

# INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT

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## MEASUREMENT OF FRANCHISEE SATISFACTION BASED ON THEIR PERCEPTION ABOUT THE PERFORMANCE OF THE FRANCHISERS

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SURAT

### ABSTRACT

Since its beginning in early 90s, the franchise industry has grown in leaps and bounds in the Indian sub-continent and there is still much to explore, based on the successful growth of many franchise brands in India. The review of literature suggests the lack of research on franchise implementation with majority of currently available research focusing on the power relationship between franchiser and franchisee. The present study follows a descriptive research design and attempts to measure franchisee satisfaction (dependent variable) with the help of variables such as perception of the franchisees related to training and promotional support extended by the franchiser, quality of product / services offered, competence level of the management of the franchiser, and the quality of communication and relationship between them (independent variables - IV). A Likert-like scale has been used to measure perception of the franchisees (sampling unit). It is a cross-sectional, ex-post facto, field research based on responses collected through a questionnaire using a survey method from 25 franchisees selected using a convenience sampling technique. The findings reflect that the franchisees still have a very low confidence in the management competences of the franchisers (mean variable score 3.69). The overall satisfaction of the franchisees based on training and promotional support, quality of products/ services, management competence, and communication and relationship, seems to be fairly good (overall mean score of 3.83). The present study opens up new directions for further research. Research may be taken up with a focus on a specific area of organised retail sector. Moreover, one may also think of replicating the research using more extensive criteria for measuring satisfaction.

### JEL CODE

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### KEYWORDS

Franchisee-Franchiser Relations, Franchisee Perception, Franchisee Satisfaction.

### ORGANISED RETAILING AND FRANCHISING

The Indian retail market, which is the fifth largest retail destination globally, was ranked second after Vietnam as the most attractive emerging market for investment in the retail sector. The share of retail trade in the country's gross domestic product (GDP) was between 8–10 per cent in 2007. It is currently around 12 per cent, and is likely to reach 22 per cent by 2010.

India's retail market is currently valued at US\$ 511 billion, and is poised to grow to US\$ 833 billion by 2013. Organized retail currently accounts for less than 5 per cent of the total retail market is expected to register a compound annual growth rate (CAGR) of 40 per cent and swell to US\$ 107 billion by 2013.

The consumer spending in India has increased by an impressive 75 per cent in the last four years and will quadruple in the next 20 years. India's overall retail sector is likely to grow to US\$ 450 billion by 2015. 'The rise of Indian Consumer Market', estimates that the Indian consumer market is likely to grow four times by 2025.

- The total retail market size in India in 2008 was estimated at US\$ 353 billion.
- The annual growth of the retail market in India is expected to be around 8 per cent.
- The total retail market size in India is likely to touch US\$ 416 billion by 2010.
- The present share of organised retail sector is estimated at 7 per cent.
- The estimated annual growth of organised retail sector is 40 per cent.
- The size of organised retail sector by 2010 is estimated to reach US\$ 51 billion.
- The estimated share of organised retail in total retail by 2010 is 12 per cent.
- The investment into modern retailing formats over the coming 4-5 years is expected to be around US\$ 25-30 billion.

### INDIAN FRANCHISE STATISTICS AND INFORMATION

From the traditional business acumen Indian business community has made a shift towards understanding and adopting business as a science. And when it comes to science and systems of business, franchising is a sector that is ever evolving and thriving. Indian business environment is slowly witnessing the changes and now the concept and essence of franchising is permeating into the Indian businessmen's mind.

In the past one decade International franchise brands like Pizza Hut, Dominos, KFC, Mc Donald's, Gold's Gym, Kodak, Subway, Holiday Inn and many others started a positive trend by leveraging the potential of the Indian market. Due to these players' entry, international franchising in India is one of the most exciting areas in the franchise industry. Many Indian companies also offer profitable franchising options. MRF, NIIT, Apollo Hospitals, Reliance, Tata, Bharati, VLCC and Talwalkar among others, are some of the well-known franchisers in India.

