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CARE - Achieving operational success in Entrepreneurial Relationship Businesses

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Abstract

Franchise which is an entrepreneurial business and like other SME's also face significant failure rates and their success largely depends upon the strength of cooperative relationship among partners. Confidence between partners and manifestation of trust and commitment towards each other are vital ingredients to secure consensus and cooperation and lead to competitive advantage. Franchise business requires franchisee cooperation, franchisor support to franchisee, marketing and communications and innovation in offerings to grow. However, franchisors face a problem of devising relationship strategies that can help them build, maintain and operate successful relationship with their partners. Based on findings of a survey of 393 franchise (124 franchisors and 269 franchisees) firms in the UK, presented in the paper is a statistical model to construct, assess, reconcile, and execute franchise relationship strategy; to achieve the successful relationships by franchisors

Keywords: operational success, Entrepreneurial Relationship Businesses

1. Introduction

In the contemporary global business world, business maintenance and sustaining relationships are extremely important, whether in the context of customer to business or business-to-business relationships (Child and Faulkner 1998). Walters et al. (2002) argued that in any business; technology, knowledge and relationship management are the building blocks which form the foundations for growth. The effective management of these relationships provides a path to identify, establish maintain and reinforce economic relationships with customers, suppliers and partners, all of whom have different capabilities and capacities (Gundlach et al. 1995; Teece 2007).

Perry et al (2002) commented that organisational and partner objectives can be met by agreeing and implementing mutually accepted strategies (Perry et al. 2002). Quinn (1980) suggested that strategy is a plan to integrate the main goals, policies, and action sequences of a firm into a cohesive whole. Whereas, Webster (1994) stated that strategy is the building block of strategic management and labelled it as the foundation of the strategic management process. He also posited that the strategy provides the link between the present situation and future goals.

Kaplan and Norton (1992, 2001) suggested a strategic management system to enable firms to translate a company's vision and strategy into implementation from four angles, i.e. financial, customer, processes, learning, and growth. Later they proposed a strategy map, which is a diagram to illustrate how to create value by developing connections in explicit cause and effect relationship between these objectives. However the arena of relationship management with a view to develop and affect effective strategies is complex and difficult to study. In franchising, which has become an important feature in modern markets the relationship are exposed in both form and scope. This makes the study of franchising a suitable area of study to understand the nature of modern business relationships which is an entrepreneurial business (Kaufman and Dant, 1999) and has relationships of one-to-many. This is especially so as the longevity of the relationships depends on dynamism, frequency of exchange between partners, resolution of conflicting priorities, the nature of contract and the power balance between partners. Franchising is thus a complex and hybrid relationship (see for example Powell, 1987 and 1990; Shane 1996a; Swenson et al. 1990). Therefore, in order to study business-to-business relationships, understand their dynamics, strategies, features and good practices needed for business development; the franchising relationship is well suited.

2. Franchising as growth strategy

According to Selig 1998, entrepreneurial drive to grow business is required by the franchisor and franchisee. There is an increasing number of entrepreneurs and corporate converts are buying franchises. The longevity of the relationships, dynamism, frequency of exchange between partners, conflicting priorities, nature of contract and power balance between partners suggest that franchising is a complex and hybrid relationship (see for example Powell, 1987 and 1990; Shane 1996a; Swenson et al. 1990). Therefore, in order to study business-to-business relationships, understand their dynamics, strategies, features and good practices needed for business development; the franchising relationship is well suited.

Franchising is being used as development and growth strategy in numerous contexts across the globe; ranging from its use as market entry to an expansion mode and a strategy to secure competitive advantage; and has played vital role in small business development. Regional development banks have emphasised franchising in development of micro and small businesses in developing countries especially in social sector. Provided in the Table 1 are details of economic contributions of franchising in different parts of the world.

