

**Does the Franchisee's Perceived Relationship With The  
Franchisor Have An Impact On Their Marketing  
Performances?  
A study of Lifestyle Franchises in selected cities of  
Maharashtra  
Mary Abraham Mathews<sup>1</sup>                      Dr. Henry Babu<sup>2</sup>**

**ABSTRACT**

There is no doubt today that franchisors should be concerned about how strongly they are perceived as providing value to their franchisees. While a strengthening of franchisee opinions about the received value from franchisors can help to solidify a positive relationship between franchisee and franchisor, weakening of franchisee opinion about the value received from the franchisor may provide a signal that the franchisor-franchisee relationship is deteriorating. If deterioration in the franchisor-franchisee relationship is not detected in its early stages, the compromise of the franchisor-franchisee relationship may continue to evolve to the point where the relationship becomes dysfunctional, resulting in increased tensions between franchisors and franchisees and ultimately in the termination of the relationship itself. Thus, there is a need to examine factors that cause the actual changes and their impact on performances of franchisees.

---

<sup>1</sup>**Consultant, Retail Industry**, Ph.D. Scholar, Padmashree Dr. D. Y. Patil University's Department of Business Management.

<sup>2</sup>**Director** – Mansukhani Institute of Management, Ulhasnagar

## INTRODUCTION

Franchising is the granting of a license by one person (the franchisor) to another (the franchisee), which entitles the franchisee to trade under the trade mark/trade name of the franchisor and to make use of an entire package, comprising all the elements necessary to establish a previously untrained person in the business and to run it with continual assistance on a predetermined basis. Franchising makes owning a small business easy. One buys into a proven business model, follows the instruction manual and, presumably experiences financial success. That is the myth, anyway. The truth is that hundreds of franchisees fail each year. The most frequent causes: lack of funds, poor people skills, reluctance to follow the formula, a mismatch between franchisee and the business, and -- perhaps surprisingly -- an inept franchiser.

The Wall Street Journal reports that more than 200 new franchise systems established in the United States each year, 25% don't even make it to their first anniversary. Franchise India which is Asia's largest integrated franchise and retail solutions Company quotes that there is a failure rate of 15% among franchises in India. Loot India Ltd, which runs The Loot chain of multi-brand discount-format stores, has plans to either shut down non-performing stores or taking them over from franchisees (report-DNA). Jay Gupta, managing director, said the retailer recently took over five stores from franchisees when it found them unviable and then turned them around. M&S might think of closing some of the franchisee stores in the near future. Spencer's from RPG shutdown more than 150 of its non-performing stores during the slowdown. Foodland had 43 stores in and around Mumbai and decided to retrain only three of its profitable stores. Although Foodland built a good offering of fresh non-vegetarian fare and bakery and fresh meals, the stores fell short of expectations on key performance parameters such as sales, break-even or return on investments. Organizations develop and change over time; in the process, their structures, goals, and priorities change. The development of organizations is certain to affect their inter-organizational relationships. Moreover, in contrast to the independent entrepreneur, franchisees have to contend with the restrictions of franchisor controls, contractual specifications, and financial costs associated with the franchise system. In addition, conflicting profitability goals and problems of control are common between franchisor and franchisee (Justis, Olsen, and Chan 1993). The sacrifices inherent in the franchise form of organization are presumably made in exchange for a brand name, a proven business plan, and support services. Thus, it is important to both franchisees and franchisors to identify factors which influence franchisee performance for the success of the franchise business. Neither a franchisor nor a franchisee can afford to waste time and energy on a discordant relationship (Laurie 2000). However, franchise relationships are difficult to manage, given the very different goals and objectives of franchisors and franchisees. Franchise systems consist of multiple organizations that legally are independent, economically are interdependent, and operationally are indistinguishable to consumers (Parsa 1996). Therefore, it is very important to establish a strong partnership relationship in the franchise system to ensure long term business success. In the Indian context, Anil Saraogil (2009) alludes that the franchisors should be able to identify and select franchisees which are more likely to perceive their relationship with the franchisors to be more cooperative and behave less opportunistically. In fact, the franchisees with favorable dispositions and desirable characteristics can lower the agency costs to the franchisors in the form of less safeguarding and monitoring costs. Also, some franchisees may quit the relationship and leave the system, which is particularly problematic, given that the franchisor has made specific investments in the selection and training of franchisees, and in establishing the franchisees' businesses (Shane, Shankar and Aravindakshan 2006). Failed franchisee units also have an impact on other franchisees, causing far-reaching negative effects (Frazer and Winzar 2005). Tracy Harmon (2008) developed a conceptualization of franchisee perceived relationship value, defined as the trade-off between perceived net worth of tangible and intangible benefits and costs to be derived over the lifetime of the franchisor-franchisee relationship, as perceived by the franchisee, taking into consideration the available alternative franchise relationships. A survey of existing literature provided the relevant constructs and concepts for developing a conceptual framework of franchise perceived relationship. Vosgerau, Anderson & Ross (2008) confirmed that perceptions are a strong determinant of the functioning of B2B relationships. Perceptions matter not only in terms of how accurately a party perceives its counterpart's relational closeness, but also how it frames its counterpart in terms of the image it holds of the counterpart and perceived goal. How a focal party frames its partner is a strong determinant for how much conflict is experienced in the relationship and thus, ultimately, how much profit is realized. Lifestyle retailing is retailing geared to people with a common lifestyle. It's a matter of providing offerings and a place conforming to the self-image of the people in this segment of the marketplace, whether it's their current self-image or an aspirational self-image. In taking a lifestyle retailing approach, the retailer has to commit to a particular lifestyle segment, researching on what the lifestyle characteristics are of a particular market segment, and will position itself for that segment. India Franchise Association reports that changes in economy and lifestyle all over the globe have led to an increase in sales of clothing, shoes, jewelry and accessories which makes this a great industry to try to get into, particularly on a franchise level.

