-1542.

Fulop, C., and Foward, J. (1997). Insights into franchising: A review of empirical and theoretical perspectives. *Service Industries Journal*, 17(4): 603-625.

Galbraith, J K. (1967).The concept of countervailing power. In Bruce E. Mallen, ed., *Marketing Channel: A conceptual viewpoint*. New York: John Wiley and Sons Inc.: 119-123

Ganesan, S. (1993). Negotiation strategies and the nature of channel relationships. *Journal of Marketing Research*, 30(2): 183-203.

Garg, V. K., Rasheed, A. A., and Priem, R. L. (2005). Explaining franchisors' choices of organization forms within franchise systems. *Strategic Organization*, 3(2): 185-217.

Garg, V. K. (2005). An integrative approach to franchisor strategy in large chains. *Journal of Applied Management and Entrepreneurship*, 10(2): 58-74.

Gaski, J. F. (1984). The theory of power and conflict in channels of distribution. *Journal of Marketing*, 48(3), 9-29.

Gassenheimer, J. B., Baucus, D. B., and Baucus, M. S. (1996). Cooperative arrangements among entrepreneurs: An analysis of opportunism and communication in franchise structures. *Journal of Business Research*, 36(1): 67-79.

Geyskens, I., Steenkamp, J. E. M., and Kumar, N. (1999). A meta-analysis of satisfaction in marketing channel relationships. *Journal of Marketing Research*, 36(2): 223-238.

Government Communications and Information Service. (2013). *National Development Plan*. The Presidency, Republic of South Africa, Pretoria.

Granovetter, M. (1985). Economic action and social structure: The problem of embeddedness. *The American Journal of Sociology*, 91(3): 481-510.

Grimes, W. S. (1996). When do franchisors have market power-antitrust remedies for franchisor opportunism? *Antitrust Law Journal*, 65(1): 105-155.

Grunhagen, M., and Mittelstaedt, R. A. (2001). Franchising from the franchisee's perspective: A review of the multi-unit franchising paradox. *The International Journal of Entrepreneurship and Innovation*, 2(2): 73-80.

Grünhagen, M., and Dorsch, M. J. (2003). Does the franchisor provide value to franchisees? Past, current, and future value assessments of two franchisee types. *Journal of Small Business Management*, 41(4): 366-384.

Grünhagen, M., and Mittelstaedt, R. A. (2005). Entrepreneurs or investors: Do multi-unit franchisees have different philosophical orientations? *Journal of Small Business Management*, 43(3): 207-225.

Guilloux, V., Gauzente, C., Kalika, M., and Dubost, N. (2004). How France's potential franchisees reach their decisions: A comparison with franchisers' perceptions*. *Journal of Small Business Management*, 42(2): 218-224.

Guiltinan, J. P. (1974). Planned and evolutionary changes in distribution channels. *Journal of Retailing*, 50(2), 79-93.

Gunasekara, G., and Sims, A. (2007). Franchising: A case for regulation. *University of Auckland Business Review*, 9(1): 48-57.

Gundlach, G. T., Achrol, R. S., and Mentzer, J. T. (1995). The structure of commitment in exchange. *Journal of Marketing*, 59(1): 78-92.

Gundlach, G. T., and Murphy, P. E. (1993). Ethical and legal foundations of relational marketing exchanges. *Journal of Marketing*, 57(4): 35-46.

Hadfield, G. K. (1990). Problematic relations: Franchising and the law of incomplete contracts. *Stanford Law Review*, 42(4): 927-992.

Hawkins, T. G., Knipper, M. G., and Strutton, D. (2009). Opportunism in buyer-supplier relations: New insights from quantitative synthesis. *Journal of Marketing Channels*, 16(1):43-75.

Hawkins, T. G., Wittmann, C. M., and Beyerlein, M. M. (2008). Antecedents and consequences of opportunism in buyer–supplier relations: Research synthesis and new frontiers. *Industrial Marketing Management*, 37(8): 895-909.

Heide, J. B. (1994). Interorganizational governance in marketing channels. *Journal of Marketing*, 58(1): 71-85.

Heide, J. B., and John, G. (1988). The role of dependence balancing in safeguarding transaction-specific assets in conventional channels. *Journal of Marketing*, 52(1): 20-35.

Heide, J. B., and John, G. (1992). Do norms matter in marketing relationships? *Journal of Marketing*, 56(2): 32-44.

Hibbard, J. D., Kumar, N., and Stern, L. W. (2001). Examining the impact of destructive acts in marketing channel relationships. *Journal of Marketing Research*, 38(1): 45-61.

Hing, N. (1995). Franchisee satisfaction: Contributors and consequences. *Journal of Small Business Management*, 33(2): 12.

Hodgson, G M. (2004). Opportunism is the only reason why firms exist. *Industrial and Corporate Change*, April, 13: 401-418

Hoffman, R. C., and Preble, J. F. (2003). Convert to compete: Competitive advantage through conversion franchising. *Journal of Small Business Management*, 41(2), 187-204.

Hot Dog Cafe (Pty) Ltd v Daksesh Rowen Sizzling Dogs CC and Another. (2011). ZAKZPHC 30; 1783/2011 (19 July 2011).

Howard, M. C., and Dickinson, R. A. (1975). Legal-economic aspects of franchising. *Journal of Small Business Management*, 13(2): 21-25.

Hoy, F., and Shane, S. (1998). Franchising as an entrepreneurial venture form. *Journal of Business Venturing*, 13(2): 91-94.

Hoy, F. (1994). The dark side of franchising: Or appreciating flaws in an imperfect world. *International Small Business Journal*, 12(2): 26-38.

Hunt, S D. (1972). The socioeconomic consequences of the franchise system of distribution. *Journal of Marketing*, 36(3): 32-38.

Hunt, S. D. (1977). Franchising: Promises, problems, prospects. *Journal of Retailing*, 53(3): 71-84.

Hunt, S. D., and Nevin, J. R. (1975). Tying agreements in franchising. *Journal of Marketing*, 39(3): 20-26.

Jap, S. D., and Ganesan, S. (2000). Control mechanisms and the relationship life cycle: Implications for safeguarding specific investments and developing commitment. *Journal of Marketing Research*, 37(2): 227-245.

John, G. (1984). An empirical investigation of some antecedents of opportunism in a marketing channel. *Journal of Marketing Research*, 21(3): 278-289.

Julian, S. D., and Castrogiovanni, G. J. (1995). Franchisor geographic expansion. *Journal of Small Business Management*, 33(2), 1-11.

Justis, R. T., and Judd, R. (1986). Master franchising: A new look. *Journal of Small Business Management*, 24(3), 16-21.

Justis, R. T., and Judd, R. (1989). *Franchising*. Cincinnati: South-Western Publishing Company.

Kalnins, A. (2004). An empirical analysis of territorial encroachment within franchised and company-owned branded chains. *Marketing Science*, 23(4): 476-489.

Kaufmann, P. J., and Dant, R. P. (1996). Multi-unit franchising: Growth and management issues. *Journal of Business Venturing*, 11(5): 343-358.

Kaufmann, P. J., and Stern, L. W. (1988). Relational exchange norms, perceptions of unfairness, and retained hostility in commercial litigation. *The Journal of Conflict Resolution*, 32(3): 534-552.

Kaufmann, P. J. (1999). Franchising and the choice of self-employment. *Journal of Business Venturing*, 14(4): 345-362.

Kaufmann, P. J., and Eroglu, S. (1999). Standardization and adaptation in business format franchising. *Journal of Business Venturing*, 14(1): 69-85.

Kaufmann, P. J., and Rangan, V. K. (1990). A model for managing system conflict during franchise expansion. *Journal of Retailing*, 66: 155-173.

Kidwell, R. E., Nygaard, A., and Silkoset, R. (2007). Antecedents and effects of free riding in the franchisor–franchisee relationship. *Journal of Business Venturing*, 22(4): 522-544.

Kirby, D.A. and Watson, A. (1999) Franchising as a small business development strategy: A qualitative study of operational and “failed” franchisors in the UK. *Journal of Small Business and Enterprise Development,* 6(4): 341-349.

Klein, B. (2000). The role of incomplete contracts in self-enforcing relationships. *Revue d'Économie Industrielle*, 92(1): 67-80.

Klein, B. (1980). Transaction cost determinants of" unfair" contractual arrangements. *The American Economic Review*, 70(2): 356-362.

Klein, B. (1995). The economics of franchise contracts. *Journal of Corporate Finance*, 2(1-2): 9-37.

Klein, B., Crawford, R. G., and Alchian, A. A. (1978). Vertical integration, appropriable rents, and the competitive contracting process. *Journal of Law and Economics*, 21(2): 297-326.

Klein, B., and Leffler, K. B. (1981). The role of market forces in assuring contractual performance. *Journal of Political Economy*, 89(4): 615-641.

Klein, B., and Saft, L. F. (1985). The law and economics of franchise tying contracts. *Journal of Law and Economics*, 28(2): 345-361.

Klein, B. (2000). The role of incomplete contracts in self-enforcing relationships. *Revue d'Économie Industrielle*, 92(1): 67-80.

Klein, B., and Murphy, K. M. (1988). Vertical restraints as contract enforcement mechanisms. Journal of Law and Economics, 31(2): 265-297.

Klick, J., Kobayashi, B., and Ribstein, L. (2007). Incomplete contracts and opportunism in franchising arrangements: The role of termination clauses. Working Paper.

Kline, R. B. (2011). *Principles and practice of structural equation modeling*. Guilford Press: New York.

Knight, R. M. (1986). Franchising from the franchisor and franchisee points of view. *Journal of Small Business Management*, 24(3): 8-15.

Knight, R. M. (1984). The independence of the franchisee entrepreneur. *Journal of Small Business Management,* 22(2): 53-61.

Kotler, P. and Keller, K. N., (2008). *Marketing Management*. 13th Edition. Prentice Hall.

Krippendorf, K. (1980). *Content analysis: An introduction to its methodology*. Beverly Hills, CA, Sage.

Krueger, A. B. (1990). Ownership, agency and wages: An examination of franchising in the fast food industry. *Quartely Journal of Economics*, 106: 75-101.

Kumar, N., Scheer, L. K., and Steenkamp, J. E. M. (1995). The effects of perceived interdependence on dealer attitudes. *Journal of Marketing Research*, 32(3): 348-356.

Kumar, N., Scheer, L. K., and Steenkamp, J. E. M. (1998). Interdependence, punitive capability, and the reciprocation of punitive actions in channel relationships. *Journal of Marketing Research*, 35(2): 225-235.

Kvale, S. (1987). Interpretation of the quantitative research interview. *Advances in Quantitative Psychology: Themes and Variations*: 41-51.

Lafontaine, F. (1992). Agency theory and franchising: Some empirical results. *RAND Journal of Economics*, 23(2): 263-283.

Lafontaine, F., and Kaufmann, P. J. (1994). The evolution of ownership patterns in franchise systems. *Journal of Retailing*, 70(2): 97-113.

Lafontaine, F., and Shaw, K. L. (1999). The dynamics of franchise contracting: Evidence from panel data. *Journal of Political Economy*, 107(5): 1041-1080.

Lal, R. (1990). Improving channel coordination through franchising. *Marketing Science*, 9(4): 299-318.

Lawrence, B., and Kaufmann, P. J. (2010), Franchisee associations: strategic focus or response to franchisor opportunism. *Journal of Marketing Channels*, 17: 137-155.

Lawrence, B., and Kaufmann, P. J. (2011), Identity in franchise systems: The role of franchisee associations. *Journal of Retailing*, 87 (3): 285-305.

Leblebici, H. and Shalley, C. E. (1976). The organization of relational contracts: The allocation of rights in franchising, *Journal of Business Venturing*, 11: 403-418.

Li, Z. G., and Dant, R. P. (1997). An exploratory study of exclusive dealing in channel relationships. *Academy of Marketing Science Journal*, 25(3): 201-213.

Lillis, C. M., Narayana, C. L., and Gilman, J. L. (1976). Competitive advantage variation over the life cycle of a franchise. *Journal of Marketing*, 40(4): 77-80.

Litz, R. A., and Stewart, A. C. (1998). Franchising for sustainable advantage? Comparing the performance of independent retailers and trade-name franchisees. *Journal of Business Venturing*, 13(2): 131-150.

Lumpkin, G. T., and Dess, G. G. (1996). Clarifying the entrepreneurial orientation construct and linking it to performance. *The Academy of Management Review*, 21(1): 135-172.

Lusch, R. F., and Brown, J. R. (1996). Interdependency, contracting, and relational behavior in marketing channels. *Journal of Marketing*, 60(4): 19-38.

Macaulay, S. (1963). Non-contractual relations in business: A preliminary study. *American Sociological Review*, 28(1): 55-67.

Macneil, I.R. (1974). Many futures of contract. *Southern California Law Review*, 47(3): 691-816.

Madhok, A, Wu, T. (2006). Uncertainty, opportunism, and governance: The effects of volatility and ambiguity on formal and relational contracting. *Academy of Management Journal* (Formerly: Journal of the Academy of Management), 49 (5): 1058; 1058.

Maitland, I. Bryson, J. and van de ven, A. (1985). Sociologists, Economists, and opportunism. *Academy of Management Review*, 10(1): 59-65.

Makhubele, N.T. (1996). *Factors limiting the involvement of black entrepreneurs in franchising*. Unpublished MBA dissertation. Johannesburg: University of the Witwatersrand.

Marnburg, E., Larsen, S., and Ogaard, T. (2004). Uncovering aspects of franchisees' incentives: An explorative investigation. *Food Service Technology*, 4(3): 117-128.

Mathewson, G. F., and Winter, R. A. (1985). The economics of franchise contracts. *Journal of Law and Economics*, 28(3): 503-526.

Mathewson, G. F., and Winter, R. A. (1985). Territorial restrictions in franchise contracts. *Economic Inquiry*, 32: 181-192.

McGinty, R. L. (1998). Franchising research. *Journal of Consumer Marketing*, 15(1): 55-63.

Mendelsohn, M. (2004). *The guide to franchising*. Cengage Learning EMEA.

Michael, S. C. (1999). Do franchised chains advertise enough? *Journal of Retailing*, 75(4): 461-478.

Michael, S. C. (2000). The extent, motivation, and effect of tying in franchise contracts. *Managerial and Decision Economics*, 21(5): 191-201.

Michael, S. C. (2000). The effect of organizational form on quality: The case of franchising. *Journal of Economic Behavior and Organization*, 43(3): 295-318.

Michael, S. C. (2000). Investments to create bargaining power: The case of franchising. *Strategic Management Journal*, 21(4): 497-514.

Michael, S. C. (2003). First mover advantage through franchising. *Journal of Business Venturing*, 18(1): 61-80.

Michael, S. C. (2009). Entrepreneurial signalling to attract resources: The case of franchising. *Managerial and Decision Economics*, 30(6): 405-422.

Michael, S. C., and Combs, J. G. (2008). Entrepreneurial failure: The case of franchisees. *Journal of Small Business Management*, 46(1): 73-90.

Minkler, A. P. (1990). An empirical analysis of a firm's decision to franchise. *Economics Letters*, 34(1): 77-82.

Minkler, A. P. (1992). Why firms franchise: A search cost theory. *Journal of Institutional and Theoretical Economics (JITE)*/Zeitschrift Für Die Gesamte Staatswissenschaft: 240-259.

Minkler, A. P., and Park, T. A. (1994). Asset specificity and vertical integration in franchising. *Review of Industrial Organization*, 9(4): 409-423.

Mishra, D. P., Heide, J. B., and Stanton G. C. (1998). Information asymmetry and levels of agency relationships. *Journal of Marketing Research*, 35(3): 277-295.

Mohr, J., and Nevin, J. R. (1990). Communication strategies in marketing channels: A theoretical perspective. *Journal of Marketing*, 54(4): 36-51.

Morrison, K. A. (1996). An empirical test of a model of franchisee job satisfaction. *Journal of Small Business Management*, 34(3): 27-40.

Morrison, K. A. (1997). How franchise job satisfaction and personality affects performance, organizational commitment, franchisor relations, and intention to remain. *Journal of Small Business Management*, 35(3): 39-67.

Mozart Ice Cream Classic Franchises (Pty) Ltd v Davidoff and Another (18784/2008). ZAWCHC 118; 2009 (3) SA 78 (C) (1 December 2008).

Muris, T. J. (1980). Opportunistic behaviour and the law of contracts. *Minnesota Law Review,* 65(4): 521-590.

Myers, M. D. (2008). *Quantitative research in business and management.* Sage Publications Ltd.

Nair, S. K., Tikoo, S., and Liu, S. (2009). Valuing exclusivity from encroachment in franchising. *Journal of Retailing*, 85(2): 206-210.

Neuendorf, K. A. (2002). *The content analysis guidebook*. Sage Publications, Inc.

Nevin, J. R., Hunt, S. D., and Levas, M. G. (1981). Legal remedies for deceptive and unfair practices in franchising. *Journal of Macromarketing,* 1(1): 23-34.

Norton, S. W. (1988). An empirical look at franchising as an organizational form. *Journal of Business*, 61(2): 197-218.

Norton, S. W. (1988). Franchising, brand name capital, and the entrepreneurial capacity problem. *Strategic Management Journal*, 9(1): 105-114.

Ouchi, W. G. (1980). Markets, bureaucracies, and clans. *Administrative Science Quarterly*, 25(1): 129-141.

Oxenfeldt, A. R., and Thompson, D. N. (1968). Franchising in perspective. *Journal of Retailing,* 44(4): 3-20.

Oxenfeldt, M. R., and Kelly, A. O. (1968). Will successful franchise systems ultimately become wholly-owned chains? *Journal of Retailing*, 44(4): 69.

Ozanne, U. B. and Hunt, S. D. (1971). The Economic Effects of Franchising, Washington: United States Senate - U.S. Government Printing Office.

Parker, E., and Illtschecko, K., (2007). *Franchising in South Africa: the real story*, Frontrunner: Northcliff, Johannesburg.

Penrose, E. (1959). *The theory of firm growth*. John Wiley & Sons, New York.

Perrigot, R., Cliquet, G., and Mesbah, M. (2004). Possible applications of survival analysis in franchising research. *International Review of Retail, Distribution and Consumer Research*, 14(1): 129-143.

Peterson, A., and Dant, R. P. (1990). Perceived advantages of the franchise option from the franchisee perspective: Empirical insights from a service franchise. *Journal of Small Business Management*, 28(3): 46-61.

Phan, P. H., Butler, J. E., and Lee, S. H. (1996). Crossing mother: Entrepreneur-franchisees' attempts to reduce franchisor influence. *Journal of Business Venturing*, 11(5): 379-402.

Phillips, O. R. (1991). Vertical restrictions and the number of franchises. *Southern Economic Journal*, 58(2): 423-429.

Pilling, B. K. (1991). Assessing competitive advantage in small business: An application to franchising. *Journal of Small Business Management*, 29(4): 55-63.

Pirkul, H., Narasimhan, S., and De, P. (1987). Firm expansion through franchising: A model and solution procedures. *Decision Sciences*, 18(4): 631-645.

PNA Stationeries (Pty) Ltd v River Stationeries CC t/a PNA Parys and Others (4858/2009) [2010] ZAFSHC 87 (18 March 2010).

Porter, M. E. (1998*). Competitive strategy: Techniques for analysing industries and competitors* Free Press, New York.

Porter, J. L., and Renforth, W. (1978). Franchise agreements: Spotting the important legal issues. *Journal of Small Business Management*, 16(4): 32-40.

Preble, J. F. (1992). Franchising financial services: Promises, problems, and prospects. *American Business Review*, 10(1): 28-35.

Preble, J. F. (1995). Franchising systems around the globe: A status report. *Journal of Small Business Management*, 33(2): 80-88.

Preble, J. F., and Hoffman, R. C. (2006). Strategies for business format franchisors to expand into global markets. *Journal of Marketing Channels*, 13(3): 29-50.

Price, S. (2000). Franchising research: A failed literature? In Lashley, C. & Morrison, A. (Eds.), in *Franchising Hospitality Services.* Butterworth-Heinemann. United Kingdom.

Rauch, A., Wiklund, J., Lumpkin, G. T., & Frese, M. (2009). Entrepreneurial orientation and business performance: An assessment of past research and suggestions for the future. *Entrepreneurship Theory and Practice*, *33*(3), 761-787.

Rindfleisch, A., and Heide, J. B. (1997). Transaction cost analysis: Past, present, and future applications. *Journal of Marketing*, 61(4): 30-54.

Ritchie, J., and Lewis, J. (2005). *Quantitative research practice: A guide for social science students and researchers.* Sage Publications Ltd.

Roering, K. J. (1977). Bargaining in distribution channels. *Journal of Business Research,* 5(1): 15-26.

Rokkan, A. I., and Buvik, A. (2003). Inter-firm cooperation and the problem of free riding behavior: An empirical study of voluntary retail chains. *Journal of Purchasing and Supply Management*, 9(5-6): 247-256.

Rokkan, A. I., Heide, J. B., and Wathne, K. H. (2003). Specific investments in marketing relationships: Expropriation and bonding effects. *Journal of Marketing* Research, 40(2): 210-224.

Roland T. Rust, and Cooil, B. (1994). Reliability measures for quantitative data: Theory and implications. *Journal of Marketing Research*, 31(1): 1-14.

SAS Institute. (2010).

Schein, E. H. (1980). *Organizational Psychology*. 3rd edition. Englewood Cliffs: New Jersey.

Schein, E. H. (1982). T*he psychological contract. Organizational Behavior and Management: A Contingency Approach*. New York, NY, John Wiley and Sons Inc.

Scher, I., and Proger, P. A. (1991). Franchising and the Robinson-Patman Act: Some problems and solutions. *Antitrust Law Journal*, 60(2): 479-489.

Schul, P. L., and Babakus, E. (1988). An examination of the interfirm power-conflict relationship: The intervening role of the channel decision structure. *Journal of Retailing*, 64(4): 38-404.

Schul, P. L., Little Jr., T. E., and Pride, W. M. (1985). Channel climate: Its impact on channel members' satisfaction. *Journal of Retailing*, 61(2): 9-38.

Seaton, J. S. (2003). An analysis of UK franchise contracting 1989-1999. *Managerial and Decision Economics,* 24(1): 25-34.

Shane, S. A. (1996). Hybrid organizational arrangements and their implications for firm growth and survival: A study of new franchisors. *The Academy of Management Journal*, 39(1): 216-234.

Shane, S. (1998). Explaining the distribution of franchised and company-owned outlets in franchise systems. *Journal of Management*, 24(6): 717-739.

Shane, S. (2001). Organizational incentives and organizational mortality. *Organization Science*, 12(2): 136-160.

Shane, S., and Foo, M. (1999). New firm survival: Institutional explanations for new franchisor mortality. *Management Science*, 45(2): 142.-159.

Shane, S., Shankar, V., and Aravindakshan, A. (2006). The effects of new franchisor partnering strategies on franchise system size. *Management Science*, 52(5): 773-787.

Shane, S., and Spell, C. (1998). Factors for new franchise success. *Sloan Management Review*, 39(3): 43-50.

Shelanski, H. A., and Klein, P. G. (1995). Empirical research in transaction cost economics: A review and assessment. *Journal of Law, Economics, and Organization*, 11(2): 335-361.

Shivell, K., and Banning, K. (1996), "What Every Prospective Franchisee Should Know", *Small Business Forum* 14: 33-42

Silverman, D. (2005). *Doing quantitative research: A practical handbook.* Sage Publications Ltd.

Skinner, S. J., Gassenheimer, J. B., and Kelley, S. W. (1992). Cooperation in supplier-dealer relations. *Journal of Retailing*, 68(2): 174-193.

Sorenson, O., and Soensen, J. B. (2001). Finding the right mix: Franchising, organizational learning, and chain performance. *Strategic Management Journal*, 22(6/7, Special Issue: Strategic Entrepreneurship: Entrepreneurial Strategies for Wealth Creation): 713-724.

South African Franchise Warehouse. (2010). Johannesburg

Spinelli, S., and Birley, S. (1996). Toward a theory of conflict in the franchise system. *Journal of Business Venturing*, 11(5): 329-342.

Spinelli, S. (2007). Franchises without borders. *Business Strategy Review*, 18(1): 50-52.

Spinelli, S., and Birley, S. (1998). An empirical evaluation of conflict in the franchise system. *British Journal of Management*, 9(4): 301-325.

Srinivasan, R. (2006). Dual distribution and intangible firm value: Franchising in restaurant chains. *Journal of Marketing*, 70(3): 120-135.

Stanworth, J. (1995). Penetrating the mists surrounding franchise failure rates -some old lessons for new businesses. *International Small Business Journal*, 13(2): 59-63.

Stanworth, J. (1999). Research note: 'customer service' franchising--a trend or a deviant case? *International Small Business Journal*, 17(3): 74-78.

Stanworth, J., and Curran, J. (1999). Colas, burgers, shakes, and shirkers: Towards a sociological model of franchising in the market economy. *Journal of Business Venturing*, 14(4): 323-344.

Stanworth, J., and Kaufmann, P. (1996). Similarities and differences in UK and US franchise research data: Towards a dynamic model of franchisee motivation. *International Small Business Journal*, 14(3): 57-70.

Stanworth, J., Purdy, D., Price, S., and Zafiris, N. (1998). Franchise versus conventional small business failure rates in the US and UK: More similarities than differences. *International Small Business Journal,* 16(3): 56-69.

Stanworth, J., Stanworth, C., Watson, A., Purdy, D., and Healeas, S. (2004). Franchising as a small business growth strategy: A resource-based view of organizational development. *International Small Business Journal*, 22(6): 539-559.

Stern, L. W., Agodo, O., and Firat, F. A. (1976). Territorial restrictions in distribution: A case analysis. *Journal of Marketing*, 40(2): 69-75.

Stevenson, H. H., and Jarillo, J. C. (1990). A paradigm of entrepreneurship: Entrepreneurial management. *Strategic Management Journal*, 11(, Special Issue: Corporate Entrepreneurship): 17-27.

Storholm, and Scheuing, E. E. (1994). Ethical implications of business format franchising. *Journal of Business Ethics*, 13(3): 181-188.

Strutton, D., Petton, L. E., and Lumpkin, J. R. (1995). Psychological climate in franchising system channels and franchisor-franchisee solidarity. *Journal of Business Research*, 34(2): 81-91.

Stump, R. L., and Heide, J. B. (1996). Controlling supplier opportunism in industrial relationships. *Journal of Marketing Research,* 3(4): 431-441.

Surveymonkey, (2000)

Tanaka, J.S. (1987). "How big is big Enough?": Sample Size and Goodness of Fit in Structural Equation Models with Latent Variables. *Child development*, 58(1): 134-146.

Tikoo, S. (2005). Franchisor use of influence and conflict in a business format franchise system. *International Journal of Retail and Distribution Management*, 33(5): 329-342.

Tomzack, M.E., (1994). *Tips and Traps for buying a franchise*. McGraw-Hill, New York.