The vast geographical expanse, diverse culture, powerful and growing economy and acceptance of western concepts by Indian masses, provide excellent franchise and business opportunities in India. Especially sectors like Retail, Food and Beverage, Education, Health, Beauty, Tourism, and many other services are booming in the Indian franchise market. It is also predicted that introduction and penetration of new technologies will create new opportunities for franchises. All these market conditions combined with the low rate of franchise failure and significant return on investment has made franchising a major strength in current Indian economy.

Also many Indian brands are taking the franchising pathway to success and have been able to create a global success story in areas such as Specialty Cuisine, Ayurveda, Education and Beauty Care. To many entrepreneurs becoming a national or International franchise seems much easier, safer and profitable than struggling for brand identity while running a small enterprise of their own.

Since its beginning in early 90s, the franchise industry has grown in leaps and bounds in the Indian sub-continent and there is still much to explore, based on the successful growth of many franchise brands in India, the future of franchising in India is highly promising.

This promising future of the Indian franchising industry is backed up by an equally powerful market report that shows statistics of this thriving sector.

According to the reports, for the past five years Indian franchise market has recorded a steady growth of 30 to 35 % per annum. Also the annual turn over of the Indian franchise industry soared to 3.3 billion USD and it is projected to soar higher in the coming years.

Employing around 3,00,000 people the Indian Franchise industry has much more to offer than it is presumed to be. There are four fastest growing sectors in Indian Franchising namely Telecom, Retail, Food and Education. And there are good reasons for this to be, Indian Telecom sector recently celebrated a record of 100 million users and this brought a wave of expansion in every Indian telecom company to the farthest and remotest possible market Telecom franchises have

come up in India and they are projected to thrive well with the reports of user numbers touching 250 million by the end of 2007 and 500 million by the end of the year 2010.

## FRANCHISEE SATISFACTION: A LITERATURE REVIEW

The performance of a franchise depends largely on how effectively the franchiser and franchisees are able to achieve their marketing goals. It may be noted that the ability of the franchisee to achieve the goals of the franchiser and the satisfaction of the franchisee are not the same thing. But, if the franchisees are not satisfied with the franchiser, it may lead to poor performance of a franchise over a period of time.

## FRANCHISING AS AN ORGANIZATIONAL FORM

Franchising is an organizational form in which a company grants an individual or another company the right to do business in a prescribed manner over a certain period of time in a specified place in return for royalties or the payment of other fees. The company granting the right is termed the "franchiser," the receiver of the right is the "franchisee," and the right is the "franchise" (U.S. Department of Commerce 1988; Hisrich and Peters 1989). The outlet or the operational establishment where the franchising operation is conducted is called the "franchised unit." A franchiser, usually, has a number of franchised units. Units that are owned by the franchiser and operated by its employees are referred to as "company-owned units." The word "franchising system" refers to the franchiser and all units (both franchised and company-owned).

## TYPES OF FRANCHISING

Franchising systems can be broadly divided into two types. "Product/Trade Name" franchising is a relationship between the supplier and the dealer in which the dealer agrees to acquire some of the identity of the supplier in order to become the preferred source of the supplier's goods. "Business Format" franchising is an ongoing relationship between the franchiser/franchisee that not only includes product, service, and trademark, but also the entire concept of the business (U.S. Department of Commerce 1988).

## PROS AND CONS OF FRANCHISING

Franchising provides established brand recognition and thus provides a valuable support to a small business (franchisee) to move forward on its path to success. Thus, a small business circumvents all the start up hindrances with the help of the franchiser. However, this comes at the cost of the indulgence of a franchiser in to the franchisee's business. Any decision to be made by the franchisee is to be consulted and approved by the franchisers.