Thus, this sector offers lucrative franchising opportunities with people willing to spend adequate amount of money on clothes and accessories. Just over few years ago, the total retail space devoted to non-grocery orlifestyle retail was nothing much to talk about. Today non food categories such as Apparel, Footwear, Jewellery, Watches, Books, Gifts, Furniture, Mobiles and Consumer Durables are moving fast ahead. Hence this paper studies this critical lifestyle category.

**ii). Gap Analysis**

Sr. No.	Gaps
1	The studies reveal that there has been no empirical examination of the impact of franchise relationship perception and its correlation to associated outcomes of marketing performances in the franchisor – franchisee relationship. There is a paucity of research that examines the links between relationship and these factors in franchised marketing channels.
2	Further, studies have mainly focussed on the franchisors and not attempted to study the effect of perceived relationship in the franchising operation, from the franchisee’s perspective. This being important as the franchisee plays an important role in determining the franchisor’s success.
3	There is an absence of studies in the lifestyle category (a highly contributing segment to the retail industry) in franchising in India.

**iii). Scope of the Study**

This study tries to explore the impact of the perceived relationship based on the parameters role integrity, flexibility, mutuality, solidarity and use of power on the marketing aspects of the franchise business, providing an alternative viewpoint of the franchise relationship from the franchisee's perspective. The study affords a useful foundation for making decisions in a franchise relationship especially in areas such as franchise channel sustenance, the choice of a new franchise channel selection, maintaining relationships for growth, etc. This work seeks to empirically examine franchisee relationship and consequences from the franchisee's perspective.

**RESEARCH OBJECTIVES OF THE STUDY**

The objectives of the study seek to examine the effects of different relationship parameters on marketing performances. The objectives are as follows -

- To study if the franchisees’ perceived relationship based on lack of role integrity has a high impact on marketing performances.
- To study if the franchisees’ perceived relationship based on lack of flexibility has a high impact on marketing performances.
- To study if the franchisees’ perceived relationship based on lack of mutuality has a high impact on marketing performances.
- To study if the franchisees’ perceived relationship based on lack of solidarity has a high impact on marketing performances.
- To study if the franchisees’ perceived relationship based on use of power has a high impact on marketing performances.
- Provide franchisors a constructive lens to better evaluate franchisee relationships and the value of social elements within the relationship.

## RESEARCH METHODOLOGY

**Research Design :** Descriptive Research using Survey tools

**Pre Study :** This was done by conducting exploratory studies with franchisors, franchisees and franchise associations to secure greater insights into the practical aspects of the problem and finalise the parameters of marketing performances. Secondary research was used to study the concepts and studies on franchisee perceived relation parameters and its implications.

**Pilot Study :** A pilot study was conducted in Navi Mumbai to make sure the questionnaire was relevant and clear to the respondents. Survey Method was used to collect the information and test the questionnaire. Based on the survey the questionnaire was modified and tested for reliability.

**Data Collection :** Survey Method - A self-administered, structured questionnaire was employed. The questionnaire was administered to Retail business format franchisees.

