Autonomy and Dependence in Franchisor-Franchisee Relationship

Parminder Kaur

ABSTRACT
Franchisees choose franchising because they feel that they can work as an independent business entity while getting support and resources from the franchisors. But sometimes, to earn more profits franchisees attempt to reduce costs of the product or service by lowering the quality of product or service, which may deteriorate the image and reputation of the franchisor in the market. To stop the franchisee from lowering the product or the service quality, franchisors maintain tight control on the franchisee outlet and do not give any authority to the franchisee. When the franchisee who started the franchisee outlet to become his own boss doesn’t get the authority to take decisions from the franchisor for his own outlet, he gets unsatisfied and tries to break out of the relationship. This paper discusses a detailed review of the studies investigating the franchisor franchisee relationship. This paper talks about the agency theory and how it is relevant in the context of franchisor franchisee relationship. This paper also explains the autonomy and dependence and further interprets its paradox in franchisor franchisee relationship.

KEYWORDS : Franchisor, Franchisee, Relationship, Autonomy, Dependence, Agency Theory.

INTRODUCTION
Franchising is one of the most preferred modes of entry as it gives flexibility with economies of scale to worldwide operations. In franchisee-franchisor model, the franchises are promoted very frequently on platform to become your own boss, however in practical there are not many exits from the franchise contracts that are tolerated by the franchisors. The behavior control is also not possible fully by keeping a check due to involvement of high costs, with human errors that are bound to happen on monitoring. Some activities require decentralized decision-making and the franchisors are also not willing to engage in some activity.

Franchise management is the modification of the franchisor’s desire for autonomy, control, reliability, standardization and safeguard of its brand equity and goodwill [Stanworth1995]. Autonomy is an important aspect of the organizational framework of franchise chains since large restraints on the outlet operations lessens the motivation of the franchisees [Gundlach,Dant 1999]. Excessive centralization also prevents leverage of franchisee outlets related knowledge [Windspergr 2004]. Balance of forces of autonomy and control thus become a significant activity to maintain the long-run viability of the franchise model. This paper helps us to understand the paradox of autonomy and dependence in the franchisor franchisee relationship.

OBJECTIVES OF THE STUDY
The main objective of studying this paper is
1. To study the franchisee–franchiser relationship in terms of balancing the need for control and autonomy.
2. To draw implications to sustain long-term relationship between franchisee and franchisor.

FRANCHISING BUSINESS MODEL
We are living in the era of globalization and India is one the world’s largest and the fastest growing and emerging markets. To take advantage of the worldwide development, several firms have adopted a multinational strategy in order to globalize their operations. By being multinational, companies can gain a lot of advantages – namely, the growth of their business, management of their product life cycles, earning foreign exchange, development of infrastructure, etc.

Firms that go on into the foreign markets on a huge scale always change the level of competition of the market. The decision to enter the market at a large scale will have a long term impact and once this decision is taken by the firm, it is difficult to reverse this decision. There are three main decisions that the firm must take before foreign expansion can occur – namely, the types of markets they are required to make an entry into, taking the right time into consideration along with the scale at which the entry is to be made into the market and last, but not the least, choosing the right mode of entry into the market. The last decision, i.e. choosing the right
entry mode, is a very significant criterion for doing marketing on a global platform. And for many businessmen, including both national and international players, franchising is the most famous method used today to make an entry into the market.

The reason behind choosing Franchising are many – people who do not have any experience in business, franchising is an appropriate way to own and operate a business as it involves a high chance of achieving success. On the other hand, a franchise business is the easiest way for a brand to fuel its expansion in the market as well.

Khan (1992) explains franchising is “a contract between the franchisor who develops a product or service, and the franchisee who buys the right from franchisor to use his trade name so as to sell that product or service in the market”. The franchisor, in exchange, charges fees and royalties from franchisee for the services provided by him. Hence, franchisee purchases franchisor’s experience in the form of a successful business model.

At the international arena, franchising is considered having relatively low risk and commitment in most of the services-based sectors (Khan, 1992) and provides flexibility to the world economies in business operations.

It is widely accepted that franchising plays an important role in the development of modern business. A small business house plays vital role in the economic development of a Country. However, the starting of a small business involves risks and uncertainty and hence, it requires management skill to run the business successfully. In order to minimize risks, finding solution is the main aspect for development of the franchise business (Ramu, 1997).

OVERVIEW OF GLOBAL SCENARIO

Franchising activities have been very successful in the West, particularly in the US, after the 1960s. Franchising has proved its viability in the U.S economy. Franchising emerged as a significant way of doing business in the second half of the twentieth century and continued to expand during the 1980s and 1990s, and is becoming a major force in the United States’ economy.

Franchising, though is a western concept, is not limited to the developed nations only. It has spread its mark to developing countries also; like India, Brazil, and China etc. Even the African nations, over the last few decades, have started tasting the flavors of franchising. Nigeria is one such country, which is attracting a lot of attention in the Franchising space given the huge consumer class. Foreign brands, such as KFC, Dominos etc. have already set up franchisee outlets in the country to tap this potential. Franchising contributes almost 10-25 percent of the GDP of most of the OECD (Organization for Economic Cooperation and Development) countries.

