



**University of
Nottingham**

UK | CHINA | MALAYSIA

**The Impact of the
Franchisor-Franchisee Relationship
on Franchisee Performance**

Xiaoxi Sun

December 2020

Supervisors

Professor Martin Lockett

Dr Sathyaprakash Balaji Makam

Professor Stephen Morgan

Abstract

Franchising, as an organisational form, has received much attention from both researchers and practitioners. Many studies have examined various aspects of franchising from either the franchisor's or the franchisee's perspective.

However, little research has linked the perspectives of both franchisor and franchisee. Given the importance of the relationship between franchisor and franchisee, this thesis presents an integrative view that analyses *franchise performance in China at the individual franchisee level*. For simplicity, this has been shortened to “franchisee performance” and includes both franchisee financial performance and franchisee satisfaction.

Agency theory, the resource-based perspective and a relational view were combined to understand the factors influencing franchise performance. In the context of franchising as a mutual relationship, the key factors analysed were the franchisor's control mechanisms, the franchisee's pooled resources with those of the franchisor, and the relationship between franchisor and franchisee. Ten main hypotheses and twelve sub-hypotheses were developed and tested.

The analysis was based primarily on a survey of three franchisors and their franchisees in nine provinces. 351 usable questionnaires were collected from franchisees, with a response rate of 43%. Confirmatory factor analysis was used to test the measurement model and the structural model. Hypotheses were tested using Smart PLS. Twenty semi-structured interviews were conducted to understand the franchisor-franchisee relationship in more depth.

The results provided valuable insights into franchisee performance. The franchisor's level of control over a franchise had a positive influence on franchisees' satisfaction. Franchisees' resources complementing those of the franchisor had a significant positive effect on both franchisee satisfaction and financial performance. Relational factors, in particular trust and absence of opportunism, had a significant mediation effect on franchisee performance. An unexpected statistically significant finding was that information sharing reduced franchise performance.

This thesis makes a theoretical contribution as it shows the limitations of agency theory and its focus on legal contracts in understanding the franchisor-franchisee relationship. A franchise relationship is a two-way relationship, especially in China, not merely a one-way principal-agent relationship as proposed in agency theory. The thesis also shows the value of integrating franchisor and franchisee perspectives in analysing franchising, for example, the importance of pooled resources between franchisor and franchisee in the light of the resource-based perspective and relational view in China.

The thesis' practical implications include the need for franchisors to consider the franchisee relationship as multi-dimensional rather than just a formal contractual relationship, especially in China where social relationships are important both before and after a contract is signed. Directions for future research include using this integrated relational view of franchising beyond China; analysis of control mechanisms in franchising; and the role of knowledge sharing. Developing more reliable measurements of franchise performance in emerging economies such as China would also be valuable.

Table of Contents

Abstract	i
Table of Contents.....	iii
List of Figures.....	ix
List of Tables	x
1 Introduction	1
1.1 Franchising in the world.....	4
1.2 Business in China	10
1.3 Franchising in China.....	21
1.4 Chinese laws and regulation.....	31
1.5 Western laws and regulation.....	35
2 Literature Review	39
2.1 Research on franchising.....	39
2.2 Franchising concepts	42
2.2.1 <i>Franchisor vs. franchisee</i>	43
2.2.2 <i>Types of franchise</i>	49
2.2.3 <i>Entrepreneurial orientation</i>	50
2.2.4 <i>Advantages of franchising</i>	55
2.2.5 <i>Challenges of franchising</i>	57
2.3 Theoretical background	61
2.3.1 <i>Agency theory</i>	62

2.3.2	<i>Resource-based perspective</i>	77
2.3.3	<i>Relational view</i>	86
2.3.4	<i>Guanxi ties</i>	96
3	Hypotheses	103
3.1	Hypotheses about control	104
3.2	Hypotheses about resource	107
3.3	Hypotheses about franchise relationship	110
3.3.1	<i>Trust</i>	111
3.3.2	<i>Absence of opportunism</i>	113
3.3.3	<i>Information sharing</i>	114
3.4	Hypotheses about performance	116
3.5	Hypotheses about mediation effects	119
3.5.1	<i>Mediation effect of trust</i>	119
3.5.2	<i>Mediation effect of absence of opportunism</i>	120
3.5.3	<i>Mediation effect of information sharing</i>	122
3.6	Control variables	124
3.7	Conceptual model	128
4	Research Methodology	132
4.1	Research philosophy	132
4.1.1	<i>Positivism vs. interpretivism</i>	132
4.1.2	<i>Deductive vs. inductive</i>	133
4.1.3	<i>Quantitative vs. qualitative</i>	134

4.2	Sample and procedure.....	135
4.2.1	<i>Survey questionnaire</i>	135
4.2.2	<i>Semi-structured interview</i>	140
4.3	Measures	142
4.3.1	<i>Franchisor’s control over franchisees</i>	144
4.3.2	<i>Franchisee’s pooled resources</i>	145
4.3.3	<i>Trust</i>	146
4.3.4	<i>Absence of opportunism</i>	147
4.3.5	<i>Information sharing</i>	148
4.3.6	<i>Franchisee performance</i>	148
4.3.7	<i>Control variables</i>	153
4.4	Method.....	155
4.4.1	<i>Non-response bias</i>	156
4.4.2	<i>Common method bias</i>	156
4.4.3	<i>Structural equation modelling</i>	158
4.4.4	<i>Measurement model</i>	159
4.4.5	<i>Second-order model</i>	162
4.4.6	<i>Structural model</i>	164
5	Findings	167
5.1	Descriptive analysis	167
5.1.1	<i>Descriptive statistics</i>	168
5.1.2	<i>Franchisor and franchisee performance</i>	174
5.2	Franchise description	176
5.2.1	<i>Franchise A</i>	176

5.2.2	<i>Franchise B</i>	178
5.2.3	<i>Franchise C</i>	180
5.3	Comparative findings between franchises	183
5.3.1	<i>Comparison of demographic features</i>	183
5.3.2	<i>Comparison of differences between A/B/C/Other</i>	184
5.3.3	<i>Comparison of response tendency</i>	188
5.4	Tests of sample validity	191
5.4.1	<i>Nonresponse bias</i>	191
5.4.2	<i>Common method bias</i>	192
6	Analysis	195
6.1	Measurement model.....	195
6.1.1	<i>Reliability</i>	195
6.1.2	<i>Validity</i>	199
6.1.3	<i>Second-order constructs</i>	204
6.2	Structural model.....	205
6.2.1	<i>Model fit</i>	205
6.2.2	<i>Hypothesis tests</i>	208
6.2.3	<i>Control variable results</i>	222
7	Discussion	225
7.1	Franchisor’s control over franchisees.....	229
7.1.1	<i>Trust</i>	231
7.1.2	<i>Absence of opportunism</i>	232
7.1.3	<i>Information sharing</i>	233

7.2	Franchisee's pooled resources	235
7.2.1	<i>Trust</i>	238
7.2.2	<i>Absence of opportunism</i>	239
7.2.3	<i>Information sharing</i>	239
7.3	Franchise relationship.....	241
7.3.1	<i>Trust</i>	241
7.3.2	<i>Absence of opportunism</i>	242
7.3.3	<i>Information sharing</i>	243
7.4	Mediation effects	245
7.4.1	<i>Trust</i>	247
7.4.2	<i>Absence of opportunism</i>	248
7.4.3	<i>Information sharing</i>	248
7.5	Control variables.....	250
7.5.1	<i>Franchise attributes</i>	250
7.5.2	<i>Franchisee characteristics</i>	251
7.6	The paradox of information sharing	255
8	Conclusion	258
8.1	Key findings.....	258
8.2	Theoretical contributions	261
8.3	Implications for franchisors and franchisees	263
8.4	Limitations.....	265
8.5	Future research.....	267

Acknowledgements	270
References.....	271
Appendices	332
Appendix 1: Proposal for cooperation with CCFA	332
Appendix 2: Questionnaire	337
Appendix 3: Guideline of semi-structured interview	355
Appendix 4: Original constructs	357
Appendix 5: Structural model.....	360
Appendix 6: Mediation effects	362
Appendix 7: Tested structural models	364

List of Figures

Figure 1-1: Franchise Revenue by Regions.....	7
Figure 1-2: Exports and Imports of Goods and Services (A comparison between China and the US), 1978-2018	11
Figure 1-3: GDP Growth (%) and Disposable Income Per Capita (\$), 1978- 2018.....	12
Figure 1-4: Change in the Composition of GDP by Industry Sector, 1978-2018 13	
Figure 1-5: Number of Legal Entities (in million), 2010-2017	14
Figure 1-6: Employees by Industry Type, 1978-2018.....	15
Figure 1-7: Rate of Return on State-owned Assets, 1998-2018	17
Figure 1-8: The Unemployment Rate in Urban Area (%) and Number of Registered Unemployed Persons (millions), 1994-2018	19
Figure 1-9: Percentage of Employment in Private and Non-private Units (urban China), 1978-2018	20
Figure 1-10: Sales Growth of Commodities in Franchises (%) and the Number of Franchise Stores ('000s), 2006-2018.....	24
Figure 1-11: Franchise Development Index by Subsectors, 2017	28
Figure 1-12: The Percentage of Total Population (%) and the Growth of Urban Population (in million).....	29
Figure 3-1: Conceptual Model.....	131
Figure 5-1: Franchise A Distribution Map	177
Figure 5-2:Franchise B Distribution Map	179
Figure 5-3: Franchise C Distribution Map	181
Figure 8-1: Conceptual Model.....	259

List of Tables

Table 1-1: Summary of Leading Franchising Markets.....	8
Table 1-2: Ownership Structure in China, 2012-2017.....	18
Table 1-3: Comparison of Regional GDP and Number of Franchised Outlets in China, 2018	23
Table 1-4: CCFA Franchise Development Index by Sector (2016-2017).....	27
Table 1-5: Summary of the Development of Franchise Law	34
Table 2-1: Pros and Cons of Franchising	60
Table 2-2: Summary of Agency Theory in Franchising.....	69
Table 2-3: Theories in Franchising.....	76
Table 3-1: Constructs and Definitions.....	129
Table 4-1: Descriptive Data of Participants.....	143
Table 4-2: Variables Measured Using the Likert Scale.....	150
Table 4-3: Assessment of Reflective Measurement Model.....	163
Table 4-4: Assessment of Reflective Structural Model.....	166
Table 5-1: Number of Respondents.....	167
Table 5-2: Kruskal Wallis Test.....	168
Table 5-3: Descriptive Data.....	169
Table 5-4: Means and Standard Deviations.....	172
Table 5-5: Financial Performance from Franchisor and Franchisee Perspectives 176	
Table 5-6: Summary of Selected Franchises	182
Table 5-7: Demographic Statistics of Franchise Type	184
Table 5-8: Descriptives and Independent Samples Test.....	185
Table 5-9: Independent Samples Test between Franchise A/B/C and Others on Survey Questions	187
Table 5-10: Comparison of Response Tendency.....	190
Table 5-11: T-test of Late Response.....	191

Table 5-12: Harman’s Single-Factor Test	194
Table 6-1: Reliability and Validity	196
Table 6-2: Discriminant Validity Results	201
Table 6-3: Cross-Loadings Table	203
Table 6-4: Structural Model Results (Satisfaction)	207
Table 6-5: Structural Model Results (Financial performance)	208
Table 6-6: Path Coefficients (Direct effects).....	214
Table 6-7: Path Coefficients (Mediation effects)	217
Table 6-8: VAF (Satisfaction)	219
Table 6-9: VAF (Financial performance).....	220
Table 6-10: Effect Size	221
Table 6-11: Significant Level of Control Variables	224
Table 7-1: Summary of Hypothesis Tests	226
Table 7-2: Information Sharing of Franchisors	257
Table 7-3: Information Sharing of Franchisees	257

1 Introduction

The overall aim of this thesis is to develop a deeper understanding of franchising in China, building on theoretical understanding from Western analyses, especially agency theory, while recognising their shortcomings in a Chinese context. The research question is: “*To what extent does the franchisor-franchisee relationship affect franchisee performance?*”. This question requires both theoretical understanding and analysis of potential mechanisms to promote a win-win relationship between franchisor and franchisee in China, in particular how the franchise relationship affects franchise performance at the franchisee level.

As an important business form built on the idea of a business relationship between franchisor and franchisee, franchising is comprised of the franchisor with a package of business focused on a product or service, engaging in a strong contractual relationship with franchisees, who perform under the franchisor’s brand to produce and/or market the good or service consistent with a specified format (Stanworth et al., 2004). A detailed definition of franchising will be provided in the next section.

Franchising has excited my interest for some time. When I was in my master’s degree, our group worked with College Hunks, a private junk removal franchise, for a Strategic Analysis Program (SAP) project. That was the first time that I encountered the concept of franchising. To carry out the project, we interviewed and addressed the concerns of franchisees from multiple locations. This gave me valuable insights into how franchising worked and the

importance of the relationship between franchisor and franchisee. What motivated me to learn more about franchising was that my mother-in-law has owned a small and unique restaurant for over twenty years. With profitable operations, many prospective co-operators asked whether she would like to have more branches using her brand. However, she refused because she could lose her loyal customers, and she would not be the “big boss” anymore. Other branches could also turn into her competitors, and her restaurant could be less profitable. Her dilemma brought the issues of a franchisor to life, as well as reinforcing the importance of the franchisor-franchisee relationship. These two connections with franchising and its potential issues gave me a strong motivation for choosing franchising as the research area for this thesis.

Agency theory has been the dominant way of analysing franchising, defining the franchisor as a principal and the franchisee as an agent. This thesis shows that agency theory presents valuable insights into franchise relationships but has significant limits, especially in the context of the relationship-based culture in China. In other words, agency theory is overly simple in explaining franchising in China. Even though agency theory provides insights into the franchisor-franchisee relationship as agent and principal, three shortcomings can be identified from a literature review of franchising in general and Chinese business, especially the growing franchising sector.

First, the agency theory literature is better at identifying issues, for example, the potential conflict between standardisation and flexibility, rather than indicating the possible solutions that could mitigate such conflicts and in what contexts such solutions could be applicable. Second, the control mechanisms

and interest alignment (Gottschalg & Zollo, 2007) that could moderate the conflicts identified through agency theory are not feasible in the context of franchising. Third, an underlying assumption of agency theory is that agent and principal are independent individuals in a hierarchical relationship. Instead, the franchise relationship is a two-way relationship, in which franchisor and franchisee are interdependent partners offering mutual benefit and reciprocity.

Furthermore, agency theory embeds assumptions originating from its US/Western origins and cannot be applied in the context of China without adjustment for cultural and other differences. Franchise relationships are treated differently in Chinese culture because (i) China is a collectivist society where people relate more to groups, in contrast to individualism in the US; (ii) in Chinese business a legal contract is less important, and personal relationships have more weight than in the US. This thesis will show that agency theory provides substantial but incomplete theoretical insights into franchising in China. However, many of these shortcomings can be addressed by supplementing the insights gained from agency theory with those of (i) the resource-based perspective of business and (ii) a relational view.

To start answering the research question “*To what extent does the franchisor-franchisee relationship affect franchisee performance?*”, this thesis reviews the literature associated with:

- franchising and its global development
- the Chinese business environment and franchising in China

- key agency theory concepts and their application in the context of franchising
- limitations of applying agency theory to franchising in China
- how the resource-based perspective and relational view can supplement agency theory

The remainder of this chapter will introduce franchising as an important business form in China. Chapter 2 reviews relevant literature, theories, and identifies potential gaps as well as assessing relevant empirical research. Chapter 3 presents the hypotheses and discusses related concepts that affect franchisee performance. Chapter 4 outlines the empirical research methodology and the measures used for variables. By presenting the results, the sample of franchises is profiled in Chapter 5. In the following analysis chapter, a confirmatory factor analysis (CFA) of the measurement model is given to evaluate the reliability and validity of the constructs, followed by the structural model analysis and hypotheses testing. Chapter 7 discusses the findings of this thesis in detail. In the final chapter, the implications and limitations of the thesis are discussed, and conclusions drawn regarding potential further research.

1.1 Franchising in the world

Franchising, as an organisational form, has become a significant force throughout the world economy. Since 1960, franchising activities have been seen as one of the most significant business phenomena in the West. This business form emerged first at large scale in the US, which is the world's most

mature and sophisticated franchise market and has subsequently been applied as a business model internationally (International Trade Administration [ITA], 2016a). In a few decades, the franchise sector grew to account for almost 40% of US retail sales. There are over 780,000 franchise establishments that have 8.8 million direct jobs and produce \$674.3 billion output in the US economy (ITA, 2016a). In a five year period in the early 2010s, the average annual job growth of the franchise sector was nearly 2% higher than for all businesses economy-wide (ITA, 2016a). Franchising contributes approximately 3% of US Gross Domestic Product (GDP) (ITA, 2018).

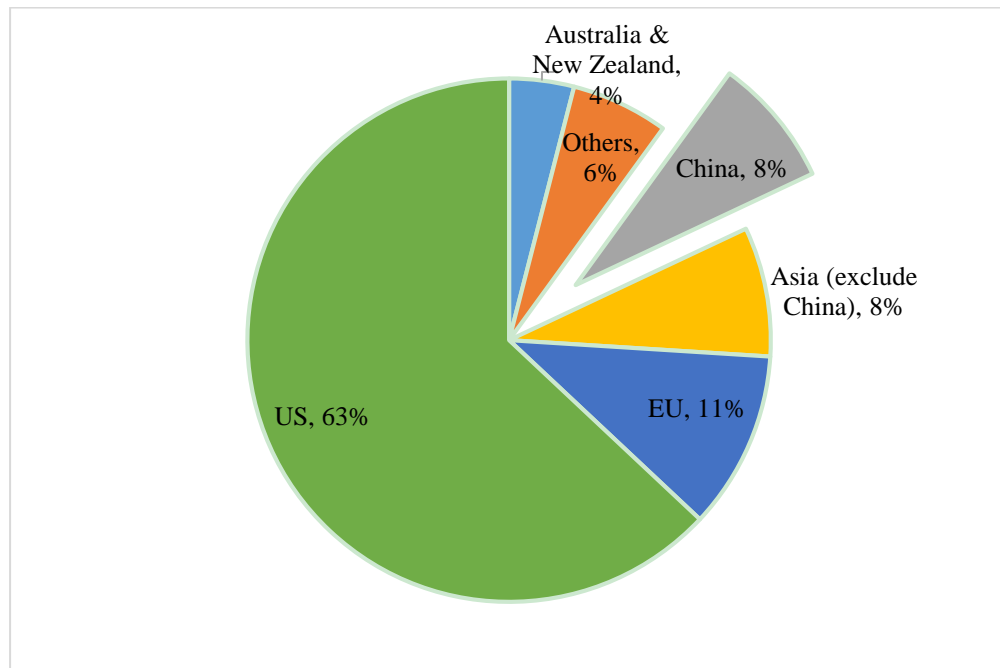
Well behind the US, the UK has 900 plus franchise concepts, with more than 40,000 franchised outlets employing an estimated 600,000 staff (European Franchise Federation [EFF], 2015). This sector contributes over \$20 billion to the UK economy, a bit less than 1% of GDP (ITA, 2016a). According to the European industry activity classification system (NACE Rev.2), the top five franchise sectors in the UK in numbers of franchise systems are office/business support service (161 franchise brands/systems), services to buildings/landscape (160), retail trade [excluding motor vehicles and motorcycles] (123), food and beverage (F&B) service actives (121), and other personal services (109) (British Franchise Association [BFA], 2012).

In Canada, the largest trading partner of the US, its franchising sector involves more than 1,300 franchises with over 78,000 units. The franchise sector in Canada currently makes up 10% of its GDP, and more than 1 million (1 of every 14 employed Canadians) are directly or indirectly engaged in the

franchise industry (ITA, 2016a). 35% of the sales in the restaurant sector and 45% of the retail sales are from franchise operations (ITA, 2016a).

According to Figure 1-1 below, the US accounts for the majority of franchise revenue in the world. While smaller in volume, other countries have a greater density of franchising. For example, Australia has more franchising units per capita than others; particularly, three times more per capita than the US. The Australian franchise sector began in the 1970s with strong growth in the 80s. There are over 1,100 franchisors and 65,000 units, contributing 9% of Australia's GDP (ITA, 2018). The most prevalent franchise units in Australia are involved in the (non-food) retailing industry, which accounts for 24% of franchisors. Food services franchising sectors (e.g. food retail and fast food) equate to 17.6% of franchisors. The sector of administration and support services, such as travel agencies, domestic and industrial cleaning, and garden services follows, representing 15.6% of franchising activity and 5% of franchise units (ITA, 2016a).

Figure 1-1: Franchise Revenue by Regions



Source: ITA (2016)

Franchising is a global success story all over the world. This business model contributes 2.7% to global GDP. It also creates millions of job opportunities, with an average of 42,533 franchise units per country. Furthermore, there are 2 million franchise businesses globally, with each country having an average of 1,035 franchise brands (BFA, 2012). Table 1-1 below summarises several top franchising markets.

The concept of franchising has become well-established in the West, as will be shown below, but it is still in an early phase of development in China.

Table 1-1: Summary of Leading Franchising Markets

Country	Number of establishments	Leading sectors	Number employed	Contribution of GDP	National franchise associations
USA	780,000	Restaurant/ Retail/ Automotive/ Hotel/Travel	Over 8.8 million	3%	American Franchise Association (AFA)
UK	40,000	Business support/ Building & Landscape service/ Retail/ Food/ Personal service/ service	Nearly 0.6 million	1%	British Franchise Association (BFA)
Canada	78,000	Retail/ Restaurant/ Cleaning Services/ Personnel Services/ Real Estate	Over 1 million	10%	Canadian Franchise Association (CFA)
Australia	65,000	Retail/ Food/ Administration and support services	Nearly 0.5 million	9%	Franchise Council of Australia (FCA)

Sources: BFA (2012); EFF (2015); ITA (2016a, 2018)

In these leading markets, national franchise associations play an important role. They provide advocacy, education and training, industry-leading information events, growth opportunities, best practices and networking to the franchise community. In the USA, the **AFA** traces its roots to 1983. As a non-profit organisation, this association is organised for educational and charitable purposes to educate the public about franchising on a “win-win” approach and level the playing field (AFA, 2020).

Formed in 1977, the **BFA** is the body that protects and promotes good franchising practice in the UK. Adhering to the guidelines in the franchising code of ethics and the rules of membership, BFA members are able to network with other members and experienced franchising professionals to access valuable knowledge and contacts (BFA, 2020).

As the voice of the franchise community and the recognised authority on franchising, the **CFA** serves the Canadian franchise community by providing support, learning resources, and growth opportunities. The CFA is a national, not-for-profit association of more than 700 corporate members representing over 40,000 cross-section franchise business owners and over 50 industries in Canada (CFA, 2020).

The **FCA** provides a platform in Australia for franchisors, franchisees, business advisors and small to medium businesses to influence government policy, communicate with political leaders and key decision-makers, network with peers and engage in policy debates. The FCA is the representative body for the \$184 billion franchise business segment, with over 98,000 franchised outlets, employing more than 598,000 individuals (FCA, 2020).

Operating in different business categories, franchising creates employment and prosperity on a global scale. National franchise associations around the world provide their members, including franchisors, franchisees, suppliers and customers, with a range of services to help them grow through the support of the franchise community. The value and credibility of these associations advance the interests of members ranging from large and established franchise

systems to smaller or emerging franchises as a whole to promote the development of franchising.

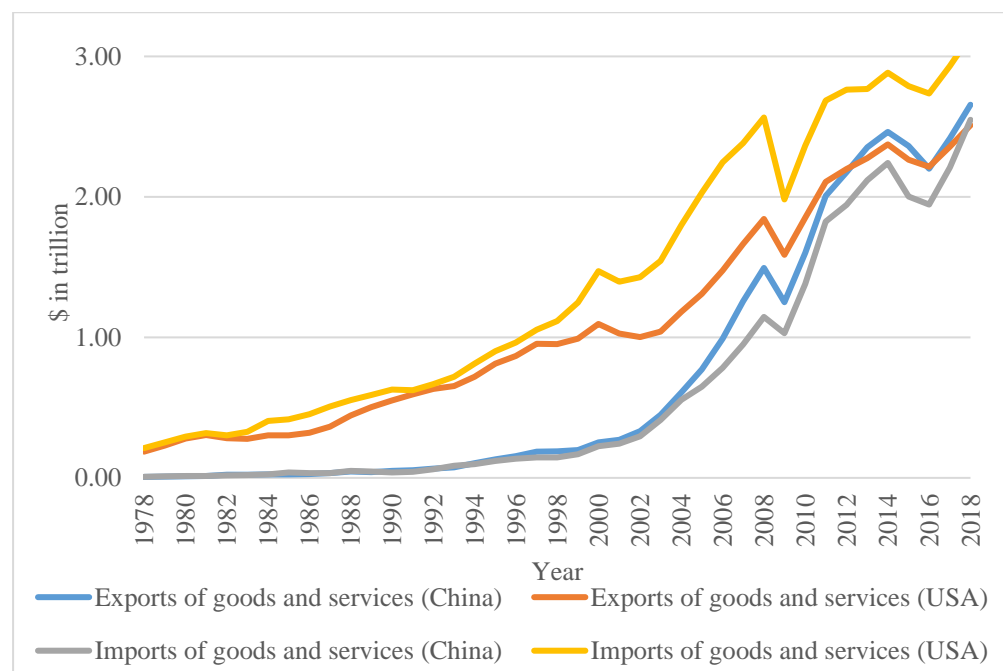
In China, the **China Chain Store and Franchise Association (CCFA)** is the official representative of the franchise industry. Currently, there are more than 1000 enterprise members with over 388,000 outlets, including domestic and foreign-invested franchisors, suppliers, and relevant organisations. The goal of this association is to provide a series of industry information and professional training for existing and potential franchisors and franchisees (CCFA, 2020). As a platform for exchange and cooperation, CCFA establishes standards of best practice for Chinese franchise systems and safeguards the interests of members and industry. Accompanied by the development of CCFA, franchising is becoming a large and important part of the economy in China.

1.2 Business in China

As the second-largest economy in the world, China had developed remarkably since the late 1970s, when China started to engage actively with the international community and initiated economic reform, shifting from a centrally planned to a market-based economy. China's GDP had grown at an average 8% annually since 1978 and hit its fastest growth rate of 13% in 1993 after Deng Xiaoping's "southern tour", which spurred liberalisation of financial markets (National Bureau of Statistics of China, 2019) [see Figure 1-3 on the next page]. A boom in inward foreign direct investment (FDI) propelled China forward following the open-door policy. The opening attracted foreign investors, initially to new Special Economic Zones (SEZs), which were

established to experiment with foreign investment. Subsequently, China became the world's dominant exporter of all goods and services with transactions of \$2.49 trillion in 2018 because of the extensive trade liberalisation, alongside imports of \$2.14 trillion (National Bureau of Statistics of China, 2019) [see Figure 1-2]. Although China's economic growth had slowed since 2010 (see Figure 1-3) to around 6.6% in 2018, this is impressive compared with the world average of 3.2% (National Bureau of Statistics of China, 2019).

Figure 1-2: Exports and Imports of Goods and Services (A comparison between China and the US), 1978-2018

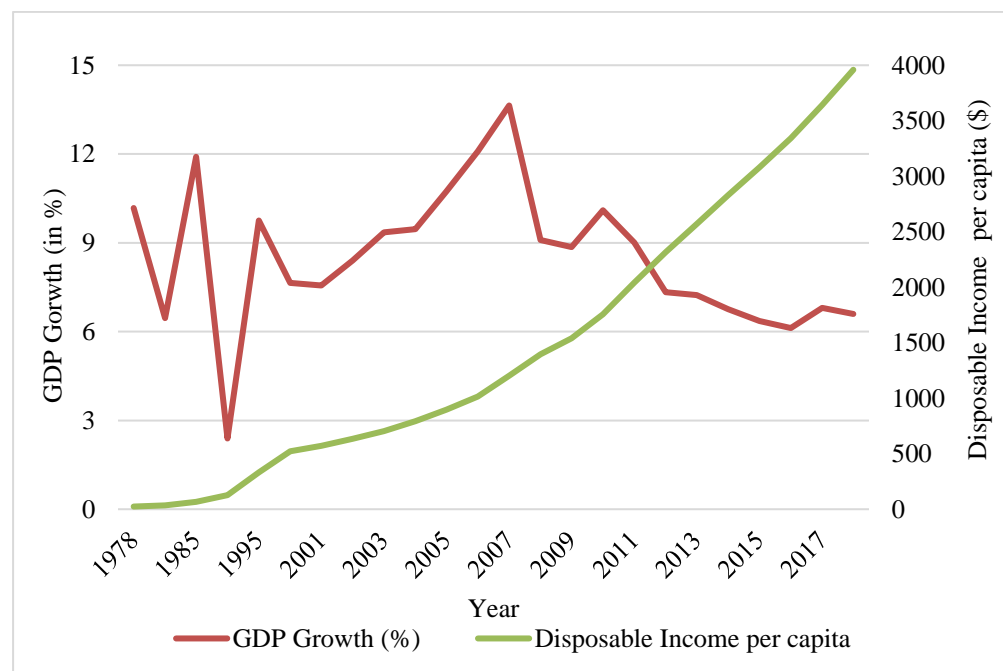


Source: China Statistical Yearbook (2019)

China had developed from a low-income country to an upper middle-income country, with per capita disposable income increased almost 160-fold from around \$25 dollars in 1978 to \$3,975 in 2018 (National Bureau of Statistics of China, 2019). Rising disposable income has boosted demand and

the spending power of customers in China. Moreover, China had become a consumer-oriented society with a growing middle- and upper-class amongst a massive population (National Bureau of Statistics of China, 2019). Dominating the consumer market are millions of expanding middle-class consumers, mainly from the post-80s generation whose spending patterns changes from past habits of saving. Youth have sufficient disposable income to lead the way towards more internationalised tastes high quality of living standards. China is gaining popularity for many multinationals who intend to operate and expand business serving Chinese consumers.

Figure 1-3: GDP Growth (%) and Disposable Income Per Capita (\$), 1978-2018

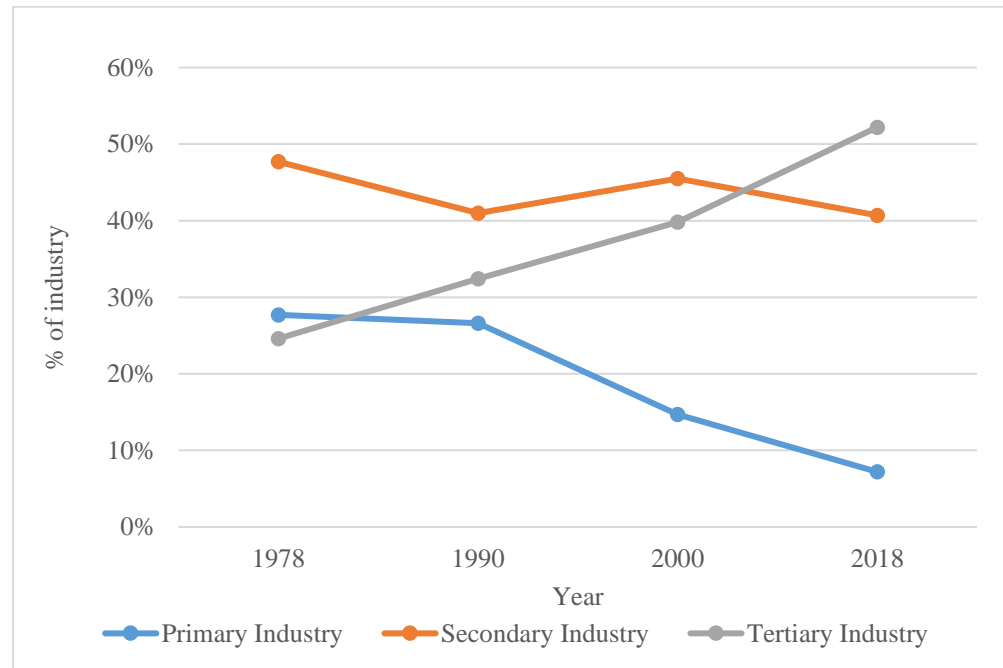


Source: China Statistical Yearbook (2019)

The structural transformation of China's economy since the 1980s had been rapid. The proportion of primary industry had declined significantly, while the proportion of secondary industry had declined somewhat over time.

Meanwhile, the proportion of tertiary industry, which was severely curtailed under the planned economy, had risen sharply (see Figure 1-4).

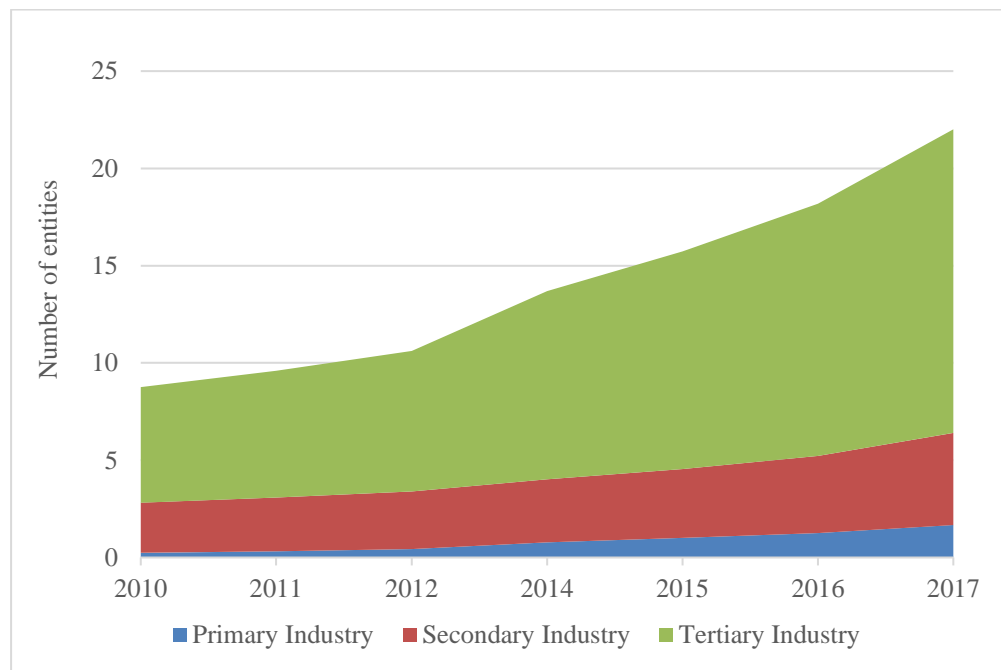
Figure 1-4: Change in the Composition of GDP by Industry Sector, 1978-2018



Source: China Statistical Yearbook (2019)

This structural change had been accompanied by rapid growth in the number of service enterprises (Figure 1-5), averaging 17.7% a year between 2010 and 2017. By the end of 2018, there were 17.16 million legal entities engaged in tertiary industry, accounting for 70% of the national total (National Bureau of Statistics of China, 2019). It implied that service enterprises have over half (52.2%) of the output of GDP (National Bureau of Statistics of China, 2019).

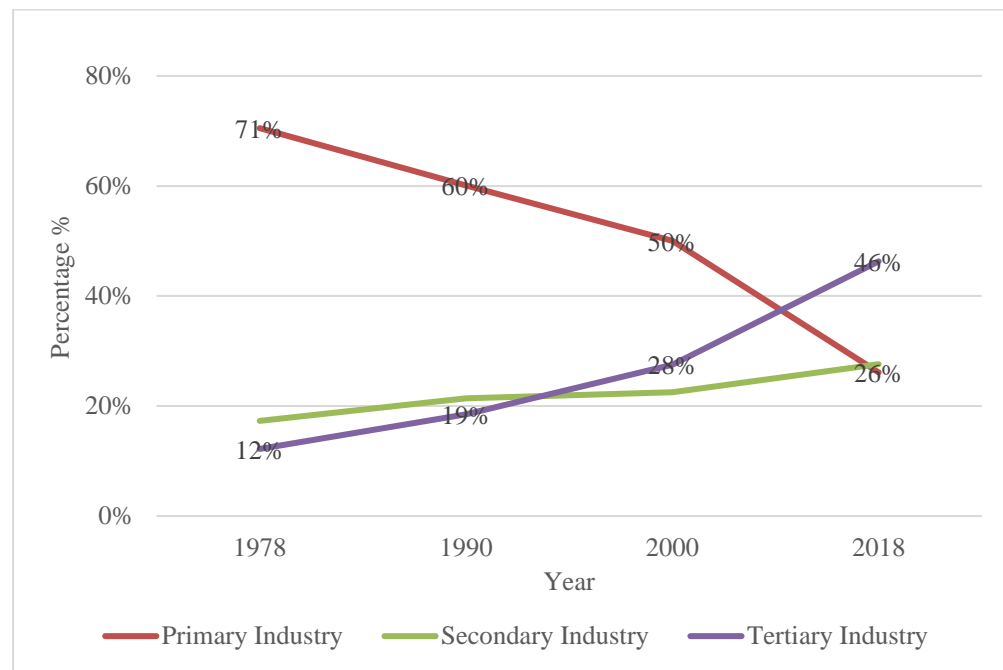
Figure 1-5: Number of Legal Entities (in million), 2010-2017



Source: China Statistical Yearbook (2019)

As a result, China's employment structure had also experienced significant changes. A considerable proportion of the employed population had switched away from agriculture, which used to account for 71% of the population, giving a net shift of 26% of employment from agriculture to services (National Bureau of Statistics of China, 2019). The total number of employed persons in the tertiary industry is now almost half (46%) of the labour force (see Figure 1-6). There are low entry barriers to franchising, especially in tertiary industry, and entire business models can be copied in a short time, increasing employment opportunities and promoting economic development.

Figure 1-6: Employees by Industry Type, 1978-2018



Source: China Statistical Yearbook (2019)

In the past 40 years of economic reform and opening up, China's ownership structure had gone through significant changes with the creation of new industries. The institutional change was central to the transition from a planned to a market economy (Naughton, 2018). The reform initially focused on decentralising management and expanding the managerial autonomy of state-owned enterprises (SOEs) in the initial stage from 1979 to 1987, then centred on the separation of ownership and management until 1992. Non-SOE enterprises were underdeveloped before the 1990s. After that, China committed to establishing a socialist market economy with Chinese characteristics. At the beginning of this century, China had initially established a socialist market economy, and the basic role of the market mechanism in allocating resources had been significantly strengthened. The construction of a modern enterprise system, which sought the joint development of diversified

forms of ownership, associated with the accelerated process of legalisation of the market economy provided a good institutional foundation for the development of franchising because various obstacles and hidden barriers to market competition had been removed to support the entry of these small and medium-sized enterprises. The supply of financial services to such enterprises also improved the financing credit system for private sectors.

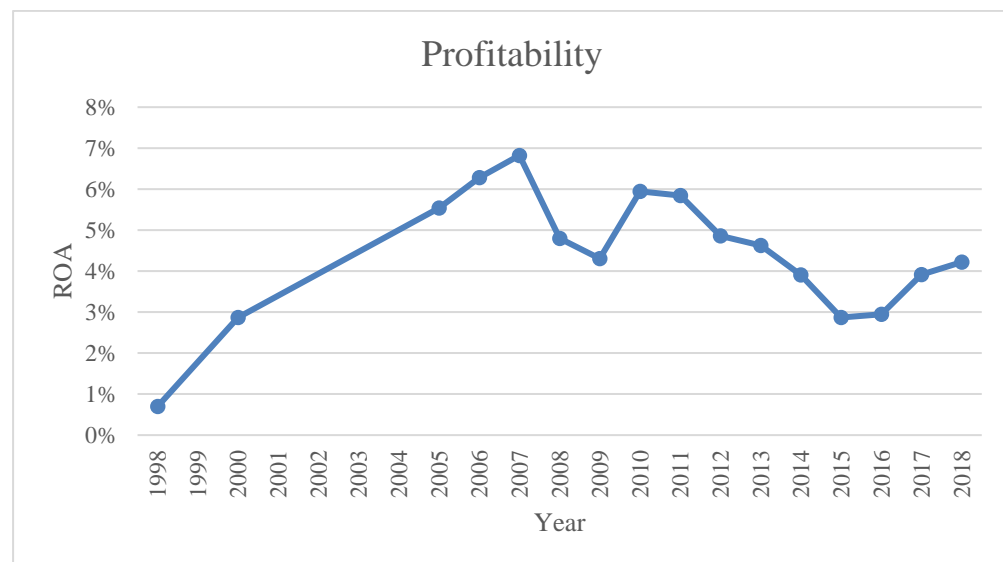
Nowadays, the ownership structure of enterprises in China has been transformed from almost complete public ownership to a mixed ownership structure. Even though the public sector, including central state-ownership and locally owned collective-ownership, still dominate key industries, China's economy has a variety of other ownership forms, such as Sino-foreign cooperative joint-ventures, privately-owned listed companies, individually owned companies and foreign-owned enterprises.

In 1978, SOEs produced 77% output, but the profitability of SOEs had been gone through large fluctuations (Naughton, 2018). SOE total assets increased steadily from 1998 to 2007. However, 2008 was a turning point due to the global financial crisis (see Figure 1-7). The SOE proportion of the entire national economy had been declining, now accounting for 1.3% of all enterprises and 15.7% of employment (National Bureau of Statistics of China, 2018). According to the National Bureau of Statistics of China, the declining trend of SOE will exist over a sustained period of time.

Following the policy that the public sector and SOEs occupied the 'commanding heights' of China's economy, diverse types of ownership were

developed in parallel. Collective enterprises and various forms of economic entities (for example private enterprises, units with funds from Hong Kong, Macao and Taiwan, and foreign-funded enterprises) have vigorously developed in the last ten years, supporting China's economic restructuring. By the end of 2017, there were 113,103 investment companies from Hong Kong, Macao and Taiwan nationwide, an increase of 11.4% over the previous five years (see Table 1-2). The number of foreign-invested enterprises reached 111,628 in 2017, and the total assets and annual operating income had increased by 59.2% and 15.7% respectively since 2013. Even though the units funded from Hong Kong, Macao, Taiwan and other foreign countries developed steadily, the growth rate of these enterprises was slowing down (National Bureau of Statistics of China, 2019).

Figure 1-7: Rate of Return on State-owned Assets, 1998-2018



Note: Calculated by total assets and total profits.

Source: China Statistical Yearbook (2019)

With the promotion of growth, the private sector constitutes an important component of the socialist market economy in China. After the restrictions on the private sector were removed, private enterprises began to emerge in 1978 and grew rapidly in the early 1990s. In economic reform, non-public sector enterprises developed because of lower entry barriers, fast-growing service industries and an improved institutional environment. With state encouragement, guidance and support after joining the WTO, the number of business entities in the private sector expanded almost 2.5 fold from 6,552,049 units to 16,204,143 units between 2012 and 2017 (see Table 1-2).

Table 1-2: Ownership Structure in China, 2012-2017

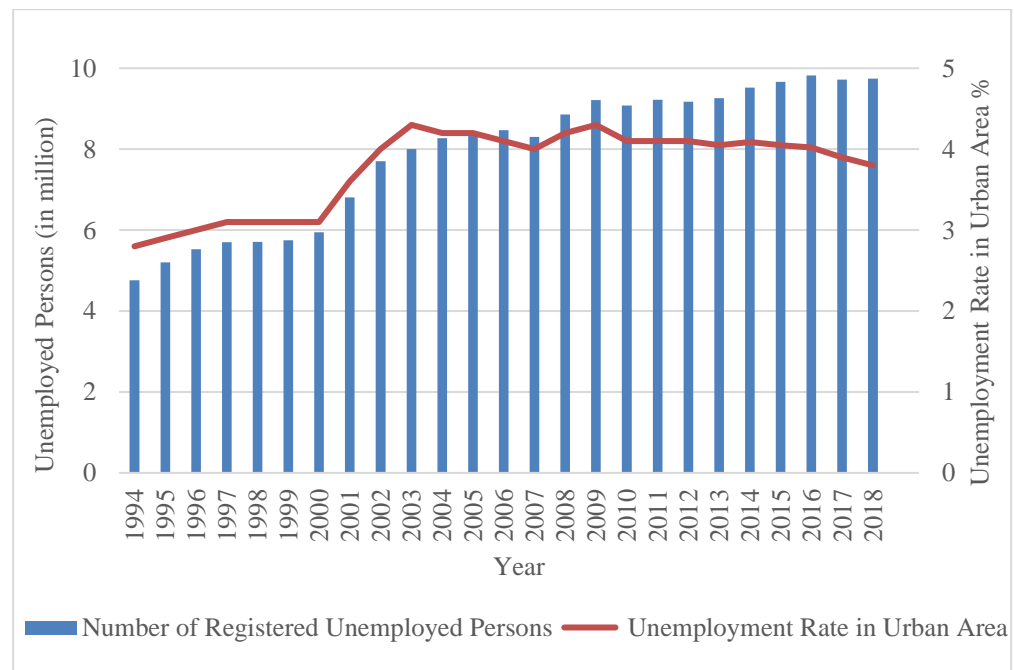
Year	State-owned	Collective-owned	Private-owned	Funded from HK Macao & Taiwan	Foreign Funded	Others
2017	325,800 (2%)	249,946 (1%)	16,204,143 (90%)	113,103 (1%)	111,628 (1%)	1,093,062 (6%)
2016	310,992 (2%)	243,393 (2%)	12,537,206 (86%)	103,849 (1%)	99,987 (1%)	1,323,021 (9%)
2015	291,263 (2%)	253,199 (2%)	10,677,612 (85%)	101,730 (1%)	99,693 (1%)	1,169,757 (9%)
2014	263,348 (2%)	248,221 (2%)	9,027,688 (85%)	98,661 (1%)	97,793 (1%)	881,443 (8%)
2012	278,479 (3%)	271,295 (3%)	6,552,049 (79%)	101,518 (1%)	109,103 (1%)	974,210 (12%)

Note: The number of corporate enterprises and their proportion are listed for each year.

Source: China Statistical Yearbook (2019)

Private enterprises flourished and have become the leading force for the development of the service industry in the last few decades. The proportion of private enterprises in service industries reached 79.4% in 2018 (National Bureau of Statistics of China, 2019). Therefore, the development of the private sector and private capital created a solid base and great opportunities for franchised businesses. However, the economic reforms had also resulted in some unexpected outcomes, one of which is the rise of unemployment (National Bureau of Statistics of China, 2019) [see Figure 1-8].

Figure 1-8: The Unemployment Rate in Urban Area (%) and Number of Registered Unemployed Persons (millions), 1994-2018



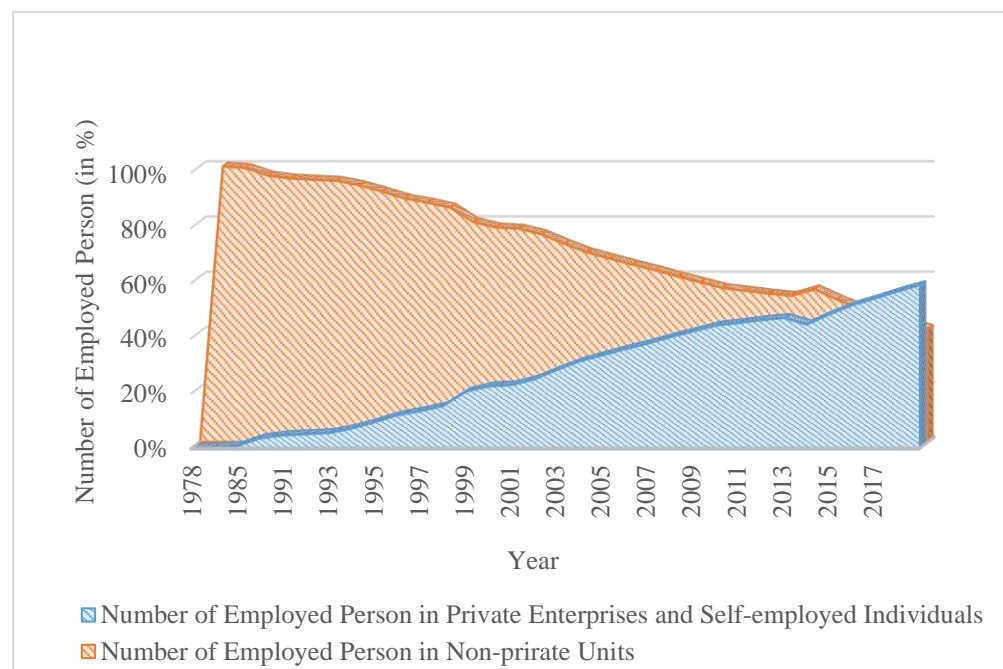
Note: The number of unemployed persons is the sum of registered unemployed persons in the urban and rural area.

Source: China Statistical Yearbook (2019)

Economic development was the fundamental way of resolving the unemployment issue: the private economy provided a large number of

employment positions due to its relatively low entry barriers, minimum required skills, and broader markets. The number of people engaged in private enterprises and self-employment has shown an upward trend in the past decade (see Figure 1-9). To be specific, the employment proportion in businesses registered as private enterprises and self-employed individuals reached 59% of the urban workforce in 2018 (National Bureau of Statistics of China, 2019), now forming a majority of total jobs. Franchising was also considered as a strategy to solve the unemployment issue as the spirit of entrepreneurship provided a sufficient supply of prospective franchisees (Wang et al., 2008).

Figure 1-9: Percentage of Employment in Private and Non-private Units (urban China), 1978-2018



Source: China Statistical Yearbook (2019)

Today, China has achieved its goal of being a moderately prosperous society in general, giving a solid economic foundation for the development of commercial activities, particularly franchising. Further, potential guidance and

support from the Chinese government have improved the business environment of franchising. As will be seen in the discussion below, laws and regulations related to franchising were promulgated and revised and have become increasingly compliant with international norms since China's accession to the WTO in 2001. Overall, China has a huge market potential for the development of franchising.

1.3 Franchising in China

China's reform and opening-up policy has enabled various new business models, one of which is franchising. In the last half-century, franchising has been part of China's growth in terms of employment and significant contributions to world GDP (International Franchise Association [IFA], 2016a). As shown in Table 1-3 below, the economic development level of a region was positively related to the number of franchise enterprises (National Bureau of Statistics of China, 2019).

There have been three main stages of franchise development: infancy, growth and differentiation as outlined below:

Stage 1 Infancy (1978-1992): franchising was a new concept in China when Deng Xiaoping commenced the economic reform and open-door policies in the late 1970s (Chow, 1994). At the start, some Chinese enterprises utilised the brand advantage of franchising. As a joint venture, franchising was promoted in Chinese business culture as a method of business operation by the global

expansion of American franchise establishments, led by fast-food entities (e.g. McDonald's, and Pizza Hut) from 1987 to 1992, as described below.

Stage 2 Growth (1993-2010): franchising started to be adopted by local enterprises between 1993 and 1997. It began to grow dramatically in the late 1990s as consumers were looking for higher quality products, services and recognisable brands. Franchises provided a standardised framework of product and service, as well as modern management and training, that was often lacking in China. Furthermore, low labour and land costs contributed to successful franchise operations. Franchising models took a deeper hold with rapid growth since 1998, particularly after China acceded to the WTO in 2001 (Wang et al., 2008). More and more overseas franchises entered China, bringing in more international franchise experience and advanced paradigms. According to the CCFA, franchised outlets increased by 38% between 2001 and 2006, with franchise systems growing by 13% in 2006 alone to almost 2,600 systems (CCFA, 2007).

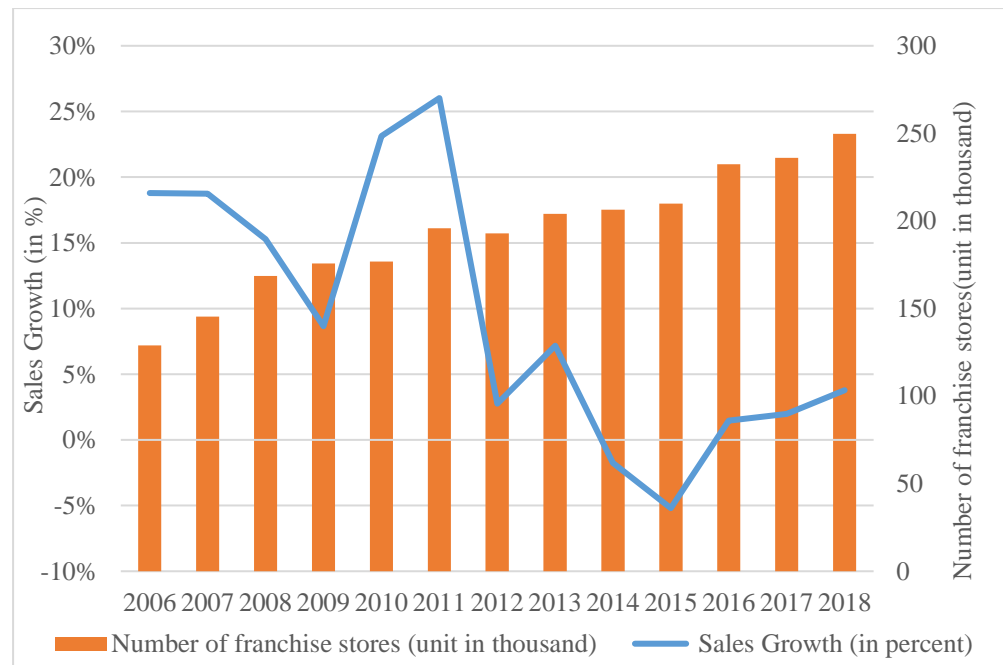
Table 1-3: Comparison of Regional GDP and Number of Franchised Outlets in China, 2018

Location	Number of franchises	Number of franchised outlets	Regional GDP (billion Yuan)
Beijing	180	9,862	3,032
Tianjin	32	2,271	1,881
Hebei	117	6,557	3,601
Shanxi	63	5,136	1,682
Inner Mongolia	18	1,041	1,729
Liaoning	99	7,428	2,532
Jilin	28	2,165	1,507
Heilongjiang	33	1,480	1,636
Shanghai	136	23,079	3,268
Jiangsu	191	22,353	9,260
Zhejiang	221	23,443	5,620
Anhui	75	11,603	3,001
Fujian	181	11,719	3,580
Jiangxi	75	5,744	2,198
Shandong	168	15,362	7,647
Henan	117	6,127	4,806
Hubei	144	10,667	3,937
Hunan	121	10,766	3,643
Guangdong	309	24,257	9,728
Guangxi	85	6,491	2,035
Hainan	5	782	483
Chongqing	79	9,218	2,036
Sichuan	146	13,581	4,068
Guizhou	29	1,558	1,481
Yunnan	32	6,136	1,788
Tibet	3	110	148
Shaanxi	71	3,958	2,444
Gansu	18	1,362	825
Qinghai	10	187	287
Ningxia	53	1,394	371
Xinjiang	95	3,874	1,220

Source: China Statistical Yearbook (2019)

Stage 3 Differentiation (2011-): from 2011 until now, the franchise industry had seen slowing sales growth, together with a rising number of franchised outlets, implying falling sales per franchise (see Figure 1-10). In 2016, China had 4,500 franchising establishments creating over 5 million jobs nationwide with franchising operations in over 70 industries (ITA, 2016). The top 100 franchises in China had \$66 billion in revenues with 160,000 establishments (CCFA, 2018). Despite pressures from rising costs and market competitive, there is still much scope of growth for franchising. According to the CCFA (2018), the growth of the total sales of commodities and the number of store openings were optimistically predicted to keep expanding over the next upcoming years.

Figure 1-10: Sales Growth of Commodities in Franchises (%) and the Number of Franchise Stores ('000s), 2006-2018



Source: China Statistical Yearbook (2019)

Franchising was frequently argued to be a formula that guaranteed business success given the high profile of international and local franchises. Traditional franchising sectors, especially F&B and retail outlets, which made up approximately 40% of franchise chains, dominated the system (CCFA, 2016). Well-known pioneers included American fast-food chains Kentucky Fried Chicken (KFC), McDonald's and Pizza Hut, as well as franchised retail outlets, notably 7-11. KFC initially entered the Chinese market working with a state-owned enterprise after negotiations with the Chinese government agencies in 1987 (Wang et al., 2008). This distinctive joint venture attracted massive consumer interest when it opened its first outlet in Beijing and expanded quickly to over 100 outlets. Adopting a similar strategy as KFC, McDonald's established its first outlet in 1990 in Shenzhen, the original SEZ with fewer regulatory constraints than other cities and a more favourable tax rate. Soon, McDonald's relocated to Beijing and opened for business in the central Wangfujing shopping street in 1992 (Wang et al., 2008). McDonald's became a representative of brand franchising in China as well as elsewhere. With over 2,700 outlets in China, McDonald's had served 1.3 billion customers by 2017, employing 150,000 people (McDonald's, 2018), making it the most recognised restaurant chain in China.

Franchising opportunities were abundant in non-F&B markets with less competition and high demand. Later entrants like Marriott and Holiday Inn began to open their hotel outlets in China and became reputed leading hotel chains in China via franchising. Real estate franchising also became a significant sector that spread from the US. After appointing its first master

franchise in 2000, Century 21 soon upgraded its business systems and expanded rapidly across China within a decade. By 2018, Century 21 operated 4,912 outlets with 30,445 brokers, covering 113 main cities in 86 different regions in China (Century 21, 2018).