## FRANCHISEE-FRANCHISER RELATIONSHIP

The research conducted by Scherer and Ross (1990) focus on the social benefits of franchising vis-à-vis the costs society has to incur. While it is recognized that many aspects of franchising may have a beneficial impact on society by improving economic efficiency, there is concern that some aspects of the franchising relationship may serve as restraints on trade – such as resale price maintenance (the franchiser sets the price the franchisee can charge), exclusive territories (only one franchisee can do business in a geographic area), exclusive dealings (the franchisee can only do business with the franchiser), and contracts requirements (the franchisee is required to purchase certain supplies from the franchiser). They have also explored the dyadic relationship between a franchiser and a franchisee. While the franchisee provides the capital for the franchising unit, the franchiser has decision-making power over many items quite important to the success of the unit. Castrogiovanni, Justis, and Julian (1993) and Stadfield (1992) have explored the area related to the amount of information a franchiser should disclose to a potential franchisee when soliciting an investment. Hadfield (1990) and Brickley, Dark, and Weisbach (1991) have explored the ability of the franchiser to terminate the relationship after the franchisee has made a significant investment. Thus, the relationship puts the franchiser in a higher bargaining position vis-à-vis its franchisees.

## OPERATING A FRANCHISE

Research in the area of operating a franchise revolves around exploration of the basic research question: "What is the best way to operate the franchising system?" Here, franchising is treated as one of the options available in designing a marketing channel using the concept of partially integrated vertical marketing system. This approach characterizes a broad stream of research from the field of retailing. The franchisee is viewed as a facilitator to make the franchisers' goals operational. The franchiser considers control over the franchisee as a primary goal in order to successfully achieve its marketing goals. As Carman and Klein (1986) point out, the modelling of power is central to many of the works in this area and to identify ways that the franchiser can increase its power over the franchisee. However, in their quest for increasing power to gain more control in order to successfully achieve marketing goals, the franchisers are often urged to maximize franchisee satisfaction. By this, the franchiser provides an incentive for the franchisee to meet the franchiser's goals. Performance is measured by the level of franchisee satisfaction or by the franchisee's achievement of goals set by the franchiser. Hunt and Nevin (1974) have attempted to discover how a franchisee is satisfied. According to Schul, Little, and Pride (1985), franchisee satisfaction is found to be related to **the franchisee's perceptions of the quality of interactions with the franchiser, the quality of operational support offered by the franchiser, the attractiveness of the reward structure, and the autonomy and fairness of the relationship**. Lewis and Lambert (1991) reported that franchisees were satisfied if they felt the success of the unit was due to the franchiser.

## THE IMPORTANCE OF COMMUNICATION

The differences between franchisers and their franchisees can lead to relationship dissatisfaction and, in absence of reconciliation, divorce. Steady, consistent communication is one of the ways to lessen the likelihood of a dispute.

Finally, the franchise relationship requires a degree of understanding. Franchisers and the individual franchisees that comprise the system are not one and the same. Franchisers need to be able to pursue system goals of improved operational performance, improved customer service and improved financial performance for the entire franchise system.

The review of literature pinpoints at the lack of research on implementation with a major emphasis on the power relationship between franchiser and franchisee. The manner in which franchising systems actually work to create value has been given less attention. Operation of the franchising system involves important issues like training, allocation of production activities, control systems, cooperative advertising, and communication.

It is with these considerations that the present study has been conducted. It is an attempt to measure satisfaction of the franchisee with respect to criteria such as *Training & Promotional Support, Quality of Product / Services, Management Competence, Communication and Relationship*.

## RESEARCH METHODS AND DESIGN

The present study follows a descriptive research design and attempts to measure franchisee satisfaction (dependent variable) with the help of variables such as perception of the franchisees related to training and promotional support extended by the franchiser, quality of product / services offered, competence level of the management of the franchiser, and the quality of communication and relationship between them (independent variables - IV). A 5 point Likert-like scale has been used to measure perception of the franchisees (sampling unit) pertaining to the independent variable as mentioned (5 being 'strongly agree' and 1 being 'strongly disagree'). It is a cross-sectional, ex-post facto, field research based on responses collected through a questionnaire using a survey method from 25 franchisees selected using a convenience sampling technique, with following research objective in mind:

To measure the franchisee satisfaction based on their perception about the performance of the franchisers.

This objective led to formulation of following sub-objectives:

To measure franchisee perception related to franchisers' performance on promised support;



To measure franchisee perception about the quality of products/services offered  
 To measure franchisee perception about the quality communication and relationship; and  
 To measure franchisee perception about franchisers competence to manage the franchise successfully.  
 Though enough care has been taken, one cannot ignore following limitations of this study:  
 The size of the sample is small; hence the findings of the study may have less scope for generalization.  
 The perceptual bias of the respondents may have crept in.