Torikka, J. (2007). Franchisees can be made–empirical evidence from a follow-up study. *International Journal of Entrepreneurship and Small Business*, 4(1): 68-96.

Tuunanen, M., and Hoy, F. (2007). Franchising–multifaceted form of entrepreneurship. *International Journal of Entrepreneurship and Small Business*, 4(1): 52-67.

Tuunanen, M., and Torikka, J. (2001), Finnish franchisee discontinuance and failure: An empirical study. *Working Paper*: 1-24.

Tuunanen, M., and Hyrsky, K. (2001). Entrepreneurial paradoxes in business format franchising: An empirical survey of Finnish franchisees. *International Small Business Journal,* 19(4): 47-62.

Udell, G. G. (1972). The franchise agreement. *Cornell Hotel and Restaurant Administration Quarterly*, 13(2): 13-21.

Van Niekerk, C.G. (2003). *Franchising for Black Economic Empowerment*. Unpublished MBA dissertation. Johannesburg: University of the Witwatersrand, Johannesburg.

Vaughn, C l. (1979). *Franchising*. Toronto: Lexington Books.

Verbieren, S., Leuven, L. K. U., Cools, M., Nieuwstraat, K., and Van den Abbeele, A. (2008). Franchising: A literature review on management and control issues. *Review of Business and Economics,* 53(4): 398-443.

Wathne, K. H., and Heide, J. B. (2000). Opportunism in interfirm relationships: forms, outcomes and solutions. *Journal of Marketing*, 64(4), 36-51.

Weaven, S., and Frazer, L. (2007). Expansion through multiple unit franchising: Australian franchisors reveal their motivations. *International Small Business Journal*, 25(2): 173-205.

Weinrauch, J. D. (1986). Franchising an established business. *Journal of Small Business Management*, 24(3): 1-7.

Wengraf, T. (2001). *Quantitative research interviewing: Biographic narrative and semi-structured methods.* Sage Publications Ltd.

Werner, R. O. (1977). Regulation of channels distribution. *Journal of Marketing*, 41(1): 93-94.

Williamson, O. E. (1975). *Markets and Hierarchies: Analysis and antitrust implications*, New York, Free Press.

Williamson, O. E. (1979). Transaction-cost economics: The governance of contractual relations. *The Journal of Law and Economics*, 22(2): 233-261.

Williamson, O. E. (1985). *The economic institutions of capitalism: firms, markets and relational contracting*. New York, Free Press.

Williamson, O. E. (1993). Opportunism and its critics. *Managerial and Decision Economics*, 14(2): 97-107.

Williamson, O. E. (1995). Transaction cost economics and organization theory. Organization Theory: *From Chester Barnard to the Present and Beyond*: 207-256.

Williamson, O. E. (1983). Credible commitments: Using hostages to support exchange. *The American Economic Review*, 73(4): 519-540.

Windsperger, J., and Yurdakul, A. (2007). The governance structure of franchising firms: A property rights approach. *Economics and Management of Networks*: 69-95.

Windsperger, J. (2002). Allocation of decision and ownership rights in franchise relationships. *Journal of Marketing Channels*, 10(2): 19-38

Windsperger, J., and Dant, R. P. (2006). Contractibility and ownership redirection in franchising: A property rights view. *Journal of Retailing*, 82(3): 259-272.

Withane, S. (1991). Franchising and franchisee behaviour: An examination of opinions, personal characteristics, and motives of Canadian franchisee entrepreneurs. *Journal of Small Business Management*, 29(1): 22-29.

Woker, T. (2009). *Regulating franchise operations in South Africa: a study of the existing legal framework with suggestions for reform.* Unpublished PhD thesis. Grahamstown: Rhodes University.

Woker, T.A. (2012). *The franchise relationship under South African law,* Cape Town: Juta and Company Ltd.

Woll, M. (1968-69). Sources of revenue to franchisor and their strategic implications. *Journal of Retailing*, 44 (4): 14-20.

Wren, B. M., Simpson, J. T., and Paul, C. (1998). Marketing channel relationships among small businesses. *International Small Business Journal,* 16(4): 64-78.

Zeller, R Achabal, D., Brown. L., (1980). Market penetration and locational conflict in franchise systems. *Decision Sciences*. Vol 11: 58-80.

Zuma, J. G. (2012). *Opening address, 4th African National Congress National Policy Conference*, 26 to 29 June 2012, Johannesburg.

Zungu, T (2011). A flood of fishy deals, *Sowetan*, 24 Jan 2011

Zungu, T (2011). Franchisees assisted, *Sowetan*, 15 Jun 2011

Websites

www.anc.org.za
www.bfa.com
www.famousbrands.com
www.fasa.co.za
www.gov.za
www.ifa.com
www.nrf.gov.za
www.safw.co.za
www.saflli.gov.za
www.statssa.gov.za
www.thedti.gov.za
www.unitednations.com
www.whichfranchise.co.za

Annexure A

Cover letter addressed to Franchisors

NT Makhubele
P O Box 1335
RUIMSIG
1732

By email

The Chairman, Chief Executive or Franchise Director

Dear Sir / Madam

RE: COMPLETION OF QUESTIONNAIRE

My name is Nathaniel Makhubele, a registered Doctor of Philosophy (PhD) degree student at the University of the Witwatersrand, Johannesburg, Wits Business School, that is situated at St Davids Road, Parktown, Johannesburg.

As part of the requirements for the completion of the degree, I am required to conduct and complete a research project on a topic of my choice under the supervision of the university. I have decided to focus on various aspects of the franchise relationship with that I believe you are able to assist me. Accordingly, the researcher will greatly appreciate it if you could take time off your busy schedule to complete the attached questionnaire and return it to me at your earliest convenient time via the email link provided on the questionnaire.

Kindly be assured that the researcher will treat information collected through this questionnaire as highly confidential with the result that the names of individuals, companies or brands participating in this project are not required. In addition, the researcher will use the obtained information only for the purposes of this project that on its successful completion, the university library will keep a copy of the final report at the above address where it will be available on loan to the public.

I take this opportunity to thank you for your time.

Yours faithfully

Nathaniel Makhubele

Annexure B

Questionnaire completed by Franchisors

Part A

Kindly place an "X" next to the clear boxes that best describe your franchise system

Franchising sector	Fast Food & Groceries	Fuel & Petroleum	Business Services	Personal Services	Home Care Services
Year formed	>30 yrs	<25 yrs	<20 yrs	<15 yrs	<10 yrs
Year started franchising	>30 yrs	<25 yrs	<20 yrs	<15 yrs	<10 yrs
No. of franchised outlets	500	500	300	200	100
No. of stores opened in the past 5 years	100	80	60	50	20
No. of store closed in the past 5 years	35	30	25	20	15
No. of stores bought back in the past 5 years	25	20	15	10	5
Reason for store closures	Terminated	Non-renewal	Bad location	Relocated	Weak franchisee

Part B

Kindly encircle the number in the box that indicates the extent to that you agree or disagree with the following statements regarding the franchisor-franchisee relationship within your franchise system.

Statement	1 = Strongly agree 7 = Strongly disagree						
1. It is good business practice for franchisors to give start-up financial assistance to some new franchisees	1	2	3	4	5	6	7
2. Legislation is required to control the franchising industry	1	2	3	4	5	6	7
3. It is usually desirable for franchisors to enter into joint ventures with franchisees	1	2	3	4	5	6	7
4. Franchisors derive no benefits from signing leases for premises occupied by their franchisees	1	2	3	4	5	6	7
5. Franchisors believe that franchisees can and should influence important business decisions	1	2	3	4	5	6	7
6. A franchise contract granting favourable terms to franchisees is unlikely to provide a competitive advantage to the franchise system	1	2	3	4	5	6	7
7. Because of franchising benefits, most independent retailers are inclined to convert their businesses into franchised outlets	1	2	3	4	5	6	7

8.	Future profits play an insignificant role in ensuring that franchisees meet their contractual commitments	1	2	3	4	5	6	7
9.	The government should not regulate the franchising industry	1	2	3	4	5	6	7
10.	Most franchisees will drop quality standards whenever an opportunity avails itself	1	2	3	4	5	6	7
11.	Franchisors often find it difficult to keep their franchisees happy and satisfied at all times	1	2	3	4	5	6	7
12.	Most disgruntled franchisees are likely to seek or acquire additional outlets within the franchise system	1	2	3	4	5	6	7
13.	Reduced levels of conflict within the franchise system have no effect on its operating and marketing costs	1	2	3	4	5	6	7
14.	A good image and reputation is far more important for attracting new franchisees than a strong brand	1	2	3	4	5	6	7
15.	Sometimes it is necessary for franchisors to buy back profitable stores from franchisees	1	2	3	4	5	6	7
16.	Franchise contracts are terminated even in the event of franchisees committing minor breaches	1	2	3	4	5	6	7
17.	Franchisors have no need for strictly controlling the transfer or sale of franchised outlets	1	2	3	4	5	6	7
18.	Most franchise systems require higher levels of tension and conflict to achieve their goals	1	2	3	4	5	6	7
19.	It is uncommon for franchisors to take back failing and non-performing outlets to operate them or for re-sale	1	2	3	4	5	6	7
20.	Most franchisees are likely to renew their franchise contracts even if they are unhappy with the franchise system	1	2	3	4	5	6	7
21.	Most franchise systems are not hugely dependent on franchisees for their success	1	2	3	4	5	6	7
22.	The equipment that franchisees are required to purchase helps secure their commitment to the franchise system	1	2	3	4	5	6	7
23.	Tough competition often drives franchisors into removing weak and incompetent franchisees from the franchise system	1	2	3	4	5	6	7
24.	It is almost impractical for a franchise contract to encompass all aspects of the franchisor-franchisee relationship	1	2	3	4	5	6	7
25.	Longer contract terms make it difficult for franchisors to deal with market changes	1	2	3	4	5	6	7
26.	Disruptions within the franchise system rarely draw the attention of unaffected franchisees and the public	1	2	3	4	5	6	7
27.	Ex-franchisees often succeed in competing unfairly with their erstwhile franchisors	1	2	3	4	5	6	7
28.	Disputes between franchisors and franchisees are always resolved through arbitration	1	2	3	4	5	6	7
29.	Franchisees should be allowed to charge their own prices on all goods or products sold at their outlets	1	2	3	4	5	6	7
30.	Store closures do not always harm the image and reputation of the franchise system	1	2	3	4	5	6	7
31.	It is not a good idea for franchisors to share strategic information with franchisees	1	2	3	4	5	6	7
32.	Litigation is considered to be unavoidable in most franchising disputes	1	2	3	4	5	6	7
33.	Franchisees are usually offered non-renewable fixed term contracts mostly due to the need to adapt to changing market conditions	1	2	3	4	5	6	7

34. Franchisees should be discouraged from sourcing supplies from non-approved suppliers even if the quality and prices of such supplies is competitive	1	2	3	4	5	6	7
35. Granting non-exclusive trading areas to franchisees allows franchisors the flexibility to add new outlets in particular areas	1	2	3	4	5	6	7
36. The franchisor's business knowledge and expertise is always more important than the franchisees' knowledge of local market conditions	1	2	3	4	5	6	7

Source: Developed for the study

Annexure C

Franchisee sample matrix

Sector	**Food and Restaurant**			**Fuel and Petroleum**			**Business Services**			**Personal and Home Care**			**Other**		
Quota	1-5			1-5			1-5			1-5			1-5		
Age															
Race															
Gender															
Marital status															
Education															
Business Experience															
Franchising Experience															
Franchise Association membership															
Single or Multi-unit ownership															

Annexure D

Semi-structured franchisee interview statements

Statement	S	T	P	R
a) Head-office staff to franchisee ratio				
1. Head-office staff conduct few and infrequent inspection visits				
2. Inspectors usually spend adequate amounts of time during their visits				
3. Regular store visits help to improve outlet performances				
b) Incomplete contracts				
4. Franchise contracts form the foundation of the relationship between franchisors and franchisees				
5. Some aspects of the franchise relationship are not found in the franchise contract				
6. Franchise contracts protect the interests of both parties equally				
c) Multi-unit ownership				
7. Franchisors pay more respect to multi-unit franchisees than to single unit owners				
8. Multi-unit franchisees contribute more to the franchise system than single unit franchisees				
9. Multi-unit franchisees deserve more "favours" than single unit franchises				
d) Membership of Franchisee Associations				
10. Franchisors should allow and sponsor Franchisee Associations				
11. Franchisee Associations play a major role in promoting the interests of franchisees				
12. Most franchisees would like to join Franchisee Associations				
e) Lack of franchise regulation				
13. FASA should be granted legal powers to discipline errant franchisors and franchisees				
14. There is a need for stringent franchise-specific laws				
15. Franchising disputes should be handled by FASA only				
f) The last years of the franchise contract				
16. Franchise relationships usually do not change much over the years				
17. There is more stability and cohesion in established franchise systems than in new ones				
18. The last years of the franchise relationship are the most enjoyable				
g) Brand value				
19. A strong brand offers many advantages to franchisees				
20. Most franchisees prefer to be associated with a strong brand				
21. It is easier for franchisees to make money from a strong brand				
h) Geographic dispersion				
22. Most franchised outlets are situated far from the franchisor's head-office				
23. It is better for a franchised outlet to be located far away from the franchisor's head-office				

24.	Franchised stores that are located near the franchisor's head-office receive more inspections than usual				
i)	**Local area knowledge**				
25.	Franchisors are unable to dispense with the local market knowledge that franchisees possess				
26.	Franchisees must use their local market knowledge to their own advantage				
27.	Franchisees are not being adequately or fairly rewarded for their local market knowledge				
j)	**Opportunistic actions among franchisees**				
28.	Franchisees deserve higher returns than their normal business activities can provide				
29.	It is too much to ask franchisees to comply with all franchise rules and regulations at all times				
30.	Franchisees sometimes ignore some rules in order to maximize their returns				
k)	**Growth**				
31.	It is desirable and advantageous for franchisees to comply with franchise rules at all times				
32.	Most franchisees aim at owning more units in future				
33.	Franchisees play no part in the growth of the franchise system				
l)	**Competitiveness**				
34.	Brand building is not the responsibility of franchisees				
35.	Most franchisees feel encouraged to provide ideas that may help to improve the franchise system				
36.	Franchisees are getting fair value for the advertising fees they pay to their franchisors				
m)	**Survival**				
37.	Franchisees usually expect their franchise contracts to be extended or renewed beyond the initial period				
38.	Disputes between franchisors and franchisees are unavoidable				
39.	Stores closures and take-backs are helpful in resolving some franchising disputes				

Developed for the study

S = Score; T = Total; P = Percentage; R = Result

Annexure E

Statistical reports

The SAS System

The CORR Procedure

36 Variables V1 V2 V3 V4 V5 V6 V7 V8 V9 V10 V11 V12 V13 V14 V15 V16 V17 V18 V19 V20 V21 V22 V23 V24 V25 V26 V27 V28 V29 V30 V31 V32 V33 V34 V35 V36

Simple Statistics

Variable	N	Mean	Std Dev	Sum	Minimum	Maximum	Label
V1	111	4.36	1.83	484	1.00	7.00	V1
V2	111	4.07	2.18	452	1.00	7.00	V2
V3	111	3.29	1.57	365	1.00	6.00	V3
V4	111	2.60	1.22	289	1.00	7.00	V4
V5	111	3.99	1.77	443	1.00	7.00	V5
V6	111	3.84	1.44	426	1.00	6.00	V6
V7	111	3.50	1.47	389	2.00	6.00	V7
V8	111	3.85	1.90	427	1.00	7.00	V8
V9	111	5.49	1.77	609	1.00	7.00	V9
V10	111	3.13	1.39	347	1.00	6.00	V10
V11	111	4.60	1.63	511	1.00	7.00	V11
V12	111	4.60	1.58	511	2.00	7.00	V12
V13	111	5.32	1.46	590	2.00	7.00	V13
V14	111	5.63	1.72	625	1.00	7.00	V14
V15	111	4.32	1.77	479	1.00	7.00	V15
V16	111	5.19	1.53	576	2.00	7.00	V16
V17	111	3.51	1.84	390	1.00	7.00	V17
V18	111	4.68	1.70	519	1.00	7.00	V18
V19	111	4.39	1.79	487	1.00	7.00	V19
V20	111	5.00	1.36	555	1.00	7.00	V20
V21	111	3.64	1.67	404	1.00	7.00	V21
V22	111	3.44	1.40	382	1.00	7.00	V22
V23	111	2.84	1.64	315	1.00	6.00	V23
V24	111	4.29	1.62	476	2.00	7.00	V24
V25	111	3.77	2.08	419	1.00	7.00	V25
V26	111	4.50	1.70	500	2.00	7.00	V26
V27	111	4.25	1.88	472	1.00	7.00	V27
V28	111	4.14	1.48	460	1.00	7.00	V28
V29	111	3.83	1.80	425	1.00	7.00	V29
V30	111	4.14	1.84	460	1.00	7.00	V30
V31	111	5.09	1.84	565	1.00	7.00	V31
V32	111	3.63	1.97	403	1.00	7.00	V32

Cronbach Coefficient Alpha

Variables	Alpha
Raw	0.70
Standardized	0.71

Cronbach Coefficient Alpha with Deleted Variable

	Raw Variables		Standardized Variables		Label
Variable	Correlation with Total	Alpha	Correlation with Total	Alpha	
V1	0.38	0.69	0.40	0.69	V1
V2	0.39	0.68	0.38	0.70	V2
V3	0.44	0.68	0.46	0.69	V3
V4	0.36	0.69	0.38	0.70	V4
V5	-0.18	0.72	-0.16	0.73	V5
V6	0.17	0.70	0.18	0.71	V6
V7	0.50	0.68	0.52	0.69	V7
V8	0.30	0.69	0.31	0.70	V8
V9	0.42	0.68	0.39	0.70	V9
V10	0.10	0.70	0.10	0.71	V10
V11	0.61	0.67	0.63	0.68	V11
V12	0.66	0.67	0.67	0.68	V12
V13	0.24	0.70	0.26	0.70	V13
V14	0.61	0.67	0.60	0.68	V14
V15	0.31	0.69	0.33	0.70	V15
V16	0.62	0.67	0.62	0.68	V16
V17	-0.11	0.72	-0.10	0.72	V17
V18	0.29	0.69	0.28	0.70	V18
V19	0.36	0.69	0.38	0.70	V19
V20	0.27	0.70	0.27	0.70	V20
V21	-0.11	0.72	-0.11	0.72	V21
V22	0.32	0.69	0.31	0.70	V22
V23	-0.21	0.72	-0.21	0.73	V23
V24	0.02	0.71	0.03	0.72	V24
V25	0.30	0.69	0.29	0.70	V25
V26	0.13	0.70	0.13	0.71	V26
V27	0.45	0.68	0.43	0.69	V27
V28	0.03	0.71	0.05	0.72	V28
V29	0.20	0.70	0.17	0.71	V29
V30	0.37	0.69	0.33	0.70	V30
V31	-0.05	0.72	-0.06	0.72	V31
V32	0.21	0.70	0.18	0.71	V32
V33	0.03	0.71	0.03	0.72	V33
V34	0.01	0.71	0.01	0.72	V34
V35	-0.45	0.74	-0.44	0.74	V35
V36	-0.14	0.72	-0.15	0.73	V36

DATA=RAW OUTCOME=OA REG

The REG Procedure
Model: MODEL1
Dependent Variable: OA

Number of Observations Read	111
Number of Observations Used	111

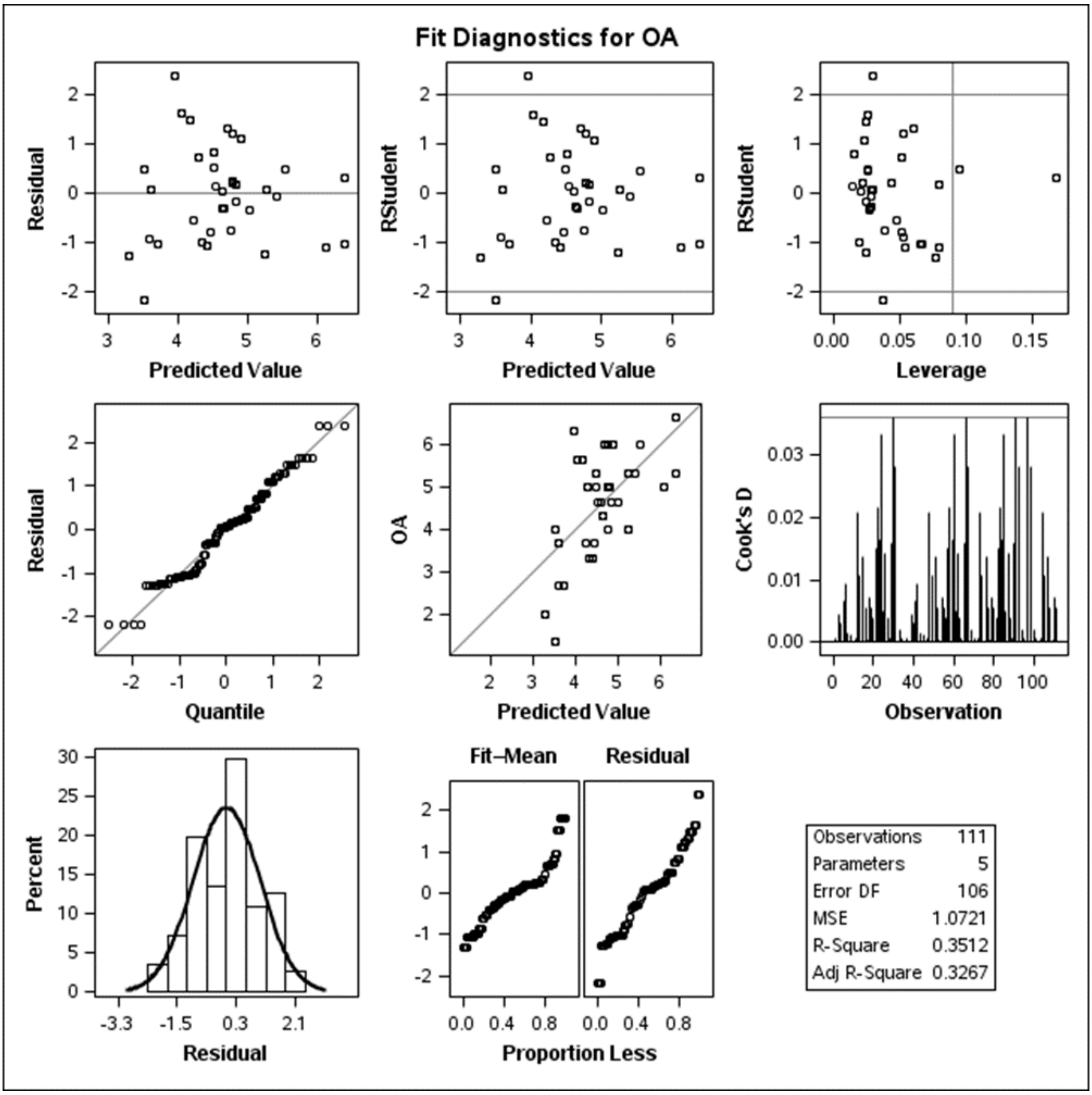
Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	4	61.51	15.38	14.34	<.0001
Error	106	113.65	1.07		
Corrected Total	110	175.16			

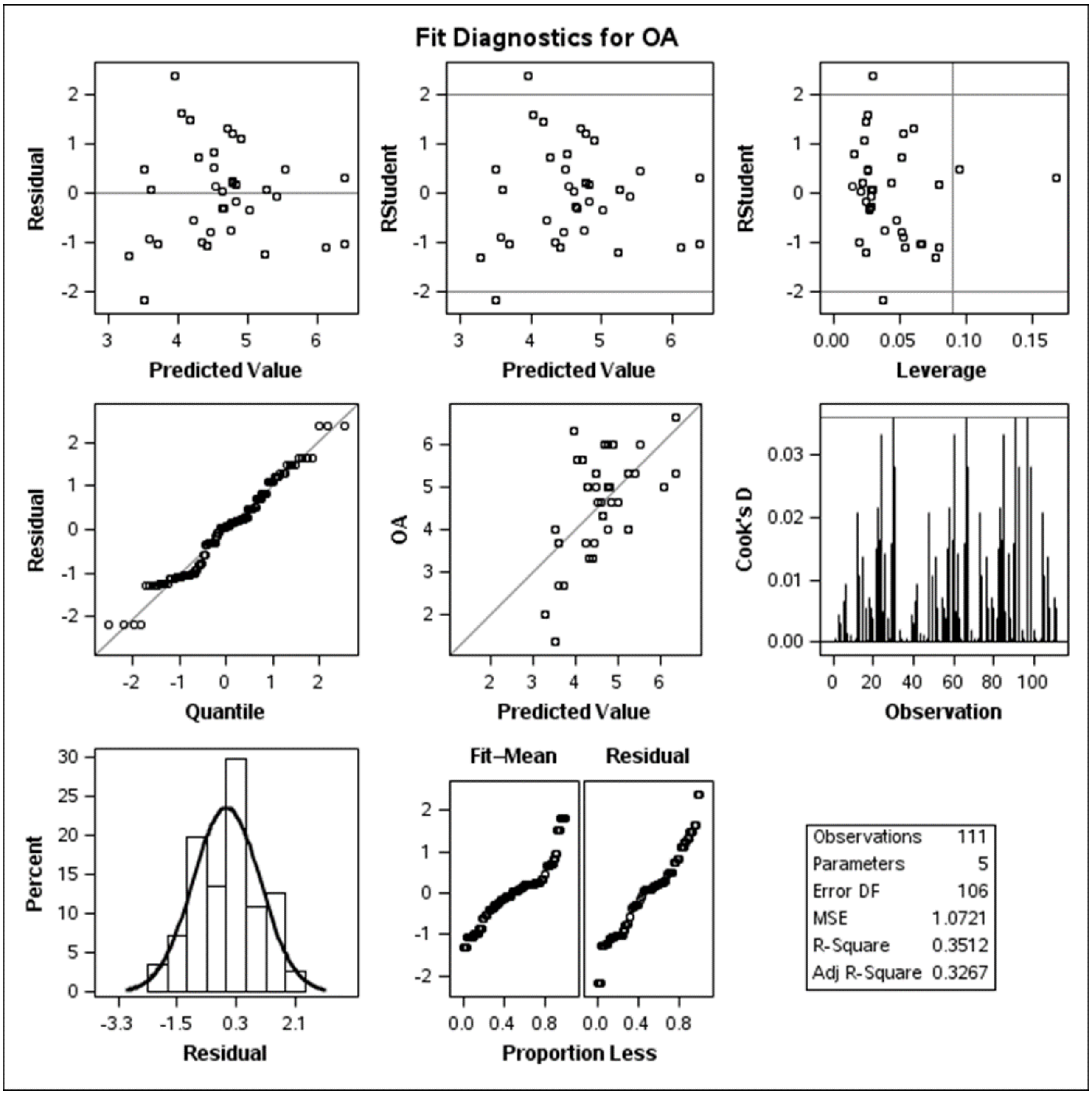
Root MSE	1.04	**R-Square**	0.35
Dependent Mean	4.59	**Adj R-Sq**	0.33
Coeff Var	22.58		

