THE FUNCTION OF FRANCHISEE TRUST
AND FRANCHISOR TRUSTWORTHINESS
WITHIN THE FRANCHISING RELATIONSHIP

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Submitted in fulfillment of the requirements of the degree of
Doctor of Philosophy

July 2015
Dedicated to Professor Rajiv P. Dant, with thanks and with admiration.
Abstract

This dissertation serves three major purposes: (1) to create new knowledge in the domain of franchising research, (2) to assist future academic inquiry by advancing agency theoretical understanding, and (3) to serve members of the franchising community by developing a framework for building franchisee trust. It is proposed that trust within the franchising relationship is important for overall franchisee performance, as well as necessary for uniting the franchisee and the franchisor in their mutually beneficial endeavours. Franchisee trust and franchisor trustworthiness are considered to have a central function within the franchising relationship and through empirical examination, both qualitative and quantitative data provided confirmation of this proposition. 30 interviews were conducted with franchising experts, franchisees, and franchisors, until data saturation was achieved. The interviews were audio recorded, with the permission of the interviewee, then transcribed. Analysis of the transcripts, assisted by Nvivo software, provided insight and preliminary answers to the five research questions: (RQ1) how is franchisee trust understood within the franchising sector? (RQ2) Can authentic trust exist within the franchising relationship? (RQ3) What are the barriers to building franchisee trust? (RQ4) How is franchisee trust built in the franchisor? (RQ5) What role does trust play in franchisee performance? Following the qualitative investigation, a theoretical model was developed and tested with quantitative data collected via an online survey. A usable sample size of 209 franchisees was then analysed with SPSS and AMOS software, using exploratory factor analysis, confirmatory factor analysis, and structural equation modeling techniques. The model proposed five independent variables associated with franchisee trust: (1) franchisee identification with the system, (2) franchisor competence, (3) franchisor fairness, (4) autonomy, and (5) pressure (a negative influence). It was further hypothesised that franchisee trust would have a positive influence on performance. Furthermore, three group moderators were applied to the model: the presence of a franchisee advisory council (FAC) within the system, franchisee participation in the FAC, and multi-unit ownership. Significant support was found for the latter two group-moderators. Thus, the findings from this research: (1) created new knowledge within the franchising scholarly-research domain, (2) assisted in discussion for the theoretical advancement of agency theory, and (3) served the franchising community by developing a practical model that can be applied to franchising relationships to aid in the challenging task of cooperating in an business endeavour whereby franchisee trust and franchisor trustworthiness play a pivotal role.
Statement of originality

This work has not previously been submitted for a degree or diploma in any university. To the best of my knowledge and belief, the thesis contains no material previously published or written by another person except where due reference is made in the thesis itself.

______________________________
Anthony Richard Grace
July 2015
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<th>Description</th>
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<tbody>
<tr>
<td>ABS</td>
<td>Australian Bureau of Statistics</td>
</tr>
<tr>
<td>ACCC</td>
<td>Australian Competition and Consumer Commission</td>
</tr>
<tr>
<td>AMOS</td>
<td>Analysis of moment structures, a product developed by IBM</td>
</tr>
<tr>
<td>AUD</td>
<td>Australian dollar</td>
</tr>
<tr>
<td>ASV</td>
<td>Average shared variance</td>
</tr>
<tr>
<td>AVE</td>
<td>Average variance extracted</td>
</tr>
<tr>
<td>CAQDAS</td>
<td>Computer assisted qualitative data analysis software</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief executive officer</td>
</tr>
<tr>
<td>CFA</td>
<td>Confirmatory factor analysis</td>
</tr>
<tr>
<td>CFI</td>
<td>Comparative fit index</td>
</tr>
<tr>
<td>CMB</td>
<td>Common method bias</td>
</tr>
<tr>
<td>CMIN</td>
<td>Chi-square value</td>
</tr>
<tr>
<td>CODE</td>
<td>The Australian Franchising Code of Conduct</td>
</tr>
<tr>
<td>CR</td>
<td>Composite reliability</td>
</tr>
<tr>
<td>DF</td>
<td>Degrees of freedom</td>
</tr>
<tr>
<td>DV</td>
<td>Dependent variable</td>
</tr>
<tr>
<td>EFA</td>
<td>Exploratory factor analysis</td>
</tr>
<tr>
<td>F</td>
<td>F statistic</td>
</tr>
<tr>
<td>FAANZ</td>
<td>Franchise association of Australia and New Zealand</td>
</tr>
<tr>
<td>FAC</td>
<td>Franchisee Advisory Council</td>
</tr>
<tr>
<td>FCA</td>
<td>Franchise Council of Australia</td>
</tr>
<tr>
<td>GFI</td>
<td>Goodness of fit index</td>
</tr>
<tr>
<td>IFI</td>
<td>Incremental fit index</td>
</tr>
<tr>
<td>ISOF</td>
<td>International Society of Franchising</td>
</tr>
<tr>
<td>IV</td>
<td>Independent variable</td>
</tr>
<tr>
<td>MSV</td>
<td>Maximum shared variance</td>
</tr>
<tr>
<td>n</td>
<td>Sample size</td>
</tr>
<tr>
<td>NVivo</td>
<td>A particular type of CAQDAS, developed by QSR International Pty Ltd</td>
</tr>
<tr>
<td>p</td>
<td>Probability estimate</td>
</tr>
<tr>
<td>r</td>
<td>Pearson correlation coefficient</td>
</tr>
<tr>
<td>$r^2$</td>
<td>Coefficient of determination</td>
</tr>
<tr>
<td>RMSEA</td>
<td>Root mean square error of approximation</td>
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<tr>
<td>Abbreviation</td>
<td>Description</td>
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<tr>
<td>SD</td>
<td>Standard deviation</td>
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<tr>
<td>SEM</td>
<td>Structural equation modeling</td>
</tr>
<tr>
<td>SPSS</td>
<td>Statistical package for the social sciences, a product developed by IBM</td>
</tr>
<tr>
<td>TLI</td>
<td>Tucker Lewis coefficient</td>
</tr>
<tr>
<td>TPA</td>
<td>Trade Practices Act (Commonwealth, Australia)</td>
</tr>
<tr>
<td>VIF</td>
<td>Variance inflation factor</td>
</tr>
<tr>
<td>$x^2$</td>
<td>Chi-square</td>
</tr>
<tr>
<td>$z$</td>
<td>Discriminant z-score</td>
</tr>
</tbody>
</table>
Publications achieved during this doctorate

Journal articles

Conference papers

Industry reports

Prizes and awards
2014 GBS HDR Poster Competition People's Choice Award
Joint winner 2014 HDR 3 minute thesis Department of Marketing competition
Ethical clearance

As an institution, Griffith University requires all research to receive ethical clearance prior to commencement. This research project was approved ethical clearance on 23 May 2013 (GU ref no: MKT/11/13/HREC).
Acknowledgements

I have enjoyed writing my PhD, a task that would not have been possible without the support of many people. First and foremost, I would like to thank Professor Lorelle Frazer for her continued guidance and encouragement throughout this journey. She provided valuable suggestions and contributions to my initial drafts as well as ensuring I remained focus and on track to complete my thesis within three years. Lorelle selflessly gave up her time to teach me about franchising, academic research, as well as the craft of writing, for all of which I am extremely grateful.

I would also like to thank the late Professor Rajiv Dant for his valuable input and advice during my candidature. It was an honour to spend those last few weeks with you on the Gold Coast campus where you freely gave up your time and helped to improve my thesis considerably. My work, especially the final model we developed, would not be what it is without your advice and guidance so thank-you Rajiv, it was both an honour and a privilege to have you as one of my supervisors.

Thank-you to Professor Scott Weaven for his involvement in my supervisory team and for always giving me time when I needed to ask a question or resolve an issue, especially during the quantitative analysis phase. I have learnt many things from Scott and have been very fortunate to have his involvement in this journey.

Many thanks also to Dr Robin Pentecost and Dr Peter Grimbeek for their assistance with SEM techniques. Your insight was valuable and I am very grateful for the time you gave to help me.

I would also like to thank Dr. Ken Billot for sharing his wisdom on a diverse array of topics with me, ranging from franchising, to fishing, to David Bohm’s changing consciousness. It was always good to catch up with you, this side of the Tasman or the other. Thank you also for taking the time to read through some of my initial drafts, the feedback you provided was instrumental in improving the quality of my work.

Thanks also to the 30 franchising experts, franchisees, and franchisors, who gave up their time to speak with me about their own experiences with trust and the complexities of the franchising relationship. Also, thanks to the 225 anonymous franchisees who completed my online survey.

The Australian government, Griffith University, the Griffith Business School, and the Department of Marketing, also provided invaluable financial and in-kind support to me throughout my candidature. Their support is greatly appreciated.

Completing a PhD can be a solitary journey, yet there are times when it is good to reflect on the journey with others who are also walking the same road. Two fellow PhD students, Timo Dietrich and Janet Palmer, made this journey that much more enjoyable. It was great to talk about the PhD process as well as discuss the details of my own research. Thank you both for your input, and the good times, but most of all for your friendship.

Thank you to Matt, Chris, and Dan, for always being a phone call away and for the good times, the adventures, and for the brotherly-camaraderie.

My thanks also go to my parents who taught me to never give up: many things can be achieved with determination, so thank you for your continued love, support, and encouragement. Words would not do justice to the gratitude I feel when I think of the impact you have had on my life.

And finally to my wife, Andrea. Thank you for your friendship and for always being positive and supportive as I chase my dreams. One of which has been to complete my doctorate, so thank you for encouraging me to keep climbing over the past three years, I am truly blessed to have you in my life.

Keep climbing.
Chapter 1 – Introduction

1.0 Introduction

A central proposition of this dissertation is the pivotal role of franchisee trust and franchisor trustworthiness in the overall performance of the franchise. Under the Australian Franchising Code of Conduct (the Code), there must be an agreement between a franchisee and the franchisor for a franchise to exist. Hence, central to the franchising phenomenon is the relationship between the franchisee and the franchisor (‘the franchising relationship’). Stanworth (1991) describes the relationship between the franchisee and the franchisor as the *nerve-centre* of franchising whereby franchisees expect to receive some level of value from their franchisor (Grünhagen and Dorsch, 2003). It will be argued throughout this dissertation that franchisor trustworthiness is considered extremely valuable to a franchisee, and on the other hand, franchisee trust is considered extremely valuable to a franchisor because strong inter-organisational relationships promote improved profitability (Palmatier, 2008). Yet, how this *nerve-centre* is managed is of great interest. Furthermore, trust and trustworthiness are distinct concepts, yet they are inter-related because trusting (an individual) is usually grounded in the assessment of the trustworthiness (of that individual).

Frazer, Weaven, Giddings, and Grace (2012) found that franchisees nominated franchisor credibility, trustworthiness, and integrity as important drivers in their relationship. Building upon this research, this dissertation will explore the function of franchisee trust and franchisor trustworthiness as a function for ensuring the longevity of the relationship as well as the reduction of major destructive conflict escalation; battles that can end in expensive litigation (see Rodney Hackett v McDonald’s Australia Ltd, 2000). Consider the opinion of Ray Kroc, the founder of McDonald’s: “I have finally found the way that will put every single McDonald’s we open under our complete control...now we have a club over them [the franchisee], and by God, there will be no more pampering or fiddling with them. We will do the ordering instead of going around and begging them to co-operate” (Love, 1987: p156-157). This attitude is not

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1 The strategy consisted of a clause in the franchisee’s sub-lease stating that if at any McDonald’s System Inc. notifies Franchise Realty Corporation [a separate real estate company, owned by McDonald’s System Inc.] that the operation does not conform in every way to the McDonald’s standards of quality and service, this lease will be cancelled on thirty-day notice.
representative of all franchisors, however it still represents the nature of the franchising relationship and the associated asymmetrical power differences (Dant, Grünhagen and Windsperger, 2011). As Croonen and Brand (2013) suggest, franchisors must begin to realise the importance of franchisee trust as a determinant of overall system performance. Hence, this research aims to explore these issues in a comprehensive, rigorous, and methodological manner with the purpose of developing a framework for building franchisee trust.

This chapter, outlined in figure 1.1, begins with a discussion of the originality of the research (section 1.1). The background to the research problem is discussed in section 1.2 and in section 1.3, the theoretical background is examined with specific focus on agency theory. The central research questions are expressed in section 1.4 and the proposed research method and research strategy are set forth in sections 1.5 and 1.6 respectively. Section 1.7 outlines the entire dissertation with section 1.8 concluding the opening chapter.
Figure 1.1
Outline of chapter 1

1.0 Introduction

1.1 Originality of the research
1.1.1 Research significance
1.1.2 Research justification

1.2 Background to the research

1.3 Theoretical background

1.4 Research focus and research questions

1.5 Research method

1.6 Research strategy and conceptual framework
1.6.1 Interpretive social science
1.6.2 Positivist social science

1.7 Dissertation outline

1.8 Conclusion

Source: developed for this research
1.1 Originality of the research

According to Phillips and Pugh (2000) original research involves: (1) conducting empirical work that has not been done before, (2) looking at areas that have not been researched by other scholars in the discipline, and (3) adding to knowledge in a new way. Primary data is collected by the author from franchising participants whereby first-hand knowledge is gathered focusing specifically on the franchising relationship. The process of digging deeper into how trust is managed between the franchisee and the franchisor provides original insight into the dynamics of franchising relationships. This research is also carried out in a professional manner ensuring rigour and reliability whereby the findings can be used to help improve the franchising sector as a whole.

1.1.1 Research significance

This research aims to provide a significant contribution to the existing franchising literature through the application of rigorous and reliable research methods. Research is never based on fabrication and imagination (Neuman, 2011), indicating the importance of robust empirical methods of discovery. Thus, this research adopts a mixed methodological approach. Consisting of three phases, different techniques and methods of inquiry will be utilised to collect and analyse data from franchising participants. A major function of using these research techniques is to dispel myths (McBurney, 1998) and thus provide a clearer and significant understanding of the topic being researched. Thus, the effective implementation of the research plan described in this chapter will provide significant research and result in a greater understanding of franchisee trust and franchisor trustworthiness within the franchising relationship.

This research is significant as distrust within franchising can be disruptive and detrimental to the brand. For example, in 2014, 80 Australian Pizza-Hut franchisees filed a class action lawsuit against their franchisor over a pricing strategy conflict. The franchisor decided to implement a $4.95 sales price for pizzas. The franchisees argued that the new pricing strategy was unsustainable and it would jeopardise the profitability of their business (Cowie, 2014). On the other hand, the franchisor argued that the low cost pricing strategy was essential in order to compete in the heavily saturated pizza industry. It is hoped that the trust-building strategies developed from this research will assist practitioners during tumultuous times. This research is significant as it will assist in
the healthy development of trust and the reduction of the negative impact caused by distrust.

### 1.1.2 Research justification

Building relationships – personal and commercial – that stand the test of time is always challenging. A major proposition of this research is: as relationships evolve, trust is either built or it erodes into distrust. It is important to understand the role trust plays in the durability of the franchising relationship. Prior studies, within the organisational literature, confirm that trust plays a key role in effective commercial collaboration (Lewicki et al., 1998). Furthermore, studies within the franchising literature, confirm the importance of trust between the franchisee and the franchisor (Croonen 2010; Frazer et al., 2012). Research also shows that trust has a positive effect on relationship satisfaction and its presence reduces perceived conflict (Weaven et al., 2013). This original and empirical research will add value to the existing body of knowledge with emphasis placed on the franchising relationship; a relationship that is fraught with complexities and challenges.

### 1.2 Background to the research

In the Australian franchising sector, issues are still being raised concerning the rights and obligations of both the franchisee and the franchisor. The 2013 review of the Franchising Code of Conduct (the Code) focused on several major issues, one of which was good faith (that is, acting in a trustworthy manner toward one another within the franchising relationship). As a franchise system grows, so too does the complex web of relationships, providing for a multifaceted community of business owners. The franchisor and the franchisee operate legally distinct businesses (Felstead, 1993) yet they are united under the same brand. Until now, little has been done to unpack the complex trust relationships amongst the people within a franchise system. This task is challenging as there can be a myriad of roles found in any large franchise business-format system including franchisee, franchisor, marketing manager, business development manager, administration staff, area manager, and frontline staff. Understanding how trust is built between and across the different roles and positions provides valuable insight into how a
franchise system operates, the rights and obligations of both the franchisee and the franchisor, or more aptly, how franchising should be done (Wright and McAuley, 2012).

The underlying theme of this dissertation argues for the presence of trust, trustworthiness, fairness, loyalty and unity in franchising. The counter argument implies that the franchising business model is primarily a wealth creation tool; sentimentality and personal relationships have little value. There are those who argue that franchising works best when relationships are kept at arm’s length. One franchisor from a large, multinational franchise argued that franchisee longevity does not necessarily lead to greater growth and profitability. He said, ‘new enthusiasm can be a lot better than old complacency’ (personal correspondence with the author, April 2014). A strategy of repeatedly selling a franchise site to new franchisees is known as ‘churning’. Churning rates are usually downplayed in the franchising sector, counter to current research that reveals the rising rate of churning (Stanworth et al., 2001). Franchisors who engage in this type of behaviour have been labeled commercial leviathans (Warren, 2009) whereby a duty of good faith may be replaced by a duty to act in a commercial interest. Franchising is an example of a commercial contractual relationship whereby both parties are susceptible to exploitative conduct (Terry and DiLernia, 2009). However, the franchisee and the franchisor are not strangers and the typical franchisee is not a commercial leviathan. Much of the interaction occurs off the contract, a type of interaction that is not visible to the courts and thus very difficult to regulate (Hadfield, 1990).

The media often publishes news stories on franchising relationships that have been damaged beyond repair. For example, a legal battle between a Hungry Jack’s franchisee and the franchisor was settled out of court when a franchisee felt she was terminated wrongfully. Hungry Jack’s sued her for $721,000 which she then counter-sued for a value of $320,000. An email from the founder of the organisation to another executive asks, “What on Earth are we doing giving a franchise to a 29 year old single woman?” (Cooper and Russell, 2014). Maintaining the franchising relationship is considered to be important as litigation battles can be costly and damaging to the franchise brand, therefore research into how high levels of trust between the franchisee and the franchisor can be built and maintained is considered to be a worthy research endeavour.

Within this dissertation, the analogy used to describe the phenomenon of franchising is the orchestra. The people working in, or for, a franchise system are all contributing to a symphony. Everyone has their own part to play and the elements of trust and trustworthiness are critical to a seamless performance. Even though franchising is utilised
across many industries and exists in varied contractual terms and practices, in each instance franchising involves the cohesive cooperation of individuals; preferably united by a single vision. Continuing with this analogy, the conductor of the symphony is the leader of the franchise; often the founder of the system and driving force behind the brand. Usually the franchisor is not one person, it consists of a team of managers and support staff. However, the leader of the organisation (the CEO, Managing Director, or founder) is responsible for setting the tone. Yet if the violins are playing a different tune to the cellos, everyone suffers embarrassment. Likewise, orchestrating a franchise system requires skill and patience. It is argued that trust and trustworthiness between the franchisee and the franchisor results in a more effectively integrated system than if the relationships are operated at arm’s length.

Trust can be examined from a macro and a micro level. Macro-level trust (general trust) is a belief that the goodwill, honesty and sincerity of others can generally be relied upon (Rotter, 1967). Micro-level trust (the focus for the remainder of the thesis) is concerned with the specific interests and motivations of the individuals involved in the trusting relationship. Encapsulated-interest trust is a belief that the trusted will be trustworthy as it is in his or her interest to be trustworthy toward the trustee. For example, the trust you have for another person generally exists because you believe that it is in his or her interest to be trustworthy, and this person wishes to maintain their relationship with you (Hardin, 2002).

According to the Small Business in Focus (2012 and 2013) reports issued by the governing body of the franchising sector, the Australian Competition and Consumer Commission (ACCC), throughout 2012 a total of 848 franchising complaints were lodged. This figure dropped in 2013 to 595 complaints. The complaints made by franchising participants were usually consumer law related - alleged misleading and deceptive conduct – or Code related issues such as disclosure and termination of the franchising agreement. Franchisees (or franchisors) that are willing to make a formal complaint to the ACCC suggests that they are not in an authentically trusting relationship. The complaints may be substantiated and accurate, however it does not paint a picture of a healthy relationship. Furthermore, as displayed in table 1.1, of approximately 350 franchisees surveyed, not everyone is positive about the trust they have in their franchisor.
Table 1.1
Synopsis of franchisee perceptions

<table>
<thead>
<tr>
<th>Category</th>
<th>Question asked</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust</td>
<td>1. I can count on my franchisor to be honest in his/her dealings with me?</td>
<td>55 percent agreed</td>
</tr>
<tr>
<td></td>
<td>2. My franchise is a company that stands by the commitments made by its staff?</td>
<td>54 percent agreed</td>
</tr>
<tr>
<td></td>
<td>3. I can rely on my franchisor to keep the promises he/she makes to me?</td>
<td>52 percent agreed</td>
</tr>
<tr>
<td></td>
<td>4. My franchisor can be counted on to do what is right?</td>
<td>49 percent agreed</td>
</tr>
<tr>
<td>Relationship satisfaction</td>
<td>5. Overall, I consider my relationship with my franchisor to be satisfying?</td>
<td>53 percent agreed</td>
</tr>
<tr>
<td></td>
<td>6. Overall, I consider my relationship with my franchisor to be fair?</td>
<td>54 percent agreed</td>
</tr>
<tr>
<td></td>
<td>7. Overall, I consider my relationship with my franchisor to be healthy?</td>
<td>55 percent agreed</td>
</tr>
<tr>
<td></td>
<td>8. Overall, I consider my relationship with my franchisor to be cordial?</td>
<td>63 percent agreed</td>
</tr>
<tr>
<td>Handling of disputes</td>
<td>9. Whenever I am in trouble, I know my franchisor will help me out?</td>
<td>42 percent agreed</td>
</tr>
<tr>
<td></td>
<td>10. The franchisor deals with disputes in ways designed to build trust in the relationship?</td>
<td>36 percent agreed</td>
</tr>
</tbody>
</table>

Notes: 1) Source: adapted from Frazer et al., 2009, “Towards conflict resolution report”.
2) Sample size ranged from 345 franchisees to 349 franchisees.
3) Franchisees were asked to answer the questions based on a five point Likert scale ranging from ‘strongly disagree’ to ‘strongly agree’.

A major goal of this research is to investigate why some franchisees do not trust their franchisor. Discussion is centred on creating avenues for a healthier and more stable franchising relationship, determining how franchising should be done (Wright & McAuley, 2012) and the potential benefits to both the franchisee and the franchisor in maintaining an authentically trusting relationship. But trust from one party alone is not enough. Trust in the franchisor is just as important as trust in the franchisee. On the one hand, only 1 in 2 franchisees do not feel that they can rely on their franchisor (question 3, Table 1.1). However, on the other hand – from the franchisor’s perspective – a major impediment to a high trusting relationship is lack of franchisee compliance. Over the past decade, the biennial Franchising Australia Surveys (Frazer et al., 2002 to 2014) have consistently found franchisee non-compliance to be the most common cause of
franchising disputes. The results are aggregated in Figure 1.2, showing that in 2002, Australian franchisors indicated that 27 percent of all substantial disputes with their franchisees were a result of compliance issues. This figure peaked in 2008 (66 percent) and the most recent result shows that in 2014, 62 percent of disputes arise because of lack of franchisee compliance.

Figure 1.2
Percentage of disputes because of franchisee non-compliance

![Bar chart showing percentage of disputes due to franchisee non-compliance from 2002 to 2014]

Source: adapted from data collected in the Franchising Australia surveys over the last decade (Frazer et al., 2002 to 2014)

The above data shows the impact non-compliance has on conflict between the franchisee and the franchisor. In a typical business-format franchising arrangement, the franchisor provides a blueprint and operational manual to the franchisee who is expected to strictly follow the detailed plan (Dant, Grünhagen and Windsperger, 2011). Failure to comply with the proven system can be detrimental to the entire franchise because of inconsistent standards. However, this issue continues to be a major source of conflict and may be a contributor to a sense of distrust between the two parties. The problem of non-compliance can be classified as a vertical agency problem, discussed in the following section.
1.3 Theoretical background

Initially developed from the economic literature (Coase, 1937) agency theory provides a unique perspective on the problematic nature of cooperation. Issues may arise in the workforce because of lack of trust, different incentives, divergent goals, risks and information asymmetry. Agency theory attempts to understand the complexities of relationships within economic systems, continuing to develop across two schools of thought: positivist agency theory and principal-agent research (Jensen, 1983; Eisenhardt, 1989a). The majority of positivist research focuses on the CEO/owner relationship within large corporations. The focus is on determining the most efficient government mechanisms for reduction in conflict caused by CEO and owner goal divergence. More specifically, is it more efficient for the firm to engage with a CEO based on an outcome-oriented contract (for example, commissions) or a behaviour-oriented contract (for example, salaries)? The issue is centred on controlling the agent. Hardin (2002) suggests that giving people very strong incentives tends to move them toward being deterministic actors with respect to the matters at stake. This reduces agent opportunism. A major assumption within the positivist stream is that actors will behave in an opportunistic manner, resulting in the need for expenditure (agency costs) to assist in effective relational coordination (Jensen & Meckling, 1976).

The positivist school of thought consists of two major propositions specific to the CEO/owner relationship (Eisenhardt, 1989a). Firstly, when the contract between the principal and the agent is outcome-oriented, the CEO is more likely to behave in the interests of the owners. For example, Jensen and Meckling (1976) found that managers with more of a firm ownership had stronger financial incentive to act in a trustworthy manner and therefore agent opportunism decreased. The second proposition suggests that higher accuracy of information systems observing agents results in a greater ability to monitor behaviour. The CEO is less likely to deceive the owner if he or she is under constant supervision. Fama and Jensen (1983) also found that the board of directors also played a role in obtaining information specific to the actions of executives. Even though positivist agency theory has been criticised for being minimalist (Perrow, 1986), this theory is thought to enrich the economic understanding of the firm by offering a greater understanding of the complexities of relationships within organisations (Jensen, 1983).

The second school of thought has a broader focus. It is concerned with developing a general theory of the principal-agent relationship that can be applied to most
contexts such as employer-employee, lawyer-client, doctor-patient, buyer-supplier and other agency relationships (Harris and Raviv, 1978). Research within this paradigm requires careful consideration of the assumptions (for example, all actors are self-interested) which is then followed by logical deduction and mathematical proof (Eisenhardt, 1989a). The focus of most of the literature within this school of thought is on determining the optimal contract, outcome or behaviour oriented, between the principal and agent. According to Ross (1973), the relationship of agency is one of the oldest forms of social interaction with examples existing ubiquitously. Essentially all relationships between individuals, including employment, political, legal, strategic, franchised, friendly or even romantic relationships contain elements of agency. As Hardin (2002) suggests, trust in an agent is grounded in the agent’s trustworthiness; the trustworthy agent acts for the greater welfare, or in the best interests, of the principal.

At the heart of agency theory is the balance between (a) the cost of measuring agent behaviour, and (b) the cost of measuring outcomes and transferring risk to the agent (Eisenhardt, 1989a). Therefore, at the core, agency theory provides a unique and empirically testable perspective on issues surrounding cooperative effort within relationships. Furthermore, Eisenhardt considers both schools of thought to be complimentary; positivist theory identifies various contract alternatives and principal-agent theory indicates which of these alternatives are most efficient under varying levels of outcome uncertainty, risk, information asymmetry, goal conflict, programmability, and length of the relationship.

Combs, Michael, & Castrogiovanni (2004), in their review of the traditional theories of franchising, provide five major assumptions of agency theory. Firstly, agency theory assumes that economic actors are opportunistic. Secondly, the parties involved have different goals and objectives. Direct monitoring of agents is very costly, thus the third assumption identifies the use of franchising as a more viable substitute because of the ownership incentives offered to franchisees. The final two assumptions focus on agency problems: vertical agency problems and horizontal agency problems. The former assumes employees and managers within company owned outlets will shirk (that is, reduce effort). The latter suggests franchisees may free ride on the efforts of other franchisees.

Within the agency relationship, a conflict of interest will always exist because of the first assumption illustrated by Combs, Michael, & Castrogiovanni (2004). The agent (franchisee) may not always act in an altruistic manner with the principal’s (franchisor’s)
best interests at heart (Jensen & Meckling, 1976). Thus, both parties are assumed to be self-interested and opportunistic. This potential for opportunistic behaviour (such as shirking) is two-sided in the franchising relationship; that is, both the principal and the agent have the ability to act opportunistically. Economists refer to this situation as a double-sided moral hazard (LaFontaine, 1992). Within the existing franchising literature this problem has also been referred to as a **vertical agency problem** (Combs, Michael and Castrogiovanni, 2004).

Rubin (1978) was the first to develop an argument for the vertical agency problem within the context of franchising. Rubin argued that franchisees, when compared to employees, are less likely to shirk because they have been awarded ownership incentives. Thus, on the one hand, the effort of a franchisee directly impacts their income earned; the harder a franchisee works, the more income he or she will receive (outcome-oriented contracts). However, an employee will usually be paid a fixed wage (behaviour-oriented contracts). This situation adds to the debate over the use of incentives (for franchisees) versus monitoring (for employees) so as to operate at the most efficient capacity. An example of a franchisor using incentives occurs in the provision of ownership rights and delegation of decision making authority to a franchisee. An example of a franchisor monitoring their employees may include the hiring of a regional supervisor to monitor employees on a daily basis. Because employees are more likely to shirk (Rubin, 1978), this will increase the overall cost of the agency relationship (Bradach, 1997). As agents are assumed to be self-interested and to possess different goals and objectives to that of the principal, the principal must expend capital (agency costs) to reduce the effects of opportunistic behaviour (Combs, Michael, & Castrogiovanni, 2004). The daily interaction between individuals is wide and varied for there are many forces – tangible and intangible – at play. Trust is one of these intangible forces.

### 1.4 Research focus and research questions

This research provides a comprehensive framework for understanding the complexities of trust within franchising. Mendelsohn (1999) defines the existence of a franchisee and a franchisor as necessary components of the basic franchising relationship. However, a franchisee may be an individual, a partnership, a husband and
wife team, a company or a trust. On the other hand, a franchisor may also be an individual, a team of individuals or a large multi-national corporation. Furthermore, both the franchisee and the franchisor are considered to be separate legal entities, even though they operate under the same name (Felstead, 1993). This multi-layered nature of the franchising relationship can add to the confusion of understanding the specific trust relations within a typical franchise system, asking – *in whom do you trust?*

**Figure 1.3**

**The complex web of possible trust relationships from the perspective of a franchisee**

Figure 1.3 provides an illustration of the complex web of trust relationships from the perspective of an individual franchisee. An individual franchisee will form many trusting relationships potentially including any of (but not limited to) the following: (1) trust in the leader, CEO, founder (2) trust in the master franchisor, (3) trust in the franchisor frontline employees, (4) trust in their own employees, (5) trust in other franchisees, (6) trust in suppliers, (7) trust in the local government, (8) trust in...
competitors, and (9) trust in customers. Some ties may be stronger than others. For example, a franchisee might trust their own business partner more than the franchisor system founder. Furthermore, a franchisee may be asked to trust someone whom they have never met, as found in large multi-national franchise systems. Thus, gaining clarity on specific trusting relations within franchising relationships is the first goal of the dissertation.

The central research question in this thesis focuses specifically on the phenomenon of franchisee trust. The first question is exploratory in nature:

**RQ1. How is franchisee trust understood within the franchising sector?**

Understanding franchisee trust within the context of the franchising relationship is important as prior research shows that only one in two franchisees expect their franchisor to be honest with them (Frazer, Giddings, Weaven, Grace & Grace, 2009). Furthermore, in the same study, only 52 percent of franchisees stated they could rely on their franchisor to keep their promises. However, trust is often a matter of degree (Hardin, 2002) meaning that it can change throughout the life of the relationship; trust can turn into distrust quite easily. Figure 1.4 presents this conceptualisation of trust and distrust as a continuum. **Paranoid distrust** exists at one polar extreme while **authentic trust** lies at the other. According to Solomon and Flores (2001) trust is not something we have or do not have; trust is a process, continually developed and cultivated throughout the life of the relationship; trust is not static. The trust you have in someone can easily turn into distrust, hence trust exists on a fluctuating continuum throughout the life of any relationship. Furthermore, you may trust some people more than you trust others. Hardin (2002) says that people who you trust with respect to very many things, virtually beyond doubt, are very rare. At the individual level, trust in another might never be authentic; however, as long as trust still exists, and both parties act in a trustworthy manner, cooperation can be maintained.
Understanding where the franchisee and the franchisor exists on the trust/distrust continuum will provide interesting insight into the overall health of the relationship. Furthermore, understanding how trust is built – as well as the barriers to building trust – within the franchising relationship will provide a significant contribution to the franchising literature. Thus, the remaining research questions are:

**RQ2: Can authentic trust exist within the franchising relationship?**  
**RQ3: What are the barriers to building franchisee trust?**  
**RQ4: How is franchisee trust built in the franchisor?**  
**RQ5: What role does trust play in franchisee performance?**

The five central research questions will guide the research inquiry throughout the data collection stage. The questions are empirical questions (Punch, 2000), meaning that they will be answered by obtaining direct and observable data from the world – as opposed to theoretical or conceptual research. Both quantitative and qualitative data assist in painting an empirically grounded picture of the phenomenon under study. The method used to collect the data is the discussion of the next section.
1.5 Research method

This research adopts both qualitative and quantitative research methods consisting of three phases. The first two phases are qualitative in nature and the final phase is quantitative. Phase one consists of an exploratory investigation of the major themes and gaps identified in the literature review, asking franchising experts to share their wisdom on trust within franchising relationships. Phase two of the research consists of multiple case studies, whereby franchisees and franchisors are asked to share their experience of trust and trustworthiness within the relationship. Finally, phase three consists of a quantitative survey of Australian franchisees.

The existing scholarly discussion of the integration of quantitative and qualitative research is extensive (Brannen, 1992; Tashakkori & Teddlie, 1998; Creswell, 2003; Punch, 2005) with many advantages and disadvantages associated with adopting this type of approach (Bryman, 2006). Hoyle, Harris and Judd (2002) suggest that there are many “ways of knowing” (2002: p3) – and researchers who are confined to a single method or procedure will provide for an inherent limitation. They advocate the use of mixed research methodology as no one procedure can provide a complete description of the phenomenon being researched. Furthermore, Creswell (2003) indicates that mixed methodological studies convey a stronger sense of rigour to the research. In particular, because this research focuses on aspects of trust within the franchising relationship, a complete and rigorous understanding of how these constructs exist within the ‘real world’ is essential. Looking at this research through one research lens (that is qualitative or quantitative) would only provide half the picture. Hence, to provide a comprehensive understanding of trust within the franchising relationship, this research will follow the suggested plan as displayed in figure 1.5.
1.6 Research strategy and conceptual framework

As this research has been structured to include both qualitative and quantitative research, the strategy will include both interpretive and positivist inquiry. Neuman (2011) identifies three major research paradigms used by researchers for centuries to observe, measure and understand social reality: positivist social science, interpretive social science and critical social science. In this research, the first two will be most widely used; phase
one and two will be framed within the interpretive paradigm and phase three will be framed within the positivist paradigm.

### 1.6.1 Interpretive social science

Phase one and two are qualitative in nature adopting an interpretive line of inquiry. Within this perspective, individuals seek to understand the world in which they live by developing subjective and often complex meaning in their experiences (Mertens, 2010; Denzin & Lincoln, 2011; Neuman, 2011). Because these meanings are varied and multiple, the goal of this type of research is to rely as much as possible on the participant’s view of the situation, not one’s own view. Emphasis is placed on subjective understanding whereby researchers inductively develop a pattern of meaning (Crotty, 1998; Schwandt, 2007). In terms of research design, the line of questioning employed in interpretive social science is broad and general so that the participants are able to formulate (without assistance) their own meaning of the situation. The more open-ended the questioning, the better, whereby the researcher should listen carefully, with little interruption, to what people say or do in their life setting (Creswell, 2013). Thus, interpretive social science, contained within a nominalistic ontology, often focuses on the specific contexts in which people live and work in order to understand the historical and cultural influence on participants ideas, allowing for the development of comprehensive themes. Researchers also recognize that their own background shapes their interpretation, thus it is useful to ‘position themselves’ in the research to acknowledge how their interpretation flows from their own personal, cultural and historical experiences. It is important to understand the significance of the researcher’s interpretation as shaped by their own experiences and background. The researcher’s intent, then, is to make sense of (or interpret) the meanings of other peoples’ worldviews. This is why, according to Creswell (2013), qualitative research is often called ‘interpretive research’.

### 1.6.2 Positivist social science

Phase three of this research project is quantitative in nature and is framed within the positivist paradigm. Considered to be the oldest and most widely used approach, positivism employs rigorous and exact scientific measures to provide ‘objective’ research (Neuman, 2011). Hence, positivism follows a realist ontology whereby preexisting patterns can be discovered. Positivists hold that reality exists ‘out there’ and is waiting to
be discovered, like Columbus discovering America in the sense that both are simply there waiting to be revealed (Mulkay, 1979). Henceforth, of major significance within this paradigm is the discovery and confirmation of objective causal laws that can be used to predict general patterns of human behaviour. Thus, the purpose of phase three in this research is to determine any causal laws associated with franchisee trust. Figure 1.6 shows how the different research phases are structured so as to build upon each other, adopting mixed methods and framed within both the interpretive and positivist paradigm.

**Figure 1.6**
Research structure continuum

<table>
<thead>
<tr>
<th>Unfolding Structure</th>
<th>Prespecified Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loosely structure design</td>
<td>Tightly structured design</td>
</tr>
<tr>
<td>Looking for questions</td>
<td>Looking for answers</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Phase 1</th>
<th>Phase 2</th>
<th>Phase 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Qualitative interviews with experts</td>
<td>- Qualitative multiple case studies</td>
<td>- Quantitative survey</td>
</tr>
<tr>
<td>- Nominalist ontology</td>
<td>- Nominalist ontology</td>
<td>- Realist ontology</td>
</tr>
<tr>
<td>- Interpretive paradigm</td>
<td>- Interpretive paradigm</td>
<td>- Positivist paradigm</td>
</tr>
</tbody>
</table>


### 1.7 Dissertation outline

This chapter provides an introduction to the dissertation whereby the research problem, central thesis and proposed research method is discussed. This research is significant because trust and trustworthiness are essential to the optimisation of the franchising relationship. Furthermore, this research will develop effective strategies that
can be implemented by practitioners to build franchisee trust. The strategies developed will have both an empirical grounding (primary data collected from the Australian franchising sector) and a theoretical grounding (agency theory). Agency theory provides a strong theoretical foundation from which to examine the principal agent relationship. According to Shapiro (2005) agency relationships play an important role in the social fabric; they are omnipresent. Emphasis is placed on unpacking the specific agency relationship utilised in franchising with the aim of understanding how agency relationships are controlled, monitored and built from a sociological perspective.

The rigorous research methods employed provide a robust research inquiry beginning with a review of the literature (Chapter 2). Existing scholarly thought is organised into themes and sub-themes ranging from power and control within the relationship to topics on erosion of trust. Trust is examined from many different perspectives from leading scholars with the aim of providing a comprehensive and well articulated understanding of the phenomenon. Finally, a gap in the literature is identified whereby primary research can be conducted to answer the four central research questions (section 1.4). Empirical data, both qualitative and quantitative, is collected in a three-phase strategy as depicted in figure 1.5. Chapter 3 outlines the proposed research method in detail.

Chapters 4, 5, and 6, focus on each of the three phases of the research, respectively. Each chapter provides comprehensive analysis and discussion of the findings. Each of the phases build upon the preceding study. Thus, phase one provided an exploratory investigation of the topic area by interviewing franchising experts. From the thematic analysis, a semi-structured interview schedule was developed for the use in phase two. The findings from the interviews in phase two assisted in developed the theoretical model that was tested in the final phase of the research using SEM techniques. Finally, chapter 7 concludes the dissertation with a discussion on the hypotheses, practical recommendations, theoretical implications, wider implications for the franchising literature as well as the limitations of the research and future research directions. The above outline of the dissertation is illustrated in figure 1.7.
Figure 1.7
Outline of the dissertation

Chapter 1 – Introduction

Chapter 2 – Literature review

Chapter 3 – Research method

Chapter 4 – Phase one of the research Inquiry: interviews with franchising experts

Chapter 5 – Phase two of the research inquiry: multiple case studies

Chapter 6 – Phase three of the research inquiry: quantitative analysis

Chapter 7 - Conclusion

Source: developed for this research
1.8 Conclusion

The complexity of trust within franchising relationships – particularly from the franchisee's perspective – is a significant topic that deserves scholarly investigation. Although the topic of trust is multifaceted, this dissertation provides an informative and original research inquiry into how trust and trustworthiness can be cultivated between the franchisee and the franchisor. Prior research (Frazer et al., 2009), media stories (Cooper and Russell, 2014; Cowie, 2014) as well as data collected from the Australian Competition and Consumer Commission (ACCC: 2012, 2013) provide evidence that trust can easily erode between the franchisee and the franchisor. The lack of trust can lead to relationship breakdown as well as decreased performance, profitability, and efficiency of the franchise system. Furthermore, there is also a financial burden created by a breakdown of trust: the high cost of litigation. Both the franchisee and franchisor make a substantial commitment when they sign the franchise agreement, one that should not be wasted because of a failure to maintain a trusting relationship. This research by no means provides all the answers, however it does take a small step in the quest to improve the understanding of franchisee trust and franchisor trustworthiness and how they can be integrated to assist in cooperative business relationships.
Chapter 2 – Literature review

2.0 Introduction

According to Parmigiani et al (2011), no organisation is an island; relationships are essential for growth and success. The relationship between the franchisee and the franchisor embodies a unique form of business collaboration (Shane and Hoy, 1996) where trust plays a key role (Croonen and Brand, 2013). According to Roberts (2004) modern organisations require two broad sets of behaviour: initiative and cooperation. The former refers to the honest and intelligent behaviour that leads to an increase in unit sales, firm profitability and business growth. The second type of behaviour – cooperation – refers to behaviour that promotes the collective well being of an organisation achieved through the pursuit of common goals. The type of cooperation necessary in a well-managed organisation requires more than arm’s length relationships would induce, largely because of the inherent interdependencies required for effective output. Working together usually involves interdependence (Mayer et al., 1995). Amabile et al (2014) refers to this phenomenon as collaborative-help whereby organisations can only operate at peak efficiency when a culture of helping each other is encouraged. As Anderson and Narus (1990) suggest, once trust has been established, joint effort will lead to outcomes that exceed what would be achieved if the members within the organisation acted solely in their own interests. Furthermore, Morgan and Hunt (1994) position trust as an essential precursor to cooperation.

The organisational literature is rich with discussion on collaboration, cooperation and the key role of trust. The organisational, economic, marketing, management and franchising literature often overlap, providing for a diverse and extensive body of knowledge. This chapter condenses the review beginning with a review of the key concepts: relationship marketing (section 2.1.1), franchising (section 2.1.2), the franchising relationship (section 2.1.3), trust (section 2.1.4), trustworthiness (section 2.1.5), good faith (section 2.1.6), and authentic trust (2.1.7).

A discussion of the implications of trust and trustworthiness within the principal-agent relationship follows (section 2.2). Misconceptions within the franchising relationship are identified in section 2.3: the distinction between trust and trustworthiness in franchising (section 2.3.1), the different levels of trust in franchising
(section 2.3.2), power within the franchising relationship (section 2.3.3), conflict and the erosion of trust (section 2.3.4). Gaps within the existing literature are identified in section 2.4 from which an original and significant research endeavour is carried out. The above outline of chapter 2 is illustrated in figure 2.1.

Figure 2.1
Outline of chapter 2

2.0 Introduction

2.1 Key concepts
2.1.1 Relationship marketing
2.1.2 Franchising
2.1.3 The franchising relationship
2.1.4 Trust
2.1.5 Trustworthiness
2.1.6 Good faith
2.1.7 Authentic trust

2.2 The principal-agent relationship

2.3 Misconceptions within the franchising relationship
2.3.1 The distinction between trust and trustworthiness in franchising
2.3.2 The different levels of trust in franchising
2.3.3 Power within the franchising relationship
2.3.4 Conflict and the erosion of trust

2.4 Gaps within the existing literature

2.5 Conclusion

Source: developed for this research
2.1 Key concepts

2.1.1 Relationship marketing

Toward the end of the 20th century, prominent marketing academics (Kotler, 1991; Grönroos, 1994; Morgan and Hunt, 1994; Sheth and Parvatiyar, 1995) reshaped the field of marketing, moving traditional thought from the marketing mix approach to a more relationship focused method. This paradigm shift was labeled relationship marketing. This school of thought continues to grow and gain momentum, even more so as business ethicists stress the importance of collaborating so as to compete in the global arena (Solomon, 1993). In their influential article on relationship marketing, Morgan and Hunt (1994) identified the importance of trust as a crucial antecedent of cooperation. The notion that trust is an essential component of exchange is well documented in the existing literature (Rotter, 1967; Gambetta, 1988; Fukuyama, 1995; Mayer, Davis and Schoorman, 1995; Cook, Hardin and Levi, 2007; Fulmer and Gelfand, 2012). The aim of this dissertation will be to ‘dig deeper’ into the construct of trust and identify how it is used – and misused – within the franchising relationship context.

A significant aspect of this social entity is the level of trust shared amongst individuals. For example, do franchisees trust their franchisor to act with integrity? Or, on the other hand, does a franchisor trust all franchisees to be trustworthy custodians of the franchise brand? As Rotter (1967) proposed, the willingness of an individual within a social unit to trust others is one of the most salient factors in the efficiency (and sometimes survival) of any organisation. Franchising and marketing share common characteristics, most notably the characteristic of relational exchange.

2.1.2 Franchising

The concept of franchising and the concept of marketing are intertwined. Kotler (2012) defines the fundamental role of marketing as the process of creating authentic customer value. This is achieved by placing genuine focus on the customer; that is, helping them become better off because of the value they gain from the relationship. The franchising relationship is an example of marketing in action, labeled as a conduit of selling by Mendehlson (2005). Furthermore, Buchan (2013) conceptualised the franchisee as a consumer of the franchisor; the franchisee is being sold an idea by a franchisor. Typically, the franchisee will interact with the franchisor over an extended period of time, thus it is not a discrete and simple transaction, instead it is an enduring relational
exchange (Macneil, 1980; Dwyer, Schurr and Oh, 1987). Thus, as more and more franchisees join the franchise system, the level of interaction and the amount of relationships increase, forming a complex network of individuals. And so a social entity is created under the umbrella of the franchise brand and thus, a franchise system is born.

To place the conversation of franchising relationships in context, a brief history of how and why franchising evolved will be discussed. Derived from the Anglo-French word – *franc,* meaning free, the concept of franchising dates back to the Middle Ages. The history of franchising can be traced back to medieval Europe whereby it was considered common practice for local governments/monarchy to appoint important persons the role of maintaining civil order and collecting tax from citizens (Justis & Judd, 2003; Blair & Lafontaine, 2005; Mendelsohn, 2005). Thus franchising initially began in the form of licensing arrangements. The licensee (franchisee) collected taxes from others of which a percentage or fixed amount was then paid to the monarchy (franchisor). In this way, a medieval monarchy was able to have greater control within its sphere of influence (Justis *et al.*, 2003). Thus, commercial franchising today has sprouted from the soil of the medieval European feudalism (Price, 1997) and popularized by large corporations such as McDonald’s, 7-Eleven and Subway. These large American corporations – now viewed as icons of globalization (Alon, 2004) – have utilised franchising to expand their operations around the world. They started to penetrate the Australian market in the early 1970s (Terry & Forrest, 2007), with rapid expansion through urban and regional Australia ensuing over the following decades. Hungry Jack’s, McDonald’s and KFC, among others, were well received by the Australian public, spawning great interest in ‘franchising’ throughout the economy.

As the franchising sector grew it remained largely unregulated, with the formation of the first regulatory body eventually occurring in 1981, now known as the Franchise Council of Australia (FCA). The most recent research suggests that there are approximately 1160 business format franchise systems, with an estimated 79,000 franchise units in operation across the county (Frazer *et al.*, 2014). In 2014, it was estimated that the business format franchising sector contributed $65 billion to the Australian economy suggesting that franchising has come a long way since it was first introduced over forty years ago. A common franchise (also known as a business format franchise) will usually consist of a hierarchical structure with the franchisor (principal) expanding their business by recruiting franchisees (agents) to sell the product on their
behalf. However, in the Australian franchising sector, issues are still being raised concerning the rights and obligations of the parties to the relationship.

