SEARCHING FOR ANSWERS
THE CAUSE AND RESOLUTION OF CONFLICT IN FRANCHISING

Lorelle Frazer
Service Industry Research Centre, Griffith University
Brisbane, Qld 4111 Australia
Tel: +61 7 3382 1179 Fax: +61 7 3382 1190
Email: L.Frazer@griffith.edu.au

Jeff Giddings
Socio-Legal Research Centre, Griffith University
Nathan, Australia

Scott Weaven
Service Industry Research Centre, Griffith University
Gold Coast, Australia

Owen Wright
Service Industry Research Centre, Griffith University
Nathan, Australia

ABSTRACT

The aim of this research was to explore the dimensions of franchisor and franchisee power and control in the franchising relationship in the Australian franchising sector. In a franchising arrangement the franchisee is heavily dependent on the franchisor, particularly in the early stages where the learning curve is steep. It is generally agreed that the franchisor wields the most power, although it is the mere perception of power rather than reality that is of most importance.

The perceived imbalance of power of franchisees was a primary determinant for introducing legislation in the franchising sector in Australia and thus providing a more level playing field between franchisors and franchisees. As a result, most of the franchising matters that come to the government regulator's attention have the same essential element where the franchise is not performing in the way the franchisee expected. From the regulator's perspective, these concerns fall into three broad categories; exploitation and scams, structural pressures and poor relationship management. Enforcement actions have been successful in discouraging scams. However, the most challenging complaints concern allegations and disputes resulting from structural and/or poor relationship management issues. Hence, a 'grey area' in franchising surrounds the nature of the franchising relationship and the problems that occur as a result of structural and poor relationship management pressures. The current research is a preliminary study of the issues.

A qualitative approach was adopted to gather information from a wide variety of informants involved in the franchising sector. A cross section of franchisors, franchisees, franchising lawyers and advisors were selected and interviewed to explore the nature of the problems experienced in franchising and the resolution of disputes and distribution of power. The interviews converged on three main themes. Firstly, there was general agreement that franchising resembled a *partnership*

arrangement more than a master-servant relationship. However, participants conceded that the power available to the franchisor and franchisee varied according to circumstances. Secondly, the *causes of conflict* were felt to be related to franchisee performance as well as interaction with corporate management. Finally, as a means of resolving conflict, attitudes about the effectiveness of *mediation* were mixed. The broad themes are then developed into suggested propositions for further research.

INTRODUCTION

The Australian franchising sector has been coined 'the franchise capital of the world' (Walker, 2004, p. 36) because of its high level of franchising density and high rates of growth. Some 62,000 franchise units belonging to 960 franchise systems turned over $128 billion in 2005 (Frazer, Weaven, & Wright, 2006). The sector has grown rapidly since fast food chains established in Australia in the 1970s. Whilst the growth has been impressive, the sector is not without its problems. In 2006, 35 percent of franchisors reported being involved in substantial disputes with franchisees (Frazer, Weaven, & Wright, 2006) which questions both the nature of power sharing within franchising relationships and the suitability of current sector regulation. Even though the Australian Franchising Code of Conduct was introduced in 1998 to address a perceived imbalance of power between franchisors and franchisees, there are still concerns as to its effectiveness in conflict management and resolution (Featherstone, 2006). Administered by the Australian Competition and Consumer Commission (ACCC) under the Federal Trade Practices Act (1974), the Code's main thrusts have been to require disclosure of pertinent information to prospective franchisees and mandatory alternative dispute resolution processes for franchisors and franchisees facing conflict (Miller, 2000).

However, the role and effectiveness of the ACCC in representing franchisee interests has been questioned. Despite the Code's existence for some 9 years, the ACCC has initiated litigation against franchisors in only 15 cases, drawing some criticism by franchising sector participants (Lynch, 2006). The Federal Minister for Small Business and Tourism, Fran Bailey has commented: "There has been a spate lately of people beating a path to my door, and I think some of them have genuine grievances" (Featherstone, 2006). In its defence, the ACCC's small business commissioner, John Martin, has vowed to take a more aggressive approach with regard to prosecution of rogue franchisors in the future (Featherstone, 2006). Whilst the public tends to hear

about sensational court cases reported in the media, much work is conducted 'behind the scenes' at the ACCC. The ACCC will only pursue legal action when there are serious issues which must be conducted through a court of law. In numerous other cases the ACCC adopts an informal approach to resolving conflicting issues occurring within a franchise system by holding individual discussions with franchisees and franchisors.