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > |t|	Standardized Estimate	Variance Inflation
Intercept	**1**	0.38	0.84	0.45	0.65	-	-
Structural factors	**1**	0.11	0.09	1.18	0.24	0.10	1.13
Contextual factors	**1**	0.28	0.07	3.84	0.00	0.32	1.17
Strategic factors	**1**	0.61	0.10	6.21	<.0001	0.49	1.01
OO	**1**	0.06	0.11	0.57	0.57	0.05	1.14

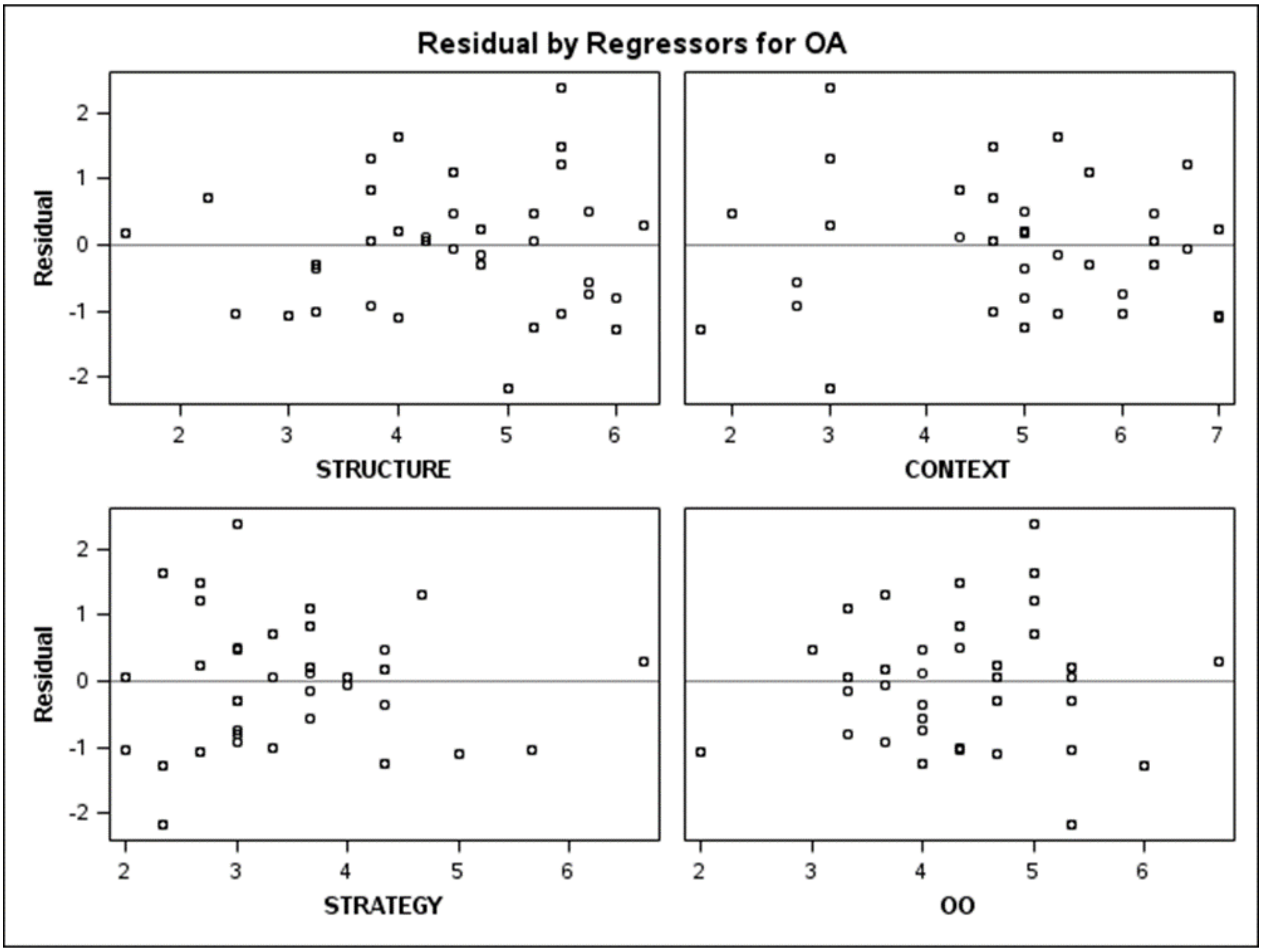


Fit Diagnostics for OA
Residual
RStudent
Predicted Value
Leverage
Quantile
OA
Cook's D
Observation
Percent
Fit–Mean
Residual
Proportion Less
Observations 111
Parameters 5
Error DF 106
MSE 1.0721
R-Square 0.3512
Adj R-Square 0.3267



Fit Diagnostics for OA
Residual
Predicted Value
RStudent
Predicted Value
RStudent
Leverage
Residual
Quantile
OA
Predicted Value
Cook's D
Observation
Percent
Residual
Fit–Mean
Residual
Proportion Less
Observations 111
Parameters 5
Error DF 106
MSE 1.0721
R-Square 0.3512
Adj R-Square 0.3267

DATA=RAW OUTCOME=OA REG



DATA=FACTORS OUTCOME=OA REG

The REG Procedure
Model: MODEL1
Dependent Variable: OA

Number of Observations Read	111
Number of Observations Used	111

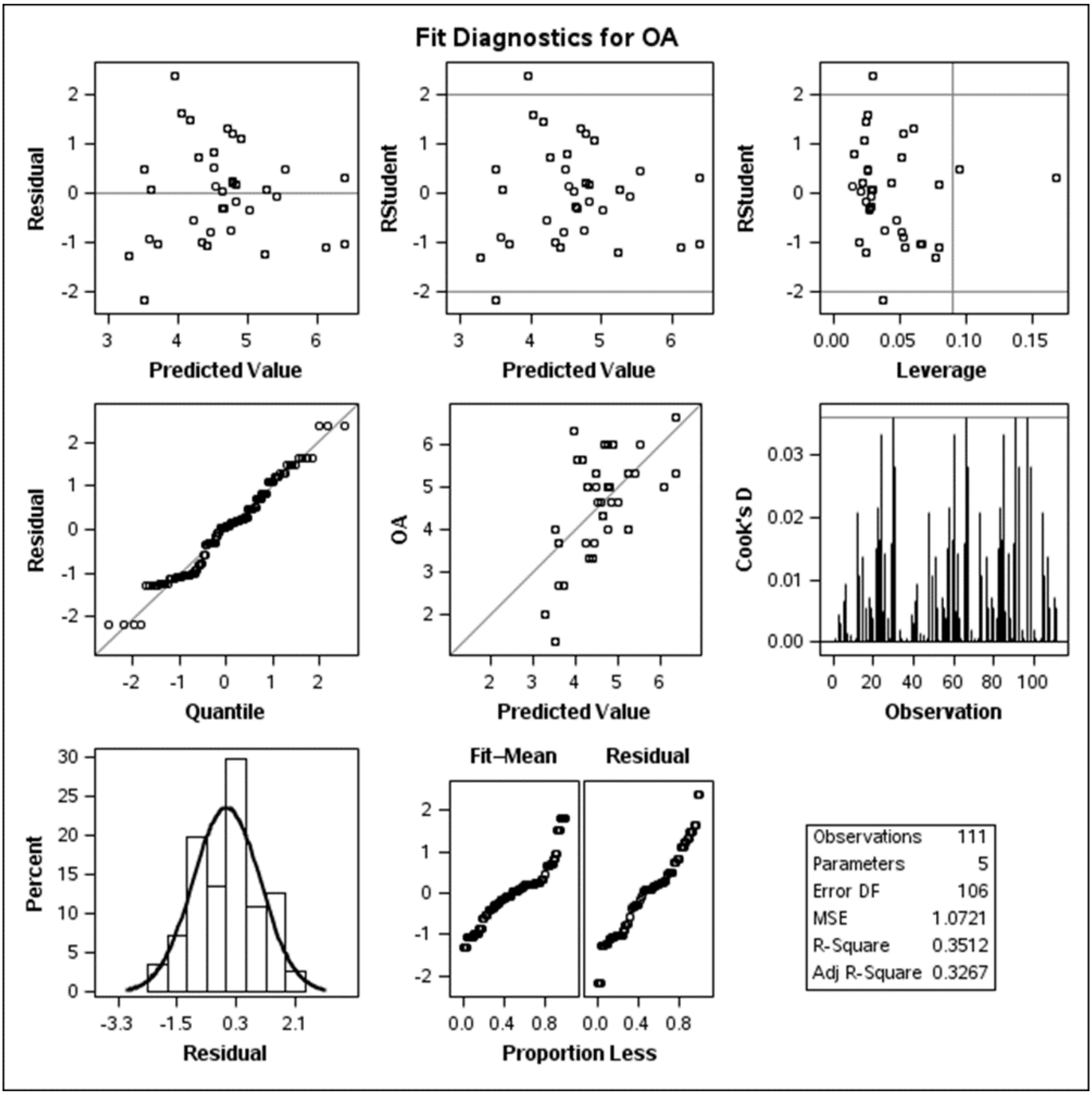
Analysis of Variance

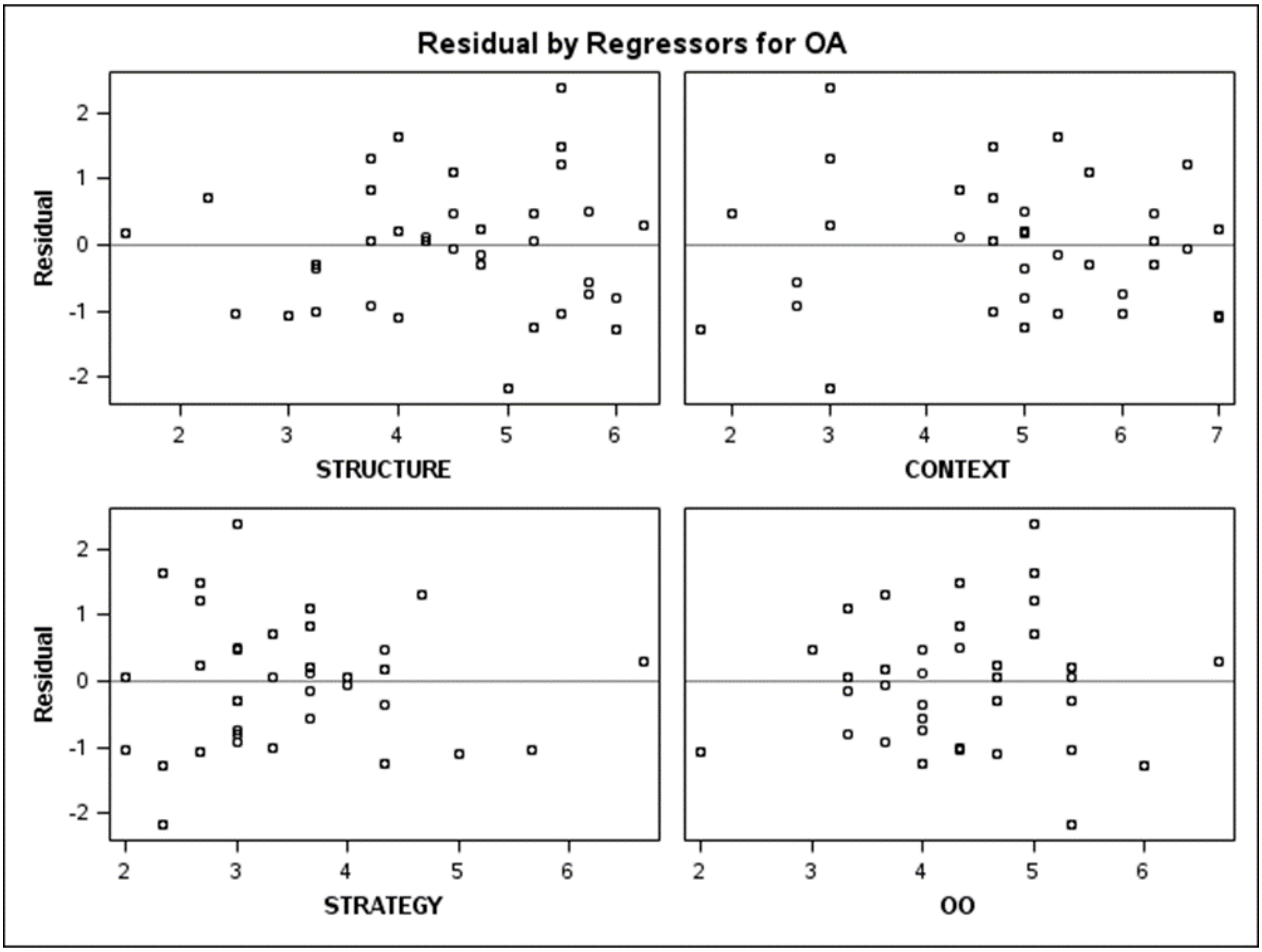
Source	**DF**	**Sum of Squares**	**Mean Square**	**F Value**	**Pr > F**
Model	4	17.13	4.28	10.64	<.0001
Error	106	42.67	0.40		
Corrected Total	110	59.80			

Root MSE	0.63	**R-Square**	0.29
Dependent Mean	-0.00	**Adj R-Sq**	0.26
Coeff Var	-1.24E+18		

Parameter Estimates

Variable	**DF**	**Parameter Estimate**	**Standard Error**	**t Value**	**Pr > |t|**	**Standardized Estimate**	**Variance Inflation**
Intercept	**1**	-0.00	0.06	-	1.00	-	-
Structural factors	**1**	0.02	0.08	0.28	0.78	0.03	1.25
Contextual factors	**1**	0.28	0.08	3.62	0.00	0.34	1.28
Strategic factors	**1**	0.34	0.09	3.84	0.00	0.34	1.15
OO	**1**	0.27	0.12	2.29	0.02	0.21	1.29


Fit Diagnostics for OA
Residual
RStudent
Predicted Value
Leverage
Quantile
OA
Cook's D
Observation
Percent
Fit–Mean
Residual
Proportion Less
Observations 111
Parameters 5
Error DF 106
MSE 1.0721
R-Square 0.3512
Adj R-Square 0.3267


Residual by Regressors for OA
Residual
STRUCTURE
CONTEXT
STRATEGY
OO

DATA=FACTORS
OUTCOME=GROWTH REG

The REG Procedure
Model: MODEL1
Dependent Variable: GROWTH

Number of Observations Read	111
Number of Observations Used	111

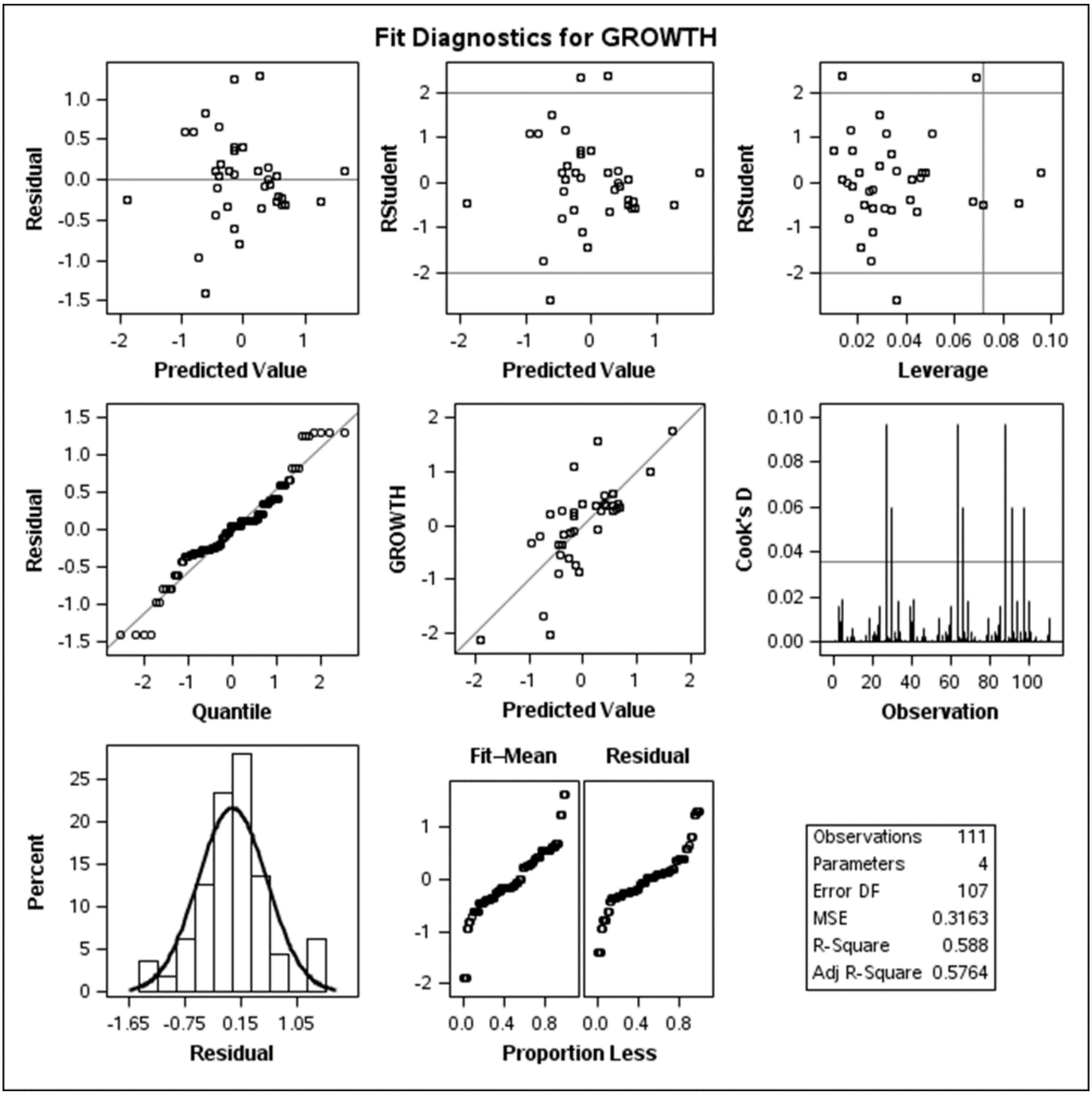
Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	3	48.29	16.10	50.89	<.0001
Error	107	33.84	0.32		
Corrected Total	110	82.13			

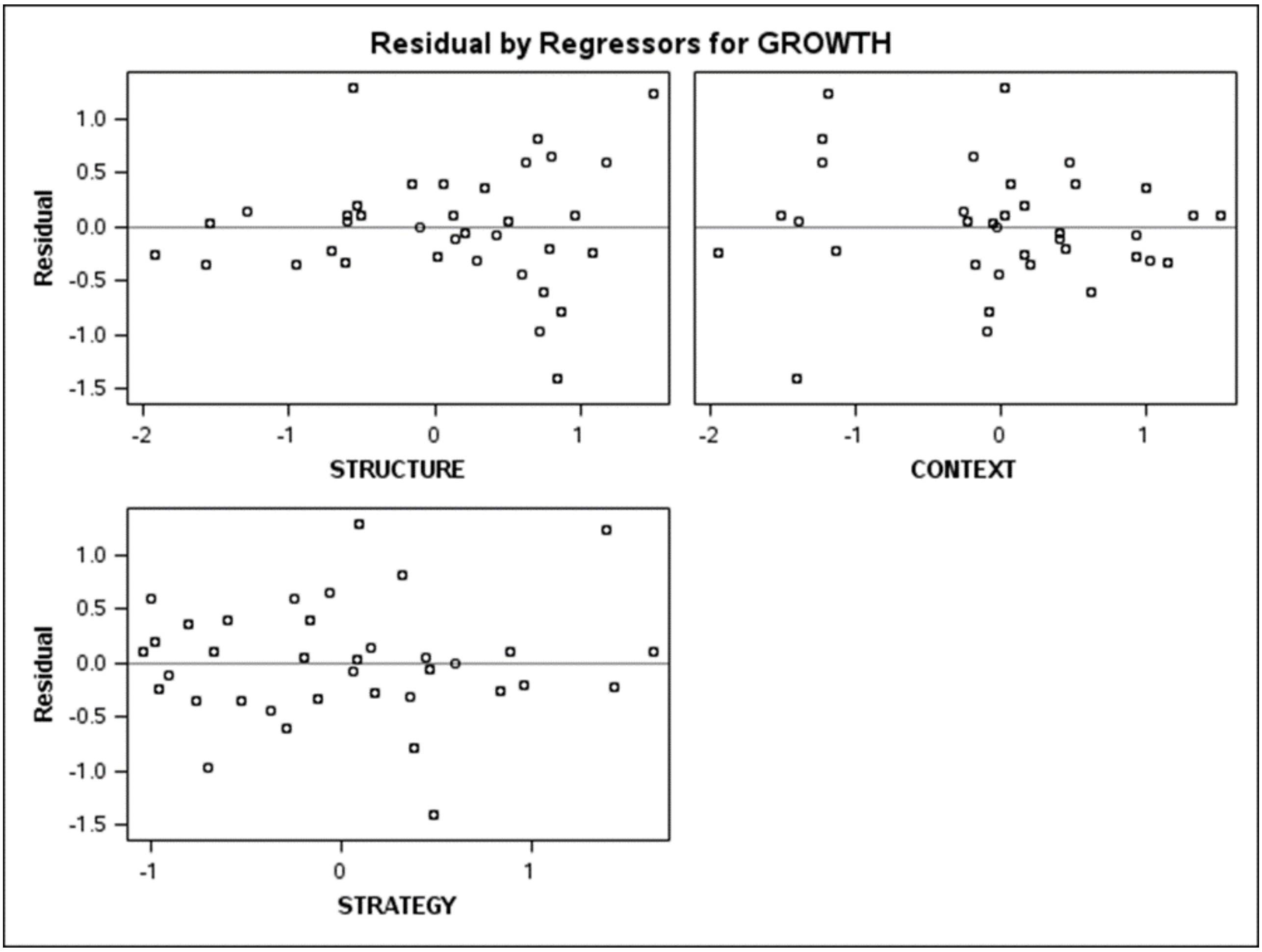
Root MSE	0.56	**R-Square**	0.59
Dependent Mean	0.00	**Adj R-Sq**	0.58
Coeff Var	3.99E+17		

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > |t|	Standardized Estimate	Variance Inflation
Intercept	**1**	0.00	0.05	-	1.00	-	-
Structural factors	**1**	-0.33	0.07	-5.05	<.0001	-0.33	1.10
Contextual factors	**1**	0.47	0.06	7.21	<.0001	0.48	1.14
Strategic factors	**1**	0.64	0.08	8.49	<.0001	0.54	1.04