Based on the operational data of the top 100 franchised chains, franchise development had been analysed by the CCFA through its index of franchise development, which consists of three factors: *System Scale*, *Franchise Popularity* and *Single Store Revenue Performance*. *System Scale* was based on the sales growth rate of the franchise system to expose the intensive development level of this industry. A *Franchise Popularity* coefficient was calculated based on the current year growth rate of franchise stores, reflecting the enthusiasm of investors to open franchise stores. *Single Store Revenue Performance* represented the sales growth of franchise stores and was seen as an indicator of franchise profitability (CCFA, 2018). These indices were calculated with a benchmark of 100 in 2016. According to CCFA statistics (2018), the 2017 Franchise Development Index at 108 in 2017 was 5% lower than that of 114 in 2016. Breaking the index down into its three components, *System Scale* (113) was 7% lower, *Franchise Popularity* (112) was 9% lower and *Single Store Revenue Performance* (102) about the same as in 2016.

The leading franchising sector was retail and convenience stores, according to the CCFA index (see Table 1-4 for details). The retail industry had the highest franchise renewal rate of 93% and franchise fee payment rate of 98%; for convenience stores, these two rates were 89% and 90% respectively.

Table 1-4: CCFA Franchise Development Index by Sector (2016-2017)

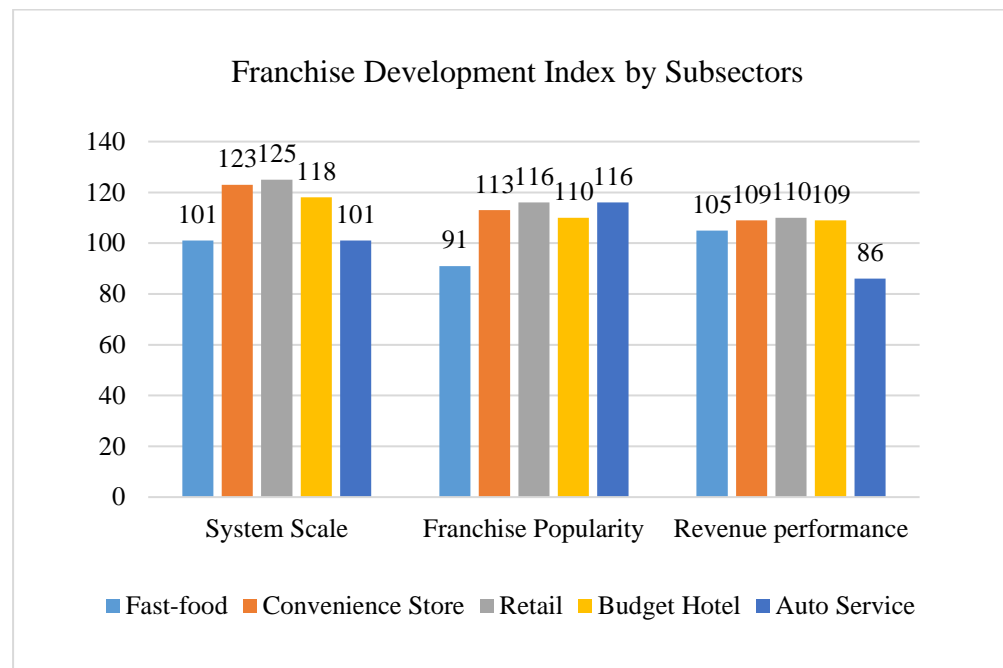
Sector	Franchise Development Index	System Scale Index	Franchise Popularity Index	Single Store Revenue Performance Index
Retail	-	125	116	110
Convenience stores	119	123	113	109
Fast food	108	101	91	105
Auto service	178	101	116	86
Budget hotel	104	118	110	109
All sectors	108 (-5%)	113 (-7%)	112(-9%)	102(0%)

Source: CCFA (2018)

The mature industries of fast food and auto service only increased by 2% and 1% respectively in 2017. These industries faced many pressures regarding their sales growth. Similarly, the total number of fast-food franchises fell by 9% in 2017. The turnover of automotive service decreased by 14%. Both of their development indices were 7% lower than the average of the top 100 franchise index (CCFA, 2018).

Fitness has been the fastest growing industry among the top franchises in recent years. The number of outlets increased by 96% and the turnover of the single outlet increased by 106% since 2017, making it one of the most attractive industries in 2018 (CCFA, 2018). On the basis of the demographic shifts and market trends, the most promising prospective franchise sectors in China included health care, early education services, pension services, and household services (IFA, 2017).

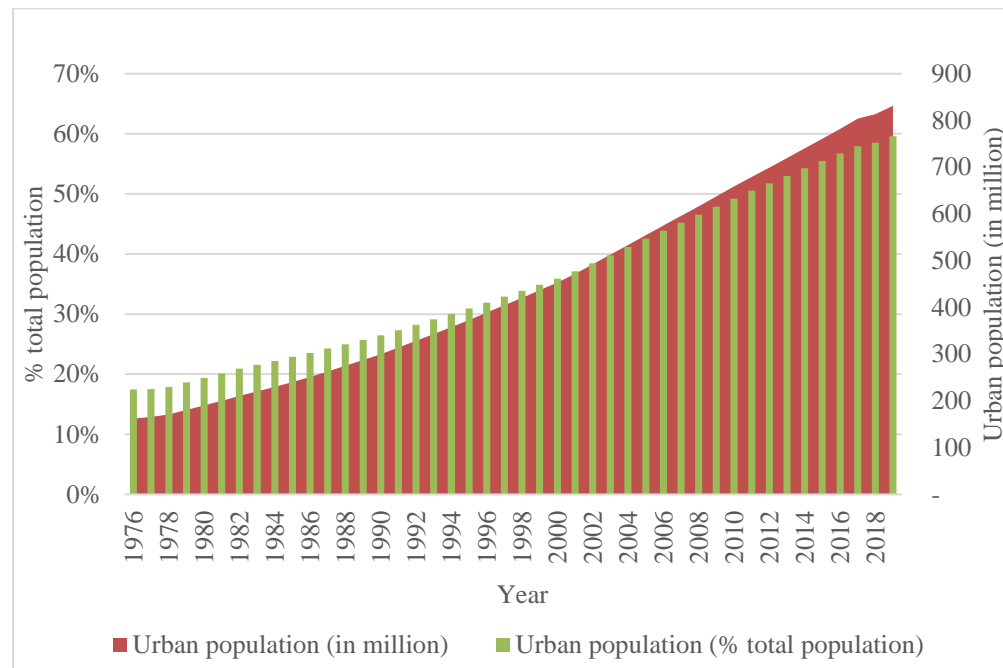
Figure 1-11: Franchise Development Index by Subsectors, 2017



Source: IFA (2017)

Increased use of the internet had opened up digital innovation applications. Franchise industries were actively engaged in digital innovation in marketing and recruitment. The investment of digital applications in franchising mainly concentrated on the analysis of consumer-related issues, for example, experience improvement, membership establishment, and offline integration. Emerging technologies, such as big data, artificial intelligence, cloud technology and blockchain paved the way for unmanned retail franchises (CCFA, 2018b). Specifically, over 60% of the budget hotels had introduced WeChat service accounts and applets to recruit their franchisees online. More than 25% of fast-food franchises and 50% of retail food franchises opted for online recruitment respectively (CCFA, 2018).

Figure 1-12: The Percentage of Total Population (%) and the Growth of Urban Population (in million)



Source: China Statistical Yearbook (2019)

The room for growth of franchising in China is large over the next few years. First, franchising in China benefits from exceptionally favourable economic conditions because of urbanisation (see Figure 1-12). As a result of rapid urban growth and increasing foreign trade, the younger generation increasingly lives in locations where they can be reached by multinational franchises (National Bureau of Statistics of China, 2019). Many entities single out China given the potential customer base for franchised outlets (IFA, 2017). Moreover, the investment environment with increased transparency, such as the protection for intellectual property (IP), supports the growth of franchising. Associated with the continuous growth of consumption and standardisation of the market, the investment conditions for franchising are encouraging.

Second, the over-supply of some traditional sectors requires differentiation given fierce competition. Otherwise, rapid expansion will depress earnings. The less saturated markets of non-F&B sectors are emerging with potential growth because the international investment of F&B and retail outlets are currently dominant in China. Thus, with less market saturation and competition, the demand for non-F&B industries, especially the service industry, is growing rapidly in line with the readjustment of industrial structure (ITA, 2016b).

Third, due to the heavy competition in top tier cities, franchises are looking to grow more quickly in second-and third-tier cities. New entrants may find easier access to these markets because of the relatively lower labour and land costs, a less crowded market and moderate competition (ITA, 2016b).

Furthermore, in order to promote the development of the regional economy, the government of China encourages investment and establishment of new entrepreneurial entities in such locations. Franchising now receives greater attention, especially from the lower-tier cities in western and inland China. To sum up, these trends signal that China remains an attractive market in general but is increasingly mature and competitive.

With the experience of the past decades, franchising in China is now well developed due to the growing sophistication of the economy and a relatively comprehensive regulatory framework.

1.4 Chinese laws and regulation

In the infancy stage of franchising, inferior goods and services or even counterfeits were delivered to consumers due to the lack of franchise laws and regulations. To better protect the legal rights and interests of parties, the Chinese government issued an interim policy to provide a more secure business environment for franchising in the late 1990s. The *Interim Measures on the Administration of Commercial Franchise Operations* 1997 signalled official recognition and encouragement of franchising in China (Wang et al., 2008). Without specifying rules and regulations, this trial implementation was used by domestic franchisors as an instruction that defined how the franchise worked rather than a regulatory framework.

In 2005, the Ministry of Commerce (MOFCOM) released the *Measures for the Administration of Commercial Franchise Operations* (Art. 5) which superseded the 1997 measures to cover both domestic and international franchise operations. Its key tenets were (i) rights and obligations of both parties, (ii) prior disclosure and (iii) the content of franchise agreement. All franchising activities were required to adhere to principles of “voluntariness, fair dealing, honesty and credibility” (MOFCOM, 2004). This measure stipulated the content of a standard franchise contract covering the rights and obligations of each party:

- (i) Franchisors must directly own and have run at least two existing outlets in China for at least one year to qualify for granting a business licence (the ‘two-plus-one rule’);

(ii) Franchisees can unilaterally terminate the contract within a certain period of time after the contract is concluded;

(iii) The franchise term is normally no less than three years (ITA, 2011).

Notably, the *Measures for the Administration of Commercial Franchise Operations* required pre-contractual disclosure of all material facts in a clarification regarding *Article 42 of Contract Law* (State Council, 2005). *Article 17* elucidated, “before signing a franchise agreement, and during the course of the operation of a franchise, both franchisor and franchisee shall disclose relevant information in a timely manner” (MOFCOM, 2004). Beyond that, *Article 19* of the *Measures* required the franchisor to disclose franchisees’ numbers, locations, operational results, etc. (MOFCOM, 2004).

However, these measures failed to address cross-border franchising between overseas franchisors and domestic franchisees and how the ‘two-plus-one rule’ affected international franchisors. According to the *Regulations Regarding Foreign Entity Investment in Industry* and the *Catalogue Guiding Foreign Investment in Industry* mentioned above, franchising was a restricted industry that only gradually opened up in China after 2001. Foreign-invested entities were not permitted to be engaged in franchising before December 11, 2004 (State Council, 2004). In accordance with the *Regulations on Foreign Investments in Commercial Industry (No. 8)* promulgated by the MOFCOM, international franchisors had to submit a series of documents before engaging in franchising (e.g. business license, franchise agreement, franchise manual and disclosure information) (ITA, 2011). This measure was to remove restrictions on entry to markets after China became a member of the WTO.

To address a range of ambiguities in the 2005 *Franchise Measures*, the revised *Regulations on the Administration of Commercial Franchises* (Decree No. 485 of the State Council) was introduced in 2007, indicating more favourable licensing terms for foreign-owned franchises. It clarified international franchise arrangements and modified the ‘two-plus-one rule’ as the two foreign franchisor units could be located anywhere in the world before granting a franchise in China (State Council, 2007). Regulations on the qualifications of the franchisor were issued. For example, a franchisor must be a business enterprise, not an individual. Also, franchisors must have a developed business model that can deliver sufficient support, guidance, training and other related services to their franchisees in the long-term (State Council, 2007). The importance of support for franchisees was underlined in the *2007 Regulations* as well but failed to specify what support must be provided. The revision also issued *Filing Rules and Information Disclosure Rules* to combat fraud (State Council, 2007). Franchisees were bound to confidentiality with regard to franchisors’ trade secrets, so franchisors had to promptly disclose all relevant information and commercial secrets that help franchisees make investment decisions when entering into a franchise agreement (State Council, 2007).

The *Commercial Franchise Registration Administrative Measures* and *Commercial Franchise Information Disclosure Administrative Measures* were established with an explicit filing and information disclosure system thereafter in 2012. The franchisor must have a registered IP right (e.g. trademark, patent, or any other business resource) and file this with the competent commerce department within fifteen days before signing in a franchise agreement

(MOFCOM, 2012a). Meanwhile, the franchisor must provide true, complete and accurate information at least 30 days before entering into the contract to guarantee that potential investors (i.e. franchisees) understand and grasp the relevant situation of the franchisor in a timely, accurate and comprehensive manner. Prior disclosure information included the financial statement, information regarding existing franchisees and prior litigations, etc.

(MOFCOM, 2012b). This regulatory framework is summarised below in Table 1-5:

Table 1-5: Summary of the Development of Franchise Law

Date	Law	Measures	Impact
1997	<i>Interim Measures on the Administration of Commercial Franchise Operations</i>	<ul style="list-style-type: none"> • Described how franchising works with a series of new legal systems 	<ul style="list-style-type: none"> • First official regulation in the field of franchising in China • Adopted foreign beneficial practices • Summarised domestic practices
2005	<i>Measures for the Administration of Commercial Franchise Operations</i>	<ul style="list-style-type: none"> • Embedded the principles of “voluntariness, fair dealing, honesty and credibility.” • Stipulated the content of standard franchise contract covering the rights and obligations of both parties • Specified a series of applications for international franchisors 	<ul style="list-style-type: none"> • Adopted the 1997 measures • Covered both domestic and international franchisors • Failed to address cross-border franchising between foreign franchisors and domestic Chinese franchisees and how the 2 + 1 rule affects international franchisors
2007	<i>Regulations on the Administration</i>	<ul style="list-style-type: none"> • Identified qualifications of the franchisor 	<ul style="list-style-type: none"> • Overrode any parts of the Measures that

Date	Law	Measures	Impact
	<i>of Commercial Franchises</i>	<ul style="list-style-type: none"> • Itemised franchise agreement • Issued <i>Filing Rules and Information Disclosure Rules</i> 	<ul style="list-style-type: none"> • contradict <i>the Regulation</i> • Failed to specify the support system
2012	<i>Commercial Franchise Registration Administrative Measures</i>	<ul style="list-style-type: none"> • Established a filing system 	<ul style="list-style-type: none"> • Facilitated the commercial authorities to understand franchisees on time • Regulated and supervised the franchise activities in a targeted manner
2012	<i>Commercial Franchise Information Disclosure Administrative Measures</i>	<ul style="list-style-type: none"> • Established a complete information disclosure system 	<ul style="list-style-type: none"> • Ensured franchisee makes the appropriate investment to prevent being deceived • Enforced the Regulation

Sources: ITA (2011); MOFCOM, (2002, 2004, 2012a, 2012b); State Council (2005, 2007); Wang et al (2008)

1.5 Western laws and regulation

To combat fraud and abuse in franchising transactions, many western countries have been at the forefront of the establishment of franchise law. The first franchise disclosure law was adopted in 1970. The US Federal Trade Commission (FTC) explicated nationwide that “unfair methods of competition in or affecting commerce, and unfair or deceptive acts or practices in or affecting commerce, are hereby declared unlawful” and commenced an enforcement on franchise sales disclosure in 1972. The *Franchise Disclosure Rule* was eventually granted by the FTC and issued in 1979 (IFA, 2018). As

specified, the franchisor had an obligation to provide potential franchisees with the central materials of the franchised business, as well as the franchise agreement (IFA, 2018). Misleading disclosure or a failure to disclose the basic information could cause fraudulent misrepresentation or concealment based on common law (FTC, 2006).

Five Canadian provinces, namely Alberta, Manitoba, Ontario, New Brunswick, and Prince Edward Island, adopted franchise legislation that required the disclosure of all material facts. The material fact, in other words, was the information that probably has a substantial effect on the value of the franchise or the decision of purchase. A certain number of provinces have also enacted their own franchise laws. For instance, the province of British Columbia introduced its own franchise regulation, the *British Columbia Franchise Act*, which was promulgated in 2015 (CFA, 2019). Incorporated with strong intellectual property protection (ITA, 2016a), Canada, on the whole, offered a transparent and well-organised legal system.

The *Franchising Code of Conduct* in Australia was implemented to govern the transactions between franchisor and franchisee (ITA, 2016c). The amended code required disclosure statements, including the central material regarding franchisor, the conditions within the franchise contract, the customer complaint handling, dispute resolution procedures, etc. (ITA, 2016c).

Franchising itself was not government regulated in the UK, so there has been no franchise-specific legislation concerning franchising or related specific business sectors. The BFA only operated a voluntary code of ethics, the BFA

Code, based on the *European Code of Ethics* for franchising (EFF, 2012).

However, the UK's general transparent and advanced governmental system, with strong intellectual property protection and enforcement attracted and secured franchising seekers in the UK (ITA, 2016a).

Overall, the fundamental policy of disclosing all material facts has been very similar among western countries and now applies in China. Striving for effective and efficient business development, as well as the fundamental laws and regulations of franchising named above (see 1.4), other laws regarding franchise operations were also included to standardise the market environment in China: (i) the *Trademark Law* that outlined the right of caring franchise quality brands and business systems; (ii) the *Intellectual Property Law* that protected patents and copyrights of a franchise; (iii) the *Contract Law* that enforced the parties' contractual rights and obligations, effecting the ongoing relationship between franchisor and franchisee; and (iv) the *Administrative Measures for Foreign Investment in Commercial Fields* that directed foreign franchises progressively towards international standardisations (ITA, 2011).

The well-developed legal environment in China was not only conducive to the development of domestic franchises but also international franchising enterprises. In short, the pace and breadth of legislation on franchising in China has been impressive.

In conclusion, as a fast-growing form of business format found all over the world, franchising in China is still at an early stage. Nonetheless, the development prospects of franchising are promising on the whole. Sustained and rapid economic growth provides good economic conditions for

franchising, together with the growth of the private economy. The continuous urbanisation and growing middle- and upper-class with a higher level of disposable income provide enormous opportunities for the service sector in China. In particular, franchising in the service industry has gradually become a new hot spot of consumption. Associated with the laws and regulations in China, the investment of both domestic and foreign enterprises is encouraged. All in all, franchising is a booming form of business in China.

2 Literature Review

This chapter first summarises the current research on franchising and the central concepts of franchising, including the advantages and challenges of establishing a franchise. After reviewing the literature, it was found that some challenges of franchising, such as incompatible incentives and unethical practices, can be solved via control mechanisms on the basis of agency theory. In contrast, two other challenges, gaps in resources and complexity of relationships, need to be explained using a resource-based perspective and a relational view. Theories that are used in the literature of franchise performance follow, with a discussion of possible gaps and limitations. Potential variables affecting the theories are identified.

2.1 Research on franchising

Typically, there are four main themes of the research on franchising, namely (i) the antecedents of franchising, (ii) the consequence of franchising, (iii) potential mediation and moderation effects on franchising outcome, and (iv) the evolution of franchising in different contexts worldwide (Combs et al., 2011).

Scholars have identified the antecedents of franchising and why entrepreneurs choose to franchise rather than found an independent business (Peterson & Dant, 1990). The recognition of trademark and brand, as well as standardised support and training provided by the franchisor, are the determinants of an entrepreneur choosing to become a prospective franchisee (Guilloux et al.

2004). To examine the reasons for prioritising franchising, agency theory and property rights theory are used to understand this phenomenon (Combs et al., 2011).

Studies about the consequences of franchising focus on financial performance, the level of satisfaction, the survival or growth rate of franchise systems, and the inclination towards free riding. These studies have been classified into two dominant points of view based on the positions of franchisor and franchisee. Earlier studies on the franchisor look at the growth of franchising and likelihood of survival. Researches on free riding, relational governance, and financial performance are prevalent topics in recent years (Grunhagen & Dorsch, 2003; Chiou et al., 2004). From the perspective of franchisees, past research concentrates on the profitability of multi-outlets (Falbe & Welsh, 1998). In current studies, this theme has shifted toward the consequences such as the departure of franchisees, the failure of businesses, and the economic and legal implications (Combs et al., 2011). Resource-based theory, agency theory, and relational governance are the leading theories in examining the consequences of franchising (Combs & Ketchen, 1999).

The nature of a franchising relationship can be adjusted by agency cost, operation strategy, contract design, governance structure, etc. (Rodriguez et al., 2006; Chen, 2011). The potential mediator and moderator of franchising relationships thereby can be examined by theories, such as agency theory and contingency theory (Yin & Zajac, 2004).

The analysis of a franchise system has been approached from both domestic and international perspectives (Elango, 2007; Paik & Choi, 2007; Madanoglu et al., 2017). With a focus on the branch of marketing, topics such as price control, brand, and advertising have been studied (Zachary et al., 2011; King et al., 2013; Felicio et al., 2014b). As a distribution channel across countries, franchising in this theme is continued to be depending on the institutional theory.

The perspectives of franchisors, franchisees or franchise relationship have been studied in recent years (Ketchen et al., 2011; Kacker & Wu, 2013; Altinay et al., 2014; Dada et al., 2015; Sanny et al., 2017). Most studies follow either a top-bottom or bottom-top view from a single perspective (Jambulingam & Nevin, 1999; Chiou et al., 2004; Chien, 2014). For example, franchise activities, such as franchisee selection and franchising internationalisation, focus essentially on the perspective of the franchisor. Meanwhile, the debate about owning business units versus franchising outlets is largely based on the franchisee perspective. Research from either perspective will give rise to the imperfect knowledge about their behaviours, as well as the antecedents and consequences of franchising (Combs et al., 2011; Weaven et al., 2014). In contrast, this thesis integrates (i) the franchisor's perspective; (ii) the franchisee's perspective; and (iii) the relational view of franchise relationships to gain a deeper understanding of the franchise phenomenon.

Franchising has involved long-running debates (Shane & Hoy, 1996; Floyd & Fenwick, 1999; Combs et al., 2011; Dada et al., 2012; Gillis & Castrogiovanni, 2012; Alon et al., 2015). Conflicts in this business format are seen as inherent

within the franchise system due to the issues of standardisation and flexibility (Pardo et al., 2014) raised by agency theory (Doherty & Quinn, 1999; Barthelemy, 2011; Perryman & Combs, 2012). The franchise contract can align divergent objectives between franchisor and franchisee by manipulating both actions using coercive power (Karmeni et al., 2018; Doherty & Alexander, 2006). Nevertheless, few empirical studies associate the non-coercive approaches, such as the pooled resource and franchise relationship with agency theory in explaining cooperation within a franchise system (Gillis et al., 2014). To fill this gap, this thesis explores the franchise issues that have not been answered by agency theory, using the resource-based perspective and relational view. It uses an integrated perspective of both franchisor and franchisee to investigate the consequences of franchising, particularly in China. The main concepts and then the theories will be introduced in the following discussion.

2.2 Franchising concepts

With the rapid development of franchising, this business activity has drawn growing attention of researchers from diverse fields, such as strategic management, entrepreneurship, marketing and economics. From the perspective of strategic management, franchising has grown as one of the major strategies to run a business with a recognised brand and low risks (Kaufmann & Dant, 1999). In terms of the entrepreneurial view, franchising is a strategy for prospective entrepreneurs to get involved in business ownership or seen as an approach for the franchisor to expand the business (Shane & Hoy, 1996). In addition, being viewed as a distribution channel from a

marketing perspective, this concept has also been applied to study the structure of contracts in economics studies (Combs et al., 2004a). In conclusion, franchising is a business format in which two independent parties (normally companies) participate, as either franchisors or franchisees and enter a contractual agreement. As a legal contract, in 'black and white', the franchise agreement states the rights and obligations that each party needs to fulfil. A franchise relationship thereby is contractual in nature (Mathewson & Winter, 1985).

2.2.1 Franchisor vs. franchisee

In accordance with the definition above, a *franchisor* sells its successful business model and brand. The role of franchisor is to provide a registered trademark, a proven system, and ongoing support to help new franchisees launch and expand their business locally (Combs & Ketchen, 2003; Gillis & Castrogiovanni, 2012). The franchisor owns the central business resources, for example, the patent, brand, and know-how to enforce system standards. By entering into a contract, the operating resources owned by the franchisor are licensed to other operators (Gillis et al., 2014). The *franchisee* accordingly is the user who is given the right to use a particular trademark or brand. The franchisee distributes the franchisor's goods or services under the contract for a prescribed timeframe with an obligation to operate consistent with the franchisor's design. In return, some fees are paid to the franchisor, often a lump sum up-front franchise fee and ongoing royalties based on sales (Shane, 1998; Barthelemy, 2008). In summary, franchising contains four main aspects: (i) delivery of goods and services under the franchisor's trademark or brand;

(ii) payment by the franchisee to the franchisor; (iii) support to the franchisee; and (iv) control over the franchisee's operations.

Franchisor's brand

Built over a long time, brand reputation offers a competitive advantage in the marketplace because of its powerful positioning in affecting market share and financial performance (Pitt et al., 2003; Gould, 2005). Many investors are attracted by the franchise's brand, which can be transferred and traded in franchising market (Norton, 1988a; Morhart et al., 2009). Franchise brand not only favours and shapes the perception and behaviour of franchisees (Felicio et al., 2014b), it is also a promise to customers who look for a standard consumption experience that is delivered by the trademark. Due to the mobility of customers among geographic areas, the brand serves as a signal and reduces the search costs of an unfamiliar product or service (Baucus et al., 1996, Felicio et al., 2014b). Hence, consumers transfer the goodwill of a franchise associated with the quality of one unit to others organising under an identical brand name (Badrinarayanan et al., 2016). For example, McDonald's enjoys significant expansion via franchising and creating a successful brand, the Golden Arches, which has been found to be the most recognisable global symbol. Thus, employing franchises to distribute a product or service depending on an integrated brand enables the credit and reputation earned in one market to extend consistently to other markets (Nyadzayo et al., 2011; Sashi & Karuppur, 2002).

Support to franchisees

The support from the franchisor involves a wide variety of services, which are divided into two main categories based on the stages: (i) initial support services, and (ii) ongoing support services (Hing, 1995; Roh & Yoon 2009).

A franchise system with well-established initial support services is more likely to establish a successful franchised outlet (Frazer, 2001). Franchisees, at this stage, start to acquire the elementary skills and daily operations of outlets (Hing, 1995). The start-up support includes initial training, site selection, facility design, purchase supplies, financial capital raising, etc. Pre-opening support is comprised of meeting with franchisees and clarifying the cooperation conditions, such as financial issues, renewal processes, contract terminations, dispute resolutions, etc.

Ongoing support involves ongoing training, operation manuals, technical supports, field visits, advertising and promotion, advisory and consultation, quality monitoring, etc. (Morrison, 1996; Grunhagen et al. 2008). These business assistances enable improving strategies, promoting innovations, solving problems and reducing conflicts (Roh & Yoon, 2009).

Support is one of the essential criteria in the franchisee's decision to enter into a franchised business. Several studies have confirmed that the performance of franchisees significantly relies on the level of franchisor's support (Combs et al., 2004a; Chiou et al., 2004; Michael & Combs, 2008; Watson & Johnson, 2010). As the performance of franchisor and franchisee are interdependent

(Davies et al., 2011), the better the support provided to franchisees, the higher likelihood they will achieve success (Huang et al.,2007).

Control over franchisees

As a basic principle of franchising, the “3S” principle, which stands for “standardisation, specialisation and simplification,” enables both franchisors and franchisees to achieve maximum effectiveness. To maintain the consistency of the entire franchise system, control facilitates the duplication of the franchise model. The franchisor has extracted all aspects that can be adapted to franchised outlets in various regions as the franchise network expands. For example, franchising establishes standardisation and the consistency of the brand image through the franchisor’s extensive control over the franchisee’s activities, including sales of products, training of personnel, hours of operation, conditions of the plant, management of inventory, and accounting and auditing (Rubin, 1978). The centralised control of the franchisor, therefore, enhances the competitiveness of franchising. Also, control guarantees that novice franchisees can operate in accordance with the manual, and even solve operational problems quickly following the structured guidance or procedures employed by franchisor. As a result, the coordination and cooperation between specialised tasks ensures the healthy operation of the franchise system.

Effective control mechanisms minimize the transaction cost and create the rent. To be specific, there are three types of control mechanisms (i) behaviour control; (ii) output control; and (iii) input control (Snell, 1992) that are used to examine the complex franchise relationship. These three types of control can

be used to enhance the franchisor's control over franchisees. While some franchises rely primarily on one type of control, others use combinations.

Behaviour control structures the transformation process of work, stipulating how the tasks will be carried out in franchise systems (Snell, 1992). In this regard, the franchisor aims to closely monitor and evaluate the franchisee's actions over time by precisely defined tasks (Ouchi, 1977). To ensure that franchisees adhere to the procedures of the business model, behaviour control is more suitable for business format franchises. For instance, a number of F&B franchises require their franchisees to purchase specified cooking utensils to prepare food and freezers to store food. However, standardised work processes reduce the discretion afforded to franchisees and may lead to rigid and cautious behaviour (Hitt et al., 1990), so entrepreneurial franchisees may feel restricted (Karmeni et al., 2018).

Output control differs from behaviour control, as it does not translate intentions of desired ends into standardised operating mechanisms. Instead it sets targets, such as financial results, for franchisees to pursue (Mellewig et al., 2011). This form of control focuses on defined outcomes that franchisees and their outlets are expected to achieve in the franchise system. Nonetheless, output control can elicit myopic behaviours. For example, overemphasising short-term financial results may deter franchisees from making investments needed for long-term effectiveness (Ouchi & Maguire, 1975).

Input control focuses on the resources used by the franchisee that is supervised by the franchisor, which will have a direct consequence for organisational

performance (Yu & To, 2011). As the franchisor is obliged to provide the products to, or manufacture the elements for, franchisees, input control can be more readily used to control the delivery of products or services in specific industry fields. With a focus on training and recruiting, input control also helps select qualified franchisees at the early stage (Yu & To, 2011).

Each of the three control mechanisms has advantages and disadvantages in fitting different forms of franchises at different stages (Jap & Ganesan, 2000). To promote satisfaction and achieve the appropriate level of performance, franchise systems adopt different combinations of control mechanisms (Hill & Hoskisson, 1987; Snell, 1992; Mellewigt et al., 2011). For example, franchisees tend to benefit from the support and service provided by the franchisor. With increasing experience with franchising, franchisees operate the business model with a certain degree of autonomy. They tend to develop their own attitude towards the franchise system that may differ from the franchisor's quality standards. The behaviour control that works effectively at the early stage of standardisation can arouse conflict when the franchise arrangement fails to meet their expectation. Among experienced franchisees with the awakening of independence and entrepreneurial initiative, output control that guides them to fulfil the task, resulting in a higher level of satisfaction (Mellewigt et al., 2011) is preferred.

2.2.2 Types of franchise

There are three generic categories of franchise opportunities available, which are (i) business format franchises; (ii) product franchises; (iii) manufacturing franchises (IFA, 2016c).

Business format franchise

For business format franchises, the franchisee sells the franchisor's product or service under the brand name in the franchisor's manner, following a standardised format and retail procedures. In return, they will acquire operational and marketing assistance from the franchisor, who is heavily involved in running the business. Fast food chains (Hoffman & Preble, 2003), such as McDonald's and Burger King are examples of a business format franchise model. This type of franchise is the most common form of franchising, making up nearly twenty times of establishments and over five times of jobs than product franchise (IFA, 2016).

Product franchise

With the highest proportion of total sales, product distribution franchise is another prevailing type of franchise. Product franchises distribute the franchisor's products and their relationship with franchisors and are more like a supplier-distributor relationship. The franchisee acts actually as the distributor for the core product produced by the franchisor, with more autonomy in business operation. Typically used for mass-produced products, Coca-Cola (beverage bottling and distribution) and Ford Company

(automotive dealers and distributor), offer this type of model to their franchise partners (IFA, 2016c).

Manufacturing franchise

Manufacturing franchises grant franchisees the right to manufacture and sell under the trademark and name of the franchisors, which is common in the F&B industry and manufacturing industry (Elango & Jawahar, 2002).

While these three types of franchise have significant differences, all of them involve the franchisee establishing a new business. Therefore, a common factor in all franchising is a significant element of entrepreneurship, even if this is not as complete as in establishing a completely new firm without the support of a franchisor.

2.2.3 Entrepreneurial orientation

The perspective of entrepreneurship has been applied to understand the success and failure of a business (Michael & Combs, 2008). As a key ingredient for firm success, entrepreneurial orientation (EO) is considered as a strategic preference in the survival and growth of franchising (Lumpkin & Dess, 2001; Wiklund & Shepherd, 2003, 2005; Hughes & Morgan, 2007).

The allure of establishing their own business, starting self-employment, and setting their own business hours has attracted entrepreneurs to franchising. Associated with an entrepreneurial spirit, franchising has created a specific context for entrepreneurship due to the conflict of standardisation and adaptation discussed above. Those franchisees displaying with entrepreneurial

behaviours trigger the flexibility and adaptability that forced by different customer preferences and markets to deal with the competitive environment (Lyon et al., 2000; O'Shea et al., 2005; Kraus, 2013). In accordance, the effect of EO on the performance of franchised outlets cannot be ignored (Chien, 2014).

The unidimensional conceptualization of firm-level entrepreneurship developed by Covin and Lumpkin (2011) includes innovativeness, risk-taking and proactiveness. *Innovativeness* refers to the tendency of embracing creative experiments by developing new products or services in the R&D process (Lumpkin & Dess, 2001; Merrilees & Frazer, 2006). It reflects the action of the firm in the face of new opportunities and challenges (Dada & Watson, 2013). Rooted in the context, this inimitable capability is seen as a source of competitive advantage (Hughes & Morgan, 2007). With access to local knowledge, innovative franchisees can explore new possibilities and secure first-mover advantages (Kaufmann & Eroglu, 1999; Combs & Ketchen, 2003).

Enhanced by collaboration between network partners, innovativeness improves the franchise performance, but results in inconsistency of the franchise system. Especially when the franchisor relies on the innovative ideas of franchisees, franchisees may feel they fail to obtain value for their support and may seek further flexibility. If the innovation idea is successful but not revealed by franchisees, the benefits of innovation are unlikely to be offered system-wide. If the innovation is unsuccessful, it may have negative consequences in terms of brand integrity and brand equity, satisfaction and financial performance (Watson et al., 2020). Innovations are discovered more informally through

personal and network ties. Therefore, strong network relations, such as trust and information sharing, are likely to be important in managing innovation effectively by enhancing the amount of information shared between parties and increasing their ability to exploit entrepreneurial opportunities (Watson et al., 2020).

Risk-taking indicates the willingness of facing the risks of failure and taking action in facing the unknowns (Wiklund & Shepherd, 2005), such as moving into unfamiliar new markets (Lumpkin & Dess, 2001). Risk-taking allows franchisees to take action that goes beyond the goals with increased knowledge and experiences. With the engagement of resources in franchise activities, adventuresome franchisees tolerate challenges, for example, the opportunity cost in an uncertain situation generates a high rate of return in a long-time horizon (Lumpkin & Dess, 2001; Hughes & Morgan, 2007; Dada et al., 2012).

Proactiveness suggests the tendency of opportunity-seeking and forward-looking by launching new products or services with aggressive posturing ahead of the competitors and anticipating in future demand based on scanning and monitoring the trend (Lumpkin & Dess, 2001). These perspectives enable firms to effectively identify opportunities and achieve first-mover advantages (Lumpkin & Dess, 2001; Dess & Lumpkin, 2005). Being knowledgeable about the current and future needs of customers that vary in different territories enables franchisees to identify the chances and act against its competitors initiatives (Venkatraman, 1989). Hence, the proactiveness of franchisees increases their responsiveness to local market signals and awareness of customers' preferences (Hughes & Morgan, 2007).

Apart from the three measurement scales of EO, the multidimensional view conceptualised two other dimensions, competitive aggressiveness and autonomy, which have been applied widely in entrepreneurship research (Dada & Watson, 2013; Watson et al., 2019). *Competitive aggressiveness* describes the firm's intensity of acting against its rivals and securing its position with a combative posture in response to competitive threats (Lumpkin & Dess, 2001; Hughes & Morgan, 2007). It then makes it difficult for the rivals in predicting the possible further actions of the firm because of its strong combative position and aggressive response to challenges (Lumpkin & Dess, 2001). A franchisee with competitive aggressiveness will continually exploit market information and use unconventional surprise tactics to improve its performance (Hughes & Morgan, 2007; Paik & Choi, 2007).

Autonomy is defined as the extent to which franchisees are able to exercise independence of thoughts and actions to operate freely outside the standardised confines of the franchise system (Dada, 2018). Franchisees desire some degree of autonomy in the running of the outlets. However, franchisors may want to restrict franchisee autonomy in order to preserve system uniformity. Therefore, autonomy in franchise operations has both positive and negative performance outcomes.

On the one hand, as the mechanism for enhancing franchise system performance, such as satisfaction, organizational learning and competitive advantages, the motivations of franchisees are mainly the pursuit of better returns and for franchised outlets' success. In particular, franchisees that are granted autonomy view the franchise relationship as a cooperative partnership

(Dada, 2018) and are more quickly and effectively than their competitors in reacting to local market opportunities (Hughes & Morgan, 2007).

On the other hand, autonomy may go against the standardisation required in franchise systems, which is centred on uniform replication of the franchisor's proven business concept in different locations (Dada et al., 2012; Dada & Watson, 2013). Agency theory, which will be discussed in the next section, assumes franchisee autonomy because franchisor and franchisee tend to have different goals and may act autonomously according to their self-interests. Consequently, autonomy increases the risk of franchisee failure, leads to conflict with the franchisor, results in losses in scale economies and increases franchisee opportunism.

Autonomy and dependency are considered as a critical challenge of a franchise relationship with delicate balance required (Dant & Gundlach, 1999) due to the conflict of standardisation and flexibility. On the one hand, the franchisor makes the central decisions and expands the business throughout standardisation; on the other hand, the independent franchisee strives to achieve a certain level of autonomy and carry out his or her personal decisions (Combs & Ketchen, 1999). Autonomy can be sustained without damaging the standardization on which franchising is designed. The use of control mechanisms may help franchisees manage their entrepreneurial autonomy to fit the franchisor's requirements and minimise negative outcomes (Dada, 2018).

Many studies have applied the five dimensions of EO. In general, an entrepreneurial attitude toward franchising is necessary for the success of franchisees; yet not all these dimensions affect the franchise performance positively (Lumpkin & Dess, 2001; Hughes & Morgan, 2007). Therefore, franchising to the right person will increase the chance of survival and improve the franchise relationship in the long run (Alon et al., 2015).

2.2.4 Advantages of franchising

As a business strategy, franchising has a history of more than a hundred years and has attracted worldwide attention owing to its advantages for both franchisor and franchisee. In particular, franchising is able to connect the EO of a potential franchisee with a business model that can enable a win-win for both franchisor and franchisee while enabling the franchisee to act in an entrepreneurial way.

For franchisors, there are three major benefits of franchising:

- (i) risk-sharing;
- (ii) reduced management overhead; and
- (iii) reduced capital requirements.

Risk-sharing with franchisees means that the franchisor neither has to undertake the relevant responsibilities for ensuring the security of assets, such as the shop or plant, which owned is by franchisees, or get involved in the franchisee's employee management issues (Alon et al., 2011).

Franchising is an easy way to obtain expansion because the franchisor does not have to take care of the daily chores of franchisees, which reduces the management effort of daily operations. The franchisor can discover the undeveloped scope of business more efficiently because franchisees may know local conditions better than the franchisor and help the franchisor attain a deeper understanding of local regions.

Finally, franchising is a comparatively inexpensive way of expanding because a franchise fee is paid to buy the outlets, and the franchisor can grow the number of locations without injecting massive amounts of capital or incurring significant debt (Gonzalez & Solis, 2012). Indeed, franchising has been seen as a riskless, effortless and costless expansion approach for franchisors.

For franchisees, a franchise opportunity is a tried-and-tested system offered by the franchisor who lowers the level of risk through a pre-packaged structure for establishing, running, and expanding a business. Compared with those who begin their own start-ups with little or no experience, franchisees are more likely to survive and be profitable in the first few years of operation because of the on-going support, including training, advertising, research and development (R&D), market analysis and technology transfer (Ketchen et al., 2011; Gillis & Castrogiovanni, 2012). The franchisee inherits the ready-made goodwill of a well-performed franchisor, who may help in securing finance (Peterson & Dant, 1990).

In addition, buying a proven franchise brand yields efficiency through economies of scale with limited equity investment. The economic rationale is

that the franchisor is capable of negotiating better terms with suppliers than single franchisees because of bulk ordering. Franchisees who opt to listen to the franchisor will consequentially obtain the benefits of scale across a range of costs in purchasing, marketing, implementing. They need less time and energy to develop their own store networks (Phan et al., 1996).

Above all, franchising allows franchisors to develop the business economically and franchisees to build a scale of operation with added security. Nonetheless, there are still many challenges in establishing franchising.

2.2.5 Challenges of franchising

In the literature review, there are four main challenges identified in establishing franchising:

- (i) conflict of interests;
- (ii) the hazard of unethical practices;
- (iii) lack of certain skills, attributes, and resource among franchisors or franchisees; and
- (iv) the complexity of franchise relationships.

First, the franchise contract that governs the relationship between franchisor and franchisee is insufficient to align the interests of both parties. As the franchisor cannot manage each outlet directly, the sensible way of conducting operations is delegating tasks to franchisees. However, the incompatibility of incentives between franchisor and franchisee is the toughest challenge to reconcile in franchise operations. For example, how the franchisor is paid by the franchisee, the level of geographical exclusivity and competition between

franchisees, and specifically the accommodation of the franchisor's aspiration for uniformity and the franchisee's pursuit of independence (Dant & Gundlach, 1999) could be very troublesome issues in franchising. Many franchised outlets are territorially based, so the separation of tasks gives franchisees the discretion to make adjustments. Along with the uncertainties of the diverse geographical conditions, such as socio-economic composition (e.g. income and age), consumer preferences, the level of competition and market demand (Kaufmann & Eroglu, 1999; Cox & Mason, 2007), franchisees are forced to adapt into local features and flexible craft strategies that applied to a better fit of the market and local preferences when facing new opportunities and threats in different territorial areas over time (Dada et al., 2012).

On the contrary, too much empowerment of franchisees to exercise discretion over scarce resources would erode the brand name, making the franchisor lose control over franchise operations. The franchisor, therefore, has low tolerance of a franchisee departing from the franchise agreement (Dant & Gundlach, 1999). As the resistance and dissatisfaction over the constraints on autonomy and independence increase, franchisees will possibly deviate from the will of the franchisor. This will then lead to growing conflict, mutual dissatisfaction with performance, and eventually will ruin the relationship to some extent (Baucus et al., 1996; Phan et al., 1996). In general, the source of discord in the franchise system is between the franchisor who seeks standardised corporate operations and the franchisee who looks to adapt when standardisation creates sub-optimal market outcomes (Kaufmann & Eroglu, 1999; Michael, 1996).

Secondly, the risk of unethical practice arises because an ex-ante franchise contract will never identify all possible contingencies with clear rights and obligations (Williamson, 1979). Intentional violation of the franchise contract between franchisor and franchisee makes the situation worse (Spinelli & Birley, 1996). On the one hand, franchisors may fail to meet obligations after collecting the franchise fees, such as stopping providing ongoing functional guidance, practical support, training and other services. On the other hand, franchisees may free ride on the franchise brand without paying franchise fees in a specified period or providing non-standard products or services. By using fake or unapproved logos, non-franchisees could even damage the reputation of a registered trademark.

Thirdly, franchisor and franchisee are expected to possess certain resources and know-how before establishing franchises. Franchisors who have insufficient local knowledge may initiate a franchise without having a proven operational system, and franchisees who are inexperienced cannot protect the quality, safety and resources of the franchise. Although franchising makes running a business easier, franchisees are responsible for the business routine, and ultimately the success and failure of the outlets (Alon et al., 2015).

Nevertheless, not many franchisees have a comprehensive understanding of franchising or are able to appreciate its success factors (Hackel, 2010).

Therefore, specific skills, attributes (e.g. challenge seeking, business risk-taking, perceived innovativeness, commitment to the business, and desire for personal success), and resources are required before starting or buying

franchising (Jambulingam & Nevin, 1999; Dant et al., 2013; Watson et al., 2016).

Lastly, an unbalanced relationship between franchisor and franchisee undermines their confidence in franchising (Doherty et al., 2014). Franchisees become more qualified and confident in their capabilities from running daily business chore over time. After departing from the position of knowledge disadvantage, franchisees tend to become frustrated with the franchisors' goals (Baucus et al., 1996), because they see less value from the franchisor. Eventually, the intricate franchise relationship will foster the divergent views between franchisor and franchisee and potentially create operational issues (Hossain & Wang, 2008). Table 2-1 below summarises these advantages and challenges of franchising.

Table 2-1: Pros and Cons of Franchising

	Franchisors	Franchisees
Advantages	<ul style="list-style-type: none"> • Large-scale expansion with shared risks • Expand business scope with less effort • Low-cost expansion with less capital 	<ul style="list-style-type: none"> • Less risk: <ul style="list-style-type: none"> (i) proven business model (ii) on-going support (iii) goodwill of brand image (iv) access to finance • Economies of scale
Challenges	<ul style="list-style-type: none"> • Incompatible incentives <ul style="list-style-type: none"> • Unethical practices • Inadequate skills, attributes and resources <ul style="list-style-type: none"> • Intricate franchise relationship 	

To sum up, franchising is a potential win-win strategy for franchisor and franchisee to reduce risk and share resources and capabilities. On the one hand,

franchising is a large-scale and low-cost way of expanding for the franchisor; on the other hand, buying a franchise is a quick way to set up a business with a reduced risk for the franchisee. The four challenges revealed above show the difficulty of establishing franchising, as well as issues when becoming a franchisee. Agency theory can be employed to illuminate the incompatible incentives and ethical issues between franchisor and franchisee, but not all the challenges. Therefore, the following section will illustrate the core concepts and concerns related to agency theory. Insight from the resource-based perspective, relational view, and *guanxi* ties will be supplemented to explain the remaining challenges in terms of unqualified actors and intricate franchise relationships.

2.3 Theoretical background

In spite of the importance of franchising, the literature and theories of this business activity appear vague and incomplete. The variation of franchise performance has drawn the attention of many researchers. A number of theories in management and business have been applied to explain the reasons for the variations. As noted above, many researchers look toward agency theory, which has dominated the franchise literature, focusing on the consequences of the conflict between franchisor and franchisee (Doherty & Quinn, 1999; Castrogiovanni et al., 2006; Perdreau et al., 2015). Others have focused on franchisees as autonomous entities and explored their internal resources and capability using the resource-based perspective (Barney, 1991; Chien, 2014; Gillis et al., 2014). Recently, inter-firm relationships have also led researchers to go beyond the internal resources in franchising and take a

relational view that supplements the resource-based perspective (Dyer & Singh, 1998; Gorovaia & Windsperger, 2013). The relational view, which is focused on explaining the quality of the relationship between the involved parties, is thus integrated to examine franchise performance (Harmon & Griffiths, 2008; Castrogiovanni & Kidwell, 2010). These three leading theories, namely agency theory, the resource-based perspective, and relational view, are discussed below to examine the influential factors in franchise performance.

2.3.1 Agency theory

Being frequently used in explaining the relationship between principals and agents, agency theory has been widely applied in the context of franchising (Brickley et al., 1991; Doherty & Quinn, 1999; Barthelemy, 2011; Gonzalez & Solis, 2012; Perryman & Combs, 2012; Doherty et al. 2014). The franchise phenomena will be looked at first in the light of agency theory.

Origins of agency theory

As the main theoretical basis of agency theory, transaction cost economics (TCE) provides theoretical insight into getting the governance right to minimise costs (Dyer, 1997; Williamson, 1981). There are three forms of organisational governance for completing a set of transactions: (i) market, (ii) hierarchy, and (iii) hybrid. In accordance with David and Han (2004), different forms of governance are supported by diverse contracts and employ particular control systems. Market governance depends on prices, competition, and contracts to keep the exchanging parties informed of the rights and obligations.

Conflict and disagreement are ruled by classical contract where the formal terms overtake informal relationships. At the opposite end, hierarchical governance brings parties to exchange under the direct control of one side (Williamson, 1975). Hybrid governance lies in the middle where parties in the transaction maintain autonomy, supported by neoclassical contracts, which are more “elastic” and adaptive than the classical ones (Powell, 1990; David & Han, 2004). Overall, transactions with different attributes align with governance structures with different costs. However, economic actors will choose the form of governance that mitigate the potential exchange problems at the lowest cost. To be specific, the market governance structure is preferred when (i) bounded rationality is expected to be low; (ii) opportunism is expected to be low; (iii) asset specificity is expected to be low; and (iv) environmental uncertainty is high. Hierarchy governance structures are preferred when the inverse of these conditions apply (Williamson, 1981). The hybrid form is preferable for moderate levels of these factors and gives the firm more flexibility than either the market or hierarchy option (Ghoshal & Moran, 1996).

With the assumption that actors are pursuers of self-interest with bounded rationality, agency theory relies on a transaction cost perspective (Dyer, 1997), in which the key thought is to minimise agency costs. The principal is the one who empowers someone to act as his or her representative, and the agent is someone who is given the authority to act with the assigned responsibilities. Therefore, classic agency theory is based on the statement that the principal delegates tasks to the agent to be completed on behalf of the principal on a

daily basis. The principal-agent relationship is an agreement, in which the principal is expected to behave as promised in the manner of the predefined contract, while the agent is also asked to act in good faith reciprocally even under uncertainty (Jensen & Meckling, 1976). Typical forms of principal-agent relationship include shareholder and management, employer and employee, market and broker, clients and attorney, and so on. One classic agency problem, for example, is that directors are likely to make decisions that are good for them instead of for shareholders, with the gap between them seeming to widen as companies grow.

Agency theory provides critical insights on why system-wide control can improve performance (Fong & Tosi, 2007). Formal contracts, black and white, are often used to prevent opportunism in arm's-length market transactions, especially in Western economies (Jensen & Meckling, 1976). A legal contract specifies the desired outcome and behavioural benchmarks that provide the foundation for subsequent interactions. Normally, in order to sanction the opportunistic trading partner, it will stipulate the obligations of each party (Tao & Zhu, 2001). However, a strict contract cannot cover all eventualities and is costly to write and enforce in practice. Hence the agency problem is inevitable.

Drivers of the agency problem

There are three major causes of agency problems: (i) monitoring costs; (ii) divergence of interests; and (iii) information asymmetry.

Firstly, the principal cannot perfectly and costlessly monitor the actions of the agent and vice versa. Agents may pursue self-serving behaviour that deviates

from the interests of the principal. To prevent opportunism and other moral hazard issues, the role of monitoring has great social and economic significance (Eisenhardt, 1989a). However, the ongoing monitoring by the principal is imperfect (Shapiro, 2005) because much evidence shows that the use of control mechanisms may negatively impact the emotions of the controller-controlee relationship. For the controller, a jaundiced view of the controlee is developed; for the controllee, personal autonomy and intrinsic motivation are threatened (Ghoshal & Moran, 1996). Commonly, it is impractical for the principal to compel the agent to make appropriate decisions at zero cost (Jensen & Meckling, 1976), so the unethical practices cannot be solved simply.

Secondly, in line with TCE, egoistic actors pursuing personal economic while sacrificing long-term economic efficiency is the underlying reason for the failure of organisations (Williamson, 1985; Ghoshal & Moran, 1996). The interests of the principal and agent typically diverge under the assumption that both parties are utility maximisers who intend to maximise their own economic interests. Agency theory assumes the agent may act as a free-rider with guile and probably not always act in the best interests of the principal but take advantage of the principal. The agent will even do things contrary to the principal's desires to protect himself or herself from the risk of misbehaviours because engaged in different attitudes toward risk, and the principal is more likely to transfer the risk to the agent (Shapiro, 2005).

Thirdly, principal and agent cannot acquire the complete information available to or possessed by the others. In particular, the principal would have trouble in

determining if the agent has behaved as agreed or acted in accordance with the interests of the firm due to information asymmetry and may be threatened by the agent who is shirking, cheating, and unwittingly affecting the principal's welfare (Shapiro, 2005). Correspondingly, the divergence of the agency relationship exists when the actors, either principals or agents, are insincere or disguise attributes or preferences, and confuse transactions (Sharma, 1997; Jensen & Meckling, 1976). The principal also has the incentive to hide a series of one-way messages to the agent.

The three reasons revealed above explain why the delegation of decision-making authority from a principal to an agent is problematic. As the agent has the incentive as well as the techniques to conceal and misrepresent the actual outcomes reported to the owner, the principal will tend to regard the agent's actions as imperfect and not aligned with their desires. Generally, the pre-contractual (i.e. adverse selection) and post-contractual agency problem (i.e. moral hazard or opportunism) employ a very different approach. The principal can find the appropriate agent via selection and screening prior to the establishment of the relationship. To correct such behaviour, the latter issues can be resolved through monitoring and bonding after engaging in the agency relationship (Fama & Jensen, 1983). The agency issues in franchising associated with potential solutions will be then illustrated as follow.

Agency theory in franchising

Following agency theory, the franchisor is viewed as the principal who delegates the work, while the franchisee is regarded as the agent who uses the franchised brand to distribute products or services on behalf of franchisors.

Likewise, the franchise relationship is proposed as an agency relationship (Lafontaine, 1992). In line with the section above, the manifestation of agency problems in the franchising context includes undesirable monitoring costs, opportunistic behaviours, and asymmetric information between franchisor and franchisee.

First of all, in order to establish and secure a favourable position in the consumer's mind, the franchisor designs franchising standards to control the deviations of franchisees and ensure the consistency of franchise performance (Kaufmann & Eroglu, 1999). However, the standards may be difficult to maintain in practice because of the inefficiency of control mechanisms, especially when the substantial cost of monitoring and obtaining information exceeds the marginal gains (Snell, 1992). To be specific, the cost of monitoring in franchising is attributed to the distance of personal connection, asymmetry of information and division of labour, particularly when the units are physically dispersed over a wide region. Managerial actions are also frequently unobservable (Shapiro, 2005). The difficulty in distinguishing the shrinking of franchisees increases the agency cost (Saraogi, 2009). However, franchisees in a trusting franchise relationship are more cooperatively and less opportunistically. The interaction between franchisor and franchisee thus is likely to reduce the monitoring cost (Saraogi, 2009) and mitigate the risk of further conflicts (Batjargal, 2004).

Secondly, the divergence of interests between franchisor and franchisee increase the likelihood of unethical practices. For franchisees, their financial incentive of acquiring residual profit after paying for the franchise fee

encourages franchisees to pursue their own individual welfare rather than maximise the firm value (Jensen, 1986; Lutz, 1995). Simply speaking, franchisees attempt to employ entrepreneurial initiatives and adjust to their personal benchmarks for quality in response to the local market. The contract thereby becomes inefficient. Furthermore, franchisees even indulge in capitalising the franchisor's resources to enhance their own interest (Jensen, 1986; Cox & Mason, 2007). They tend to free ride on the franchised brand to enhance personal advantage, bringing on quality deterioration and trademark erosion. The rationale is that each franchisee can benefit from the franchisor's reputable brand while reducing the costs by shrinking the quality of the product its deliveries without bearing the full consequences of doing so (Brickley et al., 1991; Kidwell et al., 2007). In order to mitigate the opportunism with a franchise system, prospective franchisees with incompatible incentives and undesired behaviours can be identified and weeded out early at the stage of selection.

Thirdly, information asymmetry is also a common issue in the franchise system. Franchisors have reasons to withhold the system information from franchisees. For example, franchisors could inappropriately conceal the risk of operation and knowingly overstate the possible profit or their status quo to attract more potential investors (Jensen & Meckling, 1976; Combs et al., 2004b). The inadequate disclosure and misrepresentation of information to franchisees can have a great effect on their decisions. Franchisees who possess the local information regarding the market and customer may also be less forthcoming with the franchisor. They may hide the confidential material from

franchisors to secure their advantageous position (Wathne & Heide, 2000). The table below summarises the manifestation of agency theory in franchising.

Table 2-2: Summary of Agency Theory in Franchising

Drivers	Issues	Potential solutions
Substantial monitoring costs	Ineffective control	Establishing trust
Incompatible incentives	Opportunistic behaviour	Mitigating opportunism
Asymmetric information	Hidden information	Sharing information

Agency theory in China

Agency theory has been widely explained in the West. However, it has been shown that agency theory is not sufficient to understand the dynamics of franchising in China. While agency theory has been widely applied in the franchising context (Doherty & Quinn, 1999; Perryman & Combs, 2012), its shortcomings are clear in China for three reasons.

Foremost, Chinese culture is less individualistic than the West (Hofstede, 1984). Individualism typically emphasises the independence of individuals, the recognition of personal goals, and the protection of personal interests.

Corresponding to the features of principal and agent under agency theory, these assumptions believe that individuals ought to seek self-interest. In contrast, in a collectivist culture like China, individuals internalise the normative obligation of taking care of the achievement of group or others. The group orientation in China is based on beliefs that people need to support each

other mutually (Hofman & Newman, 2014; Chun-Chen & Long-Chuan, 2017). In particular, Confucianism has shaped collectivism in China with strong social expectations of enhancing in-group harmony. Some leading views stemming from Confucianism even govern Chinese attitudes toward social and business relationships today (Huang, 2008). The emphasis on improving collaboration and sustaining a solid interrelated relationship brings us to the second point.