Hence, the focus of this research is to explore the dimensions of franchisor-franchisee power and control in the dyadic (franchising) relationship. Both the franchisor and franchisee possess and control resources that are useful to the other party. The franchisor controls the franchise system, brand name, marketing strategy and intellectual property, all of which are valued by the franchisee (Justis & Judd, 2003). The franchisee, on the other hand, controls the hands-on application and operation of the business at the micro level and possesses valuable local market knowledge which is similarly valued by the franchisor (Kaufmann & Stanworth 1995). The degree of power depends on the extent to which one party depends on the other in the relationship (Dapiran & Hogarth-Scott, 2003). In a franchising arrangement the franchisee is heavily dependent on the franchisor, particularly in the early stages where the learning curve is steep. Indeed, most scholars concur that the franchisor wields the most power (Lusch, 1976), although it is the mere perception of power rather than reality that is of most importance (Gaski, 1984).

As previously stated, this perceived imbalance in power of franchisees was a primary determinant for introducing legislation in the franchising sector in Australia (Terry, 1996). The Franchising Code of Conduct (the 'Code') was introduced in 1998 to provide a more level playing field for franchisors and franchisees. Administered by the ACCC under the Trade Practices Act 1974 (the Act) the Code's main thrusts have been to require disclosure of pertinent information to prospective franchisees, mandatory alternative dispute resolution processes for franchisors and franchisees facing conflict and fair termination procedures (Miller, 2000).

Although the Code incorporates provision for compulsory mediation, it appears that this may predominantly be used as a remedial method of conflict resolution, rather than a proactive means of managing long-term intractable conflict based (largely)

upon the imbalance of power within the franchising relationship. Furthermore, franchising channel conflict and discontinuance may be due to factors such as information asymmetry between channel members, misinformation resulting from inadequately conducted due diligence, goal divergence resulting from changing expectations and comparison levels between channel members (Dant, 1995), or inadequate support and assistance from regulatory authorities. Although the marketing channels literature provides some insight into the behavioural dynamics of channel member relationships and channel conflict (eg.,Frazier, 1999; Moore & Birtwistle, 2004), less is known about asymmetric exchange relationships such as franchises (Dant & Schul, 1992).

This research has sought to investigate the nature of franchising relationships and causes of conflict in franchising systems that can be used to inform regulatory authorities and eventually identify a predictive model of conflict to prevent conflict from escalating to disputes.

CONFLICT AND THE AUSTRALIAN FRANCHISING SECTOR

The Australian franchising sector has experienced a growth rate in franchise systems of 12.9 percent between 2004 and 2006. It employed some 426,500 people and contributed approximately $128 billion to the Australian economy in 2006, which represents 14 percent of Australia's GDP (Frazer, Weaven, & Wright, 2006). However, in a recent national survey, more than 35 percent of franchisors reported that they had experienced substantial conflict with their franchisees during the past 12 months (Frazer, Weaven, & Wright, 2006). This is of concern as conflict may be symptomatic of goal divergence, perceptual incongruity, domain dissensus, communication failure or personal ideological differences between channel members (including values, beliefs and ambitions (Lusch, 1976), all of which have efficiency and performance dimensions.

Resolution of franchising disputes is more often initiated by franchisors than franchisees (Frazer, Weaven, & Wright, 2006). Sometimes these disputes result in protracted legal proceedings that divert time and financial resources from the franchisor's and franchisee's respective businesses, as well as disrupting operations

and damaging the brand. The food retailer, Lenard's, is still recovering from adverse media it received in 2005 during legal proceedings with a franchisee over earnings misrepresentations. Occasionally the legal process has resulted in franchisor bankruptcy or liquidation, as in the case of the well-established Great Australian Ice Creamery franchise in the 1990s due to disputes with franchisees alleging misleading and deceptive conduct. Such a consequence may have appeased the franchisees in dispute, but the outcome was disastrous for the remaining 100 franchisees in the system who found themselves without a franchisor and franchise network.