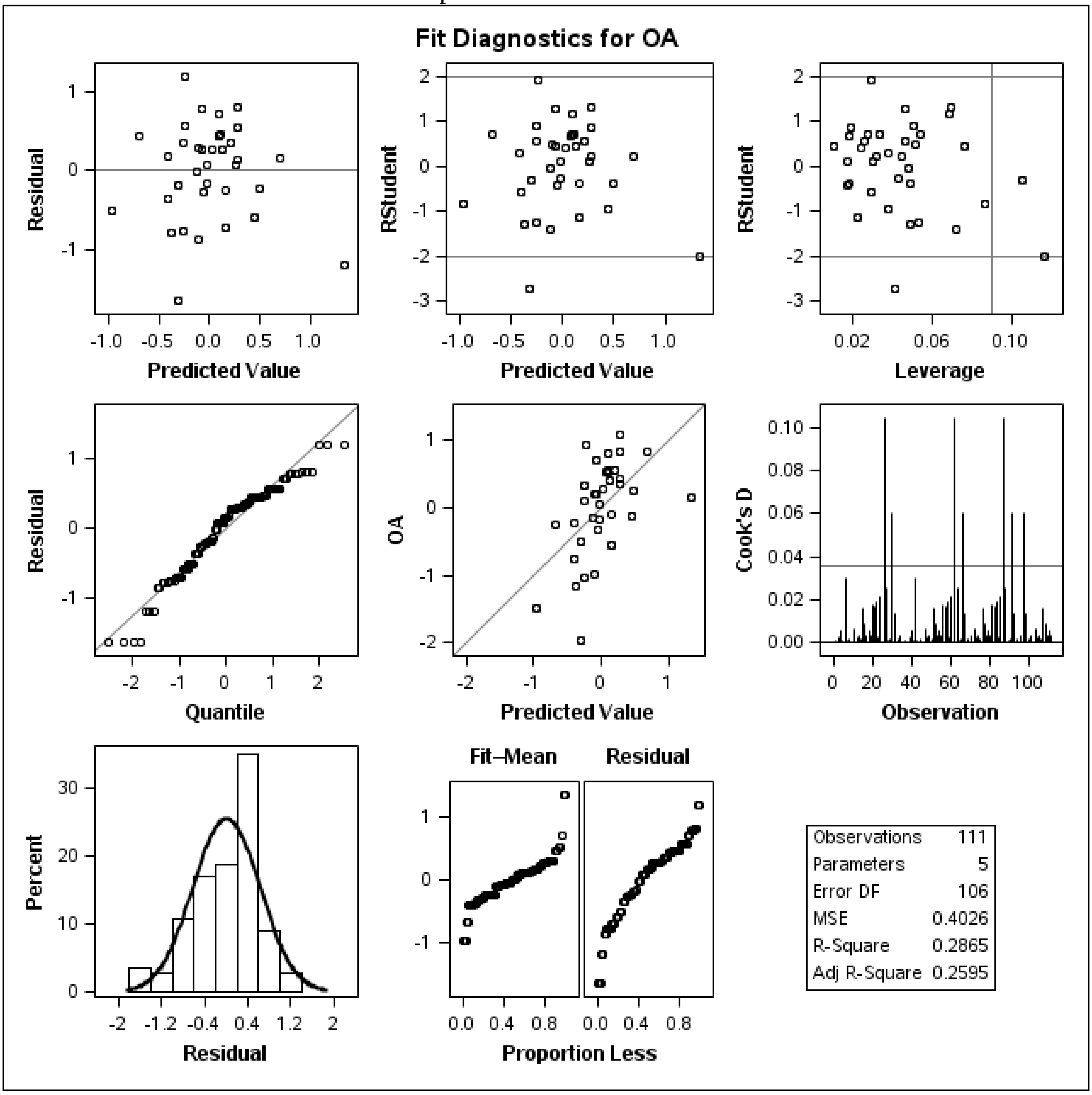


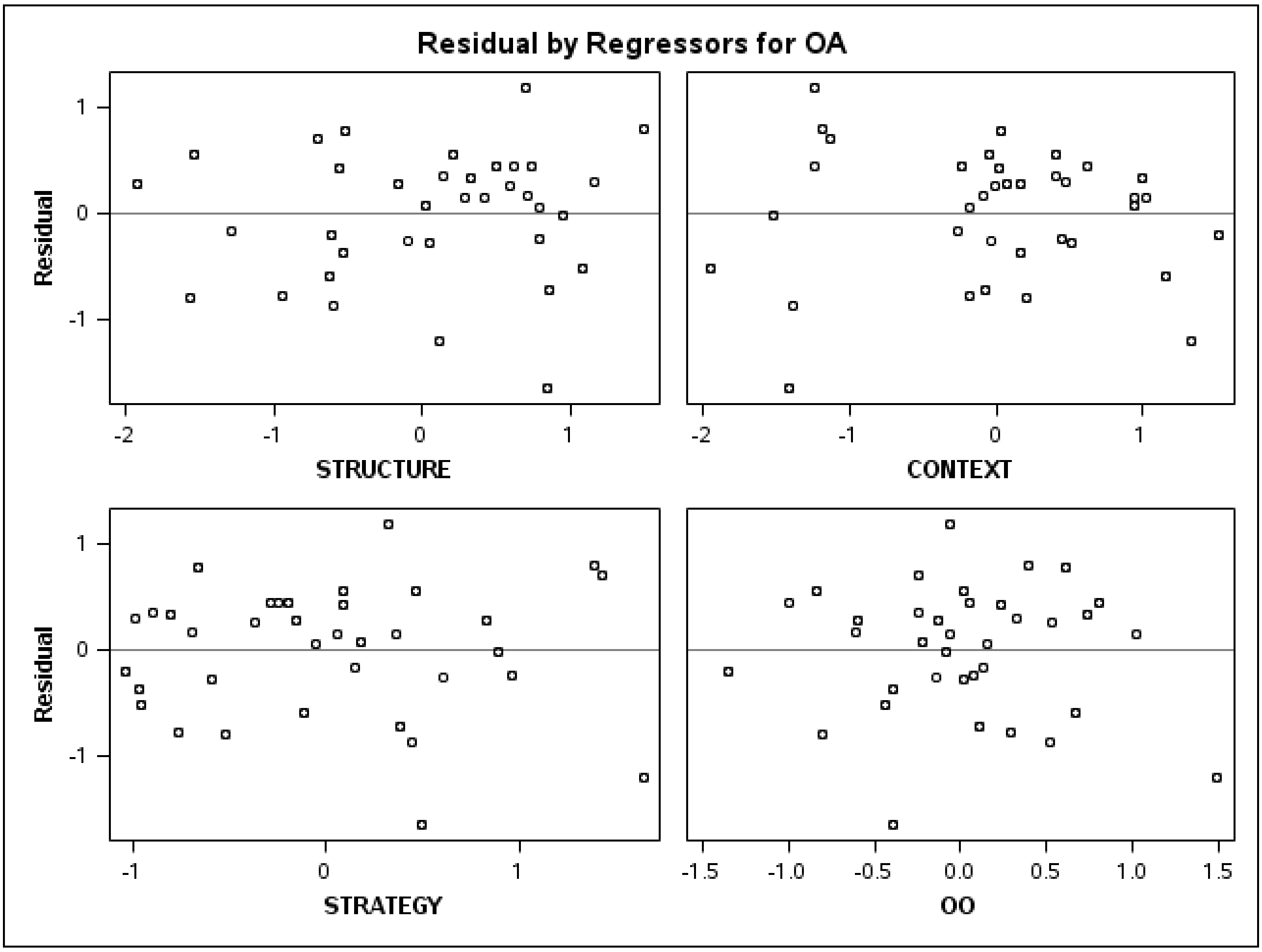
Fit Diagnostics for GROWTH
Residual
Predicted Value
RStudent
Predicted Value
RStudent
Leverage
Residual
Quantile
GROWTH
Predicted Value
Cook's D
Observation
Percent
Residual
Fit–Mean
Residual
Proportion Less
Observations 111
Parameters 4
Error DF 107
MSE 0.3163
R-Square 0.588
Adj R-Square 0.5764


Residual by Regressors for GROWTH
Residual
1.0
0.5
0.0
-0.5
-1.0
-1.5
-2
-1
0
1
STRUCTURE
CONTEXT
STRATEGY

DATA=FACTORS OUTCOME=OA REG

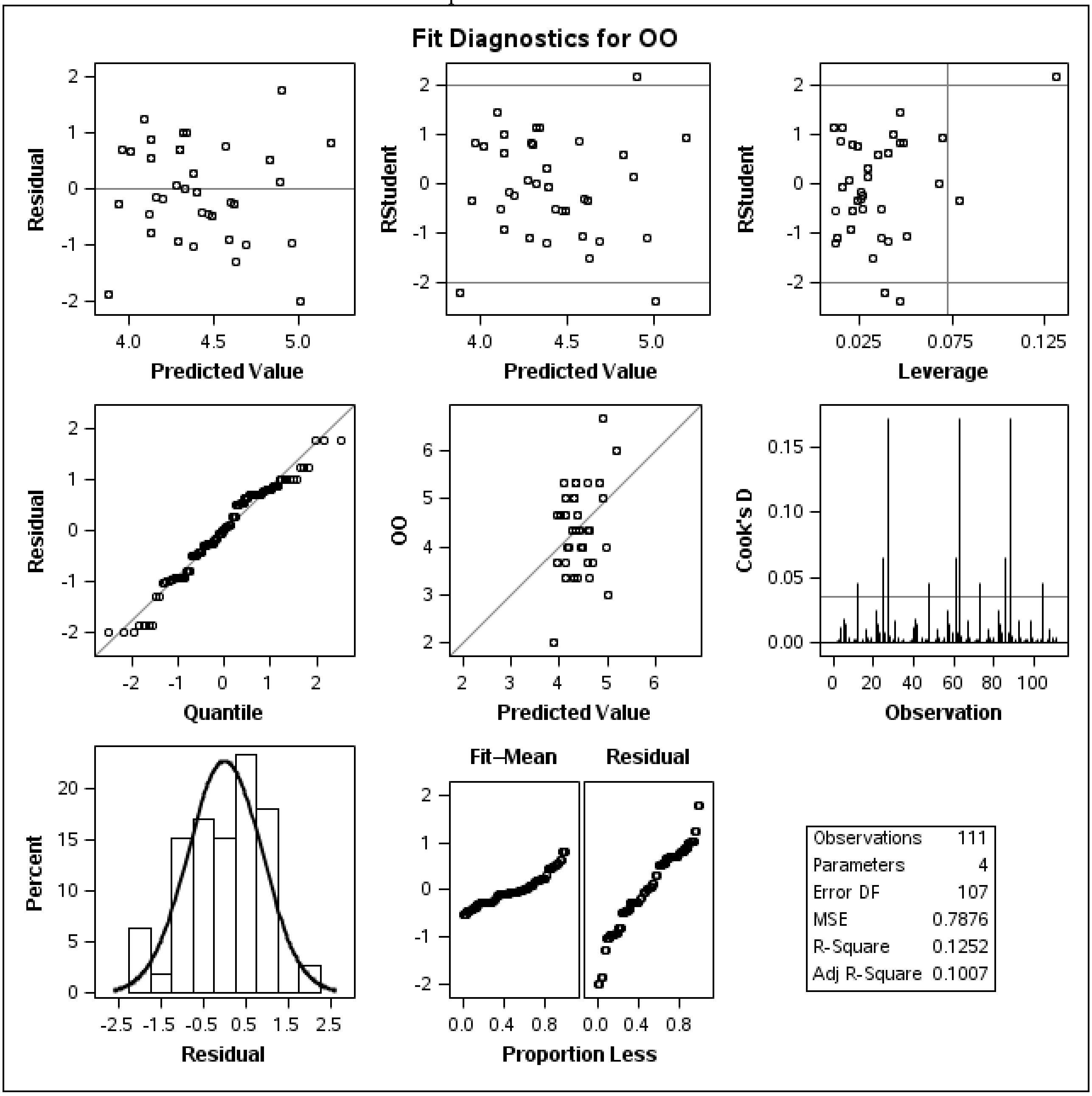
The REG Procedure
Model: MODEL1
Dependent Variable: OA

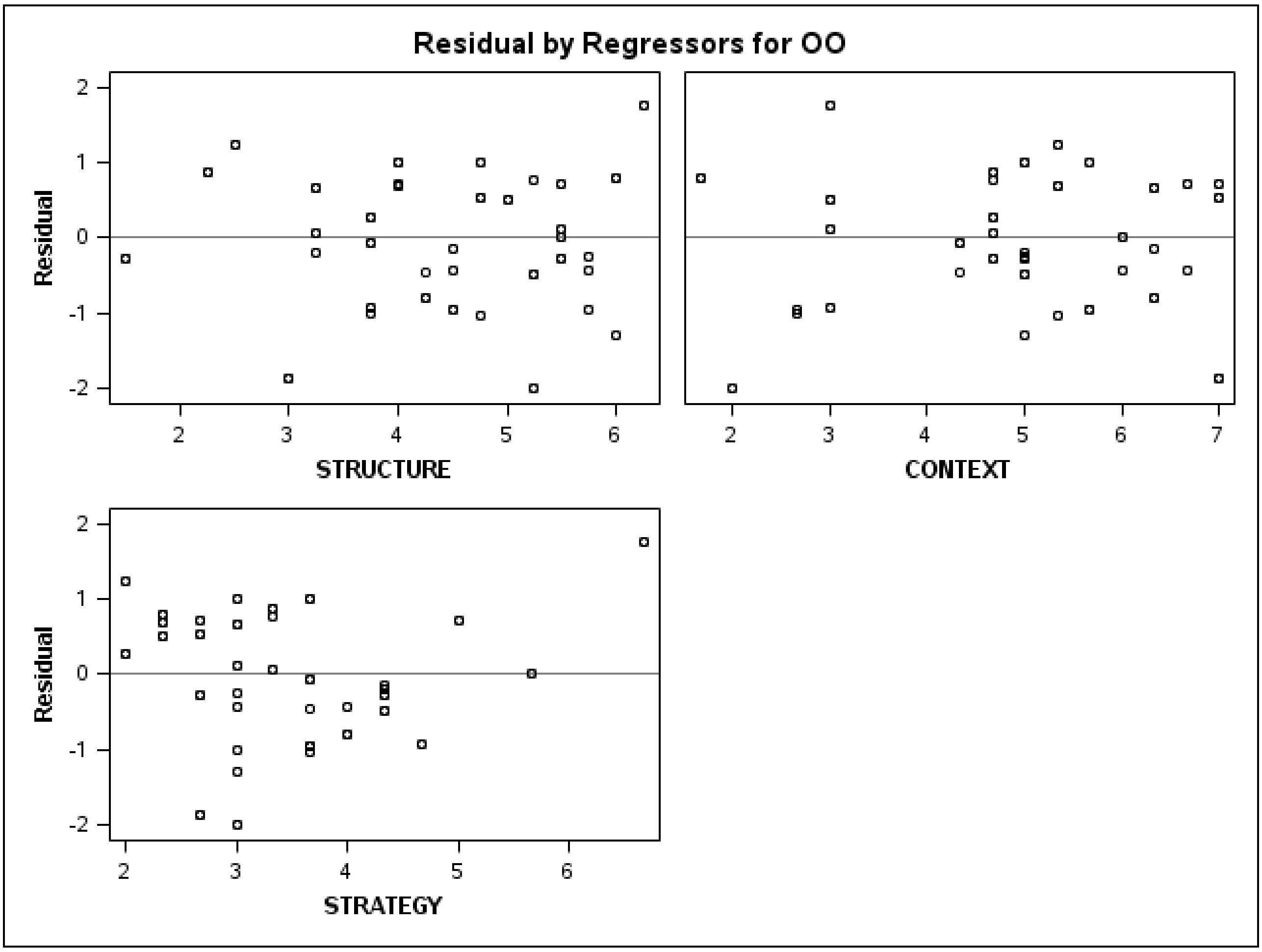



Residual by Regressors for OA
Residual
STRUCTURE
CONTEXT
STRATEGY
OO
1
0
-1
-2
-1.5
-1.0
-0.5
0.0
0.5
1.0
1.5

DATA=RAW OUTCOME=OO REG

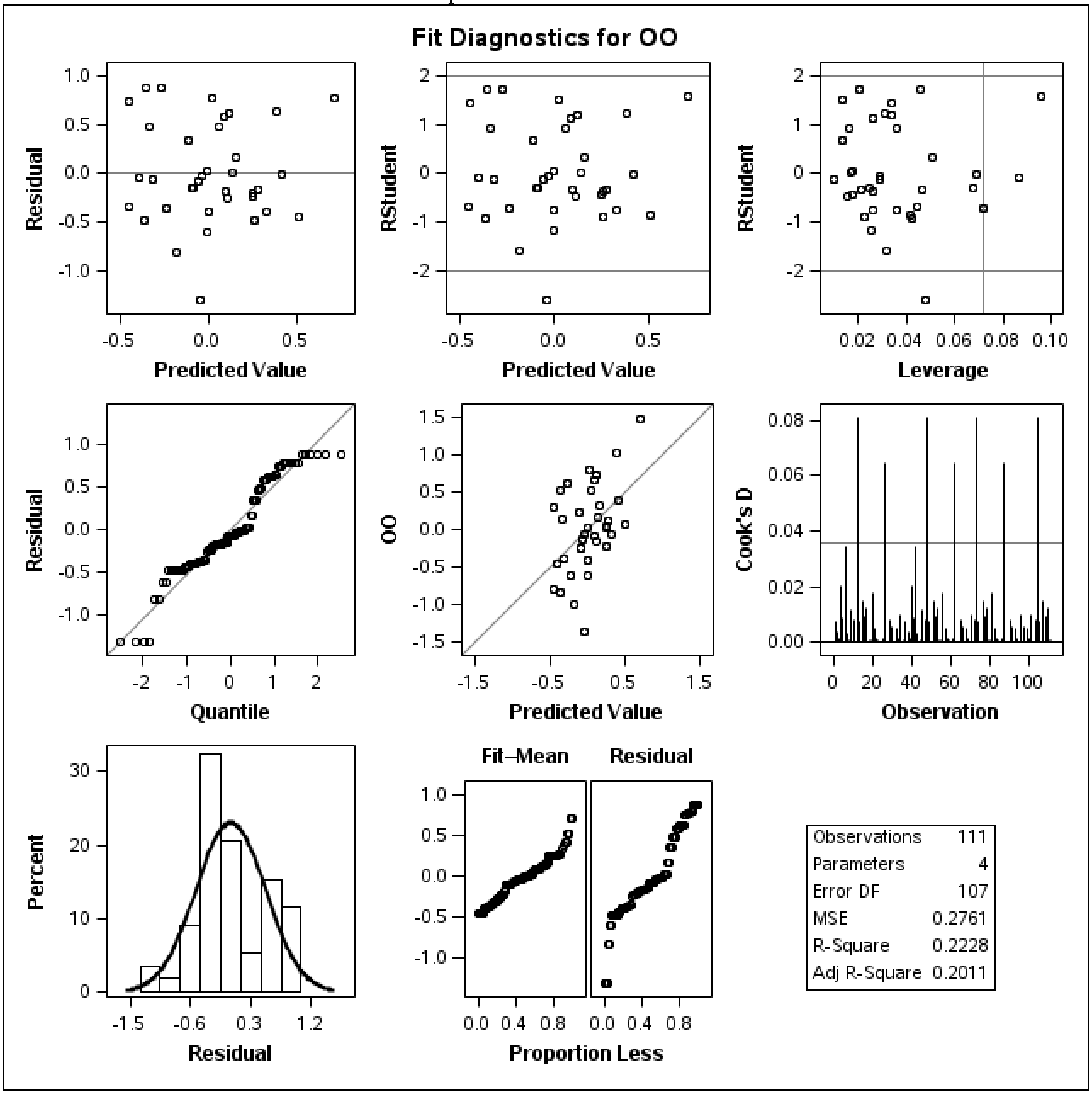
The REG Procedure
Model: MODEL1
Dependent Variable: OO

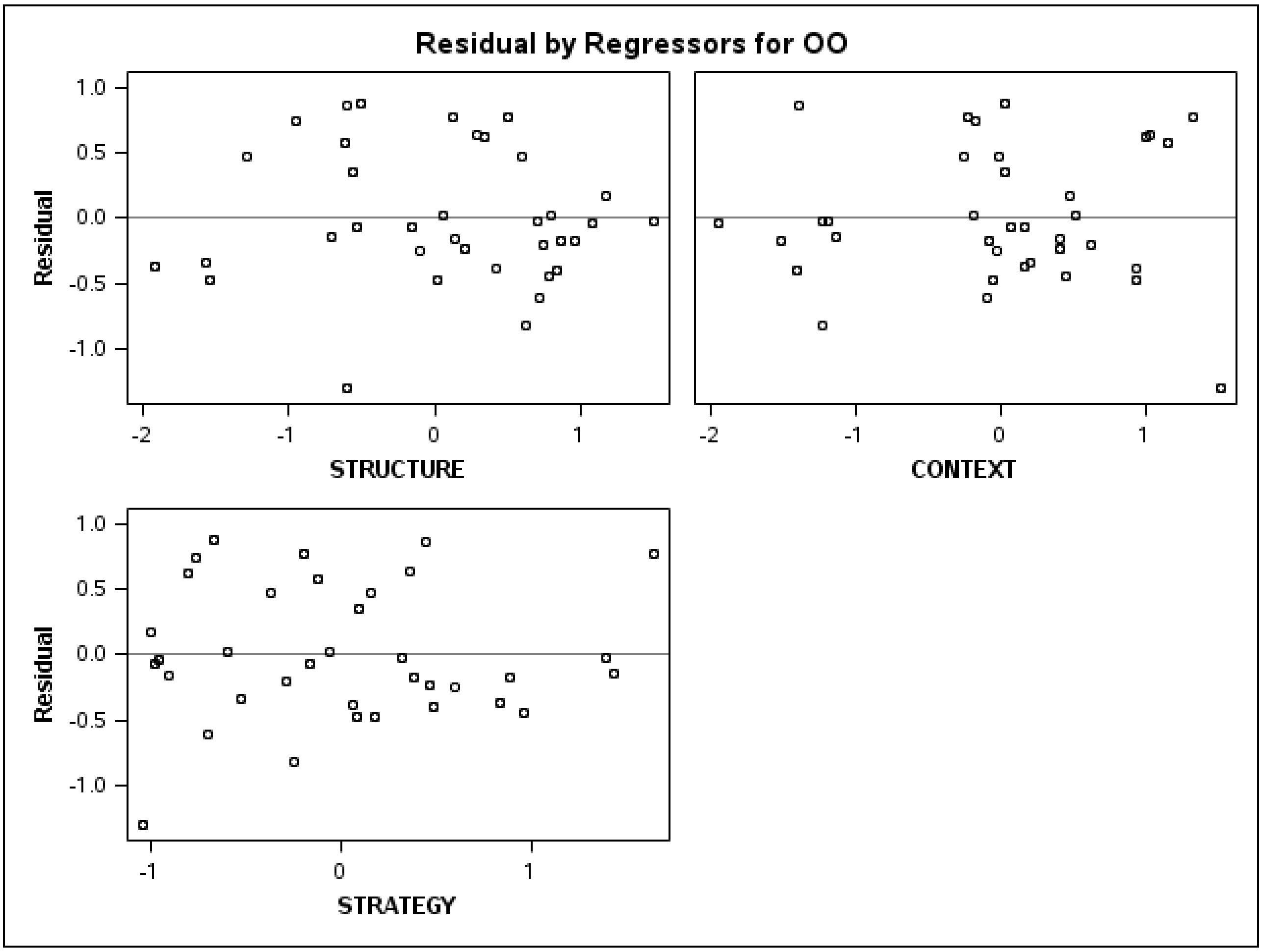



Residual by Regressors for OO
Residual
STRUCTURE
CONTEXT
STRATEGY
2
1
0
-1
-2
3
4
5
6
7

DATA=FACTORS OUTCOME=OO REG

The REG Procedure
Model: MODEL1
Dependent Variable: OO




Residual by Regressors for OO
Residual
1.0
0.5
0.0
-0.5
-1.0
-2
-1
0
1
STRUCTURE
CONTEXT
STRATEGY

DATA=RAW OUTCOME=GROWTH
REG

The REG Procedure
Model: MODEL1
Dependent Variable: GROWTH

Number of Observations Read	111
Number of Observations Used	111

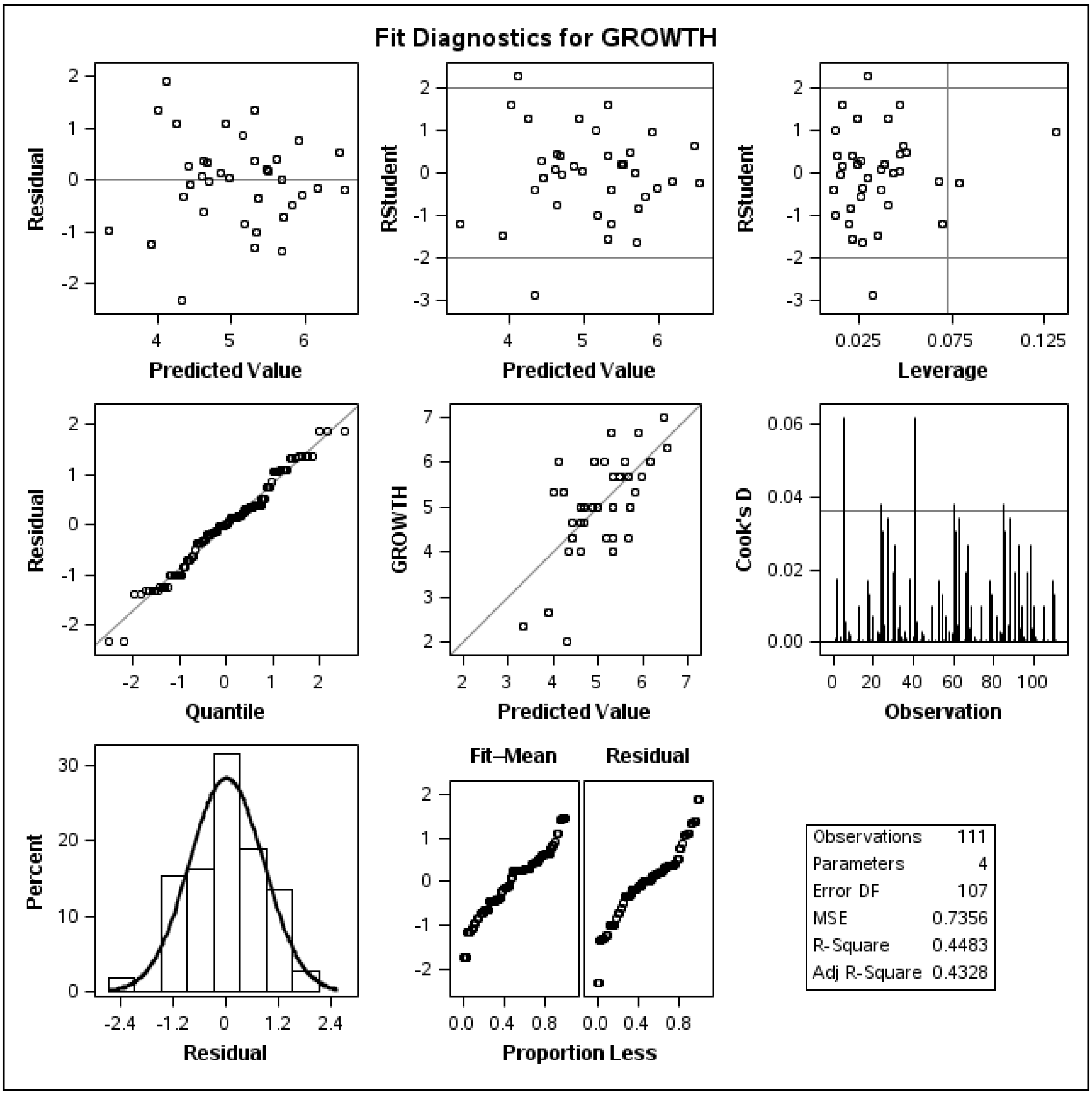
Analysis of Variance

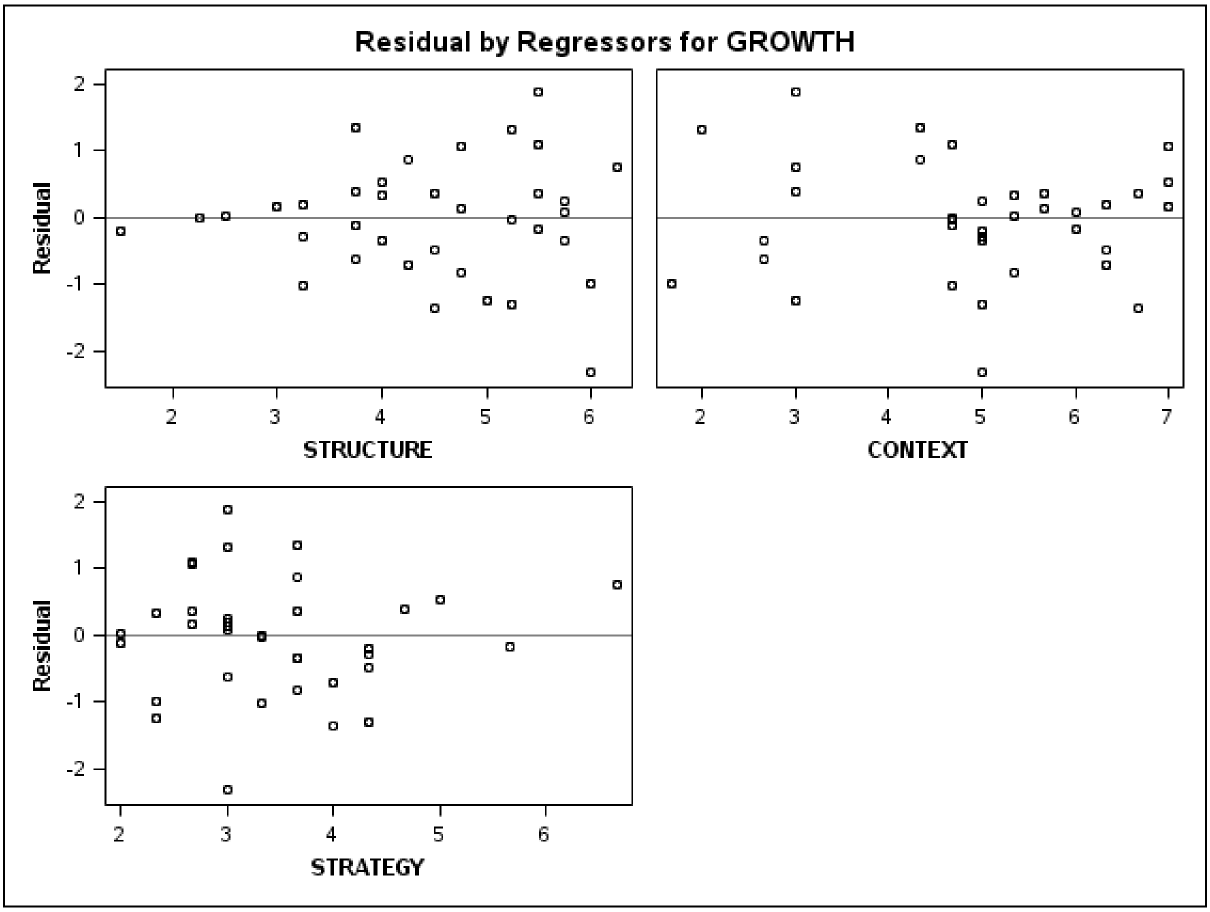
Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	3	63.95	21.32	28.98	<.0001
Error	107	78.71	0.74		
Corrected Total	110	142.66			