Agency theory analyses are based on the assumption that contracts can explain the franchising relationship and the variance of performance (Castrogiovanni et al., 2006; Perdreau et al., 2015). In China, people prefer to do business with those with whom they have established a strong relationship, instead of seeking collaborative alliances in an open market (Uzzi, 1996). Deeply embedded in every aspect of Chinese organisations, *guanxi* (often labelled as social connections) have been seen as the building blocks of Chinese society, in which people make efforts to cultivate and sustain these personal ties throughout their life (Lee et al., 2001b). These intricate and pervasive ties weigh more heavily than legal contracts in China compared with western countries (Burt & Burzynska, 2017).

Finally, the contractual relationship between transacting parties in China is expected to be long-term, complex, and uncertain (Williamson, 1979; Leblebici & Shalley, 1996). Even being protected by the formal contract, imposing an informal contract such as relational forms of governance may result in better contract enforcement, particularly in China where formal institutional constraints such as laws and regulations are implicit (Peng &

Heath, 1996; Cochet & Garg, 2008; Bostan et al., 2016). So, the contract in China possesses more of a sense of moral obligation that draws on personal networks. Agency transitions in China and other territories with a relatively high degree of institutional uncertainty typically turn to the social interaction that formed and bonded based on the structural interaction (Park & Luo, 2001). This strategic resource fosters the competitive advantage and lessens the external dependence. Therefore, adaptations to agency theory based on cultural context are needed to make contributions to understanding franchising.

Agency theory has been employed to describe some of the franchise phenomena. However, it is still cannot explain the emergence of the remaining challenges adequately, namely inadequate skills, attributes, and resources and intricate franchise relationship as mentioned earlier. In the following section, the limitations of agency theory, particularly in the context of China, will be addressed.

Gaps in using agency theory in franchising

Analysing franchising using agency theory gives great insights. However there are gaps, in particular: (i) agency theory helps to explain the dilemma of standardisation and flexibility, but fails to determine the solutions to this dilemma; (ii) potential solutions of agency problems have been raised, but cannot be effectively applied into franchising context; (iii) the franchisor-franchisee relationship has been simply seen as the principal-agent relationship, but such an agency relationship is too narrow to illuminate franchise relationships.

To begin with, the contradiction between standardisation and flexibility has been discussed abundantly in previous studies. Quite a few indicate how to mitigate the conflict employing agency theory. On the one hand, a mature model with standardised frameworks designates what inputs can be involved, how production can be accomplished, and how goods and services can be advertised, secures a solid return for the franchise system (Kaufmann & Eroglu, 1999; Cox & Mason, 2007). The franchisee who agrees to conform to the mainstream of system-wide standards and procedures for local distribution is likely to benefit through cost minimisation, image uniformity, and quality control (Phan et al., 1996; Michael, 1996; Falbe et al., 1999). On the other hand, the result of strictly enforcing uniformity snuffs out the innovativeness and destabilises the relationship in the long term (Dada et al., 2012; Ketchen et al., 2011).

One of the arguments is around what business elements have to be standardised and what can be adaptable. One argument is that the core components, such as company icons, characters, and logos of the system identifiers should not be compromised across the system; whereas the peripheral components can be adapted and modified in response to local demand (Kaufmann & Eroglu, 1999; Cox & Mason, 2007). Another argument is that different franchise structures of standardisation or flexibility can be applied at different stages as the franchise relationship evolves across the life cycle. The tension of standardisation and flexibility becomes clear over time, particularly when the franchise system matures. Initially, young franchisees rely heavily on their franchisors because of information imbalance, power and

hierarchy. Over time, the power shifts from the franchisor to the franchisee, whose expert knowledge expands (Baucus et al. 1996). These scholars make explicit this paradox regarding franchising but fail to work out how to resolve the battle of standardisation and flexibility.

The next point is that although potential solutions of agency problems have been raised in existing literature, few can be applied in a franchise context. In the light of agency theory, in order to mitigate the divergence between franchisor and franchisee, and obtain expected outcomes, the franchisor can control the behaviours of franchisees and employ incentive strategies to align their interests (Zajac & Westphal, 1994; Fong & Tosi, 2007).

On the one hand, agency theory provides critical insights about why franchisees need a longstanding monitoring mechanism by franchisors. Franchisees must agree to oversight by the franchisor before expecting a supported and assisted business environment. That is, they are voluntary to operate the business followed by the instructions and boundaries of franchisors (Christina & Jim, 1997). However, franchisees in pursuit of personal self-determination are likely to operate the business in a way that deviates from the uniform concept of the franchise. The franchisor typically incurs monitoring costs to obtain relevant information concerning franchisees' effort, which is inherently difficult to monitor. Behaviour control, output control, and input control has been proposed (Snell, 1992; Mellewigt et al., 2011). Both franchisor and franchisee are independent entities and make their business decisions (e.g. how well to execute the operating system and staffs, or what price to charge for the product/ service). Control ultimately will strain their

uniformity. That is, the use of control mechanisms itself is costly and imperfect as mentioned above. Furthermore, franchising is a hybrid organisational form (Combs & Ketchen, 1999). Thus, pure control mechanisms are not sufficient to solve the issues in franchising.

On the other hand, franchisor and franchisee may have a disagreement in terms of the franchise structure at different phases due to the separation of ownership. Under the assumption that individuals are self-motivated in pursuing their own economic interests, the principal can reduce the interest divergences, and the aberrant activities of the agent by aligning its incentives with those of the principal (Jensen & Meckling, 1976; Lutz, 1995; Shapiro, 2005). In this regard, sharing the benefits of the franchise brand reconciles the divergence of incentives between franchisor and franchisee.

As a final point, agency theory has a narrow view of the franchise relationship, which is a two-way relationship not simply principal to agent. When thinking of franchising, people focus on the transactional side of franchises, such as contracts and laws (Rubin, 1978; Johnson et al., 1996) rather than a wider concept of the relationship that the franchisor has with its franchisees. The relationship between franchisor and franchisee is not only a contractual partnership but also a social relationship, in which both parties share the benefits and risks (Williamson, 1975; David & Han, 2004). The interests of franchisor and franchisee are not always aligned. Merely exercising control under the franchise agreement is not sufficient, whereas developing a strong relationship encourages franchisor and franchisees to exceed contractually

stated behaviour and jointly engage in activities that boost the franchise value (Kacker & Wu, 2013).

Besides, a franchise relationship is not only inter-organisational exchanges but also interpersonal interactions. The emotional attachment between franchisor and franchisee that grows and shrinks dynamically via transactions over time can be a predominant instrument of commitment building (Morgan & Hunt, 1994). Agency theory provides inadequate consideration on the emotional attachment that accessible in franchise relationship (Lee et al., 2001b).

Furthermore, little is known about the structure of the networks of franchisees. Agency theory assumes that there is no relationship between individual franchisees. In reality, franchisees often ally with each other in certain circumstances because of the advantages of pooling their resources (Gillis et al., 2014). Being different from franchise advisory councils, which only serve as an advisor to the franchise system, a franchisee association is an effective instrument formed by franchisees to protect the economic interests of franchisees. There are many successful independent franchisee associations in western countries, for example, the American Franchise Association (AFA) and American Association for Franchisees and Dealers (AAFD). In China, there were some informal connections between the franchisees in the franchisee sample according to the qualitative research in this study. However, few formal franchisee associations exist in China because many franchisors discourage the development of franchisee associations, or even put pressure on them to avoid 'conspiracy' or play down any benefits their franchisees may gain from joining the association. Based on the three main gaps above, agency

theory cannot fully analyse key issues in franchising, especially in Chinese culture.

Table 2-3 below summarises how much agency theory can describe the franchise issues and the possible supplementary theories that help to explain unresolved issues. As discussed above, the incompatible incentives between franchisor and franchisee and their potential unethical behaviour can be illuminated by agency theory in some circumstances; whereas this theory fails to cover all the possibilities. The challenges of the lack of qualified franchisors and franchisees and the intricate franchise relationship can be elucidated respectively by the resource-based perspective and relational view plus *guanxi* ties as will be shown below. The supplementary theories fill the gaps in applying agency theory to franchising in the cultural in China context will be discussed in the next section.

Table 2-3: Theories in Franchising

Challenges	Whether agency theory works	Supplementary theories
Incompatible incentives	High	-
Unethical practices	High	-
Lacking certain skills, attributes, and resources	Low	Resource-based perspective
Intricate franchise relationship	Low	Relational view <i>Guanxi</i> relationship

2.3.2 Resource-based perspective

In the last few decades, a growing number of studies have concentrated on the significance of resources and their effect on the firm's performance (Combs & Ketchen, 1999). The role of resources in a firm's competitive position on the basis of the resource-based perspective has been seen as one of the most widespread theories in a strategic management perspective and has aroused much attention from the scholars (Rouse & Daellenbach, 1999; Newbert, 2007). According to Barney (1991), valuable, rare, imperfectly imitable, and non-substitutable (VRIN) resources can sustain competitive advantages and enhanced firm performance in the long term.

Resources are the antecedents of production, and ultimately performance, so the variation of the firm performance emerges from the firm's resources. Thus, a firm's resources and capabilities tied to the firm will be the sources of outperformance (Peteraf, 1993). A resource-based perspective helps to clarify the result of developing and deploying idiosyncratic resources from the inside to gain competitive strengths of the business (Wernerfelt, 1984). This view deems that firms in the same industry have heterogeneous positions because of the usefulness of available resources.

Types of resources

Franchising is an option for firms when they desire to expand in the face of the restriction on resources, characterised by the unavailability of tangible assets, personnel, and information (Oxenfeldt & Kelly, 1968). Given these limitations, resources can be categorised as (i) physical resource that is traded by the firm,

(ii) human resource that produces products and services within the organisations, and (iii) organisational resource (Barney, 1991).

Physical resources refer to both tangible and financial assets. They comprise plant and equipment, geographic sites, information technology, and financial instruments (Barney, 1991). Edens et al. (1996) proposed that a sound financial base reduces the uncertainty of franchising. Ranging from thousands to millions of dollars, franchise fees are financial capital and a fundamental measure of qualified investors and their ability to purchase. Other physical resources, such as raw materials have significant effects on the profitability and success of franchises due to its role in cutting costs and improving quality (Dant & Nasr, 1998; Huang et al., 2007). These physical resources provided by the franchisor add value for franchisees (Baucus et al., 1993; Preble & Hoffman, 1998) by creating economies of scales in purchasing, saving search time, increasing the speed of reaction, and reducing supply uncertainty (Watson & Stanworth, 2006). Capitalising on these advantages, franchisees will have a lower probability of failure (Michael & Combs, 2008). What is more, maintaining such physical resources decrease the cost and price sensitivity of franchisees, making their operation efficient and competing effectively against rivals (Combs et al., 2011), ultimately leading to superior performance (Morgan & Piercy, 1996).

Human resources of the enterprise comprise experience, intelligence, insights of individuals, and social relationships (Barney, 1991). Many researchers have emphasised that human resources play a vital role in leading the firm to outperform rivals in the perspective of the resource-based view (Barney, 2011;

Crook et al., 2011; Hatch & Dyer, 2004). As a source of competitiveness (Coff, 2002), human resources in franchising cover knowledge, education, experience, and managerial capabilities.

Knowledge embedded in human resource has been considered as one of the most widely accepted resources that meet the criteria of VRIN (Grant, 1991; Crook et al., 2011; Coff, 2002). System-specific knowledge, a competitive advantage in a franchise system, is difficult for an outsider to acquire or replicate leading the franchise to superior performance (Gorovaia & Windsperger, 2013). Knowledge is either explicit or tacit. Explicit knowledge refers to “know-what”, which is typically acquired and accumulated from formal documents, educational institutions, and the processes of training. Tacit (or practical) knowledge is “know-how”, non-codified understanding and internalised information, derived from experience in a real context (Davidsson & Honig, 2003).

Explicit knowledge seems easier to understand, transfer, and store in comparison with action-oriented tacit knowledge, which is hard to formalise and communicate. The franchisor uses operation manuals to codify explicit knowledge, such as the franchise proposition to franchisees (Barthelemy, 2008). Easily imitated explicit knowledge in the context of franchising can hardly be categorised as a source of competitive advantage. However, tacit knowledge, embedded in franchising is valuable and inimitable (Lam, 2000). As will be shown below, face-to-face training is commonly used to transfer tacit knowledge, such as highly practised skills and routines that are difficult to formalise.

Explicit knowledge can be gained through general *education* or specific *training*, which are also viewed as two relevant features of human resources. Education has a positive relationship with organisational outcomes by determining the acceptance of knowledge/ skills, the ability of problem-solving, the understanding of business values, the application of policy rules, the level of motivation, and the degree of self-confidence, etc. (Cooper et al., 1994; Reuber & Fischer, 1997; Kuckertz & Wagner, 2010). Although the accumulation of knowledge through formal education increases the cognitive abilities and strategic decisions of franchisees (Davidsson & Honig, 2003), the impact of education level in franchise performance is not clearly known and so will be examined further in this thesis.

Lack of explicit knowledge probably prohibits establishing a start-up, while training breaks down the barriers of market entry for prospective franchisees (Frazer, 2001). With increased skillset, motivation, and productivity (Choo & Bowley, 2007), well-trained franchisees will improve overall performance (Choo & Bowley, 2007; Choo & Bowley, 2007). As one of the key elements in franchising (Bennett et al., 2010; Combs et al., 2011), training facilitates the franchisor to transfer specific knowledge, such as the culture of an organisation, the techniques of business management, and the resources of marketing to franchisees (Gorovaia & Windsperger, 2013; Combs and Ketchen, 1999). Additionally, to exert control over franchisees (Paik & Choi, 2007), training focuses on standardising operating procedures via coaching those beginners who are unfamiliar with operations to perform tasks properly.

The investment in continuous training thereby increases the probability of survival (Davey-Rafer, 1998; Michael & Combs, 2008).

Deeply rooted in an individual's action, tacit knowledge can be gained through *experience*. Experience is another frequently used feature of human resource (Felicio et al., 2014a). As a criterion of evaluating and selecting prospective franchisees (Unger et al., 2011), prior work experience, especially previous experience in the same industry, has a positive effect on performance in terms of the probability of survival and firm growth (Wiklund & Shepherd, 2003) or profitability (Ortiz-Walters & Gius, 2012). Consistent with Jambulingam & Nevin (1999), in the franchising context, franchisees with prior self-employment experience, particularly those who acquire experience in the local market attain long-term success by applying their experience and knowledge in monitoring diverse functions and the market (MacPherson & Holt, 2007; Dant & Gundlach, 1999).

It is difficult to express and communicate tacit knowledge. Transferring tacit knowledge requires close interaction and involvement with a knowing subject to create a shared understanding (Lam, 2000). However, explicit knowledge can be internalised as tacit knowledge in the form of shared models or technical know-how through practice. The conversion of tacit knowledge to explicit knowledge is a circle (Nonaka & Takeuchi, 1995). The franchisor can make the tacit knowledge transmittable through the training process.

Knowledge such as how to make a hamburger can be codified or diagrammed in an operation manual and used as explicit knowledge. However, some of the operational aspects, such as how to network with customers, cannot be

codified easily. In this regard, the managerial capability at an individual level probably will ensure the consistency of operation.

Managerial capabilities serve as specific human resource, positively affects the outlet profitability (Ortiz-Walters & Gius, 2012). Accordingly, managerial capabilities could be one of the central resources that franchisees bring to the franchise system. It allows franchisees to manage and coordinate operations, execute strategies, motivate the staffs, develop programs effectively (Jambulingam & Nevin, 1999; Combs et al., 2011). In a franchise system, an individual franchisee is responsible for the unit performance and every activity in the outlet (Fenwick & Strombom, 1998; Peris-Ortiz et al., 2012), such as to monitor the routine activities, allocate resources, delegate and manage employees (Chandler & Hanks, 1994). Possessing managerial capabilities or acting in a managerial role, thereby is demonstrate an active influence on franchise performance (Chandler & Hanks, 1994).

Organisational resources are referred to as the structures, processes, and systems in organisations, which permit the flow of information and motivate organisational members (Andrews, 1971). According to Barney (1991), organisational resources include the formal reporting structure, planning, controlling, coordination and management systems, and informal relations within a firm and in its environment. Others add *social capital* to these more internal organisational resources (Moran, 2005). Unlike physical resources, social capital is more difficult to transfer from firm to firm and not as mobile as human resources. Therefore, tightly bound up with the organisation, social capital is best seen as part of organisational resources.

Social capital generates a wide range of benefits as the sum of actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or organisation (Nahapiet & Ghoshal, 1998). As a supplement to other resources, social capital in a franchise system improves resource sharing and mitigates competitive threats. As a focal channel through which knowledge flows formally or informally, the interpersonal connections with their customers, friends, acquaintances, and other franchisees allow franchisees to perform more effectively. Through obtaining access to a broader set of new useful links, such as distribution channels, information and resources (Liao & Welsch, 2003; Pirolo & Presutti, 2010), these relationships allow franchisees to connect with valuable contacts, earn innovative information, seize market opportunities, and enter into a new market segment (Patel & Terjesen, 2011). In line with the relational view, which will be discussed in the next section, managing good relationships are rewarded by gaining access to extra resources (Granovetter, 1992).

Social capital in franchising contains the business acquaintances, networks, relationships and connections, both internal and external to the franchise system (Griffith & Lusch, 2007), practically affects access to customers. A recognised brand name is in favour of the success of franchising in the short term (Hormiga et al., 2011), while loyal customers who feel pleased to recommend the franchise and repeat their purchases have a great impact on the long-term success (Chien, 2014). Forming links with those who acquire good experience within the franchise network increases the chance of accessing potential customers. As franchisees in distributed markets own their personal

networks (Acquaah, 2007), the relationship with customers plays an important role in acquiring competitive advantages, because it is hard for competitors to imitate the social capital embedded in interpersonal relationships (Barney, 1991; Yli-Renko, Autio & Sapienza, 2001).

Few establishments can own a rare physical resource, and competitors may have difficulty in buying or imitating the human resources, and hard to find an equivalent strategy to substitute the social resources (Barney, 2001). In this regard, the resources elaborated above enable the franchise to apply strategic improvement regarding efficiency and effectiveness. However, the resource-based perspective is built on a vision of an organisation's internal resources, while lacking a more profound outlook of external resources outside firms. Franchising is a pooling of resources between two 'owners' who share the pooled resources. The competitiveness of a franchise system not only stems from the internal resources of franchisees but also relies on the franchisor's sources of advantage. On the one hand, franchisees always capitalise on the resources pooled by the franchisor. On the other hand, the franchisor needs resources such as local knowledge and managerial capabilities and even takes advantage of potential franchisees to expand the business in diverse markets. That is, the success of the franchise relies on the combination of resources between franchisor and franchisee. The franchisor-franchise relationship thereby embodies a partnership conducted as a form of both resource exchange and relational exchange.

Pooled resources

In a partnership, a unit is likely to be motivated to choose other units with specialised resources that are closely complementary but partly dissimilar (Tsai, 2000; Harrison et al., 2001). Gaining access to pooled resources makes it possible for the partners to leverage economies of scale, develop new competitive advantages, create business value, and achieve synergies in the partnership (Harrison et al., 2001). Franchising as a network of active and heterogeneous firms are formed by the motivations of sharing the cost of investment, spreading the risk of operation, and most significantly pooling the access of pooled resources (Wu et al., 2014). The resource profile plays an important role in the involvement of a franchise system because franchisor and franchisee can access each other's resources in the franchise relationship. Neither franchisors nor franchisees have all the resources and capabilities needed to achieve their objectives. By entering into this inter-firm relationship, the franchisor's pooling of resources with franchisees creates synergy and generates greater rents (Harrison et al., 2001).

In a relational view, the provision of pooled resources in a franchise system enables both franchisor and franchisee to render better performance (Dyer & Singh, 1998; Ireland et al., 2002). On the one hand, the franchisor provides resources such as brand reputation, raw materials, and economies of scale for franchisees; on the other hand, franchisees who are familiar with the local market support the franchisor with adaptations (Combs et al., 2004a).

Engaging in a franchised business allows both parties to overcome the scarcity of resources, pool combined resources, and maximise the value of their

resources (Combs et al., 2004a). Hence, the resource-based perspective helps to explain how to address the challenge of lacking certain skills, attributes, and resources mentioned above.

The ultimate purpose of establishing franchising is to access, integrate, and leverage partners' resources. Lack of access to resources makes new franchisees particularly prone to failure (Brass, 2004), as does the lack of stable exchange relations (Gulati et al., 2011). Through their network, both franchisor and franchisee access the resources and capabilities of their counterparts. Therefore, building inter-organisational networks and nurturing ties within the franchise system are important for a long-term and profitable relationship (Wu et al. 2014).

2.3.3 Relational view

The competitiveness of a firm not only depends on its internal resources but also comes from the inter-firm sources of advantage (Combs & Ketchen, 1999). As possessing all essential resources for an individual unit is challenging nowadays, many small firms make efforts to enhance their competitive position by engaging in a relationship with other establishments and leveraging their resources, particularly in franchising (Dyer & Singh, 1998). The relational view emphasises creating relationship values via the exchange between partners, alignment of incentives that encourage transparency and reciprocity, and provision of synergic resources. Striving to form lasting collaborative relationships that create and expand value with partners, collaborating firms can generate much greater and more valuable

relational rent than an individual business can achieve on its own. Stemmed from the combination and exchange of idiosyncratic resources, the relational rent is determined by relationship-specific assets, knowledge-sharing routines, complementary resources, and effective governance.

To study cooperative business forms such as franchising, the relational view, as an extension of the resource-based perspective, focuses on resources embedded in dyadic and network relationships, which are crucial sources of superior performance (Ireland et al., 2002). The inter-organizational cooperation in franchising improves the available resources to both parties by sharing resources in a partnership (Dyer & Singh, 1998). Based on mutual interests and benefits, the relationship or social connection between franchisor and franchisee overcomes resource constraints that limit the fast growth of franchising.

Strong vs. weak ties

The structural dimension and the relational dimension are the two classifications of the relational network. The structural dimension highlights the configuration of the network, that is the presence or absence of networks between actors (Liao & Welsch, 2003; Pirolo & Presutti, 2010). In the relational dimension, content in relationships, such as types of relationships and strength of ties in a network are emphasised (Claro & Laban Neta, 2009).

The role of the relational network appears to permeate the world of business (Park and Luo, 2001; Carpenter & Jiang, 2012), categorised into (i) strong ties and weak ties from the perspective of network *strength*; and (ii) interpersonal

and inter-organisational (e.g. business-to-government [B2G] or business-to-business [B2B]) transitions from a network *content* standpoint at micro and macro levels respectively (Peng & Zhou, 2005). The explanation of different types of ties are discussed below:

Develop by frequent communication, substantial interaction, intimate exchange, and open reciprocity (Batjargal, 2003), *strong ties* bring two significant advantages in both individual and organisational perspectives. One is to facilitate the exchange of high-quality information and tacit knowledge (Powell, 1990); the other is to facilitate cooperation to lower the probability of opportunism when facing exceptional environments (Granovetter, 1985). In strong ties, for example, in a two-way relationship between franchisor and franchisee, information transmitted through tacit knowledge is perceived to be more trustworthy and effective (Granovetter, 1992; Pirolo & Presutti, 2010). However, even when constrained to a manageable size, it takes time and effort to maintain strong ties. The potential transaction opportunities with other connections are limited. Therefore, firms tend to move to weak-tie-based transactions with a developed legal structure that regulates business transactions.

As an effective approach for accessing information sources and exploring new knowledge, *weak ties* tend to be more wide-ranging, less redundant, and thus better able to bridge structural holes (Granovetter, 1973; Burt, 1992). The two advantages of weak ties are: (i) less time, money, and energy to maintain; and (ii) excel at connecting with distant contacts accessing heterogeneous information and business opportunities (Granovetter, 1973; Peng & Zhou,

2005). Hence, weak ties are vital for individuals and organisations who seek crucial knowledge for market competition (Uzzi, 1996; Peng & Zhou, 2005).

Both strong ties and weak ties are believed to be significant determinants of firm performance. In a franchise system, the friendship and family relationships of franchisees represent strong ties; while weak ties include distant and loose relationships with their customers (Batjargal, 2003). These social ties facilitate knowledge sharing. Specifically, strong ties facilitate the transmission of more complex knowledge, while weak ties are appropriate for less complicated knowledge (Tsai, 2001). In the perspective of a relational view, strong ties indicate the intensity and extensiveness of personal bonds among actors, characterized by trust, common norms and a sense of obligation (Dyer and Singh, 1998). Therefore, strong ties will provide better access for the business cluster to share resources; while weak ties encourage innovation by offering a diversity of resources (Zane & Decarolis, 2016).

Once the franchisor gets access to critical resources and gains the ability to convert these resources into business-enhancing competencies, its affiliated franchisees are more likely to outperform through the deeper and carefully coordinated franchise relationship. With the support of the franchisor, franchisees are expected to reciprocate via a shared perception of pooled resources to reinforce a stable and permanent inter-firm partnership with their franchisor. However, the lack of stable exchange relations can cripple the willingness of interflow between franchisees and franchisors (Casciaro & Piskorski, 2005). Furthermore, the relationships with other actors, for example, customers, suppliers, and rivals are considered as potential competitive

advantages that improve a firm's economic outcomes. Embedded in the social context, the ability to take advantage of the firm's external links (Lee et al., 2001a), personal networks (Ostgaard & Birley, 1994), and networking relationship (Gulati, 1999) thereby have a significant effect on the firm's performance.

Dimensions of franchise relationship quality

A partner's undesirable behaviour cannot be predicted perfectly via a formal contract in a franchise system. In a relational exchange (Watson & Johnson, 2010), the behaviour of franchisees is based mainly on their social interactions with the franchisor rather than contractual provisions (King et al., 2013). A franchisor thus involves franchisees in relational forms of governance to resolve conflict (Cochet & Garg, 2008). The perception of the value of a franchise relationship affects the behavioural outcomes directly (Chen, 2011) so that the quality of the franchise relationship is critical to franchise performance.

The constructs of franchise relationship quality, such as trust, satisfaction, cooperation, conflict and opportunism have been assessed in recent studies (Dada, 2020). While trust is pervasive in organisational relationships, its combination with the absence of opportunism and information sharing is critical in franchising. As discussed above in Table 2-2, the possible agency issues in franchising result in ineffective control of franchisors, opportunistic behaviour and hidden information by franchisees. The quality of the interaction becomes a critical factor for the successful operation of franchising. Establishing trust, mitigating opportunism and sharing information are

designed to solve the three issues above. Therefore, three corresponding drivers of relationship quality can be identified: (i) trust, (ii) absence of opportunism, and (iii) information sharing.

Built on *trust*, stable, a continuous, and intricate relationship benefits the partners mutually with financial and non-financial consequences (Harmon & Griffiths, 2008). Strong relationships develop through mutual honouring of reciprocal transactions (Gulati et al., 2000). In the real business world, people are expected to reciprocate with each transacting party in order to improve the extension of benefit (Uzzi, 1996; Coleman, 1988). Specifically, the higher the degree of trust between members, the higher the confidence of being paid back after helping. Trustworthiness will be damaged if one party neglects the obligation of paying back, and probably will lose reputation or eventually be removed from the shared network by the members.

As a precondition for superior performance and competitive success (Barney & Hansen, 1994; Eser, 2012), trust in a relationship not only leads to the interaction and coordination between parties (Harrison et al., 2001) but also reduces uncertainty (Merrilees & Frazer, 2006). Trust can be distinguished as inter-personal and inter-organisational levels of trust (Zaheer et al., 1998). Interpersonal trust depends on the direct interaction between the specific individuals. In contrast, inter-organisational trust is based on the other party's actions and decisions that affect the relationship (Croonen & Brand, 2013). In terms of mutual benefit, inter-organisational trust protects the entire network by increasing the costs of malfeasance (Larson, 1992). This thesis looks at both the interpersonal level and inter-organisational level of trust in the franchise

system. In a franchise context, the level of trust of the franchisor by the franchisee and vice versa may not be equal. If the franchisor trusts the franchisee, then there can be less control. If the franchisee trusts the franchisor, then there will be less opportunism. This will be discussed further when hypotheses are developed below.

As a positive belief of one party concerning the likelihood that the actions or consequences of another will be satisfactory, trust is in a sense an antidote to the issues identified by agency theory (Margarita et al., 2018). The webs of trusted connection that reduce uncertainty and opportunism while improving the arm's-length transactions to generate close-knit collaborations (Larson, 1992), so those who commit to relationships think highly of trust (Jeffries & Reed, 2000). In the context of a franchise, a franchisee is likely to be convinced of franchisor's capability and integrity with consolidated trust, which in turn reduces opportunism and enriches tacit social cooperation going beyond the formal contract (Morgan & Hunt, 1994). Strong franchise relationship thereby is heavily depending upon the significant manifestations of trust, which attenuates anxiety of small deviations from expectations of franchisor and franchisee (Dant et al., 2013).

A second driver of franchise relationship quality is the *absence of opportunism*. Opportunism is commonly defined as behaviour that is self-interest seeking with guile, which is described as "lying, stealing, cheating, and calculated efforts to mislead, distort, disguise, obfuscate, or otherwise confuse." (Williamson, 1975; 1985). Opportunistic behaviours in the franchising context include disguising attributes or preferences, withholding

heterogeneous information, misrepresenting financial data, distorting transactions, obfuscating terms, and breaching the franchise contract, intentionally, etc. (Anderson, 1988). Opportunism can be categorised into active opportunism and passive opportunism (Wathne & Heide, 2000). Active opportunism engages in behaviours that are explicitly or implicitly forbidden. Franchisees who deliberately lie or misinterpret material fact (Wathne & Heide, 2000) are one practical example. Passive opportunism takes the form of shirking (or purposely withholding effort) and evasion of obligations. The unwillingness to comply with the franchisor's quality standard and inflexibility in adapting to new circumstances are manifestations of passive opportunism.

Arising from the divergence of objectives (Larson, 1992; Larson & Starr, 1993), opportunistic behaviours between franchisor and franchisee may wilfully and deviously harm each other. From the franchisor's standpoint, franchisors may behave opportunistically by encroaching on franchisees' markets, obfuscating internal information, terminating the contract with franchisees unethically, and so on (Gassenheimer et al., 1996). However, franchisees are not the only party which could be cheated, as franchisors may also be victims of opportunism. From the franchisor's standpoint, franchisees are portrayed as myopic individuals (Norton, 1988b) who manifest less initiative, self-reliance, and competitiveness than the franchise requires (Gassenheimer et al., 1996). In pursuit of their own entrepreneurial inspirations, franchisees engage in opportunism by misrepresenting revenues, withholding royalties, resisting innovations, etc. (Baucus et al., 1996). Although quality shirking produces an immediate benefit in the form of cost-

saving, in the long-term reducing product quality creates customer dissatisfaction, harming the franchise reputation, and lowering the revenues of both the franchisor and other outlets (El Akremi et al., 2011).

Consistent with TCE theorists, the presence of opportunism erodes both wealth creation and distribution by exposing the exchange partners to several risks. These include the risk of shirking or limiting contributions, misrepresenting the quality or value of their resource contribution, and extracting more benefits from the exchange relationship than their share (Kowtha, 1997; Alchian & Woodward, 1988). The absence of opportunism within a franchise system thereby mitigates these challenges and fosters a long-term franchise relationship.

The third driver in determining the franchise relationship quality is *information sharing*. Among the three types of information sharing in the partnership, operational information sharing leverages economies of scale and expertise across organisations. Tactical information sharing flows the management activities by improving the quality of the decision, and strategic information sharing arises when information shared by a group of members can generate greater strategic values than possessed by individuals (Seidmann & Sundarajan, 1997).

Regarding the importance of information sharing, firms are able to enhance effective knowledge flow and minimise informational asymmetry (Podolny, 2011; Gulati et al., 2011). In addition to the actual product or service, franchisees are expected to derive idiosyncratic information from social

networks, which provide information and knowledge that are difficult to obtain (Podolny, 2011). This low-cost approach certifies the credibility of information and boosts the efficient utilisation of information that is sometimes difficult to achieve via the market (Jones & Jayawarna, 2010). In addition, information sharing has been seen as a critical indicator of building an inter-organisational network. As a consequence, knowledge transfer provides an opportunity for franchisor and franchisee to learn from each other (Brookes, 2014) through obtaining system and location information (Brass et al., 2004). By accessing, employing, and synthesising the partner's core elements, information sharing thereby integrates the inter-organisational network between franchisor and franchisee tightly.

This section has identified three drivers and shown how important they are to the franchise relationship. In conclusion, a relational view highlights the importance of establishing a franchising relationship. First, maintaining strong intra-franchise partnerships avoids the agency cost results from opportunism or free riding (Chiou et al., 2004). The franchisor will apply social relations (i.e. non-coercive power) to prevent franchisees from non-compliance, particularly when contractual governances (i.e. coercive power) lose the efficacy (Ghoshal & Moran, 1996). Second, a franchise relationship is not just a contractual relationship but a social system. Establishing relationships between franchisor and franchisee creates value that cannot be generated by them separately. In line with the earlier section of the complementarity of resources, their competitive positions will be enhanced in a cooperative partnership (Dyer & Singh, 1998). Third, the inter-firm relationship between franchisor and

franchisee could lessen the discrete transaction characterised by limited interactions and narrow contents while strengthening their ability to survive and grow (Castrogiovanni et al., 2010; Chaudey & Fadairo, 2010).

In summary, franchising is a long-term relationship in which the combination of franchisee and franchisor efforts can generate profits that they could not acquire individually (Castrogiovanni et al., 2006). The relational view as an extension of agency theory provides insights into many of the challenges of intricate franchise relationships. Nevertheless, the franchise relationship is embedded in a specific national and cultural context. A franchise relationship in the West is rooted in impersonal trust building practices, such as the implementation of written agreements and legal contracts, whereas business relationships in China are often the outcome of personal relationships. The cultural context is the reciprocal *guanxi* networks in personal and business life. Through these networks, people are able to attenuate agency issues (e.g. opportunism and contract enforcement) and obtain resources external to the firm, such as knowledge, information, and connections. In a Chinese context, many authors have identified culturally specific types of social relations and networks, known as *guanxi*.

2.3.4 *Guanxi ties*

Social affect and cognition are more intertwined in Chinese business relationships than that in the West (Chen et al., 2013). Known as the Chinese version of relationship, *guanxi* has been widespread for years in every aspect of China. Drawing on a web of connections to secure exchange and favour,

guanxi has strong implications for interpersonal and inter-organisational dynamics in business conduct and social interaction in Chinese culture (Park & Luo, 2001). Interpersonal (or individual level) *guanxi* relies primarily on social exchange, with interpersonal trust based on reciprocity. Salient in organising business activities in China, inter-organisational (or firm-level) *guanxi* influences the transaction cost between business partners and trade associations from the perspective of TCE (Chen et al., 2013). In this regard, *guanxi* reflects the prominent importance not only of personal connections but also of networks and relationships between business acquaintances, for example, franchisor and franchisee. The functions and weaknesses of *guanxi* are shown below.

Functions of guanxi

Network studies convey a comprehensive understanding of the measures of *guanxi* (e.g. the degree of closeness or distance between the parties), the functions and consequences of *guanxi*, the influential factors that affect the quality of *guanxi*, and the theoretical and practical implications of social networks, and a newly emerging stream concerned with ethical issues of *guanxi* (Chen et al., 2013; Burt & Burzynska, 2017). This thesis focuses on how *guanxi* contributes to firm performance in eliminating agency problems and acquiring resources. Much evidence shows that *guanxi*:

- (i) attenuate environmental uncertainty and threats by eliminating opportunism;
- (ii) gain access to complementary resources so filling resource gaps; and

- (iii) reduce transaction costs by facilitating the exchange of private information, resources and even favours.

Networks excel at improving performance by mitigating the hazardous effect of uncertainty in the fast-changing Chinese environment (Park & Luo, 2001). *Guanxi* ties reflect values of harmony, cooperation, and reciprocity constructs a structural constraint that decreases the moral hazard of self-seeking opportunism (Chen et al., 2013). Being viewed as a substitute for formal legal contracts (Luo, 2003), *guanxi* is necessary to combat opportunistic activities of the channel partners in arm's-length market transactions (Peng & Zhou, 2005). Thus, firms are more likely to turn to *guanxi* in lowering external dependence for critical resources as institutional uncertainty increases.

Guanxi constitutes significant resources for a firm from the perspective of the resource-based view. As a form of social resources that individuals or organisations develop and deploy for attaining favours and benefits, *guanxi* ties bridge the gaps in resource flows, particularly facilitate the exchange of scarce resources (Xiao & Tsui, 2007). In the context of franchise, franchisors may not own all required resources internally, so they need to conduct exchanges with others to generate greater access to the resources.

Developing and deploying *guanxi* ties reduce the transaction costs because of information share, resource interchange, and favour exchange (Park & Luo, 2001). Firstly, entrepreneurs are keen to protect the identity of their personal and professional contacts because information that passed through networking can be more accessible, responsible, and valuable than that among

undeveloped information markets in many emerging economies, for example, in China (Burt & Burzynska, 2017). Acting as a conduit of information, *guanxi* save the search cost of information and allows the partners (e.g. franchisor and franchisee) to make more informed decisions (Luo, 2003; Podolny, 2011; Opper et al. 2017). Secondly, the potential synergy gained from *guanxi* lowers the transaction cost because of the “even” return on exchange members that participate in the network (Williamson, 1985; Luo, 2003). As mentioned, the benefits of pooled resources are generated via the norm of reciprocity. Thirdly, firms connected through *guanxi* are engaged in extensive networking, emphasising the voluntary exchange of social obligations and favours (Park & Luo, 2001). Thus, these interpersonal ties embodied in social relations play a significant role in facilitating economic exchanges in China (Peng, 2004).

Weaknesses of guanxi

Guanxi has strong implications including (i) less opportunism, (ii) greater access, and (iii) efficient transaction for franchise performance. Nonetheless, *guanxi* cannot be seen as a panacea, even in China, a network-based society (Park & Luo, 2001). There are three main disadvantages of *guanxi*. First, the attributes of *guanxi* make the delivery time of future transactions unspecified and the value or quality of the benefit unguaranteed (Opper et al., 2017).

Although *guanxi* ties are quite open and can be formed by kinship, friendship, colleagues, or even club membership, the investments in *guanxi* activities can be costly and the cultivation and maintenance of *guanxi* are time consuming (Opper et al., 2017). Secondly, *guanxi* practices benefit individual users but undermine competitiveness in the organisation. Individual parties in *guanxi*

ties are committed to the intrinsic relationship itself regardless of considerations of extrinsic costs and benefits, so parties that pursue *guanxi* for their own sake may lead to the sacrifice of collective interests for the benefit of self-interest (Chen et al., 2013). Thirdly, the nature of *guanxi* adds risks to business because *guanxi* relations belong to people and are not owned by organisations (Luo, 2003). Although the use of personal networks for fulfilling franchise objectives is common, the utility of *guanxi* depends on the continuing functional responsibility of exchange between franchisor and franchisee, as well as their loyalty and commitment (Opper et al., 2017).

Guanxi in franchising

Guanxi is thought to increase the capability and survivability of franchises, especially in China, where networking arises in situations of interdependence (Park & Luo, 2001; Chen et al., 2013). Franchises with heterogeneous resources and capabilities perceive differential opportunities and needs for the cultivation of *guanxi* (Park & Luo, 2001), particularly for small or newly founded and resource-constrained franchises. In contrast, established franchisors or franchisees with the control of superior resources and capabilities show a lower level of dependence on *guanxi* connections (Opper et al., 2017).

The role of social relationships and *guanxi* ties is embraced in this thesis to help agency theory clarify the franchise relationship, practically in China context. Although a legal contract has the fundamental purpose of defining the relationship between the parties involved, a relational view shows that the contract ignores the development of emotional bonds within the franchise

relationship (Gulati et al., 2011). Going beyond the formal contract, the informal relationship between franchisor and franchisee serves to mitigate market uncertainty, improve cooperative working and performance. Considering franchising as a form of relational exchange, the relationship between franchisor and franchisee is central to the success of the franchise system (Kacker & Wu, 2013).

In conclusion, franchising is important internationally and has grown substantially over the past twenty years in China since the first pilot franchise regulations were adopted in the late 1990s. Since then, domestic franchises have taken off with the growing purchasing power gained by Chinese consumers. Although this business model has brought benefits for both franchisor and franchisee, the public's understanding of franchising is low, and there are outstanding problems in the rapid development of franchising. For example, franchisors may not meet qualifying conditions; the rights and interests of franchisees are not effectively guaranteed; franchise activities are not standardised; and fraud and unethical activities exist.

Agency theory helps as a basis for understanding, but it has gaps that can be filled based on the insights from the resource-based perspective, relational view and *guanxi* ties. To answer the research question "*To what extent does the franchisor-franchisee relationship affect franchisee performance?*", this thesis addresses complex franchise issues, particularly the intricate franchise relationship, that cannot be perfectly answered by agency theory and hence can appear intractable. To be specific, this thesis will examine how the franchisor-franchisee relationship affects the franchisor's control over franchisee raised

by the agency problem and franchisee's pooled resources in the light of the resource-based perspective in the following section.

3 Hypotheses

This chapter develops hypotheses based on the analysis above. Ten areas of interest around three factors are hypothesised to explain franchisee performance, based on the three theoretical viewpoints discussed above. A conceptual model is then developed that links these variables.

This thesis takes a holistic approach and proposes that the consequences of franchising depend on the three influential factors identified in the previous chapter: the franchisor's control over franchisees, the franchisee's pooled resources and the franchisor-franchisee relationship. This thesis aims to examine how relationships between franchisor and franchisee in China can resolve agency problems and create high performance for both parties. The main research question guiding this thesis is: *“To what extent does the franchisor-franchisee relationship affect franchisee performance?”*

In an exchange relationship, the role of power comes from the relative dependence of participants. In particular, power derives from (i) controlling the alternative sources of the resources, and (ii) owning resources that the others need (Nunkoo & Ramkissoon, 2012). The power balance leans to the franchisor when they exercise control over franchisees; while resources owned by franchisees used as concessions to influence the franchisor to help them gain power in the franchise relationship (Nunkoo & Ramkissoon, 2012). The social exchange behaviours of (i) trust; (ii) absence of opportunism; and (iii) information sharing, are based on the two scenarios in which (i) franchisor's

control over franchises; and (ii) franchisees' resources. These will be discussed below.

3.1 Hypotheses about control

Agency theory broadly states that the principal needs to put in place controls to ensure the agent will fulfil their contractual bargain. The controls may also offer reassurance that the principal will act fairly to safeguard the agent's interests, thereby enhancing trust. Although franchisees are independent entities, their long-term success depends on the franchisor. In a franchising system, the franchisor's control over franchisees not only seeks to standardise the operating procedure but also ensures that those who are unfamiliar with the operations can perform correctly. On the one hand, the franchisor is responsible for providing a range of services to standardise the outlets. The provision of training and support to franchisees is a behaviour control mechanism that may have a significant effect on the franchise relationship (Watson & Johnson, 2010). Franchisees are dependent on the support and service of the franchisor. Where they perceive the franchisor to be supportive, this increases the development of reliable and trustworthy partners since the franchisees are the more vulnerable compared with the franchisor (Schilke et al., 2015). On the other hand, the franchisor's use of input controls, most notably selection processes, will allow the franchise system to weed out unqualified franchisees. The selected franchisees are more inclined to trust the franchisor who facilitates them to maintain and develop the business (Bordonaba-Juste & Polo- Redondo, 2008), and finally leads them to greater

achievements successfully (Davies et al., 2011, Altinay & Brookes, 2012).

This leads to the hypothesis:

Hypothesis 1a: Franchisor's control over franchisees will positively affect trust perceived by franchisees.

The franchisor develops the standardisation for the franchisee system, while the individual franchisees run outlets in different territories that may result in requests from the franchisor to adjust and adapt the system to suit their perception of the local market better, or even to act opportunistically without regard for the franchise. The control of franchisors will influence how they may lessen or mitigate opportunism between franchisor and franchisee. The franchisor may use behavioural means to force franchisees to adopt the franchise system without deviation. Behaviour control includes monitoring the routine behaviours of franchisees closely to ensure they cannot act autonomously to pursue entrepreneurial activities in their own interest or jeopardise the system (Snell, 1992; Dada & Watson, 2013). Besides, the franchisor will put in place management objectives or output controls, which align the specific targets or goals for franchisees that will increase their compliance (Davies et al., 2011). Output control will put financial pressure on franchisees and increases the ability to detect opportunism. For franchisors, the purpose of control over franchisees is to guarantee a high degree of standardisation across products, services, branding and so on. In this regard, franchisors will be less likely to obfuscate or disguise relevant information, especially the financial facts to mislead their franchisees in franchise operation. Lastly, the franchisor seeks to minimise the risk of quality shirking

by subjecting prospective franchisees to comprehensive screening processes. Input control, therefore, reduces the potentially unethical-behaviour of franchisees who do not perform agreed actions (Mellewigt et al., 2011). In sum,

Hypothesis 1b: Franchisor's control over franchisees will positively affect the absence of opportunism between franchisor and franchisee.

Standardisation is the mechanism through which the franchisor supervises the behaviours of franchisees and their functions (Lee & Choi, 2003). Franchisees are required to consult with the franchisor before implementing innovations. The formal rules and prescribed procedures often discourage franchisees from participating in cross-boundary activities, such as information sharing in the franchising context (Lee & Choi, 2003). The formal rules and procedures emphasised through behaviour control over the working relationship with franchisees make them conservative or even reluctant to share their creative ideas. Similarly, output control that sets the final target reduces the feedback from franchisees in daily operational processes. These controls throughout the franchise system prevent franchisees from exercising discretion and reduce initiatives of information sharing between franchisor and franchisee. That is, franchisees will become less willing to share information within the franchise system when there is a high degree of control. After receiving decreased voluntary information, the franchisor's information becomes less valuable and increasingly inaccurate to franchisees. Thus,

Hypothesis 1c: Franchisor's control over franchisees will negatively affect information sharing between franchisor and franchisee.

3.2 Hypotheses about resource

A franchise pools the resources of franchisor and franchisee. Studies have shown that franchisee performance can be affected by the recruitment of franchisees with appropriate scarce resources (Saraogi, 2009). Although the franchisor is the more powerful party in a franchise, critical resources which are controlled by franchisees allow them to assert a higher degree of power in the relationship (Ford et al., 2012).

Pooled resources controlled by franchisees enhances the development of trust for several reasons. First, the franchisees' supply of resources helps to reduce the uncertainties embedded in the environments and increases stable economic rents, which will impact their confidence and trust in the franchisor (Altinay & Brookes, 2012). Secondly, franchisees who hold resources central to the success of the franchise might also be more willing to make emotional investments in trust relationships, and to express genuine care and concern for the welfare of their franchisors. Such franchisees believe in the intrinsic virtue of faithful relationships and the reciprocity of such sentiments. In the presence of superior resources held by a franchisee, trust in the franchisee is likely to be enhanced (Harmon & Griffiths, 2008). Thirdly, vulnerability is a fundamental driver to establish credibility and trust. Although sharing scarce resources with partners is risky, it allows franchisees to know and trust their franchisor, and to bond more strongly through a franchise relationship (Atwell & Buchan, 2014).

Hence, the presence of pooled resources strengthens the franchisor-franchisee relationship, leading to the hypothesis:

Hypothesis 2a: The pooled resource of franchisees will positively affect the trust perceived by franchisees.

Franchisees who hold pooled resources in a franchise system may affect the opportunistic behaviours between franchisor and franchisee for three reasons. First, the franchisor delegates power to franchisees due to resource scarcity and the lack of human resource in local markets (Cox & Mason, 2009). In exchange contexts characterised by asymmetric power and resource endowments, the less powerful party with limited resource endowments (usually franchisees) is more vulnerable to the opportunistic practice of the relatively powerful and resourceful party (usually franchisors) (Lado et al., 2008). Power on one side creates the natural need for the exercise of countervailing power from the other side (Dant & Nasr, 1998). When franchisees gain access to specific and critical resources that are needed for the franchise system, the stronger position of franchisor in the franchise relationship is modified. The franchisor will be less likely to take advantage of franchisees who have the required resources of the franchise because of their increased dependency on those franchisees. Then, franchisees are rendered less susceptible to the franchisor's opportunistic action and will be less likely to misrepresent their actual skill.

Second, the valuable resources owned by franchisees are their investment in the parent franchise system. Franchisees who invest significant resources are

likely to be more closely aligned with the franchisor. They will, therefore, have a stronger interest in running the outlet successfully, which facilitates contractual adaptation rather than contractual defiance (Bosma et al., 2004). Such franchisees are motivated to behave in a manner consistent with the franchisor's goal (Jambulingam & Nevin, 1999). Hence, the more pooled resource that franchisees own, the more likely that both franchisor and franchisee will focus on the long-term gains from self-discipline rather than free ride by limiting their contributions to the system for short-term gains (Williamson, 1975).

Third, pooled resources create bilateral dependence between franchisor and franchisee, especially when the outcome contributed to the unique resource provided by the partners. The contribution of pooled resources to the franchise makes franchisor and franchisee partners rather than competitors (Wu et al., 2014) and thereby lowers the threat of opportunism by either. Also, opportunistic behaviour may lead to the loss of reputation and affect their standing in franchise networks adversely. The view of partnership encourages both parties to work with each other instead of seeking other business opportunities (Jambulingam & Nevin, 1999). Therefore,

Hypothesis 2b: The pooled resource of franchisees will positively affect the absence of opportunism between franchisor and franchisee.

The benefits of franchising are often greater than those of regular businesses, mainly because the system provides a model in which there is potential for greater exchange of information. However, the power asymmetry is likely to

influence the willingness of franchisees to furnish relevant information with their franchisors (Wu et al., 2014). As gatekeepers of the local market, franchisees usually exercise power over the franchisor when their pooled resources are contingent and asymmetric (Griffith et al., 2006). The decision to withhold privileged information from the local market may be the only available approach for franchisees to garner countervailing power against the franchisor (Dant & Nasr, 1998). The pooled resources held by franchisees make them more competitive and less willing to hear criticisms, which also reduces the franchisor's incentives for sharing information and knowledge.

In particular, social capital facilitates the network-driven information to be conveyed by gaining access to a broader set of networks with customers, friends, and acquaintances (Wathne & Heide, 2000; Davidsson & Honig, 2003; Acquaaah, 2007; Hormiga et al., 2011). Franchisor and franchisee often keep important information to themselves. Sharing such private information is perceived as giving up of privileged advantages. That is, both franchisor and franchisee are less open to sharing information with each other in order to advance their bargaining positions. Hence,

Hypothesis 2c: The pooled resource of franchisees will negatively affect the information sharing between franchisor and franchisee.

3.3 Hypotheses about franchise relationship

The link between franchise relationship and performance has been extensively studied (Ketchen et al., 2011; Kacker & Wu, 2013; Altinay et al., 2014; Dada

et al., 2015; Sanny et al., 2017). An efficient and effective relationship enables both parties to create and maintain competitive advantage and achieve superior performance, especially in emerging economies where the legal framework governing business transactions is less established and constantly changes (Saraogi, 2009). The combined efforts of franchisor and franchisee in a long-term franchise relationship can generate higher profits than they could otherwise achieve individually (Dyer & Singh, 1998; Castrogiovanni et al., 2006). This will foster positive attitudes and behaviours of both franchisor and franchisee that play a crucial role in implementing strategy (Holmlund, 2008), which will enhance trust, reduce opportunism, and increase information sharing for the benefit of a franchise system (Bordonaba-Juste & Polo-Redondo, 2008; Watson & Johnson, 2010).

3.3.1 Trust

Trust will reduce the likelihood of undesirable action and agency conflict (Gulati, 1995; Dyer & Singh, 1998; Poppo & Zenger, 2002). It is a key variable to predict behaviours across different contexts and situations (Bachmann, 2001) and reduce the perceptions of goal unfairness, incompatibility, and divergence (Geyskens et al., 1999). In franchising, trust of the franchisee reduces the anxiety of each party and increases their faith in the franchisor-franchisee relationship. When the perception of trust increases, the franchisees' overall satisfaction with the relationship is enhanced (Chiou & Droge, 2015) because they will derive satisfaction from meeting or exceeding the economic and psychological expectations of the franchisor (Davies et al., 2011). Under conditions of trust, small deviations from expectations are less

likely to be viewed as a mark of incompatibility or a lack of integrity (Chiou & Droge, 2015). In the long run, trust of the franchisee is vital to maintain the franchise exchange relationship, while the lack of trust will damage the relationship (Chiou et al., 2004). In this regard, trust in a franchise relationship improves the overall level of franchisee satisfaction. Therefore,

Hypothesis 3a: The trust perceived by franchisees will positively affect the satisfaction of franchisees.

The intricate interactions involved in the franchisor-franchisee relationship potentially increases the agency costs related to coordination and adaptation of the franchise system. Trust increases with the interaction in the relationship and reduces transaction costs (Gulati, 1995; Dyer & Singh, 1998; Poppo & Zenger, 2002). With the establishment of trust, franchisees feel valued and will go beyond the contract in supporting the organisation's goals. Their faith in the franchisor will encourage them to act in the best interests of the franchise system (Lado et al., 2008). The franchisor will have less need to monitor the franchisee closely, which encourages both partners to behave cooperatively. Conversely, a lack of trust increases monitoring costs and jeopardises the sustainability and profitability of the franchise system (Chiou et al., 2004). Franchisee performance, thereby, can be improved by the level of trust. Hence,

Hypothesis 3b: The trust perceived by franchisees will positively affect franchisee financial performance.

3.3.2 Absence of opportunism

Agency theory assumes that individuals in society are self-seeking, rather than altruistic. Agents may be unwittingly drawn to principals who shirk, cheat and opportunistically seize benefits for their own use, and vice versa. Opportunistic behaviours or even the perception of potential opportunism increases the probability that franchisor and franchisee will deviate from the agreed operational policies. Ineffective goal attainment jeopardises the quality of the long-term franchise relationship. Satisfaction occurs when the franchisee appreciates the interactions with its franchisor, who is believed to be responsible and willing to exchange ideas (Geyskens et al., 1999) and enjoys working within the franchise relationship. The consequences of the absence of opportunism in a franchise relationship thus lead to the hypothesis,

Hypothesis 4a: The absence of opportunism between franchisor and franchisee will positively affect the satisfaction of franchisees.

Firms that experience a higher level of opportunism can increase their short-term profitability by taking bold action. However, free riding by franchisor or franchisee will affect long-term performance negatively by imposing transaction costs (Nunlee, 2005), particularly the cost of measures taken to control opportunistic behaviours (Harmandcioglu, 2009). A sense of not taking advantage of each other within the franchise system improves financial performance (Borgatti & Foster, 2003). The absence of opportunism leads to an effective and productive franchise relationship, saving time and effort for both parties who do not need to take precautions against each other. Hence,

Hypothesis 4b: The absence of opportunism between franchisor and franchisee will positively affect franchisee financial performance.

3.3.3 Information sharing

Information sharing in a franchise relationship avoids potential conflicts between franchisor and franchisee, facilitates the transmission of knowledge, and simplifies their coordination (Ancona & Caldwell, 1992; Cross et al., 2001). To be specific:

First, franchisor and franchisee need to share operational information, which allows both parties to understand each other. This type of communication will align the incentives between franchisor and franchisee and avoid potential conflicts. Franchisees will be then more receptive to the franchisor's decisions.

Second, information sharing between franchisor and franchisee facilitates the transmission of explicit and tacit knowledge, which enables both parties to increase efficiency by eliminating duplicated activities in a working relationship. In particular, by avoiding the familiarity and maturity traps in the franchise system (Ahuja & Lampert, 2001) that prohibit them from responding appropriately, the franchisee will feel protected by the franchisor.

Finally, information sharing between franchisor and franchisee can also be interpreted as a powerful symbol of cooperative intention and trust in the franchise relationship (Dant & Nasr, 1998). The higher the knowledge flows and transfers between franchisor and franchisee, the more willingness to cooperate in the franchise system (Dyer & Singh, 1998). The provision of

information creates the value of a franchise relationship, from which the franchisee derives fulfilment. Hence,

Hypothesis 5a: The sharing of information between franchisor and franchisee will positively affect the satisfaction of franchisees.

Information sharing between franchisor and franchisee improves the financial performance of a franchise system by minimising transaction costs and enhancing competitive advantages (Wu, 2015). Agency theory highlights the critical issue of information asymmetry caused by bounded rationality. Sharing of information promotes the process of information transfer and fuller information flow, and thus attenuates information asymmetry among parties with limited requisite information on each other's position (Wu et al., 2014). With comparatively perfect information, both franchisor and franchisee can openly verify whether each party is behaving undesirably or not. In this regard, information sharing between franchisor and franchisee significantly reduces moral hazard concerns (Gulati, 1995) in the franchise system and saves the contracting and monitoring costs of monitoring that each is performing in accordance with the best interests of each other.

Further, by sharing information such as valuable business contacts and personal networks, information sharing between franchisor and franchisee is a key to a two-way relationship that allows resource transfer, recombination, or creation in a franchise system (Dyer & Singh, 1998). Franchisees are chosen to be part of the franchise system because of their superior knowledge of local market conditions. Information sharing enables both parties to obtain updated

information and knowledge (Dant & Kaufmann, 2003). Gaining access to a broader set of valuable information can lower search costs and alleviate potential risks (Gulati, 1999). Franchisees can apply both internal and external information in business operations and commercial ends and ultimately enhance the competitiveness of franchisee performance. Therefore,

Hypothesis 5b: The sharing of information between franchisor and franchisee will positively affect franchisee financial performance.

