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## **Relacionamento entre Franchisador e Franchisado**

Caso de Estudo: “Casas do Benfica”

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# Relationship between franchisor and franchisee:

## Case Study “Casas do Benfica”

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**Abstract:** The interest of the franchisor in being informed about the levels of quality and efficiency and in controlling the activities of the units goes against the intentions of the franchisee to acquire his autonomy and independence. This border defines the success or failure of a franchising network (Stanworth, 2001).

The aim of this study is to define the variables that characterize the franchisor-franchisee relationship through the model of Cohen and Silva (2000), and apply it to the case study “Standardization Project of Casas of Benfica (CB)”. It was intended to answer the following questions: 1) Will the evolution of the Project to standardize the CB be conditioned by the variables that define the relationship between Sport Lisboa e Benfica (SLB) and the Presidents of CB?; 2) Are there strategic groups within the CB? If so, should the strategy of SLB be uniform for all CB’s or should it be segmented by groups?

The methodology consisted of two research methods, i.e., in-depth exploratory interviews and a survey questionnaire. The data collected during the interviews, together with the conclusions of the literature review, led to the development of a questionnaire that was applied to a larger convenience sample. The data analysis concluded that the development of the Project is constrained by the variables defined in the model of relationship proposed, as these variables have direct effect on the opinion of the Presidents of C.B.’s about the Project. According to the cluster analysis carried out, there are two strategic groups within the sample. As such, S.L.B. should define not an uniform strategy, but at least two distinct of strategies to accomplish the goal of Standardization of CB.

# Introduction

## ***Relationship in Franchising***

Franchising offers a combination between the economies of scale enjoyed by the franchisor and flexibility enjoyed by the franchisee to explore a local market. But questions such as: Who is the franchisee? What is his background and what are his motivations to manage a franchise? How do socio-economic factors influence the success of the activity of a franchise? are crucial for evaluating the performance of a franchising (Stanworth, 2001).

One of the key issues in the literature about franchising is the relationship between the franchisor and the franchisee. The franchisor is interested in protecting his brand's image, while the franchisee is motivated to run an independent business.

This study not only clarifies relevant variables for the relationship franchisor – franchisee, but also makes a contribution to the theoretical knowledge in this area.

## **“Casas do Benfica”**

“Sport Lisboa e Benfica” (SLB) is the Portuguese Football Club with the largest number of supporters in Portugal and abroad (about 6 million). Currently, to ensure their financial stability, Clubs feel the need to raise an increasing number of members. One of the largest resources in promoting the values of the Club are Casas of Benfica (CB). SLB has nowadays 213 CB in Portugal and 20 abroad.

The Project of Standardization of CB is believed to bring sustainability to optimize the important role of CB. The aim of this study is to answer the following questions:

- 1. Will the evolution of the Project to standardize the CB be conditioned by the variables that define the relationship between SLB and the Presidents of CB?***
- 2. Are there strategic groups within the CB? If so, should the strategy of SLB be uniform for all CB or should it be segmented by groups?***

## **Definition of Franchising**

We can conceive Franchising as a system of marketing of products or services and/or technologies, based on bilateral cooperation between independent companies. The franchisor grants to its franchisees the right, and imposes the obligation, to operate a business according to his concept. The right thus granted is intended to authorize and requires the franchisee, in exchange of direct or indirect financial support, to not only use the brand of products and/or service mark, as well as the know-how, and other intellectual and industrial property rights. The franchisor supports is relationship with a continuing provision of commercial and / or technique support. Franchising systems consist though in multiple organizations that are legally and financially independent and operationally indistinguishable in the eyes of the consumer (Parsa, 1996; Mendelsohn, 2005).

## **Variables of the relationship between franchisor and franchisee**

A model of Cohen and Silva (2000) was adapted to make a coherent survey of variables to be studied concerning the relationship between franchisor and franchisee.

### **The strategic component of the relationship**

Franchise, from a strategic perspective corresponds to a differentiation in the strategy of distribution channels. The franchisor decides to implement the franchise system supported by the evaluation of distribution channels and by the available alternatives for his business expansion. Franchising is identified as a strategic option in which the success of the core business (franchise) will depend on the company's positioning in the marketplace, on competition and on effective implementation of strategies. Probably an adequate level of relationship between the two parties will enable this situation, reflected in the performance of the network as a whole. The best or worst relationship between franchisor and franchisee, as a result of the strategy of the franchisor, whether intentional or not, may be relevant to the success or failure of the business (Cohen and Silva, 2000).

### **Technology Application (IT)**

All franchisors should consider using information technologies in their systems. Otherwise, they risk starting at disadvantage in markets that have been shown more competitive (Kennedy, 2006).

It is important to understand what kind of technologies can be applied to franchising and how they leverage the relationship between users, thus enabling franchisees and franchisors, to access to necessary information whenever they want it (Schmich, 2004). Two of the technology issues that are described in literature about franchising are the: Internet and Intranet.

It is important not to overlook the fact of the increasing fast and easy access to the ubiquitous Internet has provided specific indications to use in the activities of franchising. If the franchisor wishes, the Internet can be very important tool within the communication between franchisees. It is up to the franchisor to review the benefit of this communication or even to establish a degree of communication for his franchisees (Kennedy, 2006). To Seideman (1997), this technology is currently changing relationships: the Internet and e-mail allow users to work more efficiently and effectively than before, bringing the ability to provide and access to information more quickly.

