The Importance of Perceived Franchisor Support Toward Franchisee Satisfaction

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Abstract

The purpose of this study is to identify important factors affecting franchisees’ toward franchisors’ support in terms of business assistance and service during the business partnership. These supports from franchisor affect the satisfaction measurement about the franchisors’ performance by reflecting the franchisor capabilities. The results indicate that a higher level of franchisee satisfaction can be achieved through perceived franchisor support. In addition, both dimensions of perceived franchisor support were found to be an important element in influencing franchisee satisfaction, and will be beneficial to the practitioner on franchise business.

Keywords: Franchisee satisfaction, Perceived franchisor support, Ongoing business assistance, Ongoing support service

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บทความย่อ

วัตถุประสงค์ในการศึกษาในครั้งนี้เพื่อแสดงให้เห็นถึงปัจจัยสำคัญที่มีผลต่อการรับรู้ของแฟรนไชส์ซื้อที่ได้รับจากการสนับสนุนจากแฟรนไชส์ซอร์ในด้านการให้คำปรึกษาและให้การบริการในขณะที่ทำธุรกิจแฟรนไชส์ร่วมกัน ซึ่งการสนับสนุนจากแฟรนไชส์ซอร์ทั้งสองดานนี้ลดต่อการวัดความพึงพอใจของแฟรนไชส์ซื้อที่เกี่ยวกับการกำหนดผลการดำเนินงานของแฟรนไชส์ซอร์ด้วยการสะท้อนให้เห็นถึงความสามารถในการดำเนินธุรกิจของแฟรนไชส์ซอร์ทั้งนี้หากความพึงพอใจของแฟรนไชส์ซื้อยู่ในระดับสูงจะเป็นการแสดงให้เห็นถึงความสามารถในการดำเนินธุรกิจของแฟรนไชส์ซอร์อย่างไรก็ตามการรับรู้และเข้าใจกระบวนการสนับสนุนจากแฟรนไชส์ซอร์ที่เกิดขึ้นในระหว่างการทำธุรกิจของแฟรนไชส์ซื้อในด้านการให้คำปรึกษาและการบริการในด้านต่าง ๆ ที่เกี่ยวข้องในธุรกิจแฟรนไชส์ คือปัจจัยสำคัญซึ่งมีอิทธิพลต่อความพึงพอใจของแฟรนไชส์ซื้อ และผลที่ได้จากการศึกษาครั้งนี้สามารถนำไปใช้เป็นประโยชน์ต่อผู้ประกอบการที่ดำเนินธุรกิจแฟรนไชส์ได้อย่างยิ่ง

คำสำคัญ: ความพึงพอใจของแฟรนไชส์, การรับรู้การสนับสนุนจากแฟรนไชส์ซอร์, การช่วยเหลือทางธุรกิจอย่างต่อเนื่อง, การให้การสนับสนุนด้านบริการอย่างต่อเนื่อง

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Introduction

Franchise business in Thailand has been a lucrative venture. Since the 1980’s franchise business has been started in Thailand. Franchise on food and beverage industry in Thailand is highly competitive due to a large number of participants in the industry. Nevertheless, for Thai, franchisees still have problems to ensure a sustainable franchise network. Previous studies have shown that most of Thai franchisors can survive only for five years. Every year there will be 20 franchisors who will enter the market while 20 franchisors will leave the market at the same time (Wongvarnrungruang, 2009). Franchisors could not sustain their business for more than five years because the franchisees do not receive much assistance and support from their franchisors (Department of Business Development Thailand, 2010). It can be observed that disputes between franchisees and franchisors are increasing in number. Most of Thai franchise can survive only for 5 years. The turnover rate of Thai Franchise business is volatile. One of the reasons could be most franchisors fail to give advice and engage in continuous monitoring of the business of their franchisees. Franchisors mainly focus on assisting franchisees with the operating procedures but forget to also focus on the well-being of the franchisees (Hnuchek, Ismail and Haron, 2012).