The following table illustrates the growth of franchising in few countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Franchisors in 2012</th>
<th>Growth in last 5 years (CAGR)</th>
<th>Franchise establishments in 2012</th>
<th>Growth in last 5 years (CAGR)</th>
<th>Franchisee/ Franchisor Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>1500</td>
<td>2.3%</td>
<td>7,50,000</td>
<td>0.60%</td>
<td>213</td>
</tr>
<tr>
<td>Australia</td>
<td>1200</td>
<td>4.2%</td>
<td>73,000</td>
<td>2.80%</td>
<td>62</td>
</tr>
<tr>
<td>Brazil</td>
<td>2426</td>
<td>15.2%</td>
<td>100,000</td>
<td>9%</td>
<td>41</td>
</tr>
<tr>
<td>UK</td>
<td>929</td>
<td>2.8%</td>
<td>40,000</td>
<td>2.10%</td>
<td>43</td>
</tr>
<tr>
<td>China</td>
<td>5000</td>
<td>7.4%</td>
<td>300,000-350,000</td>
<td>22.40%</td>
<td>24</td>
</tr>
<tr>
<td>Malaysia</td>
<td>550</td>
<td>5.5%</td>
<td>13,000</td>
<td>7.60%</td>
<td>69</td>
</tr>
<tr>
<td>Germany</td>
<td>960</td>
<td>1.1%</td>
<td>66,000</td>
<td>3.40%</td>
<td>66</td>
</tr>
</tbody>
</table>

Source: KPMG Report (2013)

From the above Table 1.1, it is evident that China and Brazil have achieved relatively higher growth in new brands resorting to franchising as a business model for expansion as well as new franchisees. US leads other countries when it comes to number of Franchisees for every Franchisor (Brand) operating in the country. This suggests the relative maturity of the concept and widespread acceptability of franchising as a business model. USA is the leader in the world of franchising with around 84 of the top 100 franchised brands globally and has seen a continuous growth. Employment, generated by the franchising sector, also has been growing, over the years in the US, and suggesting the immense potential for the sector to contribute in job creation. Brazil has seen a tremendous growth in franchising over the last decade with a CAGR of around 16 percent.
Franchising has helped the country to increase revenue for the government as well as created more jobs for the public. With an employment potential of close to 6 lakhs in 2011, this sector holds a lot of promise for the UK economy. Franchising activities have been very successful in the West, particularly in the US, after the 1960s. Franchising has proved its viability in the U.S economy. According to the International Franchising Association (IFA), approx. 3000 franchisors operate nearly 3,50,000 franchise outlets in the US, one in every 12 retail establishments is a franchised business. In fact, a new franchise comes up in every eight minutes on the globe. Franchises in US account for 44 percent in overall retail sales totaling more than $1 trillion, they employ 1 in every 16 workers in more than 100 industries.

According to International Franchising Association (IFA) the Canadian franchising comes second with the employment of one and a half million people, which is almost 8.5% of the total number of people employed in Canada. Brazil is ranked fifth in the global franchising industry. The Franchising has increased in terms of the number franchises and the total number of people employed in the United Kingdom. The survey conducted in 2015 in UK had revealed that around six lakhs twenty one thousand people were working in the franchising sector, showing that the franchising trade had increased over thirteen percent in two years. The franchising business in Russia has increased from fifty four franchising businesses in year 2000 to over two thousand five hundred in the year 2017.

South Africa is ranked thirty sixth in franchising from the list of hundred and eighty one countries across the globe. The western countries brands and the local brands of China have grown very well in the Chinese sub-continent in the franchising industry over the past 20 years. The franchising industry has developed significantly in Malaysia and there has been a projected growth of 5% in the franchising sector in the year 2018. Franchising contributed over 6.6 billion dollars in the country’s Gross Domestic Product for Malaysia. Australia’s survey of franchise in 2016 was having around 1125 brands of franchising operational in Australia, with around seventy nine thousand outlets that were operational for various companies that are into franchising in Australia. The top twelve franchise nations of the world give employment to around twenty million people out of three billion of the total number of people employed across the globe.

Franchising, though is a western concept, is not limited to the developed nations only. It has spread its mark to developing countries also; like India, Brazil, and China etc. Even the African nations, over the last few decades, have started having the franchising arrangements in their business operations.

**OVERVIEW OF INDIAN SCENARIO (KPMG REPORT)**

Franchising is having an increasing role in the national economies and is assisted by divestment programs in the State and publicly owned enterprises. In some developing countries, franchising has been adopted by the National Governments as one of the strategies for rapid economic development; it is considered a major tool for providing faster job creation and new incomes (Clarke, 1997). India also offers vast opportunities in franchise management. It is the surging consumers’ sentiments within an expanding economy triggering the entrepreneurial instinct of people that has contributed to the growth of franchisee business model at fast pace in India. Given the Indian economy’s growth rate, it is anticipated that the franchise management will grow at a whopping 30-35 percent per year. Franchising is a well-suited business model helping companies to move forward with expansion plans by licensing its rights to third parties. The strategy also allows such firms to use a compact business model and brand for a prescribed period of time. The franchise management model in India was started in the 1990s with the beginning of the liberalization era. Initially, it was the IT companies and some educational institutions, which adopted this strategy for business expansion to new geographies. India has already made its place as the second-largest franchise market globally (after the United States). According to KPMG report (2013), about 1.5 lakh franchisees and 4,600 franchisers are operating in the country, they envision that “this industry would grow to about USD 140-150 billion” in the next five years. The Indian Franchising industry is getting popular amongst domestic and international companies. Successful franchisees in different industries in developed nations become motivation for the growth of franchising in various major industries in our country. Franchising in Retail, Beverages and Food, Health Franchising, Beauty and Wellness, Customer Services, Training and Education are the main sectors that have high future prospects.
The franchising industry has given employment to 1.4 crore people by 2017, which is 10% of the actual workforce in the given year. There is high demand of skilled workers in this industry and therefore, it becomes essential to identify the skill gaps and works towards filling it up. The employment potential is an estimated 77 lakhs (5% of workforce) in retail sector, 10 lakhs (1% of workforce) in food and beverage, 31 lakhs (2.2% of the workforce) in consumer service sector and 20 lakhs in the education sector (1.5% of the total workforce).