Conflict is defined as the deep underlying differences between involved parties that result in response to potential or actual obstructions that impede one or more parties from realising their goals (Bradford, Stringfellow, & Weitz, 2004). Negotiation, conflict management and resolution are becoming increasingly important in business networks (Palmatier, Dant, Grewal, & Evans, 2006) often as a result of the coercive use of channel power to achieve desired ends. The use of such coercive strategies in relationship management may not represent the ideal, however, and may negatively impact upon information exchange (Frazier, 1999), inter-firm cooperation (Lui, Ngo, & Hon, 2006) and partnership satisfaction (Mohr & Spekman, 1994). While franchising relationships are often characterised by a power imbalance in which franchisors maintain a dominant position in relation to their agents (franchisees), there is evidence that a proactive approach to conflict management may benefit unit level and system-wide productivity (Mohr & Spekman, 1994). However, we do not currently know the best methods to identify and manage conflict in franchise systems (Terry, 1996) .

Research in the fields of marketing, organisational behaviour, economics, political science, communications and law have proposed that conflict resolution mechanisms in dyadic relationships (such as franchising) are dependent upon five contextual factors including: (1) issue characteristics (e.g. the financial stake involved with the issue in dispute, issue size and complexity); (2) the nature of the relationship between agent and principal (e.g. level of trust, dependency and relationism); (3) personality characteristics of the involved parties (e.g. importance placed upon autonomy); (4) external influences (e.g. lean vs. munificent market demand characteristics); and (5)

structural characteristics of the organisation (e.g. level of bureaucracy) (Dant & Schul, 1992; Frazier, 1999; Palmatier, Dant, Grewal, & Evans, 2006).

METHODOLOGY

Exploratory research was utilised to probe the extent of power and control among franchisors and franchisees using a sample of franchising sector experts. This pilot study, a prelude to causal research (to be conducted in 2008), was conducted in collaboration with the federal government regulator, the Australian Competition and Consumer Commission (ACCC). The sample included 16 franchisors, franchisees, franchising consultants, lawyers, accountants and brokers who were regarded as key figures in the sector. These highly experienced franchising sector participants were asked to comment and speculate about the nature of the franchising relationship and the causes and consequences of conflict in franchising.

A qualitative approach was used to gather data from the selected respondents that included descriptions of experiences and events within the framework set out previously in this paper. In-depth interviews were judged to be most appropriate for gathering this rich, deep data in this pilot stage of the research project (Patton, 2002). This provides a view of the meanings people attribute to their experiences and social worlds (Moustakas, 1994). Due to the sensitive nature of the research question as well as the geographical spread of respondents, face-to-face and telephone interviews were conducted. The interviews were taped with the researchers also taking notes. Following each interview, the interviewers categorised the data obtained in order to identify themes to explore in subsequent interviews. This provided a form of investigator triangulation for the purpose of generating multiple perspectives during the inquiry approach (Patton, 2002).

A small judgement sample of franchisors and their representatives, franchisees (from a range of franchise systems), and consultants to the sector were interviewed initially (Malhotra, 2005). Data collection for the project consisted of in-depth interviews from 16 respondents. Respondents were asked to indicate if they were prepared to be interviewed. Respondents were also asked to provide contact details of other potential

interviewees to investigate various perspectives to assist in a snowballing effect within a judgement sample framework (Gummesson, 2000).

Unstructured interviews were conducted in the initial stages of data collection. As themes were developed throughout the data collection process interview questions became more refined and structured focussing on specific issues (Goulding, 2002).

Two experienced academic researchers, with combined industry experience in the franchising sector conducted the initial pilot interviews. An experienced research assistant was then utilised to conduct the remaining interviews until saturation of themes occurred (Yin, 2003). In addition, having three researchers on the team meant that we were able to use checkpoints in the research design, allowing us to assess progress and adjust the data collection and analysis as we proceeded (Miller, 2000). The following themes emerged from an examination of the data collected in the interviews.

INITIAL FINDINGS

A number of themes were developed that represent respondents perspectives to questions as well as interpretations of data. They are as follows and are not in any order of importance:

Theme 1: Causes of Conflict
The generally accepted causes of conflict within franchise systems are

- marketing expenditure;
- poor franchisee selection;
- poor site selection;
- Poor interpersonal skills and lack of empathy by managers and leaders (corporate staff) who work for the franchisor;
- Poor interpersonal skills and lack of empathy by the franchisees toward corporate staff;
- Poor training of franchisees in their responsibilities, and how to act as good franchise citizens;

- Financial pressure, on the franchisee or the franchisor, causing people to panic and to compromise on their decisions, or make short-term decisions to solve a financial pressure, which may undermine trust or may negatively affect other people in the system;

