An Exploration of Service Quality in Franchising Relationships (FRANQUAL)

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Abstract

Essentially, the degree to which the franchising relationship is effective in facilitating a mutually beneficial exchange depends, to a great extent, on the behaviour of the franchisor. Just as service providers provide intangible products in order to orchestrate viable solutions for customers so, too, the franchisor is the service provider of business solutions for the franchisee (customer). This paper documents the first exploratory phase of research that investigates service quality in franchising (FRANQUAL). In doing so, five franchising quality dimensions (e.g., mechanics, expertise transfer, simplicity, openness and equity) result from in-depth interviews with 22 franchisees.

Introduction

Given that franchising is a distinct and unique business format, it has attracted considerable research attention within the business literature. Much of the research has employed resource scarcity theory and agency theory to explain several aspects of the franchisor/franchisee relationship (e.g. Sullivan and Robins 1996; Phan et al, 1996; Dant and Gundlach, 1998; Pizanti and Lerner, 2003). Research pertaining to franchising distinctiveness, undoubtedly, enhances our understanding of franchising; however, the lack of a more generic exchange view may also limit our scope toward this business format and, thus, inhibit a broad understanding of this phenomenon. It is on this basis, we argue that the essence of the franchisor-franchisee relationship is exchange. From the franchisor perspective, fees (e.g., initial entry fees, royalties, advertising and training fees) are gained by providing the franchisee access to the brand and support and assistance in relation to all aspects of the business (e.g., administrative support, training, business development advice etc.) (Grunhagen and Dorsch, 2003; Monroy and Alzola, 2005). Thus, reciprocally, franchisees gain through such business support in exchange for money.

Essentially, the degree to which the franchising relationship is effective in facilitating a mutually beneficial exchange depends, to a great extent, on the behaviour of the franchisor. For example, the franchisor's ability to effectively undertake a "series of activities of a more or less intangible nature" (Gronroos, 2001) (e.g., support, knowledge transfer, training etc.) will define the perceived quality of the relationship from the franchisee's perspective and will have a significant influence on the success of the inter-organisational relationship. Just as service providers provide intangible products in order to orchestrate viable solutions for customers so, too, the franchisor is the service provider of business solutions for the franchisee (customer). This being the case, it is surprising that, within the franchising literature, little research has concentrated on the service aspect of the franchising exchange. In addressing this oversight, this paper documents the first exploratory phase of research that investigates service quality in franchising (FRANQUAL). The findings will significantly extend service quality theory by examining and comparing the effect of consumption format (i.e. B2C versus B2B vrsus franchising relationship) on service quality perceptions. Furthermore, in practical terms, this study will lead to the development of an instrument that will significantly enhance

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the franchisor's ability to monitor and measure service quality in the franchising relationship, thus benefiting all parties involved. Therefore, the contribution of this paper to theory and practice is significant and a new stream of research enquiry is born.

Conceptual Framework

According to the service-dominant logic, service is the fundamental basis of all exchanges (Vargo and Lusch, 2008) and, as such, this applies to the franchisor-franchisee exchange. The output of a franchisor (i.e., franchisor-to-franchisee service, such as brand building efforts, support etc.) is derived from the franchisor's knowledge and skills with the efficient running of the franchise system and reflected by decisions associated with the brand, location, daily operation, management, and so forth. Based on this, the process of a franchisor applying knowledge and skills is reflected by, and embedded in, the output transference of knowledge and skills to franchisees, which are, in essence, the source of revenue for both parties. Consequently, the franchising exchange is primarily built on service, with the franchisor as the sender and the franchisee as the receptor. On this basis, it is the *quality* of the service provided that essentially orchestrates successful and satisfying exchanges.

Service quality refers specifically to subjective, perceived quality, with the purpose of reflecting customer attitudes toward services and capturing customer perceptions regarding the services provider's excellence and superiority (Parasuraman, Zeithaml and Berry, 1985; 1988). Over the years two main paradigms to assess services quality have emerged. Firstly, the disconfirmation-based paradigm (Parasuraman, Zeithaml and Berry, 1985; 1988; 1994) articulates service quality as a comparison of what customers expect services should be (i.e., their expectations) with their actual perceived performance (Parasuraman, Zeithaml and Berry 1985; 1988; 1994). The second paradigm encapsulates a performance-based model in which service quality derives only from customers' perceived performance (Cronin and Taylor, 1992; 1994). While there has been considerable debate regarding the conceptualization and operationalization of service quality (Parasuraman, Zeithaml and Berry, 2005), the disconfirmation-based paradigm has broad conceptual and empirical support.