**Sample Design :** The contribution of the retail lifestyle category is higher than other categories in India and since their contribution to the number of franchises in retail is substantially larger they have been selected as the focus of the study. The selected lifestyle categories are apparel, jewellery, watches and footwear. The study was conducted in Mumbai City, Thane City, Kalyan City, Dombivili City and Navi Mumbai City. Keeping in mind the cross city comparability, for the purpose of this study franchisees from Pune City were part of the sample. These cities support a growing retail market and are representative of new burgeoning cities and towns. In the absence of availability of reliable documented resource listing total franchisors and their franchisees in India, identifying the sample frame has been a difficult task. Hence convenience sampling method was used for the study. Sample size: 238 franchisees responded by filling the questionnaires.

**Questionnaire :** A detailed questionnaire was used to collect the data. Twentynine questions were developed which tested Tracy Harmon's (2008) conceptualization of the franchisee's perception of the relationship against the determined marketing parameters. These incorporated 5 dimensions are namely Role Integrity, Flexibility, Mutuality, Solidarity and Use of Power. The marketing parameters that may be affected by lack of relationship are Walkins, Sales Conversions, Sales Targets, Product Merchandising, Visual Merchandising, Advertising/Promotions, Profitability, Inventory Control and Revenue Growth.

**Analysis :** The data collected was analyzed on SPSS (Statistical Package for Social Sciences). The multi-item scales were individually factor-analyzed to test them for unidimensionality, and Cronbach's alpha was computed to assess reliability. While mean comparison was used to compare figures and determine the extent of impact among factors, T tests analysis for paired samples was used at the end of the analysis to compare the differences of impact between factors. In order to validate the hypothesis, the data was analysed using Pearson's Chi Square Test. In the absence of literature on the measure assessment, for convenience, on a % scale of 1-100, 50% being the average score, a Mean of 50 was taken as a mid point and results 50% and lower was considered to be low and results above 50% were considered to be high.

## FINDINGS & CONCLUSIONS

This study addresses an important but empirically under-emphasized area in the franchise relationship literature. The hypotheses in the study were organized around the thesis that franchisee development is affected by the perception of the franchise relationship. The collective support for the hypotheses indicates that franchisee's relationship with its franchisor has an important effect on marketing performances and behavioural outcomes and in varying degrees. No previous study has examined this linkage in the business format franchise system setting. The franchisees that were interviewed had an average franchise age of 5.86 years. They owned on an average per franchisee, 3.81 stores of the same brand. Many of the franchisees also owned stores of more than one brand (Average number of stores of other brands = 7.36). Findings reveal that the franchisee's perception of the relationship based on lack of role integrity has high impact on marketing performance. Mean=69.89, Significance (2 tailed)=0.000 ( $P > 0.05$  significant) indicates that the relationship is significant. Hence the null hypothesis that *the franchisee's perception of the relationship based on lack of role integrity does not have high impact on marketing performance* is rejected. The alternate hypothesis that *the franchisee's perception of the relationship based on lack of role integrity has high impact on marketing performance* is accepted. Similarly the franchisee's perception of the relationship based on lack of flexibility {Mean=65.81, Sig (2 tailed)=0.000}, mutuality {Mean=65.92, Sig (2 tailed)=0.000}, solidarity {Mean=65.79, Sig (2 tailed)=0.000} and use of power {Mean=55.40, Sig (2 tailed)=0.000} has high impact on marketing performance.

There is significant relationship between perceived relationship based on each of the factors and marketing performance. Hence the null hypotheses are rejected and alternate hypotheses are accepted. This indicates that bilateral expectation and behaviors which contribute expressly to relationship maintenance has high impact on the marketing performances.

## Conclusions

The effect of role integrity, flexibility, mutuality, solidarity and use of power factors have a high impact on the marketing performance of the franchisee. The franchisors need to focus on these identified critical areas which will help the relationship

improve and most of all result in better franchisee performances, longer relationship cycles and better developed franchise networks.

Franchise performance depends upon franchisee identification with the franchisor. If franchisees strongly identify with the organization, the franchisor will be better equipped to coordinate and control franchisees who are geographically dispersed, retain them as franchisees, and provide a context that fosters organizational citizenship behaviors (Wiesenfeld et al, 1999) such as information sharing (see Constant et al., 1994). These relational factors that franchisors exhibit among franchisees has significant relational payback.

### **LIMITATIONS & FUTURE RESEARCH**

Research of perceptions of individual franchisees within the franchise relationship and its effect to their operations is limited within Maharashtra. Future research can cover other parts of the country to test if possible dynamic differences in the franchisor/franchisee dyad exist within different geographical areas. More studies including other product categories can be conducted.

Another limitation of the study was that we did not explicitly measure differences in franchisee performance. Although our dependent variables were theoretically linked to performance, empirical tests should be conducted to decipher the extent to which they make a difference in the franchising operation.