- High cost of goods or labour percentages;

- Currently low levels of unemployment in Australia increase the difficulty of hiring effective staff and the remuneration levels linked with performance. One interviewee stated, "Franchisees are saying, "You're [the franchisor] telling me that I need to employ young people to get the costs down, but they are irresponsible, they don't want to be told what to do, so I find I have to employ middle-aged women who are sort of more responsible but my wages are blowing out"";

- Financial stress, personal pressures and/or health problems;

- Change is seen as a source of conflict in franchise systems. This includes new initiatives or a new image and can be linked to financial pressures as well as marketing funds (as the franchisee generally has to pay). Lack of consultation/communication also increases conflict in this area as often franchisees are forced into specific situations with little or no information;

- Franchisee phases can change over time causing periods of increased conflict;

- Fear mongering by franchisees;

- Third parties;

- Family members (again, third parties).

- Without a clearly defined strategy (other than a specified number of units) and an ability to adapt to changing market trends, franchise systems tend to be involved in increased levels of conflict.

Theme 2: Third Party Involvement

Third parties were perceived to exacerbate conflict. These include the following groups. Lawyers, franchise consultants/sales, head office staff, accountants, franchise associations (including the Australian Franchisees Association [AFA] and the Franchise Council of Australia [FCA]) and also the ACCC. For example, in franchise systems where an entrenched negative culture exists toward franchisees it was clear

that increased conflict occurred. External consultants, such as lawyers, accountants and franchises sales consultants were seen to exacerbate conflict through miscommunication of expectations and/or data (financial etc). The AFA was seen as interested in its own agenda to increase profile and membership. The FCA was seen as creating a negative culture in franchising (mainly due to dominance by franchisors of the organisation). The ACCC was seen as exacerbating conflict which had already commenced within a system when they intervened under the Code of Conduct. This was seen more as mismanagement but certain respondents were concerned about the alignment of the ACCC with the FCA and the influence this may have on neutrality.

Theme 3: Innovation & Communication

Franchise systems which do not include franchisees in the innovation process and have poor corporate communication skills tend to create conflict in one or more of the areas from theme 1; and

Franchise systems that do not innovate tend to have higher levels of conflict in one or more areas from theme 1.

Theme 4: Relationships

The relationship between franchisors and franchisees is considered as a hybrid of master-servant and division of labour (employer-employee). Sophisticated systems tend to treat the relationship in a more mature fashion with increased levels of communication and pro-activity. Less sophisticated systems tend to view the relationship as master/servant and hence levels of conflict increase. These perspectives were directly linked to culture.

Theme 5: Monitoring (Formal & Informal)

Mature franchise systems tend to utilise monitoring in a formal manner to ensure that innovation occurs in a productive and controlled manner in accordance with a defined strategy (although this is not mentioned clearly in the interviews it is derived from the fact that respondents felt these systems were well structured). The opposite was said of less sophisticated systems; and

Respondents viewed informal controls in franchise systems as a somewhat negative factor when linked with success factors (such as reduction of franchise fees over pre-specified levels of sales) because they felt these informal controls could be manipulated. However, respondents felt that when other types of informal systems such as "pats on the back" and other positive reinforcement strategies were introduced with strong communication channels that this was proactive and positive and would not be open to misinterpretation.

Theme 6: Communication

Most respondents felt that if there was effective communication within the system most conflict could be prevented or dealt with in an effective manner.

Theme 7: Power & Maturity

Power of franchisors and franchisees was relative to the culture and maturity of the franchise system. Generally the view was that franchisees did not see themselves in a position of power. However, when franchisees became aware of their power in a negative situation, conflict increased. Suggestions were that franchisees could become proactively mischievous in this stage of awareness causing significant conflict. Further, franchisors that were less mature used power as a 'blunt instrument'.

Theme 8: Types of Conflict

When franchisees experienced value based conflict they were much more likely to cause increased levels of friction within the system, generally relying on third parties to reinforce their position.

Theme 9: Mediation

Mediation is generally seen as a positive and effective/efficient way to resolve conflict. Although the Australian franchising sector is regulated by a mandatory code of conduct incorporating compulsory mediation provisions so as to provide a 'low risk' coordinative mechanism and alleviate distrust between partner entities, there is some evidence presented that mediation may actually create fears of potential loss of control between the participants Moreover, it was revealed that Australian franchisors may use mediation as a subtle method of leveraging their dominant power position in the franchising relationship.

