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Retail Franchising: Management and Support within the Franchise Network

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Abstract

Management and support within the franchise network has been an underdeveloped area in the literature to date, especially in the international context. In light of this acknowledgment, the current paper will focus on management and support within the franchise network, by looking at coercive and non-coercive power sources, as methods used for control in the franchisor-franchisee relationship. The relationships between these power sources, the degree of uniformity and the franchise offering will subsequently be addressed.

Introduction

A franchise business relationship is characterised by the franchisor assigning the right to market or distribute their goods or service, and to use their business name for a fixed period of time to independent people, or franchisees (FCA, 2008). This business format has become increasingly popular from both an Australian, and an international perspective. Duckett (2008) indicates that where international growth is an objective for a company, franchising is becoming one of the most popular methods for achieving this growth. It has been further recognised that from an Australian perspective franchising is ever popular as a business strategy. Indeed the popularity towards franchising as a widely adopted form of business strategy, has driven Australia to become the most franchised country in the world, three times more per capita than what is seen in the United States (Zeidman, 2007). More specifically, the ability to franchise operations within Australia has been a key factor in the success of the Retail Trade Industry, and a growing number of retailers are expanding overseas via master franchise agreements (IBISWorld, 2008). Quite astoundingly there was a 67 percent increase in the number of retail food franchise concepts between 2003 and 2005 (FRANdata, March 2007), and the retail trade food and retail trade non-food operations account for 44 percent of Australia’s franchising industry (Frazer, Weaven et al., 2006).

As franchising becomes more popular and is used more frequently around the world, the relationship between the franchisor and the franchisee becomes increasingly important, and is essential to the success and consistency recognised in the franchise network. Further, Moore, Birtwistle & Burt (2004, p. 749) have pointed to the importance of the this relationship, specifically in the international context by indicating that ‘the process of internationalising retail operations is relationship dependent’. While the literature is indeed underdeveloped, there have been a number of studies that have looked at the franchisor-franchisee relationship, and more specifically power and control, and management and support within this relationship. The literature that has been written in this area has largely examined fashion based and body-care retailers in the UK, a US based franchise system, fast food chains in Israel and the fast food industry in a number of international countries. Having examined these prior studies, the current research will look at a number of coffee retailers within Australia that have not previously been thoroughly addressed to date. The research will look specifically at the sources of power and control that are
exercised by franchisors to manage and support their franchisees, and also the relationships between these power sources, the degree of uniformity and the franchise offering.

Central Theoretical Constructs

Power and Control: Two power sources have been widely employed in the preceding literature surrounding the franchisor-franchisee relationship, namely coercive and non-coercive sources. Hunt and Nevin (1974, p. 187) state that ‘the various sources of power dichotomise meaningfully into coercive and non-coercive sources’. In their most basic form, ‘coercive power sources are characterised by potential punishment whereas non-coercive sources of power take the form of assistance and support activities’ (Doherty and Alexander, 2006, p. 1294). Within a franchise context, coercive power sources can be defined as ‘a set of monitoring systems to ensure strict adherence to the franchise agreement and protection of the franchise trademark’ (Quinn, 1999, p. 347). Coercive power sources are featured in the franchise contract, where punishments in the form of potential contract termination and sanctions may be administered for contract non-compliance (Doherty and Alexander, 2006). Alternatively, non-coercive power sources include softer variables, which include expert advice and support activities where these power sources are effectively concerned with management by persuasion (Quinn, 1999; Quinn and Doherty, 2000).

Degree of Uniformity: ‘A major dilemma for retailers operating internationally is to achieve a balance between format standardisation, with resulting economies of scale, and complete adaptation to local needs and competitive conditions’ (McGoldrick and Ho, 1992, p. 71). This statement defines the nature of the degree of uniformity, where uniformity is based on the degree of standardisation or adaptation of the marketing mix, namely product, pricing, promotion and distribution (Theodosiou and Leonidou, 2002). In effect standardisation refers to the similarity of the marketing elements of a business between countries or regions, while adaptation refers to the dissimilarities between the marketing elements between countries or regions (Boddewyn and Grosse, 1995). Subsequently, where a franchise is standardised, the marketing mix is uniform across all retail stores, and adaptation is achieved when elements in the marketing mix are modified subject to international or regional conditions.