3.4 Hypotheses about performance

Conflict is inherent in the franchising relationship, which imposes both social and economic costs (Frazer et al., 2012; Weaven et al., 2014). Following agency theory, conflict arises when the agent departs from the interests of the principal. To be specific, principals are seen as risk-neutral while agents are risk-averse, who have placed all eggs in the principal's basket, which leads to agents seeking to protect themselves and harming the principal's welfare. In a franchise system, the franchisor strives to add value to the entire system and benefit from the franchise royalties. Whereas, franchisees seek independence to boost their outlet's profit rather than achieve strategic performance gains, such as market share and competitive position relative to major rivals (Combs et al., 2004a; Combs et al., 2010). The divergence of interests between franchisor and franchisee will increase the unforeseen contingencies in a franchise system and negatively affect the long-term relationship (Spinelli & Birley, 1996; Frazer et al., 2012).

Control measures in a franchise relationship are designed to regulate both parties' incentives and behaviours (Fong & Tosi, 2007). As discussed in Chapter 2, the transformation processes are standardised via behaviour control such as education and training; financial results are regulated through output control; and potential franchisees are vetted before signing the contract via input control. Along with the aligned objective and standardised behaviour, there will be less discrepancy between franchisor and franchisee and more satisfaction with their relationship. Hence,

Hypothesis 6a: Franchisor's control over franchisees will positively affect the satisfaction of the franchisees.

With increasing satisfaction and performance, franchisor's control over franchisees discourages malfeasance. As mentioned in the section of control over franchisees, false behaviours, unreasonable outcomes and unqualified franchisees will be weeded out from the franchise system by applying multiple types of control. Therefore, the quality of product and service delivery will be enhanced. Some literature even asserts that the franchisee who "listens to mother" will benefit from economies of scale and necessarily result in higher sales (Phan et al., 1996). Hence,

Hypothesis 6b: Franchisor's control over franchisees will positively affect franchisee financial performance.

Accessible pooled resources owned by the franchisee enhance the relationship with the franchisor and financial performance. New franchisees have relatively

fewer resources and seek resources that may enhance their dynamic capability (Florin et al., 2003). For example, those with established managerial capabilities enable the franchisee to conduct the business and coordinate the outlet effectively. Specific industry experience also increases the entrepreneurial initiative of the franchisee (Fenwick & Strombom, 1998). The pooled resource of franchisees will balance the asymmetry of power that course through the franchise relationship. The subordinate position of the franchisee and the conflict arising from imbalanced and hierarchy relationship between franchisor and franchisee (Blut et al., 2011) will be then mitigated. Furthermore, if the interests of franchisor and franchisee are in conflict, when they pool their resources, enthusiasm and effort will achieve a longstanding relationship. Thus,

Hypothesis 7a: The pooled resource of franchisees will positively affect the satisfaction of franchisees.

Power on one side creates the natural need for the exercise of countervailing power from the other side, and the exercise of countervailing power in a dyadic relationship enables the controlled channel member (franchisees) to reduce the power of the controlling channel member (franchisors) (Dant & Nasr, 1998). To reap the greatest benefit, franchisees can decrease their dependence on the franchisor and acquire power in the franchise relationship by controlling relevant pooled resources, such as financial instruments, education and training, social capital. If the pooled resources of franchisees can be accessed by the franchisor, the combination of properties will reduce the cost of managing, protecting and nurturing resources and maximise the value they get

from given resources. Accordingly, one can hypothesise that franchisees with pooled resources have an enhanced chance of finding a suitable partner for alliances and achieving better performance. Hence,

Hypothesis 7b: The pooled resource of franchisees will positively affect franchisee financial performance.

3.5 Hypotheses about mediation effects

3.5.1 Mediation effect of trust

Agency theory stresses that the franchisor strives to enhance its control over franchisees by seeking to spread a standardised system, whereas franchisees tend to pursue their entrepreneurial interests and individual objectives (Kidwell et al., 2007). A lack of trust can cause a deterioration in the franchise relationship and jeopardise the system's survival (Eser, 2012). Without trust in the franchisor, the franchisee may perceive that the franchisor's actions are against their interests and vice versa. Vigorous disagreement between franchisor and franchisee negatively affects their attitudes and efforts in enhancing the value of outlets.

In light of the relational view, the franchisee's perception of trust in franchisor's integrity significantly impacts the behaviour of the franchisee. Trust in the franchisor enables the franchisee to be receptive about the policies and rules set by the franchisor and reduces the scope, intensity, and frequency of the conflict raised by control (Zaheer et al., 1998). High-level trust thereby positively affects the franchisee's attitudes toward the franchisor and increases

its commitments to the franchise relationship (Eser, 2012). That is, franchise activities based on trust mitigate the agency issue and lead both parties to higher performance. Thus,

Hypothesis 8a: Franchisee trust in the franchisor mediates the relationship between franchisor's control over franchisees and franchisee performance.

In light of the resource-based perspective, franchising is designed to share the advantages from pooling of resources by both franchisor and franchisee. Trust in the franchisor enhances the confidence of franchisees to cooperate with their franchisors (Davies et al., 2011), and encourages their collaboration in using resources. Building on trust, franchisees believe their relationship with franchisors extends beyond the mere contractual relationship. The willingness to share scarce resources with their partners improves the availability of resources within the franchise system by alleviating transactional uncertainty. Trust of franchisees boosts an efficient utilisation of resources, as it turns their pooled resources into competitive advantages of the entire system. Hence,

Hypothesis 8b: Franchisee trust in the franchisor mediates the relationship between the pooled resource of franchisees and franchisee performance.

3.5.2 Mediation effect of absence of opportunism

Agency theory proposes that incentive strategies can be developed to reduce the challenges of opportunism and obtain desired outcomes. In the context of a franchise, the franchisor's control of the franchise system prevents the opportunistic behaviour of franchisees by aligning their incompatible goals via

output control or screening out those who are less compatible via input control as mentioned above (Jambulingam & Nevin, 1999). As such, control over franchisees will lessen their behavioural attitude of being opportunistic in a franchise relationship. The absence of opportunism between franchisor and franchisee encourages both parties to perform along with the partners' best interests and enhances contract enforcement, which will minimise the agency cost emanating from opportunism (Jambulingam & Nevin, 1999; Mellewigt et al., 2011). Therefore,

Hypothesis 9a: The absence of opportunism mediates the relationship between franchisor's control over franchisees and franchisee performance.

Agency theory is inefficient to explain the complexity of franchise phenomena with its simple insight into control mechanisms, typically suggesting extrinsic incentives, which are directly affected by the rewards or sanctions that specified for a given behaviour or driven by the outcomes. The investment of pooled resources in the franchise system provides franchisees with intrinsic incentives to achieve optimal performance, rather than free ride on the franchisor. The desires for exchanging resources encourage franchisor and franchisee to go beyond specific opportunistic behaviours. The absence of opportunism between franchisor and franchisee results from the value-enhancing exchange relationship that facilitates contractual adaptation and mitigates the agency cost (Lado et al., 2008). This will then positively affect profitability and consequently, franchisee performance. Hence,

Hypothesis 9b: The absence of opportunism mediates the relationship between the pooled resource of franchisees and franchisee performance.

3.5.3 Mediation effect of information sharing

Commonly existing in the agency relationship, information asymmetry can be reduced by a level of information sharing, which will attenuate the market risk and stabilise the transaction (Wu et al., 2014). Franchisors use the information collected from franchisees to support the entire franchise network by monitoring and assessing the responses of franchisees to daily routines and challenges. However, under the control of a franchisor, franchisees are less proactive and even unwilling to communicate with the franchisor. In particular, the power on the franchisee's side is enhanced through the acquisition and accumulation of market information (Doherty et al., 2014). Franchisees thereby are likely to become frustrated with the franchisor's goals and the constraints of their actions as they become more self-confident in their personal abilities (Tuunanen & Hyrsky, 2001). Failing to negotiate with analogous information (Dyer, 1997), both parties may take action to pursue their economic interests and entrepreneurial initiatives. Hence,

Hypothesis 10a: The sharing of information mediates the relationship between franchisor's control over franchisees and franchisee performance.

To expand the franchise in different locations, the franchisor needs local knowledge from franchisees. To operate locally, franchisees need support from the franchisor. Pooled resources thus make a major contribution to the success of franchise systems (Jambulingam & Nevin, 1999). However, these pooled

resources owned by each party are hard to convert into competitive advantage without promoting synergies via information sharing between franchisor and franchisee.

The degree of information sharing between franchisor and franchisee is mainly determined by the degrees of their interdependence and willingness to work together in a joint manner. For example, heavily relying on the franchisor, young franchisees who lack system knowledge about the business formula and operating methods are more likely to seek cooperation with the franchisor. At an early stage, when franchisees provide information, in particular financial data, the franchisor helps their franchisees identify areas of improvement. Over time, franchisees take advantage of the franchisor, given their local experience regarding the marketplace, and become more independent (Baucus et al., 1996). Rather than having all the information come from franchisors, franchisees own potential core information that can be applied to generate best practices within the system. Information sharing across the franchise system promotes competitiveness based on pooled resources between franchisor and franchisee, while the hiding of information reduces performance in the franchise system. Thus,

Hypothesis 10b: The sharing of information mediates the relationship between the pooled resource of franchisees and franchisee performance.

3.6 Control variables

As detailed below, two aspects of control variables covering *franchise attributes* and *franchisee characteristics* have been applied to control for their impact on franchise performance at the franchisee level (Bradach, 1997; Danst and Nasr, 1998; Mellewig et al., 2011). Although none of the paths is addressed in hypotheses above, the effects of each control variables will be analysed in later chapters.

Franchise attributes

Franchise age is defined as the years of operation since the franchisee started to work with the franchisor. Past studies have reported the implications of firm age on performance. For example, Doherty et al. (2006) and Li et al. (2013) believe that years of operation is negatively and significantly related to performance. As suggested above, the stage of development affects the nature of power and control between franchisor and franchisee (Quinn & Doherty, 2000). In this regard, the more mature the franchise system, the less likely that franchisees will be satisfied and produce expected performance (Yin & Zajac, 2004). Therefore, franchise age should be related to franchisee's satisfaction and overall performance (Peterson & Dant 1990).

Park and Luo (2001) propose that *franchise size* affects the competence to deal with the external environment. Larger-scale franchises have more favourable access to capital, while smaller ones that lack of critical resources usually rely on external support to eliminate environmental uncertainty (Park & Luo, 2001). As a proxy for resource scarcity (Combs & Ketchen, 2003), outlet size

has a positive effect on performance (Li & Qian, 2013; Dawar, 2014). To ensure that the model is appropriately specified following the prior research into franchising (Falbe & Welsh, 1998; Yang & Li, 2011; Dada & Watson, 2013), franchise size has used as a control variable.

Industry-specific factors regarding possible *franchise type* affect franchise conditions (Michael & Combs, 2008). For example, franchises in different sectors might require different types of control mechanisms at different stages (Mellewigt et al., 2011), with franchise relationships deployed differently across types of the franchise. In detail, based on the nature of the business, there is not much need for franchises in mature and less competitive industries to cultivate embedded ties since the favourable environment is already there for superior performance. However, franchises in competitive industries want networking to foster positions in the market and overcome market uncertainties (Park & Luo, 2001). Accordingly, the types of franchise potentially contribute to the variation of performance, so this is treated as a control variable.

Geographically distributed in different local markets, the performance of each outlet may vary (Kaufmann & Eroglu, 1999). According to the National Bureau of Statistics of China, the overall sales revenue of the franchise in different regions varies significantly due to the unbalanced development of regional economies (2019). Therefore, geographical *location* can have a significant impact on franchise success and is included as a control variable.

Franchisee characteristics

A franchisee is responsible for the success or failure of an outlet (Watson & Johnson, 2010). Other control variables related to the feature of franchisees, including the demographic variables, gender, age, education level, and experience of franchisees could affect the franchisee's understanding of the franchising concept. These are also used as control variables as detailed below.

Empirical studies have found that there is a *gender* difference in the initial level of entrepreneurial intentions (Joensuu et al., 2013). In other words, women show less desire to initiate a new business than men. Gender thus is included as an influencing factor that affects the entrepreneurial intentions and establishment of franchises.

The *franchisee's age* is likely to be associated with risk preference (Opper et al., 2017) and entrepreneurial intentions. The inherent traits of Generation Y, such as autonomy and independence, affect power and control in the dynamic franchise relationship (Atwell & Buchan, 2014). Franchisees in Generation Y that want to pursue freedom are expected to prefer working for themselves rather than being employed. Hence, age could be one attribute that produces successful franchisees.

Many previous studies have supported the significance of *education level*. For example, as the most widely accepted criteria of prospective franchisees (Coff, 2002), particularly in the service industry (Combs & Ketchen, 1999b), education facilitates the transfer of specific knowledge. Ouchi (1977) also reports that the completeness of the knowledge that gained from education

makes it easier for the franchisees to translate their intentions into specific actions or standardise actions. However, some scholars argue that entrepreneurial intention after higher-level education seems to decrease; that is, higher education results in lower entrepreneurship (Joensuu et al., 2013). Therefore, the level of education is a control variable.

Some scholars have argued that prior *experience* is an influential factor in performance (Jambulingam & Nevin, 1999; MacPherson & Holt, 2007). In relation to the competency of dealing with the external environment, the franchisor usually overstates the value of prior experience that was gained from similar business (Sorenson & Sorensen, 2001) On the contrary, prior experience may make it more difficult for the prospective franchisee to abandon previous ways of working and accept the new business standards required by the franchisor (Rahatullah & Raeside, 2009). Due to its unknown effect on franchisee performance, franchisee's experience will be a control variable in this thesis.

Based on the discussion above, franchise attributes and franchisee characteristics demonstrate different features, which in turn may exert a significant influence on franchisee performance, both satisfaction and financial performance. A more detailed explanation of control variables will be discussed in the next chapter.

3.7 Conceptual model

Following the literature review, it is essential to go beyond the focus of agency theory with its simple view of control mechanisms, including behaviour control, output control and input control, which emphasise extrinsic incentives (Gulati et al., 2011). In the light of a relational view, especially in China, the recognition of social norms such as trust, absence of opportunism, and information sharing embed the franchise relationship with intrinsic incentives (Gulati et al., 2011). Given that a franchise pools the resources of franchisor and franchisee, franchisors are proactive in selecting the ‘right’ franchisees with pooled resources to outperform the market (Saraogi, 2009). Equipped with the insight from the resource-based view, these resources can be in the areas of physical resources, human resources and organisational resources. Other considerations, such as franchise attributes and franchisee characteristics, are controlled to eliminate both potential firm-level and individual-level influences. Table 3-1 below summarises the constructs and definitions of each variable in detail.

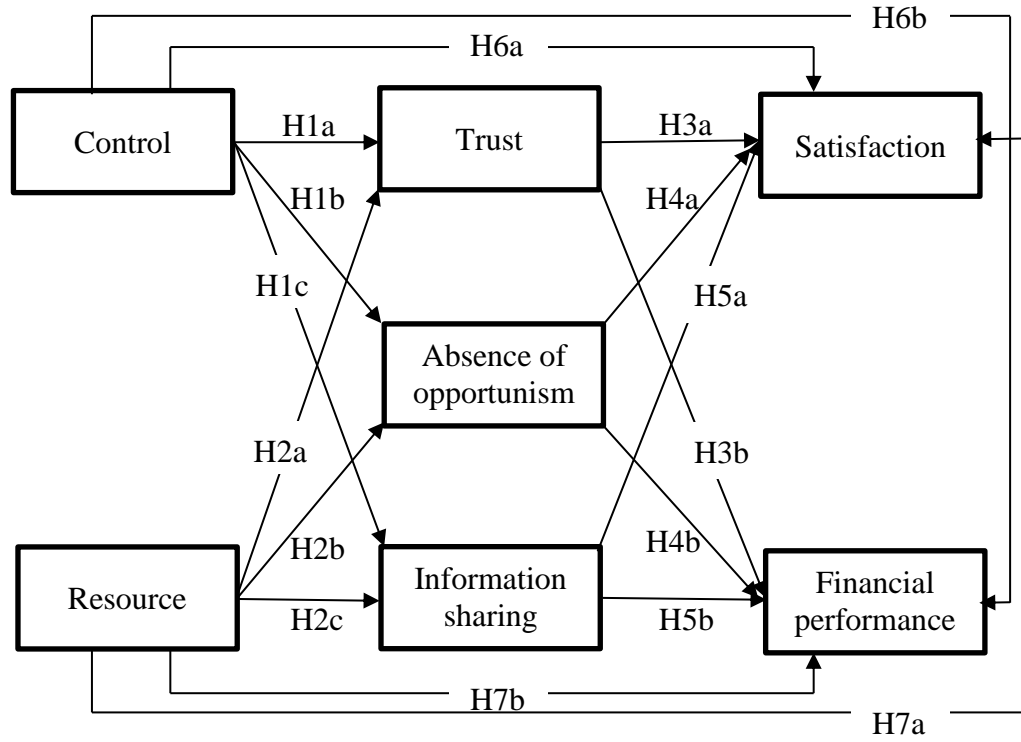
Table 3-1: Constructs and Definitions

Variables	Measures	Definitions
Franchisor's control over franchisees (agency theory)	Behaviour control	Based on supervisor observation, behaviour control monitors whether actual behaviours correspond to predefined behaviours (Dekker, 2004).
	Output control	Output control sets the targets. The performance is based on the results of achievement, and monetary rewards are closely linked to performance outcomes (Mellewigt et al., 2011).
	Input control	Input control contains all resources that need to be supervised. Personnel selection and training are emphasised (Yu & To, 2011).
Franchisee's pooled resources (resource-based perspective)	Physical resources	Physical resources indicate the franchisee's physical assets, comprising of plant and equipment, geographic site, information technology, and financial instruments (Barney, 1991)
	Human resources	Human resources are the franchisee's knowledge, education, experience, and managerial capabilities (Coff, 2002).
	Organisational resources	Organisational resources include formal reporting structure, planning, controlling, coordination and management systems, particularly, informal relations within a firm (Barney, 1991; Moran, 2005). Franchisee's social capital is underlined.
Franchise relationship (relational view)	Trust	Trust is a positive belief of one party concerning the likelihood that the action or outcomes of another will be satisfactory (Margarita et al., 2018).
	Absence of opportunism	Absence of opportunism is defined as the avoidance of seeking self-interest with guile (Williamson, 1975), for example, get rid of stealing, distorting data, obfuscating issues, breaching the contract, purposefully confusing transactions, withholding information (Wathne &

Variables	Measures	Definitions
		Heide, 2000), deceiving, and misrepresenting (Anderson, 1988).
	Information sharing	Information sharing refers to regular patterns of inter-firm interactions that permit asset and resource transfer, recombination, or creation (Dyer & Singh, 1998).
Franchisee performance (Dada & Watson, 2013)	Satisfaction (Non-financial performance)	Satisfaction can be divided into social satisfaction and economic satisfaction (Rodriguez et al., 2006). Social satisfaction refers to the positive and productive interactions within the exchange relationship. Satisfaction with social outcomes is manifested as gratification, pleasure, and ease (Geyskens & Steenkamp, 2000). Economic satisfaction measures the perception of financial outcomes, such as margins, sales volume, and discounts (Geyskens & Steenkamp, 2000).
	Financial performance	The franchise operational outcome refers to financial results, usually in terms of profitability or increased profits (Margarita et al., 2018).
Franchise attributes	Franchise age Franchise size Franchise type Franchise location	
Franchisee characteristics	Gender Age Education level Experience	

Based on the above analysis, the conceptual model used in the research is as follows:

Figure 3-1: Conceptual Model



4 Research Methodology

This chapter presents a comprehensive discussion of research methodology, including the research design, the sampling approach, the measures of all constructs, and the methods. The research design covering philosophical paradigm, strategies of inquiry and research methods are discussed in the first section, followed by the procedures used for data collection and data cleaning. In the next section, the measures of each construct are presented. Finally, the methods of data analysis are introduced step by step.

4.1 Research philosophy

The major components involved in research: philosophical paradigm, strategies of inquiry, and research methods are discussed thoroughly in this section on research design (Creswell & Creswell, 2018).

4.1.1 Positivism vs. interpretivism

Mainly seen as positivism and interpretivism, a philosophical paradigm is a general orientation about the world held by a researcher (Creswell & Creswell, 2018). Interpretivism indicates that knowledge is obtained through social construction by researchers rather than as value-free data (Walsham, 1995).

Interpretivist researchers use their understanding to interpret what they observe from the world. Rather than creating or interpreting facts beyond subjective biases, the purpose of positivism is to establish objective knowledge (Wicks & Freeman, 1998). As a method commonly used in natural science (Wicks & Freeman, 1998), positivism guides my thesis for two reasons. In line with the

world view of positivism, this thesis is designed to determine cause-effect relationships in the context of franchise. Problems studied under this philosophy reflect the need to identify and assess the possible causes that influence the outcomes. Built on empirical facts from observation and experimentation, positivism relies on highly structured quantitative and statistical analysis. Following this well-developed diagram, this thesis focuses on the quantifiable observations and highly structured statistical methodology to enable generalisation. Therefore, positivism is the core philosophy of this thesis.

4.1.2 Deductive vs. inductive

Deductive and inductive research are the two dominant research approaches. In deductive research, typically hypotheses are drawn from existing theories, and then are tested with collected data. In contrast, inductive research starts with empirical data. Researchers then generate theories that emerge from the data (O'Reilly, 2009).

In this thesis, the deductive approach with a more formal structure of research was applied. Core theories and extensive works of literature on franchising that provided strong support for generalisation were explored initially (Neuman, 2011). Agency theory, the resource-based perspective, and relational view were utilised to explore the conceptual model presented above. Based on agency theory and the resource-based perspective, a franchisor's control over franchisees and pooled resources owned by franchisees were analysed to be the critical elements in influencing performance. Based on the above hypotheses,

this model is also intended to test the mediating role of trust, absence of opportunism, and information sharing.

4.1.3 Quantitative vs. qualitative

Quantitative, qualitative, and mixed methods can all contribute to research design (Creswell & Creswell, 2018). On the one hand, the quantitative method focuses on numeric values and explores “what” questions, matching outcomes with knowledge and comprehension. On the other hand, the qualitative method focuses on text or narrative from respondents with a focus on “why” and “how” questions, matching outcomes with analysis, evaluation, synthesis, and application. Quantitative research generalises from a vast population with large samples; qualitative research is to capture elusive evidence for learning and further development (Collis & Hussey, 2014). A mixed method involves collecting, analysing and integrating quantitative and qualitative research. This approach provides a better understanding of the research problem than either alone. Therefore, statistical analysis with a primary method of survey and a supplementary method of semi-structured interviews were chosen as the analytical techniques for this thesis.

This thesis mainly made use of the quantitative approach to explain and interpret the relationship between cause and effect. Survey research strived to provide a quantitative or numeric description of trends, attitudes, or opinions of a population by studying the sample (Creswell & Creswell, 2018). A franchisee-oriented questionnaire thereby was proposed on the basis of an extensive review of the literature, focusing on a contemporary event in

addressing “*To what extent does the franchisor-franchisee relationship affect franchisee performance?*”. Although a survey questionnaire could be particularly useful in reflecting the characteristics of a large population, the standardised questionnaire items simplify complex problems and issues in the context of social life. Therefore, a supplementary method using semi-structured interviews were developed to verify the consistency of responses and gain greater insights into the topic.

4.2 Sample and procedure

Employing a combination of methods allows for the triangulation of data (Eisenhardt, 1989b). Several data sources were used, including (i) survey questionnaires from franchisees, and (ii) semi-structured interviews from both franchisees and franchisors to enable representative sampling.

4.2.1 Survey questionnaire

Sample selection

To conduct the survey, non-random purposive sampling was used to select the key respondents. A proposal was initiated to appeal to the cooperation with CCFA (see Appendix 1). Three honorary CCFA members were selected to analyse the franchise system information thoroughly, with a focus on real estate, service, and retail franchise systems. Among the three major streams, two of them were from the top 100 franchises that shown strong expansion momentum (CCFA, 2019). These three franchises systems could also be classified into three categories, include business format franchise, product franchise, and manufacturing franchise. Although the business format

franchise was the most popular type of franchise, product franchise and manufacturing franchise were covered as a comparison. The franchisors from these three franchises were recommended by a college professor who used to work in the franchising industry. As a result, the referred franchisors were more willing to disclose detailed information during the interviews.

Empirical research was carried out to examine the research model involving a diverse range of business context rather than a single industry in China. To avoid narrowing the sample to limited industries, the rest of the participants, including both franchisors and franchisees, were selected by random sampling drawn from multiple industries. Along with the three selected franchise systems, 107 randomly identified outlets were also included in this analysis (see details in the descriptive analysis below). The informants were professionally interested, conscientious, and committed to providing genuine answers with the assurance of confidentiality. To further ensure that the sample included the most knowledgeable franchisees, a “snowballing technique” was used when distributing the questionnaire. That is, the initial informants were asked to recommend other franchisees who could offer further insight within their franchise systems. In this regard, the large sample from multiple populations increased the generalisability of the findings.

Data collection

The primary approach of data collection involved online questionnaires. After ethical approval, data were collected by means of a survey questionnaire formulated initially in English and then translated into Mandarin Chinese after review by the thesis supervisors and five professors of management. In

addition, to eliminate any deviation of meaning in a cross-cultural setting, the instrument was back-translated into English and reviewed by twenty PhD candidates. To check validity, the questionnaire was piloted with a group of entrepreneurs, including both franchisors and franchisees, who worked in the franchise industry. The use of appropriate terminologies and meanings for each item was fixed before distributing to the appointed franchise. To improve the clarity of the questionnaire, some phrasing adjustments were made based on comments from the reviewers. For example, two reverse-coded questions in measuring franchise relationship were removed, and two related measurements of “trust” was merged into one item. Generally, no significant adjustments in the items were made based on the feedback from the reviewers. The questionnaire then was rearranged and distributed online via Qualtrics, with a covering invitation letter and the assurance of confidentiality (see Appendix 2).

Taking about ten minutes to complete, the questionnaire contained five core sections, covering (i) basic franchise information, (ii) how the franchisor monitors the franchisee, (iii) the franchise relationship, (iv) the resources of the franchisee, and (v) franchisee performance. General questions involved the demographic characteristics of the franchisees were presented at the beginning of the questionnaire. Section two was related to the franchisor’s control over franchisees, measuring behaviour control, output control, and input control. The third section was designed to measure the relations between franchisor and franchisee with the facets of trust, absence of opportunism, and information sharing. Franchisee’s physical resources, human resources and organisational resources were questioned in the fourth section. The final section was related

to franchisee performance regarding satisfaction and financial growth. Previously established scales were employed to measure the constructs as shown below. On the basis of an extensive review of literature on franchising, the new-established measures were reworded and adjusted to fit in the franchising context (see details in 4.3).

Pre-validated scales, as shown below, were used to measure the constructs, except for the demographic characteristics and financial performance. A seven-point Likert scale with endpoints of ‘strongly disagree’ and ‘strongly agree’ (see Appendix 2) was used to measure all the items in the current thesis. A Likert scale is an ordered scale from which respondents choose the option that supports their attitudes or expresses their feelings most appropriately by measuring the extent to which they agree or disagree with a particular statement (Likert, 1932). The scope of the Likert scale is broader than that of other scales and used to measure some complex multidimensional concepts or attitudes that hard to measure by other scales. For respondents, the form of Likert scales makes it easy to mark their positions. The odd number of Likert scale questions allows respondents to be neutral rather than force them to express an either-or opinion (Cox, 1980). However, leaning towards choosing the extreme option gives rise to the outcomes that are clustered around the middle or at each end of the scale. For researchers, objective and truthful answers are obtained (Colman et al., 1997). With a Likert scale, the mean and median of the responses associated with charts and graphs are easy to create when analysing the data (Lewis, 1993). The advantages of simplicity and

versatility explain why the Likert scale is pervasive in survey research (Johns, 2010).

The seven-point Likert scale was chosen to gather quantifiable information in this thesis for several reasons. Firstly, reliability and validity are improved with seven response categories rather than scales of the same length (Preston & Colman, 2000), because verbal clarification is practical for a seven-point format. The wide range of answers expresses how respondents feel about a complex question (Dawes, 2008). Secondly, the accuracy of data may drop when the number of Likert scale points is below five or above seven (Johns, 2010). An odd number of points asks questions from a neutral standpoint and avoids forcing respondents to deliver a precise answer when they lack a definite opinion. This avoids frustrating respondents, which could jeopardise the quality of data. Thirdly, expanding the number of response categories beyond seven might be futile because the nature of the human mind is limited by a span of immediate memory and attention (Colman et al., 1997). Overall, a seven-point Likert scale with its relatively accurate evaluation and reflection of respondents' views appears to be the best solution for the survey questionnaire in this thesis.

Data cleaning

This survey was conducted in China from May 2019 to November 2019. With a cover letter explaining the purpose of this thesis and a completion instruction, a total of 819 questionnaires were distributed to the franchisees. Unusable survey questionnaires were discarded on the basis of the following rules: (i) unanswered questions exceed 25 %; (ii) incomplete major

independent variables; or (iii) non-response to key measurements of dependent variables, especially financial growth. However, those questionnaires with only a few items (i.e. 3 or 4 items) left blank accidentally were retained in the data set (Saraogi, 2009). The few missing data items were substituted with the series mean method using SPSS. After these rules were applied and invalid responses removed, there were 351 valid responses, a response rate of 43%.

These incomplete survey questions might have been seen as too sensitive for the respondents to answer due to their concerns about the content of the question. Some of the participants either failed to include their profile or were reluctant to answer the questions regarding profit or revenue. A number of respondents purposely skipped certain questions. When the questionnaires had been received, respondents were contacted once again to acquire complete information via the contact information provided voluntarily at the end of the survey. Also, regional agencies were reached for further information, particularly financial data. Such incomplete questionnaires with missing data could lead to validity problems of the primary results (Dong & Peng, 2013). The issues of non-response bias will be discussed later.

4.2.2 Semi-structured interview

Survey-based research relying solely on a single method could introduce systematic issues because individuals may have a slightly different understanding of the same question. In practice, franchisor and franchisee might have different perceptions regarding the nature of the franchise relationship. As a supplementary provision to support the quantitative findings,

in-depth semi-structured interviews were used to provide broader insights and a better understanding of the meaning of each case (Patton, 2002).

Before the interviews, interview guides were designed and piloted (see Appendix 3). To guarantee the accuracy and completion of data, two pilot interviews were issued to ensure every question was clear. A number of franchisors and franchisees from the franchise systems that participated in the survey were contacted. Invitations were made by phone calls in advance to get permission and schedule an appointment having outlined the subject of the interview, approximate length, and potential participants. To stimulate motivation for participation, the purpose of this thesis was carefully explained, and the interviewees were notified that their answers would be anonymous. The interviewees were asked face-to-face to provide the most appropriate information about the outlets in detail. As a complex construct, franchisee performance cannot be measured by a single factor; therefore, both quantitative and qualitative assessments were used to determine the possible factors. At the end of the interview, a few open questions were asked to understand the interviewee's interpretations of the factors that could affect the franchisee performance.

A total of twenty in-depth semi-structured interviews with franchisors and franchisees were conducted. Almost 1/3 of the interviewees were from the three selected franchise systems. They were generous in releasing financial documentation, but also strict with confidential and legal materials, such as contracts and manuals so as to avoid disclosure of sensitive information. The interviews at the franchisor level lasted for over 60 minutes. All interviews

were recorded and subsequently transcribed to ensure their reliability. No franchises or particular individuals were named in the findings to assure the confidentiality of all the respondents. Table 4-1 (on the next page) summarises the descriptive information of interviewees.

4.3 Measures

As argued above in the literature review, no single theory can explain franchise performance. Therefore, identifying the potential variables of the franchisor, the franchisee, and the franchise relationship through multiple lenses helped gain a richer understanding. Based on the research question, the thesis intended to explain the variation of franchise performance at the franchisee level in three main areas: (i) control mechanisms such as quality or process monitoring via formal contracts under agency theory; (ii) franchisee's pooled resources based on the resource-based perspective; and (iii) the qualities of franchise relationship following relational view. These evenly weighted measurements of the key variables used in previous research surveys were reviewed. Most ways of measuring and operationalising were derived from those used in previous studies, as discussed below. Details of the respective original constructs are in Appendix 4.

Table 4-1: Descriptive Data of Participants

Participant ID	Position	Industry	Gender	Age
1	Regional franchisor	Real estate	Male	42
2	Franchisor	Fresh produce	Male	32
3	Regional franchisor	Food & restaurant	Male	30
4	Regional franchisor	Auto service	Male	45
5	Franchisor	Laundry	Male	38
6	Franchisor	Fast food	Female	28
7	Franchisor	Manufacturing	Female	30
8	Franchisor	Agriculture	Male	48
9	Franchisee	Personal service	Male	31
10	Franchisee	Medical beauty	Female	35
11	Franchisee	Beauty makeup	Female	32
12	Franchisee	Jewellery	Female	36
13	Franchisee	Vehicle-repairing	Male	28
14	Franchisee	Health care	Male	25
15	Franchisee	Logistic	Male	40
16	Franchisee	F&B	Female	38
17	Director	Physiotherapy	Male	29
18	Regional franchisee manager	Laundry	Male	37
19	Co-operator	Laundry	Female	43
20	Consultor	Franchise	Male	49

Source: Semi-structured interviews

4.3.1 Franchisor's control over franchisees

As analysed above, to minimise or eliminate the motivation of shirking via output control, franchisors can either: (i) monitor the behaviour of franchisees through behaviour control and screen the behaviours of shirking adequately through input control, or (ii) provide the incentive of residual claims to downstream earnings (Kaufmann & Dant, 1996).

Control is a higher-order latent variable measured by three first-order constructs: behaviour control, output control, and input control (Mellewigt et al., 2011). Behaviour control standardises responsibilities and actions, with an overriding concern for imposed top-down procedures and methods.

Consequently, it tends to cause rigid and cautious behaviours. A five-item scale adapted from Snell (1992) and Mellewigt et al. (2011) was used to measure behaviour control. A sample item for behaviour control was “Frequent meetings are held with subordinates to discuss their performance.”

Output control precisely defines the outcome for franchisees to pursue (Mellewigt et al., 2011; Goebel & Weissenberger, 2017). Measures used four original survey questions from Goebel and Weissenberger (2017) such as: “Numerical record is used as the chief index of effectiveness.” To operationalise input control in a franchised outlet, three statements that originated from Snell (1992) and Goebel and Weissenberger (2017) were used, for example, “Individuals must undergo a series of evaluations before they are hired.”

The survey questionnaire from question 6.1 to question 6.12 under the topic of how franchisors monitor their franchisees tested hypotheses about control, covering three main control mechanisms (see Appendix 2), which are behaviour control (Q6.1-Q6.5), output control (Q6.6-Q6.9), and input control (Q6.10-Q6.12).

4.3.2 Franchisee's pooled resources

As well as the control mechanisms used to oversee franchisees and compel them to respect the franchisor's rights and interests (Fama & Jensen, 1983), the pooled resources of franchisees needed for the franchise system played a crucial role in franchisee performance. The resource-based perspective explains the value of establishing franchising. The franchisor extends its scarce resources by seeking franchisees who can pool resources (Alon et al., 2015). Taking advantage of potential resources, such as finance, local knowledge about the market, and social capital, has a significant role in franchised outlets and the franchise system (Jambulingam & Nevin, 1999). The approach to measuring provision of the franchisee's pooled resources was measured as follows.

The advantages of economies of scale by owning physical resources lead the franchise to superior performance in cutting the cost (Cecil & Goldstein, 1990). This thesis then initiated three statements about physical resources, particularly in the context of franchising, for example: "I had enough financial capital before joining this franchise system." Human resources, as the stock of business skills and knowledge of franchisees, has a strong relationship with the

success of a franchise system. The detailed measurements (see Table 4-2) were adopted from Griffith and Lusch (2007), such as “I have many business skills and a great deal of business expertise”. As a source of organisational resources, social capital links the franchise to a broader marketplace (Pirolo & Presutti, 2010) accessing the core element of the business (Hormiga et al., 2011). Measures for social capital were adopted from Lado, et al. (2008) and Park and Luo (2001) with items like “I have a large network of business contacts.”

The survey questionnaire from question 8.1 to question 8.10 under the topic of the resources owned by franchisees tested hypotheses about resource (see Appendix 2), covering three main types of resources, which are physical resources (Q8.1-Q8.3), human resource (Q8.4-Q8.6), and organisational resources (Q8.7-Q8.10). Given the insight that a franchise pools the resources of franchisor and franchisee, the franchisor might be proactive in selecting the ‘right’ franchisee with pooled resources (Saraogi, 2009) to improve the franchisee performance, especially in the early years of operation.

4.3.3 Trust

A close partnership between franchisor and franchisee help both parties achieve mutual profitability in the long term (Watson & Johnson, 2010). Given the complexity of the franchisor-franchisee relationship, this thesis adopted a three-dimensional view of relational exchanges in the franchising context, namely trust, absence of opportunism, and information sharing to identify the effects on franchisee performance.

As a critical ingredient in successful relational exchanges (Watson & Johnson, 2010), trust facilitates contractual adaptation, avoids contracting costs, and lowers the need for monitoring (Lado et al., 2008). The four instruments that were used to measure trust had been applied in several previous studies (Crosby et al., 1990; Jap, 1999; Griffith & Lusch, 2007; Koza & Dant, 2007; Chiou & Droge, 2015). In this study, measurement focused on franchisee trust in the franchisor. For example, the franchisee was asked whether “This principal is a company that stands by its word.” It was recognised that having franchisee perspectives only was a limitation in the measurement of trust. However, it was not feasible to measure franchisor trust in the same franchisees systematically.

4.3.4 Absence of opportunism

The risk of opportunism is prevalent in franchising, and a significant factor in determining the success of a franchise system (Saraogi, 2009). Franchisees may either free ride by withholding their efforts to the franchise or simply act opportunistically. These concerns are compounded by the uncertainty of a franchise system (Gulati, 1999). This thesis adopted the statements from Koza and Dant (2007) and Margarita, et al. (2018) to measure the absence of opportunism in the franchise setting from the franchisee perspective. A sample measure was: “We can work together well in this business.” Again, the measurement was from a franchisee perspective, and recognised as a limitation of the research.

4.3.5 Information sharing

As a key element of the franchise relationship, information sharing facilitates interactions of resource transfer, recombination, or creation (Dyer & Singh, 1998). For example, the extent of information captured in the network was measured with the question “The exchange of information between the franchisor and me goes beyond the scope agreed in our contract” from Dant & Nasr (1998). Other items are listed below in Table 4-2. As with trust and absence of opportunism, this measure was from a franchisee perspective.

A high-value franchise relationship played a crucial role in the survival of a franchised outlet and the achievement of franchisee performance. Hypotheses about the three variables of the franchise relationship were tested in a section covering trust (Q7.1-Q7.4), absence of opportunistic (Q7.5-Q7.8), and information sharing (Q7.9-Q7.13) separately (see Appendix 2).

4.3.6 Franchisee performance

In franchising studies, the dimensions of performance have comprised subjective performance measured by the franchisees’ satisfaction and objective performance derived from financial evidence (Gorovala & Windsperger, 2013). As they affect the decision of a franchisee to stay or leave a franchise system (Crosby et al., 1990), both the non-financial and financial items were designed so the respondents could measure overall franchisee performance.

Satisfaction

Satisfaction has been identified as a fundamental dimension in analysing the quality of long-term relationships (Rodriguez et al., 2006; Homburg & Rudolph, 2001; Chen, 2011; Wang et al., 2015) by determining the partner's attitude and behaviour in participating in collective activities (Spiteri & Dion, 2004). In a franchise system, the satisfaction of franchisees is a widely accepted determinant of success in the franchise relationship (Chiou et al. 2004; Bordonaba-Juste & Polo-Redondo, 2008; Watson & Johnson, 2010; Combs et al., 2011). Thus, the franchisee perception of satisfaction that possibly guided the further interactions between franchisor and franchisee was measured (Morrison, 1997; Davies et al., 2011).

The degree of satisfaction was collected based on the franchisees' assessment. The construct of satisfaction was measured with a six-item scale, adopted from Dant et al. (2013) and Chiou and Droge (2015). As well as the four dimensions of satisfaction, namely quality of products, the attractiveness of prices, quality of marketing effects, and the cooperation of social interactions (Ruekert & Churchill, 1984), an overall assessment of the franchise system was added. This was "I am happy about my decision to choose this franchise system." In the questionnaire (see Appendix 2), the franchisee's satisfaction was measured with a seven-point Likert scale (Q9.1-Q9.6).

Statements used to measure the constructs are summarised below (see Table 4-2). Most of the survey questions were adapted based on the context of a franchise and were reworded when necessary to reflect the franchisee's point

of view. A few new questions were designed based on the concepts identified above, such as the questions on physical resources.

Table 4-2: Variables Measured Using the Likert Scale

Label	Item
Behaviour control	
BC1	Frequent meetings/visits are held to discuss performance with the franchisor.
BC2	Policies and procedures manuals define the work steps for routine tasks precisely.
BC3	The franchisor makes sure I know what to do and how to do it.
BC4	My performance is evaluated primarily based on how well I accomplish an assigned task.
BC5	My dealings with the franchisor are subject to stringent rules and regulations.
Output control	
OC1	Numerical records/ financial ratios are used as the chief index of effectiveness.
OC2	Pre-established targets are written in stone and are used as a benchmark for evaluations.
OC3	My performance is evaluated primarily based on the results of an assigned task.
OC4	My rewards or remuneration components are linked to results or the achievement of specific assigned performance goals.
Input control	
IC1	I underwent a series of evaluations before selected.
IC2	I received substantial training and skill development before assuming responsibility.
IC3	Emphasis is placed on hiring the best-suited applicant for a particular position.
Physical resources	

Label	Item
PR1	I had enough financial capital before joining this franchise system.
PR2	I was able to provide the land/building that needed by the franchisor.
PR3	I provided the equipment needed by the franchisor.
Human resources	
HR1	I had business skills and expertise.
HR2	I have a great deal of business education and training.
HR3	I had engaged in other business ventures before buying this franchise.
Organisational resources	
OR1	I have a large network of business contacts/ acquaintances.
OR2	I have utilised my <i>guanxi</i> connections in running my franchise.
OR3	The relationship with the franchisor is more important to me than profits from individual transactions.
OR4	I am committed to preserving a good working relationship with other franchisees
Trust	
TR1	The franchisor is very reliable and stands by his/ her word.
TR2	The franchisor has always been fair and honest in dealing with me.
TR3	The franchisor will act according to the agreement in the cooperative contract.
TR4	The information provided by the franchisor is credible.
Opportunism	
OPP1	The franchisor and I are “in it together”.
OPP2	The franchisor and I do not take advantage of each other.
OPP3	The franchisor and I are constantly doing something for each other.
OPP4	The franchisor and I have a mutually beneficial relationship.
Information sharing	

Label	Item
IS1	The franchisor helps me identify and develop good ideas.
IS2	The franchisor encourages me to express my ideas to him/her.
IS3	If I find a better way to do something, the franchisor will share it quickly with others.
IS4	When I share problems with the franchisor, I receive an understanding response.
IS5	The exchange of information between the franchisor and me goes beyond the scope agreed in our contract.
Satisfaction	
ST1	I made the right decision to set up this franchise.
ST2	I am satisfied with the quality of the franchise products and/or services.
ST3	I am satisfied with the prices for the franchise products and/or services.
ST4	I am satisfied with the cooperation with the franchisor.
ST5	I am satisfied with this franchise relationship.
ST6	I am satisfied with the franchisor's efforts.

Financial performance

A large number of research studies on franchisee performance concentrate on survival or growth rate of the overall franchise system (Shane & Hoy, 1996). This thesis shifted attention to the financial performance of individual outlets. Financial ratios were identified as one of the most crucial criteria for prospective franchisees when considering joining a new franchise system (Sorensen, 2001). According to Holmberg and Morgan (2004), franchisees working within a profitable system were more likely to succeed. Using a method widely applied in Chinese businesses studies (Yin & Zajac, 2004),

franchisees were asked to provide the percentage change of annual profit and revenue for three consecutive years (see Appendix 2). Outlets with outstanding performance were expected to retain their capabilities and perform well in subsequent years; therefore, the three consecutive-year average should be more representative than a single year.

As standard measures of the success of a venture, profit growth was calculated by the difference between the profit in two consecutive years divided by the profit one year before. The measurement of revenue growth followed the same process. For those respondents who had owned for a franchise less than three years, the most recent growth rate replaced the average of consecutive years' growth rate.

As performance is a multidimensional concept, integrating different dimensions of performance is valuable in empirical studies (Wiklund & Shepherd, 2005). To obtain greater validity, whenever possible, the statistics of financial indicators were gathered from both franchisor's and franchisee's perspective. The combination of the dataset provided a fuller picture based on evaluation from both sides.

4.3.7 Control variables

To strengthen analysis, this thesis included eight control variables, in two main areas, to control possible effects on the variation of franchisee performance.

Franchise attributes

Franchise age was measured by the length of operation. This attribute of franchise was operationalised as the number of years that the franchisee has been working with the franchisor in a franchise system until 2019 (Jambulingam & Nevin, 1999; Opper et al., 2017). For example, if the franchisee joined the franchise system and started to work with the franchisor since 2010, then its franchise age was ten years.

Franchise size could be either considered as the expansion or growth of a franchise or an indicator of success (Mellewigt et al., 2011). To certify that the model was specified appropriately in accordance with previous franchising research, the size of the franchise system was measured by the number of employees working in an outlet (Poppo & Zenger, 2002).

Types of franchise were categorised as business format franchise, product franchise, and manufacturing franchise as these potentially contribute to franchisee performance.

Geographical differences can have significant effects given the spread of franchising. *Franchise location* was measured by nine representative provinces in China and will be elaborated more in detail in the next chapter.

Franchisee characteristics

Given the central role of franchisees, the characteristics of franchisees are influential factors in making a franchise system a success (Burkle & Posselt, 2008; Harmon & Griffiths, 2008; Watson, 2008; Ribeiro & Akehurst, 2014).

Gender (male = 1, female = 2) of franchisees was collected as a demographic variable in the first section of the questionnaire (see Appendix 2).

Age of franchisees was measured by five groupings for every decade range from “under 30” to “over 60”. The respondents were asked to select their age group.

Five levels of *education* were measured: middle school, high school, bachelor’s degree, master’s degree, and PhD. Franchisees were asked to specify their highest level of schooling at the beginning of the survey questionnaire (see Appendix 2).

Experience was considered as the extent to which the franchisee had accumulated prior practice in a similar industry (Jambulingam & Nevin 1999). Based on the inconsistent views about the effect of experience as suggested above, the number of outlets that respondents operated or owned was used as the measurement of prior experience.

4.4 Method

Having been categorised into three main factors (the franchisor’s control over franchisees, the pooled resources owned by franchisees, and the quality of the franchisor-franchisee relationship), the above variables were used to explain variations in franchise performance at the franchisee level. A partial least squares structural equation modelling (PLS-SEM) approach was applied to estimate the model, using the Smart PLS 3.0 program. A repeated-indicator

approach (Becker et al., 2012) was used to construct the second-order constructs, followed by a two-step analysis. That is, the measurement model, which measured psychometric properties, including reliability and validity, and structural model, which measured the model fit, as illustrated in the next chapter.

4.4.1 Non-response bias

One of the aims in academic research is to maximise generalisability (Mentzer, 2008). To make sure the final samples are appropriately representative of the population (Clotey & Grawe, 2014), non-response bias was assessed by comparing the responses of early and late waves of returned surveys on the key variables (Armstrong & Overton, 1977; Lambert & Harrington, 1990). Split into two segments, the returned questionnaires consisted of the questionnaires received before the reminder and questionnaires received after a second contact three weeks later. The early and late groups were comprised of 280 and 71 responses respectively. A T-test was conducted to compare the systematic differences between the early and late responses.

4.4.2 Common method bias

Common method bias implied bias in a set of data due to the variance attributes to the measurement method. For example, the way the questions were constructed, the way in which the questions were asked, and the audience asked, etc. (Podsakoff et al., 2003). Several remedies regarding the procedural method and statistical tests were used to avoid common method bias in the survey, as suggested by Podsakoff et al. (2012).

To minimise the sources of deviation, procedural control was applied to reduce the occurrence of common method bias in questionnaire design and measurement. The procedural methods included measuring the prediction and target variables from different sources, setting the order of the questions and the length of the questionnaire reasonably, and protecting the anonymity of the respondents to reduce their conjecture of the measurement purpose. First, reliance on single respondents within a single firm might cause a common method bias. To deal with the issue resulting from a single point of view, data regarding perceptions of performance was collected from both franchisor and franchisee viewpoints. The questionnaire was also distributed to different industries to minimise the effects of bias. In this regard, the key informants were not limited to one side and one source, as discussed in 4.2. Next, all multidimensional constructs were designed and pre-tested to provide support for the validity of the measurements (Huber & Power, 1985). Last, to reduce the common method bias, the confidentiality of respondents was assured, and all published outputs were promised to be anonymous.

The procedural methods mentioned above cannot eliminate the common method deviation completely due to limitations in actual experimental designs and measurement operations. The statistical methods used further reduce the impact of common method bias. Regarding the statistical remedy, Harman's single factor test was used and presented in the next chapter. If there is no single factor accounted for more than 50% of the total variance, it suggests that common method bias is not a major concern (Podsakoff et al., 2012).

4.4.3 Structural equation modelling

PLS-SEM is often chosen primarily for research exploration and theory development (Hair et al., 2012) in academic research. This method is one of the most favourable techniques for this thesis for several reasons. First, consistent with the objective of this thesis, this approach aims to develop and test a theoretical model by explaining and predicting (Chin, 2010). The cause-effect relationship (Henseler et al., 2009; Ringle et al., 2012) on franchisee performance can be assessed. Second, PLS-SEM can handle relatively complex causal models with both formative and reflective indicators and constructs (Hair et al., 2012). This thesis estimates a hierarchical model with reflective constructs. Third, this approach is capable of dealing with various constraints effectively, for example, it makes minimal demands on measurement level and requires a smaller sample size than alternatives (Chin, 2010; Hair et al., 2012). As a common rule of thumb for robust PLS-SEM estimations, the minimum sample size is suggested as ten times of the maximum number of paths aiming at any construct in the outer model ($6*10=60$) and inner model ($3*10=30$) (Barclay et al., 1995). The sample size of this thesis is therefore much larger than this minimum requirement of 60. Finally, this thesis focuses on the mediation effect of the franchise relationship. The estimation of mediation and moderation effects is relatively precise with the involvement of measurement error, which attenuates the estimation of relationships and improves the validation of theories (Chin et al. 2003). All in all, PLS-SEM is an appropriate data analysis approach for this thesis.

4.4.4 Measurement model

The procedure of PLS-SEM distinguishes between the measurement model and the structural model. The measurement model is conducted before the structural model. In the measurement model, the nonparametric procedure tests the statistical significance of various PLS-SEM results. Reliability was measured by factor loading, Cronbach's α , and composite reliability, and validity was measured by content validity and construct validity.

Reliability

To assess the measurement model by examining reliability, *factor loading*, which exceeded the cut-off values at a significant level of $p < 0.05$ (Chin, 1998) was calculated. Gefen et al. (2000) suggest that 0.70 is the minimum level for item loadings on established scales.

Cronbach's α is one of the most conservative criteria for assessing reliability by measuring the internal consistency of the attitudinal scale in a questionnaire (Ringle et al., 2018). Ranging from zero (completely unreliable) to one (perfectly reliable), a higher Cronbach's α value indicates that there is a higher internal consistency between the items that use to measure the variables. Nunnally (1978) points out that a Cronbach's α value between 0.50 and 0.70 is acceptable; above 0.70 means that there is a high degree of consistency between the measurement items of the variables, and also represents a high degree of credibility. However, Cronbach's α assumes that all indicators are equally reliable; therefore, this criterion tends to underestimate the internal consistency reliability of latent variables in PLS-SEM.

As an alternative to Cronbach's α , *composite reliability* attempts to measure the sum of latent variables factor loading relative to the sum of the factor loadings plus error variance. Composite reliability (CR) takes into account that indicators have different loadings (Henseler et al. 2009). A value of 1 for this indicator stands for perfectly reliable and 0 stands for completely unreliable (Urbach & Ahlemann, 2010). A high CR value means the measurement variables are highly correlated and measures the same latent variable. Values above 0.70 are desirable for exploratory research, and values above 0.80 or more in more advanced stages of research (Nunnally & Bernstein, 1994).

Content validity

Content validity reflects the breadth and appropriateness of the content of the questionnaire. Based on the systematic and logical approach, the factors that affect franchise performance at the franchisee level were broken down into three fundamental elements: franchisor's control over franchisees, franchisee's pooled recourse, and franchise relationship characterised by trust, absence of opportunism, and sharing information. The design of scale used in this thesis was based on the framework of related pieces of literature such as Snell (1992), Mellewigt et al. (2011) and has been used previously in the franchising context (see section 4.2). As discussed earlier, the content of the measurement tool is representative, and the selected measures capture a full domain of the constructs appropriately. Thus, content validity is confirmed.

Construct validity

Construct validity refers to the degree of correspondence between constructs and their measures as expected within a theoretical framework (Nunnally,

1978). Generally speaking, construct validity is measured through convergent validity and discriminant validity (Hair et al., 2017), as shown below.

Measuring the degree to which individual items reflecting a construct converge in comparison to items measuring different constructs, *convergent validity* was assessed through the strength and significance of the *average variance extracted (AVE)* proposed by Fornell and Larcker (1981). AVE attempts to measure the explanatory power of the variation of a construct, capturing from its indicators relative to measurement errors. Fornell and Larcker (1981) suggest that the higher the value of AVE, the higher the sufficient convergent validity of the latent variable. An AVE of 0.50 or higher implies that the construct captures more variance than the measurement error (Fornell & Larcker, 1981; Chin, 1998).

Convergent validity tests whether a particular item measures the construct it is supposed to measure; whereas discriminant validity concerns the degree to which the measures of different constructs differ from one another.

Discriminant validity was assessed using several approaches, including the Fornell-Larcker criterion, HTMT (heterotrait-monotrait) ratio, and cross-loadings. The *Fornell-Larcker criterion* requires a latent variable to share more variance with its assigned indicators than with any other latent variables. Hair et al. (1998) suggest that the levels of the square root of the AVE for each construct should be greater than the correlations of the constructs. *HTMT* is the average of the heterotrait-hetero method correlations relative to the average of the monotrait-hetero method correlations, estimating the exact correlation between perfectly measured variables (Henseler et al., 2015). To eliminate the

possibility of measurement errors, a conservative cut-off value of HTMT is <0.85 for dissimilar constructs, and <0.90 for conceptually similar constructs (Henseler et al., 2015). *Cross-loading* is obtained by correlating the component scores of each latent variable with all other items (Urbach & Ahlemann, 2010). As suggest by Barclay et al. (1995), Chin (1998), and Gefen et al. (2000), each indicator loading should be greater than all of its cross-loadings. Table 4-3 on the next page outlines the assessment of measurement model.

4.4.5 Second-order model

Higher-order constructs enhance the model analysis of dimension-specific effects (Ringle et al., 2018). This thesis estimates two second-order constructs with multiple dimensions. Under this approach, control consists of three first-order components (i.e. behaviour control, output control, input control) and resources served as a higher-order construct composed of physical resources, human resources and organisational resources.

Table 4-3: Assessment of Reflective Measurement Model

	Criterion	Cut-off	References
Reliability	Cronbach's α (CA)	Proposed threshold value: CA > 0.70 (must not be lower than 0.60).	Cronbach (1951); Nunally & Bernstein (1994)
	Composite reliability (CR)	Proposed threshold value: CR > 0.70 (must not be lower than 0.60).	Werts et al. (1974); Nunally & Bernstein (1994)
Validity	Average variance extracted (AVE)	Proposed threshold value: AVE > 0.50.	Fornell & Larcker (1981)
	Fornell-Larcker criterion	The AVE of each latent variable should be greater than of the highest squared correlation with any other latent variable.	Fornell & Larcker (1981)
	HTMT	Proposed threshold value: HTMT < 0.90.	Henseler et al. (2015)
	Cross-Loadings	The constructs of the model differ from one another when: (i) the loading of each indicator is higher for its designated construct than for any of the different constructs, and (ii) each of the loadings of the construct is the highest with its items.	Chin (1998)

In the case of a second-order construct, control and resource are categorised as reflective indicators, because the multiple dimensions of each construct (i) share a common theme; (ii) have the same antecedents and consequences; and (ii) can be interchangeable. A reflective construct captures a more complex and abstract idea than all dimensions individually. The dimensions of reflective are

manifestations of the construct and are expected to covary. Dropping any dimensions should not change the conceptual domain of the construct (Jarvis et al., 2003). Whereas, a formative construct combines the individual components and captures the meaning of the individual dimensions together. Hence, formative constructs are not interchangeable, and dropping a dimension from the measurement model may alter the conceptual domain of the underlying construct (Jarvis et al., 2003; MacKenzie et al., 2005).

4.4.6 Structural model

After validating the measurement model, statistics that test the fitness of the structural model, including R^2 , Q^2 , and F^2 should be analysed.

Coefficient of determination (R^2)

The first essential criterion for the assessment of the PLS structural equation model is the *coefficient of determination (R^2)* of each endogenous variable. R^2 attempts to measure the variance explained in each of the endogenous constructs. With a range from zero to one, the higher level of the R^2 associates with more predictive accuracy. In other words, to ensure a minimum level of explanatory power, this value is supposed to be sufficiently high for the model. As a rule of thumb, the R^2 values of 0.75, 0.50, and 0.25 are viewed as substantial, moderate, and weak effect respectively (Henseler et al. 2009; Hair et al., 2011).