SUMMARY OF THEMES

The themes are summarised in the following graphical representation. This shows a potential cause and effect of both the positive and negatives sides of conflict escalation and how the relationship can develop within a franchise system to more a mature level. Clearly, systems that positively approach the franchise relationship are better able to manage conflict at every stage regardless of the intensity of the conflict involved.
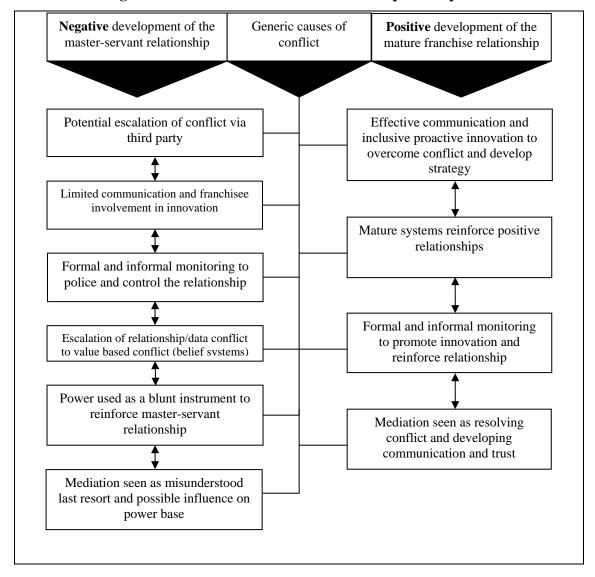
Figure 1 Conflict escalation vs. relationship development

Negative development of the master-servant relationship	Generic causes of conflict	**Positive** development of the mature franchise relationship
Potential escalation of conflict via third party		Effective communication and inclusive proactive innovation to overcome conflict and develop strategy
Limited communication and franchisee involvement in innovation		Mature systems reinforce positive relationships
Formal and informal monitoring to police and control the relationship		Formal and informal monitoring to promote innovation and reinforce relationship
Escalation of relationship/data conflict to value based conflict (belief systems)		Mediation seen as resolving conflict and developing communication and trust
Power used as a blunt instrument to reinforce master-servant relationship		
Mediation seen as misunderstood last resort and possible influence on power base		

Through a more sophisticated approach these themes will now be developed into propositions that can be refined and tested in future research. The prediction of

conflict escalation and subsequent management of the franchising relationship is an important extension of this research.

PROPOSITIONS

In this section the themes are developed into more generic propositions from which a predictive model of conflict resolution is developed for testing in future research. The propositions are centred on conflict management methods and conflict resolution techniques. These concepts are explained with propositions developed according to the breadth and depth of the franchise relationship and also taking into account the characteristics and complexities of potential issues. Finally, a predictive model of conflict management and resolution is suggested.

Conflict management methods

Conflict management, in this research, refers to the use of proactive strategies designed to enhance the coordinative functioning of dyadic (franchising) relationships. The data shows that relational norms (higher order constructs and antecedents of relational trust) are important determinants of conflict management in franchising systems. Specifically, the contracting norm of solidarity, role integrity, mutuality and information exchange were found to contribute to the avoidance of intractable conflict in franchise systems. Only four variables were found to be important in franchising. Solidarity refers to the extent to which intra-firm interactions contribute to the longevity of the relationship. Mutuality implies the need for positive incentives to exchange for both parties. Trust exists when one party has confidence in the other's integrity and reliability. Role integrity refers to the roles and responsibilities that parties must assume to ensure predictable contractual outcomes. Weak role integrity may result in domain dissensus (disagreement between specified roles and responsibilities). Information exchange refers to processes necessary to ensure accurate communication between parties.

Proposition 1: Proactive conflict management

    1a Franchise systems with strong relational norms (solidarity, mutuality, role integrity, and information exchange) are less likely to be characterised by lower levels of conflict and adopt conflict management approaches to relational exchange.

    1b Franchise systems characterised by weak relational norms (solidarity, mutuality, role integrity and information exchange) are less likely to be characterised by high levels of conflict and adopt conflict resolution approaches to relational exchange.