The franchising industry is also expected to create indirect employment, in addition to the direct employment. The indirect employment provided approximately 1.8 crore jobs by the end of 2017 in the area of franchising. Of these, service and food sectors are projected to create maximum indirect employment.

Market watchers also believe that despite the boom in franchising, India still has untapped marketing potential within the industry and is likely to grow even faster in the coming years.
RELATIONSHIP ISSUE IN FRANCHISING

The nature of franchising is unique in the sense that it is developed on the relationship between franchisor and franchisee, which is based on mutual interdependence and reliance. In order to grow and succeed, this relationship needs to be collaborated and bound by common goals and mutual interests. It is more than mere a business relations. It involves emotions and built on trust, respect, care and commitment at both, franchisor and franchisee, level.

One should pay meticulous attention to the franchisor-franchisee relationship to ensure that both parties draw equal benefits from the deed. A “win-win” situation will be mutually beneficial, productive and positive in the franchisor-franchisee relationship that contributes to the overall success of the franchise network (Greer, 2018). Thus, the long-term success and continued growth of both parties depend on the franchisor-franchisee relationship.

Selectivity, consistency and engagement are essential components for finding bully franchisees and growing relationships with them. Instead of finding new franchisees, it is important to manage relationship within the existing franchise with your current network as it continuously grows with rising challenge to manage and nurture the relationship effectively.

The relationship between franchisor and franchisee is a lot more complex than traditional buyer-supplier interactions, not only there are certain responsibilities in a franchise relationship to retain the value of the trademark, but the relationship are also sensitive to conflicts due to power and dependence between the parties. Hence, there is a need for research that examines the relationship within this particular business format (White, 2010; Tikoo, 2005). The franchise relationship is a long-term cooperation between the parties, who have entered into a binding contractual agreement with specified obligations. Both parties are dependent on each other; the franchisor is dependent on franchisee’s effectiveness, the franchisee, on the other hand, is dependent on the help and experience from the franchisor (Harmon and Griffiths, 2008). According to Kwong (2001), franchisor and franchisee strive to maximize their own profit, therefore, the relationship between these two parties is different from a employer-employee perspective, because there is less necessity for a franchisor to monitor performance of the franchisee, since the franchisee makes considerable investments in his or her own outlet (Combs and Ketchen, 2003).

The relationship of franchisor-franchisee is highly interdependent on each other. Franchisor is highly dependent on the financial capital and consumer information of franchisees to access local markets and Franchisees are dependent on the know-how, trademark and support of the franchisors. Franchisees always require autonomy in the management of their outlets, but franchisors generally are not willing to give higher autonomy to franchisee. For the reason, that franchisee can compromise on the quality to save the cost and it may lead to damaging reputation of the entire franchise system. On the other hand less autonomy to the franchisee results in non-satisfied franchisee. Although contracts exist to protect trade, but the incentive for opportunistic behaviour is high for both franchisor and franchisees in franchise relationships and this behaviour reduces long-term growth of affiliates. If the franchisor invades the franchisee's satisfaction region of affiliates it may lead to franchisee disobeying with the policies of the franchisor and accordingly builds the perception of deteriorating relationship with the franchisor. The deteriorated relationships between the franchisor and the franchisee have a major impact on the sustainable growth of a country, as many resources are wasted if a franchise store closed and the people working in the store become unemployed. Therefore, there is always a need to find ways to increase the satisfaction of franchisees and franchisors for their long-term relationship. For this long-term satisfaction of the franchisee there is a need to resolve the relationship problems that arise in the franchisor-franchisee relationship.

Franchisor-franchisee relations appear to be at the forefront of some of the most controversial and important issues in franchising over the last many years. This is based on the numerous trade journal articles and media reports on this topic (Caggiano, 1995; Huber, 1995; Malley, 1998; McDougall, 1993; Nozar, 1998; Serwer, 1995; Tannenbaum, 1993a, 1994a, 1995a). This is due (in part) to the fact that this relationship is vital to the effectiveness of the franchise system. As the franchise system grows, the franchisor-franchisee relationship will also get matured and will require adjustment to the changing needs and objectives of both parties. Especially in today’s marketplace, continual upgrading and reinvestment is required to be remain competitive. The importance of a congenial franchisor-franchisee relationship becomes magnified in this regard.
with the franchisee acting as a real asset in initiating change, if they are informed and are able to participate in the process.

Franchisors are likely to face many challenges in the coming years with the increasing diversity and sophistication of investors in the global franchise system along with demand for regulation of the relationship itself. In the long run, it is most likely for the franchisor to relinquish tight control of operations and imparting a flexibility that takes advantage of the level of operating and financial knowledge of more sophisticated franchisees.

With the expansion of the franchise system, franchisors may have to concede that their franchisees, as a group, may be in a better position to operate than separately themselves. To sum up, the success of the franchisor-franchisee relationship is one of the most effective testimonials for marketing the franchise system to other investors and thus, ensuring its long term success.

AGENCY THEORY

Agency theory is a multi-disciplinary theory, because it can be used in economics, marketing, finance, accounting, political science etc. Agency theory is defined as “an agency relationship by which one party, the principal delegates work to the agent to carry out that work” (Eisenhardt, 1989). Ross (1973) defines Agency theory as “a relationship that arises between two parties when a designated agent acts as or on behalf of the other, the designated principal, in one aspect of decision making”.