The 2013 review of the Franchising Code of Conduct (the Code) focused on several major issues, one of which being good faith in franchising. Good faith reform is considered by some to be the Holy Grail of reform for the Australian franchising sector (Terry & DiLernia, 2009) with scholars and reformers continuing to search for the elusive formula to bring equity to the franchising relationship. As Terry and DiLernia emphasise, this quest is challenging and perhaps impossible due to the inherent power imbalances of the business-format-franchising model.

But how is franchising described in the academic literature? Firstly, the definition of franchising is wide and varied because of the different economic, country-specific legal and political environments in which a franchise operates; thus, there is no single ubiquitous definition of franchising. However, some believe franchising is purely a method of selling (Mendelsohn, 2005; Srinivasan, 2006), or franchising is an entrepreneurial activity (Shane and Hoy, 1996). Others suggest that franchising is first and foremost a strategic relationship (Sherman, 2004). Hence, for the purpose of this research, the primary definition as to what constitutes a franchise will be taken from the Australian Franchising Code of Conduct (the Code). The Code provides four major elements in the definition of a franchise. Firstly, a franchising relationship takes the form of an agreement between two parties; this agreement can be written, orally communicated, or implied. The second element discusses the presence of a system for carrying on a business. One person (the franchisor) allows another person (the franchisee) the right to offer, supply or distribute goods or services under a system that is significantly controlled by the franchisor. The franchisor also must provide a logo or trademark under which the franchisee’s business will be significantly associated. The final element in the Code’s taxonomy makes it clear that a franchise must involve a financial exchange between the parties, typically, a franchisee will pay an ongoing financial fee to the franchisor for the use of the business throughout the life of the franchising relationship.

2.1.3 The franchising relationship

Under the Code, there must be an agreement between a franchisee and the franchisor for a franchise to exist. Hence, central to the franchising phenomenon is the relationship between the franchisee and the franchisor (‘the franchising relationship’).
This affiliation is largely determined by the nature of the contract signed by both parties before the business starts and which will lay a foundation for a potentially long-term business relationship. Buchan (2009) examines three aspects of the franchising agreement: a standard form contract, a relational contract and an exploitive contract. The franchisor will typically issue a *standard form contract* to all potential franchisees. This approach reveals the unequal nature of the negotiation process, yet it assists the franchisor in maintaining consistent standards across the system. Secondly, the franchising contract is a *relational contract*, also known as an open-ended agreement. Relational contracts are incomplete and can be unilaterally modified by the franchisor (Hunt, 1972). Finally, Buchan (2009) examines the franchising contract as an *exploitive contract* because of the asymmetrical power relations between the franchisee and the franchisor. This type of contract cultivates an environment for possible exploitation of the franchisee’s vulnerable position. In summary, Buchan (2013) establishes that the franchising contract is the starting point, as well as that which holds the franchise network together. In essence, the phenomenon of franchising is primarily based on relationships (Wadsworth, Haines, Paynter, Terry, & Tuunanen, 2011) where trust plays a vital role (Croonen et al., 2013).

### 2.1.4 Trust

A crucial aspect of any relationship is the level of trust shared between the parties (Morgan and Hunt, 1994). Analysing the etymology of the word *trust* provides interesting insight into how it is used (and perhaps misused) in both the vernacular and written format. The modern English word ‘trust’ stems from the Old Norse ‘traust’ – meaning confidence. Furthermore, the word is strongly associated with the Proto-Germanic ‘truwian’ – meaning true. Interestingly, ‘true’ can be traced back to the Proto-Indo-European term ‘dru’ – meaning tree. Hence the saying “*steadfast as an oak*”, which is further reinforced by the same Lithuanian root word ‘drutas’ – meaning well-founded, stable, secure and firm (Harper, 2013). The etymology of the word reveals an interesting clue: the object of trust is just as important, if not more important than trust itself. For example, we place our trust in something or someone, trusting that they will act in a trustworthy manner toward us. We trust that they will be as steadfast as an oak but, unfortunately, this is not always the case. In the franchising context, misplaced trust can have dire consequences. After all, Cook, Hardin and Levi (2007) suggest that trust is unproblematic in a society where everyone is entirely trustworthy.
Trust is generally considered to be an essential component of exchange (Rotter, 1967; Gambetta, 1988; Fukuyama, 1995; Mayer, Davis and Schoorman, 1995; Cook, Hardin and Levi, 2007; Fulmer and Gelfand, 2012). According to Ring and Van de Van (1994), there are two major schools of thought on trust within the business literature. The first examines trust from a business risk perspective whereby one party can confidently trust another because of the protection of formal mechanisms. Formal safeguards include the law, insurance policies, organizational hierarchy and industry codes such as the Franchising Code of Conduct (the Code) found in Australia. For example, a prospective franchisee might join a franchise system because they are confident – that is, they trust – the Australian legal system to protect them if anything goes wrong. The second school of thought emphasizes the moral integrity of individuals as reason enough to trust. In this view, interpersonal interaction may lead to friendships built on goodwill and fairness. For example, franchisees and franchisors can have confidence that they will be dealt with in a fair and reasonable manner because people are generally guided by an accurate moral compass; therefore they trust and cooperate with one another.

Specific to the franchising relationship, a franchisee will typically trust their franchisor and become dependent on their support early in the relationship (Nathan, 2007). This parallels the work of Moorman, Deshpandé and Zaltman (1993) whereby trust is conceptualized as a willingness to rely on another. But how can a franchisee truly know how their franchisor will behave, especially when there is a conflict of interest? Will the franchisor have their franchisees’ best interests at heart? Hardin (2002) provides an answer to these questions: for trust to exist, there needs to be a clear and distinct interest at stake for both parties in the continuation of the relationship. This account of trust as encapsulated interest consists of three major elements: firstly, trust is considered to be a three-part relation, that is, A trusts B to do X; secondly, trust should be viewed as a cognitive component, as opposed to a behavioural component. For example, I may trust you (the cognitive component) yet I do not have to engage with you (the behavioural component). It is important to clearly distinguish trusting and acting from trust. Finally, acting on trust typically involves risk, uncertainty and vulnerability. An extension of Hardin’s model of trust might be surmised: can A (the franchisee) trust B (the franchisor) to do X (act in a trustworthy manner).
2.1.5 Trustworthiness

Trustworthiness is a multi-faceted construct that captures the character and competence of the trustee (Gabarro, 1978; Butler, 1991) and is central to understanding and predicting trust (Colquitt et al., 2007). According to Hardin (2002) much of the literature on trust hardly mentions trustworthiness, a surprising fact because the implicit discussion is usually more about trustworthiness than trust. In a sense, trusting someone is simply the expectation of that person to be trustworthy. Fukuyama (1995) describes the keiretsu relationship in the context of Japanese business relationships whereby a sense of reciprocal obligation exists. Both parties have confidence and trust that they will be dealing with one another over a long term. Only if there are high levels of trust and continued trustworthiness will the keiretsu relationship survive.

Mayer et al., (1995) suggest that trustworthiness contains three dimensions: ability, integrity, and benevolence. The perceived ability of the person being trusted will have a large role in the trust decision; is my decision to trust this person grounded in their competence and their skill-set necessary to meet my expectations? Integrity refers to the set of principles that is deemed acceptable by the trustor. Issues such as credibility, consistency, and a belief in a sense of justice all contribute to integrity. Finally, benevolence refers to the willingness to help and show kindness to the trustor. The best example is the relationship of the mentor and protégé whereby the mentor is likely to be helpful even though it may not always be required. In the context of franchising, a franchisor who possesses the aforementioned characteristics is likely to be perceived as trustworthy and one who acts in good faith toward their franchisees.

2.1.6 Good faith

A good faith provision was first added to the Code in 2010; clause 23A states, ‘nothing in this code limits any obligation imposed by the common law, applicable in a State or Territory, on the parties to a franchise agreement to act in good faith’. The inclusion of this implied obligation to act in good faith was met with mixed feelings. On the one hand, some believed it would positively change the general culture within franchising; that is, both franchisees and franchisors would be more likely to accept the fundamental element of acting in good faith toward one another. However, on the other hand, some commentators believed that a duty to act in good faith could be contracted out. Others suggested that because of the ambiguous nature of the term, the resulting confusion as to how good faith should be defined, would result in a “lawyer’s picnic” (Wein, 2013: p 67).
The 2013 review of the Code recommended that the Code be amended to include an express obligation to act in good faith. Legally, an express obligation is usually spelled out in direct and comprehensive terms, narrowing the concept much more than an implied obligation (Bradfield, 2013). In the Australian Government’s response, although the recommendation was accepted in part, emphasis was placed on the need to ensure that both the franchisee and the franchisor understood what it meant to act in ‘good faith’. Although good faith might seem to be an ambiguous and confusing term, Mason (2000) elucidates the concept in light of three related notions: loyalty to the promise, compliance with honest standards, and compliance with reasonable standards as per the individual interests. The Government recognized the importance for further education in the franchising sector around this ambiguous concept to assist practitioners with understanding the implications of choosing to act (or not act) in good faith. Furthermore, it was also recommended that the new express obligation to act in good faith should clearly state that it does not prevent any of the parties from acting in its legitimate commercial interests (Wein, 2013).

But what does it mean to have a legitimate commercial interest, and moreover, what if the commercial interests of a franchisor conflict with those of their franchisees? For example, In *Rod Hackett v McDonald’s Australia* the question was raised as to whether the franchisor’s decision to open two new stores in close vicinity to the existing franchisee’s (Hackett) stores had breached implied provisions to act in good faith. It was also considered whether McDonald’s had acted in an unconscionable, misleading or deceptive manner. Under McDonald’s ‘expansion policy,’ an existing franchisee could qualify for the grant of additional stores based upon their meeting certain quality standards, however they were not guaranteed any additional licenses. When McDonald’s unveiled their plans to open two new stores, one only 800 metres from Hackett’s current store, they chose not to offer the stores to Hackett. Hackett argued that McDonald’s ‘expansion policy’ was not honest, reasonable or fair; a policy carried out in bad faith. The Victorian Supreme Court disagreed with him, awarding the decision to McDonald’s Australia; suggesting that McDonald’s decision to open the new stores and not offer the licenses to Hackett was not substantially motivated by bad faith. Instead, both parties knew that the opening of new stores was an ordinary part of McDonald’s way of doing business; it was in their commercial interest (self-interest) to open new stores, even though it may have an impact on the existing franchisee’s business.

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2 *Far Horizons Pty Ltd and Rodney Hackett v McDonald’s Australia Ltd* (2000 VSC 310). Judge J. Byrne presided.
2.1.7 Authentic trust

The concept of authentic trust stems from the work of business ethicists and philosophers (Solomon and Flores, 2001) who suggested that trust is not a static entity; instead, trust is a dynamic entity. Trust has various degrees of sophistication and articulation, and according to Flores and Solomon (1998), trust ought to be distinguished into four categories: simple trust, blind trust, basic trust, and authentic trust. Simple trust exists as a naïve state that is yet unchallenged, such as the unquestioned faith that a child has in their loving mother. Blind trust is not considered naïve, but stubborn. This type of trust can often be self-deluding and dangerous, as when a romantic lover shows blind trust toward their partner. Basic trust consists as a basic belief in physical and emotional security; what most of us take for granted but can still be violated by in war and random acts of terror. Finally, authentic trust is described as requiring continuous reflection with a deeper understanding of its risks, vulnerabilities and distrust all held in balance. The nature of authentic trust differs to the first three types of trust because of its inherent cognitive nature, requiring articulation. Trust is no longer just a primitive emotional attitude, but instead, authentic trust is an articulate emotional attitude. Learning to trust authentically creates a richer and more harmonious environment for interaction. To simplify the discussion above, authentic trust is defined as “trust that is well aware of the risks, dangers, and liabilities of trust, but maintains the self-confidence to trust nevertheless” (Solomon and Flores, 2001: p 92). However, achieving authentic trust can be challenging in a relationship whereby exchange partners do not have equal bargaining positions as power inequalities are especially prevalent in the franchising relationship (Felstead, 1993).

The notion of authenticity stems from the traditional existentialist literature, particularly from Kierkegaard, Heidegger and Satre. However modern scholars (Solomon and Flores, 2001) depart slightly from the ontological and theological contexts in which it was first presented describing authenticity as more of a keen awareness of one’s own identity; a self-conscious decision to act in an authentic manner. Hence, it is presented as a practical notion based on our daily decision to continuously invent ourselves and reinvent the world around us. Learning to trust authentically creates a richer and more harmonious environment for interaction. Therefore, a very important school of thought calls for individuals to make the transition from a simple level of trust to authentic trust. Learning to trust authentically requires complex interaction involving such things as self-scrutiny, mutual understanding and treating the long-term relationship as more important.
than the outcome. Authentic trust is thus more reflective than simple trust and calls for those involved to be completely honest with themselves and others.

2.2 The principal-agent relationship

Mitnick (1998) argues that agency is a general social theory of the control of ‘acting for’ relationships within complex systems. Monitoring and controlling these relationships comes at a cost, known as agency cost (Eisenhardt, 1989a). A major assumption of agency theory is that agents are self-interested (Combs, Michael and Castrogiovanni, 2004); furthermore, they possess goals that may not be in complete harmony with that of their principal, resulting in the need for the principal to expend resources to ensure compliance (Jensen and Meckling, 1976; Eisenhardt, 1989a; Bradach, 1997). Achieving compliance and goal congruence is challenging as the franchisee and the franchisor are separate commercial and legal entities (Felstead, 1993). However, they typically exist and operate together in an ongoing exchange relationship that is mutually beneficial to both parties. The lifeblood of this relationship is trustworthiness; prior research indicates that once betrayal has occurred, the parties to the relationship are more likely to begin searching for an exit (Wright and Grace, 2011). The agency problem predominately exists because the principals’ and the agents’ interests do not align perfectly (Rubin, 1978) providing a major impediment to the development of trust between the franchisee and the franchisor.

Stanworth (1991) describes the relationship between the franchisee and the franchisor as the nerve-centre of franchising requiring conscientious care given the franchisor’s interest in overall brand reputation. The franchisor is motivated to monitor and control the operational procedures of their franchisees, so as to maintain service standards and brand uniformity. These interests may clash with the franchisee’s expectations of independence and autonomy (Dant & Gundlach, 1998). Stanworth found that franchising requires a more “persuasive style of management” (1991: p193) – compared to a typical employer/employee relationship – as efforts made to micro-manage franchisees too closely were likely to be counter productive. Franchisors need the goodwill of their franchisees, a commodity that can be seriously damaged by acting in bad faith or in their attempt to over-supervise their franchisees. Stanworth concludes that however the franchising relationship is governed, the nerve-centre will always be delicate.
Watson & Johnson (2010) applied a relationship marketing framework to the franchising relationship, seeking an understanding on those factors that influence relationship quality. Successful management of the franchising relationship is a complex and critical challenge with the central areas of conflict rooted in the agency relationship. Perfect agency is rare, thus principals are more likely to accept and tolerate deviant behaviour (Shapiro, 2005). This behaviour may manifest itself in horizontal free-riding or shirking (Shane, 1996; Combs, Michael & Castrogiovanni, 2004). Hence, franchisees introduce problems regarding uniformity and control. Wantson & Johnson’s (2010) research highlighted the importance of leadership in the franchising relationship, suggesting that it contributes as a precursor to relational trust and commitment (Morgan & Hunt, 1994) and therefore relationship quality. The franchisor develops the vision, but it is the franchisee who delivers the vision. Their findings also added validity to the use of the marriage analogy (or indeed the parent-child analogy) applying to the franchising relationship, consistent with the opinion of Doherty & Alexander (2004). Watson & Johnson (2010) identified the importance that the role of leadership has on relational exchanges and overall relationship quality, through its influence on organizational culture and, therefore, values.

The discussion around agency theory is rich with information ranging from exchange theory, social norms, networks, social control, regulation, trust, social cognition, and the division of labour. Agency theory is also applied across many disciplines including economics, political science, management, legal aspects and sociology. Table 2.1 reviews the major works on the principal-agent relationship over the past decades, categorising the work by their major contribution and relevant paradigm.

<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Date of publication</th>
<th>Major contribution</th>
<th>Paradigm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mitnick</td>
<td>1973</td>
<td>A general theory of agency embedded in political science: Principals delegate to agents the authority to carry out their political preferences.</td>
<td>Political Science</td>
</tr>
<tr>
<td>Ross</td>
<td>1973</td>
<td>A general theory of agency embedded in economics.</td>
<td>Economics</td>
</tr>
<tr>
<td>Jensen &amp; Meckling</td>
<td>1976</td>
<td>Most organisations are simply legal fictions which serve as a nexus for a set of contracting relationships among individuals.</td>
<td>Contracts</td>
</tr>
<tr>
<td>Author(s)</td>
<td>Year</td>
<td>Title / Summary</td>
<td>Field</td>
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<tr>
<td>Banfield</td>
<td>1985</td>
<td>When agency costs are too high, principals may decide not to squander resources on them.</td>
<td>Legal</td>
</tr>
<tr>
<td>Clark</td>
<td>1985</td>
<td>Fiduciary duty.</td>
<td>Legal</td>
</tr>
<tr>
<td>Granovetter</td>
<td>1985</td>
<td>Relationships become embedded over time.</td>
<td>Sociology</td>
</tr>
<tr>
<td>Brickley &amp; Dark</td>
<td>1987</td>
<td>An examination of agency theory implications on companies that franchise some stores and own others.</td>
<td>Franchising</td>
</tr>
<tr>
<td>Eisenhardt</td>
<td>1989</td>
<td>Trade-offs between behaviour-oriented (salary) and outcome-oriented (commission) compensation.</td>
<td>Management</td>
</tr>
<tr>
<td>Donaldson</td>
<td>1990</td>
<td>Agency costs can be mitigated by organisational structures that foster reciprocity, cooperation, embeddedness, and trust.</td>
<td>Management</td>
</tr>
<tr>
<td>Carney &amp; Gedajlovic</td>
<td>1991</td>
<td>Vertical integration in franchise systems.</td>
<td>Franchising</td>
</tr>
<tr>
<td>LaFontaine</td>
<td>1992</td>
<td>An empirical assessment of various agency-theoretic explanations for franchising.</td>
<td>Franchising</td>
</tr>
<tr>
<td>Mitnick</td>
<td>1992</td>
<td>The relationship between the principal and agent is not static – many outside forces and the social context come into play.</td>
<td>Sociology</td>
</tr>
<tr>
<td>Davis &amp; Thompson Adams</td>
<td>1994</td>
<td>Social movements.</td>
<td>Sociology</td>
</tr>
<tr>
<td>Davis &amp; Thompson Adams</td>
<td>1996</td>
<td>The Hydra Factor.</td>
<td>Sociology</td>
</tr>
<tr>
<td>DeMott</td>
<td>1997</td>
<td>Whether corporations should be held vicariously liable for the criminal conduct of their employees.</td>
<td>Legal</td>
</tr>
<tr>
<td>Sharma</td>
<td>1997</td>
<td>The assumption that the principal is in the driver’s seat is problematic.</td>
<td>Management</td>
</tr>
<tr>
<td>DeMott</td>
<td>1998</td>
<td>Principals may be vicariously liable for some instances of the agent's misconduct.</td>
<td>Legal</td>
</tr>
<tr>
<td>Heimer &amp; Staffen</td>
<td>1998</td>
<td>The assumption that the principal is in the driver’s seat is problematic.</td>
<td>Sociology</td>
</tr>
<tr>
<td>Mitnick</td>
<td>1998</td>
<td>When agency costs are too high, principals may decide not to squander resources on them.</td>
<td>Management</td>
</tr>
<tr>
<td>Waterman &amp; Meier</td>
<td>1998</td>
<td>When competitive agents leak information to principals in an effort to get an upper hand over other agents.</td>
<td>Political Science</td>
</tr>
<tr>
<td>Doherty &amp; Quinn</td>
<td>1999</td>
<td>Utilises agency theory to explain the major elements of international franchise activity of retail firms.</td>
<td>Franchising</td>
</tr>
</tbody>
</table>
Kiser 1999 Classic agency theory is an organisational theory without organisations. Sociology

Wright & Mukherji 1999 Agency costs can be mitigated by organisational structures that foster reciprocity, cooperation, embeddedness, and trust. Socio-Economics

Majone 2001 Agency contracts grant independence while still seeking to insure accountability. Political Science

Zajac & Westphal Shapiro 2004 The social construction of value. Sociology

Zajac & Westphal Shapiro 2005 A comprehensive review of agency theory and a discussion of agency from a sociological perspective. Sociology

Burkle & Posselt 2008 The costs of risk and controlling franchised units explains plural systems. Franchising

Dant, Emerson & Coughlan 2013 Franchisee network size is driven more by franchisor strategies that mitigate agency costs, than by strategies that simply lower entry and ongoing costs and barriers for franchisees. Franchising

Source: developed for this research

2.3 Misconceptions within the franchising relationship

Four conceptual slippages within the franchising context are worthy of brief discussion. The first is caused by a slippage between trust and trustworthiness whereby the two terms are (inaccurately) used as synonyms. The second is a result of conceptual confusion on the levels and referents of trust. The third misconception focuses on power within the relationship; it is argued that most franchising contracts are written to ensure the franchisor remains the more powerful party. Finally, if conflict is not managed appropriately it can become destructive instead of constructive. Destructive conflict will slowly erode the levels of trust within the relationship. Trust is not something that you simply have or do not have. Trust needs to be managed and it is the franchisor who holds the ultimate responsibility to manage the relationships with his or her franchisees.
2.3.1 The distinction between trust and trustworthiness in franchising

A recurring theme in the trust literature is the assessment of the other’s trustworthiness as a major determinant of trust. For example, A perceives B to be trustworthy, therefore A trusts B. This topic has gained significant attention in the academic literature (Mayer & Davis, 1999; Colquitt, Scott, & LePine, 2007; Schoorman, Mayer, & Davis, 2007) with Mayer’s et al. (1995) widely-used trustworthiness dimensions (ability, benevolence, and integrity) the most revealing. However, there is a misconception in current thought about the interplay between trust and trustworthiness. Hardin (2002) provides the most sophisticated argument, to the author’s knowledge, on this subtle misconception: a distinction needs to be made between trust and trustworthiness. Trust belongs in the category of knowledge, which is different to our actions, belonging in the category of behaviour. For example, A may trust B, but that does not imply that A needs to engage in cooperative behaviour with B. Hardin strongly emphasises that there is a difference between trusting and acting from that trust. A franchisee’s trust is the cognitive element required to sign the franchising agreement; trust enables cooperation (Hardin, 2002). Figure 2.2 clarifies this distinction between trust (cognitive) and trustworthiness (behavioural).

![Figure 2.2: The inception of the franchisee’s journey](image)

Source: developed for this research, building on Hardin (2002)
2.3.2 The different levels of trust

One reason why trust is so difficult to define, and subsequently misused in the vernacular, is that it is not a primitive term; trust has many different applications, aspects and levels (Hardin, 2002). An example of a primary term would be the colour red. Red is a primary colour whereas colours such as green, orange and purple are all secondary. Likewise, trust is not primary, instead it is dependent on other variables. For example, I may trust you with one dollar, but I may not be as liberal in trusting you with one hundred thousand dollars. Therefore, the amount at stake – the risk – as well as who is trusting whom, both play an important role in gaining an accurate description of trust. As discussed earlier, it is helpful to conceptualise trust as a three part relation: A trusts B to do X (Hardin, 2002). The three variables are: firstly, the trustee (A), secondly, the trustor (B), and finally the action (X).

Furthermore, Fulmer and Gelfand (2012) distinguish between trust at a level and trust in a referent. In their research, Fulmer and Gelfand distinguish between three levels: individual, team and organisation. Trust at the individual level represents an individual’s degree of trust. Trust at the higher levels expresses the degree of trust collectively shared by individuals within the team or organisation. Trust must also be categorised as dependent on the referent (trustee); in other words, the referent is the target of the trust. In the aforementioned equation – A trusts B to do X – the trust referent is B. For the purpose of this research, the trustor (A) refers to the franchisee. Thus, the level of trust is examined from the franchisee’s perspective. Croonen (2010) examined trust from the franchisee’s perspective and identified three major referents: personal trust, franchise system trust and institutional-based trust, as described below.

**Personal trust.** Personal trust refers to a franchisee’s trust in specific representatives of the franchisor’s organisation. This type of trust exists in an interpersonal capacity (that is, trust between two people) where the franchisor referent might be the franchise founder, the CEO, the specific area manager, the business development manager or a new owner. Croonen (2010) found that franchisees’ trust and distrust were largely directed toward people in the franchisor’s organisation. However, the research revealed an interesting insight. As the franchise systems became more standardised, the personal trust no longer sufficed. Greater emphasis was placed on trust in the franchise system (see the next category) due to the inconsistent and fragile nature of personal trust; these representatives could leave the system at any time. Croonen’s insight fits in with Bradach
Franchisee trust in the franchise system was found to be the most important category of trust because the franchising relationship was embedded within the franchise system. The fairness and operational effectiveness of the franchise system had a large impact on individual franchisee-franchisor relationships. Furthermore, the franchise system can include many other relationships between other franchisees, suppliers and company-owned stores thus complicating any personal trust that a franchisee may have. Nooteboom (1999) accurately describes the franchise system as a specific form of socio-economic system. Croonen (2010) also found that franchise system trust can be damaged if the franchisor executives drove expensive vehicles or if the head office was too luxurious. This perception of unfairness impacted levels of trust in the system as it was the franchisees who were paying the royalties to their franchisor and were unsure of the actual benefit derived from the franchisor’s service. Another aspect of franchise system trust was membership of the franchise advisory council (FAC) whereby the procedure for selecting franchisee members fell under scrutiny if the members served for too long or were favoured by the franchisor. If a franchisee felt that their needs were not being accurately represented by the FAC, franchise system trust decreased.

Franchise system trust was found to be the most important type of trust because it had the largest influence on the franchisee (Croonen, 2010). Any changes made by the franchisor affected the entire franchise system whereby consistent operational standards were requirements for brand uniformity. However, if some of the changes seemed inconsistent or unfair, the franchisees felt as if it was just another way for the franchisor to obtain more control and power in the relationship.

Institutional-based trust. Institutional-based trust refers to the wider legal framework whereby a franchisee might trust their country’s legislation as well as government assistance should things go wrong. In Australia, the franchisee might place their trust in the Code as well as the Australian Competition and Consumer Commission (ACCC) for enforcement of the Code. As suggested by Dahlstrom and Nygard (1995) this type of trust may emerge between the franchisee and the franchisor because of the specific country’s legislation acting as a safeguard for commercial transactions. However,
Croonen (2010) found that franchisees rarely referred to this type of trust due to their high levels of franchise system trust. Institutional-based trust may only be called into account if a franchisee experiences severe distrust in the franchise system.

Very few studies have investigated the impact of trust (or distrust) from the personal level, most of which research trust from the franchisor’s perspective (for example, Cochet, Dormann and Ehrmann, 2008; Dickey, McKnight and George, 2008; Dant, Weaven, Baker and Jeon, 2011; Gorovaia and Windsperger, 2011; Frazer, Weaven, Giddings and Grace, 2012; Windsperger and Hussain, 2013). The multi-faceted nature of trust (Yamagishi and Yamagishi, 1994) allows for a plethora of research to be carried out; many questions can be asked about trust and how it is used. One area that is under-developed in the literature is franchisee trust. Analysing trust from the franchisee’s perspective will help to focus the research and produce a comprehensive micro-study on trust.

Table 2.2 shows the key articles on franchisee trust as well as providing a description of each paper’s major contribution. The most revealing and insightful work came from Croonen and Brand (2013) who researched the antecedents of trust, developing a comprehensive framework to explain how franchisee trust is generated. They argued that a franchisee’s general propensity to trust, combined with a franchisee’s perception of trustworthiness of its franchisor, determined the level of franchisee trust. Furthermore, three franchise system components were developed, enhancing the overall theoretical framework. The three franchise system components that influence the franchisee’s perception of trustworthiness of its franchisor are: (1) the strategic positioning of the business, (2) operational management, and (3) franchisee management. A mediating variable in the model was conceptualised as ‘the franchisee’s experiences in the specific franchise system’ (Croonen et al., 2013: p161). They concluded that franchisee trust is a complex concept, yet vitally important in determining the overall performance of the franchise system. As the franchise system grows, the franchisor is assigned the task of managing an increasingly complex web of inter-related relationships. The problem is intensified because of the franchisee’s legally independent nature. As Croonen et al (2013) summarizes, the franchisor is charged with a very complex duty.
### Table 2.2
Key academic articles on franchisee trust

<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Date of publication</th>
<th>Major contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chiou et al.</td>
<td>2004</td>
<td>Shows the importance of a franchisee's overall satisfaction and intention to remain in the franchise system as imperative to the overall competitive advantage of a franchise system.</td>
</tr>
<tr>
<td>Dickey et al.</td>
<td>2007</td>
<td>A major finding showed that franchisee trust reduces non-compliance and increases identification with the franchisor.</td>
</tr>
<tr>
<td>Harmon and Griffiths</td>
<td>2008</td>
<td>Conceptualises franchise relationship value whereby the presence of franchisee trust can reduce the uncertainty created by the threat of franchisor opportunism.</td>
</tr>
<tr>
<td>Davies et al.</td>
<td>2011</td>
<td>Develops a model of franchisee trust indicating that without mutual trust, dysfunctional conflict will increase, thus reducing valuable social capital between the franchisee and the franchisor over time.</td>
</tr>
<tr>
<td>Wright and Grace</td>
<td>2011</td>
<td>An examination of franchisee trust from adistance perspective</td>
</tr>
<tr>
<td>Amador-Dumois</td>
<td>2012</td>
<td>Franchisor's who deserve franchisee commitment should invest in franchisee trust development programs</td>
</tr>
<tr>
<td>Croonen and Brand</td>
<td>2013</td>
<td>Identification of two major antecedents of franchisee trust: 1) the franchisees propensity to trust organisations, and 2) the franchisee's assessment of the trustworthiness of its franchisor and franchise system.</td>
</tr>
</tbody>
</table>

Source: developed for this research

### 2.3.3 Power within the franchising relationship

Dant, Grünhagen and Windpserger (2011: p257) propose nine arenas of investigation within franchising that are ‘grossly under-researched.’ They encourage scholarly research in these areas, ranging from ownership and control patterns to social responsibility and ethics within the franchising relationship. One specific area that is under-researched is the empowerment of franchisees. The generally accepted view is that the franchisor is more powerful than the franchisee, resulting in an inherent power imbalance between the two parties. There are very few instances whereby the franchisee
is empowered, questioning the equality of the relationship. Research into fairness within the relationship (Morrison, 1996; Croonen, 2008, 2010, 2013) indicates that the conditions of the franchise contract influence the perception of fairness, and as the franchisor sets the conditions of the contract they are often considered to be the more powerful party. The terms and conditions of the franchise contract can restrict the franchisee’s actual operation of the business. For example, the franchisor sets the operating hours, methods of operation, and the colour of the franchisee’s uniform. A franchisee may not wish to work on a Sunday but they are bound by the agreement they made with the franchisor. Furthermore, the sub clauses of the contract, that may or may not have been fully explained to the franchisee before signing, may also have an impact on perceived fairness and equality. For example, the renewal and termination terms and/or the size of the exclusive territory may be drawn up heavily in favour of the franchisor. Once again, as the franchisor sets out all these terms and conditions, they are seen to be the more powerful party.

However, the tide may be turning slowly; Dant et al (2011) suggests that franchisees may be gaining traction in the battle for power. This ‘countervailing power’ (Galbraith, 1954: p 1) exists in some systems whereby franchisees are allowed to set menu prices (Chun, 2011) as well as negotiate who takes over their business when they retire (Gibson, 2006). Further inquiry into this aspect of the franchising relationship will form a major contribution of this thesis, asking how far this countervailing power extends. In particular, the question of how power status influences the levels of trust within the relationship will be addressed. Moreover, the research will explore whether the countervailing power is perceived or actual, and if this power is held directly by the franchisee or wielded indirectly with the help of the Australian government’s regulatory body; the ACCC.

Perhaps the most ubiquitous definition of power can be attributed to Dahl (1957) – simply as the capability of A to get B to do something that B would not have done otherwise. An example of relationships dominated by pure power may exist in a prison or a religious cult. On the other hand, an example of a high trusting relationship may be that of a loving marriage. Different types of franchising relationships will exist along this continuum whereby the collective action of the organisation – in most instances, creating wealth – may be coordinated by the franchisor through either trust (collective cooperation) or power (coercive action). A franchisor may trust that all of his/her franchisees will do their best to maximize profit. On the other hand, a franchisor may
attempt to control all of their franchisees through micro-management, performance
targets and daily monitoring; the hundreds of daily operations involved in running a
franchise add to the complexity of the fairness equation within franchising.

Who actually has the most power in the franchising relationship, the franchisee
or the franchisor? Felstead (1993) examined 83 franchise systems operating in the UK.
Each franchise contract was analysed with three questions in mind: (1) with whom does
the operational control of the business belong, (2) how are the franchisor and the
franchisee financially bonded together, and (3) who owns and controls the business
assets. Felstead’s findings help to reduce the ambiguity of “the corporate paradox” (1993,
p2). Throughout the life of the franchise system the franchisee and the franchisor are
operating unique and legally distinct businesses, yet they form the ‘same business’
operating under the same trademark/brand, thus creating a paradox.

With whom does the operational control of the business belong? Although
franchisees are considered to be autonomous from their franchisor – that is, they are
often sold by the slogan, ‘be your own boss; become a franchisee’ – there are a number
of contractual clauses that exist for the sole purpose of binding the franchisee’s
operation to the discretion of the franchisor. Therefore they are not 100 percent
independent of each other. This idea of franchisee autonomy is a false promise if the
contract stipulates regulations on how franchisees should carry out their daily operations.
If you are being told what you can or cannot do then you are not truly autonomous. A
typical franchisor will grant the right to a franchisee to operate a business; the franchisor
then will specify and regulate how the business should be run on a daily basis. As such,
franchisees are contractually bound to “operate…in accordance with the standards,
specifications and procedures as set out in the manuals” (contract no. 80 in Felstead,
1993: p99). One franchisor’s candid comments were recorded as “we brain-wash them
[franchisees] into our way of thinking, so that in actual fact we don’t need to stand over
them telling them what to do. They will [then] do whatever we want them to do” (p100).

Furthermore, franchisees are often committed to an open-ended agreement; they
are contractually required to follow any changes made by the franchisor – often without
any prior warning or consultation with franchisees. Only 2 of the 83 franchise contracts
had such a clause providing warning and/or consultation with franchisees prior to any
changes made by the franchisor. Since the provisions of the operations manual can be
changed at the prerogative of the franchisor, the franchisees find themselves in the
fragile position of being bound to a contract that can be modified unilaterally by the franchisor (Hunt, 1972). Thus, in answering the first key question – with whom does the operational control of the business belong – the control and power belong to the franchisor. Franchisors arm themselves with an arsenal of control mechanisms to induce franchisees' behaviour. The contract provides franchisors with a one-sided advantage in manipulating individual flair for the sake of brand uniformity. Despite a substantial sum of investment by the franchisee, there is little stake in ownership and control offered in return. There is resounding evidence suggesting the ultimate and final operational control belongs to the franchisor.

**How are the franchisor and the franchisee bonded together financially?** Franchisees tend to bear all the risk of their operating unit, while sharing the reward with the franchisor. Under the Code, for a franchising agreement to exist, franchisees must pay a sum of money to the franchisor before starting business or throughout the life of the business. The contract usually refers to this mechanism as an initial fee and/or ongoing fee. According to data collected on the franchising sector (Frazer et al 2010), the majority of franchisors (98 percent) charge an initial fee to a new franchisee, ranging from AUD$0 to AUD$250,000. The median value of this fee for franchisees entering into the retail sector was AUD$40,000. Further to an initial fee, the majority of franchisors (89 percent) also charge an ongoing fee. This usually takes the form of a flat fee or a percentage based royalty. The median flat fee charged to franchisees was AUD$410 per month and the median percentage based fee was reported at 6 percent of gross revenue. Hence, the franchisor reaps this financial reward, however, does not bear the risk should the franchisee’s business make a loss, or become bankrupt (Felstead, 1993). Thus, the legal independence of a franchisee has no bearing on the economic truth that despite bearing most of the risk, the franchisee is not able to retain 100 percent of their profits. The franchisor not only retains ultimate operational control of the business, but also retains a percentage of profits.

**Who owns and controls the business assets?** On the surface, because the franchisee contributes an often significant initial investment, it seems that the ownership and control of the business assets would reside with them. However, the more detailed investigation by Felstead revealed that franchisees do not have outright ownership of these assets. Not only do franchisors retain the value of intangible assets (for example,
they also have final say on many of the tangible assets. Franchisors were found to control the intangible assets through non-competition and non-solicitation clauses, prevalent in most of the contracts examined. Both these clauses restrict franchisees from starting a competing business should they leave the franchise. For these restrictive covenants to have bearing in the court of law they tend to have a short duration and limited geographical scope. Nevertheless, this is one of many tools, contributing again to the franchisor's arsenal of control mechanisms. Not only do the franchisors claim a stake in the intangible value of the franchise, most also claim ownership on the tangible assets. For example, McDonald's provides a classic example of this strengthened connection. By holding the outright ownership of the property and land on which outlets are built, the franchisor has the ultimate power. Felstead concludes, in terms of the control and residual ownership of the assets, the franchisee’s position is largely ambiguous. Despite having invested and paid for entry into the franchise, the franchisee has little ground to stand on because the franchisor maintains ownership of the intangible assets, as well as predominant power over the restrictive rights of most tangible assets. Franchisees virtually have no ownership rights of the business assets. Furthermore, franchisees may be required to invest in ‘franchise-specific assets’ that have little commercial value outside of the relationship. For example, the distinctive shape of a building or a specific type of machinery or equipment. These types of franchise specific assets have been found to impose a penalty on franchisees because it becomes a sunk-cost investment that is often only disposable at fire-sale prices (Dnes, 1993) further contributing to the franchisees vulnerable position.

In summary, operational control belongs to the franchisor (question 1), the franchisor bears very little financial risk yet reaps a percentage of the rewards from the franchisee’s business (question 2), and finally, franchisors hold the ultimate ownership rights to the business assets, including the intangible assets, with franchisees simply ‘borrowing’ the trading name and format (question 3). However, contracts across systems may differ in style and content, influencing the impact that power has on the relationship.

**Franchising Contracts.** The scope and style of franchising contracts will vary from franchise to franchise; some contracts are ‘harder’ on the franchisee while others are ‘softer’ (Felstead, 1993). Whether contractual powers are enforced by the franchisor is also another point to consider. Thus, the relationship parameters between the franchisee
and the franchisor are set by the franchise contract, but the parameters also need to be regularly managed. The contract as a mechanism of control can be utilized as an insurance policy if things go wrong – protecting the franchisor’s goodwill, or it can be used as a tool for manipulating despondent franchisees back into line. On the other hand, it may be viewed as a necessary tool yet never actually used by the franchisor or the franchisee. How and why the contract is used will vary from franchise to franchise. This document will shape the franchise relationship, and any attempts to change its contents will often prove controversial (Felstead, 1993).

It is clear that there is power asymmetry in the franchising relationship; the typical franchising contract contains terms and conditions for the franchisee to adhere to, but not necessarily for the franchisor to follow. Thus, the franchisor has more power over the franchisee than the franchisee has over the franchisor. The franchisor will usually expect their franchisees to fulfill their legal obligations, however, as Hardin (2002) suggests, the expectation that someone is obligated to be trustworthy may not remove the doubt that he or she will. The interaction of the franchisee and the franchisor exists in the world of contractual incompleteness and relational complexity. Unlike an employment relationship or an independent sub-contracting relationship, the franchising relationship is characterised by the presence of power; franchisees own the bulk of the franchising assets yet the franchisor retains the right in determining how the franchisee must use the business assets (Hadfield, 1990). The literature on the franchising relationship reveals that the franchisee has very little power over their franchisor.

2.3.4 Conflict and the erosion of trust

The existing literature on interpersonal conflict is vast (Deutsch, 1973; Baron, 1984, 1985, 1988; Blake and Mouton, 1984; De Bono, 1985; Pruitt and Rubin, 1986; Burton, 1990, 1996; Heitler, 1990; Donohue and Kolt, 1992; Mayer, 2000; Kriesberg, 2003; Coltri, 2004; Tillet and French, 2010; Frazer, Weaven, Giddings, and Grace, 2012). Much of the scholarly work listed above identifies effective conflict resolution strategies or discussions on the most efficient conflict management techniques. Considerable knowledge has also been produced as an encyclopedia of conflict resolution (Burgess and Burgess, 1997) and a dictionary of conflict resolution (Yarn, 1999). The most succinct definition of conflict can be attributed to De Bono (1985: p5), “a clash of interests, values, actions or directions.” Others describe conflict as inevitable and pervasive (Tillet
and French, 2010), or as a perceived deviation of interests (Pruitt and Rubin, 1986). Furthermore, Donohue and Kolt (1992) describe conflict as a fundamental part of everyone’s life that can be a positive stimulus for personal development. However, with reference to the trust/power debate, the most apt description of conflict comes from Blake and Mouton (1984) who suggest that conflict involves an erosion of trust as neither party in the relationship has complete authority over the other.

Most conflicts tend to be destructive (Tillet and French, 2010) because of ineffective management and resolution. This type of conflict can be very destructive if the parties involved are focused on power preservation and face saving (Donohue and Kolt, 1992). On the other hand, conflict can be constructive (Deutsch, 1973) whereby both parties are committed to accomplishing their goals in a flexible manner, yet not all conflicts make an easy transition from the destructive to the constructive mode. The majority of conflicts remain in a destructive state, as found by Donohue et al (1992) because people lack the communication skills necessary for constructive problem solving. Tillet and French’s (2010: pp6-14) typology of conflict classifies the location of constructive or destructive conflict into four categories: Firstly, intrapersonal (or intrapsychic) conflict exists within an individual and is not usually obvious to others. It usually arises as a result of tension in decisions that need to be made or an internal struggle over morals and values. The second category is referred to as interpersonal conflict, occurring between two or more individuals, such as in a marriage or franchising relationship. Intragroup conflict is the third category that consists of conflict manifesting within a group of people. The result is usually a division of the group into two or more factions. Tillet and French’s final category is intergroup conflict. This type of conflict usually exists on a macro scale – for example, large corporations can be involved in international conflict with each other. This specific research will largely focus on conflict within the second category mentioned; interpersonal conflict between the franchisee and the franchisor.

How conflict is resolved will vary with each individual scenario. However, according to De Bono (1985) there are only three broad roads to conflict resolution: fight/litigate, negotiate/bargain, or design a way out. He suggests that only the first two are available to the disputants with the design avenue requiring an independent third party – for example, mediation and what De Bono refers to as “triangular thinking” (1985: chapter 14).
Conflict theorists and mediation specialists (Levingston, 2008; Giddings, Frazer, Weaven, and Grace, 2009) continue to place emphasis on the importance of helping the franchisee and the franchisor discover the root cause of their existing conflict. However, not all franchising participants choose to gain assistance from a third party, there are those who choose to resolve conflict by fighting one another. There is growing evidence of franchising cases involving litigation, for example, *Carlton v Pix Print Pty Ltd*, *Burger King Corporation v Hungry Jack’s Pty Ltd*, *Pampered Paws Connection Pty Ltd v Pets Paradise Franchising Pty Ltd*. There are also instances whereby the Australian regulatory body, the ACCC, have found franchisors to be operating in an unconscionable manner and involved in misleading and deceptive conduct. For example, in *ACCC v Seal-A-Fridge Pty Ltd*, the courts found that the franchisor engaged in unconscionable conduct toward their franchisees by demanding payment of an increase in 50 percent of the weekly fees associated with the use of a national telephone number. Those franchisees who refused to pay the increased fee were disconnected from the service. The courts ruled that Seal-A-Fridge had no contractual basis for increasing the fees. In another case, *ACCC v Allphones Retail Pty Ltd*, the courts awarded damages to be paid to five franchisees totaling $3 million. The reason for the decision was that the franchisor’s behaviour was deemed to be misleading and deceptive. From the beginning the franchisor structured the business so that they controlled their franchisees’ stock and income. When a franchisee did not meet performance criteria the franchisor started to implement bullying tactics; including withholding stock, threatening breach notices and withholding income. Justice Foster of the Australian Federal Court declared that these tactics were unconscionable and the directors were knowingly involved.

On the other hand, franchisees may often avoid the legal system as an avenue for justice, taking retribution into their own hands and fighting their ex-franchisors with damaging publicity. Examples include the creation of a negative website called Baker’s Delight Lies, formed by a group of the bakery franchise’s disgruntled ex-franchisees. A similar case exists within the James Home Services franchise, a damaging website entitled James Franchise Fraud exposes alleged opportunistic behaviour within the franchise. A major focus of this research is to determine how the erosion of trust and power preservation have influenced this type of behaviour as, what seems to be at the time, the most effective means for conflict resolution. As in the case of *ACCC v Allphones Retail*.

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3 http://bakersdlies.com
4 http://jamesfranchisefraud.com
Pty Ltd, the franchisor made the convincing representation to all prospective franchisees that their system was like a true partnership (Australian Competition and Consumer and Commission, 2010).

Furthermore, conflict within franchising relationships can be a result of shirking and a divergence in franchisee/franchisor goals. According to Combs et al., (2004) a common source of divergence in franchisee/franchisor goals is growth. A franchisor may be focused on the growth of their entire system and thus place outlets too close together, encroaching on an existing franchisee’s business. Another source of contention arises when profit is made from products that franchisees are forced to purchase. On the other hand, franchisees can cause conflict by not following the system or releasing private brand proprietary information. Given that both parties have the potential to act opportunistically, it is important to focus on aligning the goals and interests of both parties as a method for reducing the risk of destructive-conflict escalation.

2.4 Gaps within the existing literature

The previous sections (2.1 to 2.3) have identified key concepts relevant to franchisee trust and franchisor trustworthiness within the franchising relationship. It is clear that trust is an essential component of relational exchange (Rotter, 1967; Gambetta, 1988; Fukuyama, 1995; Mayer, Davis and Schoorman, 1995; Cook, Hardin and Levi, 2007; Fulmer and Gelfand, 2012). However there are some gaps in the literature when examining the specific nuances of franchisee trust. The aim of this dissertation will be to ‘dig deeper’ into the construct of franchisee trust with the goal of identifying a practical model that can aid both academic thought and practical insight. There is little evidence to refute the notion that franchisee trust is important in the franchising relationship. However, the topic of franchisee trust is multi-faceted and complicated, it requires careful analysis and articulation. This research aims to fill the gaps in the literature by focusing on gaining further clarity on the function of franchisee trust within the franchising relationship. Figure 2.3 shows the process of the literature review whereby key concepts are addressed, followed by the identification of five gaps in the literature. The first gap identified is a lack of empirical research exploring how franchising practitioners understand and articulate trust. Thus the first research question is:
RQ1. How is franchisee trust understood within the franchising sector?

The second gap in the literature is a lack of empirical data examining the concept of authentic trust and its application to the real world of franchising. The topic of authentic trust will be explored with the aim of identifying its existence and/or use within the franchising relationship. The second research question is:

RQ2: Can authentic trust exist within the franchising relationship?

Thirdly, the literature identified the negative consequences of distrust (Hardin, 2002; Cowie, 2014) and the damage destructive conflict can have on a relationship (Donohue et al., 1992; Tillet et al., 2010). Thus, empirical data will be gathered to determine the major impediments of building high trusting relationships within the franchising relationship. The third research question is:

RQ3: What are the barriers to building franchisee trust?

Finally, there is very little empirical research focused on building franchisee trust (see Croonen and Brand, 2013 for the notable exception). One of the goals of this research is to develop a conceptual framework showcasing the critical components necessary for building franchisee trust. Thus, the fourth research question is:

RQ4: How is franchisee trust built in their franchisor?

Finally, of practical significance is the impact franchisee trust and franchisor trustworthiness has on overall performance. Thus, the final research question is:

RQ5: What role does trust play in franchisee performance?

A major goal of this research is to fill the aforementioned gaps in the literature by answering the five central research questions. The author is under no illusion that trust research is novel because it is a topic that has interested many great scholars over the years. However, it is hoped the findings of this research will help solidify current understanding of how trust is used (and perhaps under-utilised) within franchising and
thus ensure cooperation between the franchisee and the franchisor is improved because no organisation is an island; relationships are essential for growth and success (Parmigiani et al., 2011).