## DATA COLLECTION AND ANALYSIS

### IV-1: TRAINING & PROMOTIONAL SUPPORT (VARIABLE SCORE 3.94)

- The Initial Training provided by your franchiser is excellent (**mean score 4.28**)  
 52% respondents said they "strongly agree" to the fact that the initial training provided by franchiser was excellent, while 28% said "agree", 16% respondents were neutral and 4% were "disagree".
- Opening support provided by your franchiser is excellent (**mean score 3.96**)  
 40% respondents said "strongly agree", while 32% said "agree", 16% respondents were neutral, 8% are disagree and 4% respondents were "strongly disagree".
- The Ongoing Training provided by your franchiser is excellent (**mean score 3.80**)  
 36% respondents were "strongly agree" to the fact that the ongoing support provided by franchiser was excellent, while 28% said "agree", 20% respondents were neutral, 12% said "disagree" and 4% respondents were "strongly disagree".
- The Field support provided by your franchiser is excellent (**mean score 4.04**)  
 44% respondents said they "strongly agree" to the fact that the field support provided by franchiser is excellent, while 28% said "agree", 20% respondents were neutral, 4% said "disagree" and 4% respondents said they "strongly disagree".
- Your franchiser's Advertising, Marketing and Promotional Programs are excellent (**mean score 3.64**)  
 32% respondents said they "strongly agree" to the fact that the franchiser's advertising, marketing and promotional programs were excellent, while 32% said "agree", 20% respondents were neutral, and 16% said they "strongly disagree".

### IV-2: QUALITY OF PRODUCT / SERVICES (VARIABLE SCORE 3.83)

- Your franchise compare to the Competition in your local market is excellent (**mean score 3.72**)  
 28% respondents said they "strongly agree" to the fact that their franchise compare to the competition in local market is excellent, while 36% said "agree", 24% respondents were neutral, 4% said "disagree" and remaining 8% respondents said they "strongly disagree".
- The quality of the Products and/or Services provided by your franchiser is excellent (**mean score 4.44**)  
 56% respondents said they "strongly agree" to the quality of the product and services provided by their Franchiser is excellent, while 32% respondents said "agree" and 12% respondents remained neutral.
- The Creativity of your franchiser to experiment with new ideas or improvements to current products/services/operations is excellent (**mean score 3.44**)  
 36% respondents said they "strongly agree" that creativity of franchiser to experiment with new ideas or improvements to current products/services/operation is excellent, 28% said "agree", 8% were neutral with their opinion while 8% respondents said "disagree" and 12% said they "strongly disagree".
- My Franchiser encourages high standards of quality performance throughout the organization (**mean score 3.72**)  
 32% respondents said they "strongly agree" to the fact that their franchiser encourages high standards of quality performance throughout the organizations, while 28% said "agree", 24% respondents were neutral, 12% said "disagree" and remaining 4% respondents said they "strongly disagree".

### IV-3: MANAGEMENT COMPETENCE (VARIABLE SCORE 3.69)

- My franchiser is very Knowledgeable of my business and is very Supportive of all of my needs (**mean score 3.64**)  
 32% respondents said they "strongly agree" that the franchiser was very knowledgeable and supportive, while 24% said "agree", 28% were neutral, 8% respondents said "disagree" and 8% said they "strongly disagree".
- When I have a question or a problem, senior management and support staff are easily Accessible and Responsive (**mean score 3.68**)  
 24% respondents said they "strongly agree" that senior management and support staff were easily accessible and responsive when they had a question or a problem, while 36% said they "agree", 28% respondents were neutral, 8% said "disagree" and remaining 4% respondents said they "strongly disagree".
- My Franchiser encourages honesty and a high standard of business ethics throughout the organization (**mean score 3.76**)  
 32% respondents said they "strongly agree" that their franchiser encouraged honesty and a high standard of business ethics throughout the organization, while 36% said "agree", 16% respondents were neutral, 8% said "disagree" and remaining 8% respondents said they "strongly disagree".