Conflict resolution methods

The supply channels literature has identified four main conflict resolution strategies used by partner entities in dyadic partnerships (Dant & Schul, 1992). These include high risk strategies such as problem solving and persuasion (Pruitt, 1982) and low risk strategies including bargaining and politicking (Webb, 1986). Within the context of asymmetrical exchange relationships (franchises) the most powerful parties (franchisors) generally prefer low-risk strategies as they offer the immediate gain and give them greater latitude to influence less powerful entities (Pruitt, 1982).

Problem solving is an integrative strategy in which both parties search and classify information, exchange information regarding their goals and priority needs, and search for new alternatives to resolve conflict issues. Persuasion is similar to problem solving, but the dominant party focuses upon establishing the importance of its goals. Bargaining entails less risk, less communication, highly inflexible non-concessionary behaviours, threats and promises. Politicking often results from consensus on divergent goals and requires the utilisation of external mediation or arbitration to resolve conflict. These four strategies are contingent upon situational influences which have been identified as including (1) the characteristics of the issue, (2) the complexity of the issue, (3) the nature of power and dependence in the franchising relationship, (4) relational norms of behaviour, and (5) perceptions of opportunism.

Proposition 2: Characteristics of issue

Perceptions of the size of the issue are critical in a party's conceptualisation of a conflict situation (Fisher, 1964). Conflicts concerning policy issues (contractual provisions, product and service standards) and operational issues (unit activities, programmes) will have varying levels of substantive precedent, influencing the choice of preferred conflict resolution methods.

> 2a When the issue under dispute involves low substantive precedent (e.g. operational issues), franchisors will favour the use of high risk behavioural conflict mechanisms including problem solving or persuasion.
>
> 2b When the issue under dispute involves high substantive precedent (e.g. policy issues), franchisors will favour the use of low risk behavioural conflict mechanisms such as bargaining or politicking.

Proposition 3: Stakes of issues

Individuals will increase their level of involvement with an issue if the stakes are high. In franchising the most powerful party will be sensitive to downside risks associated with inferior settlements (Dant & Schul, 1992).

> 3a When the issue under dispute is attached to (likely) high stake outcomes, franchisors will favour the use of low risk behavioural conflict mechanisms such as bargaining and politicking.
>
> 3b When the issue under dispute is attached to (likely) low stake outcomes, franchisors will favour the use of high risk behavioural conflict mechanisms such as problem solving or persuasion.

Proposition 4: Complexity of issue

Complex issues often discourage flexibility, negotiation and integrative solutions (Dant & Schul, 1992). More complex issues will demand strategies such as bargaining and politicking to reduce issue uncertainty. Less complex issues will use integrative strategies as preferences and outcomes are more easily understood by both parties.

4a When the complexity of issues under dispute is high, franchisors will favour the use of low risk behavioural conflict mechanisms such as bargaining or politicking.

4b When the complexity of issues under dispute is low, franchisors will favour the use of high risk behavioural conflict mechanisms such as problem solving or persuasion.

Proposition 5: Power distribution

High risk behaviours are favoured in balanced power relationships (Stern, Reve, & 1980). The pilot results suggest that perceptions of power are related to system size (franchisor, franchisee mini-chain) which consequently influences adoption of coordination behaviours.

5a When franchisee dependence upon the franchisor is high, franchisors will favour the use of low risk behavioural conflict mechanisms such as bargaining and politicking.

5b When franchisee dependence upon the franchisor is low, franchisors will favour the use of high risk behavioural conflict mechanisms such as problem solving and persuasion.

Proposition 6: Relational norms

Relationalism influences the choice of integrative conflict resolution mechanism. Solidarity, mutuality, role integrity, and open communication will impact upon relational trust (see proposition 1 above).

6a When franchise partners perceive the franchising relationship to involve high levels of mutual trust, open communication and cooperation (solidarity, mutuality, role integrity), franchisors are more likely to favour the use of high risk behavioural conflict mechanisms such as problem solving and persuasion.

6b When franchise partners perceive the franchising relationship to involve low levels of mutual trust, open communication and cooperation (solidarity, mutuality, role integrity), franchisors are more likely to favour the use of low risk behavioural conflict mechanisms such as bargaining and politicking.

Variations to model

The predictive model of franchising channel conflict will be varied according to the franchisee (expectations and changing comparison levels over the franchisee life cycle, individual characteristics), franchise system (system conflict policies and processes, compliance), and environment (munificent/limited industry demand). In addition, (and consistent with expert recommendations (Dant & Schul, 1992)) this research will be innovative in that it will examine relational conflict levers including perceptual (issue) incongruity, goal incongruity, and domain disenssus between franchisors and franchisees of different sizes, ages and life-cycle stages. Furthermore, an assessment of potential franchisees will introduce additional rigour to this analysis.