The franchise offering: is comprised of two major elements; store operations and the retail offer. Store operations are comprised of elements relating to management support in terms of strategically operating the franchise business via the franchise manual, development plans and also the monitoring of financial data, training in stock control, budget and accounting, and also ongoing monitoring and feedback on sales and turnover figures (Baron and Schmidt, 1991; Doherty, 2007). Alternatively the retail offer is effectively comprised from the elements that form the marketing mix. Elements in the retail offer have been defined by Evans and Bridson (2005, p. 71) as ‘merchandise quality, range and fashion, level of services, facilities, layout, atmosphere, location, quality of display, advertising, general reputation, reliability, price and image in general’. The retail offer is essentially what is seen and experienced by the customer, whereas store operations relate to the assistance and support provided by the franchisor for elements relating to the management of the store behind the scenes.

Conceptual Model
Relationships Among Constructs: The literature surrounding power and control in international retail franchising has largely focused on coercive and non-coercive power sources, and their effects on the franchisor-franchisee relationship. Early studies examined power and control in the areas of political power (Simon, 1953), franchise distribution (Lusch, 1976), marketing channels (Lusch and Brown, 1982; Gaski and Nevin, 1985) and in relation to channels of distribution (El-Ansary and Stern, 1972; Hunt and Nevin, 1974; Etgar, 1976; Gaski, 1984; Frazier and Summers, 1986; Gaski, 1986). These early studies provided a foundation for further research into the retail franchising area, where to date the research is still underdeveloped, especially in the international context. Quinn and Alexander (2002) have acknowledged that the literature surrounding franchising has largely been directed towards the domestic franchise context, where the US market has been a focus. More recent studies have examined power and control in international retail franchising, including UK based fashion retailers (Doherty and Alexander, 2004; Moore, Birtwistle et al., 2004; Doherty and Alexander, 2006; Doherty, 2007), UK based body-care companies (Quinn, 1999; Quinn and Doherty, 2000), a US based franchise system (Tikoo, 2005), fast food chains in Israel (Pizanti and Lerner, 2003) and the fast food industry in the USA and Iceland, Ireland, the UK, Belgium and the Netherlands (Paik and Choi, 2007). The more recent research suggests that coercive power when exercised by a franchisor, is likely to decrease satisfaction, while non-coercive sources will increase satisfaction, it seems that it is the support activities of the franchisor that may enhance control of franchisees (Quinn, 1998). The current research will initially examine the most preferred and effective power sources used to manage and support the franchisee, from an Australian context and in an industry that is quite different from the preceding studies.

**RQ1:** What coercive and non-coercive sources of power are used to manage and support the franchisees in the franchise network?

**RQ2:** What are the preferred methods of control that are exercised in the management and supporting of the franchisees in the franchise network?

To contribute to the literature in the area of international retail franchising, the relationship between the degree of uniformity and power sources will be examined. These elements are both highly relevant when managing and controlling the franchise network, as Baron and Schmidt (1991, p. 18) suggest that ‘there is tension between the franchiser’s desire for a uniform image and the franchisee’s wish for autonomy’. Doherty and Quinn (1999) have also indicated that the degree of standardisation versus adaptation in the context of international retail franchising presents a rich source for further examination. There has certainly been much debate over whether a
standardised or adapted approach to the franchise network is more effective, and where it has also been concluded that in practice both elements are required for this network to be successful. While Moore, Birtwistle & Burt (2004, p. 759) argue that ‘success comes from standardisation and centralisation’, Quinn (1999) signals that an argument has also been made for the requirement of adaptation in order to operate successfully in a diverse market. While it is acknowledged that both elements are highly important, it is clear that both are needed to some degree. Welsh, Alon and Falbe (2006, p. 145) suggest that ‘while standardisation allows a franchisor to ensure consistent quality, which lead to brand awareness, emerging markets are often so different that significant modifications in operations or format of the original systems are sorely needed’. In response to this acknowledgment that both standardisation and adaptation are important to the franchise network, the current research will examine the relationship between the degree of uniformity and power sources, more specifically it will endeavour to identify whether the power sources chosen by the franchisor influence, or are influenced by the degree of uniformity.