Figure 2.3
The process of identifying gaps in the existing literature

Key topics in the existing literature

- Relationship marketing
- Franchising
- The franchising relationship
- The principal-agent relationship
- Trust
- Trustworthiness
- Good faith
- Authentic trust

Gaps within the existing literature

<table>
<thead>
<tr>
<th>Franchisee trust</th>
<th>Authentic trust</th>
</tr>
</thead>
<tbody>
<tr>
<td>RQ1: How is franchisee trust understood within the franchising sector?</td>
<td>RQ2: Can authentic trust exist within the franchising relationship?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Barriers to building franchisee trust</th>
<th>Strategies for building franchisee trust</th>
</tr>
</thead>
<tbody>
<tr>
<td>RQ3: What are the barriers to building franchisee trust?</td>
<td>RQ4: How is franchisee trust built in their franchisor?</td>
</tr>
</tbody>
</table>

The link between franchisee trust and performance

RQ5: What role does trust play in franchisee performance?

Source: developed for this research
2.5 Conclusion

Over two decades ago, trust was identified as a key mediating variable that influences cooperation (Morgan and Hunt, 1994) – the focus within marketing thought began to shift from the traditional marketing mix to the relationship with the customer (Gronroos, 1994). Recently, franchising research has also begun to place emphasis on the relationship between the franchisee and the franchisor; a relationship found to have inherent power imbalances (Terry and Di Lernia, 2009). The type of contract that binds the parties together can create an environment for the possible exploitation of the franchisee, or it can be what holds the franchise network together (Buchan, 2009). Trust also plays a key role in holding the network together as it is considered to be an essential component of exchange (Fukuyama, 1995). This chapter has served to dig deeper into the meaning of trust; it is helpful to examine trust as a three-part relation – A trusts B to do X – and to distinguish trust from trustworthiness (Hardin, 2002). Both the franchisee and the franchisor have the ability to behave in a trustworthy manner (acting in good faith toward one another) or in an untrustworthy manner (acting in bad faith toward one another), as seen from the evidence in Rod Hackett vs McDonald’s Australia. Finally, learning to trust authentically requires self-scrutiny, mutual understanding and treating the longevity of the relationship as more important than the outcome (Solomon et al., 2001).

The franchising relationship is examined through the agency theoretical lens. At the heart of agency theory is the balance between the cost of measuring agent behaviour and the cost of measuring outcomes (Eisenhardt, 1989a). Even though franchisees are less likely than employees to shirk (Rubin, 1978) there still needs to be an incentive for performance as all agents are assumed to be self interested. Aligning different goals and objectives is an important task (Combs et al., 2004) one that is easier where trust is present. However, Croonen and Brand (2013) suggests that the franchisor is charged with a very complex duty because of the franchisee’s legally independent nature. The problem is further complicate as the franchisee also places trust in three different referents: personal trust, franchise system trust and institutional-based trust. Franchise system trust was found to be the most important to the franchisee as any changes made by the franchisor had an impact on the entire system; this was viewed as just another way for the franchisor to assert their power over the franchisee (Croonen, 2010). Even though some argue that the franchisee is gaining traction in the battle for power
(Gailbraith, 1954, Dant et al., 2011), it is usually the franchisor that has a greater arsenal of control mechanisms. Felstead (1993) found overwhelming evidence of franchisor power – operational control belongs to the franchisor, the franchisor bears no financial risk yet reaps a percentage of the rewards, and the franchisor holds the ultimate ownership rights to the business assets, including the intangible asset (the brand name) which the franchisee is merely ‘borrowing’. The franchisee’s position is largely ambiguous.

Conflict can arise in the relationship because of the power inequality and a clash of interests (De Bono, 1985). As neither party has complete authority over the other, conflict can cause an erosion of trust (Blake et al., 1984). However, conflict can be constructive (Deutsch, 1973) yet most people lack the required communication skills necessary for effective problem solving (Donohue et al., 1992) thus the majority of conflicts remain in a destructive state (Tillet et al., 2010). The prevalence of litigation, complaints, and defamatory websites set up by disgruntled franchisees all contribute to the argument that franchising might not be a true partnership (ACCC, 2010).
Chapter 3 – Research method

3.0 Introduction

The research method for this dissertation involves a combination of qualitative and quantitative techniques. The integration of quantitative and qualitative research (Brannen, 1992; Creswell, 2003; Punch, 2005) provides many advantages because researchers who are confined to a single method or procedure will provide for an inherent limitation; no one procedure can provide a complete description of the phenomenon being researched (Tashakkori & Teddlie, 1998). Furthermore, Creswell (2003) indicates that mixed methodological studies convey a stronger sense of rigour to the research. One method is not better than the other, instead the two complement each other. McCracken (1988) suggests qualitative research does not survey the terrain; instead it places the researcher at the coal-face, digging deeper into opinions and meanings. Qualitative research mines the terrain, revealing rich and significant insight. Within qualitative research inquiry, researchers seek to understand and interpret how people create and maintain their social reality (Mertens, 2010; Denzin & Lincoln, 2011). On the other hand, positivism employs rigorous scientific measures to provide ‘objective’ research (Neuman, 2011).

The initial exploratory phase followed a nominalist ontology within the interpretive paradigm. As ontology relates to the nature of reality (Burrell et al., 1979), a nominalist ontology suggests that reality is a projection of human imagination which some believe to be largely socially created. Thus the epistemological stance in this early stage of the research was to obtain phenomenological insight from franchising experts concerning franchisee trust. My goal as the researcher was to limit my own pre-conceived ideas about trust within franchising and explore their ideas and opinions. Once this was undertaken, I as the researcher had a greater epistemological understanding of the topic. Thus, my research stance could become more objective as I adopted quantitative research methods.

Chapter three is structured as follows: Firstly, the phase one research method is discussed (section 3.1) whereby the research design, sample and data collection techniques are identified and justified. Secondly, section 3.2 details the phase two research method whereby the case study research design is described as well as the sample and data collection techniques. Thirdly, the process of collecting quantitative data in the final phase of the research is shown in section 3.3. The administration of the
online survey involved seven stages. Section 3.4 justifies the choice of qualitative research and section 3.5 discusses reliability and validity issues in quantitative research. The limitations of the research are discussed in section 3.6 and ethical research issues are identified in section 3.7. Finally, section 3.8 concludes the chapter. Figure 3.1 illustrates the outline of chapter 3.
Figure 3.1
Outline of chapter 3

3.0 Introduction

3.1 Phase one research method
   3.1.1 Research design
   3.1.2 Sample
   3.1.3 Data collection – instruments and procedures

3.2 Phase two research method
   3.2.1 Research design
   3.2.2 Sample
   3.2.3 Data collection – instruments and procedures

3.3 Phase three research method
   3.3.1 Research design
   3.3.2 Sample
   3.3.3 The survey instrument
   3.3.4 Data collection – pre-test procedures
   3.3.5 Questionnaire amendment
   3.3.6 Data collection – main online survey

3.4 Justification of the qualitative methodology

3.5 Justification of the quantitative methodology

3.6 Limitations of the research method

3.7 Consent, access and ethical issues

3.8 Conclusion

Source: developed for this research
3.1 Phase one research method

3.1.1 Research design

A largely unstructured conceptual framework (Punch, 2005; Singleton, 2010) guided phase one of the research, involving an unfolding research design. According to Wolcott (1982) research typically involves either unstructured design where the researcher is looking for questions or on the other hand the research is prespecified where the researcher is looking for answers. A prespecified research design – described in section 3.3.1 – is rigid and tightly structured, usually involving quantitative methods. However, in this phase of the research, questions are allowed to emerge as the empirical investigation develops. A synthesis of the unfolding research design argument is that only by starting the empirical process can sensible and specific research questions emerge.

Described by Kahn and Cannell (1957) as a discussion with a purpose, depth interviewing is often relied on quite extensively by qualitative researchers (Marshall & Rossman, 1999). On the surface, depth interviewing can appear as a simple conversation whereby the only research skill required is to know how to talk and listen. However, Patton (1987) suggests that beneath the surface you discover the true nature of interviewing as a specialized art and science requiring skill, sympathy, concentration, interpersonal understanding, intuition, mental acuity, and discipline. The informal conversation interview adopted in this phase consists of spontaneous questioning allowing discussion to flow naturally, yet still guided by a set of general questions.

3.1.2 Sample

According to Miles and Huberman (1994) all empirical research involves sampling as it is impossible to study everyone, everywhere. This phase consisted of depth interviews with 17 franchising experts. The sample of experts consisted of franchising consultants, mediators, lawyers, bankers, franchisor representatives and franchisee representatives (table 3.1). The experts were selected purposively, beginning with the author’s contacts in the industry which then snowballed to include other experts based on recommendations.
Table 3.1
Phase one research sample

<table>
<thead>
<tr>
<th>Expert category</th>
<th>Number of participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Franchise consultant</td>
<td>5</td>
</tr>
<tr>
<td>Franchise mediator</td>
<td>3</td>
</tr>
<tr>
<td>Franchise lawyer</td>
<td>3</td>
</tr>
<tr>
<td>Franchisor representative</td>
<td>3</td>
</tr>
<tr>
<td>Franchisee representative</td>
<td>2</td>
</tr>
<tr>
<td>Franchise banker</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total interviews</strong></td>
<td><strong>17</strong></td>
</tr>
</tbody>
</table>

Source: developed for this research

3.1.3 Data collection – instruments and procedures

Data collected in this phase provided a strong exploratory foundation used to assist the design of the next two phases of research. The franchising experts were asked general guiding questions formulated around the central research question: how is franchisee trust understood within the franchising sector? Their opinions and ideas were extremely helpful in positioning the overall direction of the research; the insight was valuable because of their many years of experience working in the franchising sector. The franchising experts provided thought-provoking information on the state of franchisee trust as well as its wider implications for the franchising sector; direct quotations provide raw data that revealed the respondent’s depth of emotion on the topic of franchisee trust. Thus, the research strategy for phase one was to explore franchisee trust, guided by general questions that served mainly as a skeletal outline (Singleton et al., 2010). As the interviews progressed, probing questions revealed further areas that were connected to franchisee trust, for example the profitability of the business model was identified as an ancillary issue. Table 3.2 shows the main topics that were discussed during the interviews.
### Table 3.2
**Phase one interview schedule**

<table>
<thead>
<tr>
<th>Topic</th>
<th>Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust</td>
<td>• Based on your experience, how is franchisee trust understood in the sector?</td>
</tr>
<tr>
<td>Authentic trust</td>
<td>• Do you think it is possible for franchisees to make a transition from simple levels of trust to more authentic levels of trust?</td>
</tr>
<tr>
<td>Power</td>
<td>• How do you think the power inequalities between the franchisee and the franchisor shape the relationship?</td>
</tr>
<tr>
<td>Contractual governance</td>
<td>• Do you think the contract is an adequate tool for governing the franchising relationship?</td>
</tr>
<tr>
<td>Conflict</td>
<td>• How is conflict handled in franchising and how should conflict be handled?</td>
</tr>
<tr>
<td>Trustworthiness</td>
<td>• Does good faith and trustworthiness have a role in the ongoing franchising relationship?</td>
</tr>
<tr>
<td>Organisational culture</td>
<td>• Does the culture of the franchise play a role in trust building?</td>
</tr>
</tbody>
</table>

Source: developed for this research

Where possible the interviews were conducted face-to-face, but some were conducted via telephone and Skype. All but one of the interviews were audio recorded (with the permission of interviewees), then transcribed. In the interview where the respondent asked not to be recorded due to the sensitive nature of the discussion, handwritten notes were taken during the interview. Framed as a discussion with a purpose, the interviews provided valuable insight around the central research question – how is franchisee trust understood – and revealed two further questions: can authentic trust exist within the franchising relationship? And, what are the barriers to building franchisee trust? Phase two addressed these questions.
3.2 Phase two research method

3.2.1 Research design

The case study method allows the researcher to retain the meaningful characteristics of organisational behaviour, contributing to our knowledge of organisational phenomena (Yin, 2014). Furthermore, case study research allows researchers to ask penetrating questions that capture the richness of organisational behaviour (Gable, 1994). Interviews were conducted with a member of each franchisor’s team and a selection of their franchisees.

3.2.2 Sample

The multiple case study method consisted of 13 interviews from franchisees and the franchisor across two franchise systems (table 3.3). One franchise system was chosen from the retail sector and the other from the service sector. The systems were also differentiated by how they calculated their franchise fees: Franchise A charged franchisees a fixed weekly fee, whereas Franchise B utilised a percentage based royalty fee. The franchisor provided a list of franchisees willing to be involved in the research. They were purposively selected across a range of new operators (less than one year with the system) to mature operators (over 10 years with the franchise system). The franchisees were also categorised as single or multiple-unit operators. Table 3.4 lists the interviewees, showing their role, gender, time with the franchise and the number of franchise units they hold.
Table 3.3
Phase two case study franchise systems

<table>
<thead>
<tr>
<th></th>
<th>Franchise A</th>
<th>Franchise B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>Service</td>
<td>Retail</td>
</tr>
<tr>
<td>Size</td>
<td>180 outlets</td>
<td>403 stores</td>
</tr>
<tr>
<td>Year began franchising</td>
<td>1990</td>
<td>1989</td>
</tr>
<tr>
<td>International operations*</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Royalty fee</td>
<td>AUD $348 per week</td>
<td>7% of gross sales</td>
</tr>
<tr>
<td>Marketing fee</td>
<td>AUD $60 per week</td>
<td>3% of gross sales</td>
</tr>
</tbody>
</table>

* Franchising outside of Australia

Source: developed for this research

Table 3.4
Case study research participants

<table>
<thead>
<tr>
<th>Case</th>
<th>Code</th>
<th>Role</th>
<th>Gender</th>
<th>Years with Franchise</th>
<th>Number of franchise units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Franchise A</td>
<td>A1</td>
<td>Franchisor – National Business Development Manager</td>
<td>Male</td>
<td>4 years</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>A2</td>
<td>Franchisee</td>
<td>Female</td>
<td>1 year</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>A3</td>
<td>Franchisee</td>
<td>Male</td>
<td>18 years</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>A4</td>
<td>Franchisee</td>
<td>Female</td>
<td>4 years</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>A5</td>
<td>Franchisee</td>
<td>Male</td>
<td>15 years</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>A6</td>
<td>Franchisee</td>
<td>Male</td>
<td>4 years</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>A7</td>
<td>Franchisee</td>
<td>Female</td>
<td>2 years</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Total interviews</strong></td>
<td></td>
<td></td>
<td>7</td>
</tr>
<tr>
<td>Franchise B</td>
<td>B1</td>
<td>Franchisor – CEO</td>
<td>Male</td>
<td>25 years</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>B2</td>
<td>Ex-franchisee</td>
<td>Female</td>
<td>Less than 1 year</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>B3</td>
<td>Franchisee</td>
<td>Male</td>
<td>11 years</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>B4</td>
<td>Franchisee</td>
<td>Female</td>
<td>3 years</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>B5</td>
<td>Franchisee</td>
<td>Male</td>
<td>2 years</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>B6</td>
<td>Franchisee</td>
<td>Male</td>
<td>7 years</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Total Interviews</strong></td>
<td></td>
<td></td>
<td>6</td>
</tr>
</tbody>
</table>

Source: developed for this research
3.2.3 Data collection – instruments and procedures

All of the interviews were audio recorded (with the permission of interviewees), then transcribed. Framed as a discussion with a purpose, the interviews provided valuable insight into the interactions between franchisees and their franchisor; seven interviews were conducted in the first case study (Franchise A) and six in the second (Franchise B). According to Yin (1989), the distinctive need for case study research arises out of the need to understand multifaceted social phenomena. Table 3.5 shows the interview schedule for the franchisors and table 3.6 lists the interview schedule for franchisees.

The data reveals that franchisee trust is a multifaceted construct containing four major components and the use of the case study research method allowed the researcher to retain the holistic characteristics of this construct as they occurred in the franchise relationship. Thus, the four components are grounded within the organisational and managerial environment in which franchisees operate, that is, within the real-life context (Yin, 2014). The findings are discussed in more detail in chapter 5.
<table>
<thead>
<tr>
<th>Topic</th>
<th>Questions</th>
</tr>
</thead>
</table>
| Knowledge           | • Background – When was the franchise founded?  
  • How many franchisees?  
  • Do you know each of them personally?  
  • What will happen when the system grows? |
| Trust               | • What percentage of your franchisees do you currently trust?  
  • Is it important to trust 100% of your franchisees?  
  • How do you ensure that your franchisees remain trustworthy?  
  • Is it important to you that every single one of your franchisees trust you and your team? |
| Betrayal            | • What would you do, for example, if you felt that one of your franchisees had betrayed you?  
  • People in a marriage get divorced - can a damaged relationship with a franchisee ever become unresolvable, or have you accounted by choosing the 'correct' franchisee? |
| Organisational culture | • Does the culture of the franchise play a role in building trust?  
  • Are your franchisees engaged in your culture?  
  • Do they have faith in your strategy? |
| Expectations        | • What are your expectations of a new franchisee?  
  • What are your expectations of a franchisee who has been with a system for a long time?  
  • What are their expectations of you?  
  • Can you distinguish between commercial interests and self interest? |
| Authentic trust     | • Can authentic levels of trust exist in franchising?  
  • What does good faith mean to you?  
  • What does authentic trust mean to you?  
  • What is the biggest challenge you face in developing healthy levels of trust? |
| Conclusion          | • Can you think of any good stories, or interesting anecdotes about trust in your system?  
  • Do you have any questions for me and my research? |

Source: developed for this research
Table 3.6  
Phase two interview schedule for franchisees

<table>
<thead>
<tr>
<th>Topic</th>
<th>Questions</th>
</tr>
</thead>
</table>
| Knowledge          | • Background – When did you join the franchise?  
                     • How many units do you own?  
                     • Do you know the members of the franchisor's team personally?  
                     • What will happen when the system grows or if the management changes, for example, the founder/CEO exits? |
| Trust              | • Do you trust the members of the franchisor’s team?  
                     • Do you trust other franchisees?                                                                                                                                                                                      |
| Betrayal           | • Have you ever felt betrayed by the franchisor?  
                     • Do you have faith in the franchisor’s strategy?                                                                                                                                                                    |
| Organisational culture | • How would you describe your franchise system culture?  
                     • Are you engaged in your franchise system’s culture?  
                     • Do you attend the annual conferences?  
                     • Do you have a Franchisee Advisory Council (FAC)?                                                                                                           |
| Expectations       | • What were your expectations when you joined the system?  
                     • What are your expectations now?  
                     • Can you distinguish between commercial interests and self interest?                                                                                                           |
| Authentic trust    | • Can authentic levels of trust exist in franchising?  
                     • What does good faith mean to you?  
                     • What does authentic trust mean to you?  
                     • What is the biggest challenge you face in developing healthy levels of trust with your franchisor?                                                                                           |
| Conclusion         | • Can you think of any good stories, or interesting anecdotes about trust in your system?  
                     • Do you have any questions for me and my research?                                                                                                                                                                 |

Source: developed for this research
3.3 Phase three research method

3.3.1 Research design

The research design of phase three is framed within a positivist paradigm. Considered to be the oldest and most widely used approach, positivism employs rigorous and exact scientific measures to provide ‘objective’ research (Neuman, 2011). A major goal of this phase of research is the discovery and confirmation of objective causal laws that can be used to predict general patterns of franchisee behaviour. Thus the purpose is to determine any causal laws associated with franchisee trust. An online survey was chosen as the most appropriate research design to collect empirical data in the final stage of the research. According to Sapsford (1999), a survey is a detailed and precise map that is representative of a population and typically involves systematic data collection (Gray, 2004). The online survey was designed using Czaja and Blair’s (1996) framework, guided by the thematic model developed from phase one and two. Figure 3.2 shows the seven stages in the online survey design.
Figure 3.2
Stages in the on-line survey design

Research Questions

Thematic model developed from phase 1 & 2

STAGE 1
 Decide on the sample and the survey method

STAGE 2
 Design questionnaire using valid scales & measurements

STAGE 3
 First pre-test with 5-10 individuals from the sampling frame

STAGE 4
 Second pre-test to test psychometric properties with approximately 30 individuals from the sampling frame

STAGE 5
 Amend questionnaire

STAGE 6
 LAUNCH MAIN ONLINE SURVEY

STAGE 7
 Clean the data

Analysis (chapter 6)

Source: adapted from Czaja and Blair, 1996
3.3.2 Sample

The population of interest in this research is franchisees operating in Australia. The sample frame consists of franchisees involved in retail trade. Figure 3.3 illustrate the sample frame chosen for this research. According to Frazer et al (2014), the estimated number of franchisors operating in Australia is 1124. Of these, approximately 45 percent are involved in retail trade – 27 percent involved in non-food retailing (304 franchisors) and 18 percent involved in food retailing (204 franchisors). Retail franchise systems hold a median figure of 45 units, however this includes company owned stores and multiple-unit owners. On average, retail franchisors hold approximately two company owned units. The typical franchisor holds three multiple-unit holders in their system, however data on how many units the average multi-unit franchisee owns is unavailable. Thus, it is estimated that 21,844 franchised retail units operate in Australia. The number of retail franchisees will be considerably less as the above figure does not take into account the number of stores owned by individual franchisees.

In order to draw conclusions that are representative across the population being examined (Jackson, 1995), it is important to consider the desired confidence level, the desired confidence interval (margin of error), the target population and the budget of the project. A reputable online sample size calculator was used to determine an adequate sample size for this research. Table 3.7 shows the results of the sample size calculator indicating that an adequate sample size of retail franchisees should be between 149 and 378.

<table>
<thead>
<tr>
<th>Table 3.7</th>
<th>Sample size calculator</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Confidence Level</strong></td>
<td><strong>95%</strong></td>
</tr>
<tr>
<td><strong>Confidence interval</strong></td>
<td>+/- 8</td>
</tr>
<tr>
<td><strong>Population</strong></td>
<td>21,844</td>
</tr>
<tr>
<td><strong>Sample size</strong></td>
<td>149</td>
</tr>
</tbody>
</table>

Source: used with permission from http://www.resolutionresearch.com/results-calculate
3.3.3 The survey instrument

A survey was used in phase three of the research in order to obtain empirical data on trust in the franchising relationship. Surveys provide a standardised measurement tool whereby all respondents are asked the same question providing for uniformity. Furthermore, online surveys are easy to administer and analyse (Burns and Bush, 2010). This survey was launched using Qualtrics online survey software and the data was analysed using SPSS software. Respondents were asked a set of questions and asked to rate their agreement/disagreement based on a 7 point Likert scale ranging from ‘strongly disagree’ to ‘strongly agree’. At the end of the survey, respondents were asked demographic questions and were given the option of identifying the name of their franchise. However, not many franchisees were willing to reveal the name. Appendix D contains the complete survey used to collect data and an online link can be made available upon request.
3.3.4 Data collection – pre-test procedures

The first pre-test was carried out with eight franchisees belonging to the sample frame. The individuals were given the questionnaire to complete, then three questions were asked in the following sequence: (1) What was not clear or complex in the questionnaire? (2) What hypotheses do you think I am trying to test? (3) These are the hypotheses I am trying to test, what do you think I am missing? (Pre-test participants were shown the hypotheses). Table 3.8 provides a summary of the answers to the three questions. The advice was considered and the survey was corrected and amended accordingly.

<table>
<thead>
<tr>
<th>Question</th>
<th>Response</th>
</tr>
</thead>
</table>
| (1) What was not clear or complex in the questionnaire?                 | • The 7th sub-question under the first question was difficult to understand. Also there was a question about 1/3 of the way through which assumed the franchisee had paid an initial fee, but in my case there was no initial fee.  
• It is thorough and complete. I found that it took all of 20 minutes, and that could be a dis-incentive for completion by franchisees. On one page (and to find the right page I would have had to go through the survey again) one question concerning performance was repeated three times. I couldn’t see any other errors. The questions are quite long and I wonder if the educational and language proficiency of the potential respondents will be sufficient to understand, and respond to, the questions accurately.  
• The survey reads well. Some of those pages are quite long; perhaps you could insert more pages with fewer questions?  
• Bit too long and repetitive  
• The survey looks great! I didn’t have to double think what any of the questions were about.  
• Nothing |
| (2) What do you think I am trying to test?                               | • I reckon that the questionnaire uses positive and negative responses to quantify the franchisees’ assessment of the degree to which they trust their franchisor entity and have confidence in their processes and in their competencies.  
• Trust makes quite a recurring theme – but if I was impartially asked to define what the survey is about, it would be the various aspects of the franchisor/franchisee relationship  
• Franchisee satisfaction with franchisors  
• I would expect that you are trying to test for sense of trust |
and perceived justice from franchisor.

- My impression of the franchisor and if I think they care about me
- Willingness to share information and concerns with franchisor
- Beliefs in the competence of the franchisor (24 items)
- Fairness of the system
- Continuation of the business
- Motivation of franchisee and willingness to stretch the contractual boundaries from both perspectives: franchisee and franchisor
- Assessment of the franchise system itself?
- Willingness to work and communicate with other franchisee's

3. What do you think I am missing?

- Not missing anything but the questionnaire was rather long and tedious to fill out :(
- I also noticed one of the questions was repeated - it was towards the end.
- I've completed some feedback on the questions and some suggestions. Also, there are a few inconsistencies (referring to the franchisor as principal/CEO/franchisor) but overall, comprehensive and very thorough.
- Reasons why
- An opportunity for me to express my feelings of the franchisor in more creative ways
- I cannot see anything missing. It is a big survey and you are asking a lot of questions. I actually felt that at the end you were starting to ask very similar questions to the relationship with the franchisor, but maybe that was me just getting brain dead after all these questions…
- Probably revisiting your RQ's and Hypothesis would help me providing better feedback

Source: developed for this research
The survey was then launched online for the second pre-test whereby 36 franchisees from the sample frame completed the survey. The data was analysed to check the psychometric properties such as reliability and effect size. Each scale had between 4-7 items, some of which included reverse coded questions (9 in total):

- **R_INTEG4** - The franchisor's actions and behaviours are not very consistent.
- **R_PROBSOLV5**  The franchisor's procedures for dealing with disputes are formalised and it is expected that they should be followed rigidly
- **R_LOYAL5** I am likely to switch from this franchise system to a competitor.
- **R_SATIS3**. This franchise hasn't worked out as well as I thought it would.
- **R_SATIS5**. Sometimes I have mixed feelings about keeping this franchise
- **R_FAITH2** - I find myself disagreeing with my franchisor over numerous aspects of their strategy.
- **R_FAITH6**. - It is very important for me to critically examine my franchisor's strategy.
- **R_ENGAGE4**. - My mind often wanders and I think of other things when doing my job.
- **R_SYSTENGAGE3**. - I am really not into the 'goings-on' in this franchise.

These items were reversed before reliability analysis was carried out in SPSS. Table 3.9 shows a summary of the alpha coefficients for each scale.
Table 3.9
Pre-test reliability analysis of constructs used in survey

<table>
<thead>
<tr>
<th>Construct</th>
<th>Cronbach’s alpha</th>
<th>Number of items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passion</td>
<td>0.828</td>
<td>5</td>
</tr>
<tr>
<td>Franchisee engagement</td>
<td>0.571</td>
<td>5</td>
</tr>
<tr>
<td>System engagement</td>
<td>0.737</td>
<td>6</td>
</tr>
<tr>
<td>Faith</td>
<td>-0.444</td>
<td>6</td>
</tr>
<tr>
<td>Reliance-based trust</td>
<td>0.879</td>
<td>5</td>
</tr>
<tr>
<td>Disclosure-based trust</td>
<td>0.861</td>
<td>5</td>
</tr>
<tr>
<td>Ability</td>
<td>0.926</td>
<td>6</td>
</tr>
<tr>
<td>Benevolence</td>
<td>0.886</td>
<td>5</td>
</tr>
<tr>
<td>Integrity</td>
<td>0.665</td>
<td>6</td>
</tr>
<tr>
<td>Problem-Solving Orientation</td>
<td>0.429</td>
<td>6</td>
</tr>
<tr>
<td>Solidarity</td>
<td>0.849</td>
<td>4</td>
</tr>
<tr>
<td>Mutuality</td>
<td>0.819</td>
<td>4</td>
</tr>
<tr>
<td>Flexibility</td>
<td>0.824</td>
<td>4</td>
</tr>
<tr>
<td>Pressure</td>
<td>0.887</td>
<td>4</td>
</tr>
<tr>
<td>Cohesion</td>
<td>0.883</td>
<td>5</td>
</tr>
<tr>
<td>Recognition</td>
<td>0.809</td>
<td>4</td>
</tr>
<tr>
<td>Autonomy</td>
<td>0.904</td>
<td>4</td>
</tr>
<tr>
<td>Fairness</td>
<td>0.899</td>
<td>4</td>
</tr>
<tr>
<td>Innovation</td>
<td>0.91</td>
<td>5</td>
</tr>
<tr>
<td>Team Culture</td>
<td>0.835</td>
<td>4</td>
</tr>
<tr>
<td>Entrepreneurial Culture</td>
<td>0.842</td>
<td>5</td>
</tr>
<tr>
<td>Hierarchical Culture</td>
<td>0.816</td>
<td>5</td>
</tr>
<tr>
<td>Rational Culture</td>
<td>0.75</td>
<td>4</td>
</tr>
<tr>
<td>Loyalty</td>
<td>0.496</td>
<td>5</td>
</tr>
<tr>
<td>Value</td>
<td>0.902</td>
<td>4</td>
</tr>
<tr>
<td>Performance</td>
<td>0.928</td>
<td>5</td>
</tr>
<tr>
<td>Reliance trust in other franchisees</td>
<td>0.884</td>
<td>5</td>
</tr>
<tr>
<td>Disclosure trust in other franchisees</td>
<td>0.873</td>
<td>5</td>
</tr>
<tr>
<td>Satisfaction</td>
<td>0.581</td>
<td>6</td>
</tr>
<tr>
<td>Reward Sharing Fairness</td>
<td>0.896</td>
<td>4</td>
</tr>
<tr>
<td>Commitment</td>
<td>0.925</td>
<td>7</td>
</tr>
<tr>
<td>Confidence</td>
<td>0.875</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: developed for this research
3.3.5 Questionnaire amendment

After reliability statistics were undertaken, the questionnaire was shortened by 27 items so that each construct was robust and reliable. Thus after the pre-test, the updated and final survey instrument contained 32 constructs, each containing four items on average as displayed in table 3.10.

Table 3.10
Amended constructs: Pre-test reliability analysis

<table>
<thead>
<tr>
<th>Construct</th>
<th>Cronbach's alpha</th>
<th>Number of items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passion</td>
<td>.922</td>
<td>4</td>
</tr>
<tr>
<td>Franchisee engagement</td>
<td>.899</td>
<td>4</td>
</tr>
<tr>
<td>System engagement</td>
<td>.920</td>
<td>4</td>
</tr>
<tr>
<td>Faith</td>
<td>.935</td>
<td>4</td>
</tr>
<tr>
<td>Reliance-based trust</td>
<td>.911</td>
<td>4</td>
</tr>
<tr>
<td>Disclosure-based trust</td>
<td>.910</td>
<td>4</td>
</tr>
<tr>
<td>Ability</td>
<td>.909</td>
<td>4</td>
</tr>
<tr>
<td>Benevolence</td>
<td>.896</td>
<td>4</td>
</tr>
<tr>
<td>Integrity</td>
<td>.887</td>
<td>4</td>
</tr>
<tr>
<td>Problem-Solving Orientation</td>
<td>.914</td>
<td>5</td>
</tr>
<tr>
<td>Solidarity</td>
<td>.844</td>
<td>4</td>
</tr>
<tr>
<td>Mutuality</td>
<td>.920</td>
<td>4</td>
</tr>
<tr>
<td>Flexibility</td>
<td>.878</td>
<td>4</td>
</tr>
<tr>
<td>Pressure</td>
<td>.701</td>
<td>4</td>
</tr>
<tr>
<td>Cohesion</td>
<td>.833</td>
<td>4</td>
</tr>
<tr>
<td>Recognition</td>
<td>.776</td>
<td>4</td>
</tr>
<tr>
<td>Autonomy</td>
<td>.867</td>
<td>4</td>
</tr>
<tr>
<td>Fairness</td>
<td>.880</td>
<td>4</td>
</tr>
<tr>
<td>Innovation</td>
<td>.910</td>
<td>4</td>
</tr>
<tr>
<td>Team Culture</td>
<td>.910</td>
<td>4</td>
</tr>
<tr>
<td>Entrepreneurial Culture</td>
<td>.889</td>
<td>4</td>
</tr>
<tr>
<td>Hierarchical Culture</td>
<td>.781</td>
<td>4</td>
</tr>
<tr>
<td>Rational Culture</td>
<td>.884</td>
<td>4</td>
</tr>
<tr>
<td>Loyalty</td>
<td>.899</td>
<td>4</td>
</tr>
<tr>
<td>Value</td>
<td>.930</td>
<td>3</td>
</tr>
<tr>
<td>Performance</td>
<td>.937</td>
<td>5</td>
</tr>
<tr>
<td>Reliance trust in other franchisees</td>
<td>.899</td>
<td>4</td>
</tr>
<tr>
<td>Disclosure trust in other franchisees</td>
<td>.885</td>
<td>4</td>
</tr>
<tr>
<td>Satisfaction</td>
<td>.945</td>
<td>4</td>
</tr>
<tr>
<td>Reward Sharing Fairness</td>
<td>.928</td>
<td>4</td>
</tr>
<tr>
<td>Commitment</td>
<td>.941</td>
<td>4</td>
</tr>
<tr>
<td>Confidence</td>
<td>.929</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: developed for this research
3.3.6 Data collection – main online survey

The survey was launched in October 2014 and data was collected until mid December 2014. Some 1,626 survey invitations were sent to the small business panel and the sample returned 209 usable responses for analysis purposes, or a response rate of approximately 13 percent. Data was collected using a global and reputable market research company. The company has been providing online samples for market research since 2001 and the Australian branch is ISO 20252 accredited. They are an independent single source for permission based data collection operating across 25 countries. The company utilised their localised business owner panel to provide the necessary sample. Two initial screening questions were asked: (1) are you a franchisee? and, (2) do you operate in the retail sector? Only if they answered ‘yes’ to both questions were they allowed to complete the survey. The respondents who complete the survey are rewarded accordingly using a structured incentive scheme. Panellists complete the surveys voluntarily and have the option to unsubscribe at any time.

3.4 Justification of the qualitative methodology

Qualitative research practices are generally subjective in nature, employed in order to make the world more visible to the researcher (Denzin and Lincoln, 2011). The area under study becomes a collection of interviews, conversations, photographs, recordings and personal thoughts. All this information contributes to an investigation of events in their natural settings with the goal of interpreting phenomena as people see them. At the heart of the matter, qualitative researchers are always hoping to get a better understanding of the subject matter at hand (McCracken, 1988).

Within qualitative research inquiry, researchers seek to understand and interpret how people create and maintain their social reality (Mertens, 2010; Denzin & Lincoln, 2011). Because these meanings are subjective, varied and complex, the goal of this type of research is to develop a comprehensive understanding of how people construct meaning in their own natural settings (Neuman, 2011). One method of uncovering this hidden meaning and recognized as a key method for qualitative data collection, interviews yield rich information about people’s experiences, perceptions and feelings (Patton, 2002). This is why, according to Creswell (2013), qualitative research is often
called ‘interpretive research’. The researcher’s intent, then, is to make sense of (or interpret) the meanings of other peoples’ worldviews. Thus, this type of inquiry and research design was chosen as the most appropriate and efficient way to collect and access data in this initial stages of the research.

A primary goal of this research is to provide an internally valid outcome. Punch (2000) describes internal validity as a result of the chosen research method matching the research question so as to produce a clear and internally consistent argument. A qualitative methodology has been chosen for the initial phases of the research so as to match the research question – how is franchisee trust understood within the franchising sector? This type of question is open ended and exploratory in nature, requiring respondents to give subjective opinions based on their own personal experience. A qualitative method fits the question as the issue I am trying to analyse requires an initial deeper understanding of the social phenomena (Silverman, 2013). In contrast, quantitative studies are more valuable when the research question seeks to clarify specific causal relationships between variables – a method that will be utilised in the final phase of this research. However, in the early stages of the research, a qualitative methodology provides an internally valid method for gathering rich and meaningful data on franchisee trust.

To ensure reliability in qualitative research, Seale (1999) suggests that the trustworthiness of a research report is crucial to good science. All precautions were undertaken by the researcher to ensure the interviews were conducted in a reliable manner. Ethical clearance was first obtained and all interviews were audio recorded (all but one who declined to be recorded due to the sensitive nature of the topics, thus handwritten notes were taken). The researcher then transcribed all interviews. Appendix G shows an example of a transcript. The transcripts were then analysed using thematic software (NVivo) whereby congruent themes were identified. This process ensured the qualitative research was reliable, the purpose of which is to establish confidence in the findings (Lincoln and Guba, 1985).

Furthermore, qualitative methodology places the researcher in the field amongst the participants, allowing the researcher to really know what people are thinking and how they are acting. The main advantage of this type of research is the ability to get an insider’s view of reality; how they shape their world (Singleton et al., 2010). The hallmark of field research is methodological empathy (McGuire, 1982) where the researcher begins to see things as the participants see them, utilising the same frame of reference for understanding the phenomena. Researchers begin to understand the intricate subject
areas more comprehensively, consistent with the way others understand it. In this research, franchisee trust is a complicated construct with many antecedents and consequences. Through the use of a qualitative methodology, I have been able to gain a greater and more comprehensive understanding of franchisee trust; to see it how franchising practitioners see it. Chapters 4 and 5 showcase the analysis, the congruent themes identified, and the thematic model developed from the qualitative data. The model is then tested using a quantitative methodology.

3.5 Justification of the quantitative methodology

Considered to be the oldest and most widely used approach, positivism employs rigorous scientific measures to provide ‘objective’ research (Neuman, 2011). However, it is important to ensure the quantitative measurements are reliable and valid. Reliability in quantitative research refers to the consistency of the scale used to measure the construct and validity in quantitative research refers to the soundness of the measurement. Neuman identifies three types of reliability – stability, representative and equivalence reliability – and two types of validity – face and construct validity.

**Stability reliability.** This type of reliability refers to the accurateness of the measurement across time. Does the measure deliver the same answer when applied in different time periods? For the purpose of this research, the survey is not longitudinal and will only be launched once due to time and financial constraints. However, future research could test the stability reliability of the survey instrument. Of particular interest would be the change in responses during different economic cycles. For example, is the level of franchisee trust susceptible to difficult economic pressures and seasonally competitive markets.

**Representative reliability.** This type of reliability measures the consistency within different subgroups of the population. A construct has high representative reliability if it yields the same results when applied to different categories (for example, different races, different genders, different age groups). As the sample is specific to retail franchisees, future research could administer the survey to service retailers. This data could reveal
whether the measures have representative reliability across all the different categories of business-format system franchisees.

**Equivalence reliability.** This type of reliability applies when multiple indicators are used to measure a construct. Table 9 shows the constructs and the corresponding number of items used to measure it. It is critical to find scales that are reliable when designing the survey instrument. One of the main issues concerning reliability is the scale's internal consistency (Pallant, 2005); in other words, how well does the scale measure the same underlying construct. The most common indicator used to measure internal consistency is Cronbach’s alpha coefficient. Typically if the value is above 0.7, the scale can be considered reliable within the sample. The results of this analysis ensured that the final constructs contained equivalence reliability.

**Face validity.** This type of validity measures the judgement by the scientific community that the scale does in fact measure the construct accurately. All scales and measures were taken from reputable sources including Bruner and Hensel (1992), ‘Marketing Scales Handbook’ as well as published franchising research from leading marketing journals.

**Construct validity.** There are two main types of construct validity: convergent and discriminant. Both types are necessary to support construct validity, in other words, the degree to which a construct accurately represents what it is meant to (Zhu, 2000; Hair et al 2006).

### 3.6 Limitations of the research method

As the qualitative research has been conducted by a sole investigator who has interacted with a limited number of people (30 franchising experts, franchisees and franchisors), the findings are highly dependent on the interpretive skills of the researcher. This approach provides for a major limitation as the findings may lack generalisability (Singleton et al., 2010). Yet, the findings from this qualitative methodology are still vital to the formulation of a well-developed picture of the research problem. Furthermore, throughout the research process the technique of peer debriefing (Creswell, 2003) has ensured the accuracy of the findings by engaging qualified peers in discussion and review.
Contrasting and complementary discussion on the research area provides value to the overall research direction. Outside of the supervisory team, findings from this phase of research were published and presented at an international academic franchising conference (Grace et al., 2014). This technique ensures that the research is continuously refined and the interpretation of the findings is not left solely to the individual researcher’s opinions.

With regard to the quantitative research – phase three - the 209 usable responses falls within the expected sample size range (149-378). A larger sample size would have provided a stronger confidence interval, however the data collection stage was limited by time and cost. The data was collected toward the end of the year and most retailers were busy with Christmas season trading. Secondly, the financial cost of using the market research panel was higher than anticipated due to the low incidence rate. Thus, a sample size of 209 was used to carry out the data analysis, described in chapter 6. Similar sample sizes have been reported in business research published in top tier academic journals (Heide and John, 1988; Kedia et al., 1994; Lafontaine and Kaufmann, 1994; Morgan and Hunt, 1994; Dant and Kaufmann, 2003; Davies et al 2011)

3.7 Consent, access and ethical issues

Griffith University’s approach to human research ethics is based on the Australian standard set forth in the National Statement on Ethical Conduct in Human Research (2007). The National Statement applies to all human research and although not legally enforceable, it continues to be endorsed by Universities Australia (Griffith University Research Ethics Manual, 2012). As an institution, Griffith University requires all research (either with animals or humans) to receive ethical clearance prior to commencement. This research project was approved ethical clearance on 23 May 2103 (GU ref no: MKT/11/13/HREC).

Much of the ethical consideration rests with how the intended research is designed. According to Coughlin (1996), the design of a study should not only be scientifically optimized, but also ethically optimized to the greatest extent possible. A major protocol for the design of a study should consider the balance between the possible risks and benefits to the research participants. The information sheet given to all respondents prior to the research is shown as appendix A. Informing the respondents reflects an essential ethical consideration that ruminates both the means and the ends of the participant’s status (Loue, 2000). Section 1 of the National Statement (2007)
identifies four major principles of ethical conduct in human research: research merit and integrity, justice, beneficence, and respect for persons.

Firstly, this particular research complies with section 1.1 (a) of the National Statement (2007) with regard to research merit and integrity because of its justification through potential benefit, including its contribution to the existing body of knowledge as well as an improved understanding of the franchising relationship. That is, an increased awareness of franchisee trust should be beneficial to the overall status of the franchising sector in terms of longer relationship survival, sustainability and reduced conflict escalation. This research has also been designed using appropriate research methods (section 1.1 – b) and is based on a comprehensive study of the existing literature (section 1.1 – c). Due to the sensitive nature of trust, which may be viewed as ‘too personal to discuss’, respect and integrity was upheld toward the participants (section 1.1 – d; and section 1.3) whereby respect for the participants was not comprised by the way the research was carried out, nor by the results. All participants’ personal details were kept secure and private with mandatory informed consent required prior to the start of the interview/survey (appendix B and C respectively).

Secondly, with respect to justice (section 1.4), research participants were chosen fairly and appropriately with no obligation to partake placed on any participant. Upon completion, the research outcomes were made accessible to all participants in a timely and clear manner (section 1.5). Thirdly, the beneficence (sections 1.6 – 1.9) toward the research participants will outweigh any risks or harm or discomfort to participants. As there are no major risks identified in this particular research, the intended discussion around the concepts of trust, conflict and compliance is intended to provide an overall benefit to those who participate. This benefit will largely consist of an increased awareness of constructs that can benefit the performance of their franchising relationships, through longer survival, sustainability and reduced conflict escalation. In this research project, the benefits largely outweigh the risks.

Finally, utmost respect (sections 1.10- 1.13) will be maintained in recognition of the humans participating in this research. High regard for their intrinsic value as human beings, as well as any cultural or religious significance was upheld throughout the life of this research endeavor. No participant was forced against their will to participate, providing for a complete understanding and appreciation for every human being’s ability to make their own decisions.
3.8 Conclusion

This research consisted of three phases. Firstly, a largely unstructured conceptual framework (Punch, 2005; Singleton, 2010) guided phase one of the research, whereby depth interviews were conducted with 17 franchising experts (table 3.1). Where possible the interviews were conducted face-to-face, but some were conducted via telephone and Skype. Phase two consisted of the case study method allowing the researcher to retain the meaningful characteristics of organisational behaviour, contributing to our knowledge of organisational phenomena (Yin, 2014). Data consisted of 13 interviews from franchisees and the franchisor across two franchise systems (table 3.4). Finally, phase three consisted of an online survey whereby seven stages were used to design the survey as illustrated in figure 3.2: (1) a realistic sample size was chosen and the online survey method was chosen, (2) the questionnaire was designed using only reliable and valid measures from the existing marketing and franchising literature, (3) an initial pre-test with eight individuals was carried out, (4) a second pre-test with 36 retail franchisees was carried out whereby psychometric properties were analysed, (5) the questionnaire was amended appropriately, (6) the survey was launched to a panel of 1,626 small business owners. Finally, (7) the data was cleaned, resulting in a usable sample of 209 responses.

This chapter has described in detail the method used to conduct the research. The chapter details the research process over two years whereby interesting and insightful observations provide a significant and original contribution to the existing franchising knowledge. Empirical data collection has also ensured the findings are consistent within the “real world”. The type of data analysis employed, the findings, and a discussion of the data in each phase of the research is respectively described in the next three chapters.
Chapter 4 – Phase one of the research inquiry: interviews with franchising experts

4.0 Introduction

This chapter reveals the initial findings from the exploratory investigation into franchisee trust. Data from the 17 interviews with franchising experts is analysed using Attride-Stirling’s (2001) thematic network analysis procedure. Concurrent themes are identified from the interview transcripts using a coding framework (table 4.1) and then categorised into basic, organising and global themes (table 4.2). The three main global themes, corresponding to the three research questions are: how franchisee trust is understood (section 4.2), authentic trust versus the erosion of trust (section 4.3), and finally, the barriers to building franchisee trust (section 4.4). Figure 4.1 illustrates an outline of this chapter.