Table 1 economic contribution of franchising in selected economies

Country	Number of franchisors	Number of franchisees	Employment (m)	Business sectors	Estimated sales
USA	1000	7,600,000	1.8	96	$ 1.3t
UK	718	31700	0.33	36	£ 9.6b
France	765	34745	0.398	37	€ 34.1b
Germany	845	45000	0.406	41	€ 28b

According to the International Franchise Association's website (2009); in 2008 the franchise sector in the United States generated a total economic output of over $1.4 trillion (equivalent to 9.5% of the U.S. private sector economy) and, employs around 2 million people. Similar growth trends in franchising are observed in Europe including the UK. Sales in the UK where franchising has grown more than ten fold from £ 0.9 in 1984 b to £ 11 b in 2009. In the UK there are now more than 720 franchise systems with almost 30,000 franchisees and over 350,000 people are employed in these relationships.

3. Relationships in franchising

According to Child and Faulkner (1998) cooperative strategy in relationship scenarios, is an attempt to accomplish objectives, to counter the lack of resources, competencies, and to avoid problems with the help and assistance from partners to achieve mutual synergy. Atuahene-Gima (1996) asserted that cooperation, results in reducing negative effects of restricted performance, inconsistency, and opportunism; hence resulting in lower transaction costs, and strengthening of relationships and firm performance. Cooperation, by both the partners, according to Costa (2003), will assist in achieving better team results, by improved proficiency in pre-planning; launch activity, service quality, marketing synergy, and teamwork (Costa (2003).

The franchise companies are information rich organisations, concerned with generating individual insight and knowledge for use by the whole network. Therefore, it is important that companies in franchising relationships develop processes which encourage partners to share their tacit and implicit knowledge with their franchisees and to make sense of the information being shared in order to develop trust and commitment. These processes, according to Kaufman and Stanworth (1995) and Stanworth et al. (1996) can also act as efficient control mechanisms. Support systems in franchise firms are required to develop and assist the franchisees to manage their units effectively and efficiently. These systems range from regular meetings to training of the franchisees and their employees, up-dating the operating manuals and all the activities related to the further business growth of the unit. Lashley (2000) pointed out that franchisors choice of strength of control and support systems determines the relationship quality (see also Hing 1995 and Shane 1998).

To strengthen and develop relationships requires management to adopt a cooperative and collaborative view rather than a conflicting strategy (Tikoo 2005), especially when dealing with the customers and with suppliers and partners (see Anderson and Weitz 1992; Mohr and Spekman 1994). This view can influence positioning and overall business strategy through identification, and development and maintenance of partnerships. This may be achieved by certainty in meeting the customer expectations from both parties by forming and implementing a synergetic business development effort (Geyskens et al. 1999; Perry et al. 2002; Walter et al. 2002). Hence, the cooperative behaviour of the partners in this dyadic relationship is the basic ingredient for achieving the growth through synergy. The requirement is that partners adopt a cooperative strategy with each other to develop cooperation, build trust and commitment to secure consensus and, achieve targets (Gronroos 1997; Ring and Van-de-Ven 1994). Ganesan (1994) observed that partners need to ensure that the relationships are governed by a power structure which is implemented through control and support systems.

According to Gundlach et al. (1995), trust and commitment are two basic elements of cooperation and form the basic requirement for any cooperative strategy to succeed. If trust and commitment are present then firms can achieve competitive advantage and grow business, and such a strategy will help manage pitfalls like repetition, omission, divergence, counter production, uncertainties, and behavioural actions of the partners that can dent the relationships and develop conflicts among partners (Huxham and MacDonald 1992; Lawler and Yoon 1996). From a study of 393 franchise firms (124 franchisers and 268 franchisees) in the UK by Rahatullah (2007) it is clear that in order to gain trust and commitment franchisors expect the franchisee to abide by the rules, systems, and procedures, and act responsibly. They also expect the franchisee to recognise franchisors, efforts, contributions, and hard work for the growth of the franchisee business. The study showed that franchisors expect by meeting franchisees expectations they will increase their trust in franchisee and they will be more committed to both the franchisee and overall business. From the survey franchisors seemed to show little anxiety over the stringent control mechanisms, provided they are supported and recognised by the franchisor (Rahatullah 2007).