The most popular franchise business in Thailand is the food and beverage which accounts for a 48% of the franchise business (Thai Franchise Canter, 2014). However, the concept of franchise is still new for Thai SMEs. Although the number of franchise is increasing, at the same time the number of “franchise turnover” is also increasing. It is important that franchisors must be able to adapt to the franchise concepts, proven operational and marketing methods to survive the franchise over the long term (Hnuchek et al, 2013). Franchisors are responsible for the inability of the franchisees to survive over a long term period.
According to previous studies discussed the potential for conflict between franchisees and franchisors. In fact the franchisor needs to provide the information that influence to franchisees’ experience such as the marketing strategy of the franchisor to ensure the effectiveness franchise system. It is important for franchisor to drive the franchise system and develop good relationship with the franchisee toward the successful business (Robkob and Ussahawanitchakit, 2009). The benefit to society and stakeholder such as customers, channel members and communities must be considered by companies in the food and beverage industry in order to ensure sustainability of its business (Hnucheck et al., 2013).

Thus, the study proposed that both ongoing support service and ongoing business assistance as two dimensions of perceived franchisor support contribute positively to franchisee satisfaction. Generally, the franchise business focuses on customer’s perception to develop value in the relationship between parties. Franchisees are also customers of franchisors and the franchisor needs to take care of them. This is because perceived operational and managerial support from franchisor can be measured by the franchisors’ performance (Hnuchek et al, 2013). The findings of this study show that both dimensions of perceived franchisor support namely ongoing business assistance and ongoing support service have positive relationship with franchisee satisfaction. This might be because the franchisee needs a well managed service support from franchisor to ensure sustainability of their business. However, the results of this study are meaningful and useful to entrepreneurs involved in franchise businesses. Furthermore, this study can be able to enhance academic and practical of franchise business in solving the problem of franchise turnover.

**Literature Review**

Thailand has a population of 67 million people and franchise business is one of the most competitive businesses for the new entrepreneurs. The government has been provided the opportunities for both local and
international franchises who are interested to pursue this line of business (Itthiopassagul, Patterson and Piyathasanan, 2009). In contrast, most of local Thai franchise is known to have poor management of their franchisees and they lack knowledge on the usage of information technology of their businesses. In addition, they lack vision in making long-term strategic plans (Department of Business Development Thailand, 2010).

International Retail and Franchise Business R&D center (Kitiveshpokawat, 2008) shows the net effect of entry and exit that number of closing down franchise business higher rate at 20%. One of the reasons why franchisors have discontinued is because of their franchisee dissatisfaction and would not keep the contract to do business in franchise system. The General Manager Business of Minor Food Group Company of Thailand (Thai Franchise Center, 2014) has suggested that the proportion of branch on franchise business uses a marketing strategy to be adopted for people who are committed and needs to do serious business. There is a high chance of success and management in the relationship with the business that can transfer to the franchisees. Therefore, the big challenge to both parties between franchisor and franchisee is how to position the brand and clearly differentiate it from more competitors.

According to, Ravald and Gronroos (1996) customers perceived value in relationship marketing, so there is a need to focus on customer’s perception to develop value in the relationship between parties. Thus, in the marketing literature there is a focus on customer’s perception of service and product that will have an influence on long term purchasing behaviour (Grönroos, 2004). Likewise, Franchisees as the customer of franchisor, will measure the process of “after sales service” as performance of the organization (Parasuraman, 1991; Abdullh et al, 2008). Franchisee satisfaction is dependent on the various inputs by both franchisors and franchisees which influence either the pre-purchase expectations of franchisees or the post-purchase
performance of franchised outlets. Franchisee evaluate their purchase according to how well it meet their expectations that mean they will perceive the initial and ongoing support service from franchisors (Hing, 1995). Previous study stated the relationship between two parties have related to perceived organizational support (DeConinck and Johnson, 2009). For example, Piercy, Cravens, Lane and Vorhies (2006) found that perceived organizational support (POS) is directly related to sale management control. This in turn will lead to job satisfaction and organizational commitment and will enhance organization performance. However, Gauzente (2003) suggested that human resource management is often focused on satisfaction of fellow-worker. Thereby in the context of franchise business, the franchisee is a fellow-worker of franchisor that the franchisees always focus on the satisfaction from their business.

Franchise business is a relational exchange between parties on contractual agreement and shows the franchisees perceived relationship from franchisor in making business decisions. It is essential to each party to achieve sustainable profitability (Harmon and Griffiths, 2008). Cochet, Dormann and Ehrmann (2008) argued that the length of relationship of the franchise business has a positive influence on the expectations in any franchisor-franchisee dyad about the continuity of the relational exchange on business.