### **REFERENCES**

1. Bajaj, Chetan & Arya, Rajnish & Srivastava, Nidhi, Retail Management, Oxford University Press, 1st Edition, Pg 135
2. Combs, J.G., Ketchen, D.J. and Hoover, V.L. (2004), "A strategic groups approach to the franchising-performance relationship", *Journal of Business Venturing*, Vol. 19 No. 6.
3. Fred Langerak. (2001) Effect of customers' and suppliers' perceptions of the market orientation of manufacturing firms on channel relationships and financial performance, *Journal of Business to Business Marketing*. Binghamton: Vol. 8, Iss.
4. Fashion United -The Loot undertakes restructuring, [Online : web] Accessed 06 January 2012, URL: <http://www.fashionunited.in/news/apparel/the-lootundertakes-restructuring-060120122988>
5. Franchise India Holdings Ltd (FIHL) and the Federation of Indian Chambers of Commerce and Industry (FICCI) with the Confederation of Indian Food Trade and Industry Report, April, 2009
6. Frazer, Lorelle and Hume Winzar (2005), "Exits and Expectations: Why Disappointed Franchisees Leave," *Journal of Business Research*, 58 (11), 1534-42.
7. Ganesan, S. (1994), "Determinants of long-term orientation in buyer-seller relationships", *Journal of Marketing*, Vol. 58 No. 2.
8. Justis, R.T., J.E. Olsen, and P. Chan (1993). "Using Marketing Research to Enhance Franchisee/Franchisor Relationship," *Journal of Small Business Management* 31, 121-127.
9. Kaufmann, P.J. and Stern, L. (1988), "Relational exchange norms, perceptions of unfairness, and retained hostility in commercial litigation", *Journal of Conflict Resolution*, Vol. 32 No. 3, pp. 534-52.
10. Laurie, Crystal (2000). "Partners for the Millennium," *Franchising World* 32(January/February), 12-20.
11. India - Fashion & Lifestyle Franchise Report - 2009-10, Franchise India Holdings India Retail Report, 2007, Images F&R Research.
12. Parsa, H. (1996), "Franchisor-franchisee relationships in quick-service restaurant systems", *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 37 No. 3, pp. 42-50.
13. Rolnicki, Kenneth (1998), *Managing Channels of Distribution*, AMACOM, Pg 158
14. Saraogil, Anil, (2009) Exploring Franchisor Franchisee Relationship: Building a Predictive Model of Franchisee Performance, *The Journal of Business Perspective* January 2009 vol. 13 no. 1 31-58
15. Shane, Scott, Venkatesh Shankar and Ashwin Aravindakshan (2006), "The Effects of New Franchisor Partnering Strategies on Franchise System Size," *Management Science*, 52 (5), 773-87
16. Tikoo, Surinder; Guiry, Michael (2006), A comparative study of inception and established franchise relationship in business format systems, *Journal of Business and Entrepreneurship* 18. 1 : 32-42.
17. Tracy R. Harmon, Merlyn A. Griffiths (2008). *The Journal of Business & Industrial Marketing*. Santa Barbara: Vol. 23, Iss. 4.
18. Vedamani, G. Gibson (2008), *Retail Management*, 3rd Edition, Jaico Publishing House, Pg 157-160, 536, 543-546
19. Vosgerau, Anderson & Ross (2008), *Marketing Science* Vol. 27, No. 2, pp. 205-224

## ANNEXURE

### Definition of terms used

**Role integrity** - Any single franchise organization represents multiple individual relationships between franchisor and franchisee. These roles are a reflection of mutual promises the actors made during the formation of their relationship, and according to [33] Kaufmann and Stern (1988), these promises lead each actor within the exchange to develop expectations regarding the other's behaviour.

**Flexibility** - Flexibility in exchange relationships is generally viewed as each partner's general readiness to react to unforeseen changes in the external and internal environments. Inflexibility on the behalf of either party will result in dissatisfaction and conflict.

**Mutuality** - Mutuality is the attitude of both partners that the franchisor's success depends on the franchisee's overall success. This attitudinal disposition keeps both the franchisor and the franchisee from maximizing their individual benefits at the expense of the other. Franchisors are recognizing it is in their interest to align more closely with the franchisee.

**Solidarity** - Solidarity is articulated through behaviors which contribute expressly to relationship maintenance. The degree to which an exchange partner expresses solidarity in a relationship signifies the importance that partner has for the long-term orientation of the relationship.

**Restraint in the use of power** – Typically, franchisors possess substantially more bargaining power than their franchisee partners, which makes it possible for franchisors to extract unfair concessions from franchisees.