4. Relationships and Conflicts

Various studies have shown that human behaviour develops conflicts in the relationships and there is a need for parties to embark upon conflict resolution mechanisms in order to maintain and strengthen the relationships (Tikoo 2005). Pruitt and Carnevale (1993) suggested that if the level of conflict is not managed, members will tend to mistrust other participants in the network. Gulati (1998) asserted that in these circumstances interdependency becomes the governance principle in business networks, co-evolution becomes the main dynamic, and balancing cooperation and competition becomes a major strategic challenge for partners. Rahatullah (2010) asserted that reasons for breaking or deteriorating the relationships are franchisee actions that lead to conflicts over business development and these conflicts are notably around operational, financial, and legal control and how the relationship is managed. When the franchisor has policies to suit him alone and does not take into consideration the franchisee interests, such as not providing recognition of the franchisees efforts, ineffective and inefficient support, or have materials related policies that are conceived to be mainly franchisor centred, then conflict grows and the relationship deteriorates.

Organisations can overcome these problems through specialised capabilities such as flexibility, versatility, less bureaucracy, motivated leadership and emphasis on cooperative arrangements in the relationships (Thompson 1999; Radha et al. 2002; Leavy 2005b). Teece (1997 and 2005), Radha et al. (2002) and Leavy (2005) suggested that these capacities can be used to gain competitive advantage and add value to both the relationship and the business by achieving shared goals, and implementing systems. This requires providing training to equip staff, developing firm specific styles and to develop skills, to holistically and effectively organise and develop firms (Teece et al. 1997; Ethan and Friga 2001). Wilson and Jantrania (1995) proposed the need to develop economic, strategic and behavioural and psychological factors and to determine the value of the relationship.

Hackman, (1987) identified management support, team leadership, adequate resources, technology, and appropriate reward systems, as key determinants of team effectiveness and relationship strength and as ways to secure advantages from collaboration, that ultimately add value to the system. According to Leavy (2005), these help create a performance fabric through interweaving the different partner units and in turn this creates and maintains effective relationships, trust and shared meaning among all.

This discussion shows that growth of franchise business depends on operational excellence and that success comes from four dynamics, i.e. franchisee cooperation, franchisor support to franchisee, marketing and communication effort of the franchisor and mutual efforts of both the partners to innovate and further develop the product or service. The discussion also reveals the need for a model that can help franchisor ensure that the relationship strategy they wish to implement will be successful and the partners will mutually work for the betterment of the business. The purpose of this paper is to develop such a model. The approach taken is discussed in the next section.

5. Method and Results

Data was collected from a postal survey of the UK franchise sector was conducted with the help of two questionnaires one for franchisors and other for franchisees. Respondents were asked about the success of the relationship and what other partners should do to maintain and develop the relationship. For details of the questionnaire and its piloting and administration see Rahatullah 2010. Out of 300 questionnaires to franchisors 124 responded and out of 850 questionnaires to franchisees 269 responded (response rates of 41% and 32% respectively).

Ten motivations for franchising were identified and franchisors were asked to report the importance attached to a motivation and the degree of success on a five point Lickert scale from very unimportant/unsuccessful to very important/successful in achieving that motivation.. These motivations were: 1) To grow business and increase market share 2) Enter new national markets 3) Enter new international markets 4) Increase manufacturing capability 5) Increase distribution capability 6) Access government incentive schemes 7) Capability to operate 8) To decrease costs; 9) To overcome resource constraints; and 10) To recover otherwise unrecoverable costs. In table 2 below the motivations are shown by importance means of these and success in achieving motivations is reported for the franchisors.