Afterward, Jensen and Meckling (1976) define “the agency relationship as being under a contract in which the principal engages the agent to develop an activity on their behalf by delegating decision-making and authority to the agent. Agency relationship have agency cost. Agency's costs are sum of the costs for the design and formalization of the contracts, the costs of monitoring the agent and those associated with the residual loss.” Agency theory is applicable on many types of relationship, which are based on two or more actors; like in franchisee relationships (Shane, 1998), mergers and acquisitions (El-Akremi et al., 2010) or an associated enterprise (Michael and Combs, 2008). In agency theory the contract is the most important thing between the parties of the contract. Agency theory helps established an efficient relationship between the principal and the agent. In literature, studies on agency theory are based on the entrepreneurial-franchisee (agent), who is interested in that kind of business model, who is looking for activities that offer more guarantees and lower risk, even at the expense of a loss of independence and future profitability.

Castrogiovanni (1993) compared managers and entrepreneur-franchisees. They analyzed the attitudes of the managers of establishments owned by the chain and traditional entrepreneurs and came to the conclusion that franchisees have a profile more similar to a traditional manager than an entrepreneur; these franchisees exhibit a maximum commitment to the chain, but have lower skills than managers or independent entrepreneurs. “Relationship of Agency” has been explained as an agreement where a single principal (franchisor), hires someone else (franchisee) to do the services under the instructions of the former; this requires delegating some powers to the agent in making decisions. Under these circumstances both the franchisor and the franchisee can have different objectives and the agent might not give best results constantly as per the directives of franchisor. The main hurdle in an efficient relationship between the principal and the agent are Agency problems and the risk sharing.

There are problems in agency model in the company owned outlets, since the owner does not have the right capacity to keep check on the manager’s deeds. The cost of the agency increases when interest of the owner and the manager conflicts. The Franchisor bears the cost monitoring of the managers of units of the organization, because the franchisor wants to ensure that all the managers put in their best efforts, which will lead to profit for the franchisor company outlets. Company owned outlets are mostly dispersed in different areas and monitoring of expenses of managers are more than their benefits. When monitoring is very expensive, owners will not be able to understand whether sales are low owing to low demand for products of the company or ineffective managers. The two other agency issues; namely adverse selection (Principal unable to verify the skills and abilities of agent as he may misrepresent them) and morally not correct (Principal may not know whether the agent is putting his best effort towards the company or guiding his efforts towards achievement of his personal goals) can be come in picture in company owned outlets. These two agency issues can be resolved if ownership is allocated as a compensation to the franchisee instead of fixing the compensation of the manager, who is a salaried person (Eisenhardt, 1989; Shane, 1996).

The monitoring costs are avoided by using franchising model instead of company owned outlet, but the efficiency of specialization is gone astray. The franchising model is more preferred by the franchisor than the organization’s owned outlets due to less capital requirement, in the beginning, for each outlet. An intelligent franchisee is expected not to invest much in the assets. It has become a very common business model in the areas that are dispersed physically. The more is the dispersion of units of the company, the less are the gains
from the ownership because of high monitoring cost of the geographically dispersed company owned outlets. So these days the franchising model is preferred over the company owned outlet.

THE AGENCY PROBLEM IN FRANCHISING

Company owned outlets have high cost of monitoring of the manager, as explained earlier. Companies can go for franchising their outlet to save the monitoring cost. Franchising model is not entirely efficient, even though it helps in economizing costs of monitoring the outlet. In case of franchised outlet, franchisor has to face three different problems that are namely free riding, quasi rent appropriations and inefficient investment. These three problems involve cost, called the agency cost, which the franchisor has to bear in case of franchised outlets. The company/franchisor has to take a calculated risk and decide between the costs of agency and the benefits of reduced franchisee monitoring cost while choosing a franchised outlet (Brickley and Dark, 1987; Krueger, 1991).

In the franchisor franchisee relationship, the agency problem arises when the objectives differ between the principal (franchisor) and the agent (franchisee). One aspect, where this difference in opinion is most visible, is the so-called moral hazard and to prevent this problem, the principal sets some restrictive clauses (Lafontaine, 1992). There is always some deviation in between the interests of the agent and the principal. The principal makes delegation of work to the agency as the principal doesn’t have the resources and skills to carry out the tasks. The principal wants that the agent should act in the best interest of the organization, however, self-interest of the agent can dictate otherwise. Free riding is also an agency problem that comes along with franchising. “Product shading quality can be externalized while gains can be internalized, that gives a motive to the franchisee for such activities (Carney and Gedajlovic, 1991).” The Franchising model does not come free although it solves numerous agency problems. These are followed by various other agency problems, like shirking responsibility and risk aversion for qualitative performance on part of franchisee and also the cost related to free-rider opportunities [that are totally disregarded for the franchisor and the franchisees, since the franchisees may sell inferior quality products, jeopardize the reputation of franchisor and can result in negative effects(Shane, 1996). This behavior of free ridership is usually present in trade where the customer base is less and not repeated (Brickley, 1991). The autonomy desire of the franchisee also results in problems of agency (Castrogiovanni and Justis, 1998).