Grounded in the disconfirmation-based paradigm, the SERVQUAL scale has been widely used to assess services quality in the business-to-consumer (B2C) setting. Five service dimensions in this SERVQUAL scale (tangibles, reliability, responsiveness, empathy and assurance) refer less to services outcomes than to the manner in which services are delivered (Parasuraman, Zeithaml and Berry, 1998). This scale was developed to provide a generic instrument for measuring quality of services across diverse industries and settings. However, some researchers suggest that developing and adopting industry-specific dimensions may be more appropriate than using a single generic scale such as SERVQUAL (Ladhari, 2008). This has lead to a number of adaptations that vary in the number of dimensions, although the five dimensions of the SERVQUAL scale are, generally, retained. (Ladhari, 2008). The majority of these scales, however, still reside in the B2C domain, with much less research attention being given to business-to-business (B2B) exchanges.

In the B2B domain, service quality research can be classified into two groups. Firstly, there is the body of research with the main aim being to legitimise (or not) the SERVQUAL scale (and its dimensionality) in the B2B domain (Brensinger and Lambert,

1990; Babakus and Boller, 1992; Durvasula et al.,1999). This research has produced slightly mixed results with the SERVQUAL dimensions being reliable in some cases (e.g., Durvasula et al., 1999; Pitt et al., 1996) and not so much in others (Brensinger and Lambert, 1990; Babakus and Boller, 1992). The second body of research has studied service quality from a service attribute (rather than dimension) perspective. While some of these studies have used SERVQUAL as a starting point and added more specific attributes (e.g., Mehta & Durvasula, 1998; Jayawardhena et al., 2007), others have concentrated on context-specific service variables (Brensinger and Lambert, 1990).

However, it is argued here, that the current operationalisation of service quality in the B2C and B2B contexts will not be sufficient for us to understand and measure service quality in the franchising exchange. This is so because the relationship and constraints underpinning the exchanges in the B2C, B2B and franchising domains are significantly different. For example, one dimension these relationships can be differentiated on is that of interdependence with B2C at one end of the interdependence continuum (low) and franchising at the other end (high), with B2B falling somewhere in between, depending on the industry. Similarly, there are other dimensions (e.g. risk, proximity, relationship intensity etc.) that could be used to also to exemplify these differences. For these reasons, it is expected that franchising service quality (FRANQUAL) will be distinctly different to SERVQUAL, due to SERVQUAL's conceptualisation being from a B2C perspective. Furthermore, rather than respond to the call for more industry-specific service quality research (e.g., Ladhari, 2008), what is necessary and more beneficial (in theory and practice) is an in-depth exploration of what constitutes service quality in a unique exchange, that being franchising, the results of which will be applicable to many industries. It is on this basis that the broad research question of this study is posed and the exploration begins.
What are the dimensions of service quality important in the franchising exchange?

Method

Our aim was to interview single and multiple unit franchisees to identify the dimensions of service quality important to franchisees. In order to achieve this goal, we randomly selected a list of franchisees from a database of Australian franchisees to begin the convergent interviewing process. Convergent interviewing involves a series of in-depth interviews that allows questions to be refined and developed after each interview with the aim of converging issues in a particular area. That is, this research encourages a "series of successive approximations" (Dick, 1990,p. 3) leading to a consensus, through the development and use of probe questions, about important information where interviewee agreement or disagreement is tested. This unstructured method of inquiry encourages interviewees to choose their own interpretations, thus enabling a greater potential for new insights and perspectives (Aaker et al., 2006). Interviews cease when there is convergence i.e. when further interviewing is redundant due to results of previous interviews being replicated. As such, the number of interviews is not predetermined. As a result, data were collected from 22 in-depth telephone interviews. Telephone interviewing was favoured by the researchers as it offered some of the benefits of face-to-face interviewing, such as responsiveness and reflexivity, without the time and financial costs associated with setting up physical meetings with each participant (Gillham, 2000).

Results

The sample of interviewees comprised of 55% female respondents and 45% male respondents, with an average age of 48 years and number of years involved with franchising being, on average, 5.3 years. Interviews lasted from 45 to 65 minutes and were transcribed on completion. Analysis involved two of the researchers and one research assistant, firstly, identifying all service quality components mentioned in the interviews and, secondly, coming to a consensus on the identified themes that encapsulate the identified components (refer Table 1). On completion of this phase, a small survey which covered all themes and components was developed and mailed to the 22 interviewees. The interviewees were asked to rate the importance of these service quality components on a scale from 1 (extremely unimportant) to 10 (extremely important) and to also nominate any aspect of quality that was not included in the survey. A 100% response rate was achieved and the means and standard deviations of the data appear in Table 1. No further aspects of quality were nominated by the respondents in this confirmatory survey phase.