4.1 Analysis of phase one interview data

If qualitative research is to provide worthwhile results, it is imperative that the material under scrutiny is analysed in a methodological manner (Attride-Stirling, 2001). One such vigorous method is thematic network analysis. Attride-Stirling describes it as a three-stage process. Firstly, the text should be broken down. Coding the text into meaningful segments is an important strategy for qualitative researchers (Lee and Fielding, 1996). This task is done via a coding framework which is usually devised based on specific topics relevant to the subject area. The coding framework for phase one of this research is displayed in table 4.1, where 24 codes are listed. Some 184 text segments were organised into the 24 codes. The table is ordered with the most dense codes first, that is, the topics that were talked about most, appear first in the table. The second stage of the process requires the researcher to refine the themes. Significant and salient themes are chosen out of the coding framework, a task that can be painstaking and tedious (Attride-Stirling, 2001).
4.0 Introduction

4.1 Analysis of interview data

4.2 RQ1 – How is franchisee trust understood within the franchising sector?
   4.2.1 The category of knowledge: trust and distrust
   4.2.2 The category of behaviour: trustworthiness and untrustworthiness
   4.2.3 The mediating variable: franchise system culture

4.3 RQ2 – Can authentic trust exist within the franchising relationship?
   4.3.1 Authentic trust
   4.3.2 Evolution of the relationship
   4.3.3 Erosion of trust

4.4 RQ3 – What are the barriers to building franchisee trust?
   4.4.1 Lack of profitability
   4.4.2 The fairness equation
   4.4.3 Franchisee expectations
   4.4.4 Franchisor honesty
   4.4.5 Individual personality
   4.4.6 Competing interests
   4.4.7 Conflict management
   4.4.8 Collaboration

4.5 Conclusion

Source: developed for this research
### Table 4.1
Phase one coding framework

<table>
<thead>
<tr>
<th>Codes [24]</th>
<th>Text segments [184]</th>
<th>Issues discussed (Basic themes)</th>
</tr>
</thead>
</table>
| Erosion of trust | 23 | - Dissatisfaction with the money being made and the work they are putting in  
- Decisions not made in your best interest  
- Business profitability when trying to sell  
- Inevitability of a personality clash  
- Breakdown in communication  
- Fraudulent behaviour  
- Acting in bad faith  
- Excessive wish or action  
- Undermining one another because of the power gradient  
- Goal divergence |
| Relationship building | 17 | - Maintaining a sufficient level of trust  
- Passion and emotion in the relationship  
- Tangible benefits  
- Creating empathy  
- Communication  
- The importance of how people interact  
- First impressions  
- Diplomacy |
| Trust | 14 | - More transparency leads to trust  
- You have to earn trust  
- The only way to know if you can trust someone, is to trust them  
- I think the relationships works better if there is trust  
- If you didn’t have trust you would have a very limited relationship  
- Trust is a highly complex concept between two parties |
| Good faith | 13 | - How best to define good faith  
- Professional behaviour  
- Examples of good faith  
- Vagueness of the concept |
| Authentic trust | 12 | - Based on historical relationship with the franchisor  
- Very few franchisees will have authentic trust  
- Genuine support  
- Credible leadership  
- Good communication  
- Integration of interests  
- Dangers of blindly following someone  
- Passion  
- No shadow of a doubt  
- Motivations  
- Pressure decisions |
| Interests | 12 | - Competing interests  
- Self-interest |
(Cont.)

| Profitability | 12 | - Greed  
| - Investment into the model  
| - When everyone is making money, they are all happy  
| - If you’re making money then distrust would be reduced  
| - Blaming the franchisor if unprofitable  
| - Extraction of money from the equation  
| Expectations | 11 | - Realistic expectations before joining the system  
| - Mismanagement of expectations  
| - Expectation of support from the franchisor  
| - Misunderstanding of expectations  
| Building trust | 8 | - Reputation of the brand  
| - Making money  
| - Trust isn’t bulletproof  
| - Building rapport with the franchisees and their families.  
| - Higher degree of transparency  
| Relationship management | 7 | - Maintaining the relationships is a daily thing  
| - Effective communication from the outset  
| - The external market dictates the relationship  
| Culture | 6 | - Creating a culture of good faith  
| - Multi-culturalism within the system  
| - Everyone on the same page  
| - New ownership will change the culture  
| Personality | 6 | - Whether people are suited for franchising  
| - Every time you get a new personality, you get a new opinion  
| - The ability to put aside your personal preferences  
| - Leadership style  
| Collaboration | 5 | - Collaborative effort  
| - Uncertainty  
| - Diplomacy  
| - Friendly competition  
| Friendship | 5 | - Sentimentality  
| - Working relationships  
| Arm’s length | 4 | - Us vs. them mentality  
| - interdependence  
| Bad faith | 4 | - Doing something for an improper or capricious purpose  
| - Misleading behaviour  
| - Responsibility for actions of bad faith  
| Conflict resolution | 4 | - It is still possible for honest people to have disagreements  
| - Demystifying what people really want  
| - Relationships that are structured to generate conflict  
| - Healthy tension  
| Evolution of the relationship | 4 | - Less time available for franchisees as the system evolves  
| - Learning from conflict to evolve the system  
| - Life-cycle of the franchisee  
| Power imbalance | 4 | - Franchisee vulnerability  
| - Fairness equation  

100
Control 3
- Don’t try and control your partner. All you can do is manage your own behaviour
- Quality control, ensuring the success of the brand
- Losing control as the system grows

Emotional contract 3
- Difference between the legal contract and the emotional contract
- People will hear what they want to hear

Clarity 3
- Mismanagement of communication
- Unclear communication
- Assumptions

Candor 2
- A requirement of the relationship
- Talking openly

Contract 2
- Understanding the agreement
- The contract frames the relationship

Source: developed for this research

The final stage involves constructing the thematic network (table 4.2). Themes are organised into coherent groups ranging from: (1) basic themes, (2) organising themes, and (3) global themes. Basic themes are very simple premises that on their own say very little about the bigger picture. Organising themes serve to organize groups of basic themes into significant clusters. Finally, global themes serve as a tool for gathering organising themes into a coherent argument, assertion or position. Depending on the complexity of the data, a global theme will function as the core of the thematic network. The final thematic network aids qualitative analysis as an organising and illustrative tool from which emerging patterns can be interpreted. Each theme is moulded into a specific idea, but not too narrow of a thought so that it is unable to be linked to other themes. The themes are consistent with the first three research questions:

1. How is franchisee trust understood within the franchising sector?
2. Can authentic trust exist within the franchising relationship?
3. What are the barriers to building franchisee trust?

The following section addresses each of these questions respectively, including quotes from the qualitative data and formulating a discussion around the franchising expert’s insight.
Table 4.2
Phase one organising themes and global themes

<table>
<thead>
<tr>
<th>Organising theme</th>
<th>Global theme</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Trust</td>
<td>1. How franchisee trust is understood</td>
</tr>
<tr>
<td>2. Distrust</td>
<td>(section 4.2)</td>
</tr>
<tr>
<td>3. Trustworthy and untrustworthy</td>
<td></td>
</tr>
<tr>
<td>behaviour</td>
<td></td>
</tr>
<tr>
<td>4. Franchise system culture</td>
<td></td>
</tr>
<tr>
<td>5. Authentic trust</td>
<td>2. Authentic trust versus the erosion of trust</td>
</tr>
<tr>
<td>6. Evolution of the relationship</td>
<td>(section 4.3)</td>
</tr>
<tr>
<td>7. Erosion of trust</td>
<td></td>
</tr>
<tr>
<td>8. Lack of profitability</td>
<td>3. Barriers to building franchisee trust</td>
</tr>
<tr>
<td>9. The fairness equation</td>
<td>(section 4.4)</td>
</tr>
<tr>
<td>10. Mismanagement of expectations</td>
<td></td>
</tr>
<tr>
<td>11. Dishonesty</td>
<td></td>
</tr>
<tr>
<td>12. Personality clash</td>
<td></td>
</tr>
<tr>
<td>13. Competing interests</td>
<td></td>
</tr>
<tr>
<td>14. Destructive conflict</td>
<td></td>
</tr>
<tr>
<td>15. Lack of collaboration</td>
<td></td>
</tr>
</tbody>
</table>

Source: developed for this research
4.2 RQ1 - How is franchisee trust understood within the franchising sector?

Trust within the franchising relationship can be categorised into: (1) the category of knowledge and (2) the category of behaviour. Firstly, a franchisee may either trust or distrust their franchisor. This perception is largely influenced by the second category, the behaviour of the franchisor. Therefore, the construct of trust (within the category of knowledge) is closely associated with the construct of trustworthiness (within the category of behaviour). Similarly, the construct of distrust is closely associated with the construct of untrustworthiness. In the context of a relationship, trustworthy behaviour will sustain trust and on the other hand, untrustworthy behaviour is likely to damage trust. Thus, the data reveals that franchisee trust is understood to belong within the category of knowledge and franchisor trustworthiness belongs in the category of behaviour. This finding is consistent with the literature on trust and trustworthiness (Lewis and Weigert, 1985; Flores and Solomon, 1998; Hardin, 2002) as one franchising consultant said, "when the franchisor shows behaviour that puts a doubt in the mind of the franchisee that, 'I can't trust this person, or these people don't care about me,' that tears the fabric of the relationship." Further analysis of the findings from the interviews reveals interesting insight on: (1) trust and distrust, (2) trustworthy and untrustworthy behaviour, and (3) franchise system culture as a mediating variable. Finally, a conceptual model positions the constructs as either leading to synergy or dysfunction (figure 4.2).

4.2.1 The category of knowledge: trust and distrust

Trust was found to be an important aspect of the franchising relationship. The need for the franchisee to trust the franchisor (and vice versa) was described as "paramount" (franchising consultant) and "integral" (franchising mediator). Trust leads to collaboration – as one interviewee said, “I think the relationship works better if there is trust.” Furthermore, the franchisor needs to trust that the franchisee will be a trustworthy custodian of the brand otherwise “they certainly won’t entrust their brand to a franchisee” (franchising banker). On the other hand a franchisee needs to trust that the franchisor “will be there to support them if they get into trouble” (franchisee advocate). Therefore, trust within the franchising relationship leads to effective teamwork as well as
improving the potential for a successful business venture, as described by a franchising mediator:

I believe that if you can have trust in your franchisor, and if the franchisor can trust the franchisee then they can get on with achieving their objectives, rather than concerning themselves with whether those objectives are being thwarted by the other person’s actions…trust must accelerate the potential for success.

On the other hand, a lack of trust or distrust has the potential to "undermine" the profitability of the relationship - for both parties - as well as "limiting" the relationship (franchising consultant). Economic volatility and general business risk may contribute to uncertainty within the franchising environment. However, distrust can begin to creep into the relationship if expectations are not met. If a franchisor seems to be acting in an untrustworthy manner, then a franchisee may begin to distrust the actions of their franchisor. There are specific reasons why A trusts B, or there are specific reasons why A distrusts B. Furthermore, there may also be instances where a franchisee distrusts their franchisor, yet still has to cooperate with them. Bitterness, suspicion and distrust will damage any relationship, as one franchisee advocate remarked, “franchising is not an ideal environment for trust; it is very hard to build and you will find that distrust will be the biggest reason for failure in most relationships, in particular franchising.” Even though risk is minimized by the protection of the government (for example, the ACCC can initiate litigation against a franchisor on behalf of the franchisee) and by legislation (the Code), trust is fragile, as one franchising lawyer suggested, “trust goes out the window when a party perceives the other to be doing something dodgy, for example a misappropriation of marketing funds.” The misappropriation of marketing funds may be neither immoral nor illegal, yet may be perceived to be an act of bad faith. It is clear from the findings that distrust damages the relationship between the franchisee and the franchisor while trust contributes to the vitality of the relationship. As one franchise consultant believed, “I am certain that if you don’t have trust, you would have a very limited relationship.” The following section describes some examples of how behaviour can influence levels of trust/distrust.
4.2.2 The category of behaviour: trustworthiness and untrustworthiness

It is reasonable to expect both the franchisee and the franchisor to be fair in their dealings toward one another; that is, to act in a trustworthy manner. Data reveals that trustworthy actions consist of (but are not limited to) three major elements: (1) goal congruence, (2) clarity, and (3) care. However, misleading and deceptive conduct does exist within franchising and is considered to be a major impediment to healthy levels of trust within the franchising relationship. Three major elements of acting in an untrustworthy manner include: (1) goal divergence, (2) non-disclosure of material information, and (3) indifference.

Trustworthy behaviour had a strong connection with actions of good faith. As identified in the literature review, good faith is an ambiguous concept (Terry & DiLernia, 2009); an idea confirmed by a franchising consultant who shared his belief – “to me it’s about being fair, how do you describe good faith, I mean that’s what the lawyers have been arguing about forever. But we all know in our heart of hearts what’s right and what’s wrong.” One lawyer suggested that “you don’t have to act in good faith, but if you want the relationship to thrive you need to do the little things…exceed all expectations.” Another franchising consultant gave a practical example of how good faith may exist within a franchising relationship:

I’ll give you an illustration of good faith, I got asked the question this week, a franchisor rings me and says I’ve got a 70,000 contribution to fit-out of this store in X town. What do I do with it? I said to him, ‘you give the entire amount to the franchisee!’ Because that’s what you do in good faith. The franchisee has bought into your system because they’re expecting to get a better deal on buying and on advertising; they’ve paid for the benefits of using your system and to me that’s one of the benefits that helps build trust.

The franchisee and the franchisor are separate legal entities cooperating in an agency relationship. Goal congruence is an important aspect of the agency relationship (Eisenhardt, 1989) as it reduces the need to monitor the behaviour of others. Furthermore, goal alignment will assist in synergy within the relationship as groups of people work together in an efficient manner, with the same purpose and direction. However, the agency problem exists when the relationship suffers from goal divergence (Jensen and Meckling, 1976; Eisenhardt, 1989). It may be impossible to have goals that are in perfect alignment because both the franchisee and the franchisor have
different objectives. As these objectives move further apart over time, it is more likely for one party to be suspicious of the true motives of the other party and start to question whether their goals are still in alignment. Hence, goal divergence will contribute to perceived actions of bad faith, as one mediator said, “you couldn’t characterize their interests as necessarily shared, some of them are shared, some of them are common, but in other ways they are competing interests. And when they are competing, that’s the challenge.” Furthermore, a franchising banker understood that, “in business, people aren’t necessarily against you, they are just for themselves.” However, this attitude is “not healthy, and I don’t think it’s effective either. Because the parties stop looking at any form of common goal and they begin to just purely focus on their own goals, they work against each other rather than for each other” (franchising consultant).

Uncertainty as to the motives of the other party will contribute to skepticism and distrust. However, a franchisee is more likely to act in good faith toward their franchisor, and vice versa, when there is clarity within the relationship. The presence of honesty and transparency assist the development of a stable franchising relationship. However, as one lawyer suggested, “it is still possible for honest people to have disagreements.” Thus, it is reasonable to expect that both parties in the relationship will not deceive one another through secrecy and dishonesty; appropriate disclosure is an important attribute of acting in good faith. On the other hand, material non-disclosure is identified as a major impediment to the fostering of trust, “we believe that more transparency will lead to more trust. You have to earn trust, both ways” (franchisee advocate). Furthermore, a franchising mediator explained, “This is a type of relationship that involves a level of candor.” Where truthfulness is replaced with secrecy, uncertainty as to the true motives of the other party may be grounds for distrust. One franchising lawyer discussed the lack of comprehensive disclosure of material information in the franchising relationship and how this can negatively affect the relationship:

Non-disclosure can exist as strategic misrepresentation whereby the franchisor may choose not to reveal the whole truth of their situation to a prospective franchisee. It is likely to be perceived as acting in bad faith if either party is seen to be deliberately involved in material non-disclosure.

Furthermore, a franchising mediator said:

In franchising, you need to avoid situations where one party doesn’t reveal information which they know is material to the actions of the other party.
Almost always this is going to be on the part of franchisors – not disclosing details to potential franchisees.

The franchising mediator’s comment above reveals the problem of material non-disclosure and the implications to the equilibrium of the fairness equation. **Care** toward another is the final component of trustworthy behaviour. People who genuinely care for one another are more likely to act in good faith. However, “it is quite hard to act in good faith when it conflicts with your own interests” (franchising mediator). Yet, “one of the keys to building trust is to demonstrate genuine care” (franchising consultant). Damage to the relationship might occur if either the franchisee or the franchisor becomes **indifferent** to the other party’s needs. A lack of care and support from the franchisor will be seen as a lack of good faith, as described by one lawyer, “I’d say that as well as the transparency and disclosure, another big reason for conflict in the relationship is that expectation of support and assistance that doesn’t materialize.” The roles and obligations (for example, support and quality standards) of the franchisor and franchisee are usually stipulated in the initial franchise agreement, signed by both parties at the beginning of the venture. This is the legal contract, however, a “psychological contract” also exists between the franchisee and the franchisor (franchising consultant). The psychological contract complicates the interaction between the franchisee and the franchisor as unwritten laws exist that may dictate the direction of the relationship and may damage the relationship if they are not obeyed. A consultant mentions the significance of the psychological contract, describing it as being “more important than the legal contract because it is what drives behaviour.” Therefore, the franchisee and the franchisor are inextricably linked to one another in their chosen venture, both legally and psychologically. The findings suggest the importance of trust and maintenance of the psychological contract. Trust changes into distrust as confidence begins to waiver in the other’s ability to act in a trustworthy manner, behaviour that can strongly be influenced by the franchise system culture.

4.2.3 The mediating variable: franchise system culture

The culture of an organisation is largely socially created (Helfrich et al., 2007) and refers to the complex combination of values, beliefs and assumptions that underpin organisational behaviour (Barney, 1986). Organisational culture plays a significant role in determining how the firm interacts with its own employees, suppliers, customers and competitors (Louis, 1983). The overarching franchise system culture is conceptualised as
a mediating variable between the two categories of knowledge and behaviour. A culture of good faith in a franchise system is more likely to produce synergy than a culture of bad faith. The franchise founder/CEO is largely responsible for setting the culture and will determine “how we do things around here” (consultant). However, franchisees still play an important role in developing the franchise culture as they move into the system. A positive culture of good faith is an important factor in determining the presence of synergy, as suggested by a franchising consultant:

It also comes down to the selection of the franchisee. Because in the selection process you need to ask yourself, ‘am I just taking someone with a heartbeat and a cheque book or have I done the due diligence to see that this person fits the culture?’

The state of the franchising relationship will be a product of the surrounding franchise culture. Figure 4.2 shows the franchise culture positioned as a mediating variable between trust/distrust and actions of good/bad faith. There are many things people can do to change the culture because after all, the culture is not a “non-thinking, amorphous thing; it is made up of people and their attitudes” (franchising consultant). One franchising consultant told the story of what he used to do in his own franchise system: “When I was general manager of a franchise system, I actually had a box in the tea room and if anyone was heard to be derogatory to a franchisee without just cause, it cost them a dollar; that very quickly changed the culture.” Thus, the franchise culture will largely dictate the behaviour of the individuals within the system. The culture can set a tone of positive and healthy attitudes to those within the system, or it can degrade into a culture of bad faith, plagued by distrust.
4.3 RQ2 - Can authentic trust exist within the franchising relationship?

4.3.1 Authentic trust

The second research question is: can authentic trust exist within the franchising relationship? According to the data, authentic trust (organising theme 5) can exist within the franchising relationship. As one franchising lawyer said, “yes I think authentic trust can exist – I think what might promote that type of trust is for each party to make a genuine effort in performing their side of the bargain and in helping each other.” It was found that the issue of franchisor support was a major determinant of franchisee trust. When the franchisee perceived that they were receiving adequate levels of support from their franchisor, they associated this with the franchisor fulfilling their end of the bargain. A franchisee could authentically trust that the franchisor would continue to make
“genuine attempts” (franchising lawyer) to support their business. Furthermore, the data revealed two further determinants of authentic trust: “credible leadership” and “good communication” (franchising consultant). But not all franchisees within a franchise system may be able to develop authentic trust, “I think that’s at the top extreme of the bell curve and those franchisees are relatively few in number. It’s going to be based upon their own internal expectations and the historical relationship with the franchisor” (franchising consultant).

4.3.2 Evolution of the relationship

Levels of trust within the franchising relationship are not static. Circumstances change and people change, even levels of trust will change – the relationship evolves (organising theme 6). For example, franchisees go through “life cycles – they’d get divorced or the kids would grow up.” (franchising consultant). Ownership of the franchise system can also change, individuals working for the franchisor also have life-cycles, even founding members can move on – “a new owner coming in will change the culture” (franchising consultant). It is important to keep this perspective in mind when discussing the levels of trust within the relationship, after all, “trust isn’t bulletproof” (franchisee advocate). A franchising lawyer described the evolution of the relationship in detail, suggesting that not only the franchisee changes, but the franchises system changes as it increases in size:

In the formative years, when the franchisees have direct access to the founder, there is a lower ratio of franchisees to the founder, [therefore] he or she has a lot more time available to them, probably go directly and visit their store. As the system grows, there is a buffer built up there, less time is spent with the franchisees and to visit them in their store. It’s more efficient for them to come and visit you and that can lessen the degree of trust and decrease communication. There will be incidents, there will be differences, it’s a case of whether you can work through those and maintain a sufficient level of trust. Or whether it’s going to lead to a divorce.

Furthermore, the data suggested that there also needs to be a level of caution in whom you trust, and how much you trust, as a franchisor representative explained, “if I trusted 100 percent of the franchisees to do the right thing, we would make a lot more money because we wouldn’t need operations checks. Also, if you follow blindly, you become lemmings. Sometimes one mistake could lead everybody off a cliff.” One franchisor
representative was asked if he authentically trusted his franchisees, his response was “some more than others.” He qualified his comment further by stating that he would authentically trust his franchisees to do some things more than other things, for example he did not trust that all of them would follow the system, but he did authentically trust that they would do what’s in the best interest for them. On the other hand, a franchising banker did not believe that authentic trust could exist due to the turnover of the people within the franchise. By taking a long-term perspective he understood that eventually people leave an organisation, therefore it would be unwise to trust someone authentically. He equated authentic trust to sentimentality, describing the franchise system as an “enormous, constantly shifting paradigm with many different facets” eventually people change, thus it is “impossible to create a sentimental relationship within a franchise.” According to the franchising banker, authentic trust was only possible in theory, in practice it was deemed to be impossible:

I think in order to gain a fully authentic trust, both parties need to be moving toward the exact same goal, in the exact same way, with the exact same intentions, I think that’s the only way you can develop it. Essentially you’re on the same boat and you’re heading in exactly the same direction.

According to a franchising mediator the task of achieving authentic trust was described as being too difficult:

For most of the franchisors I know you are setting the bar too high. Maybe, with the franchisors that I’ve known, could I trust them – yes – but I would probably always qualify that trust to certain circumstances, therefore, in your definition of authentic trust, no I don’t think I would trust a franchisor because in the end a franchisor has different objectives to the franchisee and when it comes down to real pressure decisions, the franchisor will make a decision on the basis of his or her objectives, not on the basis of the franchisees’ objectives.

The power gradient was also considered to be an important factor in the development of authentic trust. One interviewee said, “A franchisee will never or very, very seldom give absolute trust – which might be similar to the concept of authentic trust – to a franchisor. Because again, the franchisee will always have this belief that they are not there for the same reasons as the franchisor.” Even though the franchisor may promise ongoing support and continued guidance, there may be times where the franchisee feels they are not receiving their fair share of the bargain. This uncertainty is “always exacerbated by the power gradient” (franchising consultant). Increasing levels of
franchisee trust “depends on how that power gradient is handled, but I think the steeper the power gradient, the less easy it is for the franchisee to trust the franchisor” (franchising mediator).

4.3.3 Erosion of trust

It was found that authentic trust is difficult to achieve, but franchisee trust can still be maintained. However, a divergence of interests and goals as well as untrustworthy behaviour, can lead to the erosion of trust (organising theme 7) between the franchisee and the franchisor (figure 17). A franchising mediator commented, “once trust breaks down, you can have a triggering event whereby levels of trust go down further and you move toward a scenario where there’s no trust on behalf of the parties and all that remains is blame.” However, what typically starts “to erode the trust is when they begin to look at the money they are making and the work they are putting in, and there’s a gap between what their expectation was and what the reality is – and that expectation gap is what we call dissatisfaction” (franchising consultant). Distrust erodes the value of the franchising relationship with some relationships deteriorating into an unhealthy and unstable environment plagued by skepticism and uncertainty. Distrust may also pave the way for large legal battles between the franchisee and the franchisor, as described in the aforementioned case (Rod Hackett v McDonald’s, 2000). A franchise consultant said, “the franchising relationship starts off as blind trust, then leads to mutual distrust because of potential dishonesty.” One strategy for dealing with the possible erosion of trust is to view conflict as an “opportunity to learn from the experience and keep evolving the system and making it a better system” (franchising mediator). However, “people are essentially self interested and if your perception is that decisions are going your way then you are likely to have a high level of trust, and if things don’t go your way then that depletes the trust bank” (franchising lawyer).

Overall, it was found that authentic trust between the franchisee and the franchisor is possible, however it is rare and difficult to maintain (figure 4.3). As one franchising consultant said, “absolutely, authentic trust can exist; it comes down to the selection of the franchisee, because if you’ve got everyone on the same page then it’s so much easier” (franchising consultant). However, if the goals of the two parties begin to diverge, a perception of untrustworthiness may prevail within the franchising relationship, this can result in trust eroding into distrust, as displayed in figure 4.4.
Figure 4.3
Synergy and authentic trust

1. Initial trust
2. Trustworthy behaviour

3. Franchise culture of good faith
4. Synergy
5. Authentic trust

Source: developed for this research

Figure 4.4
Dysfunction and the erosion of trust

1. Initial trust
2. Untrustworthy behaviour

3. Franchise culture of bad faith
4. Erosion of trust
5. Dysfunction & Relationship Breakdown (Exit)

Source: developed for this research
4.4 RQ3 - What are the barriers to building franchisee trust?

The qualitative data from phase one (expert interviews) was further analysed to answer the third research question: what are the barriers to building franchisee trust. The research revealed eight major barriers to building trust within the franchising relationship: (1) lack of profitability, (2) the fairness equation, (3) mismanagement of expectations, (4) dishonesty, (5) personality clash, (6) competing interests, (7) destructive conflict and (8) lack of collaboration. Each of these barriers is discussed below.

4.4.1 Lack of profitability

The lack of profitability is a critical barrier to building trust between the franchisee and the franchisor. The financial performance of the business venture was described by a franchising consultant as, “the number one barrier to developing trust – if you are making money then a lot of the problems will disappear”. The profitability of the franchise is very important because “when everyone is making money, they are all happy” (franchising lawyer). One consultant said, “if you’re making money then I think the level of distrust would be reduced because if the business is profitable then you’ve got that stress out the way.” This opinion is backed up by another expert, “Other things can cloud your judgement, and money is a big thing – if you’re making money, then other problems go away.” The franchisee may also begin to blame the franchisor if things start going wrong, when they believed they joined the system to improve their financial position, “the root cause is expectation. None of this is a problem if they are making money, but if they start losing money then they come in and say well you are a bad franchisor” (franchisee advocate). They begin to blame the franchisor for their lack of success, eroding the trust within the relationship. Furthermore, the profitability of the franchise system was described by one interviewee as:

The core – if you’re making money and you’re profitable, you can kind of forget other things and you can work through it, but when it’s not making money then the fingers start pointing, and then the trust starts to be questioned...So I think that's the key, [the franchisee] didn’t sign up to lose their house.

But it is not just the franchisee that needs to make a profit, “you’ve got to remember that franchisors need to structure their business as well so that they make money”
(franchising lawyer). However, one consultant believed that making money wasn’t the most important thing, instead, “credible leadership” was considered more important than money. Even though, “both parties are there to make a profit” (franchising consultant) the lack of profitability is not always the fault of the franchisee or the franchisor, as one expert described, “sometimes it’s the circumstances – business is risky, the market dictates the relationship.” However, a major factor in building trust is the “demonstration of competence by the franchisor that they’ve done their research and that their model is solid, that they know what they are doing, that they are not making stupid decisions that would damage the business” (franchising consultant). The profitability of the business model is an important trust building component whereby franchisee trust can be hindered if their business is not making money, or if they perceive the leadership to lack credibility.

4.4.2 The fairness equation

The fairness of the relationship was identified as an important ingredient in building trust. Franchisee trust is hindered by the perception of an unfair relationship, with one expert referring to the “fairness equation” (franchising consultant). A well balanced fairness equation indicated high trust and mutual appreciation for fair and reasonable standards enforced by the franchisor. One interviewee said, “I think the barriers to trust might be expressed as any excessive wish or action on behalf of the franchisor to benefit himself at the cost of the franchisee.” On the other hand, an ex-franchisor, now a consultant said, “I always celebrated when a franchisee made a lot of money, I was always happy with that.” Furthermore, the negative effects of power imbalance could be reduced by empowering the franchisee, as suggested by a franchising consultant: “a voluntary degree of empowerment of the franchisee by the franchisor is an important requirement for building trust, and this needs to be achieved over a long period of time, so the more it is done, the more trust is built the stronger that trust will be.” As discussed in the literature review, a major source of power inequality is the style and substance of the franchising contract (Buchan, 2013). How the contract is written can have implications on the fairness of the agreement – “It’s an unequal relationship with a very unfair document where one person dominates the other” (franchise consultant). However, one interviewee felt that, “the typical contract is getting fairer, now that the Code is enforceable with penalty provisions.” Levels of fairness within the franchising relationship will vary from system to system, however perceptions of fairness
need to be managed by the franchisor as it is an important aspect of franchisee trust. Similarly franchisors should manage franchisee expectations as a mismanagement of expectations was found to have a considerable impact on franchisee trust.

4.4.3 Franchisee expectations

The expectations can also contribute to how trust is developed as one franchising expert suggested, “the real problem in developing trust is expectation. I think franchisors hype up the expectation. Franchisees have a heightened expectation that they are going to sit back and do nothing – just sit back and the money will roll in”. The onus rests on the franchisor to manage the expectations of the franchisee, preferably before they join the system. A franchising lawyer described why he thought franchisee expectations could very easily become unrealistic expectations:

I think the franchisee is excited, I think that they are passionate and expectant, but this is something that one franchisor used to do well, he would go through the process with potential franchisees, explaining that for the next two years you are not going to get a weekend and night off, and you won’t see much of your kids. So he would give them in no uncertain terms the worst case scenario – lifestyle issues that maybe those people hadn’t considered.

As one franchisee was heard saying, “when I first joined this group my franchisor treated me like royalty...now I am treated like royalties” (franchising consultant). Being honest and realistic about expectations is a “powerful relationship building tool, because subsequently down the track when that initial honeymoon period is over, and things are tough – you know their expectations drop a little bit – they look back to that initial conversation and say well this guy was honest with me and at the end of the day, that gives credibility to the franchisor.” However, “it’s not always about the franchisor not managing the franchisee’s expectations, the franchisees may paint a picture in their mind that is not always accurate. People need to be as clear as possible about what they expect and how that can be met” (franchising mediator). The process of being clear is especially difficult during the early stages of the relationship – before an agreement is signed – as there is still a lot of uncertainty. As one mediator explained, “because it’s the inevitability of being sold something and being pampered and then being thrown out into the real world. And the real world is full of pain and disappointment, and difficult staff and
grumpy customers. So it will be very seldom that the business exceeds the expectations of the franchisee coming in.” A franchising lawyer also had the same position, “I actually think the major problem is just a misunderstanding of expectations. A lot of franchisees I see have no idea what they’ve got themselves into and the implications of it.” Thus, unrealistic expectations about what is involved in joining the franchise system – and dishonesty about these expectations – can create barriers to the healthy development of trust throughout the life of the relationship.

4.4.4 Franchisor dishonesty

Franchisor dishonesty was found to be a major barrier to building trust. Thus, franchisors who are honest with potential franchisees about what to expect “serves two purposes: it seeks to open the franchisee’s eyes, and secondly it proves your honesty which prima facie isn’t in [the franchisor’s] best interest” (franchising lawyer). But franchisors may not always be entirely honest with potential franchisees as they are more likely to over-sell the concept. Perhaps a more honest opinion on what to expect from the system can be found from other franchisees. As one interviewee stated, “I think there is an obligation on franchisors to be absolutely honest with the financial forecasts prior to signing up a franchisee. We tell franchisees to talk to as many franchisees as they can in the same system. But most importantly try and find some that have left, that’s where you get the real truth.” Dishonesty is a major barrier to building trust within the franchising relationship.

4.4.5 Individual personality

Another barrier to building trust between the parties was identified as the personality of those involved. “I think that we live in a world where personalities are so different and communications are so different. It could be that it’s just the wrong choice made in terms of selecting the right franchisee, it could be personalities that clash, it could be the way in which each person interprets the events. But I don’t think that can be eradicated because we’re human beings” (franchising mediator). One interviewee said, “it is easy to maintain a good relationship with someone who has the same values and aims as you.” As the franchise system grows, more people with different personalities can make it difficult to build trust as described by one interviewee:
Every time you get another personality you get a different opinion, you get a different expert and [the franchise system] can turn into this big huge moving beast, whereas if you can keep it really succinct you can get everybody on board and it’s easier to distill the vision.

Furthermore, the ability for people to put aside their “personal preferences and go along with the franchise company” was viewed as an important way to build trust - the franchisee’s willingness to “work hard and follow the system” was seen as a significant personality trait. It is in the franchisor’s best interest that the franchisee works hard, but this is not necessarily shared by all of the franchisees.

4.4.6 Competing interests

As the franchisee and the franchisor are separate legal entities, they each possess different rights, obligations, goals and objectives. Their interests – commercial and personal – also dictate much of their behaviour, thus competing interests can be a barrier to building trust. Aligning interests can be challenging as, “the franchisee wants to protect themselves, they are only interested in themselves. The franchisor wants to protect their brand. So what is good for the franchisee might not necessarily be good for the wellbeing of the group” (franchising consultant). This “tension between the different interests” is a major hurdle in building trust between the parties, “in a perfect world the franchisee’s and the franchisor’s aims are completely aligned” (franchising lawyer). However, franchising relationships “end for many reasons, sometimes because there is a gross divergence of interests” (franchising lawyer). But the franchising relationship does not involve a simple transaction devoid of any commitment – “there are certain transactions that don’t have to make such a connection but because of our business, you become a business partner for 5 to 10 years, it’s incredibly vital that you build up that trust because the franchisee needs to trust that we are doing things on behalf of them, with their best interests at heart, and they’re doing the same thing as well” (franchisor representative). However, “self-interest is a good horse; you can almost always back it to win” (franchising mediator).
4.4.7 Conflict management

Another barrier to building trust is the way in which both parties resolve conflict. Disagreements within the franchising relationship are unavoidable – “it’s how we deal with problems because conflict is inevitable” (franchising mediator) and “these are relationships that are almost structured to generate conflict, rather than reduce conflict” (franchising consultant). A mediator who had first-hand experience in dealing with conflict described the process of how it can be resolved effectively: It’s trying to get to the crux of what the issue really is for them. “Often people will come in [to mediation] with a position or a view and perhaps not even realising what they actually need to move forward. And that can be because they are so caught up in the conflict that it becomes a bit like a cloud around them, they can’t quite see clearly about other possibilities or a way forward.” But conflict is not always a bad thing, “healthy tension is good sometimes” (franchisor representative), but most conflict can damage the levels of trust in the relationship if it is not “constructively managed” (franchising consultant). One strategy to ensure conflict is managed constructively is to focus on collaboration over competition.

4.4.8 Lack of collaboration

Collaboration is critical to build trust in franchising – “it is a collaborative business between the franchisee and the franchisor. Whilst it is underpinned by a contract and legislation, ultimately a lot of that really hinges on the relationship between the parties, the communication between the parties, and the level of trust between them” (franchising lawyer). It is important that a franchisor creates an environment for their franchisees where it can be as “collaborative as possible, so they are talking between each other as much as possible” (franchisor representative). One interviewee described the relationship as a “collaborative team” and another described the importance of “being a united front.” Furthermore, a significant attribute of teamwork is how the parties interact with one another – “a great deal of it comes down to a mismanagement of communication, unclear communication. I tend to believe that if communication can be clearer then that will go a lot of the way to solving a lot of things.” However, even communicating via e-mail can cause misunderstanding. “Assumptions in this game is the most dangerous thing – you assume that you send out an email that will be read in exactly the same way that you read it – so you really have to spell things out because
everybody comes from a different background and all that shapes their world” (franchisor representative). One franchising lawyer said, “I see it very similar to a marriage in that there is a contract that underpins it, but ultimately the legal bond of marriage is worth nothing unless the parties can work together.” A lack of collaboration, hindered by competing interests, values and objectives was found to undermine the trust between the franchisee and the franchisor.

4.5 Conclusion

Qualitative research mines the terrain, digging deeper into opinions and meaning (McCracken, 1988). Certain meanings are constantly changing in our socially constructed worlds, and as McCarthy (1996) suggests, the nature of knowledge itself is unfinished. The goal of this chapter has been to research the construct of franchisee trust from an interpretive perspective, gathering qualitative data from 17 franchising experts. Analysis of the socially constructed meaning of *franchisee trust* provided valuable initial insight. Using Attride-Stirling’s (2001) method of thematic network analysis, a coding framework for the research was developed (table 12). The data was then funneled down from basic themes to organising themes, and finally three global themes (table 13) were identified that were consistent with the three research questions: (1) how is franchisee trust understood within the franchising sector? (2) can authentic trust exist within the franchising relationship? (3) what are the barriers to building franchisee trust?

Franchisee trust was found to be a critical element in the franchising relationship, a construct that could influence franchisee performance and group synergy. The franchising relationship evolves over time – circumstances change, people change and the levels of trust change. Trust can either move in the direction of authentic trust, or erode into distrust. Secondly, eight barriers to building trust were identified from the data. The most significant barrier is the lack of profitability of the system, as one interviewee said, “if you are making money, then a lot of the problems will disappear.” The themes and ideas proposed in this chapter will be analysed further in the following chapter whereby multi-case and cross-case comparisons of franchise systems are utilised to dig deeper into the state of franchisee trust.
Chapter 5 – Phase two of the research inquiry: multiple case studies

5.0 Introduction

The exploratory interviews from phase one provided a strong foundation from which to launch a multiple case study research phase. In general, case study research methods are preferred when “why” or “how” questions are posed and when the focus is on a contemporary phenomenon within a real-life context (Yin, 2014). As the central research question guiding this phase was a “how” question, and the focus was on the phenomenon of trust, the case study method was justifiably chosen. The guiding research questions in this phase were:

**RQ4: How is franchisee trust in their franchisor built?**

**RQ5: What role does trust play in franchisee performance?**

The structure of this chapter is illustrated in figure 5.1 beginning with a discussion of applied theory building (section 5.1) whereby Lynham’s (2001) method is utilised. Section 5.2 discusses the findings from the qualitative interviews conducted with franchisees and franchisors. Five determinants were identified as necessary to build franchisee trust: franchisee engagement (section 5.2.1), franchisee confidence (section 5.2.2), team culture (section 5.2.3), franchisor competence (section 5.2.4), and franchisor character. In section 5.3, the determinants are further established incorporating: (1) findings from phase one, (2) existing academic literature, and (3) secondary data from case study franchise system websites, whereby a conceptual model is developed (figure 5.2). The model will be tested using data collected from a quantitative survey (chapter 6). An important consideration in this research is reliability and validity, thus the operationalisation of the constructs (section 5.4) ensures that only robust and previously used measures are employed in the quantitative survey. Section 5.5 shows the list of hypotheses developed for this research. Finally, section 5.6 concludes this chapter.
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5.1 Applied theory building

Lynham (2002) poses the interesting question: what is the purpose of good theory other than to explain how the world works and, in so doing, helps us to improve our own actions? Theories should be designed to inform us which things do work, and which do not. As the purpose of this research is to gain a greater understanding of how franchisee trust can be built within franchising relationships, theory building is a valuable endeavour as a system of ideas can first be developed from franchising practitioners, then applied to the real world – in other words, putting the ideas to the test. If the ideas work, the theory has been useful in addressing the issue or problem, and if not, the researcher should return to their own “internal drawing boards” (Lynham 2002: p222) and begin the process of theory building again. This constant refinement and development of ideas provides value in our lives as it helps us to understand, explain, anticipate and know how to act in the world. Thus, even though some believe that theory is largely idealistic (Kaplan, 1964) and speculative (Argyris et al., 1996), good theory is of great value if it can fulfill one primary purpose. That purpose is to provide an accurate knowledge framework of a phenomenon, so that we may use that framework to act in more effective ways (Campbell, 1990; Strauss and Corbin, 1990); in other words, there is nothing quite as practical as good theory (Lewin, 1951).

Theory is defined as an articulate description of observed phenomena (Gioia and Pitre, 1990); the word finds its roots in the Greek term theoria meaning to look at, or to behold. Theory-building is the ongoing process of creating, confirming and refining theory (Lynham, 2000). Good theory building should result in both outcome knowledge and process knowledge. The former refers to frameworks that have explanatory and predictive power, and the latter refers to a greater understanding of how something works (Dubin, 1976). The current research attempts to build good theory producing both outcome and process knowledge.

The research method for applied theory building consists of five phases that work together in a recursive system (Lynham, 2002: p229): (1) conceptual development, (2) operationalisation, (3) confirmation or disconfirmation, (4) application and (5) continuous refinement and development of the theory. Conceptual development requires the theorist to formulate initial ideas in a way that depicts the best and most informed understanding of the phenomenon. In this research, phase one (chapter 4) provided the first exploration of the phenomenon, gathering information from franchising experts so
as to provide an initial (and accurate) informed understanding of franchisee trust. The purpose of phase one was to develop a preliminary conceptual framework whereby the two categories of knowledge and behaviour were identified (figure 4.2). This initial conceptual model was further refined after collecting data from franchisees and franchisors resulting in the development of two conceptual models. The first model is an explanation of how the four critical components act as integrated building blocks necessary for franchisee trust (figure 5.2). The second model represents franchisee trust and franchisor trustworthiness as central constructs positioned between psychological climate dimensions and observable outcomes (figure 5.3). The output of qualitative research often takes the form of conceptual models (Dubin, 1978) and is considered to be fundamental to all theory-building research.

The operationalisation phase connects the initial conceptual framework to practice (Cohen, 1991; Lynham, 2002) whereby the theory is tested in its real world context. The operationalisation of the constructs is discussed in section 5.3. As the preliminary explanation of the phenomenon must be empirically confirmed in the world in which the problem occurs, testable hypotheses are developed in section 5.4.

The confirmation or disconfirmation phase refers to the research agenda chosen as the most appropriate way to intentionally and purposefully confirm or disconfirm the theoretical framework. When adequately implemented, this phase produces a confirmed and trustworthy theory that can be used with some confidence to inform better action in the ‘real-world’. Thus, a quantitative survey was carried out to confirm/disconfirm the operationalised hypotheses; the results are discussed in the following chapter.

A theory that has been operationalised and tested can then be applied. This phase is important as the real-world application of the theory allows practitioners to scrutinise and judge the usefulness of the theory. This helps the researcher to further develop and refine the theory. It is through this application that the practical world (the franchising sector) becomes an essential source of knowledge and inspiration for the ongoing refinement of the theory (Ruona and Lynham, 2004). Because a theory is never complete, it is necessary that the frameworks be continually refined and developed (Cohen, 1991). The purpose of this final phase ensures that theory is continually applied to the real world, helping it to remain current and relevant. Furthermore, it also ensures that when the theory is found to be false or no longer applicable, it can be altered accordingly.
5.2 Conceptual development

Major concepts discussed in the interviews form a framework for the initial conceptual development of the theoretical model. Thus, the focus of this section is on five key areas: how franchisees identify with their franchise system (section 5.2.1), franchisor competence (section 5.2.2), franchisor fairness (section 5.2.3), the psychological climate of franchisees (section 5.2.4) and the final key area is on the link between franchisee trust and performance. These key areas are discussed below where quotations from the interviews are included to provide a theory which is grounded in the data. Recognized as a key method for qualitative data collection, interviews yield rich information about people’s experiences, perceptions and feelings (Patton, 2002). Furthermore, direct quotations provide raw data that reveals the respondent’s depth of emotion, opinions and knowledge about the topic (Labuschagne, 2003). Framed as a discussion with a purpose, the interviews provided valuable insight around the central research question: how is franchisee trust in their franchisor built? The interview transcripts from the thirty interviews were analysed using Nvivo software. Furthermore, if qualitative research is to provide worthwhile results, it is imperative that the material under scrutiny is analysed in a methodological manner (Attride-Stirling, 2001), thus rigorous thematic analysis methods were applied to the data (Braun et al., 2006). Firstly, concurrent themes were identified from the interview transcripts using a coding framework and then categorised into the following organising themes discussed below.

5.2.1 System identification

The findings revealed the importance of a franchisee’s ability to identify with their system. Franchisees who feel as if they can identify with their franchise system are more likely to feel engaged and empowered and thus are more likely to have trust in their franchisor. Particularly in some of the larger franchise systems, it can be easy for franchisees to feel they do not have a voice. They may feel that they are one of many and might “fall through the cracks,” as described by one franchisor who continued by explaining that “it’s a big danger, because if they become disenfranchised then it’s very hard to get them back.” The franchisor from Franchise A considered franchisee engagement to be an essential component of their business: one strategy was to develop
a club where only the top performing franchisees are recognised. A franchisee who is engaged with the brand and who presents their store well can be nominated for the prestigious club. According to the franchisor, the club was created to “recognize our high-flyers – that’s how we differentiate ourselves – we’ve really empowered our franchisees to be amazing” (A1).

Another tool used by franchisors to increase levels of franchisee engagement is known as a franchisee advisory council (FAC). Typically, franchisees can be nominated into the FAC and they serve a term which allows them to present ideas to the franchisor on behalf of the ‘group of franchisees’. FACs are popular in larger systems as it allows the franchisor to engage with a single group of franchisees, as opposed to attempting individual communication with multitudes of franchisees; overall the FAC has the potential to improve communication efficiency and engagement with all the franchisees. However, it is still important for the franchisor to listen to the group. For instance, an experienced multi-unit franchisee commented: “we have a FAC and it allows us to voice our opinions, and they [the franchisor] do tend to listen” (A3). A similar sentiment was voiced by a retail franchisor who said, “you want the franchisor to discuss any possible changes with the FAC but still be democratic enough to not go ahead if the franchisees disagree with it” (B1). The ability to genuinely contribute to decisions was welcomed by another franchisee:

We have an FAC and they meet three or four times a year. Everything gets taken on board, everything is dealt with. Most of the time it will get put into action, but it’s always taken on board and it’s never shoved under the carpet – I find that important – that you’re able to speak your mind. (A4)

In summary, it is important for a franchisee to feel engaged within the franchise system and those who do are likely to have a positive perception of a strong team culture. As the franchisor of Franchise B said, “we’re all in it together, we’re all striving to do better.” An inclusive franchise system presents franchisees with a voice. Thus franchisee engagement was found to be a critical determinant of franchisee trust because “trust is created when the franchisor is happy to take the opinion of franchisees and work with them to get a better result for everyone” (B1).

Typically, the franchisor is responsible for creating the proven blueprint of the business and the franchisee is responsible for implementing it (Timmons et al., 2011). This research shows that when a franchisor makes a strategic decision concerning the
direction of the business, franchisees either have confidence in the decision or resist the decision. For example, one franchisee discussed a divisive part of the system that caused controversy amongst the franchisees because some chose not to follow it and others did. This franchisee rationalised his decision to follow the system and have confidence in the franchisor’s leadership because he could see the benefits of following that part of the system: “if you follow the system, and you follow all of the system, then generally speaking you should be able to make money” (A5). This view was repeated by a franchisor who commented:

All we want from a franchisee is to listen and follow the system because it’s a business format franchise that we’ve developed over 34 years. If they adhere to that we know it makes them money and it makes the customers happy; if they want to recreate the world they should probably start their own business. (B1)

Confidence in the franchisor’s strategy is a critical determinant of franchisee trust because it increases the willingness to rely on the franchisor’s leadership. It is important for a franchisee to believe in the franchisor’s vision as without this component, trust may easily turn into distrust. Furthermore, when a franchisor communicates the strategy to their franchisees – showing them where they fit into it – and the reasoning behind the chosen strategy, a franchisee is more likely to have confidence in the strategy. A willingly compliant franchisee will find it easier to accept their franchisor’s guidance and thus improve the likelihood that trust will be built. As one franchisee said, “you’ve got to have some sort of faith in the direction that they’re [the franchisor] taking, otherwise you need to get out” (B6). Similarly, another franchisee from the same system said, “it’s a lot of money to invest if you don’t believe in what the brand is doing. If you buy into a franchise, you have to believe in the concept” (B3). The franchisees from the other franchise system shared similar perspectives:

We have no problems with anything that the franchisor has done. Even when there have been decisions that are not popular that have been made. Generally speaking we jump into all those decisions with blind faith. (A5)

Similarly:

Franchisees who don’t follow the system think they know better than the franchisor. (A7)
In summary, the franchisee’s confidence in the franchise system is a critical determinant of franchisee trust. A willingness to comply with the franchisor’s strategy – even on divisive parts of the system – influences the perception of a strong team culture. When a franchisor has to make a difficult strategic decision, not every franchisee may follow with blind faith. However, when franchisees feel engaged in the system and have confidence in the system, they are more likely to have a positive perception of a strong team culture within the franchise system.

It was found that the CEO/founder of the franchise is largely responsible for setting the tone of the system culture and will determine, “how we do things around here” (Franchising consultant). The CEO of Franchise B described his personal belief in the power of developing a strong organisational culture, “the values underpin the culture of a franchise. If everyone buys into the culture – and all the people who work for me buy into the culture – then it’s infectious. And what’s more, as you get larger, the culture begins to play an incredibly important part in the way that the machine works” (B1). Using the metaphor of a machine to describe the franchise system paints a picture of the challenges involved in running an organisation where many different beliefs, values and standards can conflict. Ensuring certain values are understood and shared between all members of the franchise allows the machine to run to the best of its ability. As one franchising consultant said, “the culture is not a non-thinking, amorphous thing; it is made up of people and their attitudes.”

The data revealed three major values that underpin a strong team culture: (1) frankness, (2) open communication, and (3) camaraderie. Frankness amongst the members of an organisation help to foster an open and more trusting environment. If, on the other hand, secrecy and dishonesty is prevalent amongst members, this can lead to uncertainty as to the true motives of the other party and may be grounds for distrust. For instance, a representative of a franchisee association said, “we believe that more transparency will lead to more trust.” Furthermore, a franchising mediator suggested that “this is a type of relationship that involves a high level of candor.” The level of frankness may differ within the franchise system due to the myriad of different communication styles people can adopt. However, the value of open communication ensures that the people within the franchise system won’t feel as if they are left in the dark. As one franchisee said, “when I know something and I think my staff need to know, I let them know.”
There’s always communication there whether it’s good or bad” (A7). A similar sentiment was voiced by a retail franchisor:

What franchisors tend to do – when they hear bad news – is start to put lines of management between them and their franchise partners. That’s reflective of trust I think, they don’t trust themselves as well as their franchise partners to keep that line of communication open. (B1)

Communication is an important aspect of healthy relationships, as one franchisee said, “if you don’t communicate then you can’t build a relationship of any sort with anybody” (A7). Not only how people communicate with each other, but also the frequency of communication was identified by a franchisor as a significant aspect in developing the perception of a strong team culture. He said, “(the) communication method is absolutely critical. I’m not sure how you can maintain a relationship between two parties if you’re meeting them only once every two months. My franchise partners and staff meet once every two weeks” (B1). A multi-unit franchisee who had been with the franchise for eleven years said, “even the most successful person can get lonely in business – sometimes you feel like you are the only one going through that. So to have that support network for reassurance is really valuable” (B3).