The agency theory literature focuses on the control formally (Fama and Jenson, 1983; Monye, 1997; Shane, 1996; Stanworth, 1996). It searches the best possible control structure for relationship of agency and principal (Eisenhardt, 1989), it examines cost control (Brickley and Dark, 1987; Castrogiovanni and Justis, 1998), and monitors efficiency (Shane, 1996). In the perspective of agency theory, it is suggested to observe the dynamic and the static characteristics in the relation of franchising while focusing on the paradox of autonomy or control. An agreement of Franchising should explain the rights and obligations of both the franchisee and franchisor (Brickley, 1991), and it should protect the interests of both the parties financially (Castrogiovanni and Justis, 1998). It must put forth the terms and conditions for running the franchise and for the annulment of the franchise relationship (Hadfield, 1990; Brickley, 1991; Rubin, 1978).

DEPENDENCE OF FRANCHISEE

When the target company/franchisee depends on the source company/franchisor for getting desired results (profits), we can say that Target Company has the dependence on Source Company. According to the past studies, there are three different conceptual approaches for defining sources of dependence.

The first approach given by El-Ansary and Stern (1972) is the “sales and profit” approach. According to this approach, profit and selling are two significant things for every business organization. Better contribution of profit and sales to the target company by source company, more dependence of franchisees on franchisor. Kale (1986) also defines Dependence of the franchisee based on the profit and sales approach.

The second approach Developed by Frazier (1983) in the literature is the “role performance”. According to this approach, how effectively the company is performing its role in a relationship channel with another company is important in deciding dependence. According to Frazier (1983) “when the level of a source firm's role performance is perceived as being high, than the target should be highly motivated to maintain the exchange relationship. Furthermore, higher the perceived role performances of a source, fewer are the alternatives that should be available to the target to replace it sufficiently.” Means if the franchisor role performance is high, then the franchisee dependence will be high on franchisor.

The third approach is given by Heide and John (1988). According to them, there are four sources of dependence.

i) Where the level of exchange between the partners is more, the relations are considered significant.
ii) Where the outcome of the relationship is relatively higher as compare to the outcome from other relations.
iii) Where the options that are available with the franchisees are less.
iv) When it becomes difficult to change one by other in franchise owing to certain investments.
It is significant to maintain relations between franchisor and franchisee as both are dependent upon each other, no matter how powerful is one partner than the other partner. Even the best companies are not willing to break their relations as it will result in loss to them. In other words they are mutually dependent upon each other in their transactions which may be proportionate or disproportionate. This mutual dependence is proportionate when both parties are dependent equally upon each other or else it would be disproportionate if the dependence is not equal, means when a party desires the other party to achieve more of company objectives is more dependent. This inconsistency between the parties is also regarded as relatively dependent [Narus & Anderson, 1990] or, in other words, the company that is less dependent relatively is more powerful [Roddy & Frazier, 1991; Emerson, 1962]. Relatively dependent describes as to what extent two partners are inter-dependent. Power is inverse of dependence in any relationship, because if one partner is dependent on the other partner then other partner surely has power over the first partner.

So, how much the target firm feels dependent on the source firm is very important in deciding how much autonomy they want in a relationship. That’s why dependence of the target firm or the franchisee on the source firm or franchisor is very important in franchisee franchisor relationship.

**AUTONOMY OF FRANCHISEE**

Autonomy, on the other hand, refers to the franchisee’s freedom for making management decisions itself, without interference from the franchisor. The emphasis here is not on economic dependence, but on the scope franchisees have to manage their own operational activities without subordination or intrusion. “Autonomy is the extent a party, here a franchisee, is unconstrained to make decisions independently” (Dant and Gundlach, 1999; Feldstead, 1991).

Autonomy can also means the capacity of action and thought independently (Sims, Szilagyi and Keller, 1976). Autonomy is concerned with the freedom given to decide how and which tasks are performed, like the liberty given to the franchisees to choose a new process (Lewin and Salomons, 1998). Hence, we can say that autonomy is the extent of freedom given to franchisees to manage the associated outlets on their own by taking decisions independently. Autonomy can also be stated as the aptitude or the capability for making decisions independently (Dant and Gundlach, 1999).

Some studies in the literature are of the opinion that autonomy should be given to franchisee for getting the better results in the franchisee franchisor relationship. But, some studies say that if we give too much autonomy to the franchisee, then it can be counter-productive and can give negative results. In a study by Breauh (1985), a correlation between autonomy at work and satisfaction (with respect to work, use of capacities, supervisor and performance quality) is observed. An indirect relationship of autonomy is identified in his study that leads to satisfaction and satisfaction potentially liable to lead to better performance. So, according to him for getting better results in a relationship, franchisor should give autonomy to franchisee. According to Kaufmann and Eroglu (1998), thanks to local adaptation, variability of local demand (tastes, income, ethnicity, etc.) and its variation over the time, the franchisee can obtain higher revenues. Here too, the relationship between autonomy and performance is dependent on the franchisee’s capacity to adapt the concept locally.

According to Pizanti and Lerner (2003), a balance is needed between control and autonomy, because too much autonomy can be counter-productive and negative.

Windsperger (2004) also suggests that there is a positive correlation between the decision-making powers of the players on the one hand, and performance on the other hand. Specific capacities at the sales outlet in the presence of high level of centralization may not generate a better performance, since the franchisees do not make effective use of their capacities. In the same way, capacities specific to the franchisor, in the presence of low levels of centralization, will struggle to optimize revenues as the franchisors do not have sufficient influence on use of the assets. The correlation between autonomy and performance depends on the complementary of decision-making powers (in between franchisee autonomy and franchisor decision-making powers).

As far as Cox and Mason (2003) are concerned, autonomy can lead to better results for the franchisee and the franchisor, with franchisee, in particular, being seen as a source of innovative ideas, but only with respect to peripheral components (as well as, potentially and to a limited extent, the core components of their context, but only in the initial phases of development).