However, Roh and Yoon (2009) found that most of franchisees in Korea have been in business less than 3 years. The major concern of franchisees is franchisor’s support. The results showed that the franchisees were dissatisfied with legal/tax advice and helping franchisee recruit competent employees. Moreover, Gauzente (2003) and Schul et al., (1985) stated that franchisees’ satisfaction is a key to franchise management. The study argued that franchisee’s satisfaction as a channel member that can reduce the conflict between parties, which in turn helps to promote the performance of the system.
Franchisee satisfaction depends on the various inputs by both franchisors and franchisees which influence either the pre-purchase expectations of franchisees or the post-purchase performance of franchised outlets. Franchisees evaluate their purchase according to how well it meets their expectations that mean they will perceive the initial and ongoing support services from franchisors (Hing, 1995). Hing (1996) found that the level of franchisee satisfaction is important to the operation and administration of the franchise system. He states that the franchise systems have limited attempts to evaluate empirically the factors which contribute to a satisfactory franchise relationship, particularly from the perspective of franchisees.

Van Wyk and De Jager (2009) found that the franchisees perspective on their satisfaction with the franchisor met their needs on products and services as provided by franchisor. They suggested that franchisor should attend to improve their products and services, distribution, personnel and processes that can show the high levels of marketing orientation on franchise business.

Previous studies have used satisfaction to measure the outcomes of the relationship between parties in business. In the marketing literature it has been shown that a focus on customer’s perception of service and product will have an influence on long term purchasing behaviour (Grönroos, 2004). Furthermore, the process of after sales service would be measured customer post purchase behavior in order of customer satisfaction based on organizational performance (Parasuraman, Berry and Zeithaml, 1991). The studied has shown that satisfaction shows the marketing performance of an organization as it is rated by post purchase feeling of customers. Customer satisfaction is the comparison between customer’s expectations and customer’s perception rated by organizational performance. Based on the literature review in the franchise field, franchisee’s satisfaction can measure performance of franchisor that as there is a relatively strong correlation
between satisfaction and performance (Morrison, 1997). Schul et al., (1985) identified franchise as the distribution channel and that the channel-member satisfaction can be used to assess the performance of distribution channel.

Perceived Organizational Support (POS) could increase the performance of organization to protect the organization from risk by focused on helping coworkers and also organization (Rhoades and Eisenberger, 2002). This study postulated “Perceived Franchisor Support (PFS)” to replace “Perceived Organizational Support (POS) in franchise business. The relationship between franchisor and franchisee is important to evaluate empirically the factors which contribute to a satisfied franchisee through the operation and administration of franchise system that particularly from the perspective of franchisee (Hing, 1996).

Perceived franchisor support (PFS) can be defined as follows: (i) the assistance to franchisee for increase knowledge and skill in conducting the business and assisting to promote the product of franchise, (ii) assistance to franchisee with the operational matter such as allowing franchisee to change order quality, delivering on time and advise when needed (Schul, Little and Pride, 1985; Hing, 1995; Gauzente, 2003; Roh and Yoon, 2009). Thus, the purpose of this study is to identify and empirically assess determinants of franchisees’ perception through the two dimensions of perceived franchisor support as ongoing business assistance and ongoing support service which is measured by franchisees’ satisfaction.

**Research Objective and Scope**

The objectives of this study are undertaken to investigate the franchisee satisfaction in the franchise food and beverage industry in Thailand. The study examines the factors that lead to the franchisee satisfaction of the franchisor performance on the both dimensions of perceived franchisor’s support as ongoing business assistance and ongoing
support service. This study seeks to achieve the following objectives: (i) to examine the relationship between ongoing business assistance and franchisee satisfaction and (ii) to examine the relationship between ongoing support service and franchisee satisfaction.

However, this study focuses on growth and survival to evaluate franchisors’ performance that important to franchisee satisfaction. The activities of franchisor have an impact to the relationship between franchisor and franchisee. The effective of the support provide by franchisor influence to franchisee satisfaction, which will motivate the existing franchisees to continue the contract in the franchise business (Roh and Yoon, 2009). Accordingly, the framework of this study has been developed throughperceived franchisor support as an independent variable to measure franchisee’s perception. In particular, franchisor’s performance perceived by franchisee satisfaction is the dependent variable.