The key finding from initial research was that relational norms appear to mediate the initiation and progression of channel conflict, and in particular power and dependence, communication and information exchange, solidarity, role integrity and mutuality influenced channel member relations and conflict management. Furthermore, in the context of conflict resolution, franchisors tend to use high risk (problem solving and persuasion) and low risk (bargaining and politicking) strategies depending on the characteristics and complexity of the issue in conflict, the financial 'stakes' of the issue, the power and dependency relationship of the partners, and perceived levels of trust, cooperation and communication in the franchising relationship.

These findings in form of the propositions presented above are modelled in Figure 1.

Figure 1: Preliminary Model of Conflict Resolution

CONCLUSION

Given the number and size of franchise systems in Australia it is clear that larger, more mature, franchises develop a proactive, positive culture that rewards franchisees in a fair and appropriate manner. This is coupled with proactive communication utilised to prevent and/or minimise potential sources of conflict. These systems generally do not use third party sources to communicate to potential franchisees and employ mature people that are able to represent the franchisor in an appropriate and consistent manner thereby reducing the initiation and progression of intra-system conflict. More mature systems also embody a culture that maintains discipline but adapts to market changes. There are, however, instances of arrogant and dominant behaviour at times.

However, it is clear that many of the 960 franchise systems in Australia (Frazer, Weaven, & Wright, 2006) have not reached a level of maturity as some of the older and more experienced franchises have. While many franchisees experience conflict after entering less mature systems it remains unknown as to what percentage of conflict escalates to a point where the ACCC becomes involved. Hence, the model developed in this report is put forward as tentative, but positive step for verification.

SIGNIFICANCE

This research is also significant because it will:

- Support the development of a more productive, efficient and competitive franchising sector. A greater understanding of how conflict occurs and is managed in franchise relationships will assist franchisors in designing and implementing strategies focusing primarily upon conflict management (through the use of non-coercive power) (Moore & Birtwistle, 2004) rather than relying upon conflict resolution measures. A lack of examination of the antecedents of conflict behaviours has been nominated as a significant gap in conflict behavioural analysis (Song, Xie, & Dyer, 2000). The results of this research will assist in promoting goal alignment between external regulatory bodies (e.g. ACCC) and franchisors in relation to how they assess and manage potential sources of conflict. Greater communicative collaboration between franchisors and regulators will improve the perception of equity in franchising exchange relationships and promote greater perceptions of trust in franchising as a business model. Both trust and commitment have been shown to be key predictors of exchange relationship performance and channel member retention (Sirdeshmukh, Singh, & Sabol, 2002).
- Promote more efficient, equitable and sustainable franchising relationships. Through investigating the causes of conflict and moderating influence of franchisee, issue, relationship, franchise system and environmental contextual influences, this research will provide a better understanding of the effectiveness of coordinating mechanisms in minimising both franchisor and franchisee opportunistic behaviours; assist in minimising unrealistic expectations between principal and agent; improve relational communication; and promote long-lasting

and efficient franchising relationships. While some level of conflict may be beneficial in promoting organisational outcomes such as innovation, franchising sector conflict is not fully understood and is often perceived as detrimental to franchise system operation and survival (Terry, 1996). The outcomes of this research will have specific public policy implications. In particular, this research will directly inform government as to the present effectiveness of dispute resolution measures incorporated in the Franchise Code of Conduct (1998) and will provide strategies for our partner organisation to more effectively (and proactively) manage relationship conflict (Snickas, 2001) so as to avoid litigation and potential (negative) outcomes including franchisee termination and franchise system failure (Frazer & Winzar, 2005).

- Be the first to present a comprehensive model of conflict management in franchising. Through the assessment of franchisor-franchisee relationships in the early, middle and mature stages of development, this research will identify the causes and consequences of conflict and will assist parties in the relationship to better manage and understand the conflict resolution process.

REFERENCES

Bradford, K. D., Stringfellow, A., & Weitz, B. A. (2004). Managing conflict to improve the effectiveness of retail networks. *Journal of Retailing, 80*(3), 181-195.

Dant, R. (1995). Motivation for Franchising: Rhetoric Versus Reality. *International Small Business Journal, 14*, 10-32.