Root MSE	0.86	**R-Square**	0.45
Dependent Mean	5.08	**Adj R-Sq**	0.43
Coeff Var	16.89		

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > |t|	Standardized Estimate	Variance Inflation
Intercept	**1**	3.67	0.54	6.76	<.0001	-	-
Structural factors	**1**	-0.33	0.07	-4.46	<.0001	-0.34	1.10
Contextual factors	**1**	0.19	0.06	3.24	0.00	0.24	1.09
Strategic factors	**1**	0.56	0.08	6.83	<.0001	0.49	1.01


Fit Diagnostics for GROWTH
Residual
Predicted Value
RStudent
Predicted Value
RStudent
Leverage
Residual
Quantile
GROWTH
Predicted Value
Cook's D
Observation
Percent
Residual
Fit–Mean
Residual
Proportion Less
Observations 111
Parameters 4
Error DF 107
MSE 0.7356
R-Square 0.4483
Adj R-Square 0.4328


Residual by Regressors for GROWTH
Residual
STRUCTURE
CONTEXT
STRATEGY

DATA=FACTORS
OUTCOME=GROWTH REG

The REG Procedure
Model: MODEL1
Dependent Variable: GROWTH

Number of Observations Read	111
Number of Observations Used	111

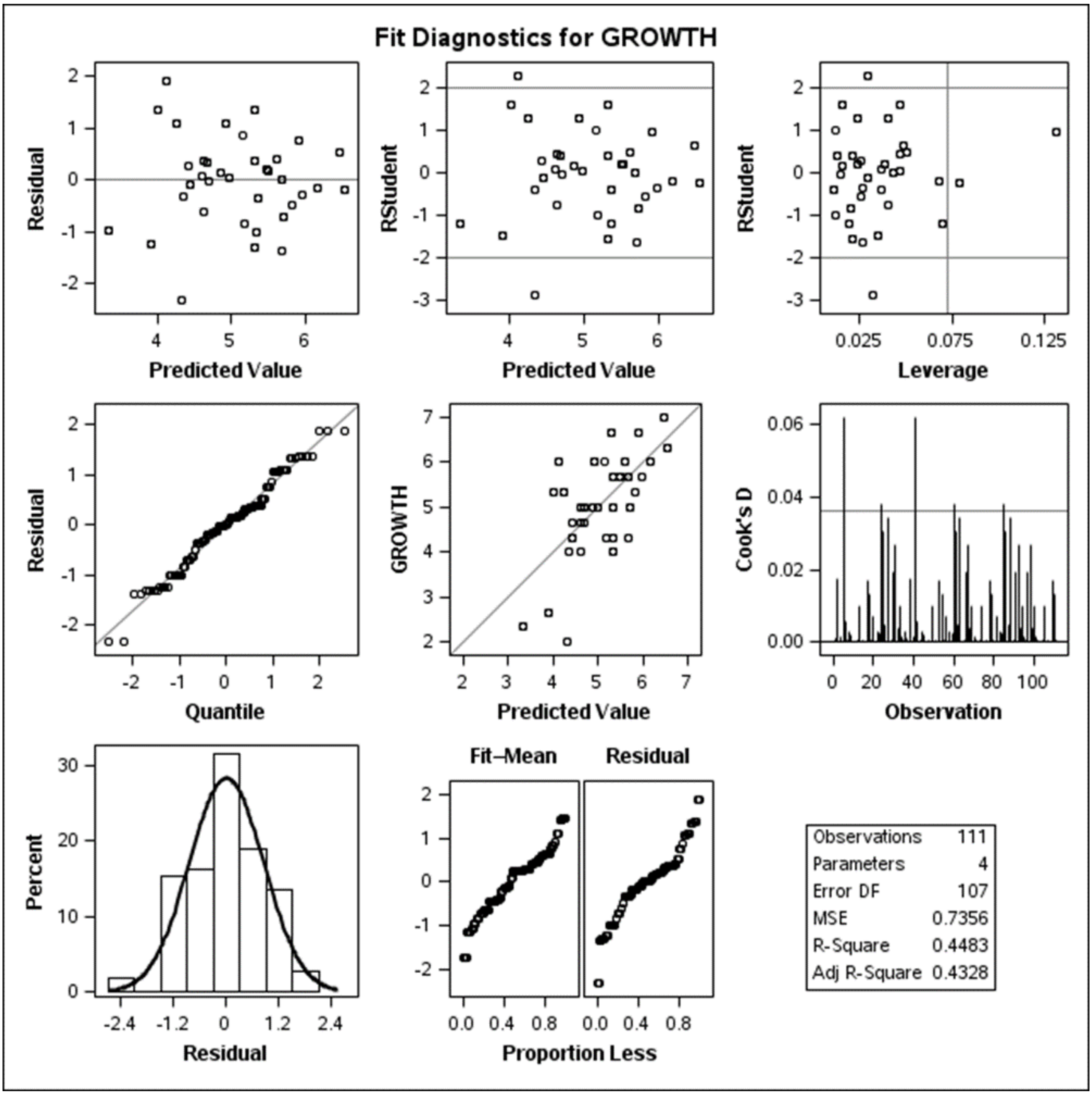
Analysis of Variance

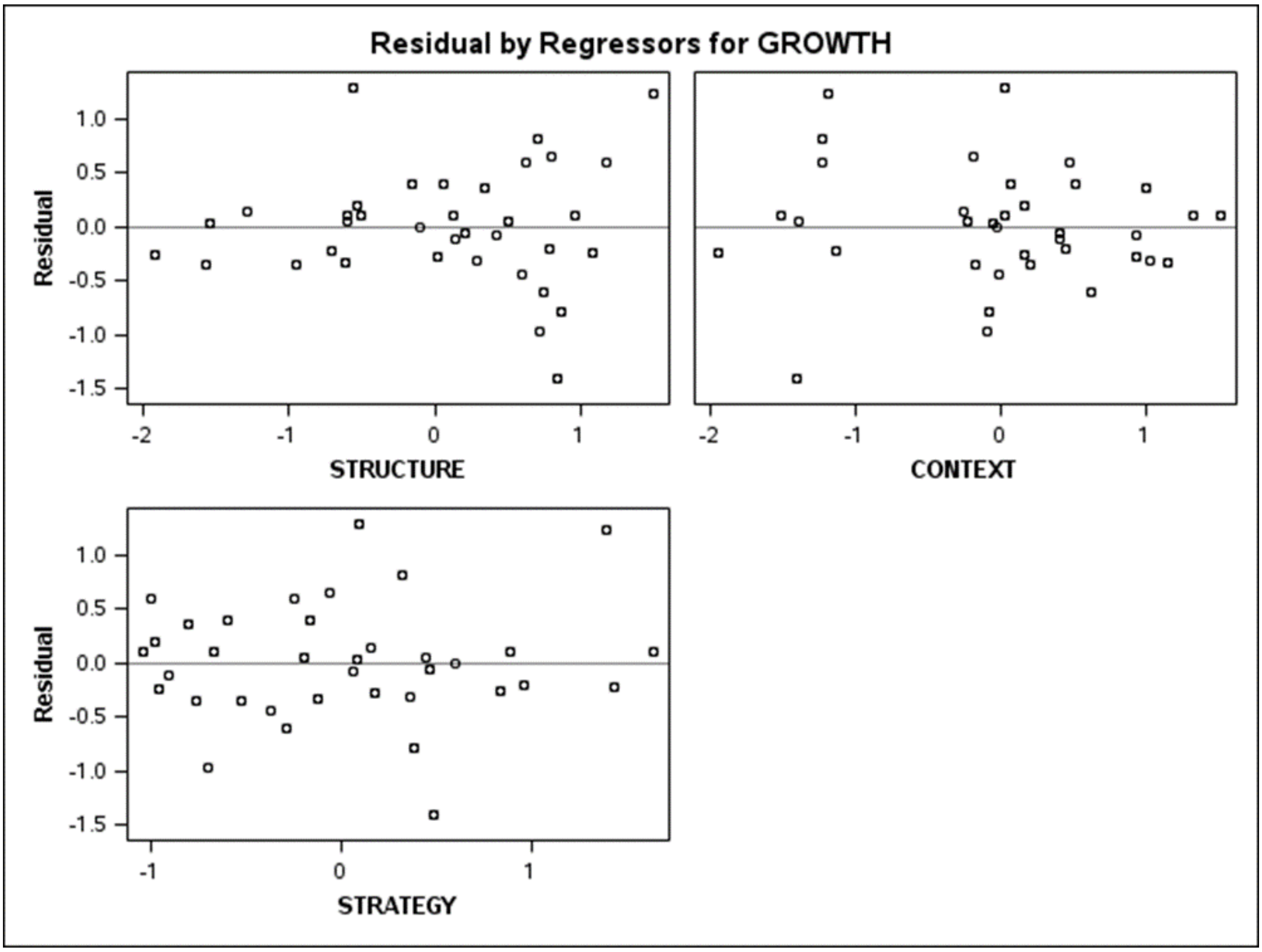
Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	3	48.29	16.10	50.89	<.0001
Error	107	33.84	0.32		
Corrected Total	110	82.13			

Root MSE	0.56	**R-Square**	0.59
Dependent Mean	0.00	**Adj R-Sq**	0.58
Coeff Var	3.99E+17		

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > |t|	Standardized Estimate	Variance Inflation
Intercept	**1**	0.00	0.05	-	1.00	-	-
Structural factors	**1**	-0.33	0.07	-5.05	<.0001	-0.33	1.10
Contextual factors	**1**	0.47	0.06	7.21	<.0001	0.48	1.14
Strategic factors	**1**	0.64	0.08	8.49	<.0001	0.54	1.04


Fit Diagnostics for GROWTH
Residual
Predicted Value
RStudent
Leverage
Quantile
GROWTH
Cook's D
Observation
Percent
Fit–Mean
Proportion Less
Observations 111
Parameters 4
Error DF 107
MSE 0.7356
R-Square 0.4483
Adj R-Square 0.4328



Residual by Regressors for GROWTH
Residual
1.0
0.5
0.0
-0.5
-1.0
-1.5
-2
-1
0
1
STRUCTURE
CONTEXT
STRATEGY

DATA=RAW
OUTCOME=Competitiveness REG

The REG Procedure
Model: MODEL1
Dependent Variable: Competitiveness

Number of Observations Read	111
Number of Observations Used	111

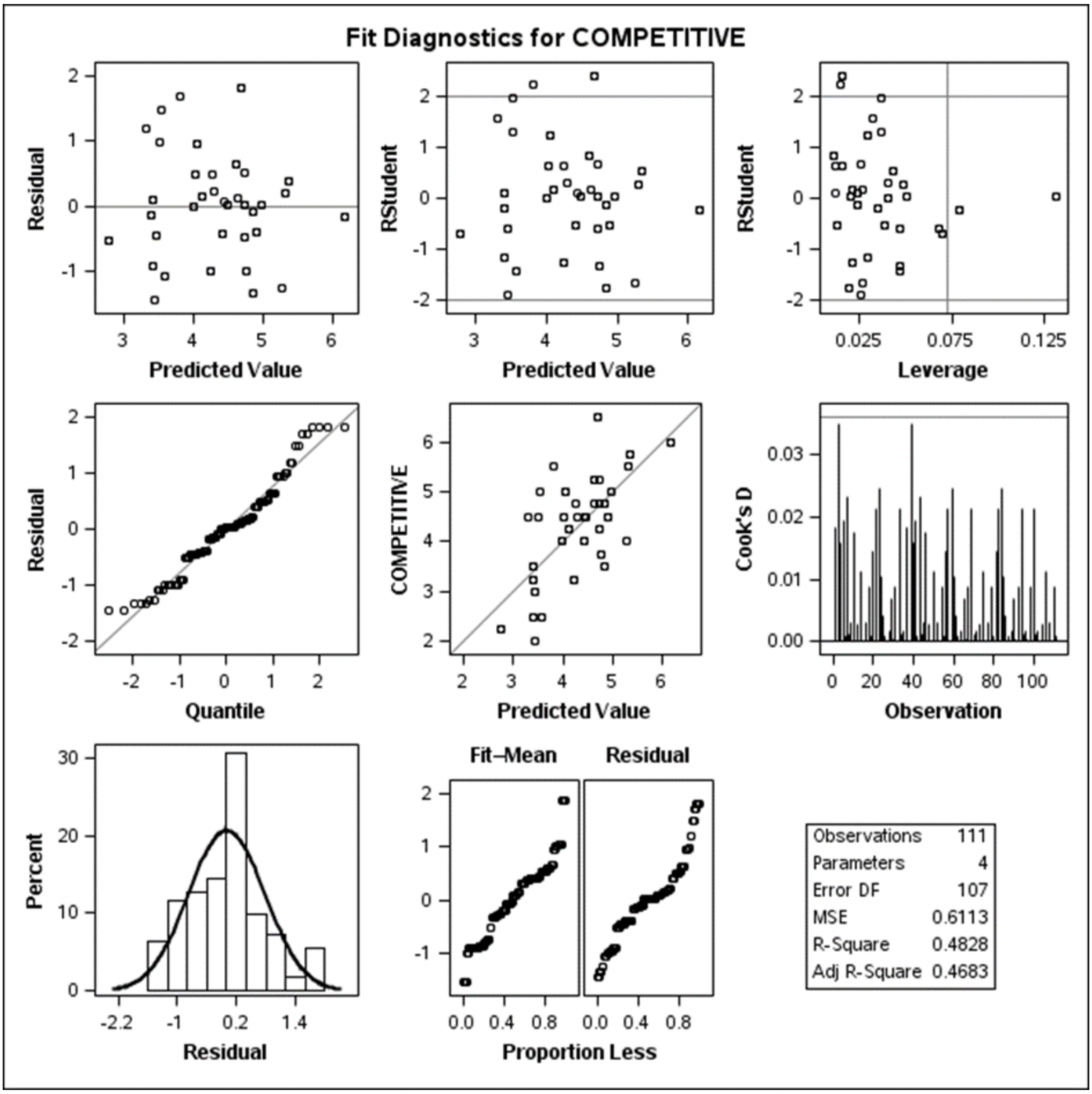
Analysis of Variance

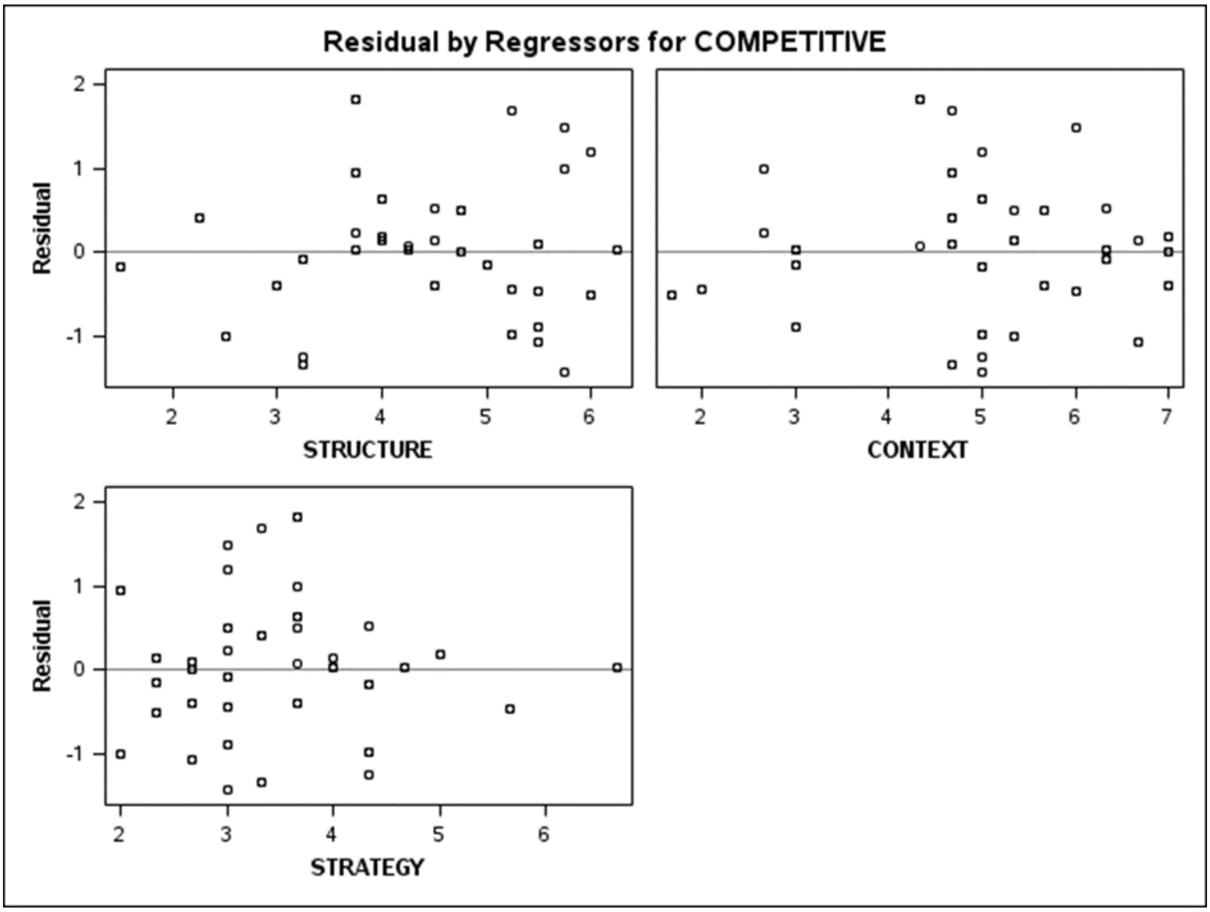
Source	**DF**	**Sum of Squares**	**Mean Square**	**F Value**	**Pr > F**
Model	3	61.06	20.35	33.29	<.0001
Error	107	65.41	0.61		
Corrected Total	110	126.46			

Root MSE	0.78	**R-Square**	0.48
Dependent Mean	4.32	**Adj R-Sq**	0.47
Coeff Var	18.12		

Parameter Estimates

Variable	**DF**	**Parameter Estimate**	**Standard Error**	**t Value**	**Pr > |t|**	**Standardized Estimate**	**Variance Inflation**
Intercept	**1**	4.80	0.49	9.71	<.0001	-	-
Structural factors	**1**	-0.52	0.07	-7.76	<.0001	-0.57	1.10
Contextual factors	**1**	0.08	0.05	1.56	0.12	0.11	1.09
Strategic factors	**1**	0.40	0.07	5.37	<.0001	0.38	1.01


Fit Diagnostics for COMPETITIVE
Residual
Predicted Value
RStudent
Predicted Value
RStudent
Leverage
Residual
Quantile
COMPETITIVE
Predicted Value
Cook's D
Observation
Percent
Residual
Fit–Mean
Residual
Proportion Less
Observations 111
Parameters 4
Error DF 107
MSE 0.6113
R-Square 0.4828
Adj R-Square 0.4683


Residual by Regressors for COMPETITIVE
Residual
STRUCTURE
CONTEXT
STRATEGY
2
1
0
-1
2
3
4
5
6
7

DATA=FACTORS
OUTCOME=Competitiveness REG

The REG Procedure
Model: MODEL1
Dependent Variable: Competitiveness

Number of Observations Read	111
Number of Observations Used	111

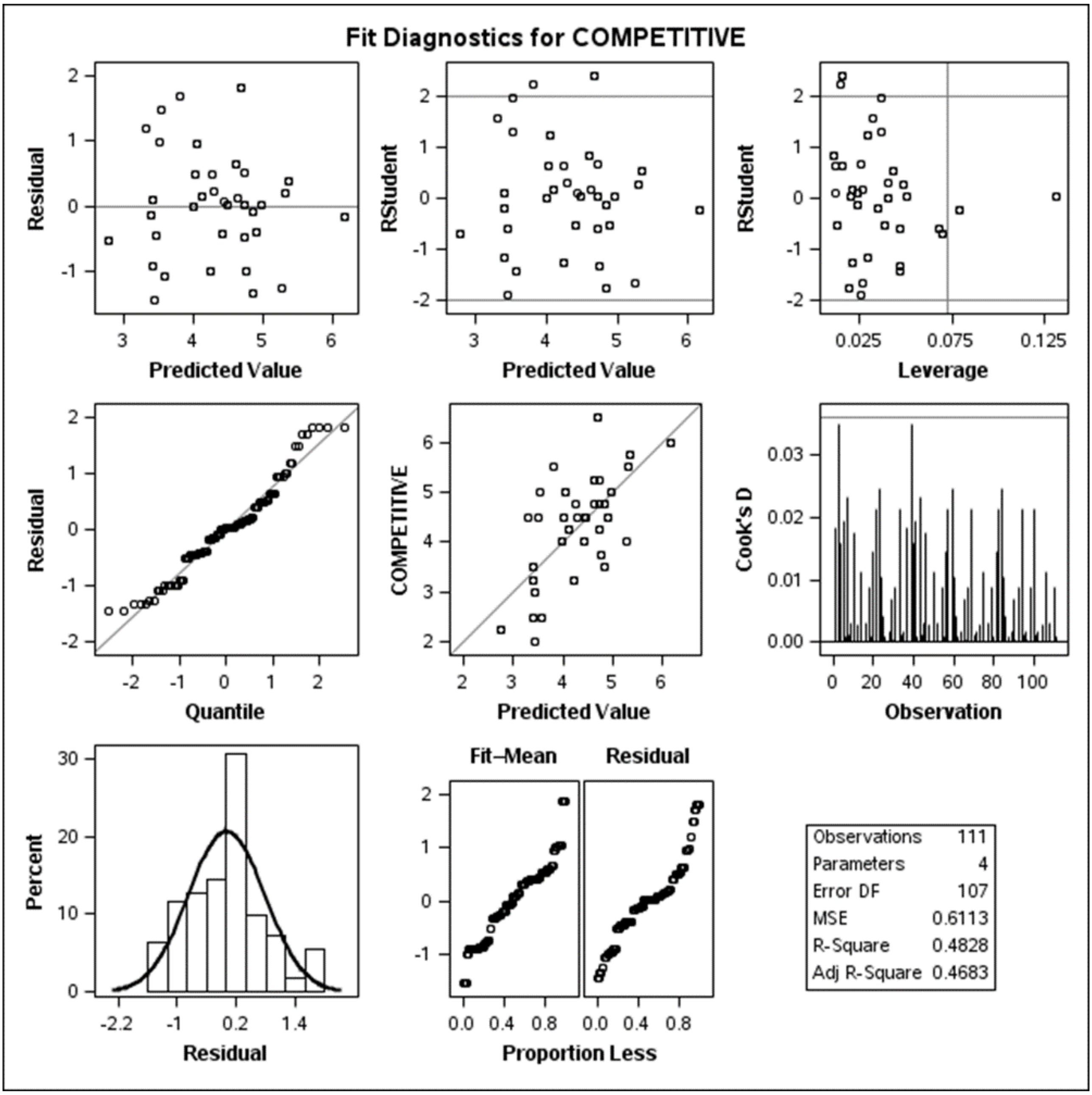
Analysis of Variance

Source	**DF**	**Sum of Squares**	**Mean Square**	**F Value**	**Pr > F**
Model	3	38.61	12.87	33.91	<.0001
Error	107	40.62	0.38		
Corrected Total	110	79.23			

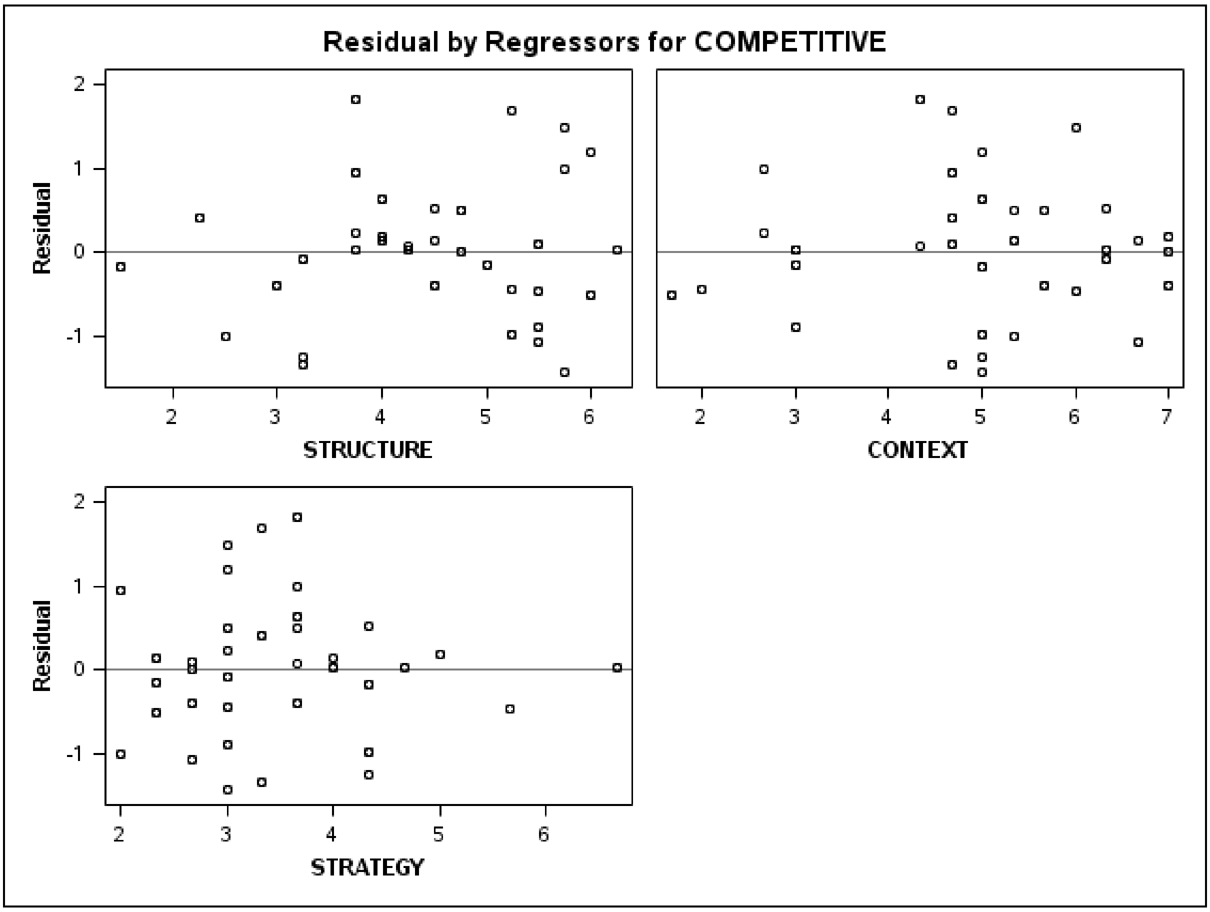
Root MSE	0.62	**R-Square**	0.49
Dependent Mean	0.00	**Adj R-Sq**	0.47
Coeff Var	5.13E+17		