**Research Methodology**

As the results of the previous empirical researches on the two dimensions of perceived franchisor support and franchisee satisfaction should be further developed. With regards to the objectives, this study looks at two main hypotheses as follows:

H1: There is a positive relationship between ongoing business assistance and franchisee satisfaction

H2: There is a positive relationship between ongoing support service and franchisee satisfaction

Respondents of the study include the Thai franchisees. The data collection was conducted amongst franchisees who are the currently involved in franchise food and beverage industry in Thailand. The questionnaires for this study are adapted from previous studies with acceptable reliabilities ($\alpha > 0.70$), these measures have been widely used in several
studies (Bordonaba-Juste & Polo-Redondo, 2008; Chiou et al., 2004; Dickey et al., 2007; Hing, 1995; Hing, 1996; Roh & Yoon, 2009). The population of this study is the total number of the franchise businesses in food and beverage industry in Thailand. The study classifies the franchisors into 3 categories: (i) small – with the number of franchisees from 5 to 25 franchisees, (ii) medium – with the number of franchisees from 26 to 50 and (iii) large – with the number of franchisees of more than 50. However, after the data collection is made, the number of franchisors that could be the population of this study was only found to be 111. The questionnaires consisted of the following sections: (1) demographic profile of the franchisees, (2) perceived franchisor support, (3) franchisee satisfaction. Perceived franchisor support is measured by franchisees’ satisfaction and thus will be used inter-changeably in the paper. Respondents (franchisees) are asked to indicate their responses on a five-point Likert scale ranging from (1) “Strongly disagree” to (5) “strongly agree” and from (1) “Very dissatisfied” to (5) “Very satisfied”. Data of this study was analyzed by using the Statistical Package for Social Science (SPSS) version 20.0 for window. Cronbach-alpha coefficient of all construct was greater than 0.70.

**Result and Discussion**

The respondents participating in this study is franchisees. The majority of the participating franchisees were owners and the managers of the franchise business. All of the 80 respondents including 68 respondents are the owner 85% and 12 respondents are manager 15%. With regard to gender, the data showed that 29 respondents are male 36.3% and 51 respondents are female. With regard to the age of respondent, the data showed that most of the respondents age less than 40 years old 63.75%. Furthermore, 67.50% of the respondents hold a bachelor’s degree or higher. In terms of the number of years in business, experience less than 1 year 26.25%, has experience 1-4 years 43.75% and has experience 5 years and above 30.00%. Most of franchisees
had the number of employee less than 5 staff per outlet 71.25%, and the capital invested less than 100,000 Baht 41.25%. From the data most of the location of the franchisee shop/outlet will open in commercial districts 36.25% and also shopping malls 36.25%.

The results of factor analysis perceived franchisor support variables into two factors, namely as ongoing business assistance and ongoing support service; ongoing business assistance comprises 3 items which includes; (i) Franchisor provides internal marketing specialists to assist its franchisees to understand marketing concepts and ideas, (ii) Franchisor conducts annual seminars for its franchisees as a platform to increase their knowledge and also as an avenue for discussion and (iii) Franchisor assists its franchisees to advertise its products and services. The second variable is ongoing support service which has 3 items which include; (i) Franchisor allows flexibility to change the order made by its franchisors, (ii) Franchisor provides on time delivery to orders placed with it, and (iii) Franchisor gives an explanation about the disclosure documentation.

According to the result of factor analysis Franchisors’ performance rated by franchisee satisfaction is the factor which consists of franchisor performance that includes (i) Franchisor is very concerned with value that it can bring to its franchisee, (ii) Franchisor provides service to my business well, (iii) Franchisor policies are put into practice well, (iv) Franchisor is competent in the marketing decision and (v) Franchisor handles franchisee’s business well.

However, the results show both of ongoing business assistance and ongoing support service is vital for franchise business to build the relationship between partners to gain the value in business to business. It is showing an acceptable internal consistency as a measurement instrument.

This study is able to discover some interesting insight. The results of the study can conclude that the discriminant validity has been established. It can be used to reinforce the competitive advantage of business on franchise food and beverage industry. In the context and methods applied in this study have been a satisfying certain levels of research assumptions (Table 1).
Table 1 Means, standard deviations, and Pearson’s correlation between variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>SD.</th>
<th>Reliability</th>
<th>Ongoing Business Assistance</th>
<th>Ongoing support service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ongoing Business Assistance</td>
<td>2.95</td>
<td>1.15</td>
<td>0.88</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ongoing support service</td>
<td>3.90</td>
<td>0.74</td>
<td>0.69</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Franchisee satisfaction</td>
<td>3.62</td>
<td>0.86</td>
<td>0.95</td>
<td>.62**</td>
<td>.68**</td>
</tr>
</tbody>
</table>