### IV-4: COMMUNICATION AND RELATIONSHIP (VARIABLE SCORE 3.92)

- System-wide Communication between corporate staff and Franchisees is excellent (**mean score 3.48**)  
 24% respondents said they "strongly agree" that there was a system wide communication between corporate staff and franchisees, while 24% said "agree", 32% respondents were neutral, 16% said "disagree" and remaining 4% respondents said they "strongly disagree".
- My Franchiser and I are committed to a positive, long term Relationship (**mean score 4.04**)  
 40% respondents said they "strongly agree" that they were committed to a long term relationship, while 32% said "agree", 20% respondents were neutral, 4% said they "disagree" and remaining 4% respondents said they "strongly disagree".
- The overall communication between home office personnel and franchisees is excellent (**mean score 3.80**):  
 32% respondents said they "strongly agree" that the overall communication between home office personnel and franchisee was excellent, while 32% said they "agree", 24% respondents were neutral, 8% said "disagree" and remaining 4% respondents said they "strongly disagree".
- My Franchiser responds in a timely way to my questions and minor problems (**mean score 3.92**)  
 36% respondents said they "strongly agree" that the franchiser responds in a timely way to their question and minor problems, while 28% said "agree", 28% respondents were neutral and remaining 8% said they "disagree".
- I am able to communicate directly and effectively with senior management (**mean score 4.12**)  
 40% respondents said they "strongly agree" that they were able to communicate directly and effectively with senior management, while 28% said "agree", 28% respondents were neutral and remaining 8% said they "disagree".
- Overall, my relationship with my franchiser is excellent and I have a high level of Respect for the entire organization (**mean score 4.20**)  
 48% respondents said they "strongly agree" that their overall relationship with franchiser was excellent and had a high level of respect for the entire organization, while 28% said "agree", 20% respondents were neutral, and remaining 4% said they "disagree".

The overall score summary is as under:

IV-1: Training & Promotional Support	3.94
IV-2: Quality of Product / Services	3.83
IV-3: Management Competence	3.69
IV-4: Communication And Relationship	3.92

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Overall Score	3.83
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## CONCLUSIONS AND DIRECTIONS FOR FUTURE RESEARCH

The findings reflect that the franchisees still have a very low confidence in the management competences of the franchisers (mean variable score 3.69). Though the mean variable scores are close to 4 (suggesting 'agree'), it seems that the overall satisfaction level is not up to the mark.

The franchisees seem to be more satisfied with the training and promotional support that the franchisers extended to them (mean variable score of 3.94). This was followed by the quality of communication and relationship they enjoy with their franchisers (mean variable score 3.92).

The mean score for quality of product / services offered by them turned out to be 3.83, exactly equal to overall satisfaction score leaves behind many repercussions. The statements that were asked under this category were pertaining to basic quality of products/services offered as well as franchisers' willingness to try out newer ideas. The basic statement related to quality of products / services was rated at 4.44 mean score, but the franchisers' willingness to experiment with newer ideas and creativity shown in managing the franchise was rated at 3.44, indicative of very poor performance on their being perceived as innovative.

It was also observed from the findings that satisfaction pertaining to initial training programme was good (mean score 4.28). However, the franchisee satisfaction was very low for ongoing training support (mean score 3.80).

For promotional support extended by the franchiser, the data analysis suggests similar findings. They reveal that franchisee satisfaction with opening support was higher than the ongoing support.

Understanding franchisee satisfaction is one of the most important aspects of decision-making for every potential franchisee and a must to be considered before making any investment. Out of many opportunities available for a new franchise, many turn out to be worthless in the long run, and hence knowing existing franchise owners are the key to understanding the health of any franchise system.

It comes out from the study that a majority of franchise owners compare their businesses at par with local business and feels satisfied that they are better equipped to take competition with the local players.

The overall satisfaction of the franchisees based on training and promotional support, quality of products/ services, management competence, and communication and relationship, seems to be fairly good (overall mean score of 3.83).

The present study opens up new directions for further research. Research may be taken up with a focus on a specific area of organised retail sector. Moreover, one may also think of replicating the research using more extensive criteria for measuring satisfaction.

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