The value of camaraderie provides interesting insight into how the members of a franchise system work together. Friendship and teamwork were often discussed as contributing to trust. One franchisee referred to their franchise as being a “very open environment” with a sense of “good mate-ship” (A4). Furthermore, a franchisor believed that, “camaraderie is a big part of our business, not only between our staff but also between our franchisees” (B1). One franchisee, who had been with the franchise for four years, identified the importance of being involved in a franchise system that promotes the value of camaraderie. She said, “my most favourite times of the year are when we all go to meetings and we get to chat, we share everything and I trust them” (A4). The ability to network with others was identified by one franchisee as being the “whole reason for going into a franchise” (A3). Franchisees build friendships with not only their franchisor, but also the other franchisees, as one franchisee described, “I find networking with the other franchisees the best part of it. I’m friends with a lot of them. I ring them up on a weekly basis to see how they’re going” (A4). In summary, the value of camaraderie includes the elements of friendship, support and teamwork, as suggested by the CEO of a retail franchise:
It’s important that they [the franchisees] know you’re in the trench with them, fighting hard, trying to do the right thing by them, giving them concessions when they are worth giving concessions to. Propping them up when they need help, being a crutch. (B1)

Similarly:

Similarly:

We’re on the same team and we’re all playing the same game. When everything is out in the open, put on the table, it’s a lot easier to build trust. There’s no point in being enemies, or being competitive. There’s no need for it. (A4)

In summary, the values of frankness, open communication, and camaraderie all contributed to perception of a strong team culture. Furthermore, it is important for behaviour to be consistent with one’s values. When an organisational culture consists of values that reinforce teamwork and trust, and the franchisor behaves in a trustworthy manner, franchisee trust is built. As said by the retail franchisor:

What’s even worse is when you aspire to these values but don’t deliver on them. If these things start to break down and the culture’s not trusted, then everyone doesn’t buy into the culture and you have a major problem. If you are delivering on the values and everyone is buying into the culture then everything is so much easier. (B1)

5.2.2 Franchisor competence

The perception of franchisor competence is important because the franchisee typically buys into a franchise system expecting profitability and support from their franchisor. A retail franchisor described this process as “the franchisee paying the franchisor a significant amount of money for their expertise in this area – site selection, lease negotiation, systems, infrastructure, training – whatever it is, he is paying them a fee” (B1). The competence of the franchisor was found to have a direct impact on franchisee performance, as described by one of the franchising experts, “you’ve got to support your franchisees as well as build their trust in us [the franchisor] because we actually know what we’re doing and we can help them build their business, or do it easier” (Franchisor representative). A franchisor who is competent should not only make the franchisee’s task easier, but also save them money as “having the support from the franchisor allows the franchisee to focus on their job” (B3). Most of the franchisees considered their
franchisor to possess expertise in their business. If expertise was lacking, the franchisor was judged to be incompetent, which severely impacting the level of franchisee trust.

Furthermore, the franchisee’s perception of franchisor competence was linked to their ability to resolve conflict effectively. According to a franchising mediator, “throughout the life of the relationship, conflict between the franchisee and the franchisor is inevitable; the important thing is how we deal with problems”. It was found that the area managers are usually the first to encounter a problem with the franchisee. Therefore, how these complaints and concerns are handled by the franchisor’s team is a major determinant in building franchisee trust or damaging it: “that’s why the area managers are important because they’ve got to know how the franchisees are operating and how they are thinking” (B6). The onus rests on the franchisor to employ competent area managers. Furthermore, solving problems in a timely manner is an important attribute of franchisor trustworthiness as “these are relationships that are almost structured to generate conflict, rather than reduce conflict” (franchising consultant). Conflict can manifest itself in many ways, sometimes escalating into major disputes followed by litigation. This situation was aptly described by one franchising mediator as becoming “a bit like a cloud around them” whereby franchisees and franchisors can get so caught up in the conflict that they fail to resolve the problem. However, the CEO of a large retail franchise provided a simple solution. He said, “most of the problems I’ve encountered in franchising can be resolved by communication” (B1).

5.2.3 Franchisor fairness
The second dimension of franchisor trustworthiness is fairness. Franchisees indicated the importance of how the franchisor treated them on a personal level whereby issues around friendship, care, concern, integrity, and kindness were considered paramount. Integrity and honesty were found to be an essential ingredient in creating a perception of franchisor fairness. One franchisor described their commitment to being honest and acting with integrity, even if they made a mistake. He said, “if we get it wrong, we get it wrong and we resolve it. And that’s getting back to trust and I don’t know how you can do business without it” (B1). This attitude was supported by a comment made by a franchisee from the same system who said, “we can only commend the franchise as an organisation of uncommon integrity” (B2).
One franchisee from franchise system A said, “one of the key factors is that the franchisor is approachable” (A7). Furthermore, one franchisee described the importance of how the franchisor interacted with their franchisees: “it’s the personal touch that makes a lot of difference” (A3). One of the franchising experts strongly believed in the operational benevolence of the franchisor’s team, suggesting that it is “critical to the trust, if you [the franchisor] don’t sincerely care for them and how they [the franchisees] succeed in the business, then trust is never going to happen.” Furthermore, “one of the keys to building trust is to demonstrate genuine care” (franchising consultant). Damage to the relationship might occur if either the franchisee or the franchisor becomes indifferent to the other’s needs whereby a lack of care and support from the franchisor will be detrimental to the perception of their trustworthiness. As described by one lawyer, “I’d say that as well as the transparency and disclosure, another big reason for conflict in the relationship is that expectation of support and assistance that doesn’t materialize.” This would likely be viewed by franchisees as unjust, thus the perception franchisees have of franchisor fairness is important.

5.2.4 Psychological climate

The roles and obligations of the franchisor and franchisee are usually stipulated in the initial franchise agreement, signed by both parties at the beginning of the venture. This is contained in the legal contract, however, as described by consultant from phase one, a “psychological contract” also exists between the franchisee and the franchisor. The psychological contract complicates the interaction between the franchisee and the franchisor as unwritten laws exist that may dictate the direction of the relationship and may damage the relationship if they are not obeyed. A consultant mentions the significance of the psychological contract, describing it as being “more important than the legal contract because it is what drives behaviour.” Therefore, the franchisee and the franchisor are inextricably linked to one another in their chosen venture, both legally and psychologically.

According to Strutton et al. (1993) psychological climate is a useful tool for examining how individuals interact within the wider franchise system and is considered a dominant cue for determining how individuals judge the quality of their relational exchanges. Koys and DeCotiis (1991) provide a description of types of psychological climate dimensions and this research will focus on two of those: autonomy and pressure.
It was understood that franchisees appreciated levels of autonomy within their day-to-day activities. One franchisee from franchise system A described his experience with autonomy whereby he decided to sponsor a local football team by taking marketing of the franchise brand into his own hands:

The operation manuals describe in black in white terms, but they can’t begin to describe every possible scenario. Manuals serve their purpose but you need people to have that anecdotal evidence, a lot of things are about marketing, you could write a 10 page manual but it’s probably more quicker or efficient to talk to a franchisee. We’ve tried sponsoring local football teams and it didn’t work and the reason that it didn’t work was because there was no integration of that marketing back to the shop. It was just stick a name on a jersey and hope for the best. (A3)

Furthermore, another franchisee described his unease about new members of the franchisor’s team making changes to the system:

If new people come into the system, even though fresh eyes are a good thing, it’s sometimes the unique parts of the system that makes it successful. But when you try to change the unique parts of the system to what other people are doing. If they endeavour to make changes to try to make us the same as everyone else in the industry then we start losing our uniqueness and our concept. I’ve always been a firm believer that you don’t want to do the same as everyone else. Otherwise there’s no benefit in coming to you. (A5)

Thus, it is suggested that franchisee autonomy is an important aspect of a franchisee’s psychological climate because they hold certain opinions of how the business should be run and if they disagree with decisions made by the franchisor (or members of the franchisors team), or if those decisions impact on their sense of autonomy, this could damage trust.

The second dimension is pressure. One franchisee described the challenges that are associated with running a franchise system. He said, “I like to think I know what I’m talking about a little bit. Like any relationship you have your ups and downs but as long as you keep your eye on the big picture you can get through it” (B3). His attitude and use of the phrase “you can get through it” suggests it will not always be easy; there will be times when franchisees will be required to perform under pressure. This view was confirmed when another franchisee said, “but all companies have positives and negatives” (B6). That is, it is not always an easy and enjoyable journey. Pressure might be viewed as having a negative impact on franchisee trust because if they feel as if they are
under pressure to perform or to meet certain standards, they might begin to distrust the franchisor’s blueprint for the business. Or perhaps they may feel the expectations placed on them are too high, which they are unable to meet. Thus, the level of pressure felt by franchisees may have an impact in the overall levels of franchisee trust.

5.2.5 Franchisee trust and performance

Trust was found to be an essential aspect of the franchising relationship as well as having an influence on performance. The need for the franchisee to trust the franchisor was described as “paramount” (franchising consultant) and “integral” (franchising mediator). Trust assists the franchisee and the franchisor in their collaborative effort – as one interviewee said, “I think the relationship works better if there is trust” – this was supported by a franchising lawyer who said, “it is fundamentally a collaborative business between the franchisee and the franchisor and whilst it is underpinned by a contract and legislation, ultimately a lot of that really hinges on the relationship between the parties, the communication between the parties, and the level of trust between them”. It is important that a franchisor creates an environment for their franchisees where it can be as “collaborative as possible, so they are talking between each other as much as possible” (franchisor representative). One interviewee described the relationship as a “collaborative team” and another described the importance of “being a united front.” Therefore, if a franchisee is engaged and confident in the system, and they have a perception of a strong team culture, and the franchisor is trustworthy (both competent and benevolent), the franchisee is more likely to trust their franchisor. In summary, the strength of the relationship between the franchisee and the franchisor is an important contributor to the overall success of the entire franchise system, as described by a franchising mediator:

I believe that if you can have trust in your franchisor, and if the franchisor can trust the franchisee then they can get on with achieving their objectives, rather than concerning themselves with whether those objectives are being thwarted by the other person’s actions…trust must accelerate the potential for success.

Franchisee performance is considered to be fundamentally important for the longevity and sustainability of franchising. If franchisees are not performing well, the franchisor will suffer the same fate. As one ex-franchisor said in phase one, “Whereas I always
celebrated when a franchisee made a lot of money, I was always happy with that.” Furthermore, the profitability of the franchisee is very important because “when everyone is making money, they are all happy” (franchising lawyer). Furthermore, one consultant said, “if you’re making money then I think the level of distrust would be reduced because if the business is profitable then you’ve got that stress out the way.”

One franchisee described her focus on the money she earned in the franchise and how she then had to share the profit with her franchisor. She described the level of greed in franchising by relating the following scenario: “it’s all about money. People are very greedy now. Everybody these days are very greedy in their own way. There are all these franchisors out there who take a percentage of revenue, that’s going to make the franchise owner lie a bit and not tell them what they’re earning, so it all gets very untrusting in that case” (A4). Thus, it is imperative to explore the link between franchisee trust and franchisee performance.
5.3 Operationalisation of the constructs

This section describes the process of operationalising the aforementioned themes whereby seven constructs are considered worthy of exploration in the form of the theoretical model illustrated below (figure 5.2). The model shows five IVs influencing franchisee trust: system identification (SYS_ID), franchisor competence (ZOR_COMP), franchisor fairness (ZOR_FAIR), autonomy (AUTONOMY), and pressure (PRESSURE). The link between franchisee trust (TRUST) and franchisee performance (PERFORMANCE) will also be tested for significance.

Figure 5.2
The empirical model for testing the interrelationships of the constructs

5.3.1 Operationalisation of SYS_ID
How individuals identify with a franchise system is a complex matter. According to a study conducted by Croonen (2010) there is a clear difference between a franchisee’s personal trust and the trust they have in the system (that is, how the organisation is managed and if it is functioning effectively). Thus, I hope to explore this concept further
with the aim of obtaining clarity on how franchisees “connect” or “identify” with their franchise system. I propose that franchisees who identify with their franchise system are more likely to trust the leader, and are more likely to perform better. I suggest there are three sub-dimensions of system identification: engagement, confidence, and a perception of a team culture.

5.3.1.1 Franchisee's engagement in the system

*Engagement* involves both emotional and intellectual commitment (Shaw, 2005; Richman, 2006) allowing people to express themselves in activity. Within the organisational literature, engagement is often used in the context of employee action, defined as the discretionary effort displayed by employees in their job (Frank et al., 2004). As an illustration, Kim and Mauborgne (2014) suggest that leaders who engage their employees achieve better results as employees who feel engaged, then engage customers, who in turn engage more customers. Within the context of franchising, franchisee engagement refers to the level of attention and absorption (Rothbard, 2001) a franchisee exhibits while working in their business. Similar to Kim’s illustration, a franchisor who engages their franchisees, leads to franchisees who engage their customers and in turn these customers engage more customers leading to increased growth. Thus, franchisee engagement is an important aspect of the franchising relationship.

Furthermore, it is also important to conceptualise engagement as role related (Kahn, 1990) as it reflects the extent to which the franchisee is psychologically present and motivated in their different daily roles. Franchisees may have many roles, yet their role as a member of the organisation (Saks, 2006) is considered to be the most influential in their perception of a strong team culture. Thus, it is important to understand how engaged they are within the system whereby they feel they are a valued participant of the larger franchise system. A major characteristic of engagement is energy (Maslach et al., 2001). Focused energy, also known as engagement, is a key driver used to enhance mental activity and fuel motivation (Brannback et al., 2006) and has been described in the entrepreneurial literature as an intense emotional state (Chen et al., 2009; Cardon et al., 2013). Thus, the scale used to measure franchisee engagement in the system is displayed in table 5.1.
Table 5.1
Measurement scale: system identification

<table>
<thead>
<tr>
<th>Construct</th>
<th>Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q: Please indicate if you agree or disagree with the following statements:</td>
<td>Scale 1-7 (Strongly Disagree to Strongly Agree)</td>
</tr>
<tr>
<td>Engagement in their franchise system</td>
<td>1. Being a member of this franchise is very captivating.</td>
</tr>
<tr>
<td>(Adapted from Saks (2006))</td>
<td>2. One of the most exciting things for me is getting involved with things happening in this franchise.</td>
</tr>
<tr>
<td></td>
<td>3. I am really not into the 'goings-on' in this franchise (R).</td>
</tr>
<tr>
<td></td>
<td>4. Being a member of this franchise makes me come 'alive'.</td>
</tr>
<tr>
<td></td>
<td>5. Being a member of this franchise is exhilarating for me.</td>
</tr>
<tr>
<td></td>
<td>6. I am highly engaged in this franchise.</td>
</tr>
<tr>
<td>Confidence in the system</td>
<td>7. I am confident that the organisation will maintain, or increase advertising expenditure.</td>
</tr>
<tr>
<td>(Adapted from Tsourveloudi and Valavanis (2002))</td>
<td>8. I am confident in the organisation's ability to introduce future strategic initiatives.</td>
</tr>
<tr>
<td></td>
<td>9. I am confident in the system's ability to introduce new services or products in the future.</td>
</tr>
<tr>
<td></td>
<td>10. I am confident the organisation will maintain, or increase, re-investment in product development or service adaptation.</td>
</tr>
<tr>
<td>Team culture</td>
<td>In my franchise system…</td>
</tr>
<tr>
<td>(Adapted from Quin et al., (1981); Helfrich et al., (2007))</td>
<td>11. Managers in my franchise are warm and caring. They seek to develop franchisee's full potential and act as their mentors or guides.</td>
</tr>
<tr>
<td></td>
<td>12. The glue that holds my franchise together is loyalty and tradition. Commitment to this franchise runs high.</td>
</tr>
<tr>
<td></td>
<td>13. My franchise emphasizes human resources. High cohesion and morale in the franchise are important.</td>
</tr>
<tr>
<td></td>
<td>14. This franchise system distributes its rewards fairly equally among its members. It's important that everyone from top to bottom be treated as equally as possible.</td>
</tr>
</tbody>
</table>


5.3.1.2 Franchisee's confidence in the system

The franchisor is predominantly responsible for setting the overall strategy and direction of the system (Kaufmann and Eroglu, 1999). In the context of franchising,
Franchisee confidence in the system – perhaps even more so during difficult economic times – is very important because the franchisee is dependent upon the franchisor to maintain brand equity and value (Price, 1997). Furthermore, the franchise contract is usually weighted in favour of the franchisor (Hunt, 1972) and in terms of ownership and control of the franchise assets, the franchisee can often be in an ambiguous position (Felstead, 1993). However, a franchisee joins a franchise system because they perceive value in the brand name (Dant et al., 1990) and they have confidence in the franchise system (Spinelli et al., 1996; Petty et al., 2000; Watson et al., 2006). Furthermore, Croonen and Brand (2013) suggest that franchisees place great emphasis on trust in the organisation’s systems and procedures over trust in specific individuals. This is due to the fact that individuals within the franchisor’s team can often leave the organisation altering the overall culture of the franchise. Thus, a franchisee is more likely to have trust in their franchisor’s strategy if they have confidence in the franchise system’s strategic direction. Thus, the measurement from Tsourveloudi et al. (2002) is adapted and included in this research as displayed in table 5.1.

5.3.1.3 Franchisee’s perception of a strong team culture

The culture of an organisation is largely socially created (Helfrich et al., 2007) and refers to the complex combination of values, beliefs and assumptions that underpin organisational behaviour (Barney, 1986). Organisational culture plays a significant role in determining how the firm interacts with its own employees, suppliers, customers and competitors (Louis, 1983). A major challenge in developing the organisational culture occurs when the collection of values and beliefs is disparate (Watkins, 2014). This problem is further compounded because employees impart the fundamental values and beliefs onto new members (Ostroff et al., 2003). As franchise systems grow, new franchisees join the system, learning from existing members as well as contributing to the overall culture of the franchise. An organisation with a strong team culture has a robust internal focus where cohesion, flexibility and high morale are encouraged (Quin et al., 1981; Helfrich et al., 2007).
5.3.2 Operationalisation of ZOR_COMP

Franchisor competence resides within the greater dimension of trustworthiness; a multifaceted construct that captures the competence and character of the trustee (Gabarro, 1978; Butler, 1991) and is central to understanding and predicting trust (Colquitt et al., 2007). According to Sako (1992), competence (including ability) is essential for the viability of any exchange and others have reported the importance of character (including benevolence and altruism) as a significant factor in relational exchange (Hess, 1995; Smith et al., 1997).

The two sub-dimensions used to measure the perceived competence of the franchisor are ability and benevolence. **Ability** is a commonly used measure of trustworthiness (Kee and Knox, 1970; Mayer et al., 1995) that captures the knowledge and skills necessary to carry out a specific role. It also focuses on the interpersonal skills and general wisdom necessary to work in an organisation (Gabarro, 1978). Likewise, Smith and Barclay (1997) define role competence as the degree to which the trustee perceives the trustor as having the necessary skills required to perform tasks in an effective and timely manner. The expectation of consistently competent performance from an exchange partner is an essential contributor to the development of trust within the business context (Sirdeshmukh, 2002). Furthermore, although a franchisor may be technically competent, franchisees require visible indicators of their franchisor’s competence. For example, the implementation of an effective pricing strategy that is sensitive to the current market would provide evidence of a franchisor’s competence.

**Benevolence** is defined as a willingness to do good and behave with kindness despite any profit motives (Mayer et al., 1995). This caring behaviour reflects an underlying motivation to place the franchisee’s interest ahead of a franchisor’s own self-interest (Sirdeshmukh, 2002). This dimension has been referred to as goodwill (Sako, 1992). Furthermore, benevolence indicates that one is willing to go above and beyond the terms and obligations of the contract, assuming a fiduciary responsibility (Barber, 1983; Morgan and Hunt, 1994). In the context of franchising, a franchisor will be considered to behave in a benevolent manner when the actions performed are perceived to come at a cost to the franchisor with or without any corresponding benefit. Prior studies on altruism indicate a belief that the trustee’s actions are performed with the trustor’s best interest at heart, explain the greatest proportion of variance in trust (Hess, 1995). Thus, the presence of franchisor ability and franchisor benevolence will influence
the perception of franchisor competence. The following measurement scales will be used
to measure ZOR_COMP.

Table 5.2
Measurement scale: the franchisee's perception of franchisor competence

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Items</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ability</strong></td>
<td>Q: Please indicate whether you agree or disagree with the following statements:</td>
</tr>
<tr>
<td></td>
<td>Scale 1-7 (Strongly Disagree to Strongly Agree)</td>
</tr>
<tr>
<td></td>
<td>Please note: The 'Franchisor' refers to the leader of the organisation. This can be the founder,</td>
</tr>
<tr>
<td></td>
<td>current CEO or General Manager.</td>
</tr>
<tr>
<td>1. Ability</td>
<td>The franchisor (CEO, founder, leader) is very capable of performing their job.</td>
</tr>
<tr>
<td>2. Ability</td>
<td>The franchisor is known to be successful at the things he or she tries to do.</td>
</tr>
<tr>
<td>3. Ability</td>
<td>The franchisor has much knowledge about the work that needs done.</td>
</tr>
<tr>
<td>4. Ability</td>
<td>I feel very confident about the franchisor's skills.</td>
</tr>
<tr>
<td>5. Ability</td>
<td>The franchisor has specialised capabilities that can increase our performance.</td>
</tr>
<tr>
<td>6. Ability</td>
<td>The franchisor is well qualified.</td>
</tr>
<tr>
<td>7. Benevolence</td>
<td>The franchisor (CEO, founder, leader) is very concerned with my welfare.</td>
</tr>
<tr>
<td>8. Benevolence</td>
<td>My needs and desires are very important to the franchisor.</td>
</tr>
<tr>
<td>9. Benevolence</td>
<td>The franchisor would not knowingly do anything to hurt me.</td>
</tr>
<tr>
<td>10. Benevolence</td>
<td>The franchisor really looks out for what is important to me.</td>
</tr>
<tr>
<td>11. Benevolence</td>
<td>The franchisor will go out of their way to help me.</td>
</tr>
</tbody>
</table>


5.3.3 Operationalisation of ZOR_FAIR

The perceived fairness of the franchisor contains two dimensions: the integrity of the individual and how they solve problems. Constructive conflict resolution, performed in a fair manner, will promote trust.

**Integrity** is defined as the extent to which one acts in accordance with strong moral and ethical principles (Colquitt et al., 2007). In the context of franchising, the integrity of the franchisor will be deemed appropriate if they are seen to be honest, have
a strong sense of justice, and are consistent. According to Davies et al (2011) a franchisee is more likely to be compliant with their franchisor’s requests if they deem their franchisor to have high levels of integrity.

The second dimension of franchisor fairness is their **problem-solving orientation (PSO)** defined as the franchisee’s evaluation of their franchisor’s capability to anticipate and satisfactorily resolve problems that may arise during the relationship. It is recognised that conflict often arises between the franchisee and the franchisor (Weaven, 2010; Frazer, 2012) due to a variety of reasons. The manner in which franchisors approach these problems is critical to understanding their fairness in dealing with every franchisee’s problem. Furthermore, it is an opportunity for the franchisor to prove its commitment to service as well as build trust; even if the franchisor is not to blame when mistakes occur (Hart et al., 1990). According to Calantone et al. (1998) problem solving is characterised by behaviours that are cooperative and integrative. Furthermore, fairness in problem solving is crucial to evaluations of satisfaction and trust (Tax, 1998). Therefore, the franchisor’s PSO, as well as their integrity, should be examined as a component of perceived franchisor fairness (table 5.3).
Table 5.3
Measurement scale: the franchisee’s perception of franchisor character

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q: Please indicate whether you agree or disagree with the following statements:</td>
<td></td>
</tr>
<tr>
<td><strong>Scale 1-7 (Strongly Disagree to Strongly Agree)</strong></td>
<td></td>
</tr>
<tr>
<td>Please note: The 'Franchisor' refers to the leader of the organisation. This can be the founder, current CEO or General Manager.</td>
<td></td>
</tr>
<tr>
<td><strong>Integrity</strong></td>
<td>1. The franchisor (CEO, founder, leader) has a strong sense of justice.</td>
</tr>
<tr>
<td></td>
<td>2. I never have to wonder whether the franchisor will stick to their word.</td>
</tr>
<tr>
<td></td>
<td>3. The franchisor tries hard to be fair in dealing with others.</td>
</tr>
<tr>
<td></td>
<td>4. The franchisor's actions and behaviours are not very consistent (R).</td>
</tr>
<tr>
<td></td>
<td>5. I like the franchisor's values.</td>
</tr>
<tr>
<td></td>
<td>6. Sound principles seem to guide the franchisor's behaviour.</td>
</tr>
<tr>
<td><strong>Problem-solving orientation</strong></td>
<td>7. The franchisor (CEO, founder, leader) doesn't hesitate to take care of any problems I might have.</td>
</tr>
<tr>
<td></td>
<td>8. The franchisor goes out of their way to solve my problems.</td>
</tr>
<tr>
<td></td>
<td>9. The franchisor is willing to bend company policies to help address my needs.</td>
</tr>
<tr>
<td></td>
<td>10. While the franchisor may have procedures for dealing with disputes, it is expected that each dispute should be treated on its individual merit.</td>
</tr>
<tr>
<td></td>
<td>11. The franchisor's procedures for dealing with disputes are formalized and it is expected that they should be followed rigidly (R).</td>
</tr>
<tr>
<td></td>
<td>12. Problems are dealt with in a timely manner.</td>
</tr>
</tbody>
</table>

5.3.4 Operationalisation of AUTONOMY

Prior studies have operationalised autonomy as the degree to which individual responsibility is delegated to the franchisee and the absence of franchisor imposed structure (Joyce and Slocum, 1984; Strutton et al., 1993). Furthermore, the presence of autonomy promotes a feeling of security and stability among channel members (Strutton et al., 1993). Therefore autonomy should lead to greater levels of franchisee trust and the scale adopted to measure autonomy is shown in table 5.4.

Table 5.4
Measurement scale: autonomy

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q: Please indicate whether you agree or disagree with the following statements:</td>
<td></td>
</tr>
<tr>
<td><strong>Scale 1-7</strong></td>
<td>(Strongly Disagree to Strongly Agree)</td>
</tr>
</tbody>
</table>

| Autonomy | 1. I organise my store as I see fit. |
|          | 2. I set the work standards for my franchise. |
|          | 3. I make most of the decisions that affect the way my franchise performs. |
|          | 4. I schedule my own work activities. |
|          | 5. I determine my own operational routine. |

Source: adapted from Strutton et al., (1993)

5.3.5 Operationalisation of PRESSURE

Externally imposed constraints by the franchisor are likely to impact on the franchisees sense of well-being and trust (Amabile et al., 1976). However, individual personality differences complicate this construct because some individuals thrive under pressure and others resist it. However, this construct is hypothesised to have a negative influence on trust because pressure and rule-enforcement might be viewed as a hindering the development of trusting relationships. The measurement scale used for pressure is shown in table 5.5 below.
Table 5.5
Measurement scale: pressure

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q: Please indicate whether you agree or disagree with the following statements:</td>
<td></td>
</tr>
<tr>
<td><strong>Scale 1-7</strong> (Strongly Disagree to Strongly Agree)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Pressure</th>
<th>1. I have too much work and too little time to do it.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2. The franchise arrangement provides a relaxed working environment.</td>
</tr>
<tr>
<td></td>
<td>3. I feel like I never have a day off.</td>
</tr>
<tr>
<td></td>
<td>4. In this franchise, too many people get ‘burned out’ by the demands of the job.</td>
</tr>
</tbody>
</table>

Source: adapted from Strutton et al., (1993)

5.3.6 Operationalisation of TRUST

Trust is essential for the optimisation of a system (Deming, 1994) because without trust, each component will protect their own immediate interests to the detriment of the long-term success of the entire system. As placing trust in leaders is very important for organisational performance (Argyris, 1964), the trust a franchisee places in their franchisor (the CEO, the leader or the founder) is conceptualised as an important contributor to the overall performance of the franchise system. For trust to exist there needs to be a clear and distinct interest at stake for both parties in the continuation of the relationship (Hardin, 2002). In franchising, the interest is usually commercial in nature due to the financial objectives of the organisation, of which the franchisor provides a proven blueprint for operating the business (Watson et al., 2005). The franchisee not only places their trust in the proven blueprint, but also in the franchisor; thus, franchisee trust is an important aspect of the overall performance of the franchise system (Croonen and Brand, 2013).

Specific to the franchising relationship, a franchisee will typically trust their franchisor because they consider them to be trustworthy. Furthermore, the franchisee is likely to become dependent on the franchisor’s support early on in the relationship (Nathan, 2007). Thus, the definition of franchisee trust parallels the work of Moorman et al., (1993) whereby trust is conceptualised as the franchisee’s *willingness to be vulnerable* to
the franchisor. A willingness to be vulnerable is a difficult construct to measure, resulting in a wide and confusing array of trust measurements (McEvily and Tortoriello, 2011). In addition to vulnerability, trust requires two further elements; risk and interdependence (Bigley and Pearce, 1998; Rousseau et al., 1998). Risk creates an opportunity for trust which often leads to interdependence, if the trust is fulfilled (Lewis et al., 1985). Therefore, because trust is a psychological state it needs to be measured at the individual level (that is, measured by asking individual franchisees). However, there can be many referents or targets of trust, thus for the focus of this research the trust in the franchisor (CEO, leader, founder) referent is the main focus.

It is important to remember that the construct of trust is different to the construct of trustworthiness. As has been noted by Gillespie (2003) measures of perceived trustworthiness should not be used as a proxy for trust for three main reasons. Firstly, holding views and beliefs about another’s trustworthiness does not involve vulnerability, risk or interdependence. The presence of these three factors is what differentiates trust from confidence (Luhmann, 1988). Secondly, even though trustworthiness is a significant determinant of trust, it does not always equate to trust. For example, Davis et al (2000) found that trustworthiness only accounted for 46 percent of an employee’s trust in their general manager. Thirdly, trust has practical significance in its action (Lewis et al., 1985). From a measurement point of view it is more accurate to measure one’s willingness to be vulnerable than their perceptions of another’s trustworthiness. Willingness requires action whereas perceptions only require thought. Thus, it is important to measure trust in addition to perceived trustworthiness (Gillespie, 2003; Dietz et al., 2006; Schoorman, et al., 2007).

In McEvily’s et al. (2011) review of trust measurement within organisational settings, they found only three accurate instruments used to measure trust. These measurements are Curral and Judge (1995), Mayer and Davis (1999), and Gillespie (2003). This research adopts the latter measurement, Gillespie’s Behavioural Trust Inventory (BTI) scale as the most appropriate of the three because of its accuracy in assessing trust, as opposed to measuring perceptions of trustworthiness. The BTI scale is a 10-item measure designed to quantify the two main factors of trust: reliance-based trust and disclosure-based trust. The BTI scale has been used or cited in many publications (Lewicki et al., 2006; Lau and Liden, 2008; Lam et al., 2013). The BTI scale captures a person’s willingness to be vulnerable (reliance-based trust) as well as a person’s willingness to share work related or personal information of a sensitive nature within a
team setting (disclosure-based trust). This willingness to disclose sensitive information captures the complexity of highly interdependent work relationships. For example, one is less likely to disclose personal information in an independent and neutral relationship. As trust is susceptible to context and referent sensitivity, trust scales should be adapted accordingly (Gillespie, 2012) thus the BTI scale is adapted to the franchising context, providing a valid and reliable measurement of franchisee trust, displayed in table 5.6.

**Table 5.6**

**Measurement scale: the franchisee’s trust in their franchisor**

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Items</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q: Please indicate how <strong>willing</strong> you are to engage in each of the</td>
</tr>
<tr>
<td></td>
<td>following behaviours with your franchisor (e.g., the CEO, founder,</td>
</tr>
<tr>
<td></td>
<td>or leader):</td>
</tr>
<tr>
<td></td>
<td><strong>Scale 1 – 7</strong> (Very Unwilling to Very Willing)</td>
</tr>
<tr>
<td>Reliance based trust</td>
<td>1. Rely on his or her task related skills and abilities.</td>
</tr>
<tr>
<td>measures</td>
<td>2. Depend on your franchisor to handle an important issue on your</td>
</tr>
<tr>
<td></td>
<td>behalf.</td>
</tr>
<tr>
<td></td>
<td>3. Rely on your franchisor to represent your work accurately to</td>
</tr>
<tr>
<td></td>
<td>others.</td>
</tr>
<tr>
<td></td>
<td>4. Depend on him or her to back you up in difficult situations.</td>
</tr>
<tr>
<td></td>
<td>5. Rely on his or her work related judgements.</td>
</tr>
<tr>
<td>Disclosure based trust</td>
<td>1. Share your personal feelings with him or her.</td>
</tr>
<tr>
<td>measures</td>
<td>2. Discuss work-related problems or difficulties with your franchisor that could potentially be used to disadvantage you.</td>
</tr>
<tr>
<td></td>
<td>3. Confide in your franchisor about personal issues that are</td>
</tr>
<tr>
<td></td>
<td>affecting your work.</td>
</tr>
<tr>
<td></td>
<td>4. Discuss how you honestly feel about your work, even negative</td>
</tr>
<tr>
<td></td>
<td>feelings and frustration.</td>
</tr>
<tr>
<td></td>
<td>5. Share your personal beliefs with him or her.</td>
</tr>
</tbody>
</table>

Source: adapted from Gillespie (2012).

### 5.3.7 Operationalisation of PERFORMANCE

When trust is high, I expect performance to be high. The franchisee and the franchisor are inextricably linked and as one franchising expert said, “it is fundamentally a collaborative business between the franchisee and the franchisor and whilst it is underpinned by a contract and legislation, ultimately a lot of that really hinges on the
relationship between the parties, the communication between the parties, and the level of trust between them”. Thus overall performance will be determined by the levels of franchisee trust. The subjective performance measure is adopted from Lado, Dant, and Tekleab’s (2008) as shown in table 5.7 below.

Table 5.7
Measurement scale: performance

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q: Compared to other similar franchisees in this franchise system, our performance is very high in terms of:</td>
<td></td>
</tr>
</tbody>
</table>

**Scale 1-7** (Strongly Disagree to Strongly Agree)

<table>
<thead>
<tr>
<th>Performance</th>
<th>Items</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1. Sales growth.</td>
</tr>
<tr>
<td></td>
<td>2. Profit growth.</td>
</tr>
<tr>
<td></td>
<td>3. Overall profitability.</td>
</tr>
<tr>
<td></td>
<td>4. Labour productivity.</td>
</tr>
<tr>
<td></td>
<td>5. Cash flow.</td>
</tr>
</tbody>
</table>

Source: adapted from Lado, Dant, and Tekleab (2008).
5.4 Hypothesis development

Croonen and Brand (2013) established the importance of the franchisee’s perception of franchisor trustworthiness and the franchise system as antecedents to franchisee trust. The theoretical model developed in this phase (figure 5.3) builds on this prior academic research as well as incorporating the findings from the qualitative data. The process followed Lynham’s (2002) applied theory building process: firstly the concepts were developed based on the initial findings from the qualitative data (section 5.2) followed by their operationalisation (section 5.3) whereby validated scales were identified and adapted so as to provide a robust and reliable construct measures. Therefore, the hypothesised relationships are illustrated in figure 5.3 and described as follows:

H1: The franchisee’s identification with the system is positively related to the trust in their franchisor.
H2: The franchisee’s perception of franchisor competence is positively related to the trust in their franchisor.
H3: The franchisee’s perception of franchisor fairness is positively related to the trust in their franchisor.
H4: Franchisee autonomy is positively related to the trust in their franchisor.
H5: Franchisee pressure is negatively related to the trust in their franchisor.
H6: The franchisee’s trust in their franchisor is positively related to performance.

Figure 5.3
Proposed model

Source: developed for this research
5.5 Conclusion

Good theory should be designed to inform us about how the world works, and so in doing, assist in improving behaviour within the contextual setting (Lynham, 2002). The purpose of this research is to gain a greater understanding of how franchisee trust is built within franchising relationships: first ideas were explored and developed from interviews with franchising practitioners, then applied to the franchising world, in other words, putting the ideas to the test. The questions developed form phase one, informed phase two, which was the focus of this chapter. Furthermore, the specific research method adopted for applied theory building (Lynham, 2002) consists of five phases that work together in a recursive system: (1) conceptual development, (2) operationalisation, (3) application, (4) confirmation or disconfirmation, and (5) continuous refinement and development of the theory.

The hypotheses will be confirmed or disconfirmed in the next chapter using rigorous quantitative analysis techniques. Lynham’s confirmation or disconfirmation phase refers to the research agenda chosen as the most appropriate way to intentionally and purposefully confirm or disconfirm the theoretical framework. When adequately implemented, this phase produces a confirmed and trustworthy theory that can be used with some confidence to inform better action in the ‘real-world’. Thus, a nation-wide, quantitative survey of franchisees’ opinions was used to confirm/disconfirm the six operationalised hypotheses; the results are discussed in the next chapter.
Chapter 6 – Phase three of the research inquiry: quantitative analysis

6.0 Introduction

The analysis performed in this chapter is framed within the positivist paradigm and the technique used to analyse the quantitative data collected from franchisees is structural equation modeling (SEM – Hoyle, 1995; Tabachnick and Fidell, 2013). Considered to be the oldest and most widely used approach, positivism employs rigorous scientific measures to provide ‘objective’ research (Neuman, 2011). This chapter discusses the procedure undertaken to test and confirm the proposed theoretical model with the goal of producing an ‘objective’ understanding of how franchisee trust relates to performance. The analysis process consisted of ten steps:

1. Cleaned the data
2. Conducted preliminary analyses
3. Exploratory factor analysis (EFA)
4. Descriptive statistics
5. Confirmatory factor analysis (CFA)
6. Testing for construct reliability and validity
7. Testing for common method bias
8. Multivariate assumptions – testing for linearity and multicollinearity
9. Testing the hypothesised relationships in the proposed model
10. Testing for multi-group moderation (3 groups)

According to Bentler (1983) and Browne (1984), SEM techniques are largely confirmatory – rather than exploratory – the aim is to confirm the proposed theoretical model and test the twenty-four hypotheses developed in the previous chapter. Yet, before the model was tested, it was refined to ensure robustness and coherence. Therefore, following from the EFA, confirmatory factor analysis was utilised to improve the goodness of fit statistics and thus refine the proposed theoretical model (Andersen and Gerbing, 1988). Thus, the goodness of fit of the initial measurement model is tested through application of commonly used fit indices using AMOS software: CMIN/DF, RMSEA, AGFI, GIF, IFI, TLI, and CFI. The process used to analyse the data is illustrated in figure 6.1 below.
Figure 6.1
Outline of chapter 6

- 6.0 Introduction
- 6.1 Cleaning the data and the assessment of normality & outliers
- 6.2 Preliminary analyses
- 6.3 Exploratory factor analysis
- 6.4 Descriptive statistics: mean, std, correlations
- 6.5 Confirmatory factor analysis
  - 6.5.1 Fit indices
  - 6.5.2 Initial measurement model fit
  - 6.5.3 Refining the model
  - 6.5.4 Overall measurement model fit
- 6.6 Testing for construct reliability and validity
- 6.7 Testing for common method bias
- 6.8 Multivariate assumptions – testing for linearity and multicollinearity
- 6.9 Testing the hypothesised relationships in the proposed model
  - 6.9.1 Examination of fit indices of the proposed model
  - 6.9.2 Testing the model
- 6.10 Testing for multi-group moderation (3 groups)
- 6.11 Conclusion

Source: developed for this research
6.1 Cleaning the data and the assessment of normality and outliers

Prior to analysis, the data was checked for errors, outliers, and response bias. The survey was designed to require compulsory completion of all question items before the respondent could proceed, thus there was no missing data. However, not all the data was usable. Some respondents indicated that they were not operating in a franchise; they completed the survey as they still operated a small business. However, these responses were not usable because the respondents were not (a) operating in a franchise, or (b) operating in the retail sector. Three responses were removed because of this error. However, some responses were clearly inaccurate and were considered to be cases of extreme outliers because all the options selected, throughout the entire survey, were either 7 (strongly agree) or 1 (strongly disagree). Thirteen responses were removed because of this type of error. It is possible that the respondents strongly agreed or strongly disagreed with the statements; however, it is unlikely because every single response was the same. Thus these responses were removed manually to improve the normality of the data. Furthermore, Mahalanobis distance outliers were examined using AMOS software resulting in a total of thirteen cases removed because they contained extreme outliers. Within the initial sample of 225, sixteen responses were removed because of error: three because the respondents indicated they were not operating a franchise (cases: 159, 194, 217), and thirteen because they contained extreme outliers (3, 15, 18, 53, 56, 65, 87, 105, 145, 153, 159, 161, 199), leaving a final clean data set of 209 usable responses (table 6.1).

Furthermore, two other types of response bias – sensitivity and respondent fatigue – were addressed in the design of the survey whereby it was made clear up front that the privacy and confidentiality of the responses would be ensured. The respondents were also given the option of completing questions that asked them personal details but most chose not. For example, one of the questions asked them to provide the name of their franchise with not many choosing to reveal their brand. Secondly, respondent fatigue was addressed by breaking up the list of questions with shorter questions in between sections. A progress completion bar was also included so respondents could visualise their progress. Unfortunately, the aforementioned types of error are inherent in long quantitative surveys (Pallant, 2005) and provide for a limitation of the research, yet preventative measures were taken to ensure data accuracy and reliability.
Table 6.1
Cleaning the data

<table>
<thead>
<tr>
<th>Number of responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Completed responses</td>
</tr>
<tr>
<td>Less: error in sample selection</td>
</tr>
<tr>
<td>Less: respondent error</td>
</tr>
<tr>
<td><strong>Final sample size</strong></td>
</tr>
</tbody>
</table>

Source: developed for this research

6.2 Preliminary analyses

While the demographic information has no impact on the analysis undertaken, the descriptive statistics provide a generalised view of the sample frame. The respondents were mostly male (60%) compared to female owners (40%). The median age category was 31 – 40 years old with approximately 80 percent of the sample falling between the ages of 21 and 50. With regard to the geographical dispersion, most respondents came from New South Wales (35%), Victoria (27%), and Queensland (15%). This is considered to be representative of the wider Australian geographic dispersion as these three states also have the highest population, respectively (Australian Bureau of Statistics, 2015). Table 6.2 shows the demographic statistics of the sample frame.
Table 6.2
Demographic profile of the respondents

<table>
<thead>
<tr>
<th>Question</th>
<th>Number of responses</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Male</strong></td>
<td>125</td>
<td>59.8%</td>
</tr>
<tr>
<td><strong>Female</strong></td>
<td>84</td>
<td>40.2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>209</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Age:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21-30 years</td>
<td>46</td>
<td>23.4%</td>
</tr>
<tr>
<td>31-40 years</td>
<td>74</td>
<td>35.4%</td>
</tr>
<tr>
<td>41-50 years</td>
<td>46</td>
<td>23.4%</td>
</tr>
<tr>
<td>51-60 years</td>
<td>28</td>
<td>13.4%</td>
</tr>
<tr>
<td>Over 60 years</td>
<td>15</td>
<td>7.2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>209</td>
<td>100%</td>
</tr>
<tr>
<td><strong>State/territory where operating:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New South Wales</td>
<td>74</td>
<td>35.4%</td>
</tr>
<tr>
<td>Victoria</td>
<td>56</td>
<td>26.8%</td>
</tr>
<tr>
<td>South Australia</td>
<td>20</td>
<td>9.6%</td>
</tr>
<tr>
<td>Western Australia</td>
<td>16</td>
<td>7.7%</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>2</td>
<td>1.0%</td>
</tr>
<tr>
<td>Australian Capital</td>
<td>4</td>
<td>1.9%</td>
</tr>
<tr>
<td>Territory</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tasmania</td>
<td>5</td>
<td>2.4%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>209</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: developed for this research

Franchisees were asked how long they had owned their franchise and the median response was between one and three years. Twelve percent of franchisees were beginning their venture, indicating they had owned their franchise for less than six months. Only four percent of the respondents had owned their franchise for longer than ten years; the maximum length of ownership was thirty years. The majority of franchisees were single unit operators (59%) and the remaining 41 percent indicated they owned more than one franchise store. Three percent of the respondents owned more than ten stores. Franchisees were then asked to indicate the size of their initial financial investment with the median category falling between $100,000 and $200,000. A larger proportion of the respondents (36%) indicated they invested less than $100,000 initially and only 6% of franchisees invested more than $400,000 initially. Franchisees were also asked if they participated in the franchisee advisory council (FAC) with 64% indicating they did participate and 36% saying they did not. Further information on the franchisee profile is displayed in table 6.3.
Table 6.3
Franchisee profile

<table>
<thead>
<tr>
<th>Question</th>
<th>Number of responses</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Length of ownership:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 6 months</td>
<td>24</td>
<td>11.5%</td>
</tr>
<tr>
<td>6 months to a year</td>
<td>42</td>
<td>20.1%</td>
</tr>
<tr>
<td>1 to 3 years</td>
<td>65</td>
<td>31.1%</td>
</tr>
<tr>
<td>4 to 7 years</td>
<td>55</td>
<td>26.3%</td>
</tr>
<tr>
<td>8 to 10 years</td>
<td>14</td>
<td>6.7%</td>
</tr>
<tr>
<td>More than 10 years*</td>
<td>8</td>
<td>3.8%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>208</td>
<td>99.5%</td>
</tr>
<tr>
<td>Missing</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Number of units/stores owned:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 store only</td>
<td>123</td>
<td>58.9%</td>
</tr>
<tr>
<td>2</td>
<td>28</td>
<td>13.4%</td>
</tr>
<tr>
<td>3</td>
<td>16</td>
<td>7.7%</td>
</tr>
<tr>
<td>4</td>
<td>10</td>
<td>4.8%</td>
</tr>
<tr>
<td>5</td>
<td>6</td>
<td>2.9%</td>
</tr>
<tr>
<td>6</td>
<td>15</td>
<td>7.1%</td>
</tr>
<tr>
<td>7</td>
<td>2</td>
<td>1.0%</td>
</tr>
<tr>
<td>8</td>
<td>1</td>
<td>0.5%</td>
</tr>
<tr>
<td>9</td>
<td>2</td>
<td>1.0%</td>
</tr>
<tr>
<td>10 or more stores</td>
<td>6</td>
<td>2.9%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>209</td>
<td>100%</td>
</tr>
<tr>
<td>Initial investment**:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Below $100,000</td>
<td>75</td>
<td>35.9%</td>
</tr>
<tr>
<td>$100,001 to $200,000</td>
<td>40</td>
<td>19.2%</td>
</tr>
<tr>
<td>$200,001 to $300,000</td>
<td>53</td>
<td>25.3%</td>
</tr>
<tr>
<td>$300,001 to $400,000</td>
<td>29</td>
<td>13.9%</td>
</tr>
<tr>
<td>Over $400,000</td>
<td>12</td>
<td>5.7%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>209</td>
<td>100%</td>
</tr>
<tr>
<td>Participation in the franchisee advisory council (FAC):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>72</td>
<td>64.3%</td>
</tr>
<tr>
<td>No</td>
<td>40</td>
<td>35.7%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>112</td>
<td>100%</td>
</tr>
<tr>
<td>Missing</td>
<td>97</td>
<td></td>
</tr>
</tbody>
</table>

Source: developed for this research

Notes:  * The maximum length of ownership was 30 years
** Currency shown in AUD
As this survey was targeted specifically at the retail sector, the type of product they sold was determined using existing categories. The dominant category was fast food (21%) and café (12%). The median size of the franchisor system was between 51 to 100 stores globally with 27 percent of franchisees indicating they were part of a franchise system that had over 200 stores globally. Approximately one-fifth of franchisees (21%) indicated they were part of a small franchise system (less than ten stores worldwide). Over three quarters of franchisees (77%) indicated they were involved with a franchise system that operated company-owned outlets. Of these, some 90% of franchisees indicated their franchisor tested products in the company owned stores before implementing it through the wider franchise system. Approximately two-thirds of franchisees (61%) indicated they paid a percentage royalty and advertising fee to their franchisor with the remaining third indicating they paid a fixed fee to their franchisor. Franchisees were also asked to indicate what aspects of their organisational culture were emphasised. Quinn’s et al. (1981) framework was used to categorise four organisational culture archetypes: team, hierarchical, entrepreneurial, and rational. As displayed in table 6.4 below, most franchisees indicated their organisational culture was rational where goals and performance objectives are emphasised (34%) or a team culture where teamwork is emphasised (31%). Just over half of the franchisees (54%) indicated their franchise system had an FAC. The franchise system descriptive statistics are displayed in table 6.4.
Table 6.4
Franchise system profile

<table>
<thead>
<tr>
<th>Question</th>
<th>Number of responses</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product category:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fast food</td>
<td>44</td>
<td>21.1%</td>
</tr>
<tr>
<td>Café</td>
<td>24</td>
<td>11.5%</td>
</tr>
<tr>
<td>Health food</td>
<td>21</td>
<td>10.0%</td>
</tr>
<tr>
<td>Restaurant</td>
<td>20</td>
<td>9.6%</td>
</tr>
<tr>
<td>Trade retail</td>
<td>14</td>
<td>6.7%</td>
</tr>
<tr>
<td>Bakery</td>
<td>13</td>
<td>6.2%</td>
</tr>
<tr>
<td>Fresh produce/supermarket</td>
<td>10</td>
<td>4.8%</td>
</tr>
<tr>
<td>Clothing</td>
<td>10</td>
<td>4.8%</td>
</tr>
<tr>
<td>Wellbeing/fitness retail</td>
<td>9</td>
<td>4.3%</td>
</tr>
<tr>
<td>Automotive retail</td>
<td>8</td>
<td>3.8%</td>
</tr>
<tr>
<td>Homeware</td>
<td>7</td>
<td>3.3%</td>
</tr>
<tr>
<td>Hair/beauty retail</td>
<td>5</td>
<td>2.4%</td>
</tr>
<tr>
<td>Other</td>
<td>24</td>
<td>11.5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>209</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

**Size of the franchise system:**

<table>
<thead>
<tr>
<th>Size of stores</th>
<th>Number of responses</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 10 stores worldwide</td>
<td>44</td>
<td>21.1%</td>
</tr>
<tr>
<td>11 to 50</td>
<td>51</td>
<td>24.4%</td>
</tr>
<tr>
<td>51 to 100</td>
<td>32</td>
<td>15.3%</td>
</tr>
<tr>
<td>101 to 200</td>
<td>25</td>
<td>12.0%</td>
</tr>
<tr>
<td>Over 200</td>
<td>57</td>
<td>27.3%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>209</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

**Company owned stores within the franchise:**

<table>
<thead>
<tr>
<th>Ownership</th>
<th>Number of responses</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>161</td>
<td>77%</td>
</tr>
<tr>
<td>No</td>
<td>48</td>
<td>23%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>209</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

**Does the franchisor test new products on their own company-owned stores before implementing it throughout the system:**

<table>
<thead>
<tr>
<th>Test Ownership</th>
<th>Number of responses</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>145</td>
<td>90%</td>
</tr>
<tr>
<td>No</td>
<td>16</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>161</strong></td>
<td><strong>100%</strong></td>
</tr>
<tr>
<td><strong>Missing</strong></td>
<td><strong>48</strong></td>
<td></td>
</tr>
</tbody>
</table>
Royalty fee:

Calculated as a percentage of gross turnover 126 60.3%
Fixed fee 83 39.7%
Total 209 100%

Marketing fee:

Calculated as a percentage of gross turnover 125 59.8%
Fixed fee 84 40.2%
Total 209 100%

Type of organisational culture (only one response may be selected):

Teamwork is emphasised 65 31.1%
Formalised rules and structure is emphasised 45 21.5%
Risk, innovation and entrepreneurship is emphasised 27 12.9%
Goals and performance objectives are emphasised 72 34.4%
Total 209 100%

Does the system have a franchisee advisory council (FAC):

Yes 112 53.6%
No 97 46.4%
Total 209 100%

Source: developed for this research

6.3 Exploratory factor analysis

Exploratory factor analysis using the Varimax rotation method (with Kaiser normalisation) revealed seven distinct components (table 6.5):

(1) Franchisor competence: ZOR_COMP,
(2) Franchise system identification: SYS_ID,
(3) Franchisee trust in the franchisor: TRUST,
(4) Performance: PERF,
(5) Franchisee autonomy: AUTO,
(6) Franchisee fairness: ZOR_FAIR, and
(7) Franchisee pressure: PRESS.
Table 6.5
Exploratory factor analysis – Rotated component matrix

<table>
<thead>
<tr>
<th>Component</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUTO1</td>
<td></td>
<td></td>
<td></td>
<td>.685</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AUTO2</td>
<td></td>
<td></td>
<td></td>
<td>.681</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AUTO3</td>
<td></td>
<td></td>
<td></td>
<td>.753</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AUTO5</td>
<td></td>
<td></td>
<td></td>
<td>.712</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PRESS1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.772</td>
<td></td>
</tr>
<tr>
<td>PRESS2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.805</td>
<td></td>
</tr>
<tr>
<td>PRESS3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.775</td>
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</tr>
<tr>
<td>PRESS4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SYS1</td>
<td>.636</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SYS2</td>
<td>.687</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SYS3</td>
<td>.741</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>SYS4</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>T1</td>
<td>.590</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>T2</td>
<td>.564</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<td>T3</td>
<td>.444</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>T4</td>
<td>.567</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CON1</td>
<td>.634</td>
<td>.604</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>CON2</td>
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<td>.620</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>CON3</td>
<td>.658</td>
<td>.669</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>CONF4</td>
<td>.725</td>
<td>.518</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>REL1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.706</td>
<td></td>
<td></td>
</tr>
<tr>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>.619</td>
<td></td>
<td></td>
</tr>
<tr>
<td>REL3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.696</td>
<td></td>
<td></td>
</tr>
<tr>
<td>REL4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.767</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DIS1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DIS2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DIS3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DIS4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AB1</td>
<td>.650</td>
<td>.540</td>
<td>.672</td>
<td>.651</td>
<td>.540</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AB2</td>
<td>.770</td>
<td>.539</td>
<td>.672</td>
<td>.651</td>
<td>.539</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AB3</td>
<td>.677</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AB4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BEN1</td>
<td>.540</td>
<td>.676</td>
<td>.540</td>
<td>.676</td>
<td>.540</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BEN2</td>
<td>.651</td>
<td>.651</td>
<td>.651</td>
<td>.651</td>
<td>.651</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BEN3</td>
<td>.539</td>
<td>.539</td>
<td>.539</td>
<td>.539</td>
<td>.539</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BEN4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>INT1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.520</td>
<td></td>
</tr>
<tr>
<td>INT2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.401</td>
<td></td>
</tr>
<tr>
<td>INT3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.495</td>
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<td>INT4</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td>.705</td>
<td></td>
</tr>
<tr>
<td>PR1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.503</td>
<td></td>
</tr>
<tr>
<td>PR2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.495</td>
<td></td>
</tr>
<tr>
<td>PR3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.705</td>
<td></td>
</tr>
<tr>
<td>PR4</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>PR5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.511</td>
</tr>
<tr>
<td>1SALES</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.721</td>
<td></td>
</tr>
<tr>
<td>2PROF</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.677</td>
<td></td>
</tr>
<tr>
<td>3OVER</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.672</td>
<td></td>
</tr>
<tr>
<td>4LAB</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.551</td>
<td></td>
</tr>
<tr>
<td>5CASH</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.669</td>
<td></td>
</tr>
</tbody>
</table>

Notes: Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
a. Rotation converged in 8 iterations.
Source: developed for this research from SPSS
6.4 Descriptive statistics: mean, std, correlations

Descriptive statistics of the mean scores of the seven constructs were also assessed. New variables were computed using SPSS whereby composite variables were created based on the averages scores. The minimum, maximum, mean, standard deviation, skewness and kurtosis for each of the seven constructs are displayed in table 6.6 below.