Table 1. Summary of Responses (in relation to emerging themes)

Dimension	Components	Frequency (Interviewees)	Mean (Survey)	St. Dev. (Survey)
Mechanics (franchise system)	Brand	22	9.33	0.89
	Systems and Processes	17	9.06	1.22
	Support Mechanisms	16	9.46	0.74
	Tangibles	17	8.55	1.50
Expertise transfer (franchisor to franchisee)	Tasks and Systems	21	9.00	1.81
	Market Intelligence	15	8.26	2.21
	Motivation and Inspiration	13	8.06	2.37
Openness (of franchisor)	Franchisee feedback	16	9.26	1.22
	Market Intelligence	17	8.46	2.58
	Adaptability of system	18	9.00	1.19
Simplicity (user friendliness)	Documentation	11	8.06	2.01
	Systems and Processes	12	8.46	1.50
	Pricing	14	8.20	1.69
Equity	Contract	13	9.13	0.99
	Compensation	15	9.33	0.81
	Communication	16	9.40	0.82

Discussion

The dimensions appearing in Table 1 represent the categories upon which franchisees base their perception of quality in the franchising relationship and these have been labelled as *mechanics, expertise transfer, openness, simplicity* and *equity*.

Mechanics is defined as the degree to which quality perceptions are derived from the brand, the systems and processes, the support mechanisms and the tangibles (i.e. physical components). Given that these components provide the fundamental core in the franchising exchange, it is not surprising that reference to quality aspects associated with these elements dominated the interviews with the brand, in particular, being explicitly nominated by all respondents. This is evidenced by the following comments;

> *The brand now and how sharp is the brand and how many people are aware of the, you know, franchise brand name…if you buy a business and if the brand name that is not very big, there is actually no point getting into the franchise.*
> (Male, 32 years)

Expertise transfer is defined as the degree to which quality perceptions are derived from the transfer of franchisor knowledge and expertise to the franchisee in relation to all areas of the franchising operation (e.g., tasks and systems, market intelligence, motivation etc.).

While the franchising "mechanics" provide the core to the relationship, it is the transfer of expertise that facilitates their effectiveness. For example, no amount of sophisticated componential design will compensate for inadequate skills transfer. Furthermore, a quality franchise relationship is seen as one that is also inspiring and motivating. For example, one interviewee commented:

> *A franchisor should be able to, one, identify what the deficits in the individual's (franchisee's) ability to run that business are and then the ability to educate and support, and you know, inspire that person.* (Female, 43 years)

Openness is defined as the degree to which quality perceptions are derived from the receptiveness of the franchisor in relation to franchisee feedback, general and local market knowledge and the likelihood that the franchisor will be flexible in their response to such intelligence. This dimension relates to the *gathering* of intelligence as opposed to the *dissemination* of intelligence previously discussed in the "expertise transfer" dimension and is evidenced by the following comment.

> *The other thing is they should be able to talk to everyone, at least listen to a lot of ideas that are around. There's a lot of smart people out there and not all the smart people are working in the office of the franchisor. And I really don't think a lot of them are listened to.* (Male, 61 years)

Simplicity is defined as the degree to which quality perceptions are derived from the user-friendliness of the contractual documentation, systems and processes and pricing structures. One interviewee explains the importance of simplicity with this comment:

> *If there is something going on, they provide you with the instructions that are like really, really easy to learn, even if you don't have a chef to make a pizza there, anybody from the street could look at it and know that is how it has to be done.* (Male, 32 years).

Equity is defined as the degree to which quality perceptions are derived from the perceived fairness of the contract, compensation and communication. This theme is exemplified by the following comment.

> *If they are not up front with us, then where do we go from there? They could be ripping us off in a dozen ways* (Female, 40 years).

The five dimensions outlined above provide a comprehensive summary of the interview data. The strengths of the themes are exemplified by the high frequencies and importance ratings shown in Table 1. As such, the information gleaned from the interviews provides the foundation for future operationalisation of service quality in franchising,

Limitations & Future Research

The limitations of this study reside in its exploratory nature. The research reported herein begins a much larger exploration into the service quality domain of franchising and provides a starting point for validation and adaptation. Therefore, it is acknowledged here that the generalisability of the findings, at this point in time, cannot be made with confidence. However, importantly, the findings provide a foundation for further substantive enquiries with the view to developing a valid and reliable measure of service quality in the franchising context (FRANQUAL). This being the case, the contribution of this (and future) research is highly significant.

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