Predictive relevance (Q^2)

The next mean to assess the *predictive accuracy* of the structural model is the Q^2 value or known as Stone-Geisser's test (Stone, 1974; Geisser, 1975), which

builds on the blindfolding procedure. Blindfolding is a resampling technique used by PLS-SEM, which omits the specific data, predicts the omitted data points, and then uses the prediction error to cross-validate the model estimates (Hair et al., 2012). As a rule, the value of Q^2 is expected to be greater than zero in supporting the path model's predictive accuracy and relevance (Henseler et al., 2009). The higher the Q^2 , the better the predictive relevance of a tested model (Urbach & Ahlemann, 2010).

Effect size (F^2)

The effect size is measured employing Cohen's f^2 (Cohen, 1988), which indicates whether independent variables have a substantial impact on a dependent variable. This indicator is calculated by the increase in R^2 of the latent variable to which the path is connected, relative to the latent variable proportion of unexplained variance (Chin, 1998). In general, the proposed threshold of F^2 is greater than zero. Values of 0.02, 0.15, 0.35 specify the low, medium, or large effects of the predictor variable in the structural model (Chin, 1998; Cohen, 1988; Gefen et al. 2000).

Goodness of fit (GoF)

Finally, Wetzels et al. (2009) offer a set of the goodness of fit (GoF) indices with corresponding significance tests to analyse the quality of the structural model. GoF is calculated as the geometric mean of the average R^2 and average F^2 and exceeds the threshold level of 0.36 for large effect sizes. The baseline values are defined as (Wetzels et al., 2009):

$$\text{GoF small} = 0.10$$

GoF medium = 0.25, and

GoF large = 0.36.

The threshold for each criterion in the structural model is listed below in Table 4-4:

Table 4-4: Assessment of Reflective Structural Model

	Criterion	Cut-off	References
Model validity	Coefficient of determination (R ²)	Proposed threshold value: values of 0.75 strong, values of 0.50 moderate, values of 0.25 weak.	Henseler et al. (2009); Hair et al. (2011)
	Predictive relevance (Q ²)	Proposed threshold value: Q ² > 0.	Stone (1974); Geisser (1975)
	Effect size (F ²)	Proposed threshold value: values of 0.35 large effect, values of 0.15 medium effect, values of 0.02 low effect.	Cohen (1988); Chin (1998)
	Goodness of fit (GoF)	Proposed threshold value: GoF small = 0.10, GoF medium = 0.25, GoF large = 0.36.	Wetzels et al. (2009)

5 Findings

The two main ways of analysing quantitative data are the use of exploratory data analysis and confirmatory data analysis. Both techniques are employed in this thesis as follow. This chapter first analyses the valid sample data with a description and summary of the sample profile, followed by the comparative analysis and sample bias analysis.

5.1 Descriptive analysis

There were three focal representative franchises (see 5.2 for further description): a real estate franchise, a health care franchise, and a fresh product franchise. A group of small franchises from different industries were studied as well. Table 5-1 displays the profiles of respondents in different franchise systems.

Table 5-1: Number of Respondents

Franchise system	Number of respondents
Real estate franchise	93
Health care franchise	89
Fresh product franchise	62
Others	107
Subtotal	351

Source: Questionnaires

The sample locations consisted of nine provinces in which franchise systems were active in China. All nine provinces had established more than one

hundred franchise systems (National Bureau of Statistics of China, 2019). Data collected from Henan province, accounting for over 60% of the responses, was the primary data source. To make sure that the representations of measurement are equivalent across regions, a Kruskal Wallis test was conducted to examine whether multiple groups of samples belong to the same population. According to Table 5-2, the asymptotic significance 0.16 was higher than the significant level of 0.05. Therefore, there was no statistically significant difference between the groups of location, i.e. Henan province and other regions.

Table 5-2: Kruskal Wallis Test

Test Statistics			
	Satisfaction	Profit Growth	Revenue Growth
Chi-Square	11.76	11.75	11.80
df	8.00	8.00	8.00
Asymp. Sig.	0.16	0.16	0.16

Note: The grouping variable is Location.

Source: Questionnaires (SPSS Statistics 24)

5.1.1 Descriptive statistics

This section provides a descriptive statistical analysis. Table 5-3 presented the demographic variables for the sample, such as gender, age, education level, etc., and the analysis of each variable was as follows:

Table 5-3: Descriptive Data

Variables	Descriptive statistics	Frequency	Percent
Franchise years of operation	1-3 years	187	53.28
	4-6 years	30	8.55
	7-9 years	77	21.94
	10 years and above	57	16.24
Franchise type	Business format franchise	152	43.30
	Product franchise	124	35.33
	Manufacturing franchise	75	21.37
Franchise location	BJ	20	5.70
	GD	21	5.98
	HN	216	61.54
	JS	12	3.42
	LN	17	4.84
	SC	8	2.28
	SD	23	6.55
	SH	10	2.85
	ZJ	24	6.84
Gender of franchisee	Male	221	62.96
	Female	129	36.75
Age of franchisee	Under 30	135	38.46
	30-39	171	48.72
	40-49	22	6.27
	50-59	20	5.70
	Over 60	3	0.85
Education level of franchisee	Middle school	31	8.83
	High school	140	39.89
	Bachelor's degree	168	47.86
	Master's degree	10	2.85
	Doctoral degree	2	0.57

Variables	Descriptive statistics	Frequency	Percent
Experience of franchisee	1 outlet	171	48.72
	2 outlets	58	16.52
	3 outlets	17	4.84
	4 outlets	22	6.27
	5 outlets and above	82	23.36

Source: Questionnaires (SPSS Statistics 24)

There was a total of 187 franchises with one to three years of operation, accounting for 53.28% of all the respondents, followed by 77 respondents with seven to nine years of operation. The third-highest group of 57 respondents showed that 16.24% of franchises had been operating for over ten years (see Table 5-3). The lowest frequency rate of operating years was four to six years, probably indicating that individual outlets were more likely to fail during this period. This finding was consistent with the qualitative interviews, as will be shown below.

The three main types of franchise, namely business format franchise, product franchise, and manufacturing franchise were covered when gathering data. As the most popular type of franchise, business format franchise accounted for most of (43.30%) the samples, followed by the 35.33% of product franchise (see Table 5-3).

The survey was executed in many regions in China, covering nine provinces: Henan, Beijing, Guangdong, Jiangsu, Liaoning, Sichuan, Shanghai, Zhejiang, and Shandong. According to Table 5-3, 61.54% of the franchises were located

in Henan province because a convenient sampling method was used to issue the questionnaire.

Regarding gender, the sample was mostly male, accounting for 63% of the valid questionnaires. With 129 responses, female only accounted for 37% of the respondents. This was probably because males were the majority who is likely to engage in the focal industries studied in this thesis (see Table 5-3). Furthermore, the study of the relationship between entrepreneurial intentions and gender shows that only a third of entrepreneurs were female (Joensuu et al., 2013). This proportion of gender was also in line with BFA, which indicated that approximately 30% of all franchisees are women (2018).

Almost half of the respondents were between the ages of 30 and 39. The number of respondents under 30 years old was 135, accounting for 39% of the valid responses. Few were over 60 years old, demonstrating that this sample was primarily composed of middle-aged individuals (see Table 5-3).

Furthermore, nearly half of these respondents had received a college education. The high school education level was the second largest group, with 140 individuals accounting for almost 40% of the valid respondents. The total number of franchisees with middle school level was 31, and only 12 had received graduate degrees or above (see Table 5-3).

According to Table 5-3, around half of the franchisees only owned one outlet, and almost a quarter of the respondent had more than five outlets. It indicated

that over half of the franchisees had working experience in a franchise system before entering into a new one.

For each measurement, the mean and standard deviation are presented below in Table 5-4. A seven-point Likert scale (1 stands for “strongly disagree”; 7 stands for “strongly agree”) were used to measure the constructs as mentioned above.

Table 5-4: Means and Standard Deviations

Variables	Description	Mean	SD
Behaviour control	Frequent meetings/visits	5.83	1.20
	Precisely defined routine tasks	5.81	1.20
	Know what to do and how to do	5.80	1.21
	Evaluation based on accomplishment	5.62	1.51
	Stringent rules and regulations	5.64	1.25
Output control	Numerical records/ financial ratios	5.82	1.18
	Pre-established targets	5.34	1.41
	Evaluation based on outcomes	5.71	1.20
	Rewards links to results	5.95	1.10
Input control	Undergo a series of evaluations	5.81	1.22
	Receive training and skill	5.79	1.24
	Emphasis on hiring best-suited applicants	5.80	1.18
Trust	Reliable and stands by one’s word	5.99	1.12
	Fair and honest	5.97	1.10
	Act according to the agreement	6.00	1.03
	Provide credible information	6.05	1.04

Variables	Description	Mean	SD
Absence of opportunism	“In it together”	5.89	1.09
	Not take advantage of each other	5.87	1.16
	Doing something for each other	5.77	1.14
	Mutually beneficial relationship	5.79	1.09
Information Sharing	Identify and develop good ideas	5.94	1.06
	Encourages my expression	5.81	1.14
	Share good advice quickly	5.74	1.17
	Receive an understanding response	5.90	1.15
	Exchanged information goes beyond the contract	5.10	1.50
Physical resource	Financial capital	5.23	1.42
	Land/building	5.25	1.55
	Needed equipment	5.20	1.53
Human resource	Business skills and expertise	5.54	1.24
	Business education and training	5.42	1.34
	Engaged in other business ventures	5.23	1.56
Organisational resource	A large network of business contacts	5.19	1.39
	Utilise <i>guanxi</i> connections	4.93	1.65
	A relationship is important than profits	5.49	1.37
	Commit to preserving a good working relationship	5.84	1.01
Satisfaction	Make the right decision	5.90	1.06
	Quality of the products and/or services	5.78	1.13
	Prices of the products and/or services	5.69	1.15
	Cooperation with franchisor	5.79	1.09
	Franchise relationship	5.79	1.11

Variables	Description	Mean	SD
	Franchisor's efforts	5.77	1.13

Source: Questionnaires (SPSS Statistics 24)

5.1.2 Franchisor and franchisee performance

As mentioned in the sections on sampling and research procedure, the data were composed of both franchisors' and franchisees' views in various industries. The financial performance reported by franchisees was compared with the data held centrally by franchisors for further analysis.

Four possible challenges of data collection in financial performance were revealed. First, there was no public account disclosure of the financial information of single outlets online, so secondary data in China was limited. Second, some respondents might be unwilling to report negative results due to the matter of "face" in China. Third, with the intention of tax evasion or waiving franchise royalties, profits and revenues might be misrepresented or under-reported. Fourth, the financial reports could be differently presented depending on the audiences or contexts (Combs et al., 2011; Huang et al., 2007). For example, to bring a prosperous picture of the franchise system and attract more prospective franchisees, the numbers provided by franchisors were somewhat higher than those of franchisees, as shown below in Table 5-5.

As detailed financial information was confidential, cross-checking the financial data from both franchisors and franchisees increased resistance in obtaining data. The correlations of the numbers provided by franchisors and franchisees were lower than 0.31 (see Table 5-5). Financial performance from

the perspective of franchisors seemed more reliable was chosen in data analysis below for several reasons. Firstly, as required by franchising laws mentioned in 1.4, material facts cannot be concealed. The franchisor was obliged to reveal financial information about their performance and that of franchisees. Secondly, the financial performance of franchisor and franchisee were interdependent (Davies et al., 2011) due to their inter-firm relationship (Mellewigt et al., 2011). In particular, the profitability of franchisors impacted the survival and overall performance of the franchise system, for example, underperforming franchisors made the franchise system less successful (Chen, 2011). Thirdly, a financial system is commonly used to make financial information transparent in franchising. Supported by more systemic and consistent data, franchisors should know more about the central information of each outlet rather than franchisees. Fourthly, both profit growth and revenue growth provided by franchisees were lower than those of franchisors, approximately 33% and 43% respectively (see Table 5-5). One possible explanation was franchisees misinterpreted their financial information intentionally as the franchise fees were linked to the profit or revenue of the outlets. In this regard, there could be less bias regarding the information provided by franchisors. The financial indicators in this thesis thus mainly relied on the perspective of franchisors.

Table 5-5: Financial Performance from Franchisor and Franchisee Perspectives

	Profit growth	Revenue growth
Franchisor	10.35%	25.70%
Franchisee	6.94%	14.59%
Correlations	0.31	0.27

Source: Questionnaires

5.2 Franchise description

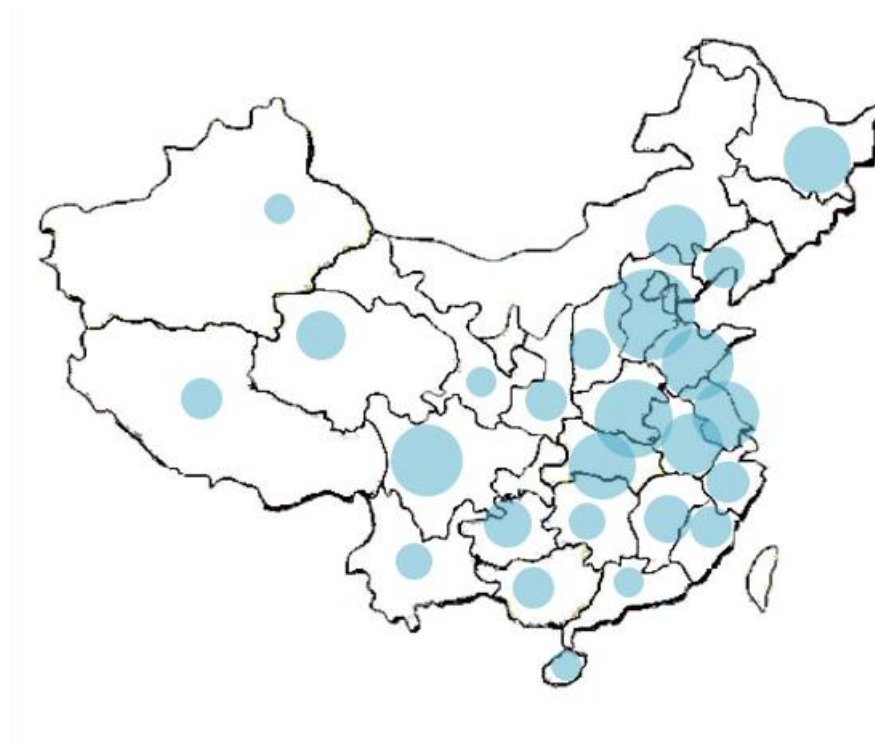
The survey population was selected from the major franchises in three industries as described above, namely: a real estate agent, a health care chain, and a fresh products store in China. These franchise systems capture a large number of the total franchises in the selected region. Detailed description of these three franchises followed by the structure of (i) *basic information*; (ii) *operation model*; and (iii) *reward* are summarised below (see Table II).

5.2.1 Franchise A

After it officially entered China in 2000, Franchise A quickly grew into a well-known real estate comprehensive service provider in China. Franchise A has established 110 regional branches in China, covering 148 major cities across the country. This franchise system has 8,608 stores and more than 62,875 employees, including 4,677 entrepreneurs (see Figure 5-1). Its service scope covered brand franchise, second-hand housing sales and leasing, overseas homeownership, etc. Through data accumulation and continuously optimised data models, Franchise A can provide scientific, comprehensive information, and appropriate decision-making references for house buyers and brokers. In

the context of big data, the number of housing resources in the sales information system has reached 10.97 million.

Figure 5-1: Franchise A Distribution Map



Designed to meet different investment options, the mode of Franchise A contains direct chain operation, franchise chain operation, and free chain operation. Some franchisees who lack capability and experience choose Franchise A as an investment. Franchisees in this mode are more like shareholders who share out the dividends, while the franchisor still takes charge of the units. Some franchisees ask the franchisor to manage the outlets for three or six months before they become independent. A senior manager is assigned by the headquarters for training and guiding such newcomers. Some franchisees choose the trusteeship agency, for example, hiring an operation

team to serve them. In general, the franchising operation model of Franchise A has evolved with the development of the franchising industry.

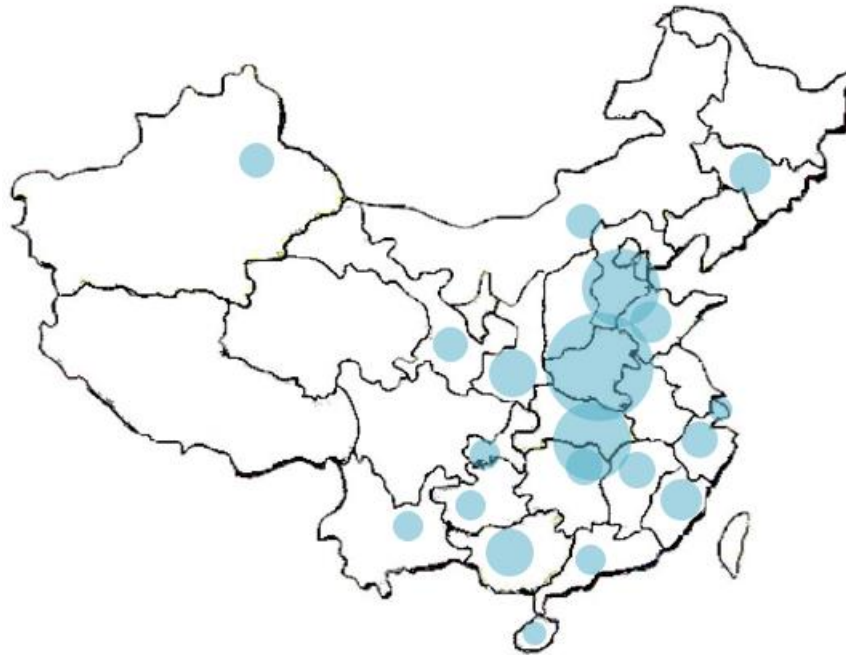
As Franchise A is committed to providing professional real estate comprehensive services to customers, both sellers and buyers gain better service with the latest activities and information. It was rated as “the first agency in real estate service brand power” by the Ministry of Industry and Information Technology of China and rewarded as an “AAAA-level Commercial Franchise System Assessment Enterprise” since 2016, and with “China Top 100 Franchise Chain” for three consecutive years.

5.2.2 Franchise B

Established in 2000, Franchise B is distributed across more than 400 cities nationwide, reaching over 3,000 directly operated and franchised stores over the last twenty years. The brand layout has been completed in the key provinces and cities across the country, forming a strong brand presence.

Using the headquarters as the base and gradually expanding to surrounding areas, Franchise B improved its industrial chain structure. The thousands of stores are distributed in a dot-like manner across the country, constituting a vast network. Franchise B is committed to establishing a logistics system that flows efficiently and smoothly via the network to ensure that the right quality of goods can reach to each franchisee. The distribution map is shown in Figure 5-2.

Figure 5-2: Franchise B Distribution Map



With a solid market assessment system, Franchise B gains a deep understanding of the development of its industry and the distribution of its competitors. Regularly, this franchisor supports its franchisees in site selection by identifying target consumer groups, consumption habits, consumption grades, surrounding business circle, public facilities, transportation, population density, etc. For example, the outlet must strictly implement a 1.5 km business circle protection system. If the proposed location has reached saturation, then franchisees are not allowed to establish a new outlet within that area.

Franchise B follows a highly standardised business model. First, the final product prices and promotion are set by the franchisor, while franchisees do not have the right to adjust the price locally. The franchisees are also required to use the same furniture decoration and construction. Secondly, to train

professional technicians, Franchise B established its own educational institution to train their specialities in a vocational-technical school. All the technicians are trained for at least one month before becoming qualified for the job. Third, Franchisor B tries to infuse its business culture among the franchisees and employees by issuing their intra-enterprise journals periodically. All these supervisory approaches are designed to enforce standardisation.

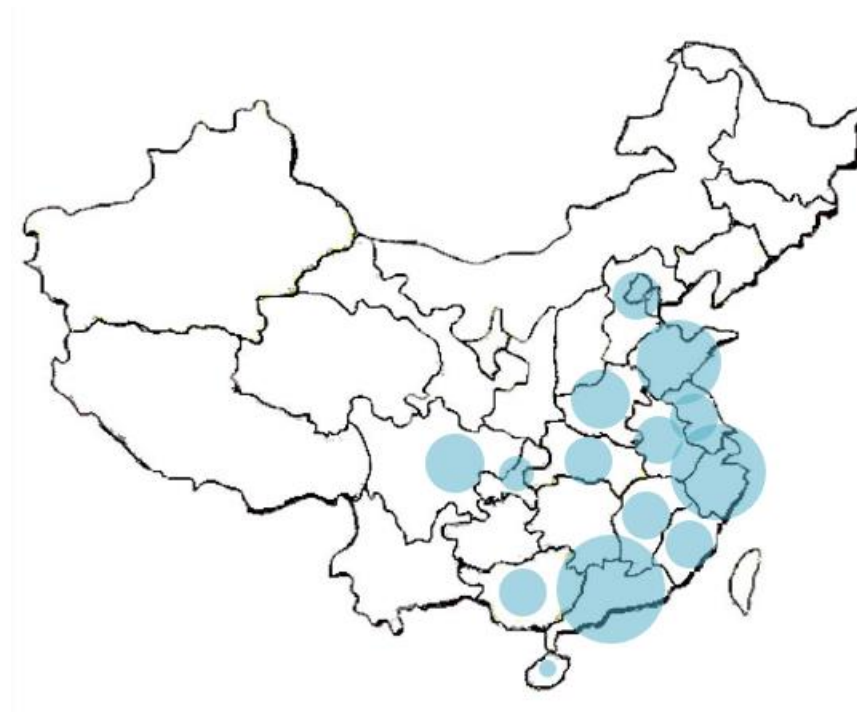
In 2005, Franchise B registered its trademark and took the lead in launching a pedicure franchise brand in the health care industry. In the following year, Franchise B won “Henan Famous Trademark”, and successfully joined CCFA, associated with other social honours. With the introduction of a series of preferential franchise policies, Franchise B expanded under the banner of China’s ‘intangible cultural heritage’. At the end of 2012, the country’s “Twelfth Five-Year Plan for Medical Science and Technology Development” was published and the traditional health care concept of “treatment of disease” was written into national policy. Premier Li Keqiang’s report on the government’s work in 2014 also determined the development of China’s health industry and supported the development and inheritance of Chinese ancient medicine and culture. In sum, the special service of Franchise B and its marketing philosophy reflects national government policy.

5.2.3 Franchise C

Franchise C is a large-scale chain enterprise that integrated fruit production, procurement, preservation, marketing expansion, brand operation, quality

grade, financial capital, education, etc. Started in 1997, Franchise C was formally established in 2001. It has launched more than 2,400 stores, covering over 40 cities across the country by 2017 (see Figure 5-3). This number is continuing to increase at a rate of more than 100 stores per month. It has more than 20 storage and distribution centres, having close cooperation with more than 200 fruit planting bases at home and abroad.

Figure 5-3: Franchise C Distribution Map



The headquarters provides critical resources of each outlet, such as inventories and related equipment. The franchisor takes charge of ongoing training and technical support, including cashier management, product management and store management to guarantee the day-to-day operation under its franchise model.

Franchise C won the “China Outstanding Franchise Brand” award in 2015 and became a well-known chain brand with more than 50 million consumer memberships across the country. Its service commitment creates a new standard of industrial service. Franchise C was rewarded as the “Top 100 Chinese Chain Stores in 2017” and was in second place for sales growth among the top 100 franchises. In 2017, its online sales exceeded 100 million yuan, marking the integration of online and offline modes.

The table below summarises the fundamental information of the three selected franchises.

Table 5-6: Summary of Selected Franchises

Franchises	Industry	Franchise model	Position	Year founded	Number of employees	Number of outlets
Franchise A	Real estate	Business format franchise	Leading real estate service provider in China	2000	62,875	8,608
Franchise B	Service	Product franchise	“Intangible cultural heritage”	2000	Over thousands of	3,000
Franchise C	Retail	Manufacturing franchise	The founder of the “Fruit Franchise Chain” in China	2001	20,000	2,400

5.3 Comparative findings between franchises

5.3.1 Comparison of demographic features

All statistical tests of demography, such as franchise years of operation and locations, and franchisee's age and experience were performed using SPSS in this section. Categorical variables are presented as proportions, while continuous variables are presented as mean and standard deviation. 152 samples are in business format franchises; there are 124 franchised outlets in product franchises and 75 in manufacturing franchises.

As shown in Table 5-7, the average years of operation of product franchises (6.0 years) is approximately 1.5 years higher than the other groups. Males in product franchises accounted for 58% of the study population, which is around 10% lower than the males in business format franchises. The results show that the distribution between male and female franchisees in product franchises is relatively balanced compared with other types of franchises. The average number of outlets owned by product franchises (2.86 outlets) is slightly higher, which indicates that franchisees in product franchises present more experience than the others. Also, there is no significant difference of the mean age (business format franchises: 32.11 ± 0.80 , product franchises: 33.95 ± 0.86 and manufacturing franchises: 34.07 ± 0.90 years) and education level among the three groups. Yet there are a greater number of participants (72%) in manufacturing franchises from Henan province, compared to 62% and 55% in business format franchises and product franchises respectively.

Table 5-7: Demographic Statistics of Franchise Type

Parameter	Business format franchises, n=152	Product franchise, n=124	Manufacturing franchise, n=75
Franchise age (years)	4.35±1.57	6.02±1.78	4.80±1.46
Franchise location (Henan)	94(62%)	68(55%)	54(72%)
Franchise size	2.15±1.10	1.97±1.15	2.20±1.09
Gender (Male)	103(68%)	71(58%)	47(63%)
Age (years)	32.11±0.80	33.95±0.86	34.07±0.90
Education level (Bachelor)	69(45%)	61(49%)	38(51%)
Experience (outlets)	2.11±1.10	2.86±1.28	2.17±1.08

Source: Questionnaires (SPSS Statistics 24)

5.3.2 Comparison of differences between A/B/C/Other

In accordance with the prior analysis in section 5.1, around 70% of the sample was from the three main franchises. Levene's test for equality of variances and T-test for equality of means were conducted to examine whether the means and variances of the demographic statistics differed between franchise A/B/C and the other franchises. Table 5-8 below shows Levene's test for equality of variances between different groups of franchise system and the group statistics of the sample origin, including means, standard deviations, and t-statistics for equality of means.

Table 5-8: Descriptives and Independent Samples Test

		Descriptives and independent samples test							
		Levene's test for equality of variances		T-test for equality of means					
		Sampling	Obs.	Sig.	t-Stat	Std. Dev.	Sig. (2-tailed)	Mean	Mean difference
Franchise age	EV	1	244	0.05*	1.06	1.69	0.29	2.45	0.21
	EVN	0	106		1.09	1.60	0.28	2.25	
Franchise size	EV	1	141	0.32	0.53	1.08	0.60	2.13	0.09
	EVN	0	72		0.52	1.18	0.61	2.04	
Franchise type	EV	1	244	0.87	1.28	0.78	0.20	1.82	0.11
	EVN	0	107		1.30	0.76	0.20	1.70	
Gender	EV	1	243	0.08	0.83	0.49	0.41	1.38	0.05
	EVN	0	107		0.83	0.47	0.41	1.34	
Age	EV	1	244	0.79	0.48	0.87	0.63	1.83	0.05
	EVN	0	107		0.49	0.81	0.63	1.79	
Education level	EV	1	244	0.04*	-1.02	0.67	0.31	2.44	-0.08
	EVN	0	107		-0.94	0.82	0.35	2.52	
Experience	EV	1	244	0.11	0.90	1.21	0.37	2.05	0.12
	EVN	0	107		0.93	1.12	0.35	1.93	

Note: EV stands for the assumption of the equality of variances and EVN stands for no assumption of the equality of variances. Under the column of sample sources, where 1 stands for the franchise A/B/C and 0 stands for the other franchises. *Significance at the 0.05 level.

Source: Questionnaires (SPSS Statistics 24)

The results show that franchise age and education level of franchisees have significantly different variances (at 0.05% significance level) between different groups in the sample, while their means have no significant difference. This means that franchise age and education level of franchisees have unequal variances, but equal means indicates that the distributions of these three demographic features are not the same across categories of types. The reason for this may be due to the low sample frequencies within the years of operation and education level of one specific group (PhD degree and above). Moreover, for characteristics including franchise size and type, gender, age, experience of franchisees, both Levene's Test for equality of variances and T-test for equality of means shows that neither the variance nor the mean differs between the groups. Results indicate that groups of sampling differ at least in terms of group variances. In comparison, there is no significant difference between the demographic statistics of franchise A/B/C and others ($p > 0.05$).

Follow the same procedure, an independent samples T-test was conducted to ensure the two groups of samples were homogeneous. As indicated in Table 5-9, the Levene's significance values of input control (0.03), trust (0.01) and information sharing (0.00) are higher than 0.05 level of significance. This means that the variances of these survey questions are assumed unequal. Whereas, except for information sharing, since the 2-tailed significance of input control and trust are 0.32 and 0.10 respectively ($p > 0.05$), the difference between the two groups is not significant. In other words, the results indicate that there is no significant difference between the groups in terms of the survey

questions between franchise A/B/C and others, except for information sharing (t = 3.17, p = 0.00).

Table 5-9: Independent Samples Test between Franchise A/B/C and Others on Survey Questions

		Independent Samples Test									
		Levene's test for equality of variances				T-test for equality of means					
										95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper	
BC	EV	0.61	0.44	1.63	349	0.10	0.20	0.12	-0.04	0.44	
	EVN			1.53	175	0.13	0.20	0.13	-0.06	0.46	
OC	EV	2.20	0.14	1.71	349	0.09	0.20	0.12	-0.03	0.43	
	EVN			1.53	162	0.13	0.20	0.13	-0.06	0.46	
IC	EV	4.69	0.03*	1.12	349	0.27	0.14	0.12	-0.11	0.38	
	EVN			1.01	162	0.32	0.14	0.14	-0.13	0.41	
PR	EV	2.35	0.13	2.22	349	0.03	0.34	0.15	0.04	0.65	
	EVN			2.08	175	0.04	0.34	0.17	0.02	0.67	
HR	EV	0.21	0.65	-0.61	349	0.54	-0.08	0.13	-0.35	0.18	
	EVN			-0.59	184	0.56	-0.08	0.14	-0.36	0.19	
OR	EV	2.42	0.12	0.70	349	0.49	0.08	0.12	-0.15	0.31	
	EVN			0.64	167	0.52	0.08	0.13	-0.17	0.33	
Trust	EV	6.85	0.01**	1.92	349	0.06	0.22	0.12	-0.01	0.45	
	EVN			1.68	153	0.10	0.22	0.13	-0.04	0.49	

Oppo	EV	2.45	0.12	1.65	349	0.10	0.19	0.12	-0.04	0.42
	EVN			1.50	166	0.14	0.19	0.13	-0.06	0.45
IS	EV	14.07	0.00**	3.67	349	0.00	0.41	0.11	0.19	0.62
	EVN			3.17	150	0.00**	0.41	0.13	0.15	0.66
ST	EV	1.37	0.24	-0.64	349	0.52	-0.07	0.11	-0.30	0.15
	EVN			-0.59	170	0.55	-0.07	0.12	-0.32	0.17

Note: EV stands for the assumption of the equality of variances and EVN

*stands for no assumption of the equality of variances. **Significance at the 0.01 level. *Significance at the 0.05 level.*

Source: Questionnaires (SPSS Statistics 24)

5.3.3 Comparison of response tendency

The descriptive analysis focused on Chinese franchisees was compared with that of the western studies (see Table 5-10). In this thesis, the mean of each construct was relatively higher than that of the western studies in general. One possible explanation could be that Chinese people tend to give an agreeable outcome or try to look good rather than express their real feelings. According to Kimmelmeier (2016), three response styles, namely acquiescent response style (ARS), extreme responding or extreme response style (ERS), and socially desirable responding (SDR), are obstacles in cultural research. Evidence showed that the attitude of reflecting stronger agreement despite having a range of possibilities or exaggerated response to the actual content was higher in collective societies than individualist societies. ARS may explain the tendency of Chinese respondents to overuse the positive.

While the tendency of overusing either end of a rating scale rather than the middle range seemed to be more pronounced in collectivistic societies, the scores of standard deviation in this thesis were slightly lower than that of the original sources indicating that the answers were located intensively because in some collectivist societies, a concern with “fitting in” might prompt certain replies. Notably, Asian respondents (Dolnicar & Bettina, 2007) paid attention to how the survey responses would position them, and thus resulted in lower levels of ERS (Kemmelmeier, 2016).

Furthermore, the interpretation of the same quotation may vary across nations and individual traits. Canache et al. (2001) debated among analyses on a key question of a multi-country survey. The meaning of the survey in a specific country may not be clear, for example, with the same question of “satisfaction with democracy” (SWD), three distinctive meanings and two views regarding the SWD was identified. In this regard, when compared the numerical answers with western studies, the descriptive analysis was slightly different.

Table 5-10 summarises the statistical information of the constructs used by the western studies to make a possible comparison (see discussion in 5.1).

Table 5-10: Comparison of Response Tendency

	α	Mean	S.D.	Sources
Behaviour control	0.60	4.99	0.86	Snell, 1992 (7-point)
	/	4.14	1.43	Mellewigt et al., 2011 (7 point)
Output control	0.71	4.23	0.72	Snell, 1992 (7-point)
	/	4.17	1.39	Mellewigt et al., 2011 (7 point)
Input control	0.75	4.81	0.83	Snell, 1992 (7-point)
Physical resource	/	/	/	/
Human resource	/	/	0.93	Griffith & Lusch, 2007 (7-point)
Organisational resource	0.81	3.93	0.58	Lado et al., 2008 (5-point)
Trust	/	4.47	1.34	Griffith & Lusch, 2007 (7-point)
	0.91	/	/	Koza & Dant, 2007 (5-point)
	0.94	4.21	0.59	Lado et al., 2008 (5-point)
	0.92	3.52	0.82	Chiou & Droge, 2015 (5-point)
Absence of opportunism	0.90	2.24	0.72	Lado et al., 2008 (5-point)
Information sharing	0.85	/	1.24	Dant & Nasr, 1998 (5-point)
				Griffith & Lusch, 2007 (7-point)
Satisfaction	/	4.48	1.33	Griffith & Lusch, 2007 (7-point)
	0.91	/	/	Koza & Dant, 2007 (5-point)
	0.91	3.89	0.63	Lado et al., 2008 (5-point)
	0.80	4.90	0.91	Mellewigt et al., 2011 (7 point)
	0.93	3.66	0.90	Chiou & Droge, 2015 (5-point)

5.4 Tests of sample validity

5.4.1 Nonresponse bias

The missing data rate was 4.6%, less than the borderline of 5% as asserted by Schafer (1999). The characteristics between respondents and non-respondents yielded no significant differences at 95% confidence interval. A T-test was conducted to compare the systematic differences between the late responses and the rest of the sample. Some characteristics, such as gender ($p = 0.55$) and age ($p = 0.99$) of the respondents with those of non-respondents were compared (see Table 5-11). The two-tailed significance level performed on the responses of these two groups yielded no statistically significant differences, indicating the representativeness of the survey data (Armstrong & Overton, 1977). Regarding outlet size and type, no significant differences between respondents and non-respondents were found. The p-value of size and type were 0.25 and 0.35 respectively (see Table 5-11), demonstrating that the assumption of equal variances held. Consequently, non-response bias was not a major problem in interpreting the results of the thesis.

Table 5-11: T-test of Late Response

	Independent Samples Test				
	Levene's test for equality of variances		T-test for equality of means		
	F	Sig.	t	Sig. (2-tailed)	Mean Difference
Gender	1.66	0.20	0.60	0.55	0.04
Age	0.40	0.53	0.01	0.99	0.00
Size	0.00	0.99	-1.14	0.25	-0.21
Type	0.00	1.00	0.93	0.35	0.10

Source: Questionnaires (SPSS Statistics 24)

5.4.2 Common method bias

Harman's single-factor test was a commonly used statistical remedy to address the common method variance, although it was less conservative as the number of variables increases (Podsakoff et al., 2003). In accordance with the test, there was no single factor that accounts for most of the variance in these variables after conducting the Exploratory Factor Analysis (EFA) (Podsakoff & Organ, 1986). Unrotated factor analysis extracted five distinct factors (with Eigenvalue > 1) which accounted for 69.38% of the total variance, with 47.43% variance explained by the first factor (see Table 5-12). The total variance explained of the first component was below the threshold of 50% (Podsakoff & Organ, 1986; Hair et al., 1998), and no single factor accounted for the majority of the variance. Thus, common method bias was judged not to be a major problem.

As a result of the complexity of franchise concepts, a number of sampling issues are addressed in this chapter. To sum up, the exploratory tests above indicate that the respondents are generally representative of the population in terms of demographic criteria. T-tests were performed between the sample from the three main franchises and the data collected randomly from the franchise directory. The results indicate there is no statistically significant difference within the franchise type and sample source. However, due to the limitation of data collection, the role of company-owned or direct operated outlets is worth testing in further research. Further confirmatory data analysis

follows in the next chapter. Smart PLS was applied for estimating the measurement model and the structural model with path analysis as follows.

Table 5-12: Harman's Single-Factor Test

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	16.60	47.43	47.43	16.60	47.43	47.43
2	3.22	9.19	56.62	3.22	9.19	56.62
3	1.97	5.62	62.24	1.97	5.62	62.24
4	1.35	3.85	66.08	1.35	3.85	66.08
5	1.16	3.30	69.38	1.16	3.30	69.38
6	0.96	2.73	72.12			
7	0.80	2.30	74.41			
8	0.76	2.17	76.58			
9	0.71	2.03	78.62			
10	0.63	1.79	80.41			
11	0.58	1.66	82.07			
12	0.54	1.55	83.62			
13	0.47	1.35	84.97			
14	0.47	1.33	86.30			
15	0.40	1.14	87.44			
16	0.38	1.09	88.53			
17	0.38	1.08	89.61			
18	0.34	0.96	90.58			
19	0.33	0.94	91.52			
20	0.31	0.90	92.41			
21	0.29	0.82	93.23			
22	0.25	0.73	93.96			
23	0.24	0.70	94.65			
24	0.23	0.64	95.30			
25	0.21	0.60	95.90			
26	0.21	0.59	96.48			
27	0.20	0.57	97.05			
28	0.17	0.49	97.55			
29	0.17	0.48	98.03			
30	0.15	0.43	98.46			
31	0.13	0.38	98.84			
32	0.13	0.37	99.21			
33	0.11	0.30	99.51			
34	0.10	0.28	99.79			
35	0.07	0.21	100.00			

Source: Questionnaires (SPSS Statistics 24)

6 Analysis

6.1 Measurement model

The quantitative approach through PLS-SEM using Smart PLS software was employed. After a two-step analysis of the measurement model and the structural model, the findings of each hypothesis were further verified. The measurement model was to verify whether each item can correctly measure the potential constructs in the thesis. A CFA was utilised to assess the reliability and validity of the variables and evaluate the categorisation of influential factors in franchisee performance as follow.

6.1.1 Reliability

Reliability tests the accuracy and consistency of a measurement tool (Creswell & Creswell, 2018). Factor loading, Cronbach's α , and composite reliability were examined to what extent the item response was consistent across the construct when observing the same phenomenon (Berkowitz & Wren, 2013). As shown below, each criterion was supposed to higher than 0.70 (Hair et al., 2017) to ensure internal consistency.

Factor loading

To achieve unidimensionality, all items were expected to meet the acceptable level of factor loadings for the respective construct (Awang, 2015). Any items with a lower standardised factor loading (< 0.70) should be deleted; whereas each construct at least have three items as suggested by Hair et al. (2010).

Table 6-1 below examined the individual factor loading of the item that varies

from 0.65 and 0.95. The factor loadings of OR2 (0.69), and IS5 (0.65) were less than the threshold of 0.70 (Chin, 1998). As such, IS5 were removed to achieve better model fitness, but OR2 (0.69), which was very close to the cut-off were kept.

Cronbach’s α

Cronbach’s α coefficient measures the degree to which the measurable variables loaded simultaneously when the latent variables increase (Urbach & Ahlemann, 2010). To improve the overall reliability of the content, substandard items (Cronbach’s α < 0.70) should be deleted (Nunnally, 1978). As shown in Table 6-1, Cronbach’s α for all the constructs ranging from 0.70 to 0.95 indicated a high internal consistency. Hence, these measurement scales were seen to be reliable and adequate for research purposes. The reliability increased if the items of IS5, PR1, and HR3 were deleted. However, all latent variables presented high reliability on the whole without modifications. Theoretical interpretability of the factors in the presence of these items was also evaluated before removing items (Jones & Jayawarna, 2010). In the end, none of the items was removed in order to reach higher reliability.

Table 6-1: Reliability and Validity

Variables	Item	FL	T Statistics	P-Value	CA	CR	AVE
Franchisor’s control	BC1	0.89	51.13	0.00	0.89	0.92	0.70
	BC2	0.86	36.55	0.00			
	BC3	0.90	60.37	0.00			
	BC4	0.73	20.00	0.00			

Variables	Item	FL	T Statistics	P-Value	CA	CR	AVE
	BC5	0.80	25.88	0.00			
	OC1	0.85	31.33	0.00	0.85	0.90	0.70
	OC2	0.77	21.93	0.00			
	OC3	0.85	31.30	0.00			
	OC4	0.87	47.08	0.00			
	IC1	0.89	49.69	0.00	0.85	0.91	0.77
	IC2	0.89	72.79	0.00			
	IC3	0.85	16.49	0.00			
Franchisee's resource	PR1	0.83	24.87	0.00	0.87	0.92	0.80
	PR2	0.93	100.7	0.00			
	PR3	0.92	78.03	0.00			
	HR1	0.88	49.69	0.00	0.80	0.88	0.72
	HR2	0.90	72.79	0.00			
	HR3	0.75	16.49	0.00			
	OR1	0.79	35.65	0.00	0.70	0.82	0.53
	OR2	0.69	13.99	0.00			
	OR3	0.70	14.64	0.00			
	OR4	0.72	15.00	0.00			
Trust	TR1	0.94	93.79	0.00	0.95	0.97	0.88
	TR2	0.95	115.33	0.00			
	TR3	0.94	84.21	0.00			
	TR4	0.92	58.35	0.00			
Absence of opportunism	OPP1	0.88	29.11	0.00	0.92	0.95	0.81
	OPP2	0.92	84.64	0.00			
	OPP3	0.92	61.77	0.00			

Variables	Item	FL	T Statistics	P-Value	CA	CR	AVE
	OPP4	0.88	31.34	0.00			
Information sharing	IS1	0.88	43.41	0.00	0.88	0.91	0.66
	IS2	0.86	35.12	0.00			
	IS3	0.86	33.73	0.00			
	IS4	0.80	20.86	0.00			
	IS5	0.65	14.25	0.00			
Satisfaction	ST1	0.85	33.54	0.00	0.95	0.96	0.79
	ST2	0.89	53.80	0.00			
	ST3	0.89	49.24	0.00			
	ST4	0.92	75.04	0.00			
	ST5	0.91	69.81	0.00			
	ST6	0.86	34.59	0.00			

Note: FL = factor loading; CA = Cronbach's α ; CR = composite reliability;

AVE = average variance extracted

Source: Questionnaires (Smart PLS)

Composite reliability

Composite reliability is a more liberal technique with less biased estimate compared with Cronbach's α (Ringle et al., 2018). In order to test the reliability for further analysis, composite reliability of each construct was revealed as well (see Table 6-1). Hair et al. (2010) recommended the threshold value of 0.70 or higher. The composite reliability of these ten constructs were greater than 0.82 or more, indicating a high consistency of the constructs. In sum, the results above (see Table 6-1) confirmed that all the scales were either

equal to or exceeded their cut-off values respectively and thus, ensured adequate reliability.

6.1.2 Validity

SEM provides rigorous tests for not only the construct reliability but also the validity as well (Jarvis et al., 2003). Validity describes how accurate a variable measure reflects what it intends to measure. In SEM, CFA is commonly used to provide an objective basis for the interpretation of validity (McFadden et al., 2014). Two aspects of construct validity, which are convergent validity and discriminant validity of the constructs are discussed as follow (Campbell & Fiske, 1959).

Convergent validity

Convergent validity examines to what extent the multiple attempts to measure the same concept are in alignment (Phillips, 1981). That is, the valid measures of the same concept are covaried highly; whereas if the items fail to correlate well with each other within their parental factor, the convergent validity is violated (Campbell & Fiske, 1959). In other words, convergence validity is to understand whether the questions between the same constructs present a high internal correlation but a low correlation with other constructs.

In this thesis, convergent validity was assessed by examining the AVE. Table 6-1 showed that the values of AVE varied between 0.53 and 0.88 and were greater than the standard value of 0.50 (Fornell & Larcker, 1981). In this regard, the measurement model was in good convergence validity.

Discriminant validity

Discriminant validity examines to what extent the measures of different constructs are distinct or theoretically unrelated (Campbell & Fiske, 1959; Bagozzi, 1993). Basically, the validity measures of each unique concept are not supposed to correlate too highly. Having been seen as a prevalent prerequisite for analysing relationships between latent variables, the assessments of discriminant validity ensure that the reflective construct has the strongest relationships with its indicators in comparison with than any other constructs (Hair et al., 2017). The Fornell-Larcker criterion is the main approach for assessing discriminant validity. An alternative approach proposed by Henseler et al. (2015) is the HTMT correlations. A cross-loadings table is also conducted to examine the item-level discriminant validity.

Discriminant validity was assessed by comparing the correlations among constructs in each section with the square root of AVE. As reported in Table 6-2, the square root of the AVE exceeded the intercorrelations of the construct with the other constructs in the model, supporting the discriminant validity (Fornell & Larcker, 1981). Each construct and its measures discriminated themselves from others in the model. It can be thus concluded that the constructs were conceptually distinct from each other without sharing the same items (Chin, 2010).

Table 6-2: Discriminant Validity Results

	BC	OC	IC	PR	HR	OR	TR	OPPO	IS	ST
BC	0.84	0.85	0.89	0.43	0.56	0.70	0.76	0.73	0.70	0.64
OC	0.75**	0.83	0.87	0.38	0.43	0.65	0.69	0.68	0.74	0.56
IC	0.78**	0.75**	0.88	0.34	0.53	0.65	0.73	0.74	0.75	0.61
PR	0.38**	0.33**	0.29**	0.89	0.78	0.75	0.43	0.47	0.44	0.47
HR	0.48**	0.37**	0.44**	0.65**	0.85	0.89	0.53	0.56	0.48	0.70
OR	0.54**	0.50**	0.50**	0.59**	0.70**	0.73	0.68	0.80	0.80	0.75
TR	0.70**	0.63**	0.66**	0.39**	0.46**	0.55**	0.94	0.86	0.86	0.70
OPPO	0.66**	0.61**	0.66**	0.42**	0.48**	0.64**	0.81**	0.90	0.89	0.71
IS	0.63**	0.65**	0.65**	0.39**	0.41**	0.61**	0.79**	0.82**	0.86	0.61
ST	0.59**	0.51**	0.54**	0.42**	0.60**	0.61**	0.67**	0.66**	0.56**	0.89
Mean	5.74	5.71	5.80	5.23	5.40	5.06	6.00	5.83	5.70	5.79
Std.D	1.27	1.22	1.21	1.50	1.38	1.52	1.07	1.12	1.20	1.11

Note: **. Correlation is significant at the 0.01 level (2-tailed).

The bold values are the square root of AVEs. Above the bold values is the Heterotrait-Monotrait Ratio (HTMT); below the bold values is the Correlation Matrix.

Source: Questionnaires (Smart PLS)

An alternative approach for assessing discriminant validity is through the HTMT ratio (Henseler et al., 2015). Follow the bootstrapping procedure, the threshold of discriminant validity values for the HTMT ratio and confidence intervals were met (< 0.90 and 1.00 respectively) (see Table 6-2), indicating the presence of discriminant validity (Henseler et al., 2015).

To further assess the discriminant validity of these measurement instruments, a widely accepted approach is the examination of cross-loading. When comparing the cross-loading of each construct with its factor loadings, it can be seen that each item loading in the same facet was higher than that of other facets. The cross-loading table indicated that each item loaded highest on its underlying constructs (see Table 6-3). Consequently, the concepts were effectively distinguished, supporting adequate discriminant validity.

In sum, a valid measurement model with the evidence of adequate reliability, convergent validity, and discriminant validity was provided. As the proper specification of the measurement model was involved before analysing the structural model, this section paved the way for proving the research model below.

Table 6-3: Cross-Loadings Table

	BC	OC	IC	PR	HR	OR	TR	OPPO	IS	ST
BC1	0.89	0.60	0.68	0.35	0.41	0.44	0.62	0.59	0.53	0.55
BC2	0.86	0.59	0.67	0.32	0.43	0.43	0.56	0.56	0.48	0.48
BC3	0.90	0.67	0.67	0.34	0.41	0.47	0.63	0.58	0.56	0.51
BC4	0.73	0.58	0.53	0.27	0.34	0.41	0.49	0.44	0.48	0.41
BC5	0.80	0.70	0.71	0.32	0.41	0.51	0.61	0.59	0.57	0.49
OC1	0.70	0.85	0.64	0.31	0.35	0.47	0.59	0.60	0.56	0.48
OC2	0.52	0.77	0.55	0.23	0.21	0.34	0.44	0.41	0.48	0.34
OC3	0.58	0.85	0.62	0.26	0.30	0.40	0.48	0.46	0.52	0.41
OC4	0.68	0.87	0.69	0.28	0.34	0.45	0.57	0.54	0.59	0.46
IC1	0.70	0.68	0.89	0.26	0.38	0.46	0.56	0.54	0.57	0.44
IC2	0.63	0.60	0.89	0.23	0.40	0.44	0.59	0.57	0.55	0.50
IC3	0.71	0.70	0.85	0.27	0.37	0.42	0.58	0.62	0.58	0.50
PR1	0.35	0.25	0.26	0.83	0.55	0.47	0.31	0.33	0.27	0.38
PR2	0.36	0.34	0.28	0.93	0.57	0.56	0.38	0.39	0.38	0.38
PR3	0.32	0.29	0.25	0.92	0.64	0.55	0.36	0.40	0.37	0.37
HR1	0.45	0.36	0.38	0.63	0.88	0.58	0.44	0.44	0.39	0.50
HR2	0.42	0.36	0.41	0.59	0.90	0.60	0.42	0.41	0.37	0.54
HR3	0.33	0.20	0.32	0.42	0.75	0.60	0.30	0.37	0.25	0.50
OR1	0.28	0.26	0.32	0.54	0.73	0.79	0.32	0.35	0.31	0.47
OR2	0.25	0.17	0.20	0.46	0.51	0.69	0.25	0.23	0.26	0.34
OR3	0.49	0.51	0.44	0.33	0.35	0.70	0.47	0.59	0.59	0.45
OR4	0.57	0.55	0.51	0.38	0.37	0.72	0.58	0.72	0.66	0.51
TR1	0.67	0.60	0.63	0.37	0.42	0.49	0.94	0.74	0.70	0.62
TR2	0.65	0.56	0.61	0.36	0.42	0.49	0.95	0.78	0.72	0.64
TR3	0.67	0.60	0.62	0.37	0.43	0.54	0.94	0.76	0.77	0.62
TR4	0.64	0.60	0.61	0.37	0.46	0.55	0.92	0.77	0.77	0.62
OPP1	0.62	0.62	0.61	0.39	0.44	0.59	0.77	0.88	0.80	0.57
OPP2	0.59	0.55	0.62	0.38	0.44	0.57	0.74	0.92	0.74	0.63
OPP3	0.58	0.50	0.57	0.37	0.40	0.57	0.69	0.92	0.71	0.60
OPP4	0.60	0.53	0.58	0.38	0.45	0.58	0.73	0.88	0.70	0.60
IS1	0.59	0.59	0.60	0.34	0.40	0.53	0.78	0.73	0.90	0.49
IS2	0.51	0.60	0.54	0.35	0.33	0.51	0.65	0.72	0.87	0.50
IS3	0.53	0.52	0.56	0.28	0.32	0.53	0.69	0.72	0.86	0.51
IS4	0.52	0.51	0.53	0.35	0.34	0.54	0.59	0.65	0.81	0.42
ST1	0.54	0.47	0.47	0.42	0.57	0.57	0.59	0.56	0.49	0.85
ST2	0.49	0.44	0.46	0.36	0.54	0.55	0.56	0.61	0.50	0.89
ST3	0.53	0.46	0.46	0.36	0.53	0.55	0.54	0.59	0.49	0.89
ST4	0.50	0.46	0.50	0.39	0.52	0.54	0.63	0.62	0.53	0.92
ST5	0.52	0.44	0.54	0.36	0.50	0.54	0.63	0.62	0.51	0.91
ST6	0.54	0.44	0.48	0.37	0.56	0.52	0.60	0.52	0.45	0.86

Source: Questionnaires (Smart PLS)

6.1.3 Second-order constructs

The second-order constructs approach is conceptually meaningful when the valid first-order constructs can be interpreted into more abstract subdimensions (Bagozzi, 2010). After having shown that the first-order model fulfils the desired quality criteria and removing the items that damage the soundness of the measurement model, the first-order constructs provide evidence of the reliability and validity for higher-order measures.

As mentioned in the method, control and resource were modelled as second-order reflective constructs, which provided an overall evaluation based on the dimensions and a comprehensive understanding of what types of control and resource were needed to form the franchise relationship. As shown in the correlation matrix (see Table 6-2 on page 199), the correlations among the first-order dimensions of control varied from 0.75 to 0.78, with an average of 0.76 across contexts. Likewise, the correlations of the first-order resource dimensions ranged between 0.60 and 0.70, with an average of 0.65. The components of each construct were highly correlated because the dimensions reflected the same underlying constructs (Jarvis et al., 2003; MacKenzie et al. 2005). The high correlations also confirmed that a reflective model could represent these two constructs better.

Furthermore, the effects of lower-order constructs on the higher-order construct can be derived via this approach (Wetzels et al., 2009). All three dimensions had significant paths in reflecting overall control (behaviour control: $R^2 = 0.88$, $\beta = 0.94$, $p < 0.01$; output control: $R^2 = 0.82$, $\beta = 0.90$, $p <$

0.01; input control: $R^2 = 0.82$, $\beta = 0.90$, $p < 0.01$). Accordingly, behaviour control was the most important dimension, followed by input control and then output control. Similarly, the three dimensions of resource had significant paths as well (physical resource: $R^2 = 0.73$, $\beta = 0.85$, $p < 0.01$; human resource: $R^2 = 0.80$, $\beta = 0.90$, $p < 0.01$; organisational resource: $R^2 = 0.78$, $\beta = 0.88$, $p < 0.01$). Among the three types of resource, human resource seemed to share a relatively higher contribution, followed by organisational resource (see Appendix 5).

6.2 Structural model

As the measurement model was confirmed with adequate reliability, convergent validity, and discriminant validity, the above section paved the way for analysing the structural model and testing the hypotheses. To be specific, the structural model was assessed via the following criteria: (i) coefficient of determination (R^2), (ii) predictive relevant (Q^2), (iii) individual effect sizes (F^2), and (iv) the path coefficients (β) to indicate the predictive capabilities of the model (Hair et al., 2012).

6.2.1 Model fit

Coefficient of determination (R^2)

As an essential criterion of accessing the PLS-SEM, R^2 measures the relationship of the explained variance of a latent variable to its total variance. Henseler et al. (2009) considered values of approximately 0.75 substantial, values around 0.50 average, and values of 0.25 and lower weak. As shown in

Table 6-4, the values of R^2 for all endogenous variables were greater than 0.50, indicating a medium to large effect size.

Predictive relevance (Q^2)

The next step of accessing the predictive relevance of the structural model was to measure the Q^2 with a nonparametric Stone-Geisser test (Geisser 1975; Stone 1974). Positive Q^2 values confirmed the model's predictive relevance in respect of a particular construct. As demonstrated in Table 6-4, all the Q^2 values exceeded zero varying from 0.36 to 0.46, indicating the predictive validity of the endogenous constructs is acceptable.

Effect size (F^2)

Associated with positive F^2 values (see Table 6-4), control showed a substantial effect (> 0.44) compared with the weak to moderate effect of resource on trust (0.07), absence of opportunism (0.16), and information sharing (0.09) between franchisor and franchisee (Cohen, 1988) [see further discussion in hypothesis tests].

Table 6-4: Structural Model Results (Satisfaction)

	R ²	Q ²	F ²
Control			0.52
Resource			0.39
Trust	0.56	0.46	0.72
Absence of opportunism	0.57	0.43	0.63
Information sharing	0.52	0.36	0.53
Satisfaction	0.57	0.41	0.66
Average	0.56	0.42	0.58
Goodness of Fit (GoF)	0.57		

Note: R² = variance explained; Q² = construct cross-validated redundancy; F² = construct cross-validated communality

Source: Questionnaires (Smart PLS)

Goodness of fit (GoF)

Both the Goodness of Fit index (GoF) of the structural model and the average variance accounted (AVA) of the complete model which was 0.56 (see Table 6-4), exceeded the cut-off value of 0.36 (Wetzels et al., 2009), indicating a good-quality structural model.

The analysis of the structural model regarding financial performance followed the same procedures. The results (see Table 6-5) also indicated a good-quality structural model (R² > 0.45; Q² > 0.30; F² > 0.24; GoF = 0.51; AVA = 0.52).

Table 6-5: Structural Model Results (Financial performance)

	R^2	Q^2	F^2
Control			0.50
Resource			0.39
Trust	0.56	0.45	0.72
Absence of opportunism	0.56	0.42	0.63
Information sharing	0.52	0.36	0.53
Satisfaction	0.45	0.30	0.24
Average	0.52	0.38	0.50
Goodness of Fit (GoF)	0.51		

Note: R^2 = variance explained; Q^2 = construct cross-validated redundancy; F^2 = construct cross-validated communality

Source: Questionnaires (Smart PLS)

6.2.2 Hypothesis tests

Followed by the assessment of the measurement model and the structural model, path coefficients were evaluated to test the hypotheses. To ensure that the proposed relationships were consistent with theories, the direction, strength or size, and significance of the path coefficients were assessed regarding the hypotheses of structural paths. In this section, ten major hypotheses and twelve sub-hypotheses were tested concerning the influential factors that affect franchisee performance. The results for each hypothesis will be discussed in detail below.