Parameter Estimates

Variable	**DF**	**Parameter Estimate**	**Standard Error**	**t Value**	**Pr > |t|**	**Standardized Estimate**	**Variance Inflation**
Intercept	**1**	0.00	0.06	-	1.00	-	-
Structural factors	**1**	-0.44	0.07	-6.10	<.0001	-0.44	1.10
Contextual factors	**1**	0.37	0.07	5.16	<.0001	0.38	1.14
Strategic factors	**1**	0.42	0.08	5.00	<.0001	0.35	1.04



Fit Diagnostics for COMPETITIVE
Residual
Predicted Value
RStudent
Predicted Value
RStudent
Leverage
Residual
Quantile
COMPETITIVE
Predicted Value
Cook's D
Observation
Percent
Residual
Fit–Mean
Residual
Proportion Less
Observations 111
Parameters 4
Error DF 107
MSE 0.6113
R-Square 0.4828
Adj R-Square 0.4683



Residual by Regressors for COMPETITIVE
Residual
STRUCTURE
CONTEXT
STRATEGY

DATA=RAW OUTCOME=SURVIVAL
REG

The REG Procedure
Model: MODEL1
Dependent Variable: SURVIVAL

Number of Observations Read	111
Number of Observations Used	111

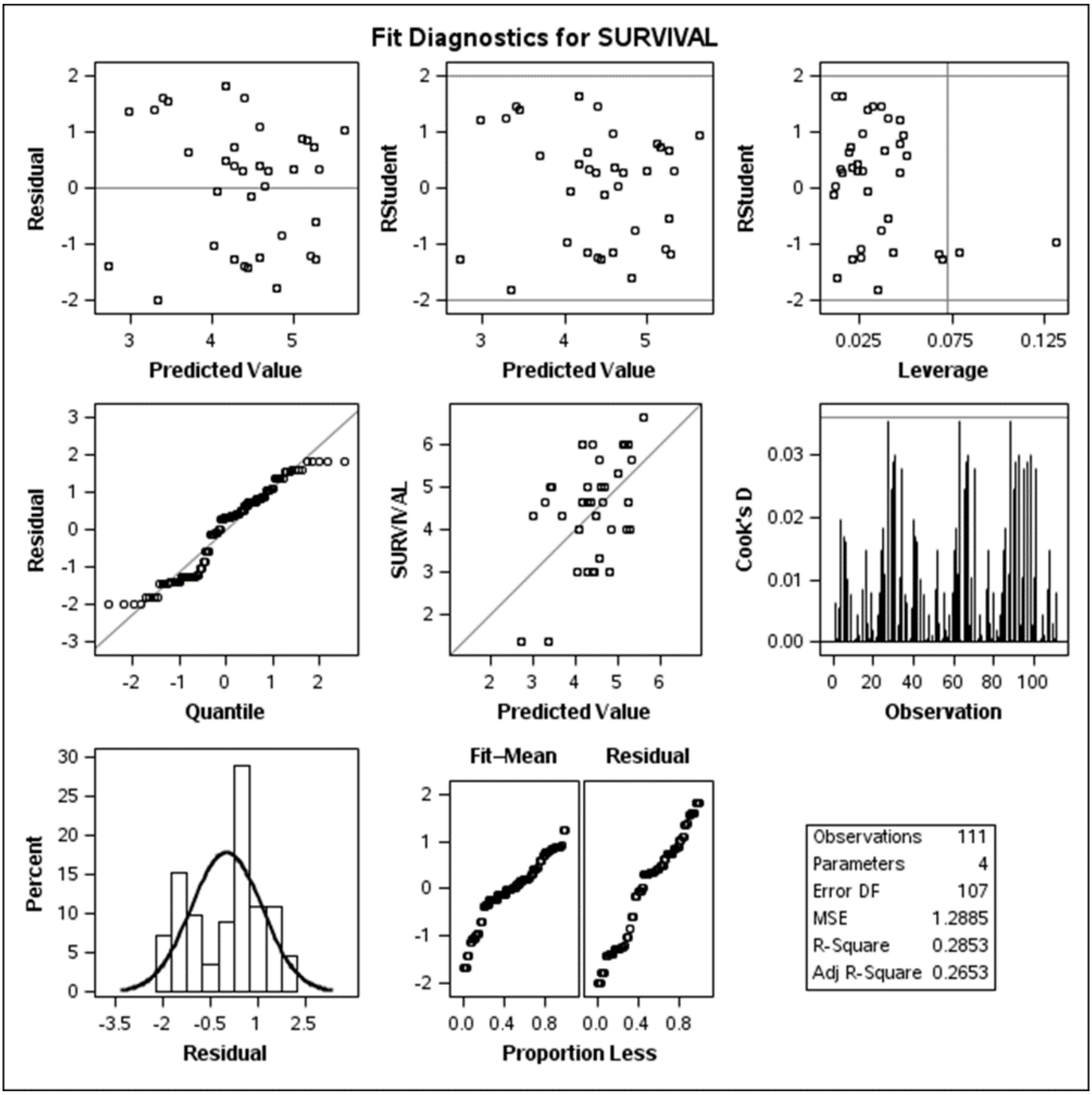
Analysis of Variance

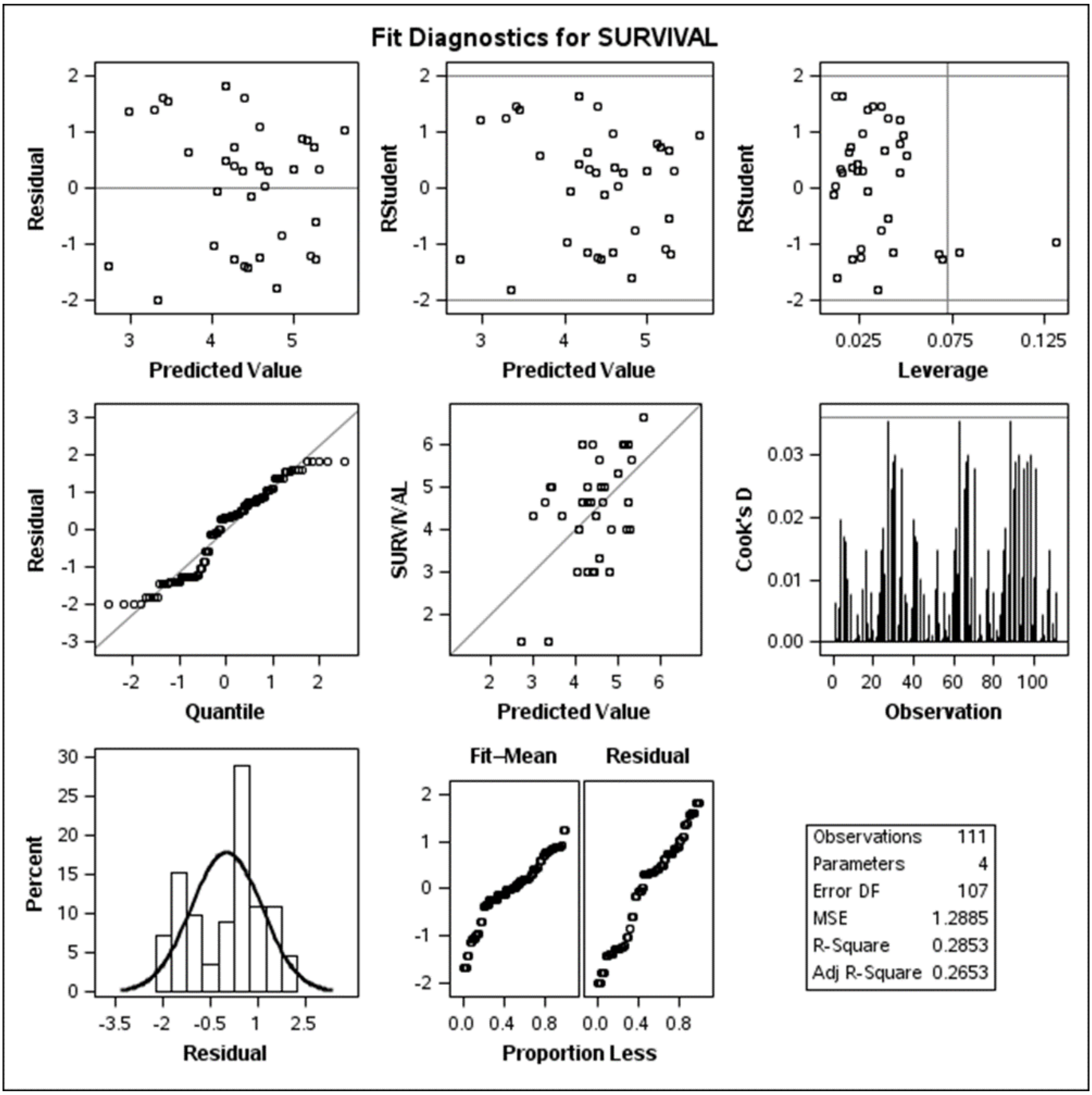
Source	**DF**	**Sum of Squares**	**Mean Square**	**F Value**	**Pr > F**
Model	3	55.04	18.35	14.24	<.0001
Error	107	137.87	1.29		
Corrected Total	110	192.91			

Root MSE	1.14	**R-Square**	0.29
Dependent Mean	4.40	**Adj R-Sq**	0.27
Coeff Var	25.78		

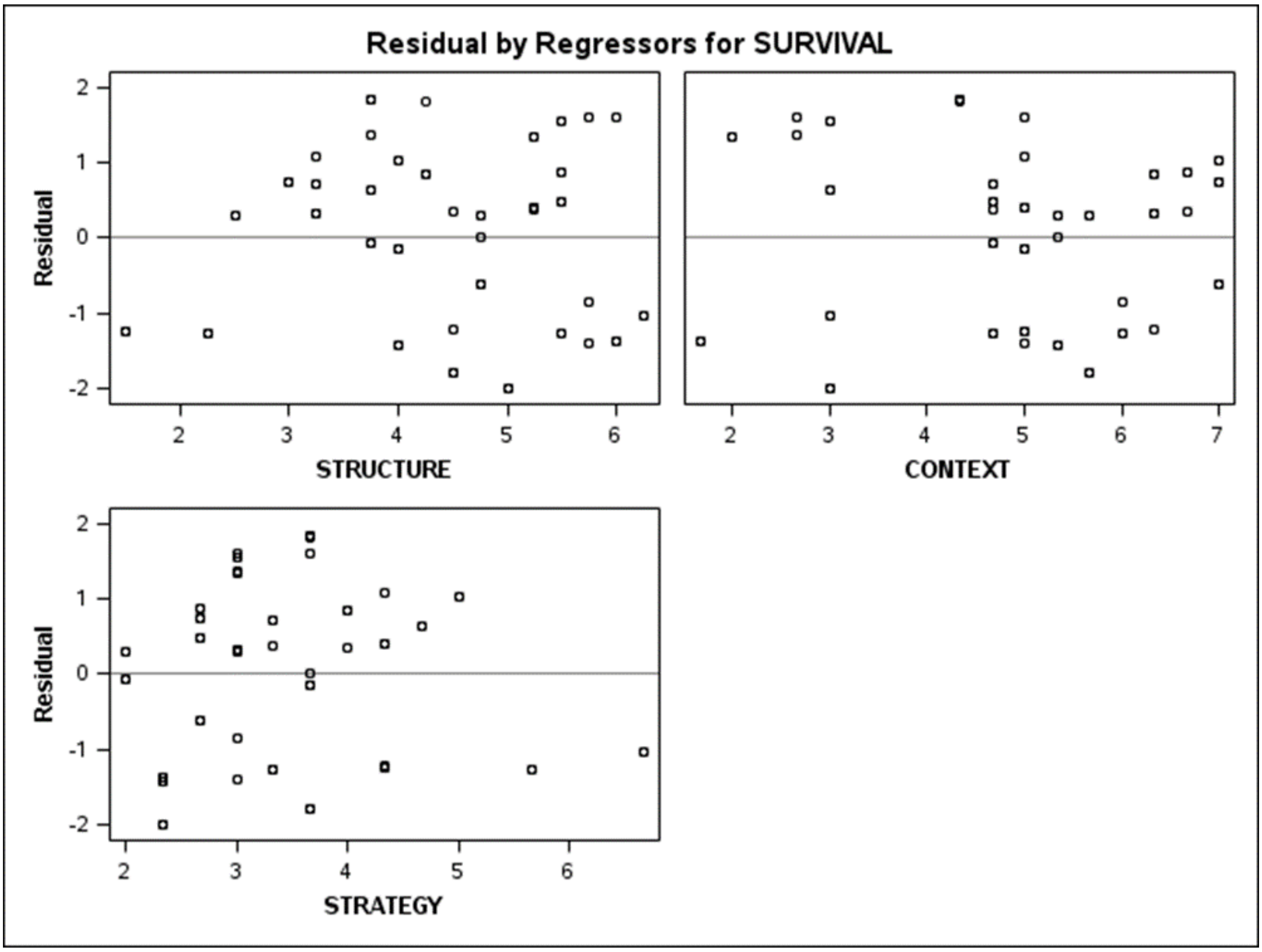
Parameter Estimates

Variable	**DF**	**Parameter Estimate**	**Standard Error**	**t Value**	**Pr > |t|**	**Standardized Estimate**	**Variance Inflation**
Intercept	**1**	1.54	0.72	2.15	0.03	-	-
Structural factors	**1**	0.00	0.10	0.05	0.96	0.00	1.10
Contextual factors	**1**	0.47	0.08	6.04	<.0001	0.52	1.09
Strategic factors	**1**	0.16	0.11	1.46	0.15	0.12	1.01


Fit Diagnostics for SURVIVAL
Residual
Predicted Value
RStudent
Predicted Value
RStudent
Leverage
Residual
Quantile
SURVIVAL
Predicted Value
Cook's D
Observation
Percent
Residual
Fit–Mean
Residual
Proportion Less
Observations 111
Parameters 4
Error DF 107
MSE 1.2885
R-Square 0.2853
Adj R-Square 0.2653



Fit Diagnostics for SURVIVAL
Residual
Predicted Value
RStudent
Predicted Value
RStudent
Leverage
Residual
Quantile
SURVIVAL
Predicted Value
Cook's D
Observation
Percent
Residual
Fit–Mean
Residual
Proportion Less
Observations 111
Parameters 4
Error DF 107
MSE 1.2885
R-Square 0.2853
Adj R-Square 0.2653


Residual by Regressors for SURVIVAL
Residual
STRUCTURE
CONTEXT
STRATEGY

DATA=FACTORS
OUTCOME=SURVIVAL REG

The REG Procedure
Model: MODEL1
Dependent Variable: SURVIVAL

Number of Observations Read	111
Number of Observations Used	111

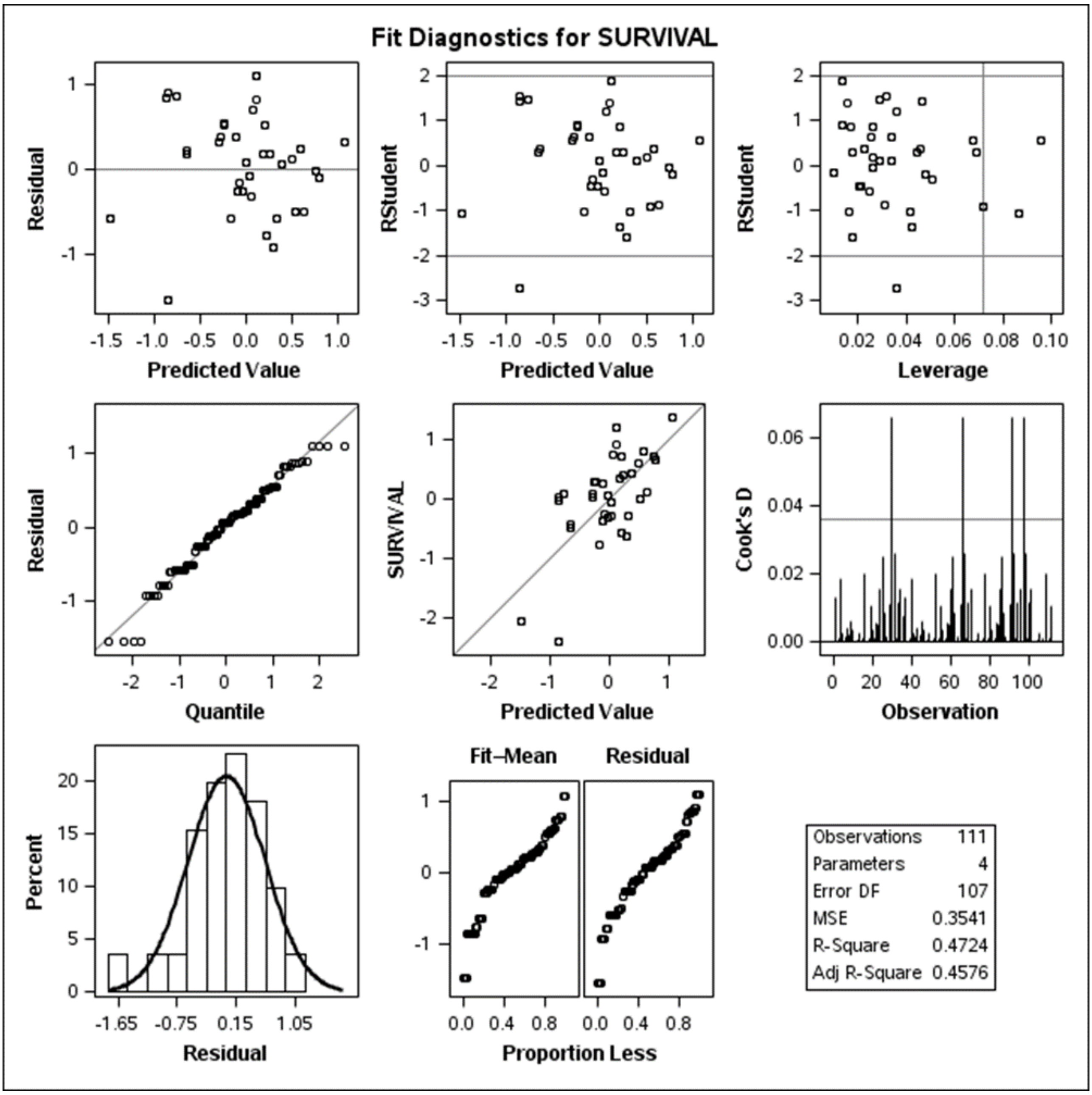
Analysis of Variance

Source	**DF**	**Sum of Squares**	**Mean Square**	**F Value**	**Pr > F**
Model	3	33.93	11.31	31.94	<.0001
Error	107	37.89	0.35		
Corrected Total	110	71.81			

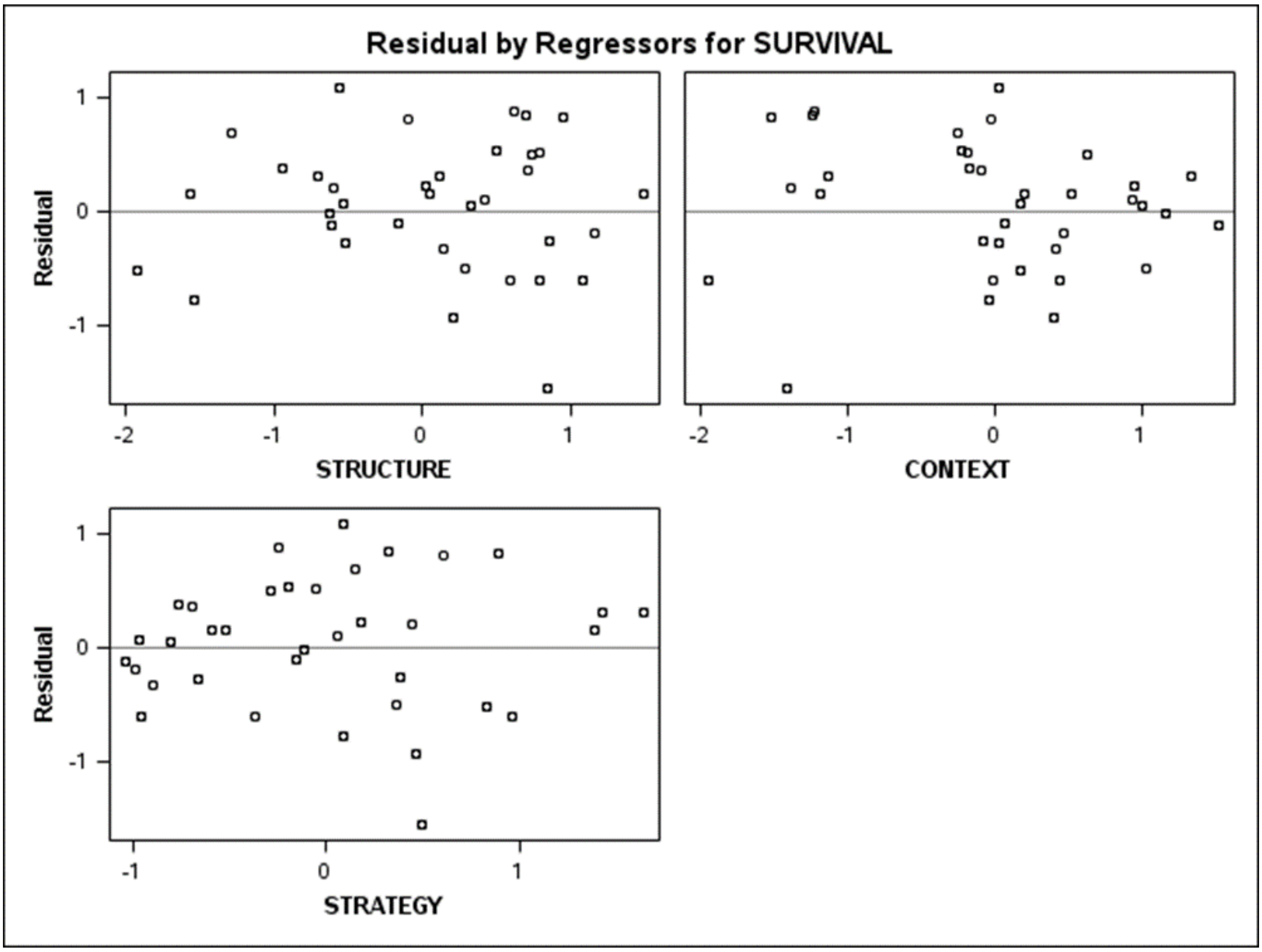
Root MSE	0.60	**R-Square**	0.47
Dependent Mean	0.00	**Adj R-Sq**	0.46
Coeff Var	7.83E+17		

Parameter Estimates

Variable	**DF**	**Parameter Estimate**	**Standard Error**	**t Value**	**Pr > |t|**	**Standardized Estimate**	**Variance Inflation**
Intercept	**1**	0.00	0.06	0.00	1.00	0.00	0.00
Structural factors	**1**	-0.15	0.07	-2.09	0.04	-0.15	1.10
Contextual factors	**1**	0.59	0.07	8.55	<.0001	0.64	1.14
Strategic factors	**1**	0.19	0.08	2.33	0.02	0.17	1.04



Fit Diagnostics for SURVIVAL
Residual
Predicted Value
RStudent
Predicted Value
RStudent
Leverage
Residual
Quantile
SURVIVAL
Predicted Value
Cook's D
Observation
Percent
Residual
Fit–Mean
Residual
Proportion Less
Observations 111
Parameters 4
Error DF 107
MSE 0.3541
R-Square 0.4724
Adj R-Square 0.4576


Residual by Regressors for SURVIVAL
Residual
STRUCTURE
CONTEXT
STRATEGY
1
0
-1
-2

Canonical Correlation

The CANCORR Procedure

Canonical Correlation Analysis

	Canonical Correlation	Squared Canonical Correlation	Eigenvalues of Inv(E)*H = CanRsq/(1-CanRsq) Eigenvalue	Difference	Proportion	Cumulative	Test of H0: The canonical correlations in the current row and all that follow are zero Likelihood Ratio	Approximate F Value	Num DF	Den DF	Pr > F
1	0.601565	0.361880	0.5671	0.3088	0.5460	0.5460	0.41802154	8.96	12	275.45	<.0001
2	0.453080	0.205282	0.2583	0.0452	0.2487	0.7948	0.65508347	8.24	6	210	<.0001
3	0.419170	0.175704	0.2132		0.2052	1.0000	0.82429644	11.30	2	106	<.0001

Multivariate Statistics and F Approximations

S=3 M=0 N=51

Statistic	Value	F Value	Num DF	Den DF	Pr > F
Wilks' Lambda	0.41802154	8.96	12	275.45	<.0001
Pillai's Trace	0.74286575	8.72	12	318	<.0001
Hotelling-Lawley Trace	1.03856786	8.93	12	177.73	<.0001
Roy's Greatest Root	0.56710457	15.03	4	106	<.0001

NOTE: F Statistic for Roy's Greatest Root is an upper bound.