As discussed earlier, monitoring cost plays a very important role in selecting franchising as preferred mode of entry than the company owned outlets. One must keep it in mind that the cost control can be different amongst various outlets (Slade and Lafontine, 1997), because of the differential scales for operations that are distributed within the channel. The units that have high monitoring cost are requiring more autonomy than the units that require lesser cost to monitor and henceforth require intensive control. If franchisor feels that deviations from contractually regulated business procedures are profitable for both the partners in the relationship then he can give autonomy to the franchisee. On the other hand if the situations demand then franchisor can increase the restriction over the franchised store even if those restrictions are not formally there in
the contract (Lewin-Salomons, 1998). Thus, according to the Pizanti and Lerner (2003) the degree of Dependence and Autonomy may change from one franchisee to another.

**AUTONOMY AND DEPENDENCE IN FRANCHISOR FRANCHISEE RELATIONSHIPS**

According to Zolkiewski (2004), “A relationship is a mutually orientated interaction between two reciprocally committed parties in a services context.” It implies that both the partners of this franchise-franchisee relationship can contribute in one way or another because both partners are intelligent and knowledgeable. Franchisor should consider franchisee is considered as talented and smart associate and proficient of putting in to the business even if literature shows that in franchisor-franchisee relationship, franchisee is recipient of franchisor’s expertise in a particular business. Through the studies done by researchers there are numerous models available for predictions in the franchisor-franchisee relations which have already been proved. The Franchisors can use those models which can help them in affective management of their relations with the franchisees. Franchising may be having numerous organisations which are not dependent on each other legally however they are mutually dependent in order to be cost effective and it is not possible for the customers to distinguish their operations. The management in the franchise system is not so easy as in the franchisor-franchisee relationship, both have different objectives and ambitions. The franchisors compare their performance with the whole model of franchising, whereas the franchisees are required to perform to increase the sale of their unit.

Franchisees are continuing to be associates in the franchise system as long as they are reaping profits because of the brand value of the franchisor. Intent of the franchisee to stay back in the franchising system has direct consequences on franchising. In case the franchisee exits early, the total sale reduces, the cost of hiring and training franchisees shoots up and franchisor spends more, the per unit growth diminishes and, ultimately, it affects the growth of the franchising model as a whole. In the end, because of the poor suggestions, difference in opinions, negative growth results of the franchisee, non accountability to the franchisor, bad relations between the parties, shorter duration of franchisee are contrary to the growth story of the franchising.

The difference of opinion between franchisor-franchisee and desire to take decisions on their own leads to conflicts between them. Laurie (2000) suggested that stability is very significant in the franchisor-franchisee relationship, since there is no point in continuing the franchising relationship further as it will result in loss of time, effort and money. Thus, we can say that if the franchisor-franchisee relations are good, then the conflicts will not arise and all the demerits occurring due to franchisee getting out of the franchise will be eliminated.

Solving this conflict will help to increase trust and satisfaction of the franchisor and the franchisee, in the franchisor-franchisee relationship. This satisfaction helps in the long run for growth of the franchise. The level of satisfaction can be laid down by the fact that if the franchisee is satisfied, then the franchise system grows and develops rapidly. However, if the franchisee is dissatisfied, then it has an adverse effect on the franchising model. The studies conducted previously by the researchers also state that the franchisor-franchisee relationship is likely to have conflict when the parties have disagreement on the point of autonomy and dependence to be given to the franchisee by the franchisor.

The perception for satisfaction of franchisee is very significant in franchising. The franchisors adopt various methods to measure level of satisfaction of the franchisees and utilize the outcome for making improvement in the present franchising model, and also in the future course of actions. The franchisees that are already in existence expect the consistent surveys, whereas the people who are the potential franchisees would come to know the solutions before entering into the franchising arena.

To solve the conflict between the franchisor and the franchisee, one has to understand the reasons of the conflict. Although there are various reasons of disagreement in the franchisor-franchisee relationship, however, the main reason of conflict between the two is whether the role of franchisee is independent of the franchisor or heavily controlled (Cox and Mason, 2007; Felstead, 1991; Kaufmann and Ergolu, 1998; Pizanti and Lerner, 2003; Stanworth, 1995).

The franchisee’s role can be viewed as a controlled agent and utilized to grow the franchisors business or the entrepreneur as self-employed business owner. Macro-level research often acknowledges the franchisees as self-employed on the basis that they pay their own tax and social security (Felstead, 1991). Franchise organizations often adopt this angle to attract potential franchisees with an entrepreneurial or self-employment motive, using slogans such as “be your own boss” or “work your own hours” (Dant and Gundlach, 1999; Felstead, 1991). Research has demonstrated that franchisees and independent business owners are quite similar in their background and orientation, and that franchisees often consider both options before selecting franchising (Kaufman & Stanworth,1995, Peterson & Dant,1990).

From a strategic perspective, the franchise relationship can be viewed as dynamic with the potential for value to be added through the entrepreneurial actions of the franchisee. Arguably, the franchise system provides opportunities for a two-way transfer of knowledge between the franchisee and the organization, essentially allowing the franchisee to add value through “the creation of new strategies and new solutions to existing
problems” (Phan et al., 1996). Although franchisees can deliver value to the system, an entrepreneurial role is not necessarily encouraged by franchisors. Stanworth et al. (2002) notes as “some of the most cited examples of franchisee-led innovation result, from experimentation by franchisees, were not only not sanctioned by franchisors, but on occasion, actually discouraged.”