Table 2 Importance of Motivations

Motivation	Importance		Success	
	Mean	Std. Deviation	Mean	Std. Deviation
Grow Business and Increase Market Share	3.87	.403	3.77	.479
Increase Capability to Operate	3.37	.801	2.22	.564
To Decrease Costs	3.17	.853	3.17	.908
To Overcome Resource Constraints	3.09	.865	3.24	.859
Enter New National Markets	2.91	.928	2.76	.868
Increase Distribution Capacity	2.90	.923	2.87	.892
To Recover Costs	2.57	.818	2.93	.894
Enter EU and International Markets	2.44	.735	2.42	.745
Access Government Incentive Schemes	2.40	.708	3.31	.778
Increase Manufacturing Capacity	2.26	.596	2.14	.466
Sample size	124			

It appears that the main motivations are to grow the business and increase market share, to increase the capability to operate and reduce distribution costs. Generally means of success are above reasonable score of 3. However, it seems that scores associated with increasing capability, distribution and manufacturing indicate under achieving in these areas.

The "success" score was computed using the calculation below:

$$\sum_{j=1}^{n=10} S_j I_j$$

Where j= 1 to 10 reason, S_j = success of reason j and I_j = importance of reason j. Score was normally distributed with mean 51.3 and standard deviation 13.9

The distribution was "binerised" by coding those scoring 60 or below as a 0 (unsuccessful/less successful) and a 1 for those scoring above 60 (successful). A binary logistic regression model, (Sharma 1995), was using strategy factors to determine the likelihood of success from the scores of the factors in the two surveys. The approach taken is similar to that used in assessing credit worthiness (Jacka 1998). The formulation of the model is:

$$\text{In}\left(\frac{P}{1-P}\right) = \alpha + \beta_1 X_1 + \beta_2 X_2 + \ldots \beta_n X_n + \varepsilon$$

Where X_i is the factor measured in the survey and P is the likelihood of success

The probability of success was computed using the Wald Forward Selection model building strategy. The model was developed which fitted well with the Cox & Snell R^2 and Nagelkerke as R^2 was 48.46% and 64.7% respectively.

In Table 3 the classification of the successful and less successful relationships are displayed and shows that the model works effectively. The coefficients of the model are laid out in Table 3

Table 3: The performance of the model

Observed Success	**Predicted Success**		
	Less successful	**Successful**	**Percentage Correctly Predicted**
Less successful	46	10	82.14%
Successful	8	60	88.24%
Overall			85.48%

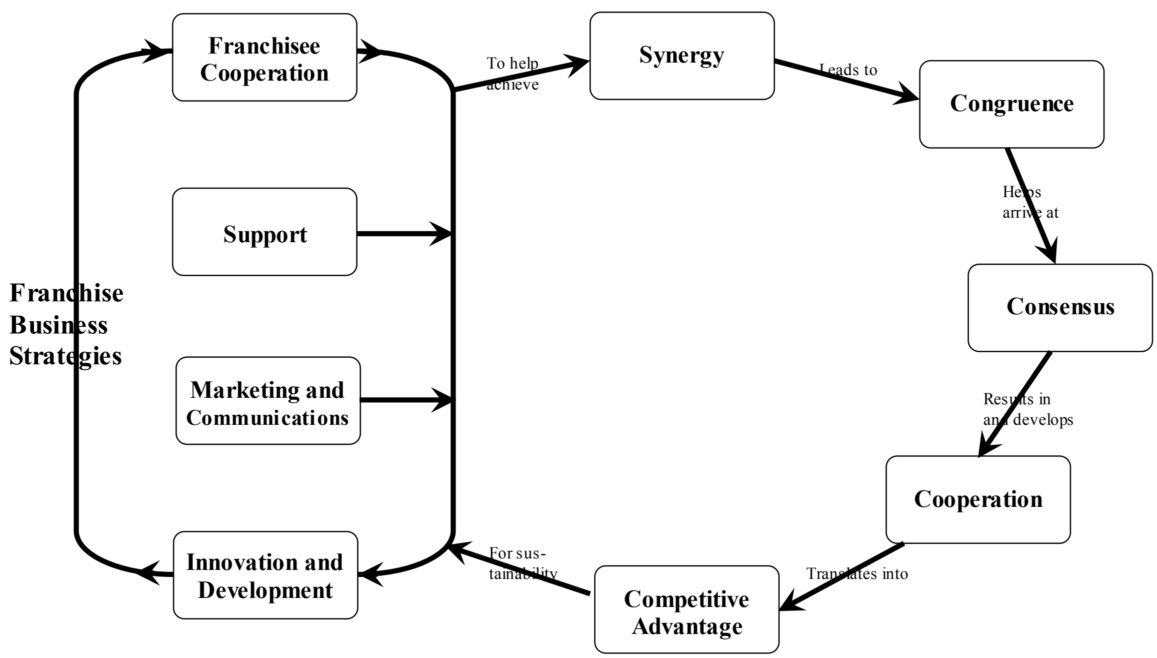
Table 4: The coefficients of the logistic regression model to predict the probability of success