Skewness and Kurtosis values are unlikely to make a substantial difference in the analysis for large samples (200+ cases: Tabachnick et al., 2007) however the closer to ‘zero’ the more the data distribution is considered to be perfectly normal. As displayed in the table, the skewness and kurtosis values are all below 1.0 indicating a relatively normal distribution. Consequently, the final sample of 209 responses is used for confirmatory factor analysis and SEM testing in the following sections.

Table 6.6
Descriptive statistics

<table>
<thead>
<tr>
<th>Construct</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std</th>
<th>Skewness</th>
<th>Kurtosis</th>
</tr>
</thead>
<tbody>
<tr>
<td>ZOR_COMP</td>
<td>1.43</td>
<td>7</td>
<td>4.94</td>
<td>1.15</td>
<td>-.279</td>
<td>-.149</td>
</tr>
<tr>
<td>SYS_ID</td>
<td>1.00</td>
<td>7</td>
<td>4.80</td>
<td>1.16</td>
<td>-.759</td>
<td>.817</td>
</tr>
<tr>
<td>ZOR_FAIR</td>
<td>1.00</td>
<td>7</td>
<td>4.68</td>
<td>1.21</td>
<td>-.518</td>
<td>.304</td>
</tr>
<tr>
<td>AUTO</td>
<td>1.00</td>
<td>7</td>
<td>4.99</td>
<td>1.10</td>
<td>-.474</td>
<td>.429</td>
</tr>
<tr>
<td>PRESS</td>
<td>1.33</td>
<td>7</td>
<td>4.72</td>
<td>1.14</td>
<td>-.349</td>
<td>.179</td>
</tr>
<tr>
<td>TRUST</td>
<td>1.00</td>
<td>7</td>
<td>4.78</td>
<td>1.19</td>
<td>-.494</td>
<td>.463</td>
</tr>
<tr>
<td>PERF</td>
<td>1.20</td>
<td>7</td>
<td>4.81</td>
<td>1.17</td>
<td>-.543</td>
<td>.632</td>
</tr>
</tbody>
</table>

Notes: n = 209
Source: developed for this research

Correlation analysis was then undertaken to determine the strength and direction of the linear relationship (if any) between the six constructs. Pearson product-moment correlation coefficients are presented in table 6.7.
Table 6.7
Pearson product-moment correlation matrix

<table>
<thead>
<tr>
<th></th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) ZOR_COMP</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) SYS_ID</td>
<td>.794**</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) ZOR_FAIR</td>
<td>.820**</td>
<td>.788**</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4) AUTO</td>
<td>.601**</td>
<td>.639**</td>
<td>.527**</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(5) PRESS</td>
<td>.264**</td>
<td>.316**</td>
<td>.245**</td>
<td>.456**</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>(6) TRUST</td>
<td>.795**</td>
<td>.781**</td>
<td>.801**</td>
<td>.587**</td>
<td>.263**</td>
<td>-</td>
</tr>
<tr>
<td>(7) PERF</td>
<td>.744**</td>
<td>.796**</td>
<td>.738**</td>
<td>.597**</td>
<td>.308**</td>
<td>.652**</td>
</tr>
</tbody>
</table>

Notes: ** p < 0.01 (2-tailed)

n = 209

Source: developed for this research

6.5 Confirmatory factor analysis

This section describes the steps undertaken to examine the reliability of the constructs. Cronbach alpha values and confirmatory factor analysis (CFA) examine the internal reliability and validity of the constructs. These statistical techniques are utilised to determine which observed variables are retained or excluded. This section follows the process of identifying a measurement model for the independent variables (section 6.4.1) and the outcome variables; the mediator and the dependent variable (section 6.4.2).

First, the fit indices are examined for each of the latent constructs following which certain observed measurement items are removed to improve the fit indices thus providing a more robust – good fitting – and parsimonious model.

6.5.1 Fit indices

A parsimonious and good-fitting model is achieved through application of fit indices to the measurement model as displayed in table 6.6. The most common index of fit is the $\chi^2$ (Chi-square) goodness-of-fit test (Hoyle, 1995) with several researchers suggesting the use of a ratio:

$$\chi^2/df$$
Using this ratio a relative Chi-square value ($\chi^2$ or CMIN) is achieved by dividing the value by the degrees of freedom (df). Wheaton et al (1977) and Marsh and Hocevar (1985), suggest a ratio of approximately five or less as beginning to be reasonable. The closer the value to one, the better indication of a good fit between the hypothetical model and the sample data, with Carmines and McIver (1981) suggesting a value of less than three indicating an acceptable fit. Some authors indicate a ratio greater than two represents an adequate fit (Byrne, 1989).

The second model measurement fit, the RMSEA (root mean square error of approximation), is calculated by the following formula:

$$\sqrt{\frac{\chi^2 - df}{df(N - 1)}}$$

Where $N$ is the sample size and $df$ is the degrees of freedom (Browne and Cudeck, 1993). McCallum, Browne and Sugawara (1996) have used values of .01, .05, and .08 to indicate excellent, good, and mediocre fit, respectively. Other researchers suggest that practical experience shows a RMSEA value of .05 or less would indicate a model of close fit and they would not want to employ a model with a RMSEA greater than .1 (Browne and Cudeck, 1993). A further index that measures a close-fitting model is the $\text{P} \text{Close}$ value. This is a $p$ value for testing the null hypothesis that the population RMSEA is no greater than .05:

$$H_0: \text{RMSEA} \leq .05$$

As with any significance value, sample size is a critical factor as well as the degrees of freedom; with lower df there is less power in this test (Kenny et al., 2014). Browne and Cudeck (1993) suggest that a $\text{P} \text{Close}$ value of greater than .05 indicates a close fitting model (that is, the null hypothesis not statistically significant). Similarly, the smaller the root mean square residual (RMSR) value is, the better. An RMSR value of zero indicates perfect fit.

The next fit index utilised in this research is the goodness of fit index (GFI). It was first devised by Jöreskog and Sörbom (1984) for modification indices estimation whereby a value of one indicates a perfect fit. However, GFI values greater than .90 are deemed to be acceptable (Hu and Bentler, 1999). It is important to note that because this measure — as well as the adjusted goodness of fit index AGFI measure — are largely
influenced by sample size, there is consensus from leading researchers that these measures should not be used (Sharma, Mukherjee, Kumar and Dillon, 2005) however, I have still included them in the output to ensure transparency standards are maintained throughout the research process.

The three remaining baseline comparisons are widely used in SEM to assess the relative improvement in fit to the model. These indices compare the proposed model to some baseline model fit criteria whereby values close to 1 indicate a very good fit. Bollen’s (1989) incremental fit index (IFI) – also known as Delta2 – measures the discrepancy and the \( df \) for the model being evaluated. IFI values greater than .90 are considered acceptable with values greater than .95 indicative of good fit (Hulland et al., 1996). The Tucker Lewis coefficient (TLI) – also known as rho 2 – was first proposed by Tucker and Lewis (1973) and used by Bentler and Bonnet (1980) in the context of analysis of moment structures. TLI values greater than .90 are considered acceptable with values greater than .95 indicative of good fit (Hulland et al., 1996). The comparative fit index (CFI) – similar to McDonald and Marsh’s (1990) relative noncentrality index – was first proposed by Bentler (1990). CFI values greater than .90 are considered acceptable with values greater than .95 indicative of good fit (Hulland et al., 1996). Thus, after taking into consideration the aforementioned measurements of fit, the overall fit of the model can be identified, as displayed in table 6.8

### Table 6.8
SEM fit indices used in this study

<table>
<thead>
<tr>
<th>Fit measures</th>
<th>Overall model fit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CMIN/DF</td>
</tr>
<tr>
<td>Acceptable</td>
<td>&lt; 5.00</td>
</tr>
<tr>
<td>Good fit</td>
<td>&lt; 2.00</td>
</tr>
</tbody>
</table>

* According to Sharma, Mukherjee, Kumar, and Dillon (2005) the GFI and the AGFI should not be used as it is overly sensitive to sample size.

** this is also known as the Bentler-Bonnet Non-normed fit index (NNFI)

6.5.2 Initial measurement model fit

Structural equation modeling is growing in popularity, largely because of the robust confirmatory methods (Bentler, 1983, Browne, 1984) that provide researchers with a comprehensive means for identifying and modifying initial measurement models (Andersen and Gerbing, 1988). Confirmatory factor analysis (CFA) is utilised for the initial measurement model whereby the observed variables are measured in relation to their corresponding latent variable. The measurement model provides an initial confirmatory assessment of convergent validity and discriminant validity (Campbell, 1960) of the constructs. Thus, modification indices (MIs) are examined – variances, covariances, standardized regression weights, standardised residual covariances – during the evaluation of model fit. The initial results of the measurement model are displayed in figure 6.2 and the initial model fit indices are displayed in table 6.9.
Figure 6.2  
Initial measurement model (46 items)

Source: developed for this research
As identified in table 6.9, the initial measurement model fit indices are poor. Thus the model needs to be altered and re-specified to improve these indices. Andersen et al (1988) propose that under acceptable conditions, deleting observed variables from the model improve overall model fit. By re-specifying the model, item deletion is the best way to achieve a better fitting model. Any changes in this iterative process result in improved model fit statistics. Therefore, CFA is applied to the initial measurement model using AMOS software in order for the initial model to be re-specified to improve the goodness of fit results.

### 6.5.3 Refining the model

Firstly, the standardised regression loadings for each of the items were examined. Secondly, extremely high modification indices were detected and the corresponding error terms were covaried (only if they were on the same factor). Finally, items were deleted if they contained abnormally high standardised residual covariances. Thus, twelve items were removed across the seven latent constructs resulting in refined model containing 34 items, as illustrated in table 6.10 below.
Table 6.10
Model refinement

<table>
<thead>
<tr>
<th>Latent construct</th>
<th>Items</th>
<th>Question wording</th>
<th>Initial model (46 items)</th>
<th>Refined model (34 items)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SYS_ID</td>
<td>T1</td>
<td>Managers in my franchise are warm and caring. They seek to develop franchisee’s full potential and act as their mentors or guides.</td>
<td>.865</td>
<td>.868</td>
</tr>
<tr>
<td></td>
<td>T2</td>
<td>The glue that holds my franchise together is loyalty and tradition. Commitment to this franchise runs high.</td>
<td>.741</td>
<td>.784</td>
</tr>
<tr>
<td></td>
<td>T3</td>
<td>My franchise emphasizes human resources. High cohesion and morale in the franchise are important.</td>
<td>.758</td>
<td>.795</td>
</tr>
<tr>
<td></td>
<td>T4</td>
<td>This franchise system distributes its rewards fairly equally among its members. It's important that everyone from top to bottom be treated as equally as possible.</td>
<td>.832</td>
<td></td>
</tr>
<tr>
<td>Sys1</td>
<td></td>
<td>One of the most exciting things for me is getting involved with things happening in this franchise.</td>
<td>.776</td>
<td></td>
</tr>
<tr>
<td>Sys2</td>
<td></td>
<td>Being a member of this franchise make me come 'alive'.</td>
<td>.870</td>
<td>.816</td>
</tr>
<tr>
<td>Sys3</td>
<td></td>
<td>Being a member of this franchise is exhilarating for me.</td>
<td>.789</td>
<td>.767</td>
</tr>
<tr>
<td>Sys4</td>
<td></td>
<td>I am highly engaged in this franchise.</td>
<td>.645</td>
<td></td>
</tr>
<tr>
<td>Conf1</td>
<td></td>
<td>I am confident that the organisation will maintain, or increase advertising expenditure</td>
<td>.823</td>
<td>.789</td>
</tr>
<tr>
<td>Conf2</td>
<td></td>
<td>I am confident in the organisation's ability to introduce future strategic initiatives</td>
<td>.903</td>
<td>.859</td>
</tr>
<tr>
<td>Conf3</td>
<td></td>
<td>I am confident in the system's ability to introduce new services or products in the future</td>
<td>.811</td>
<td>.798</td>
</tr>
<tr>
<td>Conf4</td>
<td></td>
<td>I am confident the organisation will maintain, or increase, re-investment in product development or service adaptation</td>
<td>.845</td>
<td></td>
</tr>
<tr>
<td>ZOR_COMP</td>
<td>Abil1</td>
<td>The franchisor is known to be successful at the things he or she tries to do</td>
<td>.678</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Abil2</td>
<td>The franchisor has much knowledge about the work that needs done</td>
<td>.855</td>
<td>.814</td>
</tr>
<tr>
<td></td>
<td>Abil3</td>
<td>I feel very confident about the franchisor's skills</td>
<td>.841</td>
<td>.804</td>
</tr>
<tr>
<td></td>
<td>Abil4</td>
<td>The franchisor has specialised capabilities that can increase our performance</td>
<td>.810</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ben1</td>
<td>My needs and desires are very important to the franchisor</td>
<td>.831</td>
<td>.839</td>
</tr>
<tr>
<td></td>
<td>Ben2</td>
<td>The franchisor would not knowingly do anything to hurt me</td>
<td>.858</td>
<td>.847</td>
</tr>
<tr>
<td></td>
<td>Ben3</td>
<td>The franchisor really looks out for what is important to me</td>
<td>.834</td>
<td>.841</td>
</tr>
<tr>
<td>ZOR_FAIR</td>
<td>Int1</td>
<td>The franchisor (CEO, founder, leader) has a strong sense of justice</td>
<td>.830</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Int2</td>
<td>I never have to wonder whether the franchisor will stick to their word</td>
<td>.547</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Int3</td>
<td>The franchisor tries hard to be fair in dealing with others</td>
<td>.908</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Prob1</td>
<td>The franchisor (CEO, founder, leader) doesn't hesitate to take care of any problems I might have</td>
<td>.880</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Prob2</td>
<td>The franchisor goes out of their way to solve my problems</td>
<td>.871</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Prob3</td>
<td>The franchisor is willing to bend company policies to help address my needs</td>
<td>.738</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Prob5</td>
<td>Problems are dealt with in a timely manner</td>
<td>.874</td>
<td></td>
</tr>
<tr>
<td>AUTO</td>
<td>Auto1</td>
<td>I organise my store as I see fit</td>
<td>.847</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Auto2</td>
<td>I set the work standards for my franchise</td>
<td>.805</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Auto3</td>
<td>I make most of the decisions that affect the way my franchise performs</td>
<td>.621</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Auto5</td>
<td>I determine my own operational routine</td>
<td>.845</td>
<td></td>
</tr>
<tr>
<td>PRESSURE</td>
<td>Press1</td>
<td>I have too much work and too little time to do it</td>
<td>.663</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Press3</td>
<td>I feel like I never have a day off</td>
<td>.763</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Press4</td>
<td>In this franchise, too many people get 'burned out' by the demands of the job</td>
<td>.631</td>
<td></td>
</tr>
<tr>
<td>TRUST</td>
<td>Rel1</td>
<td>Rely on his or her task related skills and abilities.</td>
<td>.792</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rel2</td>
<td>Depend on your franchisor to handle an important issue on your behalf.</td>
<td>.808</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rel3</td>
<td>Depend on him or her to back you up in difficult situations.</td>
<td>.914</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rel4</td>
<td>Rely on his or her work related judgements.</td>
<td>.806</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Disc1</td>
<td>Share your personal feelings with him or her.</td>
<td>.824</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Disc2</td>
<td>Discuss work-related problems or difficulties with your franchisor that could potentially be used to disadvantage you.</td>
<td>.768</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Disc3</td>
<td>Discuss how you honestly feel about your work, even negative feelings and frustration.</td>
<td>.850</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Disc4</td>
<td>Share your personal beliefs with him or her.</td>
<td>.817</td>
<td></td>
</tr>
<tr>
<td>PERFORM</td>
<td>Per1</td>
<td>Sales growth</td>
<td>.897</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Per2</td>
<td>Profit growth</td>
<td>.904</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Per3</td>
<td>Overall profitability</td>
<td>.890</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Per4</td>
<td>Labor productivity</td>
<td>.785</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Per5</td>
<td>Cash flow</td>
<td>.887</td>
<td></td>
</tr>
</tbody>
</table>
### Achieved fit indices

<table>
<thead>
<tr>
<th></th>
<th>Initial model (46 items)</th>
<th>Refined model (34 items)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CMIN/DF ((\chi^2/df))</strong></td>
<td>2.120 (6156/2904)</td>
<td>1.736 (868/500)</td>
</tr>
<tr>
<td><strong>RMSEA (Pclose)</strong></td>
<td>.052 (.038)</td>
<td>.060 (.010)</td>
</tr>
<tr>
<td><strong>RMSR</strong></td>
<td>.113</td>
<td>.076</td>
</tr>
<tr>
<td><strong>GFI</strong></td>
<td>.611</td>
<td>.806</td>
</tr>
<tr>
<td><strong>IFI</strong></td>
<td>.835</td>
<td>.943</td>
</tr>
<tr>
<td><strong>TLI</strong></td>
<td>.822</td>
<td>.935</td>
</tr>
<tr>
<td><strong>CFI</strong></td>
<td>.833</td>
<td>.942</td>
</tr>
<tr>
<td><strong>AGFI</strong></td>
<td>.566</td>
<td>.769</td>
</tr>
</tbody>
</table>

Source: developed for this research using AMOS software
Figure 6.3
Refined model (34 items)

Source: developed for this research
6.5.4 Overall measurement model fit

The initial measurement model (46 items) and the refined model (34 items) were compared with the latter showing considerable goodness of fit improvement to an acceptable level; except for the GFI and AGFI measures. However as suggested by Sharma, Mukherjee, Kumar, and Dillon (2005) GFI and AGFI measures are both overtly sensitive to small sample sizes and are thus not considered to be as robust as the other measures.

A stepwise process of deleting items that contributed most to lack of fit was conducted (Finn et al 2004) whereby twelve items were removed in the process of measurement refinement: four ‘system identification’ items, two ‘franchisor competence’ items, two ‘franchisor fairness’ items, one ‘autonomy’ item, two ‘trust’ items, and one ‘performance’ item. This modification resulted in a final model with 34 items representing seven latent variables. The fit statistics of the final model (34 items) are compared with the results of the initial model (46 items) in table 6.11 below. As displayed in the far right column, the measurement results indicate a model of acceptable fit, justifying the deletion of the twelve items.

<table>
<thead>
<tr>
<th>Achieved fit indices</th>
<th>Initial model (46 items)</th>
<th>Refined model (34 items)</th>
<th>Acceptable threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>CMIN/DF ($\chi^2$/df)</td>
<td>2.120 (6156/2904)</td>
<td>1.736 (868/500)</td>
<td>&lt;5</td>
</tr>
<tr>
<td>RMSEA (Pclose)</td>
<td>.052 (.038)</td>
<td>.060 (.010)</td>
<td>&lt;.1 (&gt; .05)</td>
</tr>
<tr>
<td>RMSR</td>
<td>.113</td>
<td>.076</td>
<td>&lt;.1 (&gt; .1)</td>
</tr>
<tr>
<td>GFI</td>
<td>.611</td>
<td>.806</td>
<td>&gt;.90</td>
</tr>
<tr>
<td>IFI</td>
<td>.835</td>
<td>.943</td>
<td>&gt;.90</td>
</tr>
<tr>
<td>TLI</td>
<td>.822</td>
<td>.935</td>
<td>&gt;.90</td>
</tr>
<tr>
<td>CFI</td>
<td>.833</td>
<td>.942</td>
<td>&gt;.90</td>
</tr>
<tr>
<td>AGFI</td>
<td>.566</td>
<td>.769</td>
<td>&gt;.80</td>
</tr>
</tbody>
</table>

Source: developed for this research using AMOS software
6.6 Testing for reliability and validity

It is important to ensure the quantitative measurements are reliable and valid. Reliability in quantitative research refers to the consistency of the scale used to measure the construct (Neuman, 2011) and validity in quantitative research refers to the soundness of the measurement. All of the seven latent constructs were found to be reliable measures as the composite reliability scores exceeded 0.7 (table 6.13).

There are two main types of construct validity: convergent and discriminant. Both types are necessary to support construct validity, in other words, the degree to which a construct accurately represents what it is meant to (Zhu, 2000; Hair et al. 2006). Table 6.12 shows the construct validity thresholds adopted in this research.

Table 6.12
Reliability, convergent validity, and discriminant validity thresholds

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Reliability</th>
<th>Convergent validity</th>
<th>Discriminant validity</th>
</tr>
</thead>
<tbody>
<tr>
<td>CR &gt; 0.7</td>
<td>AVE &gt; 0.5</td>
<td>MSV &lt; AVE</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>ASV &lt; AVE</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Square root of AVE greater than inter construct correlations</td>
<td></td>
</tr>
</tbody>
</table>

Source: adapted from Hair, Black, Babin, and Anderson (2006).

Convergent validity is achieved when the individual measures of a construct correlate positively with other measures of the same construct (Campbell and Fisk, 1959; Steenkamp et al., 1991). Fornell and Larcker (1981) suggest constructs should contain more than 50 percent common variance (table 6.12); thus the Average Variance Extracted (AVE) values are used to determine convergent validity whereby values should be greater than 0.5 (Hair et al., 2006). Table 6.13 shows the AVEs indicating that all constructs have convergent validity (AVEs > 0.5).
Table 6.13
Reliability and validity measures

<table>
<thead>
<tr>
<th></th>
<th>CR</th>
<th>AVE</th>
<th>MSV</th>
<th>ASV</th>
</tr>
</thead>
<tbody>
<tr>
<td>TRUST</td>
<td>0.934</td>
<td>0.702</td>
<td>0.729</td>
<td>0.514</td>
</tr>
<tr>
<td>SYSID</td>
<td>0.938</td>
<td>0.656</td>
<td>0.721</td>
<td>0.565</td>
</tr>
<tr>
<td>ZORCOMP</td>
<td>0.917</td>
<td>0.688</td>
<td>0.839</td>
<td>0.570</td>
</tr>
<tr>
<td>ZORFAIR</td>
<td>0.937</td>
<td>0.748</td>
<td>0.839</td>
<td>0.548</td>
</tr>
<tr>
<td>AUTO</td>
<td>0.844</td>
<td>0.644</td>
<td>0.465</td>
<td>0.403</td>
</tr>
<tr>
<td>PRESS</td>
<td>0.763</td>
<td>0.518</td>
<td>0.339</td>
<td>0.139</td>
</tr>
<tr>
<td>PERF</td>
<td>0.919</td>
<td>0.740</td>
<td>0.711</td>
<td>0.499</td>
</tr>
</tbody>
</table>

Notes: CR (composite reliability); AVE (average variance extracted); MSV (multiple squared variance); ASV (average squared variance)
Source: developed for this research using AMOS software

Table 6.14
Construct correlation matrix
(Note: Square root of the AVE displayed on the diagonal as bold values)

<table>
<thead>
<tr>
<th></th>
<th>TRUST</th>
<th>SYSID</th>
<th>ZORCOMP</th>
<th>ZORFAIR</th>
<th>AUTO</th>
<th>PRESS</th>
<th>PERF</th>
</tr>
</thead>
<tbody>
<tr>
<td>TRUST</td>
<td>0.838</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SYSID</td>
<td>0.825</td>
<td>0.810</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ZORCOMP</td>
<td>0.845</td>
<td>0.846</td>
<td>0.829</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ZORFAIR</td>
<td>0.854</td>
<td>0.849</td>
<td>0.916</td>
<td>0.865</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AUTO</td>
<td>0.632</td>
<td>0.674</td>
<td>0.649</td>
<td>0.584</td>
<td>0.802</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PRESS</td>
<td>0.309</td>
<td>0.331</td>
<td>0.322</td>
<td>0.242</td>
<td>0.582</td>
<td>0.720</td>
<td></td>
</tr>
<tr>
<td>PERF</td>
<td>0.681</td>
<td>0.843</td>
<td>0.792</td>
<td>0.775</td>
<td>0.682</td>
<td>0.359</td>
<td>0.860</td>
</tr>
</tbody>
</table>

Source: developed for this research using AMOS software

**Discriminant validity** is achieved when a measure does not correlate with other constructs from which it is supposed to differ; it is truly unique (Malhota, 2002). According to Hair et al (2006) there are three main discriminant validity checks (table 6.17). First, the maximum shared variance (MSV) value should be less than the AVEs. Four of the seven constructs fail this test (TRUST, SYSID, ZORCOMP, and ZORFAIR).

Therefore, the next test requires the average shared variance (ASV) to be less than the AVEs (Hair et al., 2010). All of the constructs meet this requirement as shown in table 6.13. Thus, supported by Hair et al (2010), the data achieved discriminant validity according to the ASV < AVE threshold rule (table 6.12).
6.7 Testing for common method bias

Another tool for ensuring the model is valid is the examination of **common method bias** (also known as common method variance: Podsakoff et al., 2003). This type of bias can occur in the data because of errors in how data is collected (that is, the method used) which is external to the measures used. For example, collecting data using a single method (in this case it was an online survey) may introduce a bias that inflates or deflates responses thus leading to both type I and type II errors (Podsakoff and Organ, 1986; Lindell and Whitney, 2001). Common method bias (CMB) may arise from a variety of method effects including response bias, acquiescence, social desirability, leniency, halo effects, or ‘yea and nay-saying’ (Bagozzi and Yi, 1991). The research method used to collect this data was an online survey instrument administered through a reputable market research firm, however data was collected from franchisees only. Thus, as franchisors were not included in this study, CMB could emerge as an alternative explanation for the empirical findings so a **marker variable test** was carried out.

Following Lindell and Whitney’s (2001) suggestions, I chose a marker variable (DISREG) that, (1) is theoretically unrelated to at least one of the other variables, and (2) it has high reliability (cronbach alpha = .78). The marker variable contained four items which measured the level of disregard franchisees had for their franchisor’s leadership and for the franchise system:

1. I find myself disagreeing with my franchisor over numerous aspects of their strategy.
2. It is very important for me to critically examine my franchisor’s strategy.
3. My mind often wonders and I think of other things when doing my job.
4. I am really not into the ‘goings-on’ in this franchise.

After adjusting the zero-order correlations according to Lindell and Whitney’s (2001) method, it was found that the correlations that originally achieved statistical significance remained significantly different from zero after correcting for CMB. Furthermore, the theoretically irrelevant predictor (DISREG) has a non-significant correlation with the criterion (table 6.15). Moreover, the correlations of the marker variable with other predictor variables are low, further supporting the discriminant validity of the marker variable. Thus, the results of the marker variable test allow the elimination of CMB as an alternative explanation of the findings.
Table 6.15
Correlation matrix with marker variable in bold
(values on the diagonal are cronbach alpha reliability values)

<table>
<thead>
<tr>
<th></th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
<th>(7)</th>
<th>(8)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) ZOR_COMP</td>
<td>.92</td>
<td>.794**</td>
<td>.820**</td>
<td>.601**</td>
<td>.264**</td>
<td>-.234</td>
<td>.795**</td>
<td>.744**</td>
</tr>
<tr>
<td>(2) SYS_ID</td>
<td>.94</td>
<td>.788**</td>
<td>.788**</td>
<td>.639**</td>
<td>.316**</td>
<td>-.093</td>
<td>.781**</td>
<td>.796**</td>
</tr>
<tr>
<td>(3) ZOR_FAIR</td>
<td>.94</td>
<td>.94</td>
<td>.94</td>
<td>.527**</td>
<td>.245**</td>
<td>-.130</td>
<td>.801**</td>
<td>.738**</td>
</tr>
<tr>
<td>(4) AUTO</td>
<td>.84</td>
<td>.84</td>
<td>.84</td>
<td>.84</td>
<td>.456**</td>
<td>-.101</td>
<td>.587**</td>
<td>.597**</td>
</tr>
<tr>
<td>(5) PRESS</td>
<td>.76</td>
<td>.76</td>
<td>.76</td>
<td>.76</td>
<td>.76</td>
<td>-.201</td>
<td>.263**</td>
<td>.308**</td>
</tr>
<tr>
<td>(6) DISREG(MV)</td>
<td>.78</td>
<td>.78</td>
<td>.78</td>
<td>.78</td>
<td>.78</td>
<td>-.269</td>
<td>.93</td>
<td>-.144</td>
</tr>
<tr>
<td>(7) TRUST</td>
<td>.92</td>
<td>.92</td>
<td>.92</td>
<td>.92</td>
<td>.92</td>
<td>.92</td>
<td>.92</td>
<td>.92</td>
</tr>
</tbody>
</table>

Notes: ** p < 0.01 (2-tailed)

n = 209

Source: developed for this research
6.8 Multivariate assumptions – testing for linearity and multicollinearity

Before the model is tested, the data is tested for linearity and multicollinearity assumptions using composite constructs imputed using AMOS software. According to Hair et al (2010), *linearity* refers to the patterns of relationships between each construct whereby analysis is performed to identify any nonlinear relationships. The first relationship tested for linearity was trust $\rightarrow$ performance; the linear F value was the highest (152.9) compared to all other equations indicating strong and significant ($p > .000$) support for linearity. As an example, table 6.16 and figure 6.4 below, show the output from SPSS of the linearity tests for trust $\rightarrow$ performance.

<table>
<thead>
<tr>
<th>Equation</th>
<th>Model Summary</th>
<th>Parameter Estimates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R Square</td>
<td>F</td>
</tr>
<tr>
<td>Linear</td>
<td>.425</td>
<td>152.871</td>
</tr>
<tr>
<td>Logarithmic</td>
<td>.403</td>
<td>139.598</td>
</tr>
<tr>
<td>Inverse</td>
<td>.310</td>
<td>93.054</td>
</tr>
<tr>
<td>Quadratic</td>
<td>.425</td>
<td>76.077</td>
</tr>
<tr>
<td>Cubic</td>
<td>.427</td>
<td>51.025</td>
</tr>
<tr>
<td>Power</td>
<td>.396</td>
<td>135.986</td>
</tr>
<tr>
<td>S</td>
<td>.357</td>
<td>115.021</td>
</tr>
<tr>
<td>Growth</td>
<td>.369</td>
<td>121.093</td>
</tr>
<tr>
<td>Exponential</td>
<td>.369</td>
<td>121.093</td>
</tr>
<tr>
<td>Logistic</td>
<td>.369</td>
<td>121.093</td>
</tr>
</tbody>
</table>

Notes: the independent variable is TRUST_IN_ZOR.
Source: developed for this research from SPSS
Figure 6.4
Graph depicting curve estimation representations for trust (IV) and performance (DV)

Source: developed from SPSS software for the purpose of this research

Not all graphs and tables are shown for each path, however a summary of the linearity tests for all the relationships is displayed in Table 6.17 below. It was determined that all paths were found to be sufficiently – and significantly – linear to be tested using a covariance based structural equation modeling algorithm (as used in AMOS).

Table 6.17
Multivariate assumptions: linearity

<table>
<thead>
<tr>
<th>Linear path</th>
<th>R square</th>
<th>F</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust → Performance</td>
<td>.425</td>
<td>152.9</td>
<td>.000</td>
</tr>
<tr>
<td>Sys_ID → Trust</td>
<td>.61</td>
<td>323.4</td>
<td>.000</td>
</tr>
<tr>
<td>Zor_Comp → Trust</td>
<td>.632</td>
<td>355.3</td>
<td>.000</td>
</tr>
<tr>
<td>Zor_Fair → Trust</td>
<td>.641</td>
<td>370.4</td>
<td>.000</td>
</tr>
<tr>
<td>Autonomy → Trust</td>
<td>.345</td>
<td>108.8</td>
<td>.000</td>
</tr>
<tr>
<td>Pressure → Trust</td>
<td>.069</td>
<td>15.4</td>
<td>.000</td>
</tr>
</tbody>
</table>

Source: developed from SPSS software for the purpose of this research
Multicollinearity tests were conducted to identify whether the independent variables had high multicollinearity. Multicollinearity is only an issue when two or more IVs are strongly correlated (Stewart and Gill, 1998; Curto et al., 2007). The collinearity statistics reveal acceptable variance inflation factor (VIF) values (below 5) as shown in the far right column of table 6.18 below.

Table 6.18
Collinearity statistics

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
</tr>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>.191</td>
<td>.242</td>
<td>.789</td>
</tr>
<tr>
<td>SYS_ID</td>
<td>.244</td>
<td>.071</td>
<td>.238</td>
</tr>
<tr>
<td>ZOR_COMP</td>
<td>.275</td>
<td>.074</td>
<td>.267</td>
</tr>
<tr>
<td>ZOR_FAIRNESS</td>
<td>.340</td>
<td>.068</td>
<td>.346</td>
</tr>
<tr>
<td>AUTONOMY</td>
<td>.106</td>
<td>.056</td>
<td>.098</td>
</tr>
<tr>
<td>PRESSURE</td>
<td>-.013</td>
<td>.043</td>
<td>-.012</td>
</tr>
</tbody>
</table>

Notes: dependent Variable: TRUST_IN_ZOR
Source: developed for this research using SPSS
6.9 Testing the hypothesised relationships in the proposed model

The proposed model strives to identify reliable and valid predictors of franchisee trust and the influence trust has on franchisee performance. The theoretical model is shown in figure 6.5 with the following hypothesised relationships:

- **H₁**: The franchisee’s identification with the system is positively related to the trust in their franchisor.
- **H₂**: The franchisee’s perception of franchisor competence is positively related to the trust in their franchisor.
- **H₃**: The franchisee’s perception of franchisor fairness is positively related to the trust in their franchisor.
- **H₄**: Franchisee autonomy is positively related to the trust in their franchisor.
- **H₅**: Franchisee pressure is negatively related to the trust in their franchisor.
- **H₆**: The franchisee’s trust in their franchisor is positively related to performance.

**Figure 6.5**

*Proposed model with hypothesised relationships*

Source: developed for this research
6.9.1 Examination of fit indices of the proposed model

The objective of this stage of the analysis is to achieve a robust fit between the data (34 measurement items) and the theoretical model, thus all possible exogenous latent variables were allowed to covary in the proposed structural model (Kline, 2005). Thus the full SEM model (with all the indicators) was tested and the goodness of fit results are presented in table 6.19. The model achieves the acceptable thresholds for five of the eight goodness-of-fit measures: CMIN/DF, RMSEA, IFI, TLI and CFI.

### Table 6.19

Proposed structural model: SEM output, fit indices and desired level of fit

<table>
<thead>
<tr>
<th>Achieved fit indices</th>
<th>Proposed structural model (34 items measuring 7 constructs)</th>
<th>Acceptable threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>CMIN/DF ($\chi^2$/df)</td>
<td>1.918 (968/505)</td>
<td>&lt;5</td>
</tr>
<tr>
<td>RMSEA (Pclose)</td>
<td>.066 (.000)</td>
<td>&lt;.1 (&gt; .05)</td>
</tr>
<tr>
<td>RMSR</td>
<td>.115</td>
<td>&lt;.1 (&gt; .1)</td>
</tr>
<tr>
<td>AGFI</td>
<td>.788&lt;sup&gt;**&lt;/sup&gt;</td>
<td>&gt;.90</td>
</tr>
<tr>
<td>IFI</td>
<td>.928</td>
<td>&gt;.90</td>
</tr>
<tr>
<td>TLI</td>
<td>.919</td>
<td>&gt;.90</td>
</tr>
<tr>
<td>CFI</td>
<td>.927</td>
<td>&gt;.90</td>
</tr>
<tr>
<td>AGFI</td>
<td>.751&lt;sup&gt;***&lt;/sup&gt;</td>
<td>&gt;.80</td>
</tr>
</tbody>
</table>

Source: developed for this research using AMOS software

Notes: # The RMSR value is above the threshold value of .1; however other authors have reported models with RMSR values exceeding the threshold: (1) RMSR = .132 in Mamalis, Ness, and Bourlakis (2006); (2) RMSR = .105 in Chen and Huang (2012).

### Table 6.19

Proposed structural model: SEM output, fit indices and desired level of fit

The GFI and AGFI values were low (.788 and .751, respectively) and therefore did not meet the threshold. Thus, I investigated this further by inputting the correlation matrix directly into AMOS (using a .txt file as shown in figure 6.6) and setting the sample size at n=100, n=500, and n=1000, respectively in order to test for sample size effect. The GFI and AGFI values remained static throughout the procedure (although the other indices changed). This suggests that sample size effect is not the reason for these low values, however, as Sharma, Mukherkee, Kumar and Dillon (2005) suggest, the GFI and AGFI are no longer considered to be the most reliable goodness of fit indices, yet in order to ensure robustness and transparency I have included them in this analysis.
6.9.2 Testing the model

Analysis shows support for five of the six hypothesised relationships. The PRESSURE → TRUST path was not significant (H5), possibly due to the personal nature of the questions about how much pressure the franchisees were under. Perhaps they were unwilling to admit they were under performing in a stressful state. Further discussion of this finding is included in the discussion section in the final chapter. However, support was found for H1, H2, H3, H4, and H6 as shown in the table and figure below. The estimated standardised regression coefficients are shown in figure 6.7 with the significant and non-significant paths illustrated with straight and broken lines respectively.
Figure 6.7
Tested proposed structural model with standardised regression coefficients

Source: developed for this research

Table 6.20
SEM output for the hypothesised path relationships

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>Paths</th>
<th>SEM output</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Standard-</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>ardised (β)</td>
<td>S.E.</td>
</tr>
<tr>
<td><strong>H</strong>: The franchisee’s identification with the system is positively related to the trust in their franchisor.</td>
<td>SYS_ID → TRUST</td>
<td>.282</td>
<td>.09</td>
</tr>
<tr>
<td><strong>H</strong>: The franchisee’s perception of franchisor competence is positively related to the trust in their franchisor.</td>
<td>ZOR_COMP → TRUST</td>
<td>.205</td>
<td>.15</td>
</tr>
<tr>
<td><strong>H</strong>: The franchisee’s perception of franchisor fairness is positively related to the trust in their franchisor.</td>
<td>ZOR_FAIR → TRUST</td>
<td>.387</td>
<td>.13</td>
</tr>
<tr>
<td><strong>H</strong>: Franchisee autonomy is positively related to the trust in their franchisor.</td>
<td>AUTO → TRUST</td>
<td>.108</td>
<td>.08</td>
</tr>
<tr>
<td><strong>H</strong>: Franchisee pressure is negatively related to the trust in their franchisor.</td>
<td>PRESS → TRUST</td>
<td>.011</td>
<td>.06</td>
</tr>
<tr>
<td><strong>H</strong>: The franchisee’s trust in their franchisor is positively related to performance.</td>
<td>TRUST → PERF</td>
<td>.751</td>
<td>.07</td>
</tr>
</tbody>
</table>

Notes: results supported at significance level: p ≤ .001, p ≤ .05, and p ≤ .1
6.10 Testing for multi-group moderation (3 groups)

Three multi-group moderators were identified from phase 2 of the research: 1) The existence of a Franchisee Advisory Council (FAC), 2) Franchisee participation in the FAC, and finally 3) Whether they were single-unit or multi-unit operators. These issues were identified as having potential impact on levels of trust within the franchising relationship thus they will be applied to the theoretical model.

There are two ways to determine the significance of multi-group moderation. The more complicated method is to compare the Chi-square differences on each path, before and after constraining the path. However, the more parsimonious method is to examine the critical ratios (z-score) for the significance of the difference between each of the paths across multiple groups (Gaskin, 2014). The three group moderators applied in this research are:

1) The presence of a Franchisee Advisory Council (FAC) within the franchise system ($n = 112$) compared with those franchise systems without an FAC ($n = 97$).
2) Franchisee participation in the FAC ($n = 72$) compared with those who do not participate in the FAC ($n = 40$).
3) Single-unit operators ($n = 123$) compared with franchisee’s who own multiple units ($n = 86$).