Standardized Canonical Coefficients for the Structural factors

	Structural factors1	Structural factors2	Structural factors3
V8	0.5285	0.1963	-0.2602
V22	0.0553	-0.9569	0.3952
V24	0.5901	-0.3021	-0.5039
V31	0.9628	0.4052	0.4559

Standardized Canonical Coefficients for the Opportunistic orientations

	Opportunistic orientations1	Opportunistic orientations2	Opportunistic orientations3
V25	0.0246	0.2345	1.0696
V28	0.2114	1.0872	0.1097
V35	-0.9050	0.6141	0.3150

Correlations Between the Structural factors and Their Canonical Variables

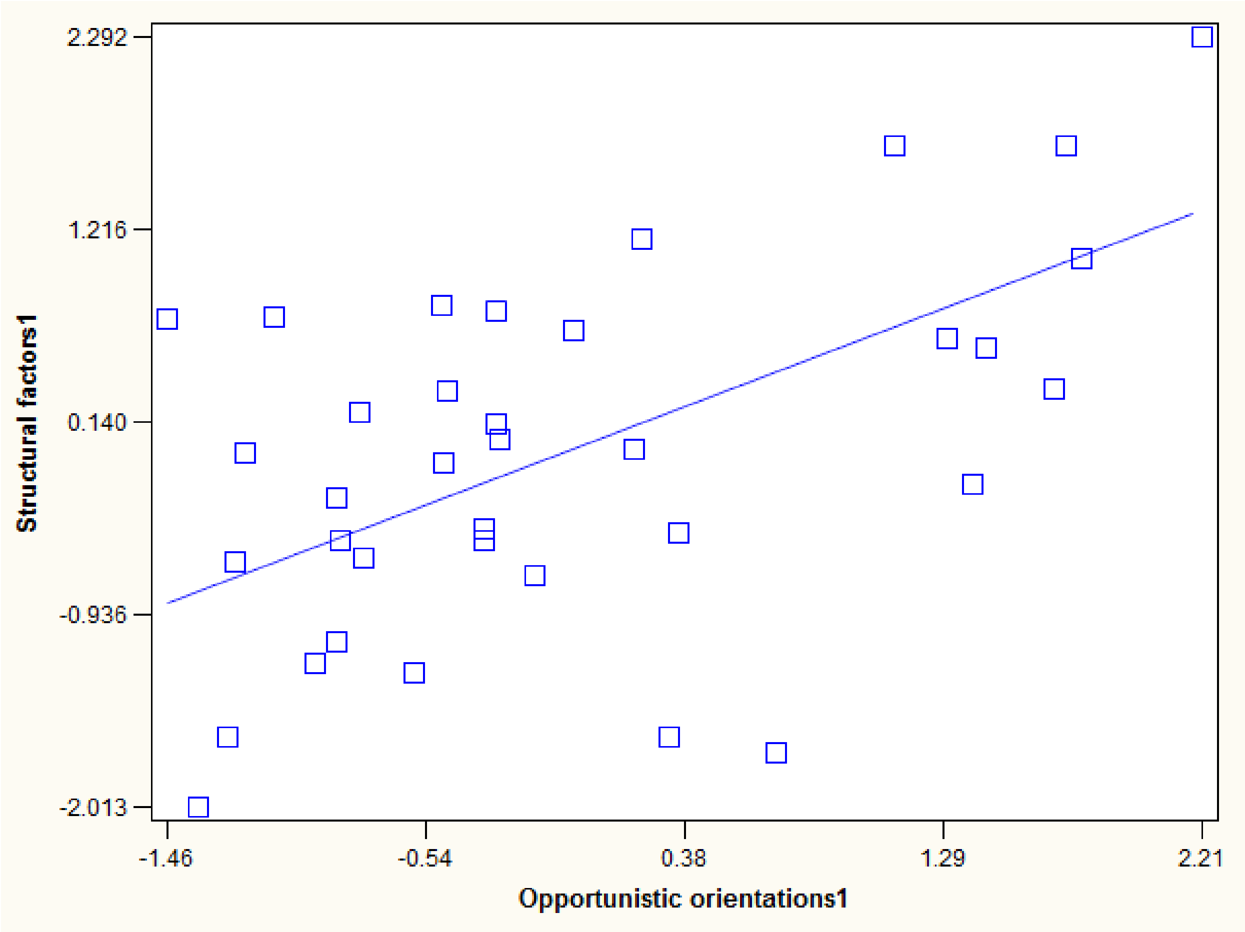
	Structural factors1	Structural factors2	Structural factors3
V8	0.2608	-0.2436	-0.5416
V22	0.1411	-0.8721	0.4216
V24	0.5010	-0.2521	-0.7250
V31	0.5803	0.3383	0.7175

Correlations Between the Opportunistic orientations and Their Canonical Variables

	Opportunistic orientations1	Opportunistic orientations2	Opportunistic orientations3
V25	0.2373	-0.1431	0.9608
V28	0.5029	0.8418	-0.1961
V35	-0.9810	0.1928	-0.0197

Correlations Between the Opportunistic orientations and the Canonical Variables of the Structural factors

	Structural factors1	Structural factors2	Structural factors3
V25	0.1427	-0.0648	0.4028
V28	0.3025	0.3814	-0.0822
V35	-0.5902	0.0873	-0.0083


2.292
1.216
0.140
-0.936
-2.013
Structural factors1
-1.46
-0.54
0.38
1.29
2.21
Opportunistic orientations1

Canonical Correlation

The CANCORR Procedure
Canonical Correlation Analysis

	Canonical Correlation	Squared Canonical Correlation	Eigenvalues of Inv(E)*H = CanRsq/(1-CanRsq) Eigenvalue	Difference	Proportion	Cumulative	Test of H0: The canonical correlations in the current row and all that follow are zero Likelihood Ratio	Approximate F Value	Num DF	Den DF	Pr > F
1	0.533315	0.284425	0.3975	0.2430	0.7084	0.7084	0.61421078	6.30	9	255.69	<.0001
2	0.365816	0.133822	0.1545	0.1454	0.2753	0.9837	0.85834556	4.21	4	212	0.0027
3	0.095095	0.009043	0.0091		0.0163	1.0000	0.99095691	0.98	1	107	0.3253

Multivariate Statistics and F Approximations
S=3 M=-0.5 N=51.5

Statistic	Value	F Value	Num DF	Den DF	Pr > F
Wilks' Lambda	0.61421078	6.30	9	255.69	<.0001
Pillai's Trace	0.42728942	5.92	9	321	<.0001
Hotelling-Lawley Trace	0.56109928	6.50	9	161.85	<.0001
Roy's Greatest Root	0.39747721	14.18	3	107	<.0001

NOTE: F Statistic for Roy's Greatest Root is an upper bound.

Standardized Canonical Coefficients for the Contextual factors

	Contextual factors1	Contextual factors2	Contextual factors3
V2	0.7336	0.7513	-0.6071
V9	0.3558	-0.4035	1.0743
V23	-0.0694	0.9147	0.5748

Standardized Canonical Coefficients for the Opportunistic orientations

	Opportunistic orientations 1	Opportunistic orientations2	Opportunistic orientations3
V16	0.8380	-0.1352	0.5696
V25	0.1499	0.9475	-0.3771
V29	0.4335	-0.5094	-0.7549

Canonical Correlation

The CANCORR Procedure
Canonical Structure

Correlations Between the Contextual factors and Their Canonical Variables

	Contextual factors1	Contextual factors2	Contextual factors3
V2	0.9480	0.2178	-0.2321
V9	0.7705	-0.2962	0.5644
V23	-0.4388	0.7837	0.4396

Correlations Between the Opportunistic orientations and Their Canonical Variables

	Opportunistic orientations 1	Opportunistic orientations 2	Opportunistic orientations 3
V16	0.8800	0.0488	0.4724
V25	0.3804	0.8531	-0.3572
V29	0.4740	-0.3893	-0.7898

Correlations Between the Contextual factors and the Canonical Variables of the Opportunistic orientations

	Opportunistic orientations 1	Opportunistic orientations 2	Opportunistic orientations 3
V2	0.5056	0.0797	-0.0221
V9	0.4109	-0.1084	0.0537
V23	-0.2340	0.2867	0.0418

Correlations Between the Opportunistic orientations and the Canonical Variables of the Contextual factors

	Contextual factors1	Contextual factors2	Contextual factors3
V16	0.4693	0.0178	0.0449
V25	0.2029	0.3121	-0.0340
V29	0.2528	-0.1424	-0.0751

Canonical Correlation

The CANCORR Procedure
Canonical Correlation Analysis

	Canonical Correlation	Squared Canonical Correlation	Eigenvalues of Inv(E)*H = CanRsq/(1-CanRsq) Eigenvalue	Difference	Proportion	Cumulative	Test of H0: The canonical correlations in the current row and all that follow are zero Likelihood Ratio	Approximate F Value	Num DF	Den DF	Pr > F
1	0.533315	0.284425	0.3975	0.2430	0.7084	0.7084	0.61421078	6.30	9	255.69	<.0001
2	0.365816	0.133822	0.1545	0.1454	0.2753	0.9837	0.85834556	4.21	4	212	0.0027
3	0.095095	0.009043	0.0091		0.0163	1.0000	0.99095691	0.98	1	107	0.3253

Multivariate Statistics and F Approximations
S=3 M=-0.5 N=51.5

Statistic	Value	F Value	Num DF	Den DF	Pr > F
Wilks' Lambda	0.61421078	6.30	9	255.69	<.0001
Pillai's Trace	0.42728942	5.92	9	321	<.0001
Hotelling-Lawley Trace	0.56109928	6.50	9	161.85	<.0001
Roy's Greatest Root	0.39747721	14.18	3	107	<.0001

NOTE: F Statistic for Roy's Greatest Root is an upper bound.

Standardized Canonical Coefficients for the Contextual factors

	Contextual factors1	Contextual factors2	Contextual factors3
V2	0.7336	0.7513	-0.6071
V9	0.3558	-0.4035	1.0743
V23	-0.0694	0.9147	0.5748

Standardized Canonical Coefficients for the Opportunistic orientations

	Opportunistic orientations 1	Opportunistic orientations2	Opportunistic orientations3
V16	0.8380	-0.1352	0.5696
V25	0.1499	0.9475	-0.3771
V29	0.4335	-0.5094	-0.7549

Canonical Correlation

The CANCORR Procedure
Canonical Structure

Correlations Between the Contextual factors and Their Canonical Variables

	Contextual factors1	Contextual factors2	Contextual factors3
V2	0.9480	0.2178	-0.2321
V9	0.7705	-0.2962	0.5644
V23	-0.4388	0.7837	0.4396

Correlations Between the Opportunistic orientations and Their Canonical Variables

	Opportunistic orientations 1	Opportunistic orientations 2	Opportunistic orientations 3
V16	0.8800	0.0488	0.4724
V25	0.3804	0.8531	-0.3572
V29	0.4740	-0.3893	-0.7898

Correlations Between the Contextual factors and the Canonical Variables of the Opportunistic orientations

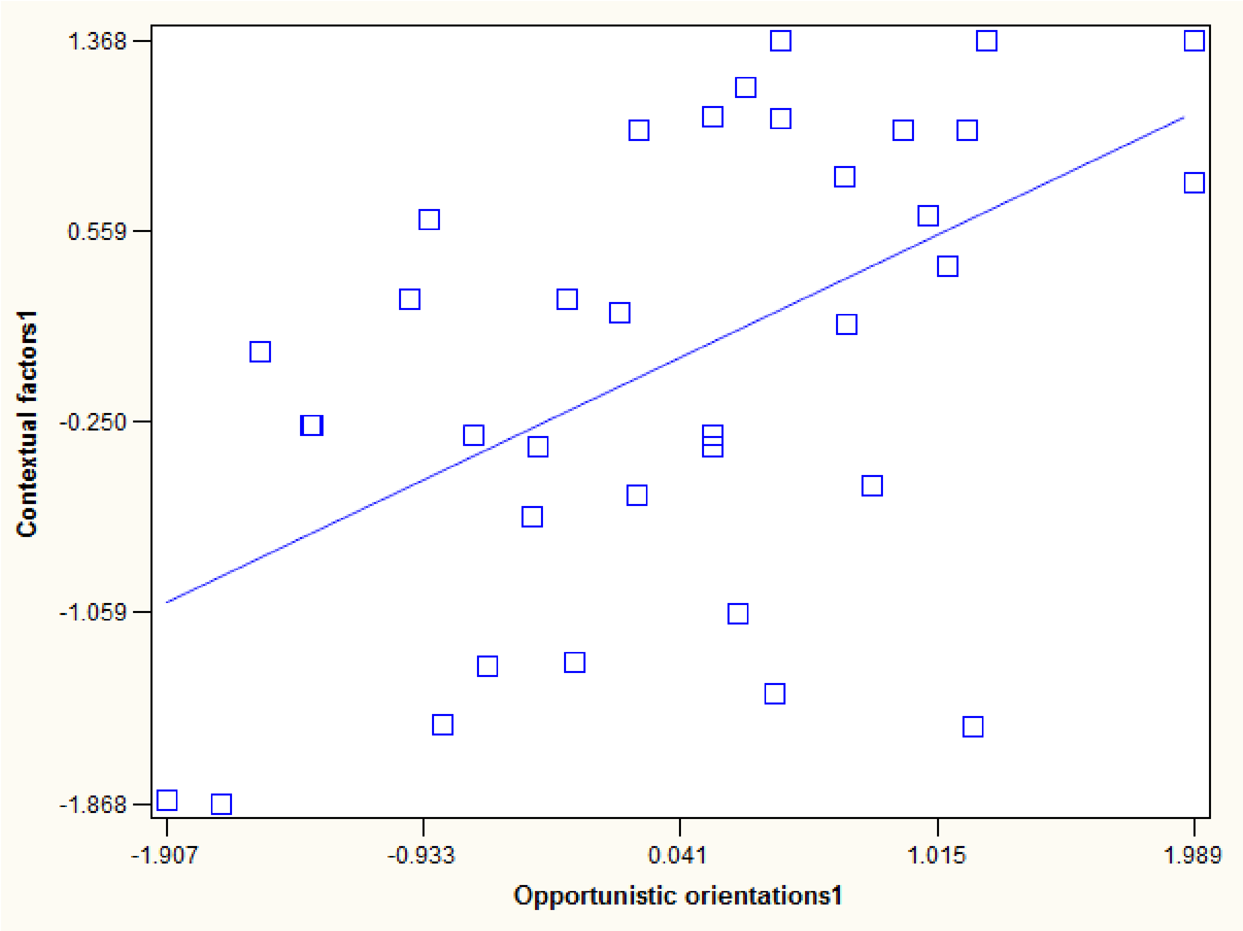
	Opportunistic orientations 1	Opportunistic orientations 2	Opportunistic orientations 3
V2	0.5056	0.0797	-0.0221
V9	0.4109	-0.1084	0.0537
V23	-0.2340	0.2867	0.0418

Correlations Between the Opportunistic orientations and the Canonical Variables of the Contextual factors

	Contextual factors1	Contextual factors2	Contextual factors3
V16	0.4693	0.0178	0.0449
V25	0.2029	0.3121	-0.0340
V29	0.2528	-0.1424	-0.0751

Canonical Correlation

Plots


1.368
0.559
-0.250
-1.059
-1.868
Contextual factors1
-1.907
-0.933
0.041
1.015
1.989
Opportunistic orientations1

Canonical Correlation

The CANCORR Procedure

Canonical Correlation Analysis

			Eigenvalues of Inv(E)*H = CanRsq/(1-CanRsq)				H0: The canonical correlations in the current row and all that follow are zero				
	Canonical Correlation	Squared Canonical Correlation	Eigenvalue	Difference	Proportion	Cumulative	Likelihood Ratio	Approximate F Value	Num DF	Den DF	Pr > F
1	0.490692	0.240779	0.3171	0.1892	0.7108	0.7108	0.67235715	5.03	9	255.69	<.0001
2	0.336798	0.113433	0.1279	0.1268	0.2868	0.9975	0.88558812	3.32	4	212	0.0116
3	0.033230	0.001104	0.0011		0.0025	1.0000	0.99889575	0.12	1	107	0.7316

Multivariate Statistics and F Approximations

S=3 M=-0.5 N=51.5

Statistic	Value	F Value	Num DF	Den DF	Pr > F
Wilks' Lambda	0.67235715	5.03	9	255.69	<.0001
Pillai's Trace	0.35531608	4.79	9	321	<.0001
Hotelling-Lawley Trace	0.44619110	5.17	9	161.85	<.0001
Roy's Greatest Root	0.31713944	11.31	3	107	<.0001

NOTE: F Statistic for Roy's Greatest Root is an upper bound.

Canonical Structure

Correlations Between the Strategic factors and Their Canonical Variables

	Strategic factors1	Strategic factors2	Strategic factors3
V1	0.9486	-0.1190	0.2933
V3	0.4888	0.6567	-0.5743
V29	-0.1284	0.6828	0.7193

Correlations Between the Opportunistic orientations and Their Canonical Variables

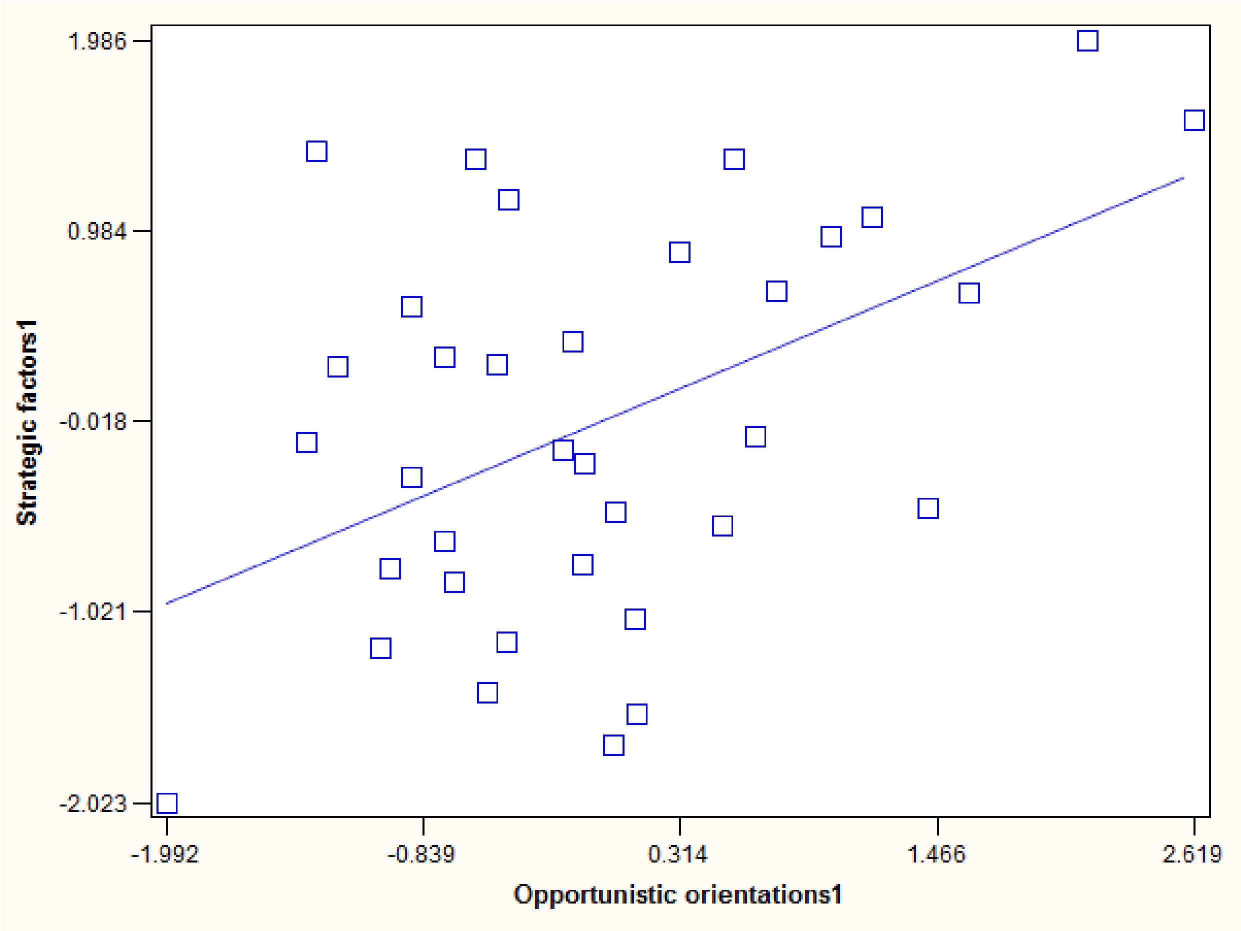
	Opportunistic orientations1	Opportunistic orientations2	Opportunistic orientations3
V16	0.7043	0.3654	-0.6087
V25	0.4834	0.6369	0.6006
V28	0.6183	-0.7857	0.0198

Correlations Between the Strategic factors and the Canonical Variables of the Opportunistic orientations

	Opportunistic orientations1	Opportunistic orientations2	Opportunistic orientations3
V1	0.4655	-0.0401	0.0097
V3	0.2398	0.2212	-0.0191
V29	-0.0630	0.2300	0.0239

Correlations Between the Opportunistic orientations and the Canonical Variables of the Strategic factors

	Strategic factors1	Strategic factors2	Strategic factors3
V16	0.3456	0.1231	-0.0202
V25	0.2372	0.2145	0.0200
V28	0.3034	-0.2646	0.0007


1.986
0.984
-0.018
-1.021
-2.023
Strategic factors1
-1.992
-0.839
0.314
1.466
2.619
Opportunistic orientations1

Canonical Correlation

The CANCORR Procedure
Canonical Correlation Analysis

	Canonical Correlation	Squared Canonical Correlation	Eigenvalues of Inv(E)*H = CanRsq/(1-CanRsq) Eigenvalue	Difference	Proportion	Cumulative	Test of H0: The canonical correlations in the current row and all that follow are zero Likelihood Ratio	Approximate F Value	Num DF	Den DF	Pr > F
1	0.524000	0.274576	0.3785	0.2860	0.8021	0.8021	0.66340209	5.22	9	255.69	<.0001
2	0.290921	0.084635	0.0925	0.0915	0.1959	0.9980	0.91450198	2.42	4	212	0.0494
3	0.030701	0.000943	0.0009		0.0020	1.0000	0.99905746	0.10	1	107	0.7513

Multivariate Statistics and F Approximations
S=3 M=-0.5 N=51.5

Statistic	Value	F Value	Num DF	Den DF	Pr > F
Wilks' Lambda	0.66340209	5.22	9	255.69	<.0001
Pillai's Trace	0.36015334	4.87	9	321	<.0001
Hotelling-Lawley Trace	0.47190742	5.47	9	161.85	<.0001
Roy's Greatest Root	0.37850330	13.50	3	107	<.0001

NOTE: F Statistic for Roy's Greatest Root is an upper bound.

Standardized Canonical Coefficients
for the Opportunistic orientations

	Opportunistic orientations1	Opportunistic orientations2	Opportunistic orientations3
V25	0.2001	1.0710	-0.1122
V28	-0.4205	0.5240	0.8873
V35	0.7889	0.3581	0.7380

Standardized Canonical Coefficients
for the Opportunistic actions

	Opportunistic actions1	Opportunistic actions2	Opportunistic actions3
V15	0.5694	0.4947	0.6712
V17	0.3756	0.6328	-0.6816
V20	-0.8091	0.5970	0.0671

Canonical Structure

Correlations Between the Opportunistic orientations and Their Canonical Variables

	Opportunistic orientations1	Opportunistic orientations2	Opportunistic orientations3
V25	0.0595	0.8716	-0.4865
V28	-0.7166	0.2038	0.6671
V35	0.8706	-0.1125	0.4790

Correlations Between the Opportunistic
actions and Their Canonical Variables

	Opportunistic actions1	Opportunistic actions2	Opportunistic actions3
V15	0.4447	0.5208	0.7287
V17	0.3638	0.5753	-0.7326
V20	-0.7541	0.6336	0.1727

Correlations Between the Opportunistic orientations and the Canonical Variables of the Opportunistic actions

	Opportunistic actions1	Opportunistic actions2	Opportunistic actions3
V25	0.0312	0.2536	-0.0149
V28	-0.3755	0.0593	0.0205
V35	0.4562	-0.0327	0.0147

Correlations Between the Opportunistic actions and the Canonical Variables of the Opportunistic orientations

	Opportunistic orientations1	Opportunistic orientations2	Opportunistic orientations3
V15	0.2330	0.1515	0.0224
V17	0.1906	0.1674	-0.0225
V20	-0.3952	0.1843	0.0053

Canonical Correlation

The CANCORR Procedure
Canonical Correlation Analysis

	Canonical Correlation	Squared Canonical Correlation	Eigenvalues of Inv(E)*H = CanRsq/(1-CanRsq) Eigenvalue	Difference	Proportion	Cumulative	Test of H0: The canonical correlations in the current row and all that follow are zero Likelihood Ratio	Approximate F Value	Num DF	Den DF	Pr > F
1	0.586422	0.343890	0.5241	0.4819	0.9007	0.9007	0.61986565	6.17	9	255.69	<.0001
2	0.201386	0.040557	0.0423	0.0267	0.0726	0.9733	0.94475918	1.53	4	212	0.1953
3	0.123713	0.015305	0.0155		0.0267	1.0000	0.98469497	1.66	1	107	0.2000

Multivariate Statistics and F Approximations
S=3 M=-0.5 N=51.5

Statistic	Value	F Value	Num DF	Den DF	Pr > F
Wilks' Lambda	0.61986565	6.17	9	255.69	<.0001
Pillai's Trace	0.39975185	5.48	9	321	<.0001
Hotelling-Lawley Trace	0.58194919	6.74	9	161.85	<.0001
Roy's Greatest Root	0.52413540	18.69	3	107	<.0001

NOTE: F Statistic for Roy's Greatest Root is an upper bound.