Others have argued that it is questionable whether the franchisee contributes to the system as a leader, risk taker, creator and innovator (Felstead, 1991; Kaufmann and Dant, 1999). Felstead (1994) argues that in reality the franchisees’ ability to innovate or act entrepreneurially is critically hampered by contractual restrictions placed on operations by the franchisee. Instead, the franchise relationship can be viewed simply as a vehicle for franchisor expansion by limiting organizational constraints of growth and providing capital for investment (Caves and Murphy, 1976; Spinelli and Birley, 1996). Franchising enables franchisors to penetrate geographically dispersed markets with limited capital, although the role of franchisees can be viewed as adding little further value, therefore, franchisees should not be encouraged to pursue their entrepreneurial impulses (Felstead, 1991).

Felstead (1991) suggests that franchisees are best described as “controlled self-employed,” owing to a paradoxical position between Dependence and Autonomy. Some authors suggest that the level of entrepreneurialism associated with the position may change over the time (Dandridge and Falbe 1994; Tuunanen and Hyrsky 2001). Autonomy in managing activities increases or decreases with maturity of the firm is, however, not firmly established. In the early stages of franchising, as the franchisor increases market share and knowledge, the franchisee is likely to be more familiar with local preferences and tastes (Cox and Mason, 2007). In these circumstances, the franchisee may be expected to take more control over the strategic direction of the franchise. Entrepreneurial franchisee’s behavior is likely to be far more desirable in growing franchise than those who have achieved maturity (Tuunanen and Hyrsky, 2001). Dandridge and Falbe (1994) explain that “in a franchise system, which is growing or where the franchisor wants growth, the franchisor will find entrepreneurial behavior through franchisee as desirable.” However, allowing greater entrepreneurial flexibility also increases the level of risk for the franchisee, and to compensate that risk, the franchisor may offer lower fees or royalties, as is often seen “when the franchise concept is still new” (Phan et al., 1996).

Conversely, other authors explain that when the franchise matures and the business concept has been tested several times in different geographical locations, the franchisor’s confidence in the success of the concept increases and their reliance on franchisee-entrepreneurs declines (Kaufmann and Eroglu, 1998). In an established franchise, controlling franchisee autonomy is important for achieving standardization, quality control, focused decisional power, and a consistent brand image (Stephenson and House, 1971; Strutton, Pelton and Lumpkin, 1995). However, Kaufman and Eroglu (1998) add that standardization is most critical in earlier stages of business to project consistency for new customers, and so control will decline as the firm matures. This proposition corresponds with research presented previously that suggests mature franchise systems exert more control over franchisees than young systems (Gross-Turner, 1999; Paik and Choi, 2007; Pizanti and Lerner, 2003). Though a matured franchise system requires on-going market innovation for success of the system, however, franchisors may rely on the entrepreneurialism of multi-unit franchisees, as seen especially in international franchising (Dant and Nasr, 1998).

Based on the discussion given above, it is clear that implication of the balance of control and autonomy for franchisees is very important for effective relationship between franchisor and franchisee. The franchise relationship presents a potential for conflict as the franchisor seeks standardization and control on franchisees to maintain brand reputation, while franchisees strive for entrepreneurial autonomy (Kidwell et al., 2007). Enforcing strict restrictions on activities of franchisee can result in disappointment to franchisee's expectations of entrepreneurial behavior (Cochet et al., 2008), withholding support may dissatisfy franchisees, who anticipate a high degree of guidance.

It is seen that a major hurdle for the source company is controlling the relations with the target company and maintaining a proper balance between Dependence and Autonomy. Franchising can also be considered as a small trade, which is very closely related with the source company i.e. the franchisor, who meticulously manages unit that features the company policies of an independent source. Franchising models is promoted by the franchisor by saying that if anybody wants to be his own boss, then he may take franchisee of that company and when a person take the franchisee by having an impression that he can run his own outlet on the basis of his own terms, then he comes to know, after signing contract, that franchisee is not actually allowed to work outside the franchise agreements. Even though a few surveys of motivation of franchisees for selection of the franchising as an option reveals a lot of complexities (Dant, 1995). Generally, the franchising appeal has always attracted prospective franchisees in huge numbers with direct and vivid experience for doing their own work according to their own understanding (Hunt, 1971). These people are inclined towards getting autonomy and freedom for working on their outlets, franchised by them.

The franchisees may be independent in real terms as agreements are not enough to forecast the actual unforeseen events, perfect behavior controlling through monitoring people is not possible. Logically, it is also
not possible that one has total control over another, as sometimes it becomes necessary to decentralize the decision making power; like in case of local staff where decision for their decentralization is necessary. Sometimes franchisors are also not willing to consume their time in certain activities, as they are not very inclined towards division of the labour. It is indispensable to have respect from franchisees, maintain goodwill and build trustworthiness so that business relations are good in the long run. Franchising management requires the franchisor to be consistent, having control on quality, maintaining standard and not losing the goodwill equity of brand and franchisee’s wish of having Autonomy (Lumpkin, 1995). Dependence and Autonomy are very important aspects in the franchising industry and that are always prevailing there as part of governing the organizations. If autonomy is given in excess, it can apprehend the franchisor from losing its originality and getting its brand equity diluted. On the other hand, taking control in excess can prove very costly as it will require total monitoring of the franchisee’s behavior, which may lead agency to face problems also (Shane, 1995).