The results are displayed in the tables and figures below. No support was found for the first group moderator, thus the presence of an FAC does not moderate the hypothesised paths. However, significance was found for the remaining two group moderators, albeit only for the TRUST $\rightarrow$ PERFORMANCE path. Thus, only H18 and H24 were supported by the data indicating that franchisees who participate in the FAC and ownership of multiple-units amplifies the positive relationship between trust and performance.
Table 6.21
Supported hypothesised paths with the multi-group moderator effects

<table>
<thead>
<tr>
<th>Multi-group moderator</th>
<th>Supported Hypotheses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participation in FAC</td>
<td>H18: Franchisee participation in the FAC strengthens the positive relationship between the franchisee’s trust in their franchisor and performance.</td>
</tr>
<tr>
<td>Number of units owned</td>
<td>H23: Multi-unit ownership strengthens the positive relationship between the franchisee’s trust in their franchisor and performance</td>
</tr>
</tbody>
</table>

Source: developed for this research

Figure 6.8
Multi-group moderators within the proposed model

Source: developed for this research
Table 6.22
Multi-group moderator comparison for the first moderator: presence of a FAC

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>Path</th>
<th>Group: FAC yes (n = 112)</th>
<th>Group: FAC no (n = 97)</th>
<th>Comparison</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Estimate</td>
<td>P</td>
<td>Estimate</td>
</tr>
<tr>
<td>H&lt;sub&gt;7&lt;/sub&gt;: The existence of an FAC strengthens the positive relationship between the franchisee’s identification with the system and trust in their franchisor.</td>
<td>SYS_ID → TRUST</td>
<td>0.068</td>
<td>0.876</td>
<td>0.269</td>
</tr>
<tr>
<td>H&lt;sub&gt;8&lt;/sub&gt;: The existence of an FAC strengthens the positive relationship between the franchisee’s perception of franchisor competence and trust in their franchisor.</td>
<td>ZORCOM → TRUST</td>
<td>0.023</td>
<td>0.957</td>
<td>0.243</td>
</tr>
<tr>
<td>H&lt;sub&gt;9&lt;/sub&gt;: The existence of an FAC strengthens the positive relationship between the franchisee’s perception of franchisor fairness and trust in their franchisor.</td>
<td>ZORFAIR → TRUST</td>
<td>0.563</td>
<td>0.247</td>
<td>0.331</td>
</tr>
<tr>
<td>H&lt;sub&gt;10&lt;/sub&gt;: The existence of an FAC strengthens the positive relationship between franchisee autonomy and trust in their franchisor.</td>
<td>AUTO → TRUST</td>
<td>0.361</td>
<td>0.413</td>
<td>0.088</td>
</tr>
<tr>
<td>H&lt;sub&gt;11&lt;/sub&gt;: The existence of an FAC weakens the negative relationship between franchisee pressure and trust in their franchisor.</td>
<td>PRESS → TRUST</td>
<td>0.017</td>
<td>0.823</td>
<td>-0.002</td>
</tr>
<tr>
<td>H&lt;sub&gt;12&lt;/sub&gt;: The existence of an FAC strengthens the positive relationship between the franchisee’s trust in their franchisor and performance.</td>
<td>TRUST → PERFOR</td>
<td>0.770</td>
<td>0.000</td>
<td>0.796</td>
</tr>
</tbody>
</table>

Notes: results supported at significance level: ***p ≤ .001, **p ≤ .05, and *p ≤ .1
Table 6.23
Multi-group moderator comparison for the second moderator:
franchisee participation in the FAC

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>Path</th>
<th>Group: Participate FAC yes (n = 72)</th>
<th>Group: Participate FAC no (n = 40)</th>
<th>Comparison</th>
</tr>
</thead>
<tbody>
<tr>
<td>H13: Franchisee participation in the FAC strengthens the positive relationship between the franchisee’s identification with the system and trust in their franchisor.</td>
<td>SYS_ID → TRUST</td>
<td>0.104 0.726</td>
<td>0.153 0.359</td>
<td>0.145</td>
</tr>
<tr>
<td>H14: Franchisee participation in the FAC strengthens the positive relationship between the franchisee’s perception of franchisor competence and trust in their franchisor.</td>
<td>ZORCOM ⇒ TRUST</td>
<td>0.012 0.936</td>
<td>0.259 0.586</td>
<td>0.497</td>
</tr>
<tr>
<td>H15: Franchisee participation in the FAC strengthens the positive relationship between the franchisee’s perception of franchisor fairness and trust in their franchisor.</td>
<td>ZORFAIR ⇒ TRUST</td>
<td>0.642 0.002</td>
<td>0.169 0.662</td>
<td>-1.087</td>
</tr>
<tr>
<td>H16: Franchisee participation in the FAC strengthens the positive relationship between franchisee autonomy and trust in their franchisor.</td>
<td>AUTO ⇒ TRUST</td>
<td>0.290 0.241</td>
<td>0.386 0.007</td>
<td>0.337</td>
</tr>
<tr>
<td>H17: Franchisee participation in the FAC weakens the negative relationship between franchisee pressure and trust in their franchisor.</td>
<td>PRESS ⇒ TRUST</td>
<td>-0.148 0.096</td>
<td>-0.068 0.683</td>
<td>0.428</td>
</tr>
<tr>
<td>H18: Franchisee participation in the FAC strengthens the positive relationship between the franchisee's trust in their franchisor and performance.</td>
<td>TRUST ⇒ PERFOR</td>
<td>0.874 ***</td>
<td>0.470 .004**</td>
<td>-2.013**</td>
</tr>
</tbody>
</table>

Notes: results supported at significance level: ***p ≤ .001, **p ≤ .05, and *p ≤ .1
<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>Path</th>
<th>Group: Single ( (n = 123) )</th>
<th>Group: Multi ( (n = 86) )</th>
<th>Comparison</th>
</tr>
</thead>
<tbody>
<tr>
<td>( H_{19} ): Multi-unit ownership strengthens the positive relationship between the franchisee's identification with the system and trust in their franchisor.</td>
<td>SYS_ID ( \rightarrow ) TRUST</td>
<td>0.167 0.107</td>
<td>0.665 0.137</td>
<td>1.083</td>
</tr>
<tr>
<td>( H_{20} ): Multi-unit ownership strengthens the positive relationship between the franchisee's perception of franchisor competence and trust in their franchisor.</td>
<td>ZORCOM ( \rightarrow ) TRUST</td>
<td>0.346 0.131</td>
<td>0.281 0.316</td>
<td>-0.180</td>
</tr>
<tr>
<td>( H_{21} ): Multi-unit ownership strengthens the positive relationship between the franchisee's perception of franchisor fairness and trust in their franchisor.</td>
<td>ZORFAIR ( \rightarrow ) TRUST</td>
<td>0.435 0.045</td>
<td>0.181 0.320</td>
<td>-0.898</td>
</tr>
<tr>
<td>( H_{22} ): Multi-unit ownership strengthens the positive relationship between franchisee autonomy and trust in their franchisor.</td>
<td>AUTO ( \rightarrow ) TRUST</td>
<td>0.121 0.144</td>
<td>-0.574 0.257</td>
<td>-1.353</td>
</tr>
<tr>
<td>( H_{23} ): Multi-unit ownership weakens the negative relationship between franchisee pressure and trust in their franchisor.</td>
<td>PRESS ( \rightarrow ) TRUST</td>
<td>0.022 0.791</td>
<td>0.327 0.454</td>
<td>0.686</td>
</tr>
<tr>
<td>( H_{24} ): Multi-unit ownership strengthens the positive relationship between the franchisee's trust in their franchisor and performance.</td>
<td>TRUST ( \rightarrow ) PERFOR</td>
<td>0.646 ***</td>
<td>0.986 ***</td>
<td>2.165**</td>
</tr>
</tbody>
</table>

Notes: results supported at significance level: ***\( p \leq .001 \), **\( p \leq .05 \), and *\( p \leq .1 \)
6.11 Conclusion

This chapter focused on the systematic procedure undertaken to test the proposed model with the goal of producing an ‘objective’ understanding (Neuman, 2011) of the predictors of franchisee trust and how it influences franchisee performance. The data used in the analysis was gathered from an online survey targeted specifically at franchisees operating in the retail sector. The respondents were mostly male (60%) compared to female franchisees (40%) and the median age category was 31 – 40 years old. The majority of franchisees were single unit operators (59%). Franchisees recorded their opinions by completing an online survey with a 7-point Likert scale used to record the data numerically. The systematic analysis procedure involved 10 steps:

1. Cleaned the data
2. Conducted preliminary analyses
3. Exploratory factor analysis (EFA)
4. Descriptive statistics
5. Confirmatory factor analysis (CFA)
6. Testing for construct reliability and validity
7. Testing for common method bias
8. Multivariate assumptions – testing for linearity and multicollinearity
9. Testing the hypothesised relationships in the proposed model
10. Testing for multi-group moderation (3 groups)

An initial measurement model of 46 items (figure 6.2) was found to have a poor level of fit. Thus, CFA analysis contributed to the removal of twelve items: four ‘system identification’ items, two ‘franchisor competence’ items, two ‘franchisor fairness’ items, one ‘autonomy’ item, two ‘trust’ items, one ‘performance’ item. This resulted in a final model with 34 items representing seven latent variables (figure 6.3). The final measurement model was then tested to confirm the proposed hypotheses. However, as SEM analysis is largely based on formulating equations for linear relationships, the constructs were examined for linearity and multicollinearity assumption. It was determined that all paths were found to be sufficiently – and significantly – linear to be tested using a covariance based structural equation modeling algorithm (as used in AMOS).
A measurement model provided an initial confirmatory assessment of convergent validity and discriminant validity (Campbell, 1960) of the constructs. Cronbach alpha values and confirmatory factor analysis (CFA) examine the internal reliability and validity of the constructs. The composite reliability scores all exceeded the .7 threshold (table 6.19) thus the constructs were found to be reliable. Convergent validity was achieved, all the AVE values exceeded .50 (Hair et al., 2006) and discriminant validity was achieved using the ASV < AVE threshold rule (Hair et al., 2010).

Twenty-four hypotheses were developed and tested using SEM outputs. The results show support for seven of the hypotheses. A summary of the hypotheses is illustrated in table 6.25, and a comprehensive discussion of the hypotheses – as well as a discussion of the wider implications this model has on theory, and the franchising sector – is included in the following chapter.
<table>
<thead>
<tr>
<th>HYPOTHESES</th>
<th>RESULTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1: The franchisee’s identification with the system is positively related to the trust in their franchisor.</td>
<td>SUPPORTED</td>
</tr>
<tr>
<td>H2: The franchisee’s perception of franchisor competence is positively related to the trust in their franchisor.</td>
<td>SUPPORTED</td>
</tr>
<tr>
<td>H3: The franchisee’s perception of franchisor fairness is positively related to the trust in their franchisor.</td>
<td>SUPPORTED</td>
</tr>
<tr>
<td>H4: Franchisee autonomy is positively related to the trust in their franchisor.</td>
<td>SUPPORTED</td>
</tr>
<tr>
<td>H5: Franchise pressure is negatively related to the trust in their franchisor.</td>
<td>Not supported</td>
</tr>
<tr>
<td>H6: The franchisee’s trust in their franchisor is positively related to performance.</td>
<td>SUPPORTED</td>
</tr>
</tbody>
</table>

**MEDITATED FOR THE PRESENCE OF AN FAC IN THE FRANCHISE SYSTEM**

| H1: The existence of an FAC strengthens the positive relationship between the franchisee’s identification with the system and trust in their franchisor. | Not supported |
| H2: The existence of an FAC strengthens the positive relationship between the franchisee’s perception of franchisor competence and trust in their franchisor. | Not supported |
| H3: The existence of an FAC strengthens the positive relationship between the franchisee’s perception of franchisor fairness and trust in their franchisor. | Not supported |
| H4: The existence of an FAC strengthens the positive relationship between franchisee autonomy and trust in their franchisor. | Not supported |
| H5: The existence of an FAC weakens the negative relationship between franchisee pressure and trust in their franchisor. | Not supported |
| H6: The existence of an FAC strengthens the positive relationship between the franchisee’s trust in their franchisor and performance. | Not supported |

**MEDITATED FOR FRANCHISEE PARTICIPATION IN THE FAC**

| H1: Franchisee participation in the FAC strengthens the positive relationship between the franchisee’s identification with the system and trust in their franchisor. | Not supported |
| H2: Franchisee participation in the FAC strengthens the positive relationship between the franchisee’s perception of franchisor competence and trust in their franchisor. | Not supported |
| H3: Franchisee participation in the FAC strengthens the positive relationship between the franchisee’s perception of franchisor fairness and trust in their franchisor. | Not supported |
| H4: Franchisee participation in the FAC strengthens the positive relationship between franchisee autonomy and trust in their franchisor. | Not supported |
| H5: Franchisee participation in the FAC weakens the negative relationship between franchisee pressure and trust in their franchisor. | Not supported |
| H6: Franchisee participation in the FAC strengthens the positive relationship between the franchisee’s trust in their franchisor and performance. | SUPPORTED     |

**MEDITATED FOR MULTI-UNIT OWNERSHIP**

| H1: Multi-unit ownership strengthens the positive relationship between the franchisee’s identification with the system and trust in their franchisor. | Not supported |
| H2: Multi-unit ownership strengthens the positive relationship between the franchisee’s perception of franchisor competence and trust in their franchisor. | Not supported |
| H3: Multi-unit ownership strengthens the positive relationship between the franchisee’s perception of franchisor fairness and trust in their franchisor. | Not supported |
| H4: Multi-unit ownership strengthens the positive relationship between franchisee autonomy and trust in their franchisor. | Not supported |
| H5: Multi-unit ownership weakens the negative relationship between franchisee pressure and trust in their franchisor. | Not supported |
| H6: Multi-unit ownership strengthens the positive relationship between the franchisee’s trust in their franchisor and performance. | SUPPORTED     |

Source: developed for this research
Chapter 7 – Conclusion

7.0 Introduction
The concluding chapter begins with a discussion of the six hypotheses tested in phase three of the research. CFA and SEM analysis provided support for all six with the most interesting finding concerned with franchisor trustworthiness and its influence on franchisee trust. Franchisor character was found to have a greater influence on franchisee trust (hypothesis six: section 7.1.6), compared to franchisor competence (hypothesis five: section 7.1.5). Furthermore, a major goal of this research was to provide practical tools useful to franchising practitioners. Thus, based on the results from phase two, the practical implications are discussed in section 7.2. First, four tools for building franchisee trust are discussed (section 7.2.1): the nature of the support structure, the enforcing of consistent standards, fair sharing of the profits, and franchisee attendance at the national conference.

The necessity of franchisor trustworthiness was a consistent theme throughout this dissertation, thus six traits of a trustworthy franchisor are identified and discussed in section 7.2.2: (1) they say – and show – that integrity is an important value within the franchise system, (2) they prove their ability, expertise, and skills in leading the franchise, (3) they are willing to take the blame and admit they made a mistake, (4) they do their best to ensure conflict is constructive instead of destructive, (5) they ensure the psychological climate reflects recognition, innovation, and fairness, and (6) they demonstrate that they care for their franchisees. Each of these traits is discussed below. Finally, section 7.2 concludes with a note on good faith and its benefits. This discussion is both timely and relevant because the new Australian Franchising Code of Conduct – applicable from the 1st January 2015 – introduces an obligation for franchisees and franchisors to act in good faith.

The theoretical implications of this research are discussed in section 7.3. The research provides a possible solution to the agency problem: increase franchisee trust. Furthermore, another major theoretical implication of this research is the need to view the interpersonal dynamics between the franchisee and the franchisor, as opposed to merely treating the firm as a nexus of contracts (Jensen and Meckling, 1976). The wider implications of this research are then examined in section 7.4 with a framework for building franchisee trust shown in section 7.4.5.

Finally, the limitations of this research as well as future research directions, are identified in sections 7.5 and sections 7.6, respectively. The chapter concludes with a
summary of the four central research questions with the answers. New knowledge has been created in this research specific to the franchising domain of research and the specifics of this original contribution are discussed in section 7.7. The structure of this chapter is illustrated in figure 7.1.
7.1 Discussion of the hypotheses

7.1.1 Discussion of hypothesis one: system identification and franchisee trust
Support was found for a positive relationship between system identification and franchisee trust (+.28). Thus, franchisees who feel engaged in the conduct of the franchise system are also likely to trust their franchisor. The three major components of system identification are: team culture, franchisee engagement, and franchisee confidence. The implications of this finding are far reaching because the franchisor not only sets the tone of the culture within the franchise system, but is also responsible for keeping franchisees engaged. As one franchisor said in the first phase of the research, franchisees can “fall through the cracks…it’s a big danger because if they become disenfranchised then it’s very hard to get them back.” If the goal of a franchisor is the development of a strong system identification, emphasis should be placed on developing a strong team culture, improving franchisee engagement, and maintaining franchisee confidence. If franchisees do not identify with the system, they are more likely to consider themselves “independent business owners” as opposed to the perception of belonging to a wider and mutually supportive franchise group. Thus, it is imperative that the franchisor focuses on cultivating unity among the people within any franchise system.

As Croonen et al. (2013) suggest, franchisees place great emphasis on trust in the organisation’s systems and procedures and, as the franchisor is largely responsible for the development of these procedures, the franchisee is expected to place their confidence in them. The franchisee is also required to have confidence in the members of the franchisor’s team (such as area managers, marketing managers, administrative staff) who are responsible for implementing the franchise’s systems and procedures. Thus, high levels of system identification are positively related to franchisee trust.

7.1.2 Discussion of hypothesis two: franchisor competence and franchisee trust
Support was found for hypothesis two: the franchisee’s perception of franchisor competence is positively related to the trust in their franchisor (+.21). A franchisor who exhibits high standards of performance in leading the franchise system will continue to reinforce the franchisee’s perception of their competence. However, if for example the franchisor begins to hire the “wrong people” to represent the head office, franchisees
may feel less confident in their competence. The decisions the franchisor makes will continue to have a large impact on the franchisee’s perceptions of their competence throughout the life of the relationship, and thus the level of trust. The implications of this finding suggest the importance of competence among the franchisor’s team, including the competence of the franchisor as the leader of the organisation. However, the competence of the franchisor is not the only consideration made by franchisees; they are also concerned with the fairness of their leader.

7.1.3 Discussion of hypothesis three: franchisor fairness and franchisee trust

A franchisor who exhibits qualities of integrity and constructive problem-solving skills is positively related to franchisee trust (+.39). Franchisees who believe that their franchisor maintains fairness standards across the entire system are more likely to trust them. This finding is supported by the findings from phase one of the research whereby one franchising consultant said, "when the franchisor shows behaviour that puts a doubt in the mind of the franchisee that, 'I can't trust this person, or these people don't care about me,' that tears the fabric of the relationship." Thus, of great importance to the trust between the franchisee and the franchisor is the presence of franchisor fairness.

Furthermore, the perception of whether their franchisor is honest and genuinely has their best interests at heart is important to a franchisee. This finding is supported by many of the interviewees from the qualitative phase of the research: One franchisor said:

I think there is an obligation on franchisors to be absolutely honest with the financial forecasts prior to signing up a franchisee. We tell franchisees to talk to as many franchisees as they can in the same system. But most importantly try and find some that have left, that’s where you get the real truth.

This upfront honesty will have a large impact on the perception that the franchisor acts with integrity. Furthermore, one franchisee said, “one of the key factors is that the franchisor is approachable” (A7). Another franchisee described the importance of how the franchisor interacted with their franchisees: “it’s the personal touch that makes a lot of difference” (A3). One of the franchising experts strongly believed in the operational benevolence of the franchisor, suggesting that it is “critical to the trust, if you [the franchisor] don’t sincerely care for them and how they [the franchisees] succeed in
the business, then trust is never going to happen.” Furthermore, “one of the keys to building trust is to demonstrate genuine care” (franchising consultant). Furthermore, one of the measurement items which scored a high standardised regression weight was worded as, ‘the franchisor (CEO, founder, leader) doesn't hesitate to take care of any problems I might have’ (Probsolv1). Perhaps more emphasis and a greater allocation of resources should be devoted on behalf of the franchisor to ensure their franchisees feel they are receiving the support they deserve. This situation may be compounded when franchisees are paying a royalty fee (or service fee) to their franchisor, but not receiving appropriate remuneration in the form of franchisor support. Franchisees equate fairness to trust in their franchising relationship; yet they may still desire a level of autonomy.

7.1.4 Discussion of hypothesis four: autonomy and franchisee trust
Support was found for hypothesis four: franchisee autonomy is positively related to the trust in their franchisor (+.11). Although the standardised beta score was relatively low compared to the other scores, it was supported, suggesting that franchisees do associate autonomy to franchisee trust. If they have some certainty and control over their own store, this may empower franchisees to then place trust in their franchisor. In other words, if the franchisor is willing to trust the franchisee to: (1) organise their store as they see fit, (2) set their own work standards, and (3) determine their own operational routine, this will in turn empower the franchise to trust the franchisor to lead the organisation. In phase one of this research, one franchising consultant referred to this as the “owner’s eye” whereby if the franchisee was empowered to be an autonomous business owner, they were more likely to take ownership of the operation and pick up on the small inconsistencies that might creep into the operation. For example, a franchisee with an “owner’s eye” would notice an un-cleaned store front window, or a messy area. They would feel empowered to fix the problem because of their autonomy and thus are more likely to trust the franchisor in their decision making.

7.1.5 Discussion of hypothesis five: pressure and franchisee trust
Hypothesis five was not supported. A reason for this may be due to the personal nature of the question items. They required self-reflection and honesty and perhaps the franchisees suffered the effects of acquiescence and social desirability (Bagozzi and Yi, 1991). Especially if admitting they were under pressure could be viewed as them being
unsuccessful. As business owners it may be too embarrassing to admit they were under pressure. Perhaps future research could investigate this connection more subtly and determine if there is a significant relationship between the two constructs.

7.1.6 Discussion of hypothesis six: franchisee trust and performance

Strong support was found for hypothesis six: the franchisee’s trust in their franchisor is positively related to performance (+.75). Franchisees who relied on their franchisor and who were willing to have open and honest discussions were more likely to report higher levels of performance. It is important to note the four items measuring performance (adapted from Lado, Dant, and Tekleab, 2008) asked franchisees to compare their own performance to other franchisees in the franchise system across four areas: sales growth, profit growth, labour productivity, and cash flow. Thus, an interesting observation from this finding is the financial benefit in trusting the franchisor. Not all franchisees might trust their franchisor, or perhaps after a period of conflict, their trust may have turned into distrust. I suggest that this has an impact on performance. Although I was not able to obtain complete financial records of franchisees involved in this research, Lado, Dant and Tekleab’s measure does provide meaningful insight into how franchisees rate their own performance (albeit, subjectively) and how this impacts on the trust they place in the franchisor. Other externalities would contribute to this relationship, yet this model does place emphasis on the importance of trust and how it is linked to franchisee performance.

7.1.7 Discussion of hypothesised relationships with group-moderation effects

The model was then tested across three groups:

1. The presence of a Franchisee Advisory Council (FAC) within the franchise system (n = 112) compared with those franchise systems without an FAC (n = 97).

2. Franchisee participation in the FAC (n = 72) compared with those who do not participate in the FAC (n = 40).

3. Single-unit operators (n = 123) compared with franchisee’s who own multiple units (n = 86).

Support was found for only two of the hypothesised relationships (H18 and H24):
• H18: Franchisee participation in the FAC strengthens the positive relationship between the franchisee’s trust in their franchisor and performance, and

• H24: Multi-unit ownership strengthens the positive relationship between the franchisee’s trust in their franchisor and performance.

Thus, the relationship between trust and performance did not have any significance if franchise systems had a FAC. Yet, significant support was found if franchisees participated in the FAC. The reasons for this could include the importance of franchisees feeling empowered and feelings as if they had a voice, and that their opinion mattered to their franchisor. Perhaps of they were recognised by the franchisor, they would be more likely to trust their franchisor, and thus in turn improve their performance. Another explanation for the positive support for hypothesis 18 might be that franchisees who participated in the FAC knew more about the strategies being implemented throughout the franchise, they might feel more certain about the strategic direction of the entire system because of their FAC participation and in turn they might apply this knowledge of the brand to their own operations. A great sense of belonging and information about the franchise system amplifies the positive relationship between trust and performance.

Furthermore, significant support was found for the final group moderator whereby multi-unit operators had a stronger positive relationship between trust and performance when compared to single-unit operators. The literature on the topic of franchisee multi-unit ownership is well documented (Bradach, 1995; Kaufmann and Dant, 1996; Weaven and Frazer, 2003; Kalnins and LaFontaine, 2004; Grünhagen and Mittelstaedt, 2002, 2005; Dant, Weaven, Baker and Jeon, 2013) as it builds on dependence theory (Dant and Gundlach, 1999; Dant, et al. 2013). As franchisees become more involved in the franchise system through the purchase of additional stores, so too does their dependence on their franchisor because of the increased risk. As they expand their own business, they develop their trust in the franchisor, which in turn improves their performance.
7.2 Practical recommendations

A major goal of this research was to provide practical tools useful to franchising practitioners. Thus, based on the results of both qualitative and quantitative analysis, the following discussion provides practical recommendations that can be incorporated in franchise systems to help build franchisee trust. First, four tools for building franchisee trust are discussed (section 7.2.1), then six traits of a trustworthy franchisor are identified (section 7.2.2), and finally a note on good faith is included (section 7.2.3). Building franchisee trust is challenging and complex, as one interviewee said on phase one of the research, “trust isn’t bulletproof”. Relationships are notoriously difficult to manage, especially in a competitive business marketplace, thus “there will be incidents, there will be differences, it’s a case of whether you can work through those and maintain a sufficient level of trust. Or whether it’s going to lead to a divorce.” (franchising lawyer). Thus, building trust may not only improve relationship longevity, but as one franchisor emphasised, “if I trusted 100 percent of the franchisees to do the right thing, we would make a lot more money because we wouldn’t need operations checks.” Therefore building franchisee trust is a worthy endeavour and this research from phase two identified four tools franchisors can utilise to build franchisee trust (section 7.2.1) and six traits of a trustworthy franchisor (section 7.2.2).

7.2.1 Four tools for building franchisee trust

The research from phase two revealed four practical tools that can be implemented within a franchise system to build franchisee trust. Firstly, the nature of the support structure is very important to how trust is built with the franchisee. Within the franchisor’s team, it is the support staff who interact most with the franchisee. It is important that franchisees feel they are receiving adequate support. Practically, franchisors can ensure that they keep support staff turnover to a minimum. Relationships are built over time and a constantly changing support team may disrupt the franchisee’s business. An essential ingredient to franchisee trust is the ability for the support staff to connect with franchisees. Furthermore, a generational gap in age between franchisees and the support staff may contribute to difficulties in relationship development, as described by the CEO of a large retail franchise:
When you go around to your stores, how old is the typical franchisee? Middle aged. By nature of the support structure in franchising, most of the franchisor’s support staff in the field are 25 years old. There’s a generational gap from day one. It’s not healthy, when we talk about understanding your business partner, if my staff aren’t skilled at being friends and being associates and colleagues, and having very strong communication skills, how are they going to connect with someone who is 60 years old, and understand what’s really going on in their heads, what’s really going on in their personal lives. (B1)

Secondly, it is important for the franchisor to enforce consistent standards across the franchise. This includes how they manage any company owned outlets. An important aspect of franchisee trust is fairness in the system. A franchisor should ensure that any company owned stores follow the same rules that a franchisee is required to follow. For example, a company store should contribute the same financial amount to the marketing fund as a franchisee’s store. This was considered to be very important by one franchisee who said, “if the franchisor is subservient to his own rules as well, then the trust is there” (A3).

Thirdly, how the franchisee and the franchisor share the profits was found to have a considerable impact on levels of franchisee trust. A fair and just agreement is an important factor in building trust between the franchisee and the franchisor. If a franchisee feels they are paying too much money to the franchisor in royalty fees, they may begin to feel resentful toward the franchisor; a feeling that could harm the long-term development of trust. One franchising lawyer described it as a “core issue – if you’re making money and you’re profitable, you can kind of forget other things and you can work through it, but when [the franchise] is not making money then the fingers start pointing, and then the trust starts to be questioned.” Furthermore, a franchising consultant described a lack of profitability as “the number one barrier to developing trust – if you are making money then a lot of the problems will disappear.” How the reward-sharing agreement is structured plays a role in the levels of trust within the franchise system due to its strong connection with fairness and equity. Franchise system A utilised a fixed fee reward-sharing agreement where franchisees paid a consistent – and fair – fee to their franchisor every week. The franchisor said, “I’ve never had one franchisee ring up and say the franchise fees are too much” (A1). A multi-unit franchisee who had been with the franchise for fifteen years and had accumulated five stores supported the fixed fee method. He said “the fixed fee, I believe, is a positive thing because it doesn’t hamstring you from trying to grow. It also encourages people to report accurately” (A5).
On the other hand, a percentage based reward-sharing agreement – usually calculated as a fixed percentage of gross turnover – may breed distrust in the organisation. A franchisee is more likely to report inaccurate figures that reduce their overall gross earnings, and in turn this reduces the amount they have to pay to the franchisor. However, a franchising lawyer said “franchisors need to structure their business as well, so that they make money” and using a fixed fee method may reduce the franchisor’s potential earnings as the system grows. In summary, issues of how the reward-sharing agreement is structured is an important aspect in determining the trustworthiness of the franchisor because “the problem with some franchisors is that their support services are not indicative of the royalties they actually collect” (B1). Thus, the reward-sharing agreement has major financial implications for both the franchisee and the franchisor. How the franchisor and franchisee are financially bonded has far-reaching implications for not only the overall success of the system, but also the longevity and health of the franchising relationship.

Finally, it is important to encourage conference attendance. Franchise B holds their conference every two years and they encourage every franchisee to attend: “for us it’s our academy awards, so we roll out the red carpet. We recognise our franchisees where they get treated to an amazing night.” Franchisees who attend the conference feel more engaged in the business. Furthermore, it is a useful tool to enable networking and collaboration. One franchisee described her perception of the annual conference as “really good because sometimes you get a little bit down and you do what you have to do, but you get another spark when you’ve been to these conferences, so it’s good for everybody” (B4).

### 7.2.2 Six traits of a trustworthy franchisor

Furthermore, the findings from the interviews conducted in phase two revealed six traits of a trustworthy franchisor. The following discussion was distributed to franchisors around Australia (including the research participants) in the form of a PDF industry report (available at www.franchisecollaboration.org). The six traits of a trustworthy franchisor are: (1) they say – and show – that integrity is an important value within the franchise system, (2) they prove their ability, expertise, and skills in leading the franchise, (3) they are willing to take the blame and admit they made a mistake, (4) they do their best to ensure conflict is constructive instead of destructive, (5) they ensure the
psychological climate reflects recognition, innovation, and fairness, and (6) they demonstrate that they care for their franchisees. Each of these traits is discussed below.

7.2.2.1 They say – and show – that integrity is an important value within the franchise system

Integrity is an important value to cultivate within a franchise system. Acting with integrity means that one acts in accordance with strong moral and ethical principles. Franchisees judge the level of the franchisor’s integrity if he or she is seen to be honest, have a strong sense of justice, and consistently fair. However, integrity also filters down to the members of the franchisor’s team. For example, area-managers, marketing-managers, master-franchisees, as well as administrative staff also need to act with integrity for it to be viewed as an important value upheld across the entire franchise system.

If integrity is high, it is more likely that the franchisor will be viewed as trustworthy, therefore franchisee trust will increase. As one interviewee said, “I believe that more transparency will lead to more trust.” Acting with integrity, and being upfront, open, and honest in a competitive business environment is not always easy, however the benefits outweigh the costs.

It is also important to remember that “it is still possible for honest people to have disagreements” (franchising lawyer). The franchising relationship is a type of relationship that involves high levels of sincerity, frankness, and straightforward communication. Saying – and showing – that integrity is an important value within a franchise system is an essential trait of a trustworthy franchisor.

7.2.2.2 They prove their ability, expertise, and skills in leading the franchise

The ability of a franchisor captures their knowledge, expertise, interpersonal skills, prior experience, and general wisdom necessary to lead the franchise. Role performance is an important attribute of a trustworthy franchisor. A franchisor – as well as the members in his or her team – must prove their ability to perform their duties in an effective and timely manner.

Furthermore, franchisees require visible examples of their franchisor’s ability, such as a successful and well implemented marketing campaign, an effective pricing strategy to suit the current market trends, or a well handled dispute. A franchisor who
can consistently prove their ability, expertise, and skills in leading the franchise allows the franchisee to perform better in their work role. As one franchising consultant said, “there needs to be a demonstration of competence by the franchisor that they’ve done their research that their model is solid, that they know what they are doing, and that they are not making stupid decisions that would damage the business.”

7.2.2.3 They are willing to take the blame and admit they made a mistake

As the leader of the franchise system is highly visible, franchisees take notice of the franchisor’s actions; especially when a mistake is made. Everyone makes mistakes yet the important thing is how the situation is handled. Franchisors who can demonstrate the confidence to admit they were wrong, take the blame, and admit they made a mistake, are more likely to be trusted. Even if the franchisor was not fully responsible for the mistake – acknowledging and fixing the problem – will enhance their overall reputation and perceived trustworthiness. One franchisor emphasised this by saying, “where we make decisions that are fairly at the fault of the franchisor, I won’t walk away from them - I will fix those at our cost.”

7.2.2.4 They do their best to ensure conflict is constructive instead of destructive

Conflict between people can take many forms. It can also build up over many years so that the initial reason for the conflict is long forgotten. The typical length of a franchisee’s contract is five years, thus it is in the best interests of the health of the relationship to deal with conflict early, comprehensively, professionally, and fairly. Edward de Bono, the father of lateral thinking, defined conflict as simply a clash of interests and unmet expectations. Unfortunately, most conflicts tend to be destructive because of strong personality clashes, ego, reputation, and dogmatism. However, conflict can be constructive whereby emphasis is placed on flexibility and working together to accomplish mutual goals, as opposed to being “correct” for the sake of being “correct”. Constructive problem solving requires high levels of communication skills, patience, and a commitment to working toward a favourable resolution for both parties. It may also require the flexibility to allow the other party to “save face”. Franchisors who focus on constructive conflict instead of destructive conflict are more likely to be trusted. As one franchising mediator said, “you can have good conflict and bad conflict – but most conflict is bad – and unless it is managed, often it is not possible to resolve the conflict.
All you can do is manage it in a constructive way, if it is not constructively managed there are real challenges down the track.”

7.2.2.5 They ensure the psychological climate reflects recognition, innovation, and fairness.

The psychological climate of the franchise plays a considerable role in the overall levels of franchisee trust. In the daily running of the business, franchisees are susceptible to the psychological climate set by the franchisor who has the power and ability to influence the overall mood within the franchise. For example, a franchisor may wish to emphasise high levels of performance in strict time-frames, thus increasing the pressure levels on the franchisees. However, this type of climate had the least favourable results.

The top three types of psychological climate were fairness, innovation, and recognition. Franchisees placed great emphasis on fair objectives and reasonable decisions made by the franchisor. Consistently fair and reasonable actions were highly valued by franchisees. Secondly, franchisees enjoyed the freedom and flexibility to innovate. They reacted favourably to being empowered to develop their own ideas and improve existing methods and procedures. Finally, franchisees reacted favourably to being recognised for good performance. They enjoyed receiving a “pat on the back” from their franchisor when they did well. The ability to shape the psychological climate within the franchise is an important trait of a trustworthy franchisor.

7.2.2.6 They demonstrate that they care for their franchisees

The final trait of a trustworthy franchisor is their commitment to showing genuine care for their franchisees. This display of care and support is an essential contributor to building franchisee trust. Although there is a legal contract signed by both parties, there is also a psychological contract. The interaction between the franchisee and the franchisor is susceptible to outside pressures, difficult economic conditions, as well as the challenges and stresses that come with running a business.

A franchising consultant suggested the psychological contract is “more important than the legal contract because it is what drives behaviour.” Therefore, the franchisee and the franchisor are inextricably linked to one another, commercially, legally, and psychologically. The findings suggest the importance of trustworthiness, trust, and the maintenance of the psychological contract. The ability to show genuine care throughout
the duration of the franchising relationship is an important aspect of franchisor trustworthiness. As one franchisor said, “if the franchisor doesn’t sincerely care for their franchisees and how they succeed in the business, then trust is never going to happen.”

7.2.3 A note on good faith

The new Australian Franchising Code of Conduct – applicable from the 1st January 2015 - introduces an obligation to act in good faith. Division 3 of the new Code reads:

“Each party to a franchise agreement must act towards another party with good faith, within the meaning of the unwritten law from time to time, in respect of any matter arising under or in relation to: (a) the agreement; and (b) this code. This is the obligation to act in good faith.”

Breach of this good faith provision can result in a civil penalty of 300 penalty units (currently AUD $51,000) per contravention. The two main points a court may take into consideration when determining if there has been a breach are: (1) whether the parties acted honestly, and (2) whether the party cooperated to achieve the purposes of the agreement. However, the obligation to act in good faith does not prevent a party from acting in their legitimate commercial interests. Thus, the challenge to acting in good faith arises when it conflicts with your own commercial interests. However, in most cases, the commercial interests of both the franchisee and the franchisor should be in alignment.

It is clear from the new provision that actions of good faith by both the franchisee and the franchisor are an important factor in the franchising relationship. At the core of the good faith provision is the importance of acting honestly. As suggested earlier in this report, an important trait of a trustworthy franchisor is their commitment to saying and showing that integrity is an important value within the franchise system. Trustworthy behaviour is indicative of acting in good faith as the behaviour is considerate of the other party involved. It also shows a commitment to sustaining the relationship for the long-term.

The benefit of acting in good faith is increased levels of trust in each other. Where trust is high, the system can perform at its optimal potential. Without trust (and good faith) each person will look after their own self-interest to the detriment of the long-term success of the entire system. As one franchisor emphasised, “we were acting in that way before the good faith provisions in the legislation. It’s just the proper way to act. . .
we don’t wait for legislation to tell us what to do. What we do is simple: be transparent, keep our promise and make sure the investor is getting the best possible return that we can manage.”

7.3 Theoretical implications

The literature on principals and agents is vast, yet three concepts seem to be universal. First, the agent is usually closer to the subject than the principal (Pratt and Zeckhauser, 1985). Second, there is usually some divergence of interest between the agent and the principal (Jensen and Meckling, 1976; Brach, 1997). Finally, agency relationships are prevalent in business and thus agency problems continue to surface among business partners (Pratt et al., 1985; Combs et al., 2004). Whenever one person depends on the actions of another, an agency – also referred to as an ‘acting for’ – relationship exists (Mitnick, 1988). Thus in the context of franchising, the franchisee (agent) is acting for the franchisor (principal) and because the interests of both parties are usually divergent, the principal is forced to expend agency costs to ensure agent compliance (Eisenhardt, 1989a).

The theoretical implications of this research provide a possible solution to the agency problem: increase franchisee trust. Through building franchisee trust, an understanding of what is expected in the daily operations of the business is clarified in the franchisee’s mind and thus he or she is more able to meet the principal’s objectives. Furthermore, as the franchisee is closer to the subject (that is, the customer) than the principal, they will have a larger impact on the customer’s perception of the brand. During this research, one of the franchisees of a café related the story of how an inexperienced franchisee – in a neighbouring location – charged a customer 70 cents to warm up her baby’s milk bottle in the microwave. The customer then proceeded to complain and post negative feedback on the franchise system’s social media websites at the ludicrously of being charged by the franchisee. This was a request the customer thought could have been done for free due to the nature of the goodwill at risk. The service quality exhibited by the franchisee was very low and the implications were far-reaching. Thus, the manner in which a franchisee treats every single one of their customers will largely influence the customer’s brand perception as well as impact on the nature of word-of-mouth advertisements. In the example mentioned above the word-of-
mouth was negative and detrimental to the brand, as well as to the other agents working in the system because negative brand perceptions affect all the franchisees operating under the shared brand name.

There may be many reasons for this franchisee’s behaviour, one of which could be a lack of customer service training. It is essential that the franchisor provides the necessary training to all of their agents as it improves the confidence they have in the franchise system. This confidence, as shown in the research influences the levels of franchisee trust.

Thus, the agents of a franchise system are responsible for following the operational standards of the system, and it is more likely they will have confidence in these standards if they trust their franchisor. As Pratt et al. (1985) reinforces, the alignment of goals is beneficial to the overall performance of the agency relationship and as most of the functions of the members within an organisation are unable to be achieved in arms-length information (White, 1985), trust is essential among the principal and agent.

Some continue to suggest that an organisation is merely a nexus of contracts (Jensen and Meckling, 1976; Rubin, 1978; Felstead, 1993). However, a theoretical implication of this research suggests that an organisation – specifically a business-format-franchise system – consists of interpersonal relationships dictated by a psychological contract, built on mutual trust. Thus, a further implication of this research is: the trust shared between the franchisee and the franchisor has a greater impact than the contract. The psychological contract complicates the interaction between the franchisee and the franchisor as unwritten laws exist that may dictate the direction of the relationship and may damage the relationship if they are not obeyed. A consultant mentioned the significance of the psychological contract, describing it as being “more important than the legal contract because it is what drives behaviour.” Therefore, the franchisee and the franchisor are inextricably linked to one another in their chosen venture, both legally and psychologically. The findings suggest the importance of trust and maintenance of the psychological contract. Trust changes into distrust as confidence begins to waiver in the principal’s ability to act in a trustworthy manner. Thus at the core of sustainability of the franchising relationships is franchisee trust and franchisor trustworthiness.

With this understanding, I suggest that the legal relationships among the franchisees and the franchisor within a franchise system are not the primary reason for the longevity of the agency relationship. Although organisations can be understood as a
set of contracts (White, 1985), within franchising these contracts are not operated at ‘arm’s length’. Instead, for healthy levels of communication, respect, cohesion, unity, engagement, trustworthiness, and trust to exist, the franchising relationship should be understood as a fiduciary relationship. Justice Douglas (in Clark, 1985) proposed that those involved in a fiduciary relationships, cannot serve themselves first, and their partners second. They cannot manipulate the rules of the organisation by disregarding standards of common decency and honesty. Furthermore, he or she cannot use inside information and his or her strategic position of power for their own advancement. And finally, they cannot violate rules of fair play. Perhaps this fiduciary standard may never be achievable within the franchising relationship because of the differences in strictness between contract law (the current legislation underpinning franchising relationships within Australia) and fiduciary law.

However, with the introduction of an obligation to act in good faith in the Code, franchising participants may soon be required to examine their own behaviour with respect to their intention to behave in a good faith manner toward others in their franchise system. As one franchisor said when asked about the new good faith provisions, “it’s just the proper way to act... we don’t wait for legislation to tell us what to do. What we do is simple: be transparent, keep our promise and make sure the franchisee is getting the best possible return that we can manage.”

It is understood that the moral standards of franchisees and franchisors will differ greatly and thus the imposition of a duty to act as fiduciary may never be possible. However, this discussion is centred on the premise that as the franchisee is ‘acting for’ the franchisor, agency costs will be reduced if the franchisor behaves in a trustworthy manner, and a franchisee’s trust in their franchisor is built. Furthermore, a major benefit of treating the franchising relationships as a fiduciary relationship is that when the interactions between the franchisee and the franchisor are good, franchisees as well as their employees are more likely to provide exceptional customer service; franchisors are captains of their franchisees (Dant et al., 1995). This phenomenon was explained by Rosenbluth et al., (1992) who suggested that the attitude behind the increased customer service was straightforward: it is the people of the organisation who deal with customers on a daily basis and the highest achievable level of customer service comes from the heart. Thus, the company that reaches its own employees hearts will inevitably provide the best possible service to the customers.
Thus, within the context of franchising, it is the franchisee who deals with customers on a daily basis, and the franchisors who put their franchisees first – not the end customer – will inevitably improve overall customer service. This is because franchisees who feel empowered, engaged, and valued, will in turn treat their customers in the same positive manner. As one franchisor said, “I always celebrated when a franchisee made a lot of money, I was always happy with that.” Celebrating with the franchisee’s achievements and successes improves the overall relationship quality that in turn reflects on quality of the relationships a franchisee has with their customers. Empowering the franchisee is essential because, “a voluntary degree of empowerment of the franchisee by the franchisor is an important requirement for building trust, and this needs to be achieved over a long period of time, so the more it is done, the more trust is built the stronger that trust will be” (franchising consultant).

In summary, the major theoretical implication for agency relationships is the need to increase trust between the principal and agent. The quality of this dyadic relationship will have far-reaching implications for the overall performance and sustainability of the franchise system. As the agent is usually closer to the customer than the principal (Pratt and Zeckhauser, 1985) it is important for the franchisor to ensure they treat their franchisees well because this will have a direct influence on the way franchisees interact with the end customer. Thus, the scope of agency theory – within the franchising context – should be increased so as not to focus solely on the dyadic nature of the agency relationship (between the principal and the agent) but also to include the other parties affected by this ‘acting for’ relationship (for example, the customer). A major reason for this being that a customer's perception of service quality occurs during service delivery (Zeithaml, 1987). It is the franchisee who delivers the service to the customer, not the franchisor, and as service quality of organisations improves customer loyalty and attracts new customers (Dant et al., 1995), franchisors should endeavour to improve their own relationships with their franchisees in order to improve the overall service quality exhibited by the franchisees. As a healthy franchising relationship requires the presence of franchisor trustworthiness and franchisee trust, the findings of this research (including the practical recommendations discussed in the previous section) are central to the overall performance and sustainability of the franchise system. A system that is built upon many ‘acting for’ relationships that will become more complex and interconnected as the system grows, thus trust is considered to be an essential component of the franchising relationship and major contributor to the reduction of agency costs.
7.4 Wider implications for the franchising literature

This research created new knowledge within the context of franchising relationships. Five aspects of the findings were considered to have far-reaching implications for franchising theory and practice. Firstly, the need to clarify who is the trustee (the person doing the trusting) and the trustor (the trust REFERENT, or the trustor). Without this distinction, the discussion of trust can become confusing and convoluted (section 7.4.1). Secondly, it is important to distinguish the concept of trust from the concept of trustworthiness. Although similar, trustworthiness should never be used as proxy for measuring trust (section 7.4.2). Thirdly, the discussion of franchisee trust led to an interesting question: who is responsible for building franchisee trust, the franchisor or the franchisee? The implication of this is discussed in section 7.4.3. Another major implication was the discovery that the greatest barrier to building franchisee trust is a lack of franchisor credibility, especially when the franchisee needs support and it doesn’t materialise (section 7.4.4). This finding has large implications for the franchising community, especially because of the new provision in the Code whereby an express obligation to act in good faith is included as of 1st January 2015. Finally, a theoretical framework was created for building franchisee trust (section 7.4.5). Each of these five implications are discussed below, beginning with the importance of distinguishing the trustee from the trustor.

7.4.1 The importance of distinguishing the trustee from the trustor

When examining trust, it is essential to be specific about whom is trusting whom. This is consistent with the existing literature (Hardin, 2002; Fulmer and Gelfand, 2012) whereby classification of who the trustee is, and who the trust referent is, contributes to a more meaningful account of trust. In this research, the franchisee was classified as the trustee and their trust referent was the franchisor – more specifically the leader, the CEO, or the founder of the franchise.

A recent example of a large retail franchise system entering liquidation adds weight to this important distinction because a franchisee might enter a franchise system with misplaced trust. According to recent case from the Australian Insolvency Journal (27[1], A Insol J, 2015), Pie Face – a retail franchise system – entered liquidation in late 2014. The franchise operated 24 company-owned stores as well as 46 franchisee-
operated stores. The findings from the creditors report revealed that for years, the true financial records of the system were showing significant losses and mounting costs, but the risky financial position was only revealed to franchisees after the franchise entered administration. Pie-face’s co-founder and visionary, was thus forced off the board of directors upon this finding. Many franchisees would have placed their trust in him upon joining the franchise system. This case represents a lack of franchisor trustworthiness and misplaced franchisee trust; thus, this research has provided recommendations on assessing the traits of a franchisor and preferably this should be done by potential franchisees before joining a franchise system.

7.4.2 Distinguishing between trust and trustworthiness

This research also reinforces the understanding that the construct of trust is different to the construct of trustworthiness. As has been noted by Gillespie (2003) measures of perceived trustworthiness should not be used as a proxy for trust for three main reasons. Firstly, holding views and beliefs about another’s trustworthiness does not involve vulnerability, risk or interdependence. Secondly, even though trustworthiness is a significant determinant of trust, it does not always equate to trust. For example, Davis et al (2000) found that trustworthiness only accounted for 46 percent of an employee’s trust in their general manager and this research found that system attributes (including a franchisee’s engagement in the system, their confidence in the system, and their perception of a strong team culture) also impact heavily on their willingness to trust their franchisor. Thirdly, trust has practical significance in its action (Lewis et al., 1985). From a measurement point of view it is more accurate to measure one’s willingness to be vulnerable than their perceptions of another’s trustworthiness. Willingness requires action whereas perceptions only require thought. Thus, it is important to measure trust in addition to perceived trustworthiness (Gillespie, 2003; Dietz et al., 2006; Schoorman, et al., 2007).

A franchisee is extremely vulnerable to the actions of their franchisor. Consider the example of large franchise chains that have entered administration, or declared bankruptcy, recently: (1) Pie Face – 70 stores nationwide, (2) Homeart – 103 stores nationwide, (3) Angus and Robertson – over 170 stores nationwide. The leader of the franchisor is not always solely to blame for the failure of the franchise, external market conditions and macro-economic influences (such as the global financial crisis experienced between 2008 – 2012). However their skills, leadership, honesty, and practical business sense contribute to the reason why franchisees are willing to trust them
by joining the system. Thus, central to the longevity of any franchise organisation is both franchisee trust, and franchisor trustworthiness. Future research should continue to distinguish the two inter-related yet distinct concepts.

7.4.3 Building franchisee trust: the responsibility of the franchisee or the responsibility of the franchisor?

A major theme of this research has been the emphasis placed on the franchisor for building franchisee trust. This is not to say that a franchisee holds no responsibility for their actions. However, the onus for building franchisee trust rests with the franchisor for two major reasons. Firstly, the franchisor is the leader of the system and they have the ultimate power over the brand direction, the people they hire to support the franchisees, as well as the people the choose to become franchisees. They also set the tone of the culture within the franchise system, as one franchising consultant believed that the founder of the franchise will determine, “how we do things around here”. Furthermore, the CEO of Franchise B described his personal belief in the power of developing a strong organisational culture, “the values underpin the culture of a franchise. If everyone buys into the culture – and all the people who work for me buy into the culture – then it’s infectious. And what’s more, as you get larger, the culture begins to play an incredibly important part in the way that the machine works” (B1). Perhaps the franchisor is responsible for creating an atmosphere where trust can thrive. Some people bring an emotional storm with them when they interact with others, they can single handedly put others in a bad mood with their demeanor and their language. Yet others can bring inspiration and encouragement that influences others in a positive manner. Thus, the franchisor is responsible for creating a professional, encouraging, and positive, atmosphere within their franchise system. This type of emotional atmosphere will allow franchisee trust to grow.