A complete bootstrapping procedure with bias-corrected and accelerated confidence intervals was selected (Hair et al., 2017). This nonparametric

resampling procedure randomly selected a predetermined number of subsamples, which used to estimate the model parameters as well as t-values, p-values, and confidence intervals for all model parameters (Hair et al., 2017). Five thousand subsamples (Hair et al., 2012; Hair et al., 2016) were applied to test the significance of the direct effects, mediation effects and control variable effects.

Hypotheses about the direct effect

In this section of hypotheses testing, those that concerned the factors of direct effects were assessed. After reviewing the literature, the degree of control over franchisees and the pooled resources owned by franchisees were influencing factors that impact the performance in a franchise system.

Hypotheses about control

The findings indicated that franchisor's control over franchisees positively and directly affects trust of the franchisee, absence of opportunism and information sharing between franchisor and franchisee.

As shown in Table 6-6 on page 212, franchisor's control over franchisees ($\beta = 0.61$, $t = 10.46$, $p < 0.01$) was significantly related to the trust of the franchisee. Therefore, H1a, which predicted a positive influence of control on the trust in a franchise relationship, was supported.

Opportunism stemmed from less tightly control. According to Table 6-6, franchisor's control over franchisees ($\beta = 0.54$, $t = 9.48$, $p < 0.01$) was significantly related to whether franchisees behave opportunistically or not.

Therefore, H1b, which predicted a positive influence of control on the absence of opportunism, was supported.

According to Table 6-6, the degree of control ($\beta = 0.56$, $t = 9.36$, $p < 0.01$) was positively and significantly related to the information sharing within a franchise system. This indicated that franchisees worked under a higher level of control will gain greater commitment to information sharing within a franchise system. Therefore, H1c, which predicted a negative influence of control in a franchise system on information sharing, was rejected.

Hypotheses about resources

Pooling resources leads the franchise model to a win-win. Besides the control over franchisees, the provision of pooled resources influences trust of the franchisee, absence of opportunism and information sharing between franchisor and franchisee.

The effects of franchisee's pooled resources that provided for the franchise system was estimated. As shown in Table 6-6 on page 212, franchisee's pooled resource ($\beta = 0.21$, $t = 3.50$, $p < 0.01$) was significantly related to the trust of the franchisee. As a result, H2a that predicted the positive effect of pooled resource on trust was supported.

Lack of pooled resources in a cooperative arrangement may lead to opportunism. In accordance with Table 6-6, H2b predicted a positive impact of the provision of pooled resources ($\beta = 0.30$, $t = 5.42$, $p < 0.01$) of franchisees on the absence of opportunism was supported.

Based on the prediction outcomes, franchisee's pooled resources ($\beta = 0.24$, $t = 3.89$, $p < 0.01$) was significantly but positively related to the information sharing within a franchise system. Therefore, H2c was unsupported.

Hypotheses about relationship

Franchisor and franchisee adopt quality franchise relationship in forms of trust, absence of opportunism, and information sharing to advance shared interests (Williamson, 1991). According to the parameter of the p-value, which provided a useful assessment of the assumption, trust and absence of opportunism positively affected franchisee performance regarding franchisee's satisfaction and financial performance, while information sharing between franchisor and franchisee affected franchisee performance negatively.

H3a initiated the assumption with trust as an independent variable, satisfaction and financial performance as dependent variables and found that trust was positively associated with franchisee performance. According to Table 6-6 on page 212, trust in a franchise system was significantly related to satisfaction ($\beta = 0.33$, $t = 3.99$, $p < 0.01$) and financial performance ($\beta = 0.28$, $t = 3.15$, $p < 0.00$). Therefore, H3a and H3b were supported.

According to Table 6-6, the absence of opportunism between franchisor and franchisee increased the overall satisfaction ($\beta = 0.25$, $t = 2.08$, $p < 0.05$) and financial performance ($\beta = 0.29$, $t = 2.42$, $p < 0.05$) significantly. That is to say, franchisees worked in a franchise system with less opportunistic behaviours showed greater satisfaction and higher financial performance.

Therefore, H4a and H4b, which predicted positive effects of the absence of opportunistic behaviours on franchisee performance, were supported.

The results of H5a and H5b indicated that information sharing was contrary to the theoretically assumed relationship, that is, negatively related to satisfaction ($\beta = -0.17$, $t = 2.51$, $p < 0.01$) and financial performance ($\beta = -0.20$, $t = 2.75$, $p < 0.01$). Thus, H5a and H5b were unsupported.

Hypotheses about performance

H6a proposed that franchisor's control over franchisees affected franchisee's satisfaction ($\beta = 0.13$, $t = 2.25$, $p < 0.05$) directly and the results below (see Table 6-6 on page 212) supported this hypothesis significantly. Whereas, H6b emphasised the effect from control to financial performance ($\beta = 0.05$, $t = 0.81$, $p = 0.42$) was unsupported at significant level of $p < 0.01$.

The pooled resource was positively and significantly related to franchisee's satisfaction ($\beta = 0.32$, $t = 4.87$, $p < 0.05$) and financial performance ($\beta = 0.32$, $t = 5.25$, $p < 0.01$), H7a and H7b were then supported.

To sum up, the results showed that H1 and H2 were supported at a minimum of 1% significance level. The two independent variables, franchisor's control over franchisee and franchisee's pooled resource, presented significant influences on the franchise relationship with trust, absence of opportunism, and information sharing and affected the franchisee's satisfaction significantly.

Whereas, only the independent variable of pooled resource showed a significant effect on financial performances. Moreover, the three variables

regarding franchise relationship presented similar patterns of effects on both satisfaction and financial performance. Further discussions in hypotheses about the indirect effect will be shown as follow.

Hypotheses about the indirect effect

Following the same procedure, this section addressed the mediator role of trust of the franchisee, absence of opportunism and information sharing between franchisor and franchisee. The interpretation of specific mediation effects was verified using the bootstrapping method with bias-corrected confidence estimation as mentioned in method. The 95% confidence interval of the mediation path was reported below.

H8a proposed that trust of the franchisee mediated the relationship between the franchisor's control over franchisees and the franchisee performance. Table 6-7 on page 215 indicated that the medication effects of trust were significant. Accordingly, the mediation effect of trust on the relationship between the franchisor's control and franchisee performance in satisfaction ($\beta = 0.20$, $t = 3.60$, $p < 0.01$) and financial performance ($\beta = 0.17$, $t = 2.94$, $p < 0.01$) were explained. Therefore, H8a was supported.

Table 6-6: Path Coefficients (Direct effects)

Path	Beta	T Statistics	P-Values
H1a: Control -> Trust	0.61**	10.46	0.00
H1b: Control -> Absence of opportunism	0.54**	9.48	0.00
H1c: Control -> Information Sharing	0.56**	9.36	0.00
H2a: Resource -> Trust	0.21**	3.50	0.00
H2b: Resource -> Absence of opportunism	0.30**	5.42	0.00
H2c: Resource -> Information Sharing	0.24**	3.89	0.00
H3a: Trust -> Satisfaction	0.33**	3.99	0.00
H3b: Trust -> Financial Performance	0.28**	3.15	0.00
H4a: Absence of opportunism -> Satisfaction	0.25*	2.08	0.04
H4b: Absence of opportunism -> Financial Performance	0.29*	2.42	0.02
H5a: Information Sharing -> Satisfaction	-0.17**	2.51	0.01
H5b: Information Sharing -> Financial Performance	-0.20**	2.75	0.01
H6a: Control -> Satisfaction	0.13*	2.25	0.02
H6b: Control -> Financial Performance	0.05	0.80	0.42
H7a: Resource -> Satisfaction	0.32**	4.87	0.00
H7b: Resource -> Financial Performance	0.32**	5.25	0.00

Notes: Beta: Standardised path coefficient; ** p < 0.01, * p < 0.05

Source: Questionnaires (Smart PLS)

H8b explained the mediation effect of trust on the relationship between the pooled resources of franchisees and the franchisee performance. As shown below, the path was statistically significant in terms of satisfaction ($\beta = 0.07$, $t = 2.74$, $p < 0.01$) and financial performance ($\beta = 0.06$, $t = 2.50$, $p < 0.01$). As expected, the mediator role of trust in H8b was confirmed.

H9a indicated that when the franchisor conducted the same level of control, lower opportunism should lead to greater performance. According to Table 6-7 on page 215, absence of opportunism in a franchise system significantly mediated the relationship between control and franchisee performance of satisfaction ($\beta = 0.14$, $t = 2.07$, $p < 0.05$) and financial performance ($\beta = 0.16$, $t = 2.42$, $p < 0.05$) at the p-value of 0.05. That is, the control of franchisor should generate a greater effect on the franchisee performance when there is a low level of opportunism.

Similarly, absence of opportunism between franchisor and franchisee mediated the effect of franchisee's pooled resources on both satisfaction ($\beta = 0.08$, $t = 1.98$, $p < 0.05$) and franchisee performance ($\beta = 0.09$, $t = 2.16$, $p < 0.05$). Therefore, H9b, which predicted the mediation effect of the absence of opportunism toward franchisee's pooled resources on performance, was supported.

As shown in Table 6-7 on page 215, the mediation effects of information sharing on the relationship between franchisor's control over franchisees and franchisee performance were supported. H10a examined how information sharing between franchisor and franchisee affected the relationship between

the levels of control over franchisee and franchisee performance, with supported findings regarding satisfaction ($\beta = -0.10$, $t = 2.35$, $p < 0.05$) and financial performance ($\beta = -0.11$, $t = 2.55$, $p < 0.01$).

Likewise, the path coefficients of information sharing on franchisees' pooled resources and franchisee performance were statistically significant at the 0.05 level in both satisfaction ($\beta = -0.04$, $t = 1.97$, $p < 0.05$) and profit growth ($\beta = -0.05$, $t = 2.12$, $p < 0.05$), thus supporting H10b.

To sum up, the three mediators partially mediated the relationship on satisfaction, because both the direct and indirect effects were statistically significant ($p < 0.05$) (see Appendix 6). It can be seen that trust, absence of opportunism, and information sharing were the determinants of franchisee performance. As suggested by Hair et al. (2014), the variance accounted for (VAF), as the strength of mediation, computed the proportion of the total population variance of a dependent variable that was explained by an independent variable indirectly via a mediator variable (Okada, 2017). Table 6-8 on page 217 revealed that 61%, 51% and 73% of the total effect on satisfaction could be explained by trust, absence of opportunism, and information sharing respectively.

Table 6-7: Path Coefficients (Mediation effects)

Path	Beta	T Statistics	P-Values
H8a: Control -> Trust -> Satisfaction	0.20**	3.60	0.00
Control -> Trust -> Financial Performance	0.17**	2.94	0.00
H8b: Resource -> Trust -> Satisfaction	0.07**	2.74	0.01
Resource -> Trust -> Financial Performance	0.06**	2.50	0.01
H9a: Control -> Absence of opportunism -> Satisfaction	0.14*	2.07	0.04
Control -> Absence of opportunism -> Financial Performance	0.16*	2.42	0.02
H9b: Resource -> Absence of opportunism -> Satisfaction	0.08*	1.98	0.05
Resource -> Absence of opportunism -> Financial Performance	0.09*	2.16	0.03
H10a: Control -> Information Sharing -> Satisfaction	-0.10*	2.35	0.02
Control -> Information Sharing -> Financial Performance	-0.11**	2.55	0.01
H10b: Resource -> Information Sharing -> Satisfaction	-0.04*	1.97	0.05
Resource -> Information Sharing -> Financial Performance	-0.05*	2.12	0.03

Notes: Beta: Standardised path coefficient; ** p < 0.01, * p < 0.05

Source: Questionnaires (Smart PLS)

The relationship differed depending on the mediators. To further substantiate the types of mediation, the product of the direct and indirect effect was

calculated. Since the direct and indirect effect were both positive, the sign of their product was also positive (see Table 6-8). Hence, trust and absence of opportunism represented complementary mediation of the relationship from control to satisfaction (Hair, 2017). Whereas, the direct and indirect effect both were significant but pointed in opposite directions; information sharing thus was a competitive mediation. It was important to note that information sharing substantially decreased the magnitude of the total effect of control on satisfaction with suppressing effect (Hair, 2017).

In terms of the effect of pooled resource on satisfaction, the direct effects exerted more influence than the indirect effects, which only accounted for 18% (trust), 19% (absence of opportunism), and 13% (information sharing) of the total effect. Nevertheless, pooled resources could exert an influential effect on the satisfaction of franchisees directly, no matter how the magnitude of the three mediators affected the relationships.

Table 6-8: VAF (Satisfaction)

			a	b	ab	c'	c	ab/c	
X	M	Y	X->M	M->Y	IE	X->Y	TE	VAF%	Interpretation
Control	Trust	Satisfaction	0.61	0.33	0.20	0.13	0.33	61%	Partial mediation
Control	Absence of opportunism	Satisfaction	0.54	0.25	0.14	0.13	0.27	51%	
Control	Information sharing	Satisfaction	0.56	-0.17	-0.10	0.13	/	73%	
Total indirect effect				0.24					
Resource	Trust	Satisfaction	0.21	0.33	0.07	0.32	0.39	18%	Partial mediation
Resource	Absence of opportunism	Satisfaction	0.30	0.25	0.08	0.32	0.40	19%	
Resource	Information sharing	Satisfaction	0.24	-0.17	-0.04	0.32	/	13%	
Total indirect effect				0.10					

Note: $ab = \text{indirect effect}$; $c' = \text{direct effect}$; $c = ab + c' = \text{total effect}$;

$VAF = \text{indirect effect} / \text{total effect}$; $Suppressor = |ab/c'|$

The same procedure was conducted for financial performance. Similarly, the findings supported the partial mediation effects (see Table 6-9 on the next page); whereas the direct effects from pooled resource to financial performance generated a significant proportion (approximately 80% on average) of the total effect.

Table 6-9: VAF (Financial performance)

			a	b	ab	c'	c	ab/c	
X	M	Y	X->M	M->Y	IE	X->Y	TE	VAF%	Interpretation
Control	Trust	Financial performance	0.61	0.28	0.17	/			Full mediation
Control	Absence of opportunism	Financial performance	0.54	0.29	0.16	/			
Control	Information sharing	Financial performance	0.56	-0.20	-0.11	/			
Total indirect effect					0.22				
Resource	Trust	Financial performance	0.21	0.28	0.06	0.32	0.38	16%	Partial mediation
Resource	Absence of opportunism	Financial performance	0.30	0.29	0.09	0.32	0.41	21%	
Resource	Information sharing	Financial performance	0.24	-0.20	-0.05	0.32	/	15%	
Total indirect effect					0.10				

Note: $ab = \text{indirect effect}$; $c' = \text{direct effect}$; $c = ab + c' = \text{total effect}$;

$VAF = \text{indirect effect} / \text{total effect}$; $Suppressor = |ab/c'|$

In line with the examination of effect size (see Table 6-10) as mentioned in the previous section, resource (0.14) exerted a pronounced effect on satisfaction than control (0.02), indicating that control might have a relatively small direct effect on satisfaction without the mediation effects.

Table 6-10: Effect Size

	Trust	Absence of opportunism	Information sharing	Satisfaction
Control	0.57	0.44	0.44	0.02
Resource	0.07	0.16	0.09	0.14
Trust				0.07
Absence of opportunism				0.03
Information sharing				0.02

Source: Questionnaires (Smart PLS)

Noticeably, bootstrapping results substantiated that the effect of control on financial performance was insignificant at the 5% probability as determined in Table 6-6 on page 212. Following the mediation analysis procedure, the mediation effects of the three mediators fully mediated the relationship from control to financial performance. That is, the three indirect-only mediations fully complied with the hypothesised theoretical framework (Hair, 2017).

Given the results above, the effects on satisfaction and financial performance displayed a similar pattern, in line with their positive correlations. One possible explanation could be satisfaction in a franchise system enhances the tendency of franchisees to cooperate with the franchisor and results in a long-term relationship (Weaven et al., 2014). Satisfied franchisees thus were more likely to achieve advanced performance, such as higher annual income and sales volume (Jambulingam & Nevin, 1999).

6.2.3 Control variable results

Under the path coefficient analysis, both the attributes of franchise and characteristics of franchisee affected the dependent variables (franchisee's satisfaction and financial performance) significantly. Following the same pattern, the size of the franchise presented a positive effect, while franchise age, education and experience of franchisees affected the dependent variables negatively. The results of the control variables are presented below.

Franchise attributes

In accordance with Table 6-11, there was a negative relationship between the *years of the operation* and franchisee performance (β satisfaction = -0.61**; β financial performance = -0.56**). It indicated that franchisees became less satisfied, associated with lower performance, as the years of operation grew. In line with previous studies (Falbe & Welsh, 1998; Yang & Li, 2011; Dada & Watson, 2013), *franchise size* had a positive effect on financial performance (β satisfaction = 0.28**; β financial performance = 0.23**). As seen in Table 6-11, the effects of *franchise type* and *location* on franchisee performance were not significant, indicating that satisfaction and financial performance were not significantly affected by the franchise type and location.

Franchisee characteristics

The analysis of path coefficients indicated that *education level* showed a significant difference in both satisfaction and financial performance (β satisfaction = -0.15**; β financial performance = -0.15**). Specifically, a higher education level of franchisees always associated with less satisfaction

and lower financial growth. As demonstrated in Table 6-11, *experience* negatively affected franchisee performance (β satisfaction = -0.52**; β financial performance = -0.48**). That is, franchisees were satisfied with their achievements at the beginning, but their satisfaction decreased after gaining more experience by operating additional outlets. However, there were no differences in franchisee performance regarding franchisee's *gender* and *age*. Their path coefficients failed to exert a significant influence on either satisfaction or financial growth.

Franchise attributes and franchisee characteristics that demonstrated different features were collected and tested for significance. Table 6-11 summarises that the significant level of their effects on franchisee performance. In sum, franchise age and size, education level and experience of franchisees explained some variations in the franchisee performance.

To predict how these factors could affect the variance of performance in franchising, different structural models were assessed. For example, separate control mechanisms associated with three types of resources as independent variables (see Appendix 7) were tried, but the results presented a relatively poor model fit. In addition, the moderating roles of these three variables were examined but displayed low fit indices as well. In general, the model above to be the best model among the comparisons.

Table 6-11: Significant Level of Control Variables

Control Variable	Dependent variables	
	Satisfaction	Financial Performance
Franchise age	-0.61**	-0.56**
Franchise size	0.28**	0.23**
Franchise type	0.00	-0.02
Franchise location	-0.06	0.04
Gender	-0.02	-0.08
Age	0.01	0.05
Education level	-0.15**	-0.15**
Experience	-0.52**	-0.48**

Notes: Beta: Standardised path coefficient; ** $p < 0.01$, * $p < 0.05$

Source: Questionnaires (Smart PLS)

7 Discussion

This thesis aimed to identify the factors that affect franchise performance at the franchisee level from an integrated perspective. To study the influential factors of franchisee performance, agency theory was used to examine the franchisor's control over franchisees. Besides, the resource-based perspective was applied to explore the franchisee's pooled resources. Moreover, the relational view was used to study the franchise relationship that affects franchisee performance. In detail, given agency theory, the three categories of control, namely behaviour control, output control and input control were major factors related to the franchisor and the franchise system. By taking the resource-based perspective, the three key types of resources (physical resources, human resources, and organisational resources) served as the franchisee related factors in franchising. In addition, trust, absence of opportunism, and information sharing were essential elements in franchisee performance from the relational view.

Hypotheses were drawn on the basis of the three main factors: the franchisor's control over the franchisee, the pooled resources of franchisees, and the relationship between franchisor and franchisee. Hypotheses 1a-1c involved the relationship between franchisor's control over franchisee and the franchise relationship. Three sub-hypotheses explained the effect of control on the linkage between trust, absence of opportunism, and information sharing. Furthermore, three hypotheses (2a-2c) were developed to study the pooled resources of franchisees and franchise relationship, as presented in the preceding discussion. Besides, the results of hypotheses 3 to 5 examined the

franchise relationship and franchisee performance. Given the empirical analyses in the previous chapter, the following section discussed the direct effect of hypotheses 6 and 7, which posited the relationship between franchisor's control over franchisees associated with the pooled resource of franchisees and franchisee performance. Finally, the three mediation effects on the relationship between franchisor and franchisee entailed the discussion of hypotheses 8, 9 and 10. The table below summarises the tests from H1 to H10.

Table 7-1: Summary of Hypothesis Tests

Hypotheses	Descriptions	Inferences
H1a	<i>Franchisor's control over franchisees will positively affect trust perceived by franchisees.</i>	Supported
H1b	<i>Franchisor's control over franchisees will positively affect the absence of opportunism between franchisor and franchisee.</i>	Supported
H1c	<i>Franchisor's control over franchisees will negatively affect the information sharing between franchisor and franchisee.</i>	Not supported
H2a	<i>The pooled resource of franchisees will positively affect trust perceived by franchisees.</i>	Supported
H2b	<i>The pooled resource of franchisees will positively affect the absence of opportunism between franchisor and franchisee.</i>	Supported
H2c	<i>The pooled resource of franchisees will negatively affect the information sharing between franchisor and franchisee.</i>	Not supported
H3a	<i>The trust perceived by franchisees will positively affect the satisfaction of franchisees.</i>	Supported

Hypotheses	Descriptions	Inferences
H3b	<i>The trust perceived by franchisees will positively affect the franchisee financial performance.</i>	Supported
H4a	<i>The absence of opportunism between franchisor and franchisee will positively affect the satisfaction of franchisees.</i>	Supported
H4b	<i>The absence of opportunism between franchisor and franchisee will positively affect franchisee financial performance.</i>	Supported
H5a	<i>The sharing of information between franchisor and franchisee will positively affect the satisfaction of franchisees.</i>	Not supported
H5b	<i>The sharing of information between franchisor and franchisee will positively affect franchisee financial performance.</i>	Not supported
H6a	<i>Franchisor's control over franchisees will positively affect the satisfaction of the franchisees.</i>	Supported
H6b	<i>Franchisor's control over franchisees will positively affect franchisee financial performance.</i>	Not supported
H7a	<i>The pooled resource of franchisees will positively affect the satisfaction of franchisees.</i>	Supported
H7b	<i>The pooled resource of franchisees will positively affect franchisee financial performance.</i>	Supported
H8a	<i>Franchisee trust in the franchisor mediates the relationship between franchisor's control over franchisees and franchisee performance.</i>	Supported
H8b	<i>Franchisee trust in the franchisor mediates the relationship between the pooled resource of franchisees and franchisee performance.</i>	Supported

Hypotheses	Descriptions	Inferences
H9a	<i>The absence of opportunism mediates the relationship between franchisor's control over franchisees and franchisee performance.</i>	Supported
H9b	<i>The absence of opportunism mediates the relationship between the pooled resource of franchisees and franchisee performance.</i>	Supported
H10a	<i>The sharing of information mediates the relationship between franchisor's control over franchisees and franchisee performance.</i>	Supported
H10b	<i>The sharing of information mediates the relationship between the pooled resource of franchisees and franchisee performance.</i>	Supported

As presented in the data analysis above, the degree of control over franchisees, the pooled resources of franchisees, and a franchise relationship with trust and absence of opportunism positively affected the performance at a significant level. The one unexpected finding was the negative effect of information sharing. Associated with the mediation role of trust, absence of opportunism, and information sharing, 5 out of the 22 hypotheses were not supported, including the negative relationship from control (H1c) and resource (H2c) to information sharing, the positive effect of information sharing on both satisfaction (H5a) and financial performance (H5b), and the significant relationship between control and financial performance (H6b). A thorough discussion of the respective hypothesis is presented in the next sections.

7.1 Franchisor's control over franchisees

The first segment of hypotheses examined the role of control in franchisee performance. As shown in the results, it confirmed that the franchisor's control affected the satisfaction of franchisees. In a traditional view, the franchisor's control for observing franchisees' efforts within a franchise system may lead to lower satisfaction and innovation, especially for those experienced franchisees who required more flexibility in operating the franchise (Mellewigt et al., 2011).

In contrast, the results showed that some degree of control leads the franchisee to less dissatisfaction (Grunhagen et al., 2008). First, the dimensions of satisfaction not only depend on the perception of the cooperative franchise relationship but also how the franchisor provides support and service. The provision of sufficient support and training positively affects the perception of franchisees on the franchisor's effort.

Confirming this, a regional franchisor (Participant 3) emphasised the importance of support in franchisee performance:

"I applied one special machine for squishing garlic in all my outlets in order to increase the efficiency of the cooking process."

Second, control could be a useful tool for achieving the system objective on the whole. Intended to prevent opportunism and increase performance, control

mechanisms adversely affect the negative feelings of both the controller and the controllee concerning their relationship (Ghoshal and Moran, 1996) as mentioned in Chapter 2.

Third, in line with the scheme of standardisation, the findings indicated that franchisees could be willing to adapt to standardised routine efforts and accept the franchisor's closely monitor, particular in China. Chinese franchisees are likely to accept the managerial control because of the cultural norms of collectivism, which emphasizes the subordination of individual interests to the goals of the organisation (Hofstede, 1984). Furthermore, franchisees are more likely to be described as employees than entrepreneurs, who always have innovative initiations for novel ideas in China where individual initiative is not highly valued (Roxas & Chadee, 2012; Croonen et al., 2016). Instead, franchisees in China may need solid rules for guidance and substantial assistance of the franchisor (Rubin, 1978).

This was well-understood in one of the declarations of a fast-food franchisor (Participant 6), who highlighted the significance of control:

“I have my own rules of food tasting My chefs are only allowed to taste the flavours using chopsticks.”

Regarding the importance of the control mechanism in a franchise system, this thesis found that the franchisor's control over franchisees maintained the standardisation of the units and increased the satisfaction of franchisees in China. Although the franchisor's effort of control warranted productivity

throughout the system, there was no significant effect on franchisee performance. It indicated that agency theory applied control mechanism to minimise the agency loss but disregard how to maximise long-run profit in the context of franchising.

7.1.1 Trust

Consistent with Davies et al. (2011), and Eser (2012), the link between formal control and trust was apparent. A positive relationship between control and the franchisee's perception of trust was found. This finding contrasted with those researchers (Jensen & Meckling, 1976) who claimed that control could negatively impact the emotions between franchisor and franchisee. A jaundiced view was developed through the use of control mechanisms, which may lead to rigid and cautious behaviour of franchisees (Hitt et al., 1990). The mandatory policies that caused dissatisfaction and conflict should be replaced with more cooperative strategies because the franchisor provided support or service that encouraged franchisees to comply with their control in the franchise relationship. This thesis thereby objected to the deleterious role of control in the trust of the franchisee (Combs et al., 2004b).

Although in a franchise system a legal contract creates a safeguard, the franchisor usually governs the franchisee through informal mechanisms such as trust or embeddedness to prevent undesirable action. One of the franchisees (Participant 13) confirmed the significance of trust as follow:

“We trust the franchisor as our powerful backup force. Regionally, our franchise owns two large warehouses, which hold two hundred million inventory items: one is in Beijing, and the other located in Shanghai. Their support promotes our efficiency of geographical distribution.”

7.1.2 Absence of opportunism

Consistent with the results of this thesis, Jap and Ganesan (2000), and Paik and Choi (2007) indicated that opportunistic behaviours became less strongly associated with the performance when control grew. To be specific, monitoring of either a franchisee’s behaviour or the outcome reduced potential opportunistic behaviours in the franchise system (Patel et al., 2018). Besides, the emerging literature in franchising pointed out that the process of selection can manage opportunism (Stump and Heide, 1996; Hawkins et al., 2013). Therefore, the possible free riding of franchisees who tend to pursue their interests can be decreased in various ways by control.

A franchisor (Participant 3) also commented that control eliminated withholding or misinterpreting the order information fundamentally:

“Of course, I trust them; however, I monitor them as well. Our front desk and back kitchen share the same ordering machine, so waiters cannot hide the order quantities. Also, we utilise the smart ordering and payment system with a QR code on each table to prevent the escape of orders and control the payment procedure.”

7.1.3 Information sharing

Hypothesis H1c was rejected. That is to say, the franchisor's control over franchisees ensured the release of credible information and restrained the franchisees from using confidential information for their interests (Shapiro, 2005). One possible explanation could be that, restricted by the asymmetry of power between franchisor and franchisee, the process of information sharing between franchisor and franchisee is primarily under the control of the franchisor (Dant & Nasr, 1998). To be specific, the franchisor exercises more coercive power to force franchisees to share information (Wu et al., 2014). In the franchise relationship, the franchisor usually has more power and will pressure franchisees to share a wide range of information, so that facilitate the collaboration is effective (Wu et al., 2014).

In a collectivistic culture, the right to privacy is undervalued. Instead, sharing, cooperation, and group harmony and solidarity functions as boundary conditions for socialisation processes are emphasised (Hofstede, 1984). Hence, the most potent control, behaviour control (e.g. reporting financial data) forces information sharing between franchisor and franchisee in the context of China.

This was well-demonstrated in the statement of one of the auto franchisees (Participant 13), who asserted that:

“The franchisor holds a 53% shareholding of the company so that the head office somewhat controls our franchisees. For example, our head office establishes one transparent financial system with different subdivisions that represent the franchisees, and we are asked to report our financial information to the franchisor every day.”

Similarly, an interview with a franchisee in the service industry (Participant 14) confirmed this logic. The frequent meetings (i.e. behaviour control) within the franchise system encourages the information exchange.

“We have annual or quarterly meetings at our headquarters, and the regional conference is frequent. Topics such as, ‘How to gather high popularity in a short period when establishing a new store? How to develop new business strategies after years of operation? How to create a new growth point when the passenger flow tends to be saturated?’. For example, issues like ‘A limited number of service areas and service technicians that unable to serve any more guests?’ are discussed.’ Our regional franchisees and managers of each branch gather regularly, aiming to exchange novel ideas, explore new cooperation, and connect with valuable contacts.”

7.2 Franchisee's pooled resources

The second area of the hypotheses involved the pooled resources of franchisees and franchisee performance. In the light of the resource-based perspective, franchisees with VRIN resources are more likely to overcome intense competitive threats. The pooled resource allows franchisees to outperform their competitors and act forcefully to secure or improve their marketplace positions (Lumpkin & Dess, 2001).

Most studies have focused on examining the provision of resources by the franchisor, while this thesis included the pooled resource owned by franchisees as an influential factor of franchisee performance. The franchisor may control access to, or information about, critical resources for the franchise system. However, franchisees' control over pooled resources that are necessary for the franchisor, such as local knowledge and social relations, will empower them. The findings confirmed the positive relationship between the pooled resource owned by franchisees and franchisee performance because the presence of countervailing power contributed to the satisfaction of the weaker party (Dant & Nasr, 1998).

The growing of any financial, human or social advantages favoured the franchisees and thereby increased their overall satisfaction. These pooled resources also added to the value of franchised outlets and the entire system, eventually positively affected the performance (Baucus et al., 1993).

Particularly financial capital, as the most common resource of a franchisee for joining the franchise system due to the necessity of the upfront investment for

establishing an outlet, increases the speed of supplying the final product. One interviewee (Participant 10) emphasised that financial instruments supported by franchisees account of the franchise growth:

“I have roughly 20% holdings so, like other shareholders, each branch is self-financing with a fringe of autonomy..... Franchisors and ourselves are a community that shares common interests of development. We pull together the investment, including land rent, inventory, and warehouses.”

Many researchers have concluded that human resources significantly reduce uncertainty and is related to the success of the firm (Crook et al., 2011; Davidsson & Honig, 2003). In contrast, some argued that due to the mobility of human resource, it could be taken by rivals easily (Hatch & Dyer, 2004). The results supported the significant role of human resources (e.g. tacit and explicit knowledge, previous experience in franchising or industry and education level, and managerial capabilities, especially in local markets) in superior performance.

A director (Participant 17) who was seeking cooperation with the franchisor also highlighted:

“I have the professionals and experts, so I want to work with the physical therapy shops and market our products there.”

The social capital of franchisees provides valuable resources embedded within the franchise network (Acquaah, 2007; Felicio et al., 2014a), such as ties with their customers, friends, acquaintances, and family which allow franchisees to access more valuable relationships and improve performance. Franchisees use social capital to obtain the desired internal resources and pooled external resource. Noticeably, the franchisor also uses its social networking to operate the franchises.

A franchisor (Participant 7) in manufacturing noted that:

“My store managers are mainly from my hometown and referred by my acquaintances.”

A franchisee (Participant 15) also saw the interdependent relationship between franchisor and franchisee:

“I like this franchise because this is a platform for me to show my capability and energy.”

Above all, the combination of resources results in more synchronised and compatible resource bundles in a franchise network (Patel et al., 2018), which ultimately impacts franchisee performance. This line of thought is supported by qualitative evidence. The franchisor (Participant 2) in fresh produce said in an interview:

“Resource sharing helps our franchisee (i) to establish their own business with a set of effective and feasible brand marketing/ management system; (ii) to collect information from consumers and competitors; and (iii) to develop a membership system that is shared with other franchisees in time.”

7.2.1 Trust

In line with the findings, franchisees with pooled resources are more likely to cooperate with franchisors spontaneously with trust. Most of the franchisees take advantage of the same resources from the franchisor but present different levels of performance. In light of the resource-based perspective, which addresses how to get the right resources to generate and sustain the wealth of firms, emphasises the importance of pooled resource as the choice of franchising (Dant & Kaufmann, 2003). Franchisees usually exercise power over the franchisor when their resources are the contingency of the asymmetry relationship (Griffith et al., 2006). In a dyadic relationship, this exercise enables the controlled member, the franchisee, to lessen the power of the controlling member, the franchisor (Dant & Nasr, 1998). Within a balanced relationship, franchisor and franchisee will work together and make efforts towards a common goal with an increment of trust. Sharing of pooled resources within the franchise system thereby is critical to the interdependent relationship between franchisor and franchisee.

7.2.2 Absence of opportunism

The asymmetrical balance in franchising makes the relationship between franchisor and franchisee more complex. Although the hierarchical position of franchisor makes it more powerful than its franchisees, the criticality of the resources controlled by lower-power franchisees allows them to assert a higher degree of power (Ford et al., 2012). That is to say, the franchisor is in the driver's seat and controls access to, and the information about, the central resources needed by the franchise system (Sharma, 1997). As a gatekeeper in a franchise network, the franchisee will gain power in relation when they occupy pooled resources that necessary for the franchisor, such as local knowledge and social relations.

In line with the findings, more franchisor power makes the franchisees vulnerable to opportunistic behaviours by the franchisor (Wathne & Heide, 2000). However, franchisees with adequate resources could resist or be less vulnerable to opportunistic behaviours (Madhok & Tallman, 1998). In other words, the more pooled resources owned by franchisees, the less likely the opportunism will take place in a franchise relationship.

7.2.3 Information sharing

The establishment of external relationships allows franchisees to gain access to extra-systematic information. Under this assumption, withholding information serves as a strategic purpose of survival for franchisees. In contrast with H2c, the findings show that franchisee's resource has a positive impact on the

sharing of information between franchisor and franchisee probably contributed to:

First, partners tend to know each other and acquire fringe information through informal personal contacts and social activities (Williamson, 1979), particularly in China. Social capital brings more access to information for both franchisor and franchisee that is difficult to obtain or transfer via formal approaches (Podolny, 2011). The availability of information thus makes the sharing of information between franchisor and franchisee more accessible (Dant & Nasr, 1998). That is, the more resources are owned by franchisees, the more available information could be shared within the franchise system.

Second, franchisor and franchisee are members of a big network. The less information sharing by franchisees, the higher likelihood they will be viewed by the franchisor as valueless partners in the franchise system and finally removed by the network (Dant & Nasr, 1998). The rule of survival of the fittest encourages franchisees to share information with their franchisor.

Third, a franchisee holding private information occupies an advantaged position; nevertheless, in a franchise system, franchisees are restricted to the peripheral components of the product and service, such as market research, advertising, and promotion. The core information is beyond their control, so the information that can be shared by franchisees is less important and private. This type of information probably does not determine the position of franchisees and their outlets. In this regard, franchisees should not hesitate to share information with their franchisor.

7.3 Franchise relationship

Given the relational view, a high-quality franchise relationship enhances the economic value and improves performance (Dyer & Singh, 1998; Lavie, 2006). The franchise relationship is the subject of the third section in examining franchisee performance. The effect of trust, absence of opportunism, and information sharing in the franchising context will be discussed in this section. In addition to the direct effect of these three dimensions, a mediation procedure is conducted to determine the indirect effect as follow.

7.3.1 Trust

Trust is facilitated within closed networks in China as in the West. Cooperation between franchisor and franchisee arising from norms of trust (Wu, 2015) goes beyond the formal interactions dictated by the contract. A franchise contract has the fundamental purpose of aligning the partners' interests. The franchise relationship with interpersonal trust further lowers transaction costs by mitigating the moral hazards (Jap, 2001), facilitating problem-solving at a social level (Gulati et al., 2011), and as a result, creating a superior incentive for value-creation initiatives. Consistent with Bordonaba-Juste and Polo-Redondo (2004) and Eser (2012), the results found that franchisees' perception of trust toward the franchise system positively affected its overall satisfaction and franchisee performance.

Defusing the controversies and facilitates the commitment in a franchise system, trust of the franchisee determinants the persistence and extension of

their relationship (Bachmann, 2001). The qualitative evidence was consistent with the proposition of trust, for example, a franchisor (Participant 6) in the restaurant industry said:

“During the five years of cooperation, I have never thought to end the contract with my franchisee since I first started the chain because we have established a long-term relationship, and we trust each other a lot.”

7.3.2 Absence of opportunism

Given the results, the absence of opportunism between franchisor and franchisee has a positive and statistically significant effect on franchisee performance. Consistent with the findings, a majority of empirical research showed that opportunistic behaviours negatively affected commitment, cooperation, and satisfaction (Morgan & Hunt, 1994). These relational norms are the incentives of performance improvement (Gassenheimer et al. 1996; Wathne & Heide, 2000; Jiang & Zhan, 2010; Hawkins et al., 2013). The intention of not being opportunistic in a franchise system increases the optimistic perception of both parties' behaviours and decreases the conflict between franchisor and franchisee (Cochet et al., 2008).

As shown, the absence of opportunism between franchisor and franchisee positively affected satisfaction and results in a higher likelihood of achieving advanced performance. As one of a regional franchisee manager (Participant 18) in the laundry industry contended:

“Haste makes waste. Our franchisor wanted to speed up expansion and invested too much in modern machinery. However, in order to maintain the daily operations and keep sufficient cash flow, he misused the membership policy. Customers joined the membership with the great promotion without receiving expected services, because the membership fee was ‘moved’. For example, customers were required to pay half of the laundry fee by cash, even with a prepaid card. Eventually, the franchisor failed to make good its promise by taking opportunistic behaviour, our franchisor lost its reputation, and many franchisees chose to leave.”

7.3.3 Information sharing

As a central concept of franchising, information sharing dilutes the effect of information asymmetry, which arises in the principal-agent relationship, paralleling as the franchisor-franchisee relationship. Due to information asymmetry, both franchisor and franchisee have limited information on each other. The day-to-day operation of outlets allows the franchisee to own detailed knowledge of its local market. However, the franchisor neither has access to the local knowledge nor access to interpret this information (Doherty & Alexander, 2006).

Extensive research on the subject of information sharing has indicated that information sharing between franchisor and franchisee encourages the initiation of franchisee’s entrepreneurial innovations and improves operational

performance, both individually and collectively (Wu et al., 2014). In contrast to what was expected, this thesis pointed out that the level of information sharing in a franchise system is negatively associated with satisfaction and financial performances. Although information sharing and performance were highly correlated, as discussed in Chapter 6, the results showed that the effect of information sharing between franchisor and franchisee on franchisee performance was statistically significant but in the opposite sign of that expected.

One possible explanation is that the efficacy of formal and informal information determines the performance rather than the quantity, relevance or timeliness of information sharing between franchisor and franchisee (Gassenheimer et al., 1996). The limited information that controlled by the franchisor cannot lead to a distinct advantage for franchisees. Thus, the sharing of information within a franchise system fails to affect the performance positively.

Although the franchisor is supposed to provide the information that is necessary for franchisees to make intelligent decisions regarding the franchise, one franchisor (Participant 1) confirms that sharing its wealth of information with franchisors or franchisees is perceived as risky (Williamson, 1979; Hempelmann, 2006).

“I have shared my experience with the store managers. However, I will always have a backup plan in case of a sudden departure or an alternative for an essential position.”

7.4 Mediation effects

A strong internal relationship was viewed as the desired outcome of relationship-building efforts and critical to business operation, survival and performance (Dant et al., 2013). Holmlund (2008) stressed both the economic (e.g. productivity enhancement, competitive strengthen, profit promotion) and social outcomes (e.g. inter-firm cohesion, congeniality, acquaintance) of relationship quality. With clear antecedents and outcomes, relationship quality was chosen as the mediator in this thesis.

Prior studies, especially in marketing, utilised relationship quality to represent the depth or magnitude of the interpersonal relationship. For example, Leuthesser (1997) measured the extent to which suppliers’ relational behaviour impacts the quality of their relationships with buyers. Dorsch et al. (1998) focused on the nature of relationship quality and the implication for vendors and customers. Ivens (2004) looked at the requirements for different styles of quality in sellers’ relationships with clients.

Moving away from a traditional view to a dyadic view, some studies have emphasised the business-level relationship quality. For example, to capture the whole business relationship, Naude and Buttle (2000) developed an

understanding of the criteria of a good or poor quality relationship with qualitative data. Lages et al. (2005) conceptualised a measurement scale to assess the degree of relationship quality between exporter and importer.

Relationship quality has consistently been measured as a multi-faceted construct. Overall, trust, commitment and relationship satisfaction have emerged as the most frequently used and widely accepted relational constructs in the marketing relationship research stream (Walter et al., 2003; Dant et al., 2013; Ivens, 2004). Highlighting the distinctiveness of relationships, in this thesis the three-dimensional operationalisation of relational quality in the franchising context was used covering trust, absence of opportunism (Dorsch et al., 1998), and information sharing (Lages et al., 2005).

As mediator variables, trust, absence of opportunism, and information sharing specified how a given effect takes place between the independent variables (i.e. control and resource) and franchisee performance (James & Brett, 1984; Baron & Kenny, 1986). Given the results above, trust, absence of opportunistic and information sharing displayed significant mediation effects on franchisee performance. By applying the three dimensions of the relationship quality, the model explained the unequal effects of trust, absence of opportunistic and information sharing. These relational conditions mediated the relationship between franchisor's control and franchisee performance in a different manner. Likewise, franchisee's pooled resource displayed different impacts on franchisee performance in different relational contexts.

A franchisee in the beauty industry (Participant 11) highlighted the franchisor-franchisee relationship:

“If I initiate one promotion proposal, normally I will be supported by the franchisor and other franchisees because we share the investment fee and potential positive outcome together.”

7.4.1 Trust

Trust mediates the relationship between franchisor’s control over franchisees and franchisee performance because trust reduces the agency costs in a franchise system. As demonstrated, any increase in non-compliance of franchisees negatively affects the franchise relationship. The franchisor will save time and more effectively monitor and control the divergence of interests between the franchisee via trust. By lowering the deviations from operational policies, franchisor and franchisee are more likely to share aligned interests and move towards the same goal. Control is more likely to be implemented and seen as a method to improve operations, rather than being seen as intrusive monitoring by franchisors. The franchisee is more receptive to control, and the effect of control on performance is thereby enhanced.

Besides, the mediator role of trust between franchisees’ pooled resource and performance was confirmed. As a pooling of resources, franchising establishes a partnership between franchisor and franchisee who require supplemental needs. In a relationship on the basis of high-level trust, partners develop close bonding with each other, results in a higher level of commitment of acting

beyond their contractually required roles (Lado et al., 2008) and increases the interdependence of both parties. Consistent with Davies, et al. (2011), trust that offers of reciprocity allows franchisor and franchisee to go beyond the contractual relationship and, and eventually positively affect franchisee performance.

7.4.2 Absence of opportunism

The absence of opportunism is the second relational condition under which franchisee performance exhibits a different outcome. Following the mediation analysis above, the absence of opportunism between franchisor and franchisee significantly mediates the relationship between franchisor's control over franchisees and franchisee performance. The absence of opportunism in a franchise relationship strengthens the effectiveness of control, and the franchise can increase performance. Besides, the absence of opportunism between franchisor and franchisee mediates the effect of owing pooled resource on performance because the flow of resource improves with a lower perception of opportunism. Thus, the mediator role of absence of opportunism is confirmed.

7.4.3 Information sharing

As presented above, the results indicate that there is a significant mediation effect of information sharing. Concerned with the flow of information among franchisor and franchisee, information sharing can be facilitated formally through the implementation of control mechanisms and informally through the development of social networks in a franchise system.

Franchisees in different regions own personal knowledge and experience. The desire for acquiring the local information encourages the franchisor to exchange at the cost of resources in a highly information shared relationship. However, franchisees with scarce resource grow impassive, dissatisfied, or even aggressive with the franchisor most of the time (Gassenheimer et al., 1996). These negative emotions interfere with regular communication between franchisor and franchisee.

One franchisor recognised the concerns of information sharing within the franchise system (Participant 5):

“We have a business scale of thousands of stores in China. Each chain store maintains close contact with our head office. However, we prefer the peripheral information to be shared rather than the core elements of our business. Therefore, we do not allow the franchisees to establish very close connections, such as build a WeChat discussion group. Our head office is concerned that franchisees may spread confidential information, or even our secrets or recipes throughout their networks. What is more, sharing with the membership increasingly deepens the issue of loyal customer churn. The withdrawal of franchisees will give rise to (i) the loss of customers and (ii) an increase in competitors. In my view, too much communication among franchisees could threaten the development of our business in the long run.”

7.5 Control variables

The nature of franchise and the traits of franchisees are two main contingent factors in affecting franchisee performance. The discussion of control variables has two facets.

7.5.1 *Franchise attributes*

Franchise age

This thesis found that the level of satisfaction decreases as the years of operation increases. The different development phases of franchise affect the nature of power and the control of franchisor (Quinn & Doherty, 2000) because franchisees become more independent and are more likely to pursue their entrepreneurial incentives, as the outlet grows matured.

Years of operation also exert an influence on financial performance. According to the findings, franchises associated with longer the years of operating displayed lower financial growth because expansion slows down as the franchise develops.

This view also corresponded with the comment by a franchisee (Participant 14), who noted that:

“The most important step in initiating a new franchise is to start the first store, which takes time. Some stores begin to make a profit five or six years later, some of them even close down.”

Franchise size

Consistent with previous studies (Falbe & Welsh, 1998; Yang & Li, 2011; Dada & Watson, 2013), the findings demonstrate that franchise size has a positive effect on financial performance. Large-scale franchises usually associate with stronger market-operating ability, which probably will improve their profitability. Franchise size also presents a positive impact on the satisfaction of franchisees. It suggests that franchisees are more like to acquire adequate support from the systemic franchise and will appreciate the effort of the franchisor.

Franchise location

Although location is one of the most critical elements of the food industry, as one franchisor (Participant 6) in a restaurant franchise noted:

“My three chains are all located next to college towns targeting students.”

The results show that neither the satisfaction of franchisees nor financial performance is affected by the location.

7.5.2 Franchisee characteristics

Apart from franchise attributes, the role of franchisees' characteristics is emphasised as well, for example, Participant 5:

“There is no business in the world that can guarantee profits. What we can do is to help the franchisee minimise the investment risk and increase the chance of success among peers. The capability of individual franchisees, such as how they carry out the operating standards determines the final performance.”

Previous management research indicates education and experience are central drivers for the success and superior performance in franchised outlets (Cooper et al., 1994; Crook et al., 2011). The findings in terms of the level of education and experience of franchisees are as follow.

Education

The results above indicate that education creates variation in the franchisee’s satisfaction and financial performance. Some scholars believe the knowledge that acquired via education helps the franchisee identify new opportunities (Davidsson & Honig, 2003) and positively affects franchisee performance (Hatch & Dyer, 2004; Booth & Katie, 2011; Felicio et al., 2014a). However, in this thesis, education level negatively affects franchisee performance. A more educated franchisee’s understanding of the franchise-related knowledge may not coincide with that of the franchisor so that may cause discontentment. This finding can also be explained by Joensuu et al. (2013), who clarified that the higher the education level, the lower the entrepreneurial intentions. That is, well-educated franchisees are less like to be entrepreneurs and proactive in maximising financial performance.

It is worth mentioning that this finding could not be representative, because only the satisfaction level of franchisees with PhD degree is significantly lower than that of other groups. The percentage of highly educated franchisees is much lower than other groups among the sample population. There were only 12 franchisees with education level of a master's degree and above, accounting for 3.4% of the sample. However, the variation of satisfaction level was not that high between outlets owned by franchisees with middle school, high school, and bachelor's degrees.

A franchisor in manufacturing (Participant 7) argued that the effect of education level could be insignificant:

“Most young franchisees are from a less privileged family, and they never got a chance to get higher education or find a decent or expected job. But I know they are hardworking and dedicated.”

Experience

As mentioned in Chapter 2, the level of experience has been regarded as the most common selection criterion of franchisees require by the franchisor. Experience helps franchisees motivate the staff in the outlets, identify potential customers, serve new market segments and thereby create competitive advantage (Hatch & Dyer, 2004). Accordingly, experienced franchisees are more likely to be enrolled in the system and positively affect the performance as a whole (Choo & Bowley, 2007); whereas experience sometimes is not necessary. The findings indicate that managerial experience has a negative

effect on the satisfaction of franchisees and financial performance. This is in line with scholars (Jambulingam & Nevin 1999; Clarkin & Swavely, 2006) who argue that due to the presence of highly standardised routines, prospective franchisees with a minimum level of experience are welcome. Starting like a blank canvas, these franchisees are more likely to come up with the required performance. The experience of prospective franchisees is not a prerequisite because explicit training and education are provided (Jambulingam & Nevin, 1999; Van Der Sluis et al., 2005).

Furthermore, this characteristic has already been vetted by the franchisor before franchisees joining the system. The regional franchisor in a food chain (Participant 3) noted:

“The franchisees themselves are experts. They know the exact cost of a dish (e.g. how many pieces of shrimps are needed for one dish).”

Field interviews also illustrated the complex role of experience in franchisee performance. The regional franchisor in an auto service (Participant 4) said:

“Social experience sometimes is more important than working experience.”

7.6 The paradox of information sharing

The unsupported hypotheses related to information sharing provide interesting insights into how we perceive information sharing in a franchise relationship and its performance for both parties. With the division of labour, information sharing requires the participation of both franchisor and franchisee.

Franchisees pass the simple and selected information up to the franchisor, who then uses it to create plans and orders (Nonaka & Takeuchi, 1995). Like a mentor, the franchisor produces the information process on a hands-on basis, which: (i) articulates the knowledge concepts and gives franchisees a sense of direction; (ii) sets the standard for franchisees to justify the value of knowledge; (iii) establishes knowledge vision in the form of the operational procedure (Nonaka & Takeuchi, 1995). Eventually, the information will be passed down the hierarchy.

Franchisees are constantly in direct touch with both inside and outside the franchise system. Engaged in day-to-day operations, such as the dialogue with customers, franchisees accumulate and generate rich tacit knowledge in the form of experience-based embodied skills (Nonaka & Takeuchi, 1995).

Located closest to the realities of the business, franchisees can obtain access and react to the up-to-date information regarding the market, technology, or competition (Nonaka & Takeuchi, 1995).

The franchisor gives the instructions of information sharing from the hierarchy, while franchisees share information via informal networks. The relevant information thereby will be synthesised and make sense to the

members in a franchise system. The process of information sharing causes a dynamic interaction between franchisor and franchisee. The tables below summarise the advantages and disadvantages of information sharing between franchisor and franchisee within the franchise system.

The inter-organizational learning within a franchise system will be enhanced effectively through developing knowledge-sharing routines in the franchisor-franchisee relationship. On the one hand, the basic concepts, usually explicit knowledge, are created and controlled by the franchisor, who supports the lower members by initial and ongoing training. Franchisees can implement these concepts with the justification of the franchisor. On the other hand, sourcing locally is welcomed by the franchisor because of the sharing of tacit knowledge. Entrepreneurial franchisees generate and accumulate tacit knowledge from the bottom autonomously. They internalise the necessary skills and routines over time and build an archetype based on justified knowledge. Therefore, cross-level information sharing facilitates knowledge exchanges between franchisor and franchisee in a system and brings relational rent for both.

Table 7-2: Information Sharing of Franchisors

Franchisor (system knowledge)	Positive effect	Negative effect
Share	<p>Franchisors can make a valid transfer of the knowledge and provide better support/ service to franchisees.</p> <p>This deductive transformation enables inexperienced franchisees to deal with a mass of information.</p>	<p>Franchisors will lose their advanced position and power of control over franchisees (particularly after releasing the secrets/ formulas).</p> <p>The process is costly for communicating, coordinating, and interacting with franchisees.</p>
Not share	\	Franchisors may fail to form an integrated franchise system.

Table 7-3: Information Sharing of Franchisees

Franchisee (local knowledge)	Positive effect	Negative effect
Share	<p>Franchisors will feel trusted and positively affect the franchise relationship.</p> <p>Information sharing enables franchisors to overcome the competence traps through transferring and exploiting business operations based on franchisees' experience (Liao & Welsch, 2003).</p>	<p>Franchisees will lose their bargaining power with a high dependency on the franchisor.</p> <p>The process is time-consuming because franchisees have to transfer the tactic knowledge to explicit knowledge.</p>
Not share	Franchisees can capture personal/ private gains.	Without feedback, it is hard for the franchisor to know whether the support is useful or not, and franchisees will be more likely to get injured.

8 Conclusion

8.1 Key findings

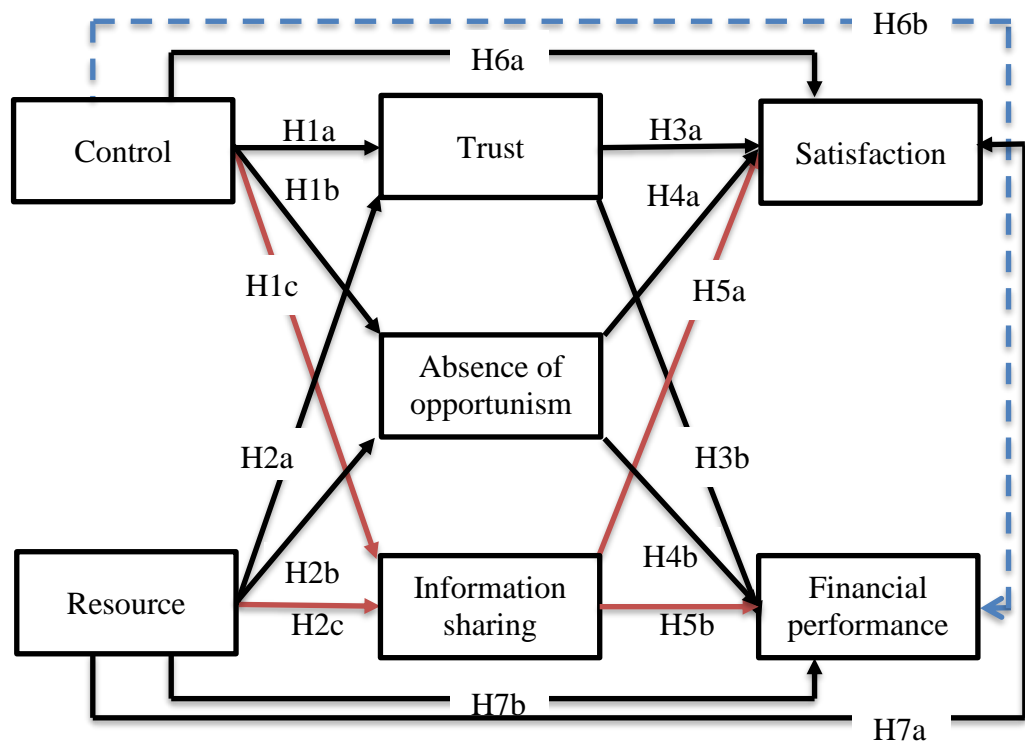
In recent years, franchising has grown in many industries around the world and attracted much attention from researchers (Elango & Fried, 1997; Watson, 2008; Combs et al. 2011). This thesis has focused on identifying the factors influencing franchisee performance in China, a country that has experienced very rapid growth in franchising and has a different institutional structure and culture from the US and other 'western' economies in which most of the research has been undertaken.

While agency theory provided a basis for analysing many aspects of franchising in China, this research found that the resource-based perspective, in particular the franchisor's and franchisees' pooled resources, was important in understanding franchising and franchising performance. It also found that the nature of the franchisor-franchisee social relationship cannot be ignored, especially with respect to trust and avoidance of opportunism. Further, the impact of franchisor's control did not neatly fit into agency theory's view of principal-agent mechanisms. This chapter develops these findings, outlining the theoretical contribution of this thesis as well as the implications for franchisors and franchisees. It concludes with a review of its limitations and potential directions for future research.

17 out of 22 of the hypotheses proposed in Chapter 3 were supported. These results are summarised in Figure 8-1 on the next page, which shows the

conceptual model (from Figure 3-1 above) and indicates which hypotheses were and were not supported. Traditional thought is that extensive control by the franchisor not only decreases the franchisee's satisfaction but also damages the system value as a whole. This thesis shows that, while most relationships were as predicted, there was no direct impact of control on satisfaction or financial performance. The findings shed new light on the application of control mechanisms in franchising. They indicate that control can increase satisfaction (H6a) as it positively impacts trust (H1a), absence of opportunism (H1b) and information sharing (H1c) in a statistically significant way.