Dant, R., & Schul, P. (1992). Conflict resolution processes in contractual channels of distribution. *Journal of Marketing, 56*, 38-54.

Dapiran, G. P., & Hogarth-Scott, S. (2003). Are co-operation and trust being confused with power? An analysis of food retailing in Australia and the UK. *International Journal of Retail and Distribution Management, 31*(5), 256-267.

Featherstone, T. (2006, 20 July). A testing time. *Business Review Weekly, 6*.

Fisher, R. D. (1964). *Fractionating conflict, in International Conflict and behavioural Science: The Craigville Papers* (1st ed.). New York: New York Basic Books Inc.

Frazer, L., Weaven, S., & Wright, O. (2006). *Franchising Australia 2006 Survey*. Brisbane: Griffith University.

Frazer, L., & Winzar, H. (2005). Exits and expectations: why disappointed franchisees leave. *Journal of Business Research, 58*(11), 1534-1542.

Frazier, G. L. (1999). Organizing and managing channels of distribution. *Journal of the Academy of Marketing Science, 27* 226-240.

Gaski, J. (1984). The theory of power and conflict in channels of distribution. *Journal of Marketing, 48*, 9-29.

Goulding, C. (2002). *Grounded Theory: A Practical Guide for Management, Business and Market Researchers*. London: Sage Publications.

Gummesson, E. (2000). *Qualitative Methods in Management Research* (2nd ed.). London: Sage Publications.

Justis, R., & Judd, R. (2003). *Franchising* (3rd ed.). Cincinnati: Dame-Thomson Learning.

Lui, S., Ngo, H., & Hon, A. (2006). Coercive strategy in interfirm cooperation: Mediating roles of interpersonal and interorganizational trust. *Journal of Business Research, 59*, 466-474.

Lusch, R. F. (1976). Sources of power: Their impact on intrachannel conflict. *Journal of Marketing Research, 13*, 382-290.

Lynch, D. (2006, 20 June). Strength in numbers for franchisees. *The Australian Financial Review,* p. 1 & 10.

Malhotra, N. (2005). *Marketing Research: An Applied Orientation* (5th ed.). Sydney: Prentice Hall.

Miller, R. (2000). *Miller's Annotated Trade Practices Act* (21 ed.). Sydney: LBC Information Services.

Mohr, J., & Spekman, R. (1994). *Strategic Management Journal, 15*, 135-152.

Moore, C. M., & Birtwistle, G. (2004). Channel power, conflict and conflict resolution in international fashion retailing. *International Fashion Retailing, 38*(7), 749-769.

Moustakas, C. (1994). *Phenomenological Research Methods*. Thousand Oaks: Sage Publications.

Palmatier, R. W., Dant, R. P., Grewal, D., & Evans, K. R. (2006). Factors Influencing the Effectiveness of Relationship Marketing: A Meta-Analysis. *Journal of Marketing, 70*, 136-153.

Patton, M. (2002). *Qualitative Research and Evaluation Methods* (3rd ed.). Thousand Oaks: Sage Publications.

Pruitt, D. G. (1982). *Negotiation behaviour*. New York: Academic Press Inc.

Sirdeshmukh, D., Singh, J., & Sabol, B. (2002). Consumer Trust, Value, and Loyalty in Relational Exchanges. *Journal of Marketing, 66*(1), 15-37.

Snickas, A. (2001). *Negotiation : a newsletter from Harvard Business School Publishing and the Program on Negotiation at Harvard Law School.* (Vol. 1). Boston: Harvard Business School Publishing.

Song, X. M., Xie, J., & Dyer, B. (2000). Antecedents and Consequences of Marketing Managers' Conflict-Handling Behaviors. *Journal of Marketing, 64*, 50-66.

Stern, L. W., Reve, T., & (1980). Distribution channels as political economies: A framework for comparative analysis. *Journal of Marketing, 44*, 52-64.

Terry, A. (1996). *The regulation of franchising in Australia: Reviews, roundabout and Realpolitik.* Paper presented at the Society of Franchising Conference, Hawaii.

Walker, J. (2004). Chain reaction. *Business Review Weekly 26,* 36-53.

Webb, J. (1986). Third parties at work: Conflict resolution or social control. *Journal of Occupational Psychology, 59*, 247-258.

Yin, R. (2003). *Case Study Research: Design and Methods* (3rd ed.). Thousand Oaks: Sage Publications.