Strategy Variables	**coefficient**	**Standard error**	**P value**	**odds Ratio**
Controlling the franchisee through reporting	0.230	0.122	0.059	1.259
logistics and supplier control	-0.359	0.158	0.023	0.699
Communications between partners	0.986	0.254	<0.001	2.680
Franchisee imprelents required changes	-0.795	0.239	0.001	0.452
Franchiseee meets financial commitments on time	-1.05	0.267	0.005	0.350
Marketing campaigns	-0.489	0.180	0.007	0.613
Franchisee participates actively in product and service development	0.515	0.166	0.002	1.674
Development of brands, patents and trademarks	0.409	0.153	0.008	1.505
Friancishor provides time and cost effective support	0.659	0.239	0.006	1.932
Financial and management ability of the franchisor	0.426	0.198	0.032	1.531
On time and effectivereporting and feed back from the franchisee	-0.668	0.284	0.019	0.512
Training and development of franchisee and their employees	-0.100	0.227	<0.001	0.151
Regular business development support by field staff	0.506	0.185	0.002	1.423
Implementation of quality standards	0.647	0.355	0.008	1.932
constant	-11.051	3.323	0.001	0.158

The model developed allows scorecards to be developed and a map to be constructed of how business relationships should be developed similar in some respects to the strategy maps and balanced scorecard introduced by Kaplan and Norton (1992, 2001). This map shown in Figure 1, allows the identification of the four strategy components, franchisor cooperation, franchisor support, franchisor's marketing effort and innovation and continual development which help to develop synergy, congruence, consensus, and cooperation that lead to competitive advantage (Rahatullah 2010). It offers a one-glance view of franchise relationship strategy mix factors enabling strategists to construct a plan to implement and control the relationship as franchise development strategy. Use of this map should help to achieve operational excellence.

The figure 1 identifies four strategy components, i.e. franchisor cooperation, franchisor support, franchisor's marketing effort and innovation and continual development help develop synergy, congruence, consensus, and cooperation that lead to competitive advantage (Rahatullah 2010)