Figure 8-1: Conceptual Model



As shown, the pooled resources owned by franchisees positively affected both the satisfaction of franchisees (H7a) and the overall financial growth (H7b) within a franchise system. Similarly, the direct effects of pooled resources on the qualities of the franchise relationship (H2a-H2c) were positive. As well as the relationships (H3-H5) shown in Figure 8-1 above, hypotheses covered further mediation effects. These hypotheses were also supported, specifically trust mediated the relationship between control and franchisee performance (H8a), it also mediated the effect from pooled resources to franchisee performance (H8b). Similarly, the absence of opportunism (H9) and information sharing (H10) mediated the same relationships.

While there were statistically significant effects for the great majority of hypotheses in the expected direction, several were not supported (see the blue dash line and red lines in the conceptual model). Specifically, the blue dash line indicates that there was no direct effect of franchisor's control on financial performance. Also, the effects related to information sharing were contrary to my expectations. To be specific, information sharing affects the satisfaction and financial performance negatively, and the positive relationship from control to information sharing is opposite to what I proposed.

Given that there was no direct effect from control to financial performance, all effects of control were mediated through trust, absence of opportunism, and information sharing. One explanation is that there is indeed no un-mediated relationship between control and franchisee performance. Another is that there could be a non-linear effect between control and franchisee performance. This undetermined impact provides potential insights for further research.

To summarise the main findings, a Chinese franchisor can improve financial performance and franchisee satisfaction through a relationship of high trust from franchisees and absence of opportunism between franchisor and franchisee. Franchisors' control mechanisms contribute positively to the franchise relationship in a high trust relationship. Pooled resources of franchisor and franchisee contribute both directly and indirectly to franchisee performance and satisfaction. However, information sharing showed a negative effect on both performance and franchisee satisfaction, contrary to expectations.

8.2 Theoretical contributions

Past studies have examined the related issues of franchising through a single theory (Rubin, 1978; Doherty & Quinn, 1999; Gillis et al., 2014), mostly agency theory. This thesis has presented a more holistic view of franchise performance at the franchisee level by going beyond agency theory to include the resource-based perspective and relational view, especially the concept of *guanxi* in Chinese culture. As a result, this thesis makes theoretical contributions to franchising in three aspects: (i) franchise as a two-way relationship, (ii) pooled resources in the light of the resource-based perspective, and (iii) the importance of a relational view and *guanxi* ties in China.

First, theoretically, franchising needs to be seen as a two-way relationship, not merely a one-way principal-agent relationship as proposed in agency theory. In a sense, both parties are principals. Franchisees can choose which franchisor to

trust, with whom they would like to share information and above all to employ to help them run their own business. Similarly, the franchisor is to some degree an agent of the franchisee. For example, the franchisor is also vulnerable to the opportunistic behaviours of franchisees. Seeing this as a two-way relationship rather than the franchisor as principal and franchisee as agent gives much more insight into franchising, especially in China.

Second, the resource-based perspective is needed together with agency theory in order to understand the dynamics of franchising. The resource-based perspective adds significant insights into how successful franchising pools resources between franchisor and franchisee. The use of pooled resources adds to the competitive advantage and the value of the franchise system. While this theoretical contribution has been developed in a Chinese context, this will likely be the case in other countries.

Third, the importance of a relational view is highlighted in the context of China. This is due to: (i) the less developed legal system in China, and (ii) the importance of social relationships in Chinese culture. The implications for agency theory are not adequate to apply for the business in China. Although both parties may comply with formal agreements, the franchise relationship in China goes well beyond a legal contract as implicitly assumed in agency theory. Particularly, *guanxi* ties shape relational bonds in China. A relational view also explains the dynamic relationship between franchisor and franchisee with the changes over time in different resource sharing scenarios.

8.3 Implications for franchisors and franchisees

This thesis provides an integrated view of franchising (Chiou et al., 2004; Mellewigt et al., 2011), comprehensively examining perspectives of franchising which are: (i) franchisor-related, (ii) franchisee-related, and (iii) in the franchise relationship. Therefore, the implications of the findings are not only theoretical for researchers but also practical for franchisees and franchisors.

Under the premise that individuals are driven by self-interest, agency theory provides critical insights that a control system can prevent opportunistic behaviour and improve performance, especially in Western economies (Fong & Tosi, 2007). However, to increase the productivity of the franchise system, franchisors who exert control over franchisees in China should look to how to translate control into practice productively using the three perspectives of a franchising relationship. To be effective in a Chinese context, the franchisor's control over franchisees needs to be perceived as support, not interference. For franchisors, giving support builds trust and provides a positive image of the franchise. Also, appropriate goal setting aligns the incentives of franchisor and franchisee. This makes franchisees focus more on 'making a bigger cake', rather than 'dividing up a smaller cake'. With effective support that leads to franchise growth, control will lead to higher franchisee satisfaction and commitment through trust, rather than rewarding immediate opportunism. In this respect, higher franchisor control can lead indirectly to a win-win for the franchisor and franchisee, with higher performance and satisfaction. While the

evidence in this thesis relates to China, a similar approach may be applicable more widely.

Secondly, both franchisor and franchisee should look at the extent to which they pool resources. Chapter 6 showed that improved franchisee performance can be improved both directly and indirectly. If franchisees depend too much on the franchisor in taking care of all required resources, they lose their relative bargaining power and may struggle if the franchisor experiences difficulties. Again, this can create a 'win-win' for franchisor and franchisee, for example, where the franchisee has relevant resources in local markets and the franchisor more generally applicable ones. Such franchisee resources include those identified outside China - typically cash, properties and skills. Within China, further franchisee pooled resources of franchisees are important. These include local knowledge and private information obtained via social relationships given the relatively under-developed sources of business information and the importance of *guanxi*. So both franchisor and franchisee should see whether their resources are pooled. The franchisee's resources can be combined with the franchisor's to enable the franchise system to achieve long-term success.

Thirdly, agency theory, as we have seen, focuses on the contract between individuals rather than the value of their relationship, while the two-way relationship inherent in franchising in China needs to be recognised by franchisor and franchisee. For example, the franchisor should understand challenges from the franchisee's viewpoint with empathy in order to increase both the quality of the relationship and the performance of the franchise.

Franchisees should look at the franchisor's business model and resources to see if their combined resources are sufficient for success. They also need to recognise that, in a long-term franchise relationship, both franchisor and franchisee should establish trust and avoid behaving opportunistically to achieve a win-win result.

8.4 Limitations

This research has clear findings which give a good insight into franchising in China. As with all research, there are a number of limitations. These are in four areas: (i) the nature of the sample of franchises, (ii) the external environment, (iii) challenges in measuring performance, and (iv) one-way measures of the franchise relationship.

First, although the sample was diverse, it was still limited to specific geographical locations and sectors. Geographically, the research was conducted in one country with all data from China, and most from central regions. While no systematic bias was found regionally within China, the findings are China-specific in the first instance.

Secondly, this thesis researched franchising within an unusual external environment. The external environment has been viewed as one of the critical contingencies in strategic management (Lumpkin & Dess, 2001). China was unusual in its high and sustained rate of growth from the 1980s until 2020. The environmental context, such as environmental dynamism and environmental competitiveness (Aragon-Correa et al., 2008; Wu, 2010) plays a vital role in

examining performance, especially for small firms. For example, it is argued that small franchises may struggle to contend with the turbulent environment due to their resource restrictions (Covin & Slevin, 1989; Jansen et al., 2005). These findings are therefore conditioned by being within a long period of rapid growth and institutional change in the economy. Therefore, these findings may not be valid in a different economic and institutional environment.

The third limitation is related to the reliability of performance measures. Neither franchisors nor franchisees normally publish performance information in China, so self-reported data was needed to measure the financial performance was the only available source. Franchisees were asked to provide impartial performance data for revenue and profit, but less than a third complied fully. This poses a constraint on research concerned with financial performance, especially in relatively complex business configurations such as franchising. One approach is for researchers to attempt to measure performance historically by accessing archival documents and legal materials, such as franchise manuals and franchise contracts in future studies. These documents constitute a rich source of information and prove valuable direct evidence (Patton, 2002) about the franchise system. However, in China, their availability and reliability are limited.

Fourth, trust in this thesis was measured based on a one-way perspective rather than using two-way measures. That is, the measures of trust are of the franchisee's trust toward franchisor rather than mutual trust between both parties. This is also relevant to the absence of opportunism and information sharing between franchisor and franchisee, which are mutual actions. The use

of consistent and systematic measures of the two-way relationship is preferable due to the interrelationship between franchisor and franchisee.

8.5 Future research

Five main areas have been identified for further research: (i) a better understanding of the classification and understanding of control mechanisms, (ii) geographical and sector coverage, (iii) franchising as a two-way relationship rather than principal-agent, (iv) further analysis of pooled resources in franchising, and (v) knowledge sharing and management.

A first area is to develop the classification and understanding of control mechanisms. Different types of franchises use different control mechanisms, depending on the differences between business elements and the phase of development (Mellewigt et al. 2011). Past studies claimed that the franchisor's choice between three distinct control mechanisms for monitoring the franchisees' efforts within a franchise system affects satisfaction (Mellewigt et al., 2011). However, this research found that a franchise system usually adopts a combination of different control mechanisms, not just a single mechanism. While this thesis found no systematic difference between the three types of control mechanisms, overall control did have a significant impact on franchisee performance. This indicates that the conceptualisation of control in franchising needs further development. While control overall was shown to have an impact, it was more challenging to analyse the specific patterns of control and their impact, in particular because these three dimensions of control were inter-related in practice. Further research should look deeper, both

conceptually and empirically, into patterns of control and franchisee performance.

A second area is to test the results of this research in further geographies and sectors. As noted above, the research was mainly in three sectors and central China. While there was some diversity of sectors, further studies could expand the sectors covered and look at the variation not only between sectors but also between organisations in the same sector. Also, the extension of the conceptual model of franchising to include the resource-based perspective and relational view can also be applied in other countries, both those culturally similar to China (e.g. in East Asia) as well as more generally.

A third area is to develop the concept of franchising as a two-way relationship rather than franchisor-franchisee as principal-agent. The franchise relationship is neither a pure subordinate nor a pure cooperative relationship. For example, the measurement of trust in this thesis was centred on the franchisee rather than two-way. It was not possible to see differentiated levels of trust by the same franchisor for different franchisees. Further studies can develop both concepts and measures that focus on the two-way relationship between franchise and franchisee.

The fourth area is that of pooled resources. Historically, the resource-based perspective has seen organisations as independent entities; hence resource-based perspective research focused on the individual firm's resources and capabilities (Wernerfelt, 1984; Barney, 1991). Recently, the evolution of inter-firm relationships has also inspired researchers to go beyond the internal

resources and switch to a relational view of organisations within a network (Dyer & Singh, 1998; Castrogiovanni et al., 2006). The combination of both franchisor's and franchisee's resources is the basis of the franchise relationship, not just in China. A deeper analysis of pooled resources in franchising could serve as a starting point for a more in-depth view of the role of the resource-based perspective in the franchise relationship. Further, particularly in societies such as China where relationship factors are relatively strong and contract law relatively weak, future studies can synthesise the resource-based perspective and the relational view.

The fifth area is knowledge sharing and management. A significant but under-researched aspect of franchising is the management and transfer of knowledge between franchisor and franchisee. As shown above, franchising is a two-way relationship, so neither franchisor nor franchisee should be seen as the exclusive giver or receiver of knowledge. Knowledge creation and codification processes provide valuable insights into the implications of information sharing as well as the dynamics of a franchising relationship over time. Based on their comparative analysis of the three models, namely top-down, bottom-up and middle-up-down, Nonaka and Takeuchi (1995) argue that neither formal hierarchies nor flexible task forces are the most appropriate structures in organisations. The structure of franchising provides a different context for knowledge creation, codification and transfer in which information sharing can flourish. Future studies can target to integrate the model of knowledge creation and information sharing.

Acknowledgements

PhD study is a long journey. When I look back over the three years, I realise that several people encouraged and supported me to fulfil this journey. I would like to express my gratitude to all of them.

First, I would like to express my deepest appreciation to Professor Martin Lockett, Dr. Sathyaprakash Balaji Makam, Professor Stephen Morgan and Dr. Emilie Lapointe for their deep patience and guidance as my supervisors. They are respectable, responsible and resourceful scholars who have spent much time reading through my manuscript with great care. I really appreciate their insightful comments and suggestions. Without their enlightening instruction, constant help, and extraordinary kindness, I could not have completed my thesis.

I would like to profoundly thank my colleagues who provide the courses and seminars at UNNC. Their keen and vigorous academic observation enlightens me not only in this thesis but also in my future career. I have learned a lot from them.

In my PhD programme, like every journey, I had many stressful and difficult moments. I would also like to express my sincere gratitude to my family, who have always been helping me out of difficulties and supporting without complaint. My success has been impossible without their support.

References

Acquaah, M. (2007). Managerial Social Capital, Strategic Orientation, and Organisational Performance in An Emerging Economy. *Strategic Management Journal*, 28, 1235-1255.

Ahuja, G., & Lampert, C. M. (2001). Entrepreneurship in The Large Corporation: A Longitudinal Study of How Established Firms Create Breakthrough Inventions. *Strategic Management Journal*, 22, 521-543.

Alchian, A. A., & Woodward S. (1988). Review of Williamson's 'The Economic Institutions of Capitalism'. *Journal of Economic Literature*, 26 (1), 65-79

Alon, I., B, M., Misati, E., & Madanoglu, M. (2015). Are the Parents to Blame? Predicting Franchisee Failure. *Competitiveness Review*, 25(2), 205-217.

Alon, J., Ketchen, D., Shook, C., & Short, J. (2011). Antecedents and Consequences of Franchising: Past Accomplishments and Future Challenges. *Journal of Management*, 37(1), 99-126

Altinay, L., Brookes, M., Madanoglu, M., & Aktas, G. (2014). Franchisees' Trust in and Satisfaction with Franchise Partnerships. *Journal of Business Research*, 67(5), 722-728.

Altinay, L., & Brookes, M. (2012). Factors Influencing Relationship Development in Franchise Partnerships. *Journal of Services Marketing*, 26, 278-292.

American Franchise Association. (2020). About the AFA. Retrieved from <http://americanfranchiseassociation.com/>

Anderson, E. (1988). Transaction Costs as Determinants of Opportunism in Integrated and Independent Sales Forces. *Journal of Economic Behaviour and Organisation*, 9(3), 247-264.

Andrews, K. R. (1971). *The Concept of Corporate Strategy*, Richard D. Irwin, Homewood, IL.

Ancona, D. G., & Caldwell, D. F. (1992). Bridging the Boundary: External Activity and Performance in Organizational Teams. *Administrative Science Quarterly* 37(4), 634-665.

Aragon-Correa, J. A., Hurtado-Torres, N., Sharma, S., & Garcia-Morales, V. J. (2008). Environmental Strategy and Performance in Small Firms: A Resource-Based Perspective. *Journal of Environmental Management*, 86, 88-103.

Armstrong, J., & Overton, T. (1977). Estimating Nonresponse Bias in Mail Surveys. *Journal of Marketing Research*, 14(3), 396-402.

Atwell, C., & Buchan, J. (2014). The Franchise Fulcrum: The Legal System's Contributions to Research about Power and Control in Business Format Franchising. *Journal of Marketing Channels: International Franchising Research and Practice: Past, Present, and Future*, 21(3), 180-195.

Awang, Z. (2012). *A Handbook on SEM (Structural Equation Modelling), Using AMOS Graphic*. Shah Alam: Penerbit Universiti Teknologi MARA Publication Centre.

Bachmann, R. (2001). Trust, Power and Control in Trans-Organisational Relations. *Organisation Studies*, 22(2), 337-365.

Badrinarayanan, V., Suh, T., & Kim, K. (2016). Brand Resonance in Franchising Relationships: A Franchisee-Based Perspective. *Journal of Business Research*, 69(10), 3943-3950.

Bae, J., & Lawler, J. (2000). Organisational and HRM Strategies in Korea: Impact on Firm Performance in an Emerging Economy. *The Academy of Management Journal*, 43(3), 502-517.

Bagozzi, R. P. (1993). Assessing Construct Validity in Personality Research: Applications to Measures of Self-Esteem. *Journal of Research in Personality*, 27, 49-87.

Bagozzi, R. (2010). Structural Equation Models Are Modelling Tools with Many Ambiguities: Comments Acknowledging the Need for Caution and Humility in Their Use. *Journal of Consumer Psychology, 20*(2), 208-214.

Barclay, D. W., Higgins, C. A., & Thompson, R. (1995). The Partial Least Squares Approach to Causal Modelling: Personal Computer Adoption and Use as Illustration. *Technology Studies, 2*(2), 285-309.

Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management, 17*, 99-120.

Barney, J. B. (2001). Is the Resource-Based “View” a Useful Perspective for Strategic Management Research? Yes. *Academy of Management Review, 26*(1), 41-56.

Barney, J. B., & Hansen, M. H. (1994). Trustworthiness as A Source of Competitive Advantage. *Strategic Management Journal, 15*, 175-190.

Baron, R. M., & Kenny, D. A. (1986). The Moderator-Mediator Variable Distinction in Social Psychological Research: Conceptual, Strategic, and Statistical Considerations. *Journal of Personality and Social Psychology, 51*, 1173-1182.

Barthelemy, J. (2008). Opportunism, Knowledge, and The Performance of Franchise Chains. *Strategic Management Journal, 29*, 1451-1463.

Barthelemy, J. (2011). Agency and Institutional Influences on Franchising Decisions. *Journal of Business Venturing*, 26(1), 93-103.

Batjargal, B. (2003). Social Capital and Entrepreneurial Performance in Russia: A Longitudinal Study. *Organisation Studies*, 24, 535-556.

Baucus, D. A., & Baucus, M. S. (1996). Consensus in Franchise Organisations: A Cooperative Arrangement Among Entrepreneurs. *Journal of Business Venturing*, 11, 359-378.

Baucus, D. A., Baucus, M. S., & Human, S. E. (1993). Choosing A Franchise: How Base Fees and Royalties Relate to The Value of The Franchise. *Journal of Small Business Management*, 31, 91-104.

Baucus, D., Baucus, M., & Human, S. (1996). Consensus in Franchise Organisations: Cooperative Arrangement Among Entrepreneurs. *Journal of Business Venturing*, 11, 359-378.

Bennett, S., Frazer, L., & Weaven, S. (2010). What Prospective Franchisees Are Seeking? *Journal of Marketing Channels*, 17, 69-87.

Berkowitz, D., & Wren, B. M. (2013). Creating Strategic Commitment in Franchise Systems: Establishing the Link Between Leadership, Organisational Structure, and Performance. *Journal of Small Business & Entrepreneurship*, 26, 481-492.

Bordonaba-Juste, V., & Polo-Redondo, Y. (2008). Differences Between Short and Long-Term Relationships: An Empirical Analysis in Franchise Systems. *Journal of Strategic Marketing*, 16, 327-354.

Borgatti, S., & Foster, P. (2003). The Network Paradigm in Organisational Research: A Review and Typology. *Journal of Management*, 29(6), 991-1013.

Bosma, N., Van Praag, M., Thurik, R., & De Wit, G. (2004). The Value of Human and Social Capital Investments for The Business Performance of Startups. *Small Business Economics*, 23, 227-236.

Bostan, I; Clipa, F, & Clipa, R. (2016). Informal Institutions and Economic Performance. Knowledge Horizons. *Economics*, 8(2), 53-58.

Brass, D., Galaskiewicz, J., Greve, H., & Tsai, W. (2004). Taking stock of networks and organisations: A multilevel perspective. *Academy of Management Journal*, 47(6), 795-817.

Bradach, J. L. (1997). Using the Plural Form in The Management of Restaurant Chains. *Administrative Science Quarterly*, 42, 276-303.

British Franchise Association. (2012). Retrieved from <https://www.thebfa.org/>

British Franchise Association. (2020). Retrieved from <https://www.thebfa.org/>

Brookes, M. (2014). The Dynamics and Evolution of Knowledge Transfer in International Master Franchise Agreements. *International Journal of Hospitality Management*, 36, 52-62.

Brickley, J., Dark, F., & Weisbach, M. (1991). An Agency Perspective on Franchising. *Financial Management* Spring, 20(1), 27-35.

Burke, T., & Posselt, T. (2008). Franchising as A Plural System: A Risk-Based Explanation. *Journal of Retailing*, 84, 39-47.

Burt, R. (1992). *Structural Holes*. Harvard University Press.

Burt, R. S., & Burzynska, K. (2017). Chinese Entrepreneurs, Social Networks, and Guanxi. *Management and Organization Review*. 13(2). 221-260.

Canache, D., Mondak, J. J., & Seligson, M. A. (2001). Meaning and Measurement in Cross-National Research on Satisfaction with Democracy. *Public Opinion Quarterly*, 65(4), 506-528.

Canadian Franchise Association. (2020). Retrieved from <https://www.cfa.ca/>

Campbell, D.T., & Fiske, D.W. (1959). Convergent and Discriminant Validation by the Multitrait-Multimethod Matrix. *Psychological Bulletin*, 56, 81-105.

Carpenter, M., Li, M., & Jiang, H. (2012). Social Network Research in Organisational Contexts: A Systematic Review of Methodological Issues and Choices. *Journal of Management*, 38(4), 1328-1361.

Casciaro, T., & Piskorski, M. J. (2005). Power Imbalance, Mutual Dependence, and Constrain Absorption: A Closer Look at Resource Dependence Theory. *Administrative Science Quarterly*, 50, 167-199.

Castrogiovanni, G. J., Combs, J. G., & Justis, R. T. (2006). Shifting Imperatives: An Integrative View of Resource Scarcity and Agency Reasons for Franchising. *Entrepreneurship Theory and Practice*, 30, 23-40.

Castrogiovanni, G. J., & Kidwell, R. E. (2010). Human Resource Management Practices Affecting Unit Managers in Franchise Networks. *Human Resource Management*, 49, 225-239.

Cecil, J., & Goldstein, M. (1990). Sustaining Competitive Advantage from IT. *McKinsey Quarterly*, 74-89.

CCFA. (2007). *Annual Report on Franchising Development in China-2006* (中国连锁经营协会 2016 年度报告). Beijing, China: CCFA (中国连锁经营协会). Retrieved from <http://www.ccfa.org.cn/portal/cn/lbq.jsp?type=10003>

CCFA. (2016). *The Report of the Development of International Franchising Brand in China* (国际特许经营品牌在中国的发展报告). Beijing, China:

CCFA (中国连锁经营协会). Retrieved from

<http://www.ccfa.org.cn/portal/cn/lsbq.jsp?type=10003>

CCFA. (2017). *2017 Top 100 China Franchise Chains Released (2017 年中国连锁百强)*. Beijing, China: CCFA (中国连锁经营协会). Retrieved from

<http://www.ccfa.org.cn/portal/cn/lsbq.jsp?type=10003>

CCFA. (2019). *2018 Top 100 Franchise Chains Released (2018 年中国连锁百强)*. Beijing, China: CCFA (中国连锁经营协会). Retrieved from

<http://www.ccfa.org.cn/portal/cn/lsbq.jsp?type=10003>

CCFA. (2020). *About Us (关于我们)*. Beijing, China: CCFA (中国连锁经营协会). Retrieved from <http://www.ccfa.org.cn/portal/cn/index.jsp>

Century 21. (2018). *Century 21 China (21 世纪中国)*. Retrieved from

<http://www.century21cn.com/>

Chandler, G. N., & Hanks, S. H. (1994). Founder Competence, The Environment, and Venture Performance. *Entrepreneurship: Theory and Practice*, 18, 77-89.

Chaudey, M., & Fadairo, M. (2010). Contractual Design and Networks Performance: Empirical Evidence from Franchising. *Applied Economics*, 42(4), 529-533.

Chen, W. P. (2011). Franchisee Perceived Relationship Value and Loyalty in A Franchising Context: Assessing the Mediating Role of Franchisee Satisfaction and The Moderating Role of Franchisee Characteristics. *African Journal of Business Management*, 5, 11487-11496.

Chen, C. C., Chen, X. P., & Huang, S. S. (2013). Chinese Guanxi: An Integrative Review and New Directions for Future Research. *Management and Organisation Review*, 9(1), 167-207.

Chien, S. Y. (2014). Franchisor Resources, Spousal Resources, Entrepreneurial Orientation, and Performance in A Couple-Owned Franchise Outlet. *Management Decision*, 52, 916-933.

Chin, W.W. (1998). The Partial Least Squares Approach to Structural Equation Modelling. *Modern Methods for Business Research*, 295(2), 295–336

Chin, W.W., Marcolin B. L., & Newsted P. R. (2003). A Partial Least Squares Latent Variable Modelling Approach for Measuring Interaction Effects: Results from A Monte Carlo Simulation Study and An Electronic-Mail Emotion/Adoption Study. *Information System Research*, 14(2), 189–217.

Chin, W. W. (2010). *How to Write Up and Report PLS Analyses*. Handbook of Partial Least Squares. Berlin, Heidelberg: Springer.

Chiou, J., & Droge, C. (2015). The Effects of Standardisation and Trust on Franchisee's Performance and Satisfaction: A Study on Franchise Systems in the Growth Stage. *Journal of Small Business Management*, 53(1), 129-144.

Chiou, J. S., Hsieh, C. H., & Yang, C.H. (2004). The Effect of Franchisors' Communication, Service Assistance, and Competitive Advantage on Franchisees' Intentions to Remain in The Franchise System. *Journal of Small Business Management*, 42, 19-36.

Choo, S., & Bowley, C. (2007). Using Training and Development to Affect Job Satisfaction Within Franchising. *Journal of Small Business and Enterprise Development*, 14, 339-352.

Chow, C. (1994). Franchising in China. *Franchising World*, 26(3), 33.

Christina, F., & Jim, F. (1997). Insights into Franchising: A Review of Empirical and Theoretical Perspectives. *The Service Industries Journal*, 17(4), 603-625.

Chun-Chen, H., & Long-Chuan, L. (2017). Examining the Roles of Collectivism, Attitude toward Business, and Religious Beliefs on Consumer Ethics in China. *Journal of Business Ethics*, 146(3), 505-514.

Clarkin, J. E., & Swavely, S. M. (2006). The Importance of Personal Characteristics in Franchisee Selection. *Journal of Retailing and Consumer Services*, 13, 133-142.

- Claro, D. P., & Laban Neto, S. A. (2009). Sales Managers' Performance and Social Capital: The Impact of An Advice Network. *BAR-Brazilian Administration Review*, 6(4), 316-330.
- Clottey, T. A., & Grawe, S. J. (2014). Non-Response Bias Assessment in Logistics Survey Research: Use Fewer Tests? *International Journal of Physical Distribution and Logistics Management*, 44, 412-426.
- Coase, R. (1937). The Nature of the Firm. *Economic*, 4(16), 386-405.
- Cochet, O., & Garg, V. (2008). How Do Franchise Contracts Evolve? A Study of Three German SMEs. *Journal of Small Business Management*, 46(1), 134-151.
- Cochet, O., Dorm A. J., & Ehrmann, T. (2008). Capitalising on Franchisee Autonomy: Relational Forms of Governance as Controls in Idiosyncratic Franchise Dyads. *Journal of Small Business Management*, 46, 50-72.
- Coff, R. W. (2002). Human resource, Shared Expertise, and the Likelihood of Impasse in Corporate Acquisitions. *Journal of Management*, 28, 107-128.
- Coleman, J. (1988). Social Capital in the Creation of Human resource. *American Journal of Sociology*, 94, 95-120.

Cooper, A. C., Gimeno-Gascon, F. J., & Woo, C. Y. (1994). Initial Human and Financial Capital as Predictors of New Venture Performance. *Journal of Business Venturing*, 9, 371-395.

Cohen, J. (1988). *Statistical Power Analysis for The Behavioural Sciences*. Hillsdale, NJ: Lawrence Erlbaum.

Collis, J., & Hussey, R. (2014). *Business Research: A Practical Guide for Undergraduate and Postgraduate Students* (4th ed.). Basingstoke: Palgrave MacMillan.

Colman, A. M., Norris, C. E., & Preston, C.C. (1997). Comparing Rating Scales of Different Lengths: Equivalence of Scores from 5-Point and 7-Point Scales. *Psychological Reports*, 80, 355-362.

Combs, J. G., & Ketchen, D. J. (1999). Explaining Interfirm Cooperation and Performance: Toward A Reconciliation of Predictions from The Resource-Based View and Organisational Economics. *Strategic Management Journal*, 20, 867-888.

Combs, J. G., & Ketchen, D. J. (2003). Why Do Firms Use Franchising as an Entrepreneurial Strategy? A Meta-Analysis. *Journal of Management*, 29(3), 443-465.

Combs, J. G., Ketchen, D. J., & Hoover, V. L. (2004a). A Strategic Groups Approach to the Franchising-Performance Relationship. *Journal of Business Venturing, 19*, 877-897.

Combs, J. G., Ketchen, D. J., Shook, C. L., & Short, J. C. (2011). Antecedents and Consequences of Franchising: Past Accomplishments and Future Challenges. *Journal of Management, 37*, 99-126.

Combs, J. G., Michael, S. C., & Castrogiovanni, G. J. (2004b). Franchising: A Review and Avenues to Greater Theoretical Diversity. *Journal of Management, 30*, 907-931.

Covin, J. G., & Slevin, D. P. (1989). Strategic Management of Small Firms in Hostile and Benign Environments. *Strategic Management Journal, 10*, 75-87.

Covin, J. G., & Lumpkin, G. T. (2011). Entrepreneurial Orientation Theory and Research: Reflections on a Needed Construct. *Entrepreneurship Theory and Practice, 35*(5), 855-872.

Cox, E. (1980). The Optimal Number of Response Alternatives for a Scale: A Review. *Journal of Marketing Research, 17*(4), 407-422.

Cox, J., & Mason, C. (2007). Standardisation versus Adaptation: Geographical Pressures to Deviate from Franchise Formats. *The Service Industries Journal, 27*(8), 1053-1072.

Cox, J., & Mason, C. (2009). Franchise Network Restructuring: Pressures, Constraints and Mechanisms. *Entrepreneurship and Regional Development*, 21(5/6), 503-527.

Creswell, J., & Creswell, J. David. (2018). *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches* (5th ed). Thousand Oaks, California: SAGE Publications.

Cronbach, L.J. (1951). Coefficient Alpha and The Internal Structure of Tests, *Psychometrika*, 16(3), 297-334.

Crosby, L. A., Kenneth R. E., & Deborah C. (1990). Relationship Quality in Services Selling: An Interpersonal Influence Perspective. *Journal of Marketing*, 54(3), 68-82.

Cross, R., Parker A., Prusak, L., & Borgatti, S. (2001). Knowing What We Know: Supporting Knowledge Creation and Sharing in Social Networks. *Organizational Dynamics*, 30(2), 100-120.

Crook, T. R., Todd, S. Y., Combs, J. G., Woehr, D. J., & Ketchen, D. J. (2011). Does Human resource Matter? A Meta-Analysis of the Relationship Between Human resource and Firm Performance. *Journal of Applied Psychology*, 96, 443-456.

Croonen, E. P. M., & Brand, M. J. (2013). Antecedents of Franchisee Trust. *Journal of Marketing Channels*, 20, 141-168.

Croonen, E., Brand, M., & Huizingh, E. (2016). To Be Entrepreneurial, Or Not to Be Entrepreneurial? Explaining Differences in Franchisee Entrepreneurial Behaviour Within A Franchise System. *International Entrepreneurship and Management Journal*, 12(2), 531-553.

Dada, O., & Watson, A. (2013). Entrepreneurial Orientation and the Franchise System. *European Journal of Marketing*, 47, 790-812.

Dada, O., Watson, A., & Kirby, D. A. (2012). Toward A Model of Franchisee Entrepreneurship. *International Small Business Journal*, 30(5), 559-583.

Dada, O., Watson, A., & Kirby, D. A. (2015). Entrepreneurial Tendencies in Franchising: Evidence from the UK. *Journal of Small Business and Enterprise Development*, 22(1), 82-98.

Dada, O. (2018). A Model of Entrepreneurial Autonomy in Franchised Outlets: A Systematic Review of the Empirical Evidence. *International Journal of Management Reviews*, 20(2), 206-226.

Dahlstrom, R., & Nygaard, A. (1995). An Exploratory Investigation of Interpersonal Trust in New and Mature Market Economies. *Journal of Retailing*, 71, 339-361.

Dant, R. P., & Gundlach, G. T. (1999). The Challenge of Autonomy and Dependence in Franchised Channels of Distribution. *Journal of Business Venturing*, 14(1), 35-67.

Dant, R. P., & Kaufmann, P. J. (2003). Structural and Strategic Dynamics in Franchising. *Journal of Retailing*, 79, 63-75.

Dant, R. P., & Nasr, N. I. (1998). Control Techniques and Upward Flow of Information in Franchising in Distant Markets: Conceptualisation and Preliminary Evidence. *Journal of Business Venturing*, 13, 3-28.

Dant, R. P., Weaven, S. K., & Baker, B. L. (2013). Influence of Personality Traits on Perceived Relationship Quality within A Franchisee-Franchisor Context. *European Journal of Marketing*, 47, 279-302.

Davey-Rafer, M. R. (1998). Training and Power in Franchise Systems: The Example of the UK Automotive Industry. *Journal of European Industrial Training*, 22, 367-374.

David, R. J., & Han, S. K. (2004). A Systemic Assessment of The Empirical Support for Transaction Cost Economics. *Strategic Management Journal*, 25, 39-58.

Davies, M. A. P., Lassar, W., Manolis, C., Prince, M., & Winsor, R. D. (2011). A Model of Trust and Compliance in Franchise Relationships. *Journal of Business Venturing*, 26, 321-340.

Davidsson, P., & Honig, B. (2003). The Role of Social and Human resource Among Nascent Entrepreneurs. *Journal of Business Venturing*, 18, 301-331.

Dawes, J. (2008). Do Data Characteristics Change According to The Number of Scale Points Used? An Experiment Using 5-Point, 7-Point And 10-Point Scales. *International Journal of Market Research*, 50(1), 61-104.

Dekker, H. C. (2004), Control of Inter-Organisational Relationships: Evidence on Appropriation Concerns and Coordination Requirements. *Accounting, Organisations and Society*, 29, 27-49.

Dess, G. G., & Lumpkin, G. T. (2005). The Role of Entrepreneurial Orientation in Stimulating Effective Corporate Entrepreneurship. *Academy of Management Executive*, 19, 147-156.

Doherty, A., & Quinn, B. (1999). International Retail Franchising: An Agency Theory Perspective. *International Journal of Retail and Distribution Management*, 27(6), 224-237.

Doherty, A., & Alexander, N. (2006). Power and Control in International Retail Franchising. *European Journal of Marketing*, 40(11/12), 1292-1316.

Doherty, A., Chen, X., & Alexander, N. (2014). The Franchise Relationship in China: Agency and Institutional Theory Perspectives. *European Journal of Marketing*, 48(9/10), 1664-1689

Doherty, A., & Quinn, B. (1999). International Retail Franchising: An Agency Theory Perspective. *International Journal of Retail and Distribution Management*, 27(6), 224-237.

Dolnicar, S., & Bettina, G. (2007). Cross-cultural Differences in Survey Response Patterns. *International Marketing Review*, 24(2), 127-143.

Dong, Y., & Peng, C. (2013). Principled Missing Data Methods for Researchers. *Springer Plus*, 2(1), 1-17.

Dorsch, M. J., Swanson, S. R. and Kelly, S. W. (1998). The Role of Relationship Quality in the Stratification of Vendors as Perceived by Customers. *Journal of the Academy of Marketing Science*, 26 (2), 128-142.

Dyer, J. (1997). Effective Interfirm Collaboration: How Firms Minimise Transaction Costs and Maximise Transaction Value. *Strategic Management Journal*, 18(7), 535-556.

Dyer, J. H., & Singh, H. (1998). The Relational View: Cooperative Strategy and Sources of Interorganisational Competitive Advantage. *Academy of Management Review*, 23(4), 660-679.

Edens, F. N., Donald, R. S., & Douglas T. G. (1996). Franchisors Describe the Ideal Franchisee. *Journal of Small Business Management*, 14(3), 39-47.

Eisenhardt, K. (1989a). Agency theory: An Assessment and Review. *Academy of Management Review*, 14, 57-74.

Eisenhardt, K.M. (1989b), Building Theories from Case Study Research, *Academy of Management Review*, 14(4), 532-550.

Elango, B., & Fried, V. H. (1997). Franchising Research: A Literature Review and Synthesis. *Journal of Small Business Management*, 35, 68-81.

Elango, B., & Jawahar, I. (2002). A Typology of Franchises and Differences in Franchisee Attributes. *Journal of Business and Entrepreneurship*, 14(1), 53-68.

Elango, B. (2007). Are Franchisors with International Operations Different from Those Who Are Domestic Market Oriented? *Journal of Small Business Management*, 45, 179-193.

El Akremi, A., Mignonac, K., & Perrigot, R. (2011). Opportunistic Behaviours in Franchise Chains: The Role of Cohesion among Franchisees. *Strategic Management Journal*, 32, 930-948.

European Franchise Federation. (2012). *European Franchise Report. United Kingdom franchise review*. Retrieved from <http://eff-franchise.com/130/franchise-data.html>

Eser, Z. (2012). Inter-Organisational Trust in Franchise Relationships and the Performance Outcomes the Case of Fast food Restaurants in Turkey. *International Journal of Contemporary Hospitality Management*, 24, 774-790.

Falbe, C. M., Dandridge, T. C., & Kumar, A. (1999). The Effect of Organisational Context on Entrepreneurial Strategies in Franchising. *Journal of Business Venturing*, 14(1), 125-140.

Falbe, C. M., & Welsh, D. H. B. (1998). NAFTA And Franchising: A Comparison of Franchisor Perceptions of Characteristics Associated with Franchisee Success and Failure in Canada, Mexico, and the United States. *Journal of Business Venturing, 13*, 151-171.

Falk, R. F., & Miller, N. B. (1992), *A Primer for Soft Modelling*. University of Akron Press, Akron.

Fama, E., & Jensen, M. (1983). Separation of Ownership and Control. *Journal of Law and Economics, 26*, 301-325.

Federal Trade Commission Act. (2006). Retrieved from <https://www.federalreserve.gov/boarddocs/supmanual/cch/ftca.pdf>

Felicio, J. A., Couto, E., & Cai, A. J. (2014a). Human Resource, Social Capital and Organisational Performance. *Management Decision, 52*, 350-364.

Felicio, J. A., Duarte, M., Caldeirinha, V., & Rodrigues, R. (2014b). Franchisee-Based Brand Equity and Performance. *The Service Industries Journal, 34*, 757-771.

Fenwick, G. D., & Strombom, M. (1998). The Determinants of Franchisee Performance: An Empirical Investigation. *International Small Business Journal, 16*, 28-45.

Florin, J., Lubatkin, M., & Schulze, W. (2003). A Social Capital Model of High-Growth Ventures. *Academy of Management Journal*, 46, 374-384.

Floyd, C., & Fenwick, G. (1999). Towards A Model of Franchise System Development. *International Small Business Journal*, 17(4), 32-48.

Fornell, C., & Larcker, D.F. (1981). Evaluating Structural Equation Models with Unobservable Variables and Measurement Error. *Journal of Marketing Research*, 18(1), 39-50.

Fong, E., & Tosi, H. (2007). Effort, Performance, and Conscientiousness: An Agency Theory Perspective. *Journal of Management*, 33(2), 161-179.

Franchise Council of Australia. (2020). *About*. Retrieved from <https://www.franchise.org.au/>

Frazer, L. (2001). Causes of Disruption to Franchise Operations. *Journal of Business Research*, 54, 227-234.

Frazer, L., Weaven, S., Giddings, J., & Grace, D. (2012). What Went Wrong? Franchisors and Franchisees Disclose the Causes of Conflict in Franchising. *Qualitative Market Research*, 15, 87-103.

Ford, R., Wang, Y., & Vestal, A. (2012). Power Asymmetries in Tourism Distribution Networks. *Annals of Tourism Research*, 39(2), 755-779.

Gassenheimer, J. B., Baucus, D. B., & Baucus, M. S. (1996). Cooperative Arrangements among Entrepreneurs: An Analysis of Opportunism and Communication in Franchise Structures. *Journal of Business Research*, 36, 67-79.

Gefen, D., Straub, D. W., & Boudreau, M. C. (2000). Structural Equation Modeling and Regression: Guidelines for Research Practice. *Communications of the Association for Information Systems*, 4 (7), 1-70.

Geisser, S. (1975). The Predictive Sample Reuse Method with Applications. *Journal of The American Statistical Association*, 70, 320-328.

Geyskens, I., Steenkamp, J., & Kumar, N. (1999). A Meta-Analysis of Satisfaction in Marketing Channel Relationships. *Journal of Marketing Research*, 36, 223-238.

Geyskens, I., & Steenkamp, J. (2000). Economic and Social Satisfaction: Measurement and Relevance to Marketing Channel Relationships. *Journal of Retailing*, 76, 11-32.

Ghoshal, S., & Moran, P. (1996). Bad for Practice: A Critique of The Transaction Cost Theory. *Academy of Management Review*, 21, 13-47.

Gillis, W., & Castrogiovanni, G. (2012). The Franchising Business Model: An Entrepreneurial Growth Alternative. *International Entrepreneurship and Management Journal*, 8(1), 75-98.

Gillis, W., Combs, J., & Ketchen, D. (2014). Using Resource-Based Theory to Help Explain Plural Form Franchising. *Entrepreneurship Theory and Practice*, 38(3), 449-472.

Goebel, S., & Weissenberger, B. (2017). The Relationship between Informal Controls, Ethical Work Climates, and Organisational Performance. *Journal of Business Ethics*, 141(3), 505-528.

Gonzalez-Diaz, M., & Solis-Rodriguez, V. (2012). Why Do Entrepreneurs Use Franchising as A Financial Tool? An Agency Explanation. *Journal of Business Venturing*, 27(3), 325-341.

Gorovaia, N., & Windsperger, J. (2013). Real Options, Intangible Resources and Performance of Franchise Networks. *Managerial and Decision Economics*, 34, 183-194.

Gottschalg, O., & Zollo, M. (2007). Interest Alignment and Competitive Advantage. *The Academy of Management Review*, 32(2), 418-437.

Gould, D. (2005). Franchisees Must Be on Board to Strengthen Brand Message. *Franchising World*, 37(12), 15-18.

Granovetter, M. (1973). The Strength of Weak Ties. *American Journal of Sociology*, 78(6), 1360-1380.

Granovetter, M. (1985). Economic Action and Social Structure: The Problem of Embeddedness. *American Journal of Sociology*, 91, 481-510.

Granovetter, M. (1992). Problems of Explanation in Economic Sociology. *Networks and Organisations: Structure, Form, and Action*, 25, 56.

Grant, R. M. (1991). The Resource-Based Theory of Competitive Advantage: Implications for Strategy Formulation. *Knowledge and Strategy*, 33, 3-23.

Griffith, D., & Lusch, R. (2007). Getting Marketers to Invest in Firm-Specific Capital. *Journal of Marketing*, 71(1), 129-145.

Griffith, D.A., Harvey, M.G., & Lusch, R.F. (2006), Social Exchange in Supply Chain Relationships: The Resulting Benefits of Procedural and Distributive Justice. *Journal of Operations Management*, 24(2), 85-98.

Grunhagen, M., & Dorsch, M. J. (2003). Does the Franchisor Provide Value to Franchisees? Past, Current, and Future Value Assessments of Two Franchisee Types. *Journal of Small Business Management*, 41, 366-384.

Grunhagen, M., Dipietro, R. B., Stassen, R. E., & Frazer, L. (2008). The Effective Delivery of Franchisor Services: A Comparison of US and German Support Practices for Franchisees. *Journal of Marketing Channels*, 15, 315-335.

Guilloux, V., Gauzente, C., Kalika, M., & Dubost, N. (2004). How France's Potential Franchisees Reach Their Decisions: A Comparison with Franchisers' Perceptions. *Journal of Small Business Management*, 42, 218-224.

Gulati, R. (1995). Does Familiarity Breed Trust? The Implications of Repeated Ties for Contractual Choice in Alliances. *Academy of Management Journal*, 38(1), 85-112.

Gulati, R. (1999). Network Location and Learning: The Influence of Network Resources and Firm Capabilities on Alliance Formation, *Strategic Management Journal*, 20(5), 397-420.

Gulati, R., Nohria, N., & Zaheer, A. (2000). Strategic Networks. *Strategic Management Journal*, 21(3), 203-215.

Gulati, R., Lavie, D., & Madhavan, R. (2011). How Do Networks Matter? The Performance Effects of Interorganisational Networks. *Research in Organisational Behaviour*, 31, 207-224.

Hackel, E. (2010). Engagement: A Key Driver of Franchise Success. *Franchising World*, 42(5), 18-20.

Hair, J. F., Tatham R. L., & Anderson, R. E. (1998). *Multivariate Data Analysis* (5th Ed.). Prentice Hall: 648-650.

Hair, J. F., Black, W. C., Babin, B. J., & Anderson, R. E. (2010). *Multivariate Data Analysis* (7th Ed.). Englewood Cliffs: Prentice Hall.

Hair, J. F., Hult, G. T. M., Ringle, C. M., & Sarstedt, M. (2017). *A Primer on Partial Least Squares Structural Equation Modelling (PLS-SEM)* (2nd Ed.). Thousand Oakes, CA: SAGE Publications.

Hair, J., Ringle, C., & Sarstedt, M. (2011). PLS-SEM: Indeed, a Silver Bullet. *Journal of Marketing Theory and Practice*, 19(2), 139-152.

Hair, J., Sarstedt, F., Ringle, M., & Mena, C. (2012). An Assessment of The Use of Partial Least Squares Structural Equation Modelling in Marketing Research. *Journal of the Academy of Marketing Science*, 40(3), 414-433.

Harmandcioglu, N. (2009). Portfolio of Controls in Outsourcing Relationships for Global New Product Development. *Industrial Marketing Management*, 38, 394-403

Harman, H. H. (1967). *Modern factor analysis*. Chicago, IL: University of Chicago Press.

Harmon, T. R., & Griffiths, M. A. (2008). Franchisee Perceived Relationship Value. *Journal of Business and Industrial Marketing*, 23, 256-263.

- Harrison, J. S., Hitt, M. A., Hoskisson, R. E., & Ireland, R. D. (2001). Resource Complementarity in Business Combinations: Extending the Logic to Organisational Alliances. *Journal of Management*, 27, 679-690.
- Hatch, N. W., & Dyer, J. H. (2004). Human Resource and Learning as A Source of Sustainable Competitive Advantage. *Strategic Management Journal*, 25, 1155-1178.
- Hawkins, T., Pohlen, T., & Prybutok, V. (2013). Buyer Opportunism in Business-to-Business Exchange. *Industrial Marketing Management*, 42(8), 1266-1278.
- Hempelmann, B. (2006). Optimal Franchise Contracts with Private Cost Information. *International Journal of Industrial Organisation*, 24, 449-465.
- Henseler, J., Ringle, C. M., & Sarstedt, M. (2015). A New Criterion for Assessing Discriminant Validity in Variance-Based Structural Equation Modeling. *Journal of The Academy of Marketing Science*, 43(1): 115-135.
- Henseler, J., Ringle, C. M., & Sinkovics, R. R. (2009). The Use of Partial Least Squares Path Modelling in International Marketing. *Advances in International Marketing*, 20(1), 277-319.
- Hill, C. W. L., & Hoskisson, R. E. (1987). Strategy and Structure in Multiproduct Firms. *Academy of Management Review*, 12, 331-341.

- Hing, N. (1995). Franchisee Satisfaction-Contributors and Consequences. *Journal of Small Business Management*, 33, 12-25.
- Hitt, M. A., Hockisson, R. E., & Duane, I. R. (1990). Mergers and Acquisitions and Managerial Commitment to Innovation in M-form Firms. *Strategic Management Journal*, 11, 29-47
- Harmon, T. R., & Griffiths, M. A. (2008). Franchisee Perceived Relationship Value. *Journal of Business & Industrial Marketing*, 23, 256-263.
- Hofman, P., & Newman, A. (2014). The Impact of Perceived Corporate Social Responsibility on Organisational Commitment and the Moderating Role of Collectivism and Masculinity: Evidence from China. *The International Journal of Human Resource Management*, 25(5), 631-652.
- Hoffman, R. C., & Preble, J. F. (2003). Convert to Compete: Competitive Advantage Through Conversion Franchising. *Journal of Small Business Management*, 41, 187-204.
- Hofstede, G. (1984). *Culture's Consequences*. Sage, Beverly Hills, CA.
- Holmberg, S., and Morgan, K. (2003). Franchise Turnover and Failure: New Research and Perspectives. *Journal of Business Venturing*, 18(3), 403-418.

Holmlund, M. (2008). A Definition, Model, and Empirical Analysis of Business-to-Business Relationship Quality. *International Journal of Service Industry Management*, 19, 32-62.

Hormiga, E., Batista Canino, R. M., & Sanchez Medina, A. (2011). The Impact of Relational Capital on the Success of New Business Start-Ups. *Journal of Small Business Management*, 49, 617-638.

Hossain, T., & Wang, S. (2008). Franchisor's Cumulative Franchising Experience and Its Impact on Franchising Management Strategies. *Journal of Marketing Channels*, 15(1), 43-69.

Huang, X. (2008). *Guanxi* Networks and Job Searches in China's Emerging Labour Market: A Qualitative Investigation. *Work, Employment and Society*, 22(3): 467-484.

Huang, Y. A., Phau, I., & Chen, R. W. K. (2007). Conceptualising the Franchise System Quality (FSQ) Matrix. *Journal of Marketing Channels*, 14, 41-64.

Huber, G. P., & Power, D. (1985). Retrospective Reports of Strategic - Level Managers: Guidelines for Increasing Their Accuracy. *Strategic Management*, 6, 171-180.

Hughes, M., & Morgan, R. E. (2007). Deconstructing the Relationship Between Entrepreneurial Orientation and Business Performance at The

Embryonic Stage of Firm Growth. *Industrial Marketing Management*, 36, 651-661.

International Trade Administration. (2011). *Franchising Laws-China. Franchise in 32 Jurisdictions Worldwide*. US Commercial Service. Retrieved from <https://www.trade.gov>

International Trade Administration. (2016a). *2016 Top Markets Report-Franchising. A Market Assessment Tool for US Exporters*. US Commercial Service. Retrieved from <https://www.trade.gov>

International Trade Administration. (2016b). *US Franchising in East China-Non-food Companies Landscape. Market Research Report*. US Commercial Service. Retrieved from <https://www.trade.gov>

International Trade Association. (2016c). *Australia Franchise Market Report*. Retrieved from https://trade.gov/topmarkets/pdf/Franchising_Australia.pdf

International Trade Administration. (2018). *Franchising Industry - A Reference for US Exporters*. US Commercial Service. Retrieved from <https://www.trade.gov>

International Franchise Association. (2016a). *China Franchise Market Report*. Retrieved from <https://www.franchise.org>

International Franchise Association. (2016c). *Economic Impact of Franchised Businesses*. Retrieved from <https://www.franchise.org>

International Franchise Association. (2017). *Franchise Business Economic Outlook for 2017*. Retrieved from <https://www.franchise.org>

Ireland, R. D., Hitt, M. A., & Vaidyanath, D. (2002). Alliance Management as A Source of Competitive Advantage. *Journal of Management*, 28, 413-446.

Ivens, B. S. (2004). Industrial Sellers' Relational Behaviour: Relational Styles and Their Impact on Relationship Quality. *Journal of Relationship Marketing*, 3(4), 27-43.

Jambulingam, T., & Nevin, J. R. (1999). Influence of Franchisee Selection Criteria on Outcomes Desired by The Franchisor. *Journal of Business Venturing*, 14(4), 363-395.

James, L. R., & Brett, J. M. (1984). Mediators, Moderators, and Tests for Mediation. *Journal of Applied Psychology*, 69, 307-321

Jansen, J. J. P., Van Den Bosch, F. A. J., & Volberda, H. W. (2005). Managing Potential and Realized Absorptive Capacity: How Do Organizational Antecedents Matter? *Academy of Management Journal*, 48, 999-1015.

Jap, S. D. (1999). Pie-expansion efforts: Collaboration Processes in Buyer-Supplier Relationships. *Journal of Marketing Research*, 36, 461-475.

Jap, S. D., & Ganesan, S. (2000). Control Mechanisms and the Relationship Life Cycle: Implications for Safeguarding Specific Investments and Developing Commitment, *Journal of Marketing Research*, 37 (2), 227-45.

Jap, S. (2001). Perspectives on Joint Competitive Advantages in Buyer-Supplier Relationships. *International Journal of Research in Marketing*, 18(1), 19-35.

Jarvis, C., MacKenzie, S., & Podsakoff, P. (2003). A Critical Review of Construct Indicators and Measurement Model Misspecification in Marketing and Consumer Research. *Journal of Consumer Research*, 30(2), 199-218.

Jeffries, F. L., & Reed, R. (2000). Trust and Adaptation in Relational Contracting. *Academy of Management Review*, 25(4), 873-882.

Jensen, M. (1986). Agency Costs of Free Cash Flow, Corporate Finance and Takeovers, *American Economic Review*, 76 (2), 323-339.

Jensen, M. C, & Meckling, W. H. (1976). Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure. *Journal of Financial Economics*, 3, 305-360.

Jiang, H., & Zhan, M. J. (2010). How Members' Managerial Social Capital Influences Their Opportunism in Interfirm Relationships: Empirical Investigation of Chinese-Foreign Joint Venture. *Nankai Business Review International*, 1(2), 180-196.

- Joensuu, S., Viljamaa, A., Varamäki, E., & Tornikoski, E. (2013). Development of Entrepreneurial Intention in Higher Education and The Effect of Gender - A Latent Growth Curve Analysis. *Education and Training, 55*, 781-803.
- Johns, R. (2010). Likert Items and Scales. *Survey Question Bank: Methods Fact Sheet, 1*. Retrieved from https://ukdataservice.ac.uk/media/262829/discover_likertfactsheet.pdf
- Johnson, J., Daily, C., & Ellstrand, A. (1996). Boards of Directors: A Review and Research Agenda. *Journal of Management, 22*: 409-438.
- Jones, O., & Jayawarna, D. (2010). Resourcing New Businesses: Social Networks, Bootstrapping and Firm Performance. *Venture Capital, 12*, 127-152.
- Kacker, M., & Wu, R. (2013). Specific Investments in Franchisor-Franchisee Relationships: A Model. *Journal of Marketing Channels, 20*(1/2), 120-140.
- Karmeni, K., De La Villarmois, O., & Beldi, A. (2018). Impact of Control on Innovation: The Case of Franchising. *Management Decision, 56*(7), 1485-1505.
- Kaufmann, P. J., & Eroglu, S. (1999). Standardisation and Adaptation in Business Format Franchising. *Journal of Business Venturing, 14*(1), 69-85.

Kemmelmeier, M. (2016). Cultural Differences in Survey Responding: Issues and Insights in the Study of Response Biases. *International Journal of Psychology, 51*(6), 439-444.

Ketchen Jr, D. J., Short, J. C., & Combs, J. G. (2011). Is Franchising Entrepreneurship? Yes, No, and Maybe So. *Entrepreneurship Theory and Practice, 35*(3), 583-593.

KFC. (2018). *About Us*. Retrieved from: <http://www.kfc.com.cn/>

Kidwell, R. E., Nygaard, A., & Silkoset, R. (2007). Antecedents and Effects of Free Riding in the Franchisor-Franchisee Relationship. *Journal of Business Venturing, 22*, 522-544.

King, C., Grace, D., & Weaven, S. (2013). Developing Brand Champions: A Franchisee Perspective. *Journal of Marketing Management, 29*, 1308-1336.

Kraus, S. (2013). The Role of Entrepreneurial Orientation in Service Firms: Empirical Evidence from Austria. *Service Industries Journal, 33*, 427-444.

Kowtha, N. (1997). Skills, Incentives, and Control: An Integration of Agency and Transaction Cost Approaches. *Group and Organisation Management, 22*(1), 53-86.

Koza, K. L., & Dant. R. P. (2007). Effects of Relationship Climate, Control Mechanism, and Communications on Conflict Resolution Behaviour and Performance Outcomes. *Journal of Retailing*, 83(3), 279-296.

Kuckertz, A., & Wagner, M. (2010). The Influence of Sustainability Orientation on Entrepreneurial Intentions - Investigating the Role of Business Experience. *Journal of Business Venturing*, 25, 524-539.

Lado, A., Dant, R., & Tekleab, A. (2008). Trust - Opportunism Paradox, Relationalism, and Performance in Interfirm Relationships: Evidence from the Retail Industry. *Strategic Management Journal*, 29(4), 401-423.

Lafontaine, F. (1992). Agency Theory and Franchising: Some Empirical Results. *The RAND Journal of Economics*, 23(2), 263-283.

Lages, C., Lages, C. R., & Lages, L. F. (2005). The RELQUAL Scale: A Measure of Relationship Quality in Export Market Ventures. *Journal of Business Research*, 58(8), 1040-1048.

Lam, A. (2000). Tacit Knowledge, Organisational Learning and Societal Institutions: An Integrated Framework. *Organisation Studies*, 21(3), 487-513.

Lambert, D., & Harrington, T. (1990). Measuring Nonresponse Bias in Customer Service Mail Surveys. *Journal of Business Logistics*, 11(2), 5-25.

Larson, A. (1992). Network Dyads in Entrepreneurial Settings: A Study of The Governance of Exchange Relations. *Administrative Science Quarterly*, 37, 76-104.

Larson, A., & Starr. J. (1993). A Network Model of Organisation Formation. *Entrepreneurship Theory and Practice*, 17(2), 5-15.