Note: ** P value < 0.001

The results of the descriptive statistic analysis of the two dimensions of perceived franchisor support show the mean value of ongoing support service (3.90) higher than ongoing business assistance (2.95). The result also shows the mean value of franchisors’ performance rated by franchisee satisfaction is 3.62. After measuring the path relationship between variables of the model, the hypothesis testing in this study can be summarized that ongoing business assistance (\( \beta = 0.62, p < 0.001 \)) and ongoing support service (\( \beta = 0.68, p < 0.001 \)) were significant and positive relationship with the franchisee satisfaction. Therefore, H1 and H2 were supported by the data.

Managerial Implications

The findings of this study are meaningful and useful to small and medium size companies doing franchise business in Thailand. This is with regard to the franchisor support toward franchisee satisfaction. Until recently, franchise business in Thailand has been a lucrative venture. But the turnover rates among Thai franchises on both franchisor and franchisee are the same. The number of entrants and the number of those leaving the franchise business is about the same. As a result, the franchise businesses in Thailand
have problems to ensure a sustainable franchise network that can be maintained in the long run. Henceforth, in the implications of franchise food and beverage should consider the use of sustainable on social and environmental responsibility. For example, Starbuck have used social responsibility from the beginning through charity agency care to create the superior brand to sustain the shareholder’s satisfaction (Luo and Bhattacharya, 2006).

The third factor is the perceived franchisor support (PFS). The study showed that perceived franchisor support are strong determinants to the franchisors’ performance as perceived franchisees’ satisfaction. The results indicate that a higher level of franchisee satisfaction can be achieved through perceived franchisor support. In the franchise context, the concept has been focused on performance measurement of the relationship between franchisor and franchisee. These involved the capability of operation, customer satisfaction and motivation of franchisee. Thus, the perceived franchisor support will be shown the franchisees perspective on their satisfaction with the franchisor met their needs on product and service that provided by franchisor.

Ongoing business assistance include (i) franchisor provides internal marketing to assist its franchisees, (ii) franchisor conducts annual seminar for its franchisee, and (iii) Franchisor assists its franchisees to advertise its product and service. Ongoing support service on the other hand include (i) franchisor allows flexibility to change, (ii) franchisor provides on time delivery, and (iii) franchisor gives the explanation about the disclosure document. Franchisor must emphasize on the specific items that are used to measure both these dimensions to ensure that they are rated positively by their franchisees.

In addition, both dimensions of perceived franchisor support were found to be an important element in influencing franchisee satisfaction.
Thus, franchisor should provide the marketing strategy and business model to its franchisees. The result of this study will be beneficial to the practitioner on franchise business area in Thailand such as franchisor, franchisee, Department of Business Development (DBD), International Retail and Franchise Business R&D Center (IRF) and Thai Franchise Center. For example, the Department of Business Development can give seminar training to small and medium size companies who would like to enter franchise business; International Retail and Franchise Business R&D Center can be created the new strategies to give advice to the new entrepreneurs who are doing franchise business.

Conclusion

Based the finding of the study and discussed the results, the finding of this study still have important implication to theory and practice. This study examines the factors influencing the franchisee satisfaction in the franchise food and beverage industry in Thailand. The study also examines the impact of perceived franchisor support in the relationship between franchisor and franchisee towards franchisee satisfaction. The findings of the study provide evidence on the empirical justification in the relationship between franchisor and franchisees. Furthermore, the results show the importance of perceived franchisor support in influencing franchisors’ performance. This study focuses on the measurement of franchisors’ support perceived by franchisee satisfaction. The proposed framework is tested and validated with sample from Thai franchisee on food and beverage industry in Thailand.

The results obtained in this study are in line with that conducted previously in other countries. Franchisors must provide their product and service on how important the perceived franchisor support is specically ongoing business assistance and ongoing support service towards achieving outstanding franchisors’ performance from the franchisee’s perspective.
Thus, Thai franchisor should understand the specific dimensions of perceived franchisor support to fulfill the contractual duties and responsibilities that related to franchisee satisfaction as the predictors of franchisors’ performance. Likewise, as mentioned by a franchisee, “franchise can be likened to a ‘family’, if the parent who is the franchisor does not take care of their children, who are the ‘franchisees’ then it would not be possible to create sustainability in the family, that is the ‘franchise business’”.

References