Figure 1 Franchise relationship strategy mix and competitive advantage



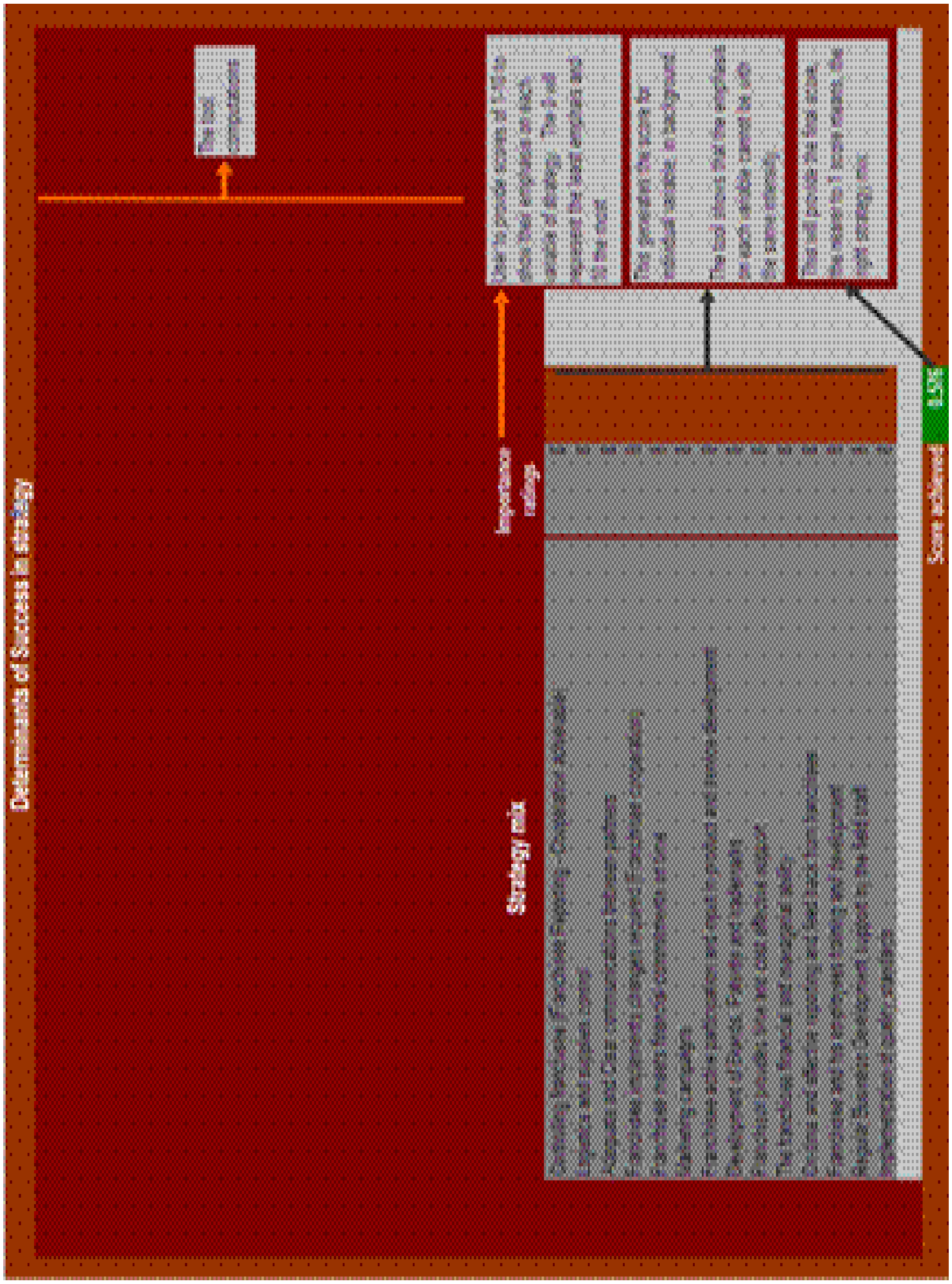
6. Development of CARE strategy tool

The model provides an opportunity to the firms to identify the financial and non-financial success factors and emphasis required for success. The model can also be used to help identify how to streamline the financial, partner, and internal process, i.e. control and support systems and learning and growth of the partners adding value to the relationships and business performance

From the binary logistic regression model, a strategy mix scorecard in excel was prepared based on the variables in the model. This model can provide via an audit, the firms with vital information that how much investment is required in each of the strategy variables to achieve growth. The model adjusts the input on numeric scale of 0-10 for each factor and emphasis the weight required on each variable to allow the output (the likelihood of success) to near 1 will mean that the maximum benefits from strategy could be achieved; hence adjusting the strategy. The scorecard is constructed in Microsoft Excel and the worksheet is displayed in Figure 2. Also shown in the figure are the cells where the user has to input their score they allot to each variable of strategy according to their desired emphasis on that particular strategy variable. It is emphasised that for each variable in the strategy mix tool, the related variables, systems, mechanisms, actions, adaptations required and procedures should be kept in mind before rating. For example, in order to give a rating of 4 for ‘not difficult to control franchisee (cooperation)’ will mean that the user must provide allowance for the trust and commitment level between the partners, and the extent of problems they face in order to implement the strategies, new systems and procedures. Then the rating may be input.