Lavie, D. (2006). The Competitive Advantage of Interconnected Firms: An Extension of the Resource-Based View. *Academy of Management Review*, 31, 638-658.

Leblebici, H., & Shalley. C. E. (1996). The Organisation of Relational Contracts: The Allocation of Rights in Franchising. *Journal of Business Venturing*, 11(5), 403-418.

Lee, H., & Choi, B. (2003). Knowledge Management Enablers, Processes, and Organisational Performance: An Integrative View and Empirical Examination. *Journal of Management Information Systems*, 20(1), 179-228.

Lee, C., Lee, K., & Pennings, J. M. (2001a). Internal Capabilities, External Networks, and Performance: A Study on Technology-Based Ventures. *Strategic Management Journal*, 22, 615-640.

Lee, D., Pae, J., & Wong, Y. (2001b). A Model of Close Business Relationships in China (*guanxi*). *European Journal of Marketing*, 35(1/2), 51-69.

- Leuthesser, L. (1997). Supplier Relational Behaviour: An Empirical Assessment. *Industrial Marketing Management*, 26(3), 245-54.
- Lewis, J. (1993). Multipoint Scales: Mean and Median Differences and Observed Significance Levels. *International Journal of Human-Computer Interaction*, 5(4), 383-392.
- Li, J., & Qian, C. (2013). Principal - Principal Conflicts Under Weak Institutions: A Study of Corporate Takeovers in China. *Strategic Management Journal*, 34(4), 498-508.
- Liao, J., & Welsch, H. (2003). Social Capital and Entrepreneurial Growth Aspiration: A Comparison of Technology- and Non-Technology-Based Nascent Entrepreneurs. *Journal of High Technology Management Research*, 14, 149-170.
- Likert, R. (1932). A Technique for the Measurement of Attitudes. *Archives of Psychology*, 140, 1-55.
- Lumpkin, G. T., & Dess, G. G. (2001). Linking Two Dimensions of Entrepreneurial Orientation to Firm Performance: The Moderating Role of Environment and Industry Life Cycle. *Journal of Business Venturing*, 16, 429-451.

- Luo, Y. (2003). Industrial dynamics and managerial networking in an emerging market: The case of China. *Strategic Management Journal*, 24(13), 1315-1327.
- Lutz, N. A. (1995). Ownership Rights and Incentives in Franchising. *Journal of Corporate Finance*, 2, 103-131.
- Lyon, D. W., Lumpkin, G. T., & Dess, G. G. (2000). Enhancing Entrepreneurial Orientation Research: Operationalising and Measuring A Key Strategic Decision-Making Process. *Journal of Management*, 26, 1055-1085.
- MacKenzie, S., Podsakoff, P., & Jarvis, C. (2005). The Problem of Measurement Model Misspecification in Behavioural and Organisational Research and Some Recommended Solutions. *Journal of Applied Psychology*, 90(4), 710-730.
- MacPherson, A., & Holt, R. (2007). Knowledge, Learning and Small Firm Growth: A Systematic Review of The Evidence. *Research Policy*, 36, 172-192.
- Madanoglu, M., Alon, I., & Shoham, A. (2017). Push and Pull Factors in International Franchising. *International Marketing Review*, 34(1), 29-45.
- Madhok, A., & Tallman, S. B. (1998). Resources, Transactions and Rents: Managing Value Through Interfirm Collaborative Relationships. *Organisation Science*, 9(3), 326-339.

Margarita, F. M., Josefa D. M., & Inmaculada G. S. (2018). Building Successful Franchise Partnerships: The Importance of Communication and Trust. *Management Decision*, 56(5), 1051-1064.

Mathewson, G. F., & Winter, R. A. (1985). The Economics of Franchise Contracts. *Journal of Law and Economics*, 28, 503-526.

McDonald's. (2018). *About Us*. Retrieved October 23, 2018, from <http://www.mcdonalds.com.cn/>

McFadden, K. L., Lee, J. Y., Gowen, C. R., & Sharp, B. M. (2014). Linking Quality Improvement Practices to Knowledge Management Capabilities. *Quality Management Journal*, 21, 42-58.

Mcgrath, R., MacMillan, I., & Scheinberg, S. (1992). Elitists, Risk-Takers, And Rugged Individualists? An Exploratory Analysis of Cultural Differences Between Entrepreneurs and Non-Entrepreneurs. *Journal of Business Venturing*, 7(2), 115-135.

Mellewigt, T., Ehrmann, T., & Decker, C. (2011). How Does the Franchisor's Choice of Different Control Mechanisms Affect Franchisees' and Employee-Managers' Satisfaction? *Journal of Retailing*, 87(3), 320-331.

Mentzer, J. T. (2008). Rigor Versus Relevance: Why Would We Choose Only One? *Journal of Supply Chain Management*, 44, 72-77.

Merrilees, B., & Frazer, L. (2006). Entrepreneurial Franchisees Have Hidden Superior Marketing Systems. *Qualitative Market Research*, 9, 73-85.

Michael, S., & Combs, J. (2008). Entrepreneurial Failure: The Case of Franchisees. *Journal of Small Business Management*, 46(1), 73-90.

Michael, S. (1996). To Franchise or Not to Franchise: An Analysis of Decision Rights and Organisational Form Shares. *Journal of Business Venturing*, 11(1), 57-71.

MOFCOM of PRC (中华人民共和国商务部). (2002). *Regulations Regarding Foreign Entity Investment in Industry and the Catalogue Guiding Foreign Investment in Industry (指导外商投资方向暂行规定和外商投资产业指导目录)*. Retrieved from

<http://www.mofcom.gov.cn/aarticle/b/f/200207/20020700031063.html>

MOFCOM of PRC (中华人民共和国商务部). (2004). *Measures for the Administration of Commercial Franchise Operations (商业特许经营管理办法)*, (promulgated by the Ministry of Comm., Dec. 31, 2004, effective Feb. 1, 2005). Retrieved from

<http://www.mofcom.gov.cn/aarticle/b/d/200412/20041200327166.html>

MOFCOM of PRC (中华人民共和国商务部). (2012a). *Administrative Measures for the Information Disclosure of Commercial Franchises (商业特许经营*

许经营信息披露管理办法). Retrieved from http://www.gov.cn/flfg/2012-03/06/content_2084101.htm

MOFCOM of PRC (中华人民共和国商务部). (2012b). *Administrative Measures for Archival Filling of Commercial Franchises (商业特许经营备案管理办法)*. Retrieved from <http://www.mofcom.gov.cn/article/swfg/swfgbh/201101/20110107352492.shtml>

Moran, P. (2005). Structural vs. Relational Embeddedness: Social Capital and Managerial Performance. *Strategic Management Journal*, 26(12), 1129-1151.

Morgan, R. M., & Hunt, S. D. (1994). The Commitment-Trust Theory of Relationship Marketing. *Journal of Marketing*, 58(3), 20–38.

Morgan, N., & Piercy, N. (1996). Competitive Advantage, Quality Strategy and the Role of Marketing. *British Journal of Management*, 7(3), 231-245.

Morhart, F., Herzog, W., & Tomczak, T. (2009). Brand-Specific Leadership: Turning Employees into Brand Champions. *Journal of Marketing*, 73(5), 122-142.

Morrison, K. A. (1996). An Empirical Test of a Model of Franchisee Job Satisfaction. *Journal of Small Business Management*, 34, 27-41.

Morrison, K. A. (1997). How Franchise Job Satisfaction and Personality Affects Performance, Organisational Commitment, Franchisor Relations, and Intention to Remain. *Journal of Small Business Management*, 35, 39-67.

Nahapiet, J., & Ghoshal, S. (1998). Social Capital, Intellectual Capital, and The Organisational Advantage. *Academy of Management Review*, 23, 242-266.

Naude, P., & Buttle, F. (2000). Assessing Relationship Quality. *Industrial Marketing Management*, 29(4), 351-61.

Naughton, B. (2018). *The Chinese Economy: Adaptation and Growth* (2nd Ed.). Cambridge, Massachusetts: The MIT Press.

National Bureau of Statistics of China. (2019). *China Statistical Yearbook*. Beijing: National Bureau of Statistics of China. Retrieved from <http://www.stats.gov.cn/tjsj/ndsj/>

Neuman, W. (2011). *Social Research Methods: Qualitative and Quantitative Approaches* (7th ed.). Boston: Allyn and Bacon.

Newbert, S. L. (2007). Empirical Research on The Resource-Based View of The Firm: An Assessment and Suggestions for Future Research. *Strategic Management Journal*, 28, 121-146.

Nunnally, J. (1978). *Psychometric Methods*. New York: McGraw-Hill.

Nunnally, J. C., & Bernstein I. H. (1994). *Psychometric Theory*, New York: McGraw-Hill.

Nunlee, M. P. (2005). The Control of Intra-Channel Opportunism Through the Use of Inter-Channel Communication. *Industrial Marketing Management*, 34, 515-525.

Nunkoo, R., & Ramkissoon, H. (2012). Power, Trust, Social Exchange and Community Support. *Annals of Tourism Research*, 39(2), 997-1023.

Nonaka, I., & Takeuchi, H. (1995). *The Knowledge-Creating Company: How Japanese Companies Create the Dynamics of Innovation*. New York: Oxford University Press.

Norton, S. (1988a). Franchising, Brand Name Capital and The Entrepreneurial Capacity Problem. *Strategic Management Journal*, 9, 105-114.

Norton, S. W. (1988b). An Empirical Look at Franchising as An Organisational Form. *Journal of Business*, 61(2), 197-218.

Nyadzayo, M. W., Matanda, M. J., & Ewing, M. T. (2011). Brand Relationships and Brand Equity in Franchising. *Industrial Marketing Management*, 40(7), 1103-1115.

Okada, K. (2017). Negative Estimate of Variance-accounted-for Effect Size: How Often It Is Obtained, and What Happens If It Is Treated as Zero.

Behaviour Research Methods, 49(3), 979-987.

Opper, S. J., Holm, H., & Nee, V. (2017). Risk Aversion and *Guanxi* Activities: A Behavioural Analysis of CEOs In China. *Academy of*

Management Journal, 60(4), 1504-1530.

Ortiz-Walters, R., & Gius, M. (2012). Performance of Newly Formed Micro

Firms: The Role of Capital Financing in Minority-Owned Enterprises. *Journal of Developmental Entrepreneurship*, 17(3), 1-31.

O'Reilly, K. (2009). Inductive and Deductive. *Key Concepts in Ethnography*.

SAGE Publications.

O'Shea, R. P., Allen, T. J., Chevalier, A., & Roche, F. (2005). Entrepreneurial Orientation, Technology Transfer and Spinoff Performance of US Universities.

Research Policy, 34, 994-1009.

Ostgaard, T. A., & Birley, S. (1994). Personal Networks and Firm Competitive Strategy - a Strategic or Coincidental Match? *Journal of Business Venturing*, 9,

281-305.

Ouchi, W., & Maguire, M. (1975). Organisational Control: Two Functions.

Administrative Science Quarterly, 20(4), 559-569.

Ouchi, W. G. (1977). The Relationship Between Organisational Structure and Organisational Control. *Administrative Science Quarterly*, 20, 95-113.

Oxenfeldt, A.R., & Kelly, A.O. (1969). Will Successful Franchise Systems Ultimately Become Wholly Owned Chains? *Journal of Retailing*, 44 (4), 69-83.

Paik, Y., & Choi, D. Y. (2007). Control, Autonomy and Collaboration in the Fast Food Industry: A Comparative Study Between Domestic and International Franchising. *International Small Business Journal*, 25, 539-562.

Palmatier, R. W. (2008). Interfirm Relational Drivers of Customer Value. *Journal of Marketing*, 72, 76-89.

Patel, P., Kim, K., Devaraj, S., & Li, M. (2018). Family Ties That B(L)Ind: Do Family-Owned Franchisees Have Lower Financial Performance Than Nonfamily-Owned Franchisees? *Journal of Retailing*, 94(2), 231-245.

Patel, P. C., & Terjesen, S. (2011). Complementary Effects of Network Range and Tie Strength in Enhancing Transnational Venture Performance. *Strategic Entrepreneurship Journal*, 5, 58-80.

Patton, M. (2002). *Qualitative Research & Evaluation Methods* (3rd ed.). Thousand Oaks, California; London: Sage.

Pardo-del-Val, M., Martínez-Fuentes, C., López-Sánchez, J. I., & Minguela-Rata, B. (2014). Franchising: The Dilemma Between Standardisation and Flexibility. *The Service Industries Journal*, 34(9/10), 828-842.

Park, J., & Li, J. (2014). *The Franchisee Selection Criteria for The Restaurant Franchisor in China*. Washington: International Council for Small Business (ICSB).

Park, S., & Luo, Y. (2001). *Guanxi* And Organisational Dynamics: Organisational Networking in Chinese Firms. *Strategic Management Journal*, 22(5), 455-477.

Peng, M. W., & Heath, P. S. (1996). The Growth of The Firm in Planned Economies in Transition: Institutions, Organisations, And Strategic Choice. *Academy of Management Review*, 21, 492-528.

Peng, Y. (2004). Kinship Networks and Entrepreneurs in China's Traditional Economy. *American Journal of Sociology*, 109(5), 1045-1074.

Peng, M., & Zhou, W. (2005). How Network Strategies and Institutional Transitions Evolve in Asia. *Asia Pacific Journal of Management*, 22(4), 321-336.

Perdreau, F., Le Nadant, A., & Cliquet, G. (2015). Human Resource Intangibles and Performance of Franchise Networks: A Complementary View

Between Agency and Critical Resource Perspectives. *Managerial and Decision Economics*, 36(2), 121-138.

Peris-Ortiz, M., Willoughby, M., & Rueda-Armengot, C. (2012). Performance in Franchising: The Effects of Different Management Styles. *Service Industries Journal*, 32, 2507-2525.

Perryman, A., & Combs, J. (2012). Who Should Own It? An Agency-Based Explanation for Multi-Outlet Ownership and Co-Location in Plural Form Franchising. *Strategic Management Journal*, 33(4), 368-386.

Peteraf, M. A. (1993). The Cornerstones of Competitive Advantage: A Resource-Based View. *Strategic Management Journal*, 14(3), 179-191.

Peterson, A., & Dant, R. P. (1990). Perceived Advantages of the Franchise Option from the Franchisee Perspective: Empirical Insights from a Service Franchise. *Journal of Small Business Management*, 28(3), 46-61.

Phan, P., Butler, J., & Lee, S. (1996). Crossing Mother: Entrepreneur-Franchisees' Attempts to Reduce Franchisor Influence. *Journal of Business Venturing*, 11, 379-402.

Phillips, L. W. (1981). Assessing Measurement Error in Key Informant Reports: A Methodological Note on Organisational Analysis in Marketing. *Journal of Marketing Research*, 18, 395-415.

Pirollo, L., & Presutti, M. (2010). The Impact of Social Capital on The Start-Ups' Performance Growth. *Journal of Small Business Management*, 48, 197-227.

Pitt, L., Napoli, J., & Van Der Merwe, R. (2003). Managing the franchised brand: The franchisees' perspective. *Journal of Brand Management*, 10(6), 411-420.

Podolny, J. (2011). Network as The Pipes and Prisms of The Market. *American Journal of Sociology*, 107, 33-66.

Podsakoff, P. M., MacKenzie, S. B., Lee, J. Y., & Podsakoff, N. P. (2003). Common Method Biases in Behavioural Research: A Critical Review of The Literature and Recommended Remedies. *Journal of Applied Psychology*, 88(5), 879-903.

Podsakoff, P. M., MacKenzie, S. B., & Podsakoff, N. P. (2012). Sources of Method Bias in Social Science Research and Recommendations on How to Control It. *Annual Review of Psychology* 63(1), 539-569.

Podsakoff, P. M., & Organ, D. W. (1986). Self-Reports in Organisational Research: Problems and Prospects. *Journal of Management*, 12(4), 531-544.

Podolny, J. (2011). Network as The Pipes and Prisms of The Market. *American Journal of Sociology*, 107, 33-66.

- Poppo, L. & Zenger, T. (2002). Do Formal Contracts and Relational Governance Function as Substitutes or Complements. *Strategic Management Journal*, 23, 707-725.
- Powell, W. W. (1990). Neither Market nor Hierarchy: Network Forms of Organisation. *Research in Organisational Behaviour*, 12, 295-336.
- Preble, J. F., & Hoffman, R. C. (1998). Competitive Advantage Through Specialty Franchising. *Journal of Consumer Marketing*, 15, 64-77.
- Preston, C., & Colman, A. (2000). Optimal Number of Response Categories in Rating Scales: Reliability, Validity, Discriminating Power, and Respondent Preferences. *Acta Psychological*, 104(1), 1-15.
- Quinn, B., & Doherty, A. (2000). Power and Control in International Retail Franchising - Evidence from Theory and Practice. *International Marketing Review*, 17(4/5), 354-372.
- Rahatullah, M., & Raeside, R. (2009). The Dynamism of Partner Selection Criteria in Franchising. S.A.M. *Advanced Management Journal*, 74(4), 36-46.
- Ribeiro, D., & Akehurst, G. P. (2014). Franchising in Services. *Service Industries Journal*, 34, 751-756.

- Ringle, C. M., Sarstedt, M. P., Gudergan, S., & Mitchell, R. (2018). Partial Least Squares Structural Equation Modeling in HRM Research. *International Journal of Human Resource Management*, 31(12), 1617-1643.
- Ringle, C. M., Sarstedt, M. W., & Straub, D. (2012). A Critical Look at The Use of PLS-SEM In MIS Quarterly. *MIS Quarterly: Management Information Systems*, 36(1), 3-14.
- Rodriguez, N. G., Pere, M. J. S., & Gutierrez, J. A. T. (2006). Dependence as A Moderator in The Relationship Between Franchisors and Franchisees: The Case of Services Franchises. *Journal of Marketing Channels*, 13, 3-27.
- Roh, E. Y., & Yoon, J. H. (2009). Franchisor's Ongoing Support and Franchisee's Satisfaction: A Case of Ice Cream Franchising in Korea. *International Journal of Contemporary Hospitality Management*, 21, 85-99.
- Rouse, M. J., & Daellenbach, U. S. (1999). Rethinking Research Methods for The Resource-Based Perspective: Isolating Sources of Sustainable Competitive Advantage. *Strategic Management Journal*, 20, 487-494.
- Roxas, B., & Chadee, D. (2012). Effects of Informal Institutions on the Performance of Microenterprises in the Philippines: The Mediating Role of Entrepreneurial Orientation. *Journal of Asia-Pacific Business*, 13(4), 320-348.
- Rubin, P. H. (1978). The Theory of The Firm and The Structure of The Franchise Contract. *Journal of Law and Economics* 21: 223-234.

Ruekert, R. W., & Churchill, G. A. (1984). Reliability and Validity of Alternative Measures of Channel Member Satisfaction. *Journal of Marketing Research*, 21 (2), 226-233.

Sanny, L., Abdurachman, E., Simatupang, B., & Heriyati, P. (2017). Franchising Performance from Franchisee Perspective: Case in Education Franchising in Indonesia. *Global Business Review*, 18(3), 605-616.

Saraogi, A. (2009). Exploring Franchisor Franchisee Relationship: Building a Predictive Model of Franchisee Performance. *The Journal of Business Perspective*, 13(1), 31-58.

Sashi, C. M., & Karuppur, D. P. (2002). Franchising in Global Markets: Towards a Conceptual Framework. *International Marketing Review*, 19(4/5), 499-524.

Schafer, J. L. (1999). Multiple Imputation: A Primer. *Statistical Methods in Medical Research*. 8(1), 3-15.

Schilke, O., Reimann, M., & Cook, K. (2015). Power Decreases Trust in Social Exchange. *Proceedings of The National Academy of Sciences of The United States of America*, 112(42), 12950-12955.

Seidmann, A., & Sundarajan, A. (1997). Building and Sustaining Inter Organisational Information Sharing Relationships: The Competitive Impact of Interfacing Supply Chain Operations in Marketing Strategy, in *Proceedings of*

the 18th International Conference on Information Systems, K. Kumar and J. I. Degross (Eds.), Atlanta, GA. 205-222.

Shane, S., & Hoy. (1996). Franchising: A Gateway to Cooperative Entrepreneurship. *Journal of Business Venturing*, 11(5), 325-327.

Shane, S. (1998). Making New Franchise Systems Work. *Strategic Management Journal*, 19, 697-707.

Shapiro, S. P. (2005). Agency Theory. *Annual Review of Sociology*, 31, 263-284.

Sharma, A. (1997). Professional as Agent: Knowledge Asymmetry in Agency Exchange. *Academy of Management Review*, 22, 758-798.

Snell, S.A. (1992). Control Theory in Strategic Human Resource Management: The Mediating Effect of Administrative Information. *Academy of Management Journal*, 35(2), 292-327.

Sorenson, O., & Sorensen, J. B. (2001). Finding the Right Mix: Franchising, Organisational Learning, and Chain Performance. *Strategic Management Journal*, 22, 113-124.

Spinelli, S., & Birley, S. (1996). Toward A Theory of Conflict in The Franchise System. *Journal of Business Venturing*, 11(5), 329-342.

Spiteri, J. M., & Dion, P. A. (2004). Customer Value, Overall Satisfaction, End-User Loyalty, and Market Performance in Detail Intensive Industries. *Industrial Marketing Management*, 33, 675-687.

Stanworth, J., Stanworth, C., Watson, A., Purdy, D., & Healeas, S. (2004). Franchising as A Small Business Growth Strategy-A Resource-Based View of Organisational Development. *International Small Business Journal*, 22, 539-559.

State Council (国务院). (2005). *Contract Law (中华人民共和国合同法)*. Retrieved from http://www.gov.cn/banshi/2005-07/11/content_13695.htm

State Council (国务院). (2007). *Regulations on the Administration of Commercial Franchises (商业特许经营管理条例)*. (Decree No. 485, Jan. 31, 2007, effective May 1, 2007). Retrieved from http://www.gov.cn/zhengce/content/2008-03/28/content_4179.htm

Stone, M. (1974). Cross-Validatory Choice and Assessment of Statistical Predictions, *Journal of The Royal Statistical Society*, 36(2), 111-133

Stump, R., & Heide, J. (1996). Controlling Supplier Opportunism in Industrial Relationships. *Journal of Marketing Research*, 33(4), 431-441.

Tao, Z., & Zhu, T. (2001). An Agency Theory of Transactions Without Contract Enforcement: The Case of China. *China Economic Review*, 12(1), 1-14.

Tsai, W. (2001). Knowledge Transfer in Intra-organisational Networks: Effects of Network Position and Absorptive Capacity on Business Unit Innovation and Performance. *Academy of Management Journal*, 44, 996-1004.

Tuunanen, M., & Hyrsky, K. (2001). Entrepreneurial Paradoxes in Business Format Franchising: An Empirical Survey of Finnish Franchisees. *International Small Business Journal*, 19(4), 47-62.

Unger, J. M., Rauch, A., Frese, M., & Rosenbusch, N. (2011). Human resource and Entrepreneurial Success: A Meta-Analytical Review. *Journal of Business Venturing*, 26, 341-358.

Urbach, N., & Ahlemann, F. (2010). Structural Equation Modelling in Information Systems Research Using Partial Least Squares. *Journal of Information Technology Theory and Application*, 11(2), 5-39.

Uzzi, B. (1996). The Sources and Consequences of Embeddedness for the Economic Performance of Organisations: The Network Effect. *American Sociological Review*, 61(4), 674-698.

Van Der Sluis, J., Van Praag, M., & Vijverberg, W. (2005). Entrepreneurship Selection and Performance: A Meta-Analysis of The Impact of Education in Developing Economies. *World Bank Economic Review*, 19, 225-261.

Venkatraman, N. (1989). Strategic Orientation of Business Enterprises: The Construct, Dimensionality, and Measurement. *Management Science*, 35, 942-962.

Walsham, G. (1995). The Emergence of Interpretivism In IS Research. *Information Systems Research*, 6(4), 376-394.

Walter, A., Muller, T. A., Helfert, G., & Ritter, T. (2003). Functions of Industrial Supplier Relationships and Their Impact on Relationship Quality. *Industrial Marketing Management*, 32(2), 159-69.

Wang, C. L. (2008). Entrepreneurial Orientation, Learning Orientation, and Firm Performance. *Entrepreneurship Theory and Practice*, 32, 635-657.

Wang, C. L., Shi, Y., & Barnes, B. R. (2015). The Role of Satisfaction, Trust and Contractual Obligation on Long-Term Orientation. *Journal of Business Research*, 68, 473-479.

Wang, Z., Zhu, M., & Terry, A. (2008). The Development of Franchising in China. *Journal of Marketing Channels*, 15(2/3), 167-184.

Wathne, K. H., & Heide, J. B. (2000). Opportunism in Interfirm Relationships: Forms, Outcomes, and Solutions. *Journal of Marketing*, 64(4), 36-51

Watson, A. (2008). Small Business Growth Through Franchising: A Qualitative Investigation. *Journal of Marketing Channels*, 15, 3-21.

Watson, A., Dada, O., Grünhagen, M., & Wollan, M. L. (2016). When Do Franchisors Select Entrepreneurial Franchisees? An Organisational Identity Perspective. *Journal of Business Research*, 69(12), 5934-5945.

Watson, A., Dada, O., Wright, O., & Perrigot, R. (2019). Entrepreneurial Orientation Rhetoric in Franchise Organizations: The Impact of National Culture. *Entrepreneurship Theory and Practice*, 43(4), 751-772.

Watson, A., & Johnson, R. (2010). Managing the Franchisor-franchisee Relationship: A Relationship Marketing Perspective. *Journal of Marketing Channels*, 17, 51-68.

Watson, A., Senyard, J., & Dada, L. (2020). Acts of Hidden Franchisee Innovation and Innovation Adoption within Franchise Systems. *Industrial Marketing Management*, 89, 431-445.

Weaven, S. K., Grace, D. A., Frazer, L., & Giddings, J. (2014). Processual Antecedents of Perceived Channel Conflict in Franchising. *Journal of Business Economics and Management*, 15, 316-334.

Wernerfelt, B. (1984). A Resource-Based View of The Firm. *Strategic Management Journal*, 5, 171-180.

Werts, C. E., Linn, R. L., & Jöreskog, K. G. (1974). Intra-Class Reliability Estimates: Testing Structural Assumptions. *Educational and Psychological Measurement*, 34(1), 25-33.

Wetzels, M., Odekerken-Schröder, G., & Van Oppen, C. (2009). Using PLS Path Modelling for Assessing Hierarchical Construct Models: Guidelines and Empirical Illustration. *Mis Quarterly*, 33(1), 177-195.

Wicks, A. C., & Freeman, R. E. (1998). Organisation Studies and The New Pragmatism: Positivism, Anti-Positivism, and The Search for Ethics. *Organisation Science*, 9(2), 123-140.

Wiklund, J., & Shepherd, D. (2003). Knowledge-Based Resources, Entrepreneurial Orientation, and The Performance of Small and Medium-Sized Businesses. *Strategic Management Journal*, 24, 1307-1314.

Wiklund, J., & Shepherd, D. (2005). Entrepreneurial Orientation and Small Business Performance: A Configurational Approach. *Journal of Business Venturing*, 20, 71-91.

Williamson, O. E. (1975). *Markets and Hierarchies, Analysis and Antitrust Implications*. New York, NY: The Free Press.

Williamson, O. E. (1979). Transaction-Cost Economics: The Governance of Contractual Relations. *Journal of Law and Economics*, 22(2), 233-261.

Williamson, O. E. (1981). The Economics of Organisation: The transaction Cost Approach. *American Journal of Sociology*, 87, 548-577.

Williamson, O. E. (1985). *The Economic Institutions of Capitalism*. New York, Free Press.

Wright, P. M., Dunford, B. B., & Snell, S. A. (2001). Human Resources and The Resource-Based View of The Firm, *Journal of Management*, 27, 701-721.

Wu, C. (2015). Antecedents of Franchise Strategy and Performance. *Journal of Business Research*, 68(7), 1581-1588.

Wu, I., Chuang, C., & Hsu, C. (2014). Information Sharing and Collaborative Behaviours in Enabling Supply Chain Performance: A Social Exchange Perspective. *International Journal of Production Economics*, 148, 122-132.

Wu, L. Y. (2010). Applicability of The Resource-Based and Dynamic-Capability Views Under Environmental Volatility. *Journal of Business Research*, 63, 27-31.

Xiao, Z., & Tsui, A. (2007). When Brokers May Not Work: The Cultural Contingency of Social Capital in Chinese High-Tech Firms? *Administrative Science Quarterly*, 52(1), 1-31.

Yang, T. T., & Li, C. R. (2011). Competence Exploration and Exploitation in New Product Development. *Management Decision*, 49, 1444-1470.

Yang, X., & Wang, Z. (2013). Inter-Firm Opportunism: A Meta-Analytic Review and Assessment of Its Antecedents and Effect on Performance. *The Journal of Business and Industrial Marketing*, 28(2), 137-146.

Yin, X., & Zajac, E. (2004). The strategy/governance structure fit relationship: Theory and evidence in franchising arrangements. *Strategic Management Journal*, 25(4), 365-383.

Yli-Renko, H., Autio, E., & Sapienza, H. J. (2001). Social Capital, Knowledge Acquisition, and Knowledge Exploitation in Young Technology-Based Firms. *Strategic Management Journal*, 22, 587-613.

Yu, B., & To, W. (2011). The Importance of Input Control to Work Performance Under the Agency Theory Framework. *The International Journal of Human Resource Management*, 22(14), 2874-2891.

Zachary, M. A., Mckenny, A. F., Short, J. C., Davis, K. M., & Wu, D. (2011). Franchise Branding: An Organisational Identity Perspective. *Journal of The Academy of Marketing Science*, 39, 629-645.

Zaheer, A., Mcevily, B., & Perrone, V. (1998). Does Trust Matter? Exploring the Effects of Interorganisational and Interpersonal Trust on Performance. *Organisation Science*, 9, 141-159.

Zajac, E. J., & Westphal, J. D. (1994). The Costs and Benefits of Managerial Incentives and Monitoring in Large US Corporations: When Is More Not Better. *Strategic Management Journal*, 15, 121-142.

Zane, L., & Decarolis, D. M. (2016). Social Networks and The Acquisition of Resources by Technology-Based New Ventures. *Journal of Small Business and Entrepreneurship*, 28(3), 203-221.

Appendices

Appendix 1: Proposal for cooperation with CCFA

This proposal was drafted and sent in March 2019 to seek cooperation with CCFA for data collection. Both the English version and the Chinese version are shown below.

English version

“This document is to request the cooperation of CCFA in the research I am undertaking as a PhD student at the University of Nottingham Ningbo China analysing the key factors that affect franchise performance at the franchisee level. The outcome of this research could be of great use to CCFA and its members as it aims to identify the factors behind successful business relationships between a franchisor and its franchisees.

As CCFA is well-aware, franchising is an important business form built on the idea of a business relationship between a franchisor and its franchisees. While newer in China than in western countries, it is now a significant part of the Chinese economy. CCFA plays a leading role among franchisors in China. This cooperation aims to help CCFA and its members to understand better what makes franchising successful in China.

Most research on franchising and how to make it work successfully has been undertaken in the United States and other developed western countries. There

has been great emphasis on using formal contracts and detailed monitoring of franchisees as the best way to manage franchising and the challenge of aligning franchisees with the goals of the franchisor. However, in Chinese business, social relationships (*guanxi*) are even more important than in the West. This means that western approaches will have limited effectiveness as they ignore the characteristics of Chinese business. This research will focus on how franchising works in China and how different approaches may be needed. It will be undertaken by Sun Xiaoxi under the supervision of Professor Martin Lockett, Dean of the Business School.

This research needs the cooperation of a number of franchise operators which CCFA can facilitate to be successful. The proposed research design uses quantitative survey methods to gain the most systematic view of the franchisor-franchisee relationship and franchise performance at the franchisee level. The ideal would be a collection of data from a large random sample size covering as many franchise industries as feasible to generalise the findings. The ideal data source would, therefore, be a number of large franchises with cooperation from the leading franchisors. With support from CCFA, the survey could then be distributed to all franchisees in the selected franchise operations and potentially combined with performance data held centrally by the franchisor. The large volume of data collected from CCFA will result in consistent and accurate data collection and analysis. This would be complemented by a smaller number of in-depth interviews.

The benefits for CCFA and the franchise operations which take part would be:

- A research report on what is behind successful franchisor-franchisee relationships
- Credit for cooperation in any publication arising from the research
- A business report/ policy paper with guidance on how to improve the franchise performance at the franchisee level in China
- English translations/ versions of reports for international publication
- A connection with the University of Nottingham Ningbo China that could lead to further positive cooperation

This research has the potential not only to improve the performance of CCFA's members but also to raise the national and international profile of CCFA. I am looking forward to cooperating with CCFA and would welcome an early discussion on how to initiate this research.”

Chinese Version

寻求与 CCFA（中国连锁超市和特许经营协会）合作的提案

本文意在寻求 CCFA 与我正在中国宁波诺丁汉大学攻读博士学位的研究进行合作，此研究分析了影响特许经营业绩的关键因素。这项研究的结果可能对 CCFA 及其成员有很大的用处，因为它旨在确定特许人与其特许经营之间成功的商业关系背后的因素。

正如 CCFA 所知，特许经营是一种建立在特许人与其特许经营者之间的商业关系的基础上重要的商业形式。虽然这种商业形式在中国比西方国家更新，但它现在已成为中国经济的重要组成部分。CCFA 在中国的特许经营者中发挥着主导作用。此次合作旨在帮助 CCFA 及其成员更好地了解特许经营在中国取得成功的原因。

大多数关于特许经营的研究以及如何使其成功运作已经在美国和其他发达的西方国家开展。这些研究大多强调使用正式合同和对特许经营者的详细监控作为管理特许经营的最佳方式，以及使特许经营者与特许人的目标保持一致的挑战。然而，在中国企业中，社会关系（关系）比西方更重要。这意味着西方方法的效力有限，因为它们忽略了中国企业的特征。本研究将重点关注特许经营在中国的运作方式以及如何需要不同的方法。此研究将由孙晓曦在商学院院长 Martin Lockett 教授的指导下进行。

为了取得成功，该研究需要与可以促进的多个特许经营者合作的 CCFA 的帮助。拟议的研究设计采用定量调查方法，以最系统的方式了解特许经营关系和特许经营业绩。理想的结果是从大量随机样本量中收集数据，涵盖尽可能多的特许经营行业，以概括研究结果。因此，理想的数据来源于多个大型特许经营企业，与主要特许经营商合作。在 CCFA 的支持下，该调查可以分发给所选特许经营中的所有特许经营商，并可能与特许人集中持有的绩效数据相结合。从 CCFA 收集的大量数据将带来准确连贯的数据收集和分析。这些数据将通过较少量的深入访谈得到补充。

对 CCFA 以及参与的特许经营的好处是：

- 关于成功的特许经营关系背后的研究报告
- 提高在各大研究出版物中合作的信誉
- 业务报告/政策文件，指导如何改善中国的特许经营业绩
- 国际出版物报告的英文翻译/版本
- 与宁波诺丁汉大学的联系可以促进进一步的积极合作

该研究不仅有可能提高 CCFA 成员的绩效，而且有可能提高 CCFA 的国内和国际形象。我期待着与 CCFA 合作，并欢迎早日讨论如何启动这项研究。

Appendix 2: Questionnaire

English version

PARTICIPANT INFORMATION SHEET

To what extent does the franchisor-franchisee relationship affect franchisee performance?

Dear Participant,

Thank you for agreeing to participate in this questionnaire survey in connection with my PhD research at the University of Nottingham Ningbo China. The purpose of this survey research is to understand the franchisee perspective in operating a franchise business.

Your participation in the survey is voluntary. You are able to withdraw from the survey at any time and to request that the information you have provided is not used in the project. Any information provided will be confidential. Your identity will not be disclosed in any use of the information you have supplied during the survey.

The research project has been reviewed according to the ethical approval processes in place at the University of Nottingham Ningbo. These processes are governed by the University's *Code of Research Conduct and Research Ethics*. Should you have any question now or in the future, please contact my supervisor or me. Should you have concerns related to my conduct of the

survey or its research ethics, please contact my supervisor or the University's Ethics Committee.

Yours truly,
Xiaoxi Sun

Contact details:

Student Researcher: Xiaoxi Sun (xiaoxi.sun@nottingham.edu.cn)

Supervisor: Prof. Martin Lockett (martin.lockett@nottingham.edu.cn)

University Research Ethics Committee Coordinator: Ms Joanna Huang
(Joanna.Huang@nottingham.edu.cn)

PARTICIPANT CONSENT FORM

Project title: To what extent does the franchisor-franchisee relationship affect franchisee performance?

Researcher: Xiaoxi Sun

Supervisor: Prof. Martin Lockett

- I have read the Participant Information Sheet and the nature and purpose of the research project have been explained to me. I understand and agree to take part.
- I understand the purpose of the research project and my involvement in it.
- I understand that I may withdraw from the research project at any stage and that this will not affect my status now or in the future.
- I understand that while information gained during the study may be published anonymously, I will not be identified, and my personal results will remain confidential.
- I understand that any interview may be recorded/filmed.
- I understand that data will be stored in accordance with data protection laws.
- I understand that I may contact the researcher or supervisor if I require more information about the research and that I may contact the Research Ethics Sub-Committee of the University of Nottingham, Ningbo if I wish to make a complaint related to my involvement in the research.

Signed (participant)

Print name

Date

Contact details

Researcher: Xiaoxi Sun xiaoxi.sun@nottingham.edu.cn

Supervisor: Prof. Martin Lockett martin.lockett@nottingham.edu.cn

UNNC Research Ethics Sub-Committee Coordinator: Ms Joanna Huang

Joanna.Huang@nottingham.edu.cn

QUESTIONNAIRE

Franchise Name: _____

Branch location: _____

1. When did you first start this franchise (Year) ? _____

2. How many outlets do you own now in this franchise? _____

3. Age

Under 30; 30-39; 40-49; 50-59; Over 60

4. Gender

Male; Female

5. Education level

Middle school; High school; Bachelor's degree; Master's degree;

PhD

Notes: All scale statements were anchored with the response categories of **1 = strongly disagree** to **7 = strongly agree** with a defined neutral point.

6. This section is about how the franchisor monitors your franchise.

Please circle the number that corresponds with your level of agreement.

- 6.1) Frequent meetings/visits are held to discuss performance with the franchisor.
- 6.2) Policies and procedures manuals define the work steps for routine tasks precisely.
- 6.3) The franchisor makes sure I know what to do and how to do it.
- 6.4) My performance is evaluated primarily based on how well I accomplish an assigned task.
- 6.5) My dealings with the franchisor are subject to stringent rules and regulations.
- 6.6) Numerical records/ financial ratios are used as the chief index of effectiveness.
- 6.7) Pre-established targets are written in stone and are used as a benchmark for evaluations.
- 6.8) My performance is evaluated primarily based on the results of an assigned task.
- 6.9) My rewards or remuneration components are linked to results or the achievement of specific assigned performance goals.
- 6.10) I underwent a series of evaluations before selected.
- 6.11) I received substantial training and skill development before assuming responsibility.
- 6.12) Emphasis is placed on hiring best-suited applicants for a particular position.

7. **This section is about descriptions of the franchise relationship.** Please circle the number that corresponds with your level of agreement.

- 7.1) The franchisor is very reliable and stands by his/ her word.
- 7.2) The franchisor has always been fair and honest in dealing with me.
- 7.3) The franchisor will act according to the agreement in the cooperative contract.
- 7.4) The information provided by the franchisor is credible.
- 7.5) The franchisor and I are “in it together”.
- 7.6) The franchisor and I do not take advantage of each other.
- 7.7) The franchisor and I are constantly doing something for each other.
- 7.8) The franchisor and I have a mutually beneficial relationship.
- 7.9) The franchisor helps me identify and develop good ideas.
- 7.10) The franchisor encourages me to express my ideas to him/her.
- 7.11) If I find a better way to do something, the franchisor will share it quickly with others.
- 7.12) When I share problems with the franchisor, I receive an understanding response.
- 7.13) The exchange of information between the franchisor and me goes beyond the scope agreed in our contract.

8. **This section is about your resources as a franchisee.** Please circle the number that corresponds with your level of agreement.

- 8.1) I had enough financial capital before joining this franchise system.
- 8.2) I was able to provide the land/building that needed by the franchisor.
- 8.3) I provided the equipment needed by the franchisor.
- 8.4) I had business skills and expertise.
- 8.5) I have a great deal of business education and training.

8.6) I had engaged in other business ventures before buying this franchise.

8.7) I have a large network of business contacts/ acquaintances

8.8) I have utilised my *guanxi* connections in running my franchise.

8.9) The relationship with the franchisor is more important to me than profits from individual transactions.

8.10) I am committed to preserving a good working relationship with other franchisees.

9. **This section is about how franchisee performance is measured.** Please circle the number that corresponds with your level of agreement.

9.1) I made the right decision to set up this franchise.

9.2) I am satisfied with the quality of the franchise products and/or services.

9.3) I am satisfied with the prices for the franchise products and/or services.

9.4) I am satisfied with the cooperation with the franchisor.

9.5) I am satisfied with this franchise relationship.

9.6) I am satisfied with the franchisor's efforts.

10. Please give the estimated percentage revenue growth, profitability growth and number of employees over the last three years.

Year	Revenue growth %	Growth in profit %	Number of employees
2016			
2017			
2018			

Comments:

Thank you for completing the questionnaire.

[Contact information - completion is completely voluntary]

In case I need to contact you for further information or clarification, it would be helpful if you could leave your contact information. *All your information and answers will be kept strictly confidential.*

Participant's Name: _____

Contact: _____

Chinese version

声明

论文题目：国内特许代理下的特许人与受许人关系研究

尊敬的参与者：

感谢您参与这次问卷调查。这次问卷调查是我在宁波英国诺丁汉大学博士研究相联系的。本调查研究的目的是了解受许人在经营特许经营业务方面的观点。

您是自愿参与此次问卷调查的。您可以在任何时候选择放弃这次的问卷调查，并要求您提供的信息不被使用在此次调查中。您提供的所有信息都是保密的。在使用您提供的信息时不会涉及您的身份以及个人信息。

宁波诺丁汉大学已根据研究道德检查程序对这项研究项目进行检查。这一程序是在学校关于研究行为和研究道德的行为标准的指导下进行的。

如果您现在或将来有任何疑问，请联系本人或我的导师。如果您对我在问卷中的研究行为或研究道德有任何疑问，请联系我的导师或者英国诺丁汉大学的道德委员会。

孙晓曦

联系方式：

研究者：孙晓曦 Xiaoxi.Sun@nottingham.edu.cn

导师：马丁·洛克特教授 Martin.Lockett@nottingham.edu.cn

诺丁汉大学研究道德委员会秘书：Ms Joanna Huang
Joanna.Huang@nottingham.edu.cn

参与者同意书

项目标题 国内特许代理下的特许人与受许人关系研究

研究者姓名 孙晓曦（宁波诺丁汉大学战略学博士生）

导师姓名 马丁·洛克特教授

- 本人已阅读声明，项目组织者已与我解释了研究项目的性质和宗旨。本人理解并同意参与。
- 本人理解项目的目的和在项目中的参与作用。
- 本人明白可以在研究项目的任何阶段退出，不会因此影响现在以及将来的状况。
- 本人明白研究过程中个别调查内容信息可能会被匿名公开，但本人身份不会被确认，个人的调查结果始终是被保密。
- 本人知道面谈/数据采集根据需要将会被录音。
- 本人了解数据会根据数据保护相关法律进行存储。
- 本人知道，如果需要进一步有关研究的信息可以联系研究者或者导师，如果需要对参与研究提出投诉则可以联系宁波诺丁汉大学科研伦理小组委员会。

参与者签名.....

日期.....

联系方式

研究者：孙晓曦 xiaoxi.sun@nottingham.edu.cn

导师：马丁·洛克特教授 martin.lockett@nottingham.edu.cn

诺丁汉大学研究道德委员会秘书：Ms Joanna Huang
Joanna.Huang@nottingham.edu.cn

特许关系研究调查问卷

特许经营名称：_____

分店位置：_____

1.你在哪一年开始这个特许经营？_____

2.你现在拥有多少个门店？_____

3.年龄

30 岁以下; 30-39; 40-49; 50-59; 超过 60 岁

4.性别

男; 女性

5.教育水平

初中及以下; 高中; 本科; 硕士; 博士及以上

请根据实际情况选择最符合您看法的选项。注：1 =非常不同意；7 =非常同意。

6.本节介绍特许人如何监督受许人。

- 6.1) 特许人经常举行会议/访问与我讨论经营状况。
- 6.2) 特许人确保我知道该做什么以及如何做。
- 6.3) 特许经营政策和程序手册准确地定义了我日常任务的工作步骤。
- 6.4) 我与特许人的交易严格地受到规章制度的约束。
- 6.5) 我的表现主要是根据我完成指定任务的程度来评估的。
- 6.6) 财务数据被用作测量我工作有效性的主要指标。
- 6.7) 特许经营过程中预先确定作为评估基准的目标是一成不变的。
- 6.8) 我的表现主要是根据指定任务的完成结果来评估的。
- 6.9) 我的奖励或报酬部分与工作成果或指定绩效目标的实现相关联。
- 6.10) 我被选中之前，特许人对我进行了一系列评估。
- 6.11) 在承担责任之前，我接受了大量的培训和技能培养。
- 6.12) 特许经营的重点是雇用最适合特定职位的候选人。

7.本节是关于特许经营关系的描述。

- 7.1) 特许人非常可靠，信守承诺。
- 7.2) 特许人在与我打交道时一直秉持公平公正的原则。
- 7.3) 特许人根据合作合同中的协议行事。
- 7.4) 特许人提供的信息真实可信。
- 7.5) 特许人和我站在统一战线。
- 7.6) 特许人和我从不互相利用对方。

- 7.7) 特许人和我一直在为彼此着想。
- 7.8) 特许人和我互惠的关系。
- 7.9) 特许人帮助我鉴别和开发好的想法。
- 7.10) 特许人鼓励我向他们表达我的想法。
- 7.11) 特许人会很快分享我发现的更优的方法。
- 7.12) 当与特许人分享问题时，我通常会收到合理的答复。
- 7.13) 特许人与我之间的信息交流超出了商定的范围。

8.本节是关于受许人资源的描述。

- 8.1) 在加入此特许经营体系之前，我已有足够的资金支持。
- 8.2) 我能够提供特许人所需的土地/场地。
- 8.3) 我拥有特许人所需的设备。
- 8.4) 我掌握了很多商业技能和专业知识。
- 8.5) 我接受了大量的商业教育和培训。
- 8.6) 在加入此特许经营之前，我从事过其他商业活动。
- 8.7) 我已经建立了一个庞大的业务联系人/熟人网络。
- 8.8) 我利用我的个人关系来运营此特许经营。
- 8.9) 我与特许人的关系比个人交易的利润更为重要。
- 8.10) 我致力于与其他特许人保持良好的工作关系。

9.本节是关于特许经营业绩的衡量。

9.1) 我认为建立此特许经营是一个正确的决定。

9.2) 我对产品和服务的质量感到满意。

9.3) 我对产品和服务的价格感到满意。

9.4) 我对与特许人的合作感到满意。

9.5) 我对此特许经营关系感到满意。

9.6) 我对特许人付出的努力感到满意。

10.请在过去三年中估算收入增长，盈利增长和员工人数的百分比。

年份	年收入增长%	盈利增长%	员工人数
2016			
2017			
2018			

备注：

感谢您填写调查问卷。您的所有信息和答案都将严格保密。

您认为还有哪些因素将会影响特许经营的业绩？如果您愿意留下联系信息，我将与您联系以获取更多信息。

参与者姓名：_____

联系方式：_____

Appendix 3: Guideline of semi-structured interview

- Have you attained any special initial and on-going training provided by the franchisor? What are they, and how long or how often do they take? (control)
- How much control does the franchisor maintain over day-to-day operations? E.g. Do products and services strictly controlled by the franchisor? Do hours and days of operation dictate by the franchisor? (control)
- Must you (the franchisee) remain personally involved in running the franchise, or can the management duties be delegated? What aspects of the business are left to the discretion of you (the franchisee)? (control)
- How much is the initial franchise fee? Is it overloaded to you? (resources)
- Why you became interested in this franchise opportunity? Any competitive advantages? (resources)
- What do you feel will be your most important contribution to your business? (resources)
- Have you ever worked in one of our stores? If so, when and where? (franchise relationship)
- Are you related to any officer, director, or employee of our company, or any of our franchisees? If so, please name the person. (franchise relationship)

- Have you ever had your own business or been self-employed?
(characteristics)
- Are the franchises financially successful? What have you done to make your franchise successful? (performance)
- How long did it take them to become profitable? (performance)
- Would you advise anyone to start a franchise with this particular franchisor? (performance)

Appendix 4: Original constructs

This table summarises the original constructs from previous research studies
(See the detailed discussion in 4.3).

Table I: Summary of Original Constructs

Variables	Sources	Constructs
Behaviour control	Mellewigt et al. (2011); Snell (1992)	<p>Frequent meetings are held with subordinate to discuss their performance.</p> <p>Policies and procedures manual define the fundamental source of process.</p> <p>The franchisor (the headquarters) makes sure everyone knows what to do and how to do it.</p> <p>Superiors evaluate the way in which employees accomplish an assigned task.</p> <p>Superiors define the most important work steps for routine tasks.</p>
Output control	Goebel & Weissenberger (2017); Mellewigt, et al. (2011)	<p>Numerical record is used as the chief index of effectiveness.</p> <p>Pre-established targets are used as a benchmark for evaluation.</p> <p>Performance evaluation place primary weight on the result.</p> <p>The rewards my manager receive are linked to results.</p>
Input control	Goebel & Weissenberger (2017); Snell (1992)	<p>Individuals must undergo a series of evaluations before they are hired.</p> <p>Managers receive substantial training before they assume responsibility.</p> <p>Much effort has been put into establishing the best-suited recruiting process for our organisation.</p>

Variables	Sources	Constructs
Physical resource	Cecil & Goldstein (1990)	I had enough financial capital before joining this franchise system.
		I was able to provide the land/building that needed by the franchisor.
		I provided the equipment needed by the franchisor.
Human resource	Griffith & Lusch (2007)	I have many business skills and a great deal of business expertise.
		I have a great deal of business education and training.
		I have many business capabilities.
Organisational resource	Lado et al. (2008); Park & Luo (2001)	I have a large network of business contacts (I have developed many business acquaintances).
		I have many business connections.
		Our relationship with the principal is more important to us than profits from individual transactions.
		We are committed to preserving a good working relationship with the principal.
Trust	Griffith & Lusch, 2007; Koza & Dant, 2007; Chiou & Droge, 2015; Crosby et al. 1990; Jap, 1999	This principal is a company that stands by its word.
		We can count on the principal to be honest in its dealings with us.
		I believe that the franchisor will act according to the agreement in the cooperative contract.
		The information provided by the franchisor is credible.
Absence of opportunism	Margarita et al. (2018); Koza & Dant (2007)	We can work together well in this business.
		Neither party makes demands that might harm the other.

Variables	Sources	Constructs
		We look after each other's interest in this relationship.
		We have a mutually beneficial relationship.
Information sharing	Dant & Nasr, (1998)	This franchisee exchanges information with us like a team player should.
		We actively seek this franchisee's input for insights into better ways of doing business.
		When I share my problems with my employer, I know that it will respond with understanding.
		This franchise provides us with information informally and not only according to prespecified agreements.
Satisfaction	Chiou & Droge (2015); Dant et al. (2013)	I am happy about my decision to choose this franchise system.
		We are satisfied with the quality of the products and services (product dimension).
		We are satisfied with the prices for the products and services (financial dimension).
		We are satisfied with the franchisor's (the headquarters') marketing efforts (assistance dimension).
		We are satisfied with the cooperation with the franchisor (the headquarters) (general cooperative climate).
		Overall, I am satisfied with this franchise relationship.

Appendix 5: Structural model

After running the PLS Algorithm in Smart PLS 3.0, the diagram below presents the path coefficients of the inner model and the R square of each construct.

Figure IV: Structural Model (Satisfaction)

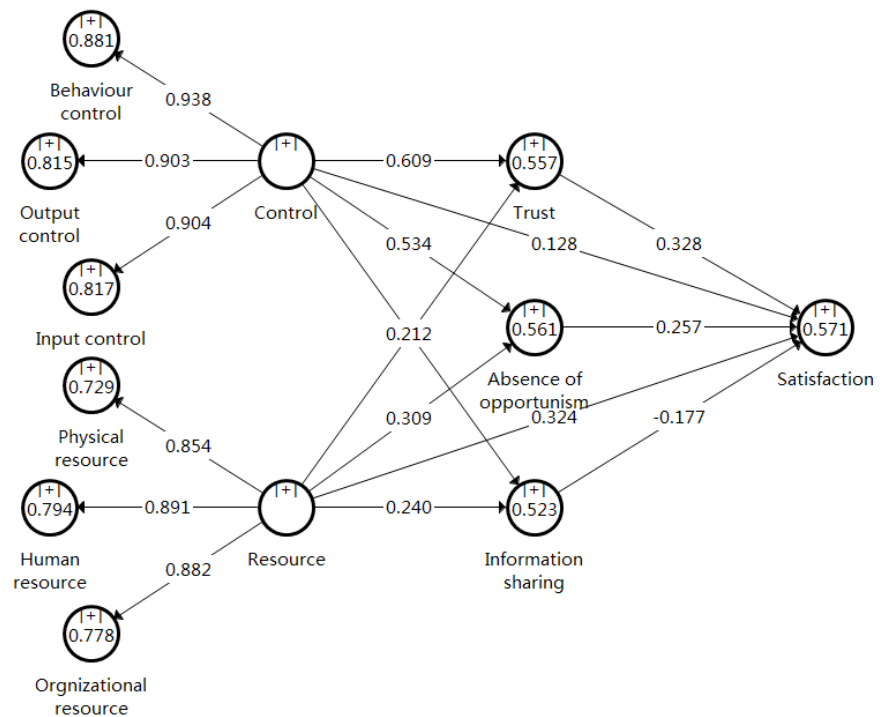
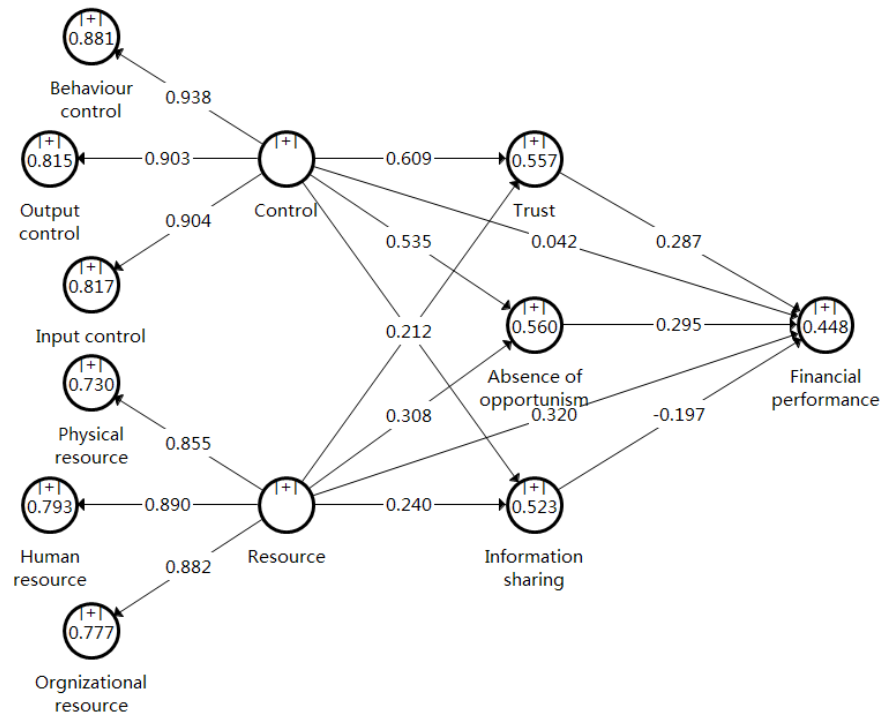


Figure V: Structural Model (Financial performance)



Appendix 6: Mediation effects

The tables below summarise the direct effect, total indirect effect and total effect of the model (see discussion in 5.5.2).

Table IV: Mediation Effect (Satisfaction)

	Beta	T Statistics	P-Values
Direct effect			
Control -> Satisfaction	0.13*	2.25	0.02
Resource -> Satisfaction	0.32**	4.87	0.00
Total indirect effect			
Control -> Satisfaction	0.24**	4.79	0.00
Resource -> Satisfaction	0.10**	3.07	0.00
Total effect			
Control -> Satisfaction	0.37**	6.22	0.00
Resource -> Satisfaction	0.43**	6.69	0.00

Notes: Beta: Standardised path coefficient; ** p < 0.01, * p < 0.05

Note: Total effect = direct effect + indirect effect

Source: Questionnaires (Smart PLS)

Table V: Mediation Effect (Financial performance)

	Beta	T Statistics	P-Values
Direct effect			
Control -> Financial Performance	0.05	0.81	0.42
Resource -> Financial Performance	0.32**	5.25	0.00
Total indirect effect			
Control -> Financial Performance	0.22**	4.65	0.00
Resource -> Financial Performance	0.10**	2.96	0.00
Total effect (DE+IE)			
Control -> Financial Performance	0.27**	4.96	0.00
Resource -> Financial Performance	0.42**	7.35	0.00

Notes: Beta: Standardised path coefficient; ** p < 0.01, * p < 0.05

Note: Total effect = direct effect + indirect effect

Source: Questionnaires (Smart PLS)

Appendix 7: Tested structural models