Standardized Canonical Coefficients
for the Opportunistic actions

	Opportunistic actions1	Opportunistic actions2	Opportunistic actions3
V15	0.8393	0.1448	0.5423
V17	-0.3181	0.8683	0.3885
V20	0.2977	0.5075	-0.8181

Standardized Canonical Coefficients
for the Growth

	Growth1	Growth2	Growth3
V12	0.5941	0.1015	-1.0377
V13	-0.1681	0.9623	0.4332
V14	0.6012	-0.1325	0.9553

Canonical Structure

Correlations Between the Opportunistic
actions and Their Canonical Variables

	Opportunistic actions1	Opportunistic actions2	Opportunistic actions3
V15	0.8982	0.1431	0.4156
V17	-0.3897	0.8394	0.3789
V20	0.4104	0.4934	-0.7669

Correlations Between the Growth
and Their Canonical Variables

	Growth1	Growth2	Growth3
V12	0.8138	0.3507	-0.4635
V13	0.0338	0.9926	0.1164
V14	0.8686	-0.0691	0.4906

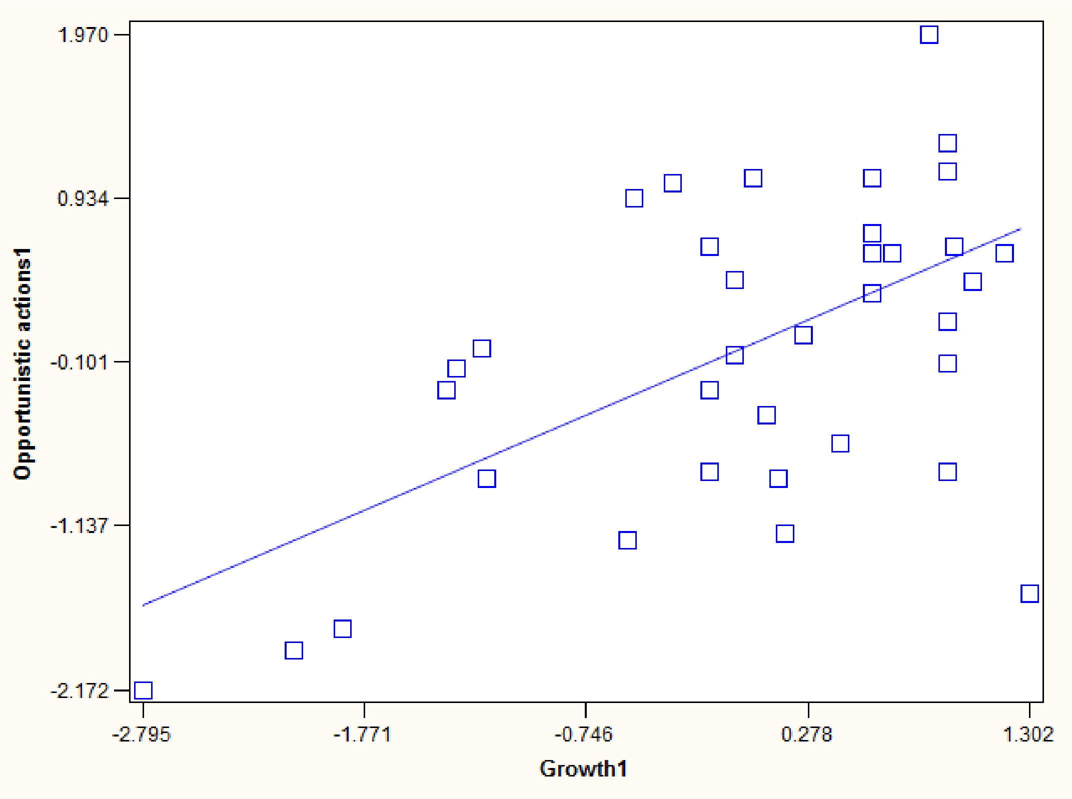
Correlations Between the Opportunistic actions and the Canonical Variables of the Growth

	Growth1	Growth2	Growth3
V15	0.5267	0.0288	0.0514
V17	-0.2285	0.1690	0.0469
V20	0.2406	0.0994	-0.0949

Correlations Between the Growth and the Canonical Variables of the Opportunistic actions

	Opportunistic actions1	Opportunistic actions2	Opportunistic actions3
V12	0.4772	0.0706	-0.0573
V13	0.0198	0.1999	0.0144
V14	0.5094	-0.0139	0.0607

Canonical Correlation
Plots



Canonical Correlation

The CANCORR Procedure
Canonical Correlation Analysis

	Canonical Correlation	Squared Canonical Correlation	Eigenvalues of Inv(E)*H = CanRsq/(1-CanRsq) Eigenvalue	Difference	Proportion	Cumulative	Test of H0: The canonical correlations in the current row and all that follow are zero Likelihood Ratio	Approximate F Value	Num DF	Den DF	Pr > F
1	0.384591	0.147910	0.1736	0.1025	0.7091	0.7091	0.79543817	2.80	9	255.69	0.0038
2	0.257615	0.066365	0.0711	0.0710	0.2904	0.9995	0.93351436	1.85	4	212	0.1196
3	0.011347	0.000129	0.0001		0.0005	1.0000	0.99987125	0.01	1	107	0.9068

Multivariate Statistics and F Approximations
S=3 M=-0.5 N=51.5

Statistic	Value	F Value	Num DF	Den DF	Pr > F
Wilks' Lambda	0.79543817	2.80	9	255.69	0.0038
Pillai's Trace	0.21440427	2.75	9	321	0.0042
Hotelling-Lawley Trace	0.24479672	2.84	9	161.85	0.0040
Roy's Greatest Root	0.17358507	6.19	3	107	0.0006

NOTE: F Statistic for Roy's Greatest Root is an upper bound.

Standardized Canonical Coefficients for the Opportunistic actions

	Opportunistic actions1	Opportunistic actions2	Opportunistic actions3
V15	0.5768	0.7966	-0.2288
V17	-0.3897	0.5768	0.7222
V20	0.6163	-0.3991	0.6902

Standardized Canonical Coefficients for the Competitiveness

	Competitiveness1	Competitiveness2	Competitiveness3
V6	-0.3742	0.4806	0.8559
V11	1.0481	0.1844	-0.0441
V18	0.0040	-0.8718	0.5189

Canonical Structure

Correlations Between the Opportunistic actions and Their Canonical Variables

	Opportunistic actions1	Opportunistic actions2	Opportunistic actions3
V15	0.6793	0.7067	-0.1979
V17	-0.4538	0.5336	0.7137
V20	0.6999	-0.3241	0.6365

Correlations Between the Competitiveness and Their Canonical Variables

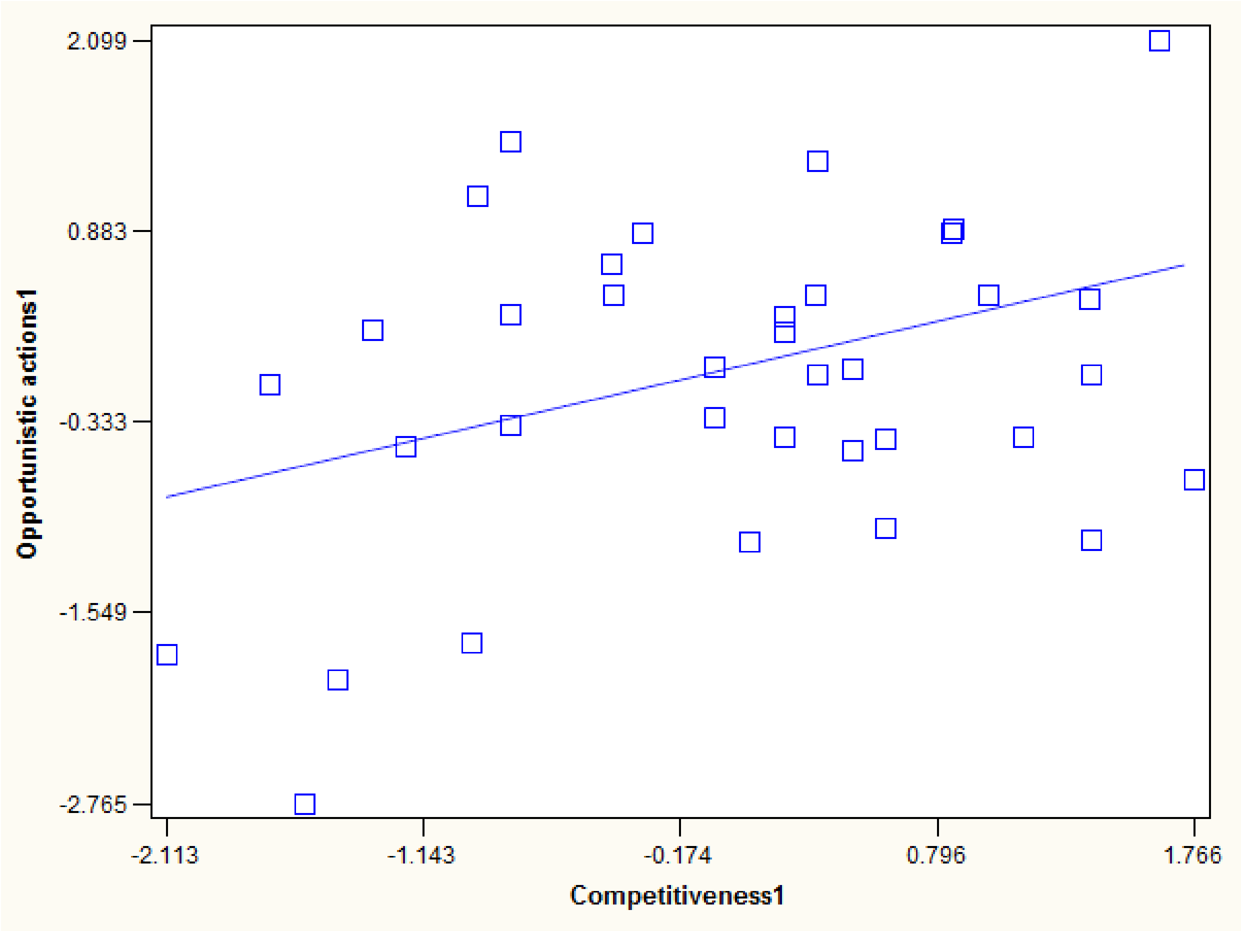
	Competitiveness1	Competitiveness2	Competitiveness3
V6	-0.0537	0.5106	0.8582
V11	0.9343	0.1854	0.3044
V18	0.1680	-0.8264	0.5375

Correlations Between the Opportunistic actions and the Canonical Variables of the Competitiveness

	Competitiveness1	Competitiveness2	Competitiveness3
V15	0.2612	0.1821	-0.0022
V17	-0.1745	0.1375	0.0081
V20	0.2692	-0.0835	0.0072

Correlations Between the Competitiveness and the Canonical Variables of the Opportunistic actions

	Opportunistic actions1	Opportunistic actions2	Opportunistic actions3
V6	-0.0207	0.1315	0.0097
V11	0.3593	0.0478	0.0035
V18	0.0646	-0.2129	0.0061


2.099
0.883
-0.333
-1.549
-2.765
Opportunistic actions1
-2.113
-1.143
-0.174
0.796
1.766
Competitiveness1

Canonical Correlation

The CANCORR Procedure
Canonical Correlation Analysis

	Canonical Correlation	Squared Canonical Correlation	Eigenvalues of Inv(E)*H = CanRsq/(1-CanRsq) Eigenvalue	Difference	Proportion	Cumulative	st of H0: The canonical correlations in the current row and all that follow are zero Likelihood Ratio	proximate F Value	Num DF	Den DF	Pr > F
1	0.311799	0.097219	0.1077	0.0781	0.7461	0.7461	0.87068533	1.66	9	255.69	0.0982
2	0.169619	0.028771	0.0296	0.0226	0.2052	0.9513	0.96444768	0.97	4	212	0.4260
3	0.083562	0.006983	0.0070		0.0487	1.0000	0.99301737	0.75	1	107	0.3877

Multivariate Statistics and F Approximations
S=3 M=-0.5 N=51.5

Statistic	Value	F Value	Num DF	Den DF	Pr > F
Wilks' Lambda	0.87068533	1.66	9	255.69	0.0982
Pillai's Trace	0.13297191	1.65	9	321	0.0992
Hotelling-Lawley Trace	0.14434256	1.67	9	161.85	0.0995
Roy's Greatest Root	0.10768799	3.84	3	107	0.0118

NOTE: F Statistic for Roy's Greatest Root is an upper bound.

Standardized Canonical Coefficients for the Opportunistic actions

	Opportunisctic actions1	Opportunisctic actions2	Opportunisctic actions3
V15	0.5093	0.6225	-0.6104
V17	-0.6994	0.7181	0.0351
V20	0.3687	0.3560	0.8677

Standardized Canonical Coefficients for the Survival

	Survival1	Survival2	Survival3
V4	0.6482	0.7721	0.2301
V26	0.5964	-0.8621	0.1061
V30	-0.0680	-0.1720	1.0090

Canonical Structure

Correlations Between the Opportunistic actions and Their Canonical Variables

	Opportunisctic actions1	Opportunisctic actions2	Opportunisctic actions3
V15	0.6043	0.6134	-0.5085
V17	-0.7497	0.6601	0.0478
V20	0.4555	0.4049	0.7929

Correlations Between the Survival and Their Canonical Variables

	Survival1	Survival2	Survival3
V4	0.8039	0.5749	0.1522
V26	0.7728	-0.6322	-0.0557
V30	-0.2646	-0.0647	0.9622

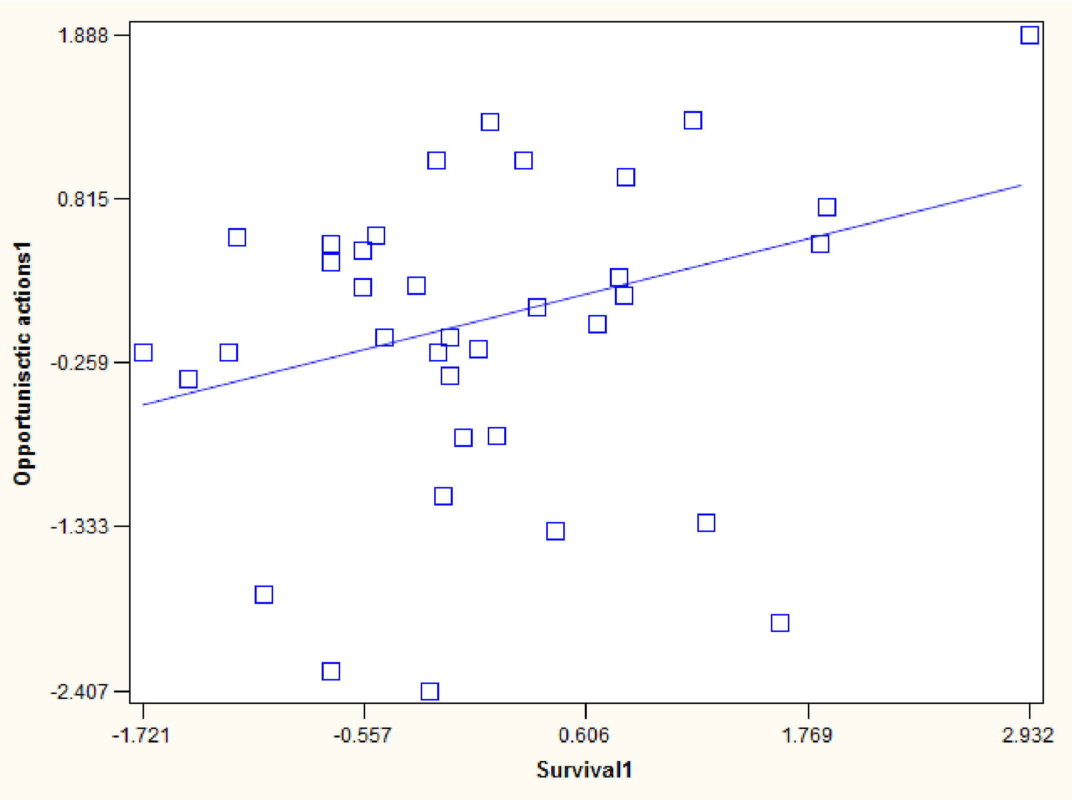
Correlations Between the Opportunistic actions and the Canonical Variables of the Survival

	Survival1	Survival2	Survival3
V15	0.1884	0.1040	-0.0425
V17	-0.2337	0.1120	0.0040
V20	0.1420	0.0687	0.0663

Correlations Between the Survival and the Canonical Variables of the Opportunistic actions

	Opportunisctic actions1	Opportunisctic actions2	Opportunisctic actions3
V4	0.2507	0.0975	0.0127
V26	0.2410	-0.1072	-0.0047
V30	-0.0825	-0.0110	0.0804

Canonical Correlation
Plots



The CALIS Procedure

Covariance Structure Analysis

Modelling Information

Maximum Likelihood Estimation

Data Set	WORK.RAW	
No Records Read	111	
No Records Used	111	
No of Observations	111	
Model Type	Path	
Analysis	Covariances	
Variables in the Model		
Endogenous	Manifest	OO OA Competitiveness Growth Survival
Exogenous	Manifest	Structural factors Contextual factors Strategic factors
Number of Endogenous Variables	5	
Number of Exogenous Variables	3	

Descriptive Statistics

Simple Statistics

Variable	Mean	Std Dev	Skewness	Kurtosis
Survival	4.4	1.32	-0.64	0.01
Growth	5.08	1.14	-0.88	0.71
Competitiveness	4.32	1.07	-0.2	-0.36
Structural factors	4.36	1.17	-0.51	-0.31
Contextual factors	4.91	1.46	-0.54	-0.44
Strategic factors	3.42	1.01	1.09	1.47
OA	4.59	1.26	-0.78	0.2
OO	4.4	0.94	-0.16	0.45

Mardia's Multivariate Kurtosis	-2.13
Relative Multivariate Kurtosis	0.97
Normalized Multivariate Kurtosis	-0.89
Mardia Based Kappa (Browne, 1982)	-0.03
Mean Scaled Univariate Kurtosis	0.07
Adj Mean Scaled Univariate Kurtosis	0.07
Multivariate Mean Kappa	0.99
Multivariate LS Kappa	0,24

The CALIS Procedure

Optimization

1. Observed Moments of Variables
2. McDonald Method
3. Two-Stage Least Squares

Parameter Estimates

N	Parameter	Estimate	Gradient
1	_Parm01	0.15	0.00
2	_Parm02	0.11	0.00
3	_Parm03	-0.16	0.00
4	_Parm04	0.27	0.00
5	_Parm05	-0.03	0.00
6	_Parm06	0.61	0.00
7	_Parm07	-0.53	0.00
8	_Parm08	-0.39	0.00
9	_Parm09	0.06	0.00
10	_Parm10	0.07	0.00
11	_Parm11	0.05	0.00
12	_Parm12	0.37	0.00
13	_Parm13	0.35	0.00
14	_Parm14	0.22	0.00
15	_Parm15	0.08	0.00
16	_Parm16	0.03	0.00
17	_Parm17	0.03	0.00
18	_Parm18	-0.46	0.00
19	_Parm19	0.08	0.00
20	_Parm20	0.55	0.00
21	_Parm21	0.11	0.00
22	_Add01	1.38	0.00
23	_Add02	2.12	0.00
24	_Add03	1.02	0.00
25	_Add04	1.09	0.00
26	_Add05	0.4	0.00
27	_Add06	0.59	0.00
28	_Add07	1.04	0.00
29	_Add08	0.77	0.00
30	_Add09	-0.49	0.00
31	_Add10	0.09	0.00
32	_Add11	0.07	0.00

Value of Objective Function = 0.086

Convergence criterion satisfied.

The Calis Procedure
Covariance Analysis
Fit Summary

Modelling Info

Number of Observations	111
Number of Variables	8
Number of Moments	36
Number of Parameters	32
Number of Active Constraints	0
Baseline Model Function Value	3.08
Baseline Model Chi-Square	338.41
Baseline Model Chi-Square DF	28
Pr > Baseline Model Chi-Square	<.0001

Absolute Index

Fit Function	0.09
Chi-Square	9.43
Chi-Square DF	4
Pr > Chi-Square	0.05
Elliptic Corrected Chi-Square	9.68
Pr > Elliptic Corr. Chi-Square	0.05
Z-Test of Wilson & Hilferty	1.64
Hoelter Critical N	111
Root Mean Square Residual (RMR)	0.03
Standardized RMR (SRMR)	0.02
Goodness of Fit Index (GFI)	0.98

Parsimony Index

Adjusted GFI (AGFI)	0.82
Parsimonious GFI	0.14
RMSEA Estimate	0.11
RMSEA Lower 90% Confidence Limit	0
RMSEA Upper 90% Confidence Limit	0.2
Probability of Close Fit	0.11
ECVI Estimate	0.72
ECVI Lower 90% Confidence Limit	0.67
ECVI Upper 90% Confidence Limit	0.84
Akaike Information Criterion	73.43
Bozdogan CAIC	192.13
Schwarz Bayesian Criterion	160.13
McDonald Centrality	0.98

Incremental Index

Bentler Comparative Fit Index	0.98
Bentler-Bonett NFI	0.97

Bentler-Bonett Non-normed Index	0.88
Bollen Normed Index Rho1	0.81
Bollen Non-normed Index Delta2	0.98
James et al. Parsimonious NFI	0.14

Standardized Results for PATH List

Path			Parameter	Est	Std Error	t Value
Structural factors	===>	OO	_Parm01	0.18	0.10	1.98
Structural factors	===>	OA	_Parm02	0.11	0.10	1.33
Contextual factors	===>	OO	_Parm03	0.25	0.10	2.81
Contextual factors	===>	OA	_Parm04	0.31	0.10	4.00
Strategic factors	===>	OO	_Parm05	0.03	0.10	-0.31
Strategic factors	===>	OA	_Parm06	0.49	0.10	7.06
Structural factors	===>	Competitiveness	_Parm07	0.58	0.10	-8.86
Structural factors	===>	Growth	_Parm08	0.41	0.10	-6.77
Structural factors	===>	Survival	_Parm09	0.05	0.10	0.64
Contextual factors	===>	Competitiveness	_Parm10	0.09	0.10	1.17
Contextual factors	===>	Growth	_Parm11	0.06	0.10	0.97
Contextual factors	===>	Survival	_Parm12	0.40	0.10	4.92
Strategic factors	===>	Competitiveness	_Parm13	0.33	0.10	4.18
Strategic factors	===>	Growth	_Parm14	0.20	0.10	3.14
Strategic factors	===>	Survival	_Parm15	0.06	0.10	0.70
OO	===>	Competitiveness	_Parm16	0.03	0.10	0.38
OO	===>	Growth	_Parm17	0.03	0.10	0.46
OO	===>	Survival	_Parm18	0.32	0.10	-4.14
OA	===>	Competitiveness	_Parm19	0.09	0.10	1.11
OA	===>	Growth	_Parm20	0.61	0.10	9.80
OA	===>	Survival	_Parm21	0.10	0.10	1.09

Standardized Results for Variance Parameters

Variance Type	Variable	Parameter	Est	Std Error	t Value
Exogenous	Structural factors	_Add01	1		
	Contextual factors	_Add02	1		
	Strategic factors	_Add03	1		
Error	Survival	_Add04	0.62	0.1	8.5
	Growth	_Add05	0.31	0.1	6.3
	Competitiveness	_Add06	0.51	0.1	7.5
	OA	_Add07	0.65	0.1	8.87
	OO	_Add08	0.87	0.1	14.82

Standardized Results for Covariances Among Exogenous Variables

Var1	Var2	Parameter	Est	Std Error	t Value
Contextual factors	Structural factors	_Add09	0.28	0.1	3.24
Strategic factors	Structural factors	_Add10	0.07	0.1	0.77
Strategic factors	Contextual factors	_Add11	0.05	0.1	0.49

Standardized Total Effects

Effect / Std Error / t Value / p Value

	OA	OO	Contextual factors	Strategic factors	Structural factors
Competitiveness	0.09	0.03	0.11	0.38	
	0.08	0.07	0.07	0.07	0.06
	1.11	0.38	1.59	5.56	0.57
	0.27	0.71	0.11	<.0001	<.0001
Growth	0.61	0.03	0.24	0.49	-0.34
	0.06	0.06	0.07	0.07	0.07
	9.80	0.46	3.33	7.50	-4.63
	<.0001	0.64		<.0001	<.0001
OA		-	0.31	0.49	0.11
			0.08	0.07	0.08
			4.00	7.06	1.33
			<.0001	<.0001	0.18
OO			0.25	0.03	0.18
			0.09	0.09	0.09
			2.81	0.31	1.98
				0.76	0.05
Survival	0.10	0.32	0.52	0.12	-
	0.09	0.08	0.07	0.08	0.08
	1.09	4.14	7.00	1.48	0.05
	0.28	<.0001	<.0001	0.14	0.96
	0.09	0.03	0.11	0.38	

Standardized Direct Effects

Effect / Std Error / t Value / p Value

	OA	OO	Contextual factors	Strategic factors	Structural factors
Competitiveness	0.09	0.03	0.09	0.33	-0.58
	0.08	0.07	0.08	0.08	0.07
	1.11	0.38	1.17	4.18	-8.86
	0.27	0.71	0.24	<.0001	<.0001
Growth	0.61	0.03	0.06	0.2	-0.41
	0.06	0.06	0.06	0.06	0.06
	9.8	0.46	0.97	3.14	-6.77
	<.0001	0.64	0.33	0	<.0001

OA			0.31	0.49	0.11
			0.08	0.07	0.08
			4	7.06	1.33
			<.0001	<.0001	0.18
OO			0.25	-0.03	0.18
			0.09	0.09	0.09
			2.81	-0.31	1.98
			0	0.76	0.05
Survival	0.1	0.32	0.4	0.06	0.05
	0.09	0.08	0.08	0.09	0.08
	1.09	4.14	4.92	0.7	0.64
	0.28	<.0001	<.0001	0.48	0.52

Standardized Indirect Effects

Effect / Std Error / t Value / p Value

	OA	OO	Contextual factors	Strategic factors	Structural factors
Competitiveness			0.02	0.04	0.02
			0.03	0.04	0.02
			0.67	1.07	0.84
			0.5	0.28	0.4
Growth			0.18	0.3	0.07
			0.05	0.05	0.05
			3.41	5.69	1.35
			0	<.0001	0.18
OA					
OO			0.11	0.06	0.05
Survival	-	-	0.05	0.05	0.04
			2.5	1.07	1.34
			0.01	0.28	0.18

Stepwise Multivariate Wald Test

Parm	Cumulative Statistics			Univariate Increment	
	Chi-Square	DF	Pr > ChSq	ChSq	Pr > Chq
_Parm05	0.09	1	0.76	0.09	0.76
_Parm16	0.24	2	0.89	0.14	0.71
_Parm17	0.45	3	0.93	0.21	0.64
_Add11	0.69	4	0.95	0.24	0.63
_Parm09	1.1	5	0.95	0.41	0.52
_Parm15	1.61	6	0.95	0.51	0.48
_Parm11	2.39	7	0.94	0.78	0.38
_Add10	*3.26*	8	0.92	0.88	0.35
_Parm19	4.49	9	0.88	1.23	0.27

_Parm02	6.25	10	0.79	1.76	0.19
_Parm10	8.79	11	0.64	2.54	0.11
_Parm21	12.08	12	0.44	3.29	0.07
_Parm01	15.82	13	0.26	3.74	0.05

Rank Order of the 10 Largest LM Stat for Path Relations

To	From	LM Stat	Pr > ChiSq	Parm Change
Structural factors	Strategic factors	7.05	0.01	-0.42
Survival	Growth	6.59	0.01	0.4
Growth	Survival	6.59	0.01	0.15
Contextual factors	Structural factors	5.36	0.02	0.25
Contextual factors	Strategic factors	3.89	0.05	1.04
Survival	Competitiveness	2.11	0.15	0.19
Competitiveness	Survival	2.11	0.15	0.1
Strategic factors	Structural factors	0.97	0.32	0.07
OA	Competitiveness	0.34	0.56	2.04
OO	OA	0.34	0.56	0.05

Rank Order of the 4 Largest LM Stat for Error Variances and Covariances

Error of	Error of	LM Stat	Pr > ChiSq	Parm Change
Survival	Growth	6.59	0.01	0.16
Survival	Competitiveness	2.11	0.15	0.11
OO	OA	0.34	0.56	0.05
Growth	Competitiveness	0	0.97	0