This scorecard provides an opportunity for the firms to identify the financial and non-financial success factors and emphasis required for success. The scorecard can also be used to help identify how to streamline the financial, partner, and internal process, i.e. control and support systems and learning and growth of the partners adding value to the relationships and business performance.

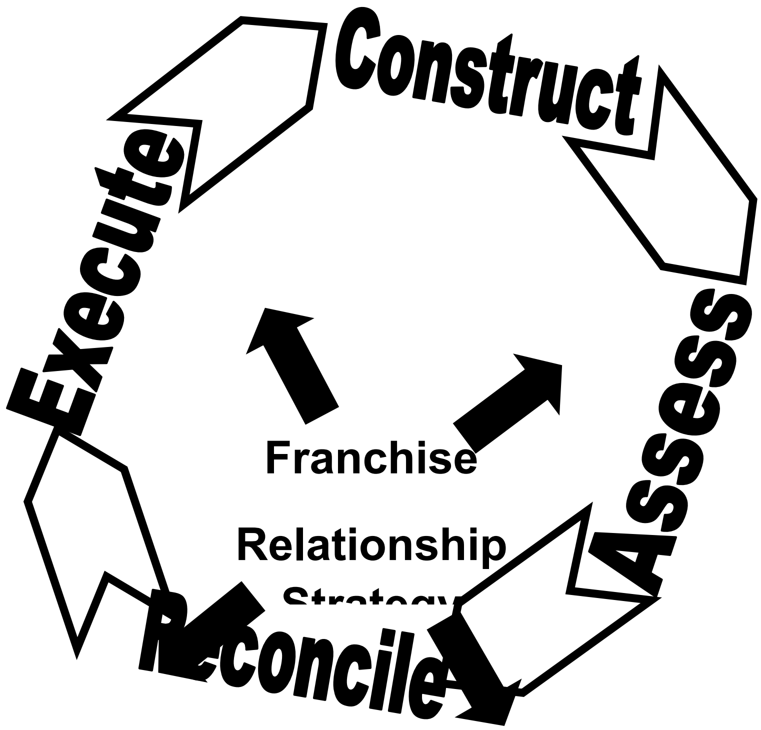
Figure 2 the strategy mix scorecard



7. CARE Strategy tool as Catalyst

There are many complexities in effective management of relationships because many strategies are implemented by the franchisors. As the partners have different capacities and capabilities, they perceive differently, but this tool outlined above can bring in harmony and develop consensus on franchisor strategy. The tool will assist the franchise firms to, C = Construct, A = Assess, R = Reconcile and E = Execute the relationship strategies as in the model illustrated in Figure 3.

Figure 3 – CARE Constructing relationship- strategies



It is shown in Figure 1 that, 'franchisee cooperation', 'franchisor support to franchisee', 'marketing and communication effort of the franchisor', and 'mutual efforts of both the partners to innovate and further develop the product or service', form the main franchise business relationship strategy mix. The variables used in the model shown in Table 4 reveal that this scorecard will help the franchise firms understand how much effort they need to exert on each aspect of the strategy. This will help the firms to achieve the excellence and growth in financial matters, relationships, and will identify what ought to be the role of partners to achieve growth. This model supports the findings of Gronroos (1994) and Ring and van-de-Ven (1994) who suggested that cooperative behaviour of partners in relationships is the basic ingredient for achieving synergistic growth.