It becomes very difficult from perspective of the management to maintain a balance between Dependence and Autonomy in the franchising industry, which is not sustainable in the long run. This can be the dilemma for motivation and morale boosting amongst the franchisees. The study further will provide help to resolve this problem of maintaining a balance between Dependence and Autonomy in the franchising industry by suggesting factors affecting the Dependence and Autonomy of the franchisee in the relationship of franchisor and franchisee.

Their relationship has four types of combination of Dependence and Autonomy is possible as given in figure 2.1 below:-

Figure 2.1

<table>
<thead>
<tr>
<th>Dependence</th>
<th>Autonomy</th>
<th>View</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>High</td>
<td>High Autonomy High dependence view according to latest channel prospective. (1)</td>
</tr>
<tr>
<td>Low</td>
<td>High</td>
<td>Low Autonomy High dependence view according to Traditional channel prospective. (2)</td>
</tr>
<tr>
<td>Low</td>
<td>Low</td>
<td>Low Autonomy Low dependence view (Rare combination in franchisee relationship) (4)</td>
</tr>
<tr>
<td>High</td>
<td>Low</td>
<td>Low Autonomy High dependence view according to Traditional channel prospective. (3)</td>
</tr>
</tbody>
</table>

The arrangement of low autonomy and low dependence as shown in the above figure (2.1) is feasible in the relationship of franchisor and franchisee; however the existing literature review does not accept this possibility theoretically. The franchisee in this cell would not be considered a model franchisee, and the franchisee’s relationship period with the franchisor is also uncertain. So low autonomy and low dependence is the least viable state of relationships in the inter-organizational context, so we will not consider this combination in our study.

The belief of being dependent is regular feature of restricted autonomy given to franchisees; the low and high arrangement of Dependence and Autonomy has already tested in an organized way in the existing literature. In the literature, few researchers showed opposite association of dependence and autonomy of the franchisee in franchisor franchisee relationship (Pugheatal,1969, Thompson & McEven,1958,Warren,1967). Gouldner,1959 described that the autonomy is opposite to each other and depends upon the probability that a franchisee can or can’t survive after partition from the association. On the other hand, many researchers in the literature have proposed that Dependence and Autonomy are highly co-existent socially (Garnier, 1982; Salancik, 1978; Pointer
Autonomy and Dependence in Franchisor-Franchisee Relationship

Begun and Luke, 1988). It was noted by them that it is very rare that in all the circumstances, one of them has advantage over the other in formation of structure on dependence.

An opportunity may arise where situation favors franchisor, as he has the special knowledge to resolve problems under that situation. Similarly, a situation may favor franchisee, because he may have achieved the ability to resolve problems then in a better than franchisor. Under the given scenario, it allows to develop relations that are regarded by higher autonomy and resources, in one domain, and dependence and resources, in other domain. This conceptual framework is related to the franchising model where both the parties contribute their abilities individually towards achievement of the organizational success, as a whole, without facing any issue related with the Division of Labour (Stanworth, 1995).

CONCLUSION

Many times, franchisees choose franchising because they feel that they can work as an independent business entity while getting support and resources from the franchisors (Fulop & Forward, 1997). But sometimes, to earn more profits franchisees attempt to reduce costs of the product or service by lowering the quality of product or service, which may deteriorate the image and reputation of the franchisor in the market (Combs & Castrogiovanni, 1994). To stop the franchisee from lowering the product or the service quality, franchisors maintain tight control on the franchisee outlet and do not give any authority to the franchisee. When the franchisee who started the franchisee outlet to become his own boss doesn’t get the authority to take decisions from the franchisor for his own outlet, he gets unsatisfied and tries to break out of the relationship. The main reason of failure of this relationship is that both, the franchisor and franchisee are not able to maintain balance between the levels of autonomy given to franchisee along with the level of dependence. The study presented here suggests ways to help improve the relationships of the franchisees and the franchisor by taking the decisions as to how much autonomy we can provide to the franchisees. If franchisee is satisfied with amount of authority given to him in certain areas by the franchisor then this relationship of the franchisor and franchisee will go a long way. This long-term relationship between the franchisor and the franchisee will help in sustainable economic growth by maintaining the income of the franchisee and the persons employed in these franchisee outlets and by output creation in the economy.

Moreover, if the relationship between franchisor and the franchisee goes a long way, then this helps in generating higher rate of taxes due to higher surplus. Trade will become much more effective and infrastructure will be developed for the growth of the economy which will increase the degree of entrepreneurship and development of Small and Medium Enterprises (SME) in the longer run for sustaining the economy of the nation. So, balancing the autonomy and dependence in the franchisor franchisee relationship is important not only for the long-term successful relationship of franchisor and franchisee, but also for the sustainable growth of the economy.

As for the problems associated with the risk sharing (RS) that must support the parties, franchisors should delegate more decision rights when it is difficult to replicate the intangible resources to reduce opportunistic behavior (free-riding) (Mumdžiev and Windsperger 2011). To reduce the likelihood of the premature termination of the contract (hold-up), a guarantee could be feasible that allows the franchisee to belong to other professional groups or gives territorial continuity to the franchisee to enable collateral activities to be pursued (Chu and Liu 2010).

This study has some limitations that should be mentioned. The first and most notable is that it contains conceptual ideas that need to be proven empirically. The second limitation is determined by the degree of difficulty that may be involved when evaluating some of the factors that have been described. Despite these limitations our work sheds some light franchisee on giving autonomy to the franchisee is need of an hour. So the franchisor must think of giving autonomy to the franchisee wherever possible and beneficial for him. Future research work should be focused on the finding the factors which affects the level of dependence and autonomy given to the franchisee.

REFERENCES