RQ3: Do standardisation and adaptation influence the control mechanisms exercised by franchisors to manage and support franchisees?

RQ4: Do the control mechanisms chosen by franchisors for management and support influence standardisation and adaptation?

The franchise offering will also be examined in terms of store operations and the retail offer. Where the franchisor-franchisee relationship is pivotal to the success of the franchise, managing and controlling the store operations and the retail offer are of a high importance. Encinas (2000) indicates that internationalising the retail offer is indeed a complex operation, when the image is central to that offer. The retail offer is an element that requires a great deal of control and careful management in order to ensure the success of the franchise. Doherty (2007) identified that support and control are inter-related, and found that the support function can be identified as a method of control. Doherty and Alexander (2004) also found that a more defined retail brand offering lead to the firm controlling the relationship through the support function and ongoing communication, namely a non-coercive power source rather than a coercive power source by way of the contract. The current study will therefore endeavour to examine the relationship between the franchise offering and power sources, while more specifically looking at whether the power sources chosen by the franchisor influence, or are influenced by the franchise offering. The essence of the current research is to examine whether the business model of the selected coffee retailers determines the power sources and control mechanisms employed by the franchisor, or whether the power sources and control mechanisms employed by the franchisor influence the retailer’s business model.

RQ5: Does the franchise offering influence the control mechanisms exercised by franchisors for management and support?

RQ6: Do the control mechanisms chosen by franchisors for management and support influence the franchise offering?

**Research Method**

Quinn and Doherty (2000) indicate that the majority of the previous studies on international retail franchising have been predominantly comprised of quantitative studies, employing a postal survey method, and that in order to understand international retail franchising, a wider range of methods are required. The current
research will subsequently employ a general qualitative method, where the research will be exploratory in nature. Creswell (2007) indicates that qualitative research should be employed when the problem or issue being researched needs to be explored, and because a detailed and complex understanding of the issue is required. In-depth, semi-structured interviews will subsequently be used for the data collection in the current research, as there is a certain depth that is required in this case that calls for a qualitative research approach. Quinn (1999) gives support by indicating that much of the previous research has been conducted by way of mail survey, and that this method simply cannot provide the depth required for a firms internationalisation process.

While the specific names of the companies that will be interviewed cannot be disclosed due to confidentiality reasons, two franchise consultancy firms, and the franchisor and a franchisee from four retail coffee franchise companies will be interviewed. Triangulation will be used by interviewing both the franchisor and franchisees from the retail coffee companies and two franchise consultancy firms, while also using the preceding literature surrounding power and control in international retail franchising to ensure an unbiased data collection. The interviews will be conducted at the workplaces of the selected participants and will last up to 45 minutes. Creswell (2007) indicates that pilot testing should be used in order to refine the interview questions that will form the basis for the final interviews to be conducted, and selected on convenience, access and geographic proximity. In this case, prior to conducting the final interviews the researcher will endeavour to conduct a pilot test with Jody Evans from the Melbourne Business School, in order to ensure the accuracy and correct focus of the research questions. The final interviews will be recorded, transcribed and analysed using Nvivo (computer software) as ‘it facilitates rich text, analysis, flexible interpretations, memos, development of matrices, modelling and framing’ (Grbich, 2007, p. 228). The final results will be presented as a discussion; where the interviewee names will be coded, as will the names of the companies interviewed.

**Conclusion and Contributions**

The current research will provide the management of franchise companies with a more in-depth and detailed account of what the most preferred and effective control mechanisms are when managing and supporting franchisees. In addition this research will also provide insight into the relationships between the power sources used for control, and the various elements relating to the franchise network and more specifically standardisation, adaptation, the store operations and retail offer. The research will also contribute to the under-developed extant literature, and will provide academics with an additional avenue for future research by examining the proposed relationships between the previously discussed constructs.
References


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