Secondly, the personality, and likeability, of the leader is an important determinant of franchisee trust. The CEO of a franchise operating in the banking industry (the Bank of Queensland with 252 outlets around Queensland) said upon his appointment that “we will be the envy of other players in financial services…[we] will have really close customer relationships” (Walsh, 2015). Hence the importance of creating a vision that inspires franchisees’ belief in the brand and the leadership. As one research participant said, “it is easy to maintain a good relationship with someone who has the same values and aims as you.” As the franchise system grows, more people with
different personalities can make it difficult to build trust as described by another interviewee, “every time you get another personality you get a different opinion, you get a different expert and [the franchise system] can turn into this big huge moving beast, whereas if you can keep it really succinct you can get everybody on board and it’s easier to distill the vision.” Furthermore, the ability for people to put aside their “personal preferences and go along with the franchise company” was viewed as an important way to build trust - the franchisee’s willingness to “work hard and follow the system” was seen as a significant personality trait. It is in the franchisor’s best interest that the franchisee works hard, but this is not necessarily shared by all of the franchisees. Thus, a franchise leader who is admired will **inspire and unite all of the franchisees with their vision**, thus greatly improving the levels of franchisee trust.

It should also be noted that the franchisee also holds a high level of responsibility for their own actions. The franchisor is also placing high levels of trust in their franchisees. For example, in 2014 a large multinational franchise company – Pizza Hut – was forced to publicly apologise after one of its Australian franchisees offered “one free small animal” to any customer who bought ten or more pizzas. This insensitive promotion was instituted by the local franchisee in conjunction with the local pet store next door. Hours after the promotion began, customers unleashed a social media backlash centred around animal rights and the safety of any animal offered to a customer who may not have the necessary resources to care for the animal. Furthermore, one marketing expert said, “it’s just a bit stomach-churning…the association of food with animals – it’s really a reckless offer” (Keating, 2014). Pizza Hut Australia responded to the backlash apologising “to anyone who was offended by…this thoughtless promotion.”

Thus, even though the franchisor is responsible for the overall leadership of the franchise, the franchisee is responsible for their own behaviour because they are dealing directly with customers on a daily basis. The franchisee must also consider whether their own actions are trustworthy and credible because the longevity of the relationship with their franchisor is strongly associated with their willingness to comply with operational standards as well as ensure they deliver on service quality. Therefore, both the franchisee and the franchisor are responsible for building franchisee trust; however, as franchisee trust is strongly linked to franchisor behaviour, the onus rests on the franchisor to ensure they behave in a trustworthy manner.
7.4.4 The greatest barrier to building franchisee trust

The perception of the franchisor’s character was found to have a larger influence on trust than the perception of franchisor competence. Thus, a major barrier to building franchisee trust is a lack of credible leadership. Even though financial performance and the success of the franchise system was found to have a considerable impact on levels of trust, making money was not considered to be the most important aspect; instead, “credible leadership” was considered more important than making money. Even though, “both parties are there to make a profit” (franchising consultant) the lack of profitability is not always the fault of the franchisee or the franchisor, and as one expert described, “sometimes it’s the circumstances – business is risky, the market dictates the relationship.” However, a major factor in building trust is the “demonstration of competence by the franchisor that they’ve done their research and that their model is solid, that they know what they are doing, that they are not making stupid decisions that would damage the business” (franchising consultant). Thus, franchisee trust can be hindered if they perceive the leadership to lack credibility.

In the 2012 case, *Miletich vs Murchie*, a leasing agent of a soon-to-be-opened shopping centre made false representations about a café opportunity to a newly appointed franchisee. The Jamaica Blue franchisee could not make a profit because many of the other stores never opened and the shopping mall eventually declared bankruptcy, leaving the franchisee (Miletich) in debt. In this case, the franchisor agreed to financially support the legal case which was eventually awarded to the plaintiff, the leasing agent was ordered to pay the franchisee approximately four hundred thousand dollars for losses suffered. The franchisee later said of the franchisor, “we can only commend the franchise as an organisation of uncommon integrity” because the leaders of the system helped her to fight the case. She also added, “during the whole of this sorry saga, [the franchisor], through its decisions to support us legally and personally, have shown themselves to be a company who truly stands up to the claims of supporting their franchisees.” Thus, the greatest barrier to building trust is a lack of franchisor credibility, especially when the franchisee needs support and it doesn’t materialise.
7.4.5 A framework for building franchisee trust

It is important for franchisors to focus on building trust among the members within their franchise system, especially the franchisees. The findings from this research identified four critical components required to build trust: (1) system identification (2) franchisor competence, (3) franchisor fairness, and (4) autonomy. These four constructs were found to have significant impact on franchisee trust in their franchisor, yet it is important to remember that trust in human relationships is fragile. Distrust within the franchising relationship can slowly – yet pervasively – erode the goodwill in the relationship. This can lead to: expensive court battles, costly legal fees, a lack of coherence within the franchise system, and eventual relational breakdown and termination. Thus, it is important for franchisors to take the time, and ensure the necessary effort is undertaken, to build high levels of trust within the franchising relationship. As one franchising consultant said, “one of the keys to building trust is to demonstrate genuine care.”

The four components are conceptualised in a matrix (figure 7.2). The left column contains the components that are largely the responsibility of the franchisee and the right column contains components that are largely the responsibility of the franchisor. It is ultimately the responsibility of the franchisee to engage in the “goings on” of the system and have confidence in the franchisor’s strategy, especially on divisive parts of the system. They are also responsible for maintaining a respected level of autonomy whereby they meet the required standards set by the franchisor and thus earn their right to become interdependent business operators. Autonomy may only develop as they become multi-unit operators because when they first join the system the dependence they have on their franchisor will likely be high. However, as franchisees continue to identify with the system and develop their own skills in owning a business, their level of autonomy should increase.

The right column, containing the components of franchisor competence and franchisor fairness, illustrates the importance of the franchisor’s influence on the franchisee’s well-being; they are primarily responsible for setting the “tone” of the system within the franchise and for behaving in a trustworthy manner. If a franchisor is not competent, nor fair, it can have negative consequences for the overall well being of the franchisee at both a system level and an interpersonal level.
The horizontal rows represent two different levels: the top row focuses on components that are most influenced at the system level, and the bottom row focuses on components that are most influenced by the people within the franchise. For example, identification with the system usually exists because of competent procedures and operational standards which are maintained because of professional and competent behaviour. However, these components are influenced by many factors involved at the system level such as: brand development, global and local marketing strategy, training procedures, sophistication of operational standards, inter-system communication, and the quality of national-system-wide conferences. This can be further complicated by external factors including: industry competitiveness, market performance, political stability, or legislation changes. On the other hand, the bottom row focuses on the interpersonal level. Franchisor fairness depends on the integrity of the individual leading the franchise, as well as their ability to resolve conflict in a constructive manner. Franchise systems are fundamentally led by people, not systems. Furthermore, autonomy exists at the interpersonal level because it is the individual responsibility of franchisees to take ownership of their role in the franchise. They are not employees, nor are they managers, they are autonomous business owners operating within a larger system and it is their responsibility to solidify their autonomy in a manner that upholds the standards as well as meeting the expectations set by the franchisor to a degree that empowers their own willingness to perform to a high standard.

Thus, according to the franchisee trust matrix, with the presence of all four components: (1) system identification, (2) franchisor competence, (3) franchisor fairness, and (4) autonomy, the consequence will be higher levels of trust and this will lead to improved performance. The franchisee trust matrix is illustrated in figure 7.2.
Figure 7.2
The franchisee trust matrix

<table>
<thead>
<tr>
<th>System level</th>
<th>Interpersonal level</th>
</tr>
</thead>
<tbody>
<tr>
<td>System identification</td>
<td>Autonomy</td>
</tr>
<tr>
<td>Franchisor competence</td>
<td>Franchisor fairness</td>
</tr>
</tbody>
</table>

Responsibility of the franchisee | Responsibility of the franchisor

Source: developed for this research
7.5 Limitations of the research

The first limitation of this research is the specific country context within which the research is framed. Although Australia has a relatively small population (approximately 23 million) it continues to have one of the highest number of franchise systems per capita; according to Frazer et al., (2014) there are 1160 business-format franchise systems operating in Australia, contributing approximately AUD$65 billion to the economy. Thus, the Australian franchising sector is significantly smaller than other countries providing for the first limitation of the research because franchising is now a global phenomenon (Alon, 2004). However, this study could be replicated in other countries to provide a cross-cultural comparison in order to verify and validate the findings.

The second limitation is the small sample size of the qualitative phases of the research. Only thirty interviews were conducted. Furthermore, only two franchise systems were analysed. Yet, the data gathered in the thirty interviews was comprehensive, interesting, and insightful. Furthermore, sample sizes for qualitative research are justifiably smaller than sample sizes required for quantitative studies (Ritchie et al., 2003) because they are concerned with subjective meaning and not making generalised hypothetical statements (Crouch et al., 2006). Furthermore, analysing interview transcripts can be very labour intensive and time consuming (Mason, 2010). Finally, according to Glaser and Strauss (1967) the amount of interviews conducted in qualitative research should adhere to the concept of saturation. This was achieved because the new data in the latter stages of the interviews was recursive and similar to the concepts uncovered in the earlier interviews. Thus, it was felt that data saturation was achieved after thirty interviews.

Finally the usable sample size of 209 respondents in the quantitative phase was moderate. Initially a goal of between 250 and 300 respondents was set but, because of financial and time constraints, data collection stopped at 225 (sixteen cases had to be removed because of respondent error and outlier irregularities). However, some researchers suggest that 200+ responses is adequate when using SEM analysis (Kline, 2005; Wolf et al., 2013). Furthermore, the survey was administered online thus self-report bias threatens the validity of the findings because accurate measurement of opinions is essential for advancing the field of any research inquiry (Donaldson et al., 2002). This limitation of self-response bias is prevalent across quantitative research.
designs involving self administered questionnaire-based surveys (Campbell et al., 1959; Graham et al., 1993; Stone et al., 2000) largely because individuals tend to respond in socially desirable ways, that is, in ways that make them look good (Moorman et al., 1992; Zerbe et al., 1987). Furthermore, common method variance issues are attributable to the type of method used whereby inferences may be inflated (Borman, 1991; Donaldson et al., 2000). Thus, quantitative research methods, like qualitative research methods, have inherent limitations. However, all necessary steps were taken to reduce the negative implications and thus improve the validity, reliability and usefulness of the findings.

7.6 Future research directions

Firstly, each of the four components should be examined further within the specific franchise system context. A franchise system is made up of people with a wide range of backgrounds, personalities, beliefs, and values; thus every franchise system will contain unique characteristics. Future research should examine the levels of franchisee engagement within a franchise system with the goal of understanding why some franchisees feel more engaged in the system while others fall through the cracks and become disenfranchised. Perhaps, there are external forces causing franchisee disengagement – beyond the scope and responsibility of the franchisor – for example, franchisees go through “life cycles – they would get divorced or the kids would grow up.” (franchising consultant). Ownership of the franchise system can also change, individuals working for the franchisor also have life-cycles, even founding members can move on – “a new owner coming in will change the culture” (franchising consultant). Therefore, each franchise system will be unique and future research should focus on understanding the impact this has on individual franchisee trust.

The culture of the franchise system also should be examined further because of its significant influence on franchisee trust. It may be found that the personality of a franchisee is more suited to another type of culture, that is, they don’t “fit into the culture” which could then lead to disengagement. As one franchising consultant said, “it also comes down to the selection of the franchisee. Because in the selection process are you just taking someone with a heartbeat and a cheque book or has the franchisor done due diligence to see that this person fits the culture. Because then if you’ve got everyone on the same page, then it’s so much easier.” Future research should explore who the different personalities of franchisees fit into the culture of the franchise.
Another avenue for future research should be centered on the franchisee’s confidence in the leadership of the franchisor. A field of leadership research is vast with many focusing on personality traits (Lord et al., 1986; Judge et al., 2002), values (Kanungo, 2001; Grojean et al., 2004) and power (Mills et al., 1948; Kelley, 1992). However, future research should focus on the qualities and characteristics specific to franchising. That is, what makes a great leader who can inspire all of the franchisees in the system, as well as ensure continued engagement and performance. Furthermore, a major finding in this research was the higher influence of the character of the franchisor on franchisee trust when compared to franchisor competence. Thus future research should explore the integrity and benevolence characteristics of franchise leaders. Notable research already published in this domain include: Kaufmann and Dant (1999); Grünhagen and Dorsch (2003); Croonen (2010); Weaven, Frazer, and Giddings (2010); Dant, Weaven, and Baker (2013); Merrilees and Frazer (2013).

Finally, future research should continue to advance agency theory by examining the franchising relationship as a triad. That is, it should not be limited solely to the interaction between the franchisee and the franchisor. The customer also plays an integral role in the franchising relationship. Sam Walton, the founder of Wal-Mart, shared the belief with his employees that only the customer could fire us all. Thus, the customers involvement in the franchising relationship should not be ignored. Dant (2008: p 93) refers to this as the “trichotomy of franchising domain” stating that although there are many studies within the existing literature conducted from the franchisor’s perspective, even less from the franchisee’s perspective, there is a vast absence of research conducted from the customer’s perspective.

In summary, this research attempted to examine trust from the perspective of the franchisee, thus contributing new knowledge to the domain of franchising research. However, suggested future research directions might include (1) examining the customer’s perspectives and opinions of the franchising phenomenon, (2) understanding the levels of franchisor integrity and benevolence, and (3) further research of the four components to specific franchise systems so as to provide a greater understanding of the unique characteristics within a single franchise system that influence levels of franchisee trust.
7.7 Conclusion

The purpose of this dissertation was to answer the four research questions: (RQ1) How is franchisee trust understood within the franchising sector? (RQ2) Can authentic trust exist within the franchising relationship? (RQ3) What are the barriers to building franchisee trust? (RQ4) How is franchisee trust built in the franchisor? (RQ5) What role does trust play in franchisee knowledge? New knowledge was created by answering these questions through examination of empirical data (both qualitative and quantitative) collected from franchising participants. The answer to the first research question was: on the whole, trust was viewed as necessary for success, yet destructive conflict is rife within franchising relationships. One franchising interviewee said, “I believe that if you can have trust in your franchisor, and if the franchisor can trust the franchisee then they can get on with achieving their objectives, rather than concerning themselves with whether those objectives are being thwarted by the other persons’ actions…trust must accelerate the potential for success.” Thus, franchisee trust is understood to be important for franchising success.

Secondly, it was found that authentic trust is rare and difficult to find within the franchising relationship. Furthermore, authentic trust relationships within franchising may not be sustainable because eventually people leave a franchise. Authentic trust can be equated to sentimentality; one franchising expert described the franchise system as an “enormous, constantly shifting paradigm with many different facets” eventually people change, thus it is “impossible to create a sentimental relationship within a franchise.” According to this franchising expert, authentic trust was only possible in theory, in practice it was deemed to be impossible:

I think in order to gain a fully authentic trust, both parties need to be moving toward the exact same goal, in the exact same way, with the exact same intentions, I think that’s the only way you can develop it. Essentially you’re on the same boat and you’re heading in exactly the same direction.

The research revealed eight major barriers to building trust within the franchising relationship, thus answering the third research question; what are the barriers to building franchisee trust: (1) lack of profitability, (2) an unbalanced fairness equation, (3) mismanagement of expectations, (4) dishonesty, (5) personality clashes, (6) competing interests, (7) destructive conflict and (8) lack of collaboration. Finally analysis of the data
provided a framework for how franchisee trust can be built in their franchisor (RQ4). The theoretical model (figure 5.3) was tested empirically and after CFA and SEM analysis, support was found for all six hypotheses (table 6.25). Thus, the major findings of this research provide a significant and original contribution to the existing literature through the creation of new knowledge, as illustrated in table 7.1 below.

<table>
<thead>
<tr>
<th>Research question (Research Phase)</th>
<th>New knowledge created</th>
</tr>
</thead>
</table>
| RQ1: How is franchisee trust understood within the franchising sector? (Phase 1) | • Accelerates the potential for success in the franchise system.  
• Trust requires trustworthy behaviour.  
• The culture of the franchise system plays a significant role in the development of trust. |
| RQ2: Can authentic trust exist within the franchising relationship? (Phase 1) | • Authentic trust is extremely rare, basic trust is more common.  
• Trust, over time, may evolve into authentic trust.  
• Trust is fragile between people and one mistake or untrustworthy action can change trust into distrust. |
| RQ3: What are the barriers to building franchisee trust? (Phase 1) | • Lack of profitability  
• Unbalanced fairness equation  
• Mismanagement of expectations  
• Dishonesty  
• Personality clashes  
• Competing interests  
• Destructive conflict, and  
• Lack of collaboration |
| RQ4: How is franchisee trust built in the franchisor? (Phase 2) | • Increasing franchisee engagement  
• Improving franchisee confidence in the system  
• Promoting a perception of a strong team culture  
• Franchisor trustworthiness (including ability, problem solving orientation, integrity, and benevolence) |
| RQ5: What role does trust play in franchisee performance (Phase 3) | • Significant support was found for the positive relationship between franchise trust in their franchisor and franchisee performance |

Source: developed for this research
Trust is essential for the optimisation of a system because without trust, each component will protect their own immediate interests to the detriment of the long-term success of the entire system (Deming, 1994). As placing trust in leaders is very important for organisational performance (Argyris, 1964), the trust a franchisee places in their franchisor (the CEO, the leader or the founder) is invaluable. Fukuyama (1995: p355) referred to trust as a type of “social capital” that is critical to prosperity. The findings of this research support Fukuyama’s conclusions that on the whole, human beings do not wish to be treated as cogs in an emotionless machine.

This thesis began with a quote from Ray Kroc: “I have finally found the way that will put every single McDonald’s we open under our complete control…now we have a club over them [the franchisee], and by God, there will be no more pampering or fiddling with them. We will do the ordering instead of going around and begging them to co-operate” (Love, 1987: pp156-157). Franchisees, although involved in a business-format system underpinned by contractual obligations, are still people. They are people who have different personalities, different backgrounds, different resources available to them, different cultures, and different ways of communicating, when compared with the other people in their own system. Franchisors, and members of the franchisor’s support team must begin to learn the importance of creating, and maintaining trust between these individuals whereby there will not be a one-size-fits-all approach, and nor should they have to “beg them to co-operate”. Each franchisee will react to management and leadership styles in different ways and this can have a tremendous impact on how trust and trustworthiness are perceived by the individual franchisee. As Hardin (2002) emphasises, it is the individual who trusts, and it is the individual who is trustworthy.

Finally, this research has provided a significant and original contribution to the academic literature by providing a greater understanding of the central function of franchisee trust and franchisor trustworthiness within the franchising relationship. It is hoped that the knowledge created in this dissertation will not only provide avenues for future academic inquiry, but also serve the franchising community in two ways: firstly, to provide a framework for building more enriching levels of franchisee trust, and secondly, and perhaps more importantly, assisting the people involved in franchising with the difficult task of learning how to work together more effectively in a cooperative business relationship.
Reference list


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Appendices

Appendix A – Information sheet for respondents

THE FUNCTION OF FRANCHISEE TRUST
AND FRANCHISOR TRUSTWORTHINESS
WITHIN THE FRANCHISING RELATIONSHIP

INFORMATION SHEET

Who is conducting the research
Professor Lorelle Frazer (Supervisor)  Griffith University
Mr. Anthony Grace (Student researcher)  Brisbane QLD 4111
Telephone: 3382 1187
Fax: 07 3382 1190
Email: L.Frazer@griffith.edu.au

Why is the research being conducted?

Research has shown that levels of trust play a role in relationship satisfaction and success. Building relationships – personal and commercial – that stand the test of time is always challenging. A major proposition of this research is: as relationships evolve, trust is either built or it erodes into distrust. It is important to understand the role trust plays in the durability of the franchising relationship.

What the interviewee will be asked to do

You will be invited to participate in an interview that will take approximately 30-60 minutes. The interview will be conducted with Mr. Anthony Grace. With your permission, and to assist in analysis, interviews will be audio-recorded and erased upon transcription.

The basis by which participants will be selected or screened

Two samples of participants will be selected. The first group will consist of key franchising industry informants. The second phase will include franchisees and franchisors.

The expected benefits of the research

This research is expected to inform the franchising sector about the effectiveness of authentic levels of trust within the franchising relationship. The project aims to increase
the awareness of trust and what impact it has on the satisfaction and success of the franchising relationship. The findings may also help inform future franchising sector policy reforms.

Risks to you

There will be no risks to participants.

Your confidentiality

All interviews are confidential. Only aggregated data will appear in the report and no participants will be able to be identified. Your participation is voluntary

Your participation in this study is voluntary.

You are also under no obligation to answer every question that is addressed to you during the interview. As a voluntary participant you are free to withdraw at any time from this study without any comment or penalty.

The ethical conduct of this research

Griffith University conducts research in accordance with the National Statement on Ethical Conduct in Research Involving Humans. If potential participants have any concerns or complaints about the ethical conduct of the project they should contact the Manager, Research Ethics on (07) 3735 4375 or research-ethics@griffith.edu.au

Feedback to you

A summary of the research findings will be available on the website of the Asia-Pacific Centre for Franchising Excellence upon completion of the project in December 2015: (http://www.franchise.edu.au)

Who is funding this research

The research is being conducted independently by Griffith University.

Privacy Statement

The conduct of this research involves the collection, access and/or use of your identified personal information. The information collected is confidential and will not be disclosed to third parties without your consent, except to meet government, legal or other regulatory authority requirements. A de-identified copy of this data may be used for other research purposes. However, your anonymity will at all times be safeguarded. For further information consult the University’s Privacy Plan at www.griffith.edu.au/about-griffith/plans-publications/griffith-university-privacy-plan or telephone (07) 3735 4375.
Appendix B – Informed consent for interviewees (phase one & two)

THE FUNCTION OF FRANCHISEE TRUST
AND FRANCHISOR TRUSTWORTHINESS
WITHIN THE FRANCHISING RELATIONSHIP

Consent form

Research Team
Professor Lorelle Frazer (Supervisor)
Mr. Anthony Grace, (Student researcher)
Griffith University
Brisbane QLD 4111
Telephone: 3382 1187
Fax: 07 3382 1190
Email: L.Frazer@griffith.edu.au

By signing below, I confirm that I have read and understood the information package and in particular have noted that:

- I understand that my involvement in this research will include participation in an interview with the researcher for approximately 30-60 minutes;
- I have had any questions answered to my satisfaction;
- I understand the risks involved;
- I understand that there will be no direct benefit to me from my participation in this research;
- I am aware that my permission will be sought to record the interviews;
- I understand that recorded interviews are erased upon transcription;
- I understand that my participation in this research is voluntary;
- I understand that if I have any additional questions I can contact the research team;
- I understand that I am free to withdraw at any time, without comment or penalty;
- I understand that I can contact the Manager, Research Ethics, at Griffith University Human Research Ethics Committee on 3735 4375 (or research-ethics@griffith.edu.au) if I have any concerns about the ethical conduct of the project; and
- I agree to participate in the project.

Participant____________________________ Date__________

Investigator___________________________ Date__________

OR Verbal Consent: YES NO
Appendix C – Informed consent for online survey respondents (phase three)

Franchisee Trust Survey
(Appeared at the beginning of the online survey)

Who is conducting the research
Professor Lorelle Frazer, and
Mr. Anthony Grace
Asia-Pacific Centre for Franchising Excellence
Griffith University
Brisbane Qld 4111
Telephone: (07) 3382 1179
Fax: (07) 3382 1190
Contact Emails:
L.Frazer@griffith.edu.au
A.Grace@griffith.edu.au

Why is the research being conducted?
This survey is part of a larger project examining franchisee trust. It is hoped that this research will increase the understanding of trust within the franchising relationship

What you will be asked to do
If you wish to participate, please complete the following survey. It should take about 15-20 minutes to complete the questionnaire.

Who will be participating
Any franchisees operating in Australia.

The expected benefits of the research
This research is expected to inform the franchising sector about the effectiveness of high levels of franchisee trust within the franchising relationship. The project aims to increase the awareness of trust and what impact it has on the satisfaction and success of the franchising relationship. The findings may also help inform future franchising sector policy reforms.

Risks to you
There are no risks associated with participating in this research.

Your confidentiality
All responses to this survey are confidential. The data supplied by you will be coded and identifying codes will be stored separately. Only aggregated data will appear in the report and no participant organisations will be able to be identified.

Your participation is voluntary
Your participation in this survey is completely voluntary. You are free to withdraw from the study at any time without comment or penalty. You do not need to answer every question in the survey.

Mechanism for distribution and return / Web backend
Data for this survey is being collected via this web-based questionnaire. Once the questionnaire is completed the respondent submits the data and it is stored in a secure server. Access to this data
file is restricted to those people that are allocated a user name and password – system administrators, and the researchers. The server is protected by security configurations (eg firewall). Data stored on the server is backed up once a day so if the server fails or data is corrupted, a back up file is created.

Questions / further information
If you have any queries about this research or if you require additional information, please contact the senior researcher, Professor Lorelle Frazer.

The ethical conduct of this research
Griffith University conducts research in accordance with the National Statement on Ethical Conduct in Research Involving Humans. If potential participants have any concerns or complaints about the ethical conduct of the project they should contact the Manager, Research Ethics on 3735 5585 or email: research-ethics@griffith.edu.au

Feedback to you
The findings of the research will be available to participants, if desired. A web link to the full report will be emailed to participants on completion of the research. The report will be available on the website of the Asia-Pacific Centre for Franchising Excellence (http://www.franchise.edu.au).

Who is funding this research
The survey is being conducted independently by Griffith University as part of a PhD research project.

Privacy Statement
The conduct of this research involves the collection, access and/or use of your identified personal information. The information collected is confidential and will not be disclosed to third parties without your consent, except to meet government, legal or other regulatory authority requirements. A de-identified copy of this data may be used for other research purposes. However, your anonymity will at all times be safeguarded. For further information consult the University’s Privacy Plan at www.griffith.edu.au/about-griffith/plans-publications/griffith-university-privacy-plan or telephone (07) 3735 5585.

Expressing consent
By completing this questionnaire, you will be deemed to have consented to participate in this research. Please print this sheet and retain it for your later reference.
Appendix D – The survey instrument

Let's begin by asking you about your business. Are you a franchisee?
- Yes
- No

Do you operate in the retail sector?
- Yes
- No

Please indicate whether you agree or disagree with the following statements. Please note: The 'Franchisor' refers to the leader of the organisation. This can be the founder, current CEO or General Manager.
(All questions utilised a 7 point Likert scale: ‘strongly disagree’ to ‘strongly agree’)

_____ The franchisor is known to be successful at the things he or she tries to do.
_____ The franchisor has much knowledge about the work that needs done.
_____ I feel very confident about the franchisor's skills.
_____ The franchisor has specialised capabilities that can increase our performance.
_____ My needs and desires are very important to the franchisor.
_____ The franchisor would not knowingly do anything to hurt me.
_____ The franchisor really looks out for what is important to me.
_____ The franchisor will go out of their way to help me.

Please indicate whether you agree or disagree with the following statements

_____ The franchisor has a strong sense of justice.
_____ I never have to wonder whether the franchisor will stick to their word.
_____ The franchisor tries hard to be fair in dealing with others.
_____ I like the franchisor's values.
_____ The franchisor doesn't hesitate to take care of any problems I might have.
_____ The franchisor goes out of their way to solve my problems.
_____ The franchisor is willing to bend company policies to help address my needs.
_____ While the franchisor may have procedures for dealing with disputes, it is expected that each dispute should be treated on its individual merit.
_____ Problems are dealt with in a timely manner.

My franchise system contains Company-Owned stores that are owned and operated by the franchisor
- Yes
- No

My franchisor will often test new products on their own company-owned stores before implementing it throughout the system
- Yes
- No
Please indicate how willing you are to engage in each of the following behaviours with your franchisor (e.g., the CEO, founder, or leader)

- Depend on your franchisor to handle an important issue on your behalf.
- Rely on his or her task related skills and abilities.
- Depend on him or her to back you up in difficult situations.
- Rely on his or her work related judgements.
- Share your personal feelings with him or her.
- Discuss work-related problems or difficulties with your franchisor that could potentially be used to disadvantage you.
- Discuss how you honestly feel about your work, even negative feelings and frustration.
- Share your personal beliefs with him or her.

The royalty fee I pay to the franchisor is
- Calculated as a percentage of gross turnover, or
- A fixed fee

The marketing fee I pay to the franchisor is
- Calculated as a percentage of gross turnover, or
- A fixed fee

Please indicate how much you agree or disagree with the following statements:

- The royalty fee I pay to the franchisor is fair and reasonable.
- The marketing levy fee I pay to the franchisor is fair and reasonable.
- The way that the franchisor calculates the fees I pay is done in a fair and reasonable manner.
- The initial fee I paid to the franchisor was fair and reasonable.

How likely are you to...

- Renew your contract.
- Recommend this franchise to friends, neighbours or relatives.
- Purchase more stores/units in this franchise.
- I am likely to stay in this franchise for as long as I can.

Please evaluate your business on the following factors...

- For the price I paid for the franchise, I would say owning this franchise is a very good deal.
- For the effort involved in working in this franchise, I would you say the Return-On-Investment (ROI) is very worthwhile.
- The purchase price of this franchise represents an extremely fair price.
- This is one of the best franchises I could have bought.
- This franchise is exactly what I need.
- I am satisfied with my decision to buy this franchise.
- I have truly enjoyed owning this franchise.

Please indicate whether you agree or disagree with the following statements

- Owning my own business energises me.
- I really like finding the right people to market my product to.
- Pushing myself and my employees to make our franchise better motivates me.
- Nurturing and growing my business is an important part of who I am.
Please indicate whether you agree or disagree with the following statements

______ I am committed to preserving a good working relationship with the franchisor.
______ I consider the franchisor to be my business partner.
______ I conscientiously try to maintain a cooperative relationship with the franchisor.
______ My relationship with the franchisor is more important to me than profits from individual transactions.
______ Even if costs and benefits are not evenly shared between the franchisor and myself, in a given time period, they balance out over time.
______ We each benefit and earn in proportion to the efforts my franchisor and I put in.
______ My business usually gets a fair share of the rewards and cost-savings in doing business with the franchisor.
______ In our relationship, none of us benefits more than one deserves.
______ I would willingly make adjustments to help out the franchisor when faced with special problems or circumstances.
______ I would gladly set aside the contractual terms in order to work through difficult situations with the franchisor.
______ The franchisor willingly makes adjustments to help me out when I am faced with special problems or circumstances.
______ The franchisor gladly sets aside the contractual terms in order to work with me in difficult times.

Which of the following descriptions best describes the organisational culture within your franchise (only one response may be selected).

☐ Teamwork is emphasised
☐ Formalised rules and structure is emphasised
☐ Risk, innovation and entrepreneurship is emphasised
☐ Goals and performance objectives are emphasised

In my franchise system...

______ People from the head office are warm and caring. They seek to develop the franchisees full potential and act as their mentors or guides.
______ Managers in my franchise are rule-enforcers. They expect franchisees to follow established rules, policies, and procedures.
______ Managers in my franchise are coordinators and coaches. They help franchisees meet the franchise's goals and objectives.
______ The glue that holds my franchise together is loyalty and tradition. Commitment to this franchise runs high.
______ My franchise is a very formalised and structured place. Bureaucratic procedures generally govern what people do.
______ My franchise is a very dynamic and entrepreneurial place. People are willing to stick their necks out and take risks.
______ The glue that holds my franchise together is commitment to innovation and development. There is an emphasis on being first.
______ The glue that holds my franchise together is the emphasis on tasks and goal accomplishment. A production orientation is commonly shared.
In my franchise system...

_____ My franchise emphasises human resources. High cohesion and morale in the franchise are important.

_____ My franchise emphasises permanence and stability. Keeping things the same is important.

_____ My franchise emphasises growth and acquiring new resources. Readiness to meet new challenges is important.

_____ My franchise emphasises competitive actions and achievement. Measurable goals are important.

_____ This franchise system distributes its rewards fairly equally among its members. It is important that everyone from top to bottom be treated as equally as possible.

_____ This franchise system distributes rewards based on rank. The higher you are, the more you get.

_____ This franchise system distributes its rewards based on individual initiative. Those with innovative ideas and actions are most rewarded.

_____ This franchise system distributes its rewards based on the achievement of objectives. Individuals who provide leadership and contribute to attaining the franchise system's goals are rewarded.

My franchise system has a Franchisee Advisory Council (FAC), or similar, giving franchisees a voice.

☐ Yes

☐ No

I participate in the Franchisee Advisory Council?

☐ Yes

☐ No

Please indicate how willing you are to engage in each of the following behaviours with other franchisees in your system

_____ Rely on their task related skills and abilities.

_____ Depend on them to handle an important issue on your behalf.

_____ Rely on them to represent your work accurately to others.

_____ Rely on their work related judgements.

_____ Share your personal feelings with them.

_____ Discuss work-related problems or difficulties with them that could potentially be used to disadvantage you.

_____ Confide in them about personal issues that are affecting your work.

_____ Share your personal beliefs with them.

Compared to other similar franchisees in this franchise system, our performance is very high in terms of:

_____ Sales growth

_____ Profit growth

_____ Overall profitability

_____ Labour productivity

_____ Cash flow

In my franchise system...

_____ I have a mutually beneficial relationship with my franchisor.

_____ I enjoy working with this franchisor.

_____ I feel as though the franchisor and I are "in it together".

_____ I feel that the values of this franchise system match my own.
In my franchise system...

- I have too much work and too little time to do it.
- The franchise arrangement provides a relaxed working environment.
- I feel like I never have a day off.
- In this franchise, too many people get ‘burned out’ by the demands of the job.
- Franchisees take a personal interest in each other.
- There is a lot of team spirit.
- Franchisees tend to get along well with each other.
- I feel like I have a lot in common with other franchisees.
- I can count on a pat on the back from my franchisor when my store performs well.
- The only time I hear about my franchise performance is when I make a mistake.
- My franchisor knows what my strengths are and lets me know it.
- My franchisor is quick to recognise good performance.

In my franchise system...

- I organise my store as I see fit.
- I set the work standards for my franchise.
- I make most of the decisions that affect the way my franchise performs.
- I determine my own operational routine.
- I can count on a fair deal from my franchisor.
- My franchisor does not play favourites.
- The objectives that the franchisor sets for me are reasonable.
- If my franchisor terminates a franchise relationship, the franchisee was probably at fault.
- My franchisor encourages me to find new ways around old problems.
- My franchisor encourages me to develop my own ideas.
- My franchisor encourages me to improve upon its methods.
- My franchisor talks up new ways of doing things.

Please indicate if you agree or disagree with the following statements

- I believe totally in the leadership of my franchisor.
- I have faith in my franchisor's overall strategy.
- I am confident in the franchisor's leadership.
- I agree with my franchisor's pricing strategy for the products I sell.
- I really 'throw' myself into my job.
- Sometimes I am so into my job that I lose track of time.
- Running this franchise is all consuming; I am totally into it.
- I am highly engaged in my business.

Please indicate if you agree or disagree with the following statements

- One of the most exciting things for me is getting involved with things happening in this franchise.
- Being a member of this franchise makes me come 'alive'.
- Being a member of this franchise is exhilarating for me.
- I am highly engaged in this franchise.
The following statements refer to your confidence in the strategy of your franchise system, please indicate whether you agree or disagree.

_____ I am confident in the organisation's ability to introduce future strategic initiatives.
_____ I am confident the organisation will maintain, or increase, re-investment in product development or service adaptation.
_____ I am confident in the system's ability to introduce new services or products in the future.
_____ I am confident that the organisation will maintain, or increase, advertising expenditure.

How do you feel about your franchisor's current marketing strategy? Do you have faith in their brand direction?

Thank you very much for completing our survey - finally, we would like to ask you a few questions relating to the characteristics of your business ownership. Please be assured that your individual and franchise identity will not be revealed.

What type of product or service do you sell?
- Fast food/QSR
- Restaurant
- Cafe/Bar
- Health food
- Fresh produce/Supermarket
- Clothing
- Homewares
- Bakery
- Hair/Beauty retail
- Wellbeing/Fitness retail
- Automotive retail
- Trade retail
- Other (please specify) ____________________

What is the name of your franchise? (not mandatory)

How large is your franchise system? That is, how many stores/units does your system operate worldwide?
- Less than 10 stores worldwide
- 11 to 50
- 51 to 100
- 101 to 200
- Over 200
How long have you owned your franchise?
- Less than 6 months
- 6 months to a year
- 1 to 3 years
- 4 to 7 years
- 8 to 10 years
- More than 10 years (please specify number of years) ___________________

How many units/stores do you own within the same franchise?
- One store only
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- More than 10 stores

Approximately how much did your franchise cost you initially?
- Below $50,000
- $50,001 to $100,000
- $100,001 to $200,000
- $200,001 to $250,000
- $250,001 to $300,000
- $300,001 to $350,000
- $350,001 to $400,000
- Over $400,000 (please specify) ___________________

Please identify your gender:
Male
Female
Please identify your age:
20 years or under
21 - 30 years
31 - 40 years
41 - 50 years
51 - 60 years
Over 60 years

Please indicate which state or territory you run your franchise in?
Queensland
New South Wales
Victoria
South Australia
Western Australia
Northern Territory
Australian Capital Territory
Tasmania

Thank-you for your participation, do you have any final comments about franchising, trust, or the challenges of cooperating with others?

Thank you for completing this survey, if you would like a copy of the results and a free report of the findings, please enter your e-mail address below.
Appendix E – Full SEM model

Full SEM model testing the path relationships
Appendix F – People’s choice winning HDR poster
Appendix G – Example of interview transcript

Interview with Franchising Lawyer
12 April 2013

I think that franchising is a collaborative business between the franchisee and the franchisor. Whilst it’s underpinned by a contract and legislation, ultimately, a lot of that really hinges on the relationship between the parties, the communication between the parties, and the level of trust between them. In the formative years when the franchisees have direct access to the founder, there is a lower ratio of franchisee’s to the founder, he has a lot more time available to them, probably go directly and visit their store. As the system grows, there is a buffer built up there, less time is spent with the franchisees and to visit them in their store. It’s more efficient for them to come and visit you and that can lessen the degree of trust and decrease communication.

There will always be the us and them, the franchisee and the franchisor, are they commercial entities at arms length?
Um….yes they are each their own commercial entity. Are they at arm’s length…I think they are hand in hand but still at arm’s length. I see it very similar to a marriage in that there is a contract that underpins it, but ultimately the legal bond of marriage is worth nothing unless the parties can work together. There will be incidents, there will be differences, it’s a case of whether you can work through those and maintain a sufficient level of trust. Or whether it’s going to lead to a divorce.

Good faith
The concept of good faith at common law has been around for several hundred years. The law is not a static thing, the law should grow and change and sometimes shrink. But the idea of the law is to reflect societies expectations, sometimes the law lags behind society and that is called a deliberate thing because people need consistency and certainty in their dealings. That’s why the law isn’t cutting edge. So with relation to good faith, there will be many cases over hundreds of years that define what good faith is, that evolves over time, as society evolves.

Good faith already exists in every franchise agreement as far as I’m concerned. I don’t think it can be excluded by the franchise agreement. I’m happy for there to be an acknowledgement of that in the code, but any effort by the code to define what good faith is, won’t be comprehensive enough because it can’t possibly cover all the situations and it’s likely to be out of date soon after it’s been defined.

Good faith’s there and part of the franchising relationship as a legal concept, it’s got to be there as an attribute of the franchise otherwise it’s very dysfunctional thing and it won’t succeed.
Being controversial once again, the reality is that franchisors are often called to task over an absence of good faith but franchisees seldom are. Why is that—because of the perception that franchisors are in a superior bargaining position; that they hold significantly more power than the franchisees. The franchise code is essentially a piece of consumer protection legislation to protect franchisees from franchisors, and themselves I suppose.

You also get that in any boom, any gold rush. With franchisee’s and franchisor’s there is going to be a spectrum from the very bad to the very good. I’m aware of one situation where the franchisor had a member of his staff embezzle money from his franchisees. And that person was subsequently convicted criminally and even though there was no legal requirement to do it, the franchisor approached each of those franchisees and wrote them out a cheque for the amount that had been taken. That’s an act of good faith.

Another example, a franchisee that I know of, sold their business, and left a number of small debts around town, the new franchisee coming in, visited all those places and wrote out cheques for that money owing. Even though he had no legal obligation to do it, he wanted to preserve the goodwill and the name of the business.

YOU DON’T HAVE TO ACT IN GOOD FAITH, BUT IF YOU WANT THE RELATIONSHIP TO THRIVE YOU NEED TO DO THE LITTLE THINGS...EXCEED ALL EXPECTATIONS. UNDER PROMISE AND OVER DELIVER.

Because the incremental goodwill you get from that is out of all proportion to the actual capital expenditure. You buy a bottle of wine for a staff member to thank them for going the extra mile, what does it cost you...that staff member is genuinely thankful, it’s not an expected thing and as a result that person goes the extra mile which is worth a hell of a lot more than $15.

WHAT proportion of lenard’s franchisees trust their franchisor.
I think there’s a bell curve, and I think that bell curve exists in just about any franchise system and the bulk of the bell curve sways up and down the scale, it’s a fluid thing and I think it’s based upon historical contact with the franchisor and the relationship with them. So if there is a difficult decision to be made or if the franchisor reneges on a deal or doesn’t live up to what he said he was going to do, even if that’s with one franchisee, not all of them, word certainly gets around and that pushes the bell curve down toward the lower part.

It’s a case of needing to maintain the relationship, you can never say well that jobs done I can put it away. MAINTAINING THE RELATIONSHIP IS A DAILY THING. The simple fact of the matter is that the people at the mistrust end of the bell curve will probably not be persuaded by anything, if you were to turn up unexpectedly at the store and offer to do the worst job for a few hours, they would think you were spying on
them. And people at the top of the bell curve would think you are an absolutely fantastic bloke and they’re terribly humbled by it and they would walk across broken glass for you.

So some franchisees are just high maintenance?
Yeah…but that’s human nature, and the reality is for franchisors is that you spend a disproportionate amount of time trying to deal with people at the bottom of the curve, because your perception is that the people at the middle and top of the curve are in the right position; I don’t need to move them, I need to move the one’s at the bottom and that can be frustrating for a franchisor. And if you give a franchisor a false negative perception, people in a franchise organization that have to deal with the bottom 10 percent, and if they have to do that on a daily basis, the risk to them is that they develop a false negativity about franchisees and franchising in general.

Do you think that authentic trust exists?
I think they do, but then I think if you are talking about genuine, absolute trust, then I think that’s at the top extreme of the bell curve and those franchisee’s are relatively few in number, it’s going to be based upon their own internal expectations and the historical relationship with the franchisor.

People are essentially self interested and if your perception is that decisions are going your way, then you’re likely to have a high level of trust and if thing’s don’t go your way then that deletes the trust bank.

Competing interests
I think the easiest thing to do is maintain a good relationship with somebody who has the same values and aims as you. In a perfect world the franchisees’ and the franchisors’ aims are completely aligned. But let’s take an image of a refurbishing of an outlet. That may well be the best thing to do from the point of view of the customers perception, getting more customers in and putting more money through the till. But there’s the inherent cost of doing that which the franchisee may have to bear, and that’s where those two interests diverge or either where they become confused, because from the franchisors point of view, if there is a cost, the cost is that of convincing their franchisee’s to do it and maybe having staff involved in administrating it, from the franchisees point of view there may be a significant cost in doing it, and even though it may boost sales, there is no guarantee that it will happen. And so they are faced with a case where they are certain that it will cost them money but they are uncertain if it will make them money. And that’s where there is that divergence of interests.

The big picture of wealth creation, when everyone is making money, they are all happy.
When franchisee’s are busy and they are making money, as a franchisor you tend not to hear from them. Whereas when things aren’t going well, the initial response is that they go back to the franchisor and ask why they aren’t making any money.
And there’s that difference between the legal contract and the emotional contract. Every legal contract between a franchisor and a franchisee will almost certainly say that the franchisor does not guarantee that the franchisee is going to make money, or how much money they are going to make. But the emotional contract from the franchisee’s perspective: I’m entering into a business, these people know what they are doing, their stores look so great. I’m sure everyone is going to buy this product or service and I’m excited and I’m going to make a lot of money out of this. This sort of gets back to the stages of the relationship in franchising. When they first enter into the franchise they only hear the good news cause that’s all they want to hear.

**Are they naïve because of that?**

Ahhhhhh I think that’s the wrong word… I think they are excited, I think that they are passionate, expectant, but this is something that TP used to do very well at eagle boys, he would go through the process with potential franchisees, and he would say you are now in a pizza business, the peak periods are weekends and nights, so for the next 2 years you are not going to get a weekend and night off. And you won’t see much of your kids. And so he would give them in no uncertain terms, the worst case scenario, of a lot of those intangibles; lifestyle issues that maybe those people hadn’t considered.

I find that that is a powerful relationship building tool, because subsequently down the track, when that initial honeymoon period is over, and things are tough, you know their expectations drop a little bit, they look back at that and say well this guy was honest with me and at the end of the day, that gives credibility to the franchisor. It serves two purposes in that it seeks to open the franchisee’s eyes, and secondly it proves your honesty which prima facie isn’t in your best interest.

Polishing the emotional gloss off the window.

It’s easier to deliver a better result than peoples expectations than it is to deliver a worse result. And a lot of this is outside the control of the franchisor, e.g., the GFC, which they are blamed for, or looked to for a solution when a solution doesn’t exist.

**But that relationship building costs money?**

It also makes money. From the franchisor’s perspective, it’s about investing in intangibles. Just because something is intangible doesn’t mean it doesn’t exist, it just means that you can’t put it on a balance sheet and you can’t define it and you can’t take a photograph of it. But in my experience, because franchising is a strong relationship, the intangibles, if they are done properly, result in real bottom line tangible benefits, for all parties.

**Length of contract**
Typically the higher initial capital expenditure required the longer the term, allowing franchisees to recoup their initial spend. Some of them are 20 year agreements, Lenard’s is a 10 yr with a 10 yr option.

**Would it help if you started to increase the life of the contract up to 30,40, 50 years...because in a marriage there’s no exit strategy, through thick or thin.**
I think this is another area where the franchise relationship very closely parallels the marriage relationship. In the beginning, during the courtship and the early years of marriage, it is based on love and love involves, rose coloured glasses, it involves different expectations, I think at some stage the marriage relationship metamorphosis’s from a love relationship to an interdependent or trust relationship. There’s not as much passion involved, but there’s as much if not more emotion involved, so marriage’s metamorphosize over time, some of them end up being for the long term, some don’t and that stats show that more marriages are ending up in divorce than ever before, and I think that’s the parallel with franchising, in that a good franchising relationship should pass through the love phase and into an interdependent and respect phase

**And become stronger because of it>>** Absolutely, and if that relationship maintains as being as strong and mutually beneficial, then the parties will renew, and it may be that that’s a development to a stronger relationship. It may be that the franchisee takes on more units, or even sells their business and comes to work for the franchisor, and if not, when the term of the franchise comes around, that could mean a divorce. And I suppose the parallel with divorces, some divorces are quite easy, and other one’s are pretty complex and spiteful.

**What’s the root cause of that?**
Well…it depends on why the divorce is happening. Sometimes there’s a gross divergence of interests. Franchises end for many reasons and many varied reasons, as do marriages, sometimes it’s just a natural progression that I’ve been a franchisee for many years and now I want to go out into the world and try something new or I’m tired and I just want to kick back

**Anything else**
Well we talked a lot about the relationship between the franchisee and the franchisor, I suppose the founder, and as the franchise organization matures it becomes that there is less time and opportunity for the founder to have direct contact with the franchisees, layers of management build up underneath the founder, I think that it is vitally important for those layers of management to not have the same relationship with the franchisee’s that the founder had, but to transform that relationship into something that is equally strong and I believe that that can happen. And I’ve experienced that myself in franchising, where even the job that I’ve had within a franchise organization, and you could say that it’s a job that does not usually deliver happy news to franchisees, at least you can be respected in that role and there can be mutual respect. And I’ve had a situation where I was invited back to the opening of a new AB office a number of years after I left AB’s. .................FRIENDSHIP .......................A number of the
franchisees that I knew were there, they sort of cornered me and we all had a drink and talked about the good old days, and that was a really pleasant experience. Even though at the time I would be the person that would deliver them the bad news if they were in breach, it’s quite often not about delivering bad news but how you deliver it and the method in which you deliver it, being respectful and being consistent and all of those good qualities which go toward a good marriage!!
Exactly!!