It is suggested by the model that the more cooperation between the partners the greater the likelihood of success. It suggests that if it is easy to control the franchisees then success is likely to be achieved; this requires franchisee cooperation by their non-defiance in implementing the changes advised by the franchisor.

From the model in Table 4, it is also revealed that the franchiser has to adjust their logistics and supplies control strategy, in order to help the franchise business develop. Similarly, adjustments need to be made from franchiser to provide effective support to their franchisees and marketing campaigns are needed which play a critical role in overall growth. The strategy needs strong cooperation from both partners. This in turn sets the requirement for effective and reliable communications, competency of both partners and the building of trust. The model suggests that both partners need to emphasise and develop a consensus on their future objectives, and resources to achieve the targets.

8. Assessing the strategies

Once the relationship between franchisor and franchisee starts, the conflicts or problems surface between the partners (Dwyer and Orville 1981; Dant and Schul 1992).

The tool will assist the partners especially the franchisor to understand what strategy mix is creating these rifts. This assessment may be supplemented by the reports and verbal communications by the franchisees. In the light of these communications, the franchisors can easily understand where they are exerting wasted effort and where extra effort needs to be exerted. The next step would be to reconcile and balance the strategies.

9. Reconcile the strategies

The strategy mix provides a clear prescription as to how companies may develop their strategy in order to 'balance' their perspective for growth. It enables firms to clarify their strategy and translate it into action, by providing feedback and information from both the internal business processes and external outcomes to improve strategic performance and likely results. If it is utilized fully the scorecard can transform the strategic planning from an academic exercise to a central strategy of the franchise business. It also reveals the importance of relationships deemed critical for success. The strategies once rebalanced can be mobilised for growth of the relationship.

10. Executing the strategies

In order to execute the strategies the tool can assist franchisors to continually assess and reconcile their strategies. The implementation will become easier because of the ease in assessing, understanding, and communicating. As Kaplan and Norton (2001) suggested the implementation of a constructed strategy is biggest challenge, this the tool facilitates this implementation..

11. Other Implications

CARE can become a powerful tool for consultants' business developers and practitioners. It can enable the practitioners to develop, adjust and implement their business level strategies. The tool will assist to translate strategy to operational terms and align the organisation of strategy, by making strategy a continual process. It will facilitate the mobilization of change through leadership of the franchisor and if franchisors rely or desire to stress more on one particular strategy or one of its mixes, CARE helps to visualise what should be emphasised in other relationship strategies. It provides easy strategic communication, which facilitates the construction, assess, reconciliation, and execution of appropriate strategy and so promotes the success of the franchisee/franchisor relationship.

The tool also emphasises the importance of relationship features and teamwork, which, the relationship should endeavours to develop by clarifying the extent of work for each partner in each sphere.

The CARE model has also provided a link to four main franchise business strategies and provides a perspective on operational and relationship perspectives that forms the strategy. Thus the use of the model allows managers to understand in very short time that if factors that underpinned their strategy have changed and what should be their emphasis on other strategies.

In its different stages, CARE enables the franchisors to focus on few critical measures and avoid undue discussion and effort. This can be achieved when a problem arises and assessment and reconciliation process is carried out as it will pin point the problem area and help to guide to a better solution. Such a solution could be based on consensus on objectives of both partners, and will lead to synergistic action adding value to the relationships. Once such consensus is achieved, it apprises the partners on what they must excel in; and leads to cooperation that translates into competitive advantage and should lead to growth opportunities.

The frequent use of the CARE model to assess the strategies will help reveal past, present and future strategies and will help partners take corrective actions. CARE should lower transaction and other costs of development and implementation, as it is more time effective, helps develop congruence by providing convenience to both partners and facilitates reduced delivery times.

12. Conclusion

It is concluded that the tool could be a practical guide to franchise relationship building strategy. It will be particularly beneficial where the franchisor has difficulties managing the franchisee. The franchisee can even be motivated with the help of the strategies arrived at with the help of this tool. It will also give an understanding to the franchisor about the needs and requirements of building strong relationships

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