The intranet can become the "blood" of the franchise system, passing all transactions through it (Kennedy, 2006). The Intranet should be easy to understand and access. For Schmich (2004), an investment in this type of solution can bring cost savings to the franchise network and is therefore important for the franchisor to consider these solutions.

### **Training**

The franchisor must ensure that the franchisee has access to different sorts of training, increasing his likelihood of achieving the same degree of success. Therefore, training should be provided for franchisees in the operation of business format (Mendelsohn, 2005).

### **Franchisee Autonomy**

The autonomy of a franchisee is the degree of freedom that he has to operate the business. The degree of autonomy depends on the complexity of the processes that the franchisor has drafted in the contract and the success of the branding campaign created by the promotional programs of the system. The level of branding is the measure of the success of promotional programs (Stephenson and House, 1971).

### **Quality of Communication**

For Mendelsohn (2005), the effort that franchisor and franchisees do to optimize their relationship will only be achieved if there is a definite program to ensure effective communication channels and quality between them. The communication process is a "two-way". An effective relationship will depend on an open and honest communication (Bourdow, 2006).

### **Control**

Stanworth (2001) concludes that many franchisors have problems maintaining a satisfactory level of control over their franchisees. In his study, he found that all franchisors established methods of detection of evasion by the franchisees. The importance of the quality control has not been forgotten in this research, where it is argued that continuous monitoring is essential to maintain the image of the franchise intact, by not allowing that a failure of a franchisee jeopardizes the group's image. Typically control is maintained through periodic visits to franchisees by the franchisor operators.

### **Power**

Franchisor and the franchisees work in an interdependent environment in which those involved try, intentionally or not, to influence each other. When stable levels of influence are reached, the relative power of the two parties can be analyzed (Parsa, 1996).

Parsa (1996), refers two distinct sources of power: economic power and non-economic power. Economic power is directly related to the level of well-being of the franchisee in financial terms. Non economic power derives from non-financial issues such as information and other resources.

### ***Contract and Development***

Contractual issues have for long been a central theme in the literature on franchising. However, not all the research done in the field of the relationship franchisor - franchisee is restricted to the legal environment (Hoy et al., 2000).

### **Opportunism**

The relationship between franchisee and franchisor is bilateral, since both are exposed to the hazard of an opportunistic behavior by the other (Gomez et al., 2008).

### **Conflict**

The franchise system requires an inter-organizational management, which may result in "vertical" conflicts. One of the critical aspects of supervision of these systems is how to manage this kind of situation that can be seriously destructive, questioning the efficiency of all the chain (Stephenson and House, 1971).

The franchisor and the franchisees have different interests in business, concerning the way profits are distributed. While the franchisors receive a percentage of sales, and so they are interested in its growth, franchisees on the other hand obtain their profits from the difference between sales and costs, so their main objective is to maximize the gross margin. This is the biggest cause of tension in franchising (Parsa, 1996; Dickey and Ives; 2000, Gomez et al., 2008).

## **Methodology**

### **Sample**

For this research it was used a convenience sample. This type of sample is used in descriptive studies as well as in exploratory studies, where the aim is not to infer about values of the population, but to generate ideas, perspectives or even hypotheses (Saunders et al, 2003, Malhotra, 2007).

Forty five Presidents of CB participated in this study, 42 (93.3%) were male and 3 (6.7%) female. The ages of Presidents ranged from 30 to 70 years old. The total average membership of each CB, was 591.58 members.

### **Instrument**

The questionnaire used in this study is divided into 11 parts: "Standardization of CB", "Means of Communication", "Technology", "Communication between SLB-CB", "Communication between CB-SLB", "Training", "Control", "Ethics", "Relationship", "Characterization of CB" and "Characterization of Presidents".

Even scales were used throughout the questionnaire, in areas in which the researcher intended to force the answer or felt that the neutral response was not expected. Given the context of this exploratory study and the originality of the model, the investigator took the decision not to use scales already defined in the literature (Maroco, 2007).

### **Procedure**

A combination of methods was used in this study: in-depth exploratory interviews and preparation and administration of the instrument. Saunders, Lewis and Tornhill (2003) state that this multi-method approach is beneficial for the outcome of the study. In-depth interviews were carried out with recognized franchisors. The results, together with the literature review, enabled the researcher to develop a more structured and complete questionnaire.

### **Questionnaire**

Following the in-depth exploratory interviews, a questionnaire was designed to evaluate and understand the relationship between SLB and CB. This quantitative study was then presented to a sample of CB Presidents.

## **Data Analysis**

### **Principal Component Analysis**

After examining the relationships between variables (using the Spearman correlation coefficient as a measure of association between each pair of variables), and given the extent of the variables involved, a Principal Components Analysis (PCA) was carried out (Reis, 2001; Maroco, 2007). This allowed the reduction of the number of variables involved, and created independent components. Based on the rule of eigenvalue greater than 1, the analysis produced nine orthogonal components explaining 77.1% of total variance of the original variables (Maroco, 2007).

### **Multiple Linear Regression**

A causal model resulted from the PCA with the opinion about the Standardization Project as the dependent variable. According to Maroco (2007), as the classes of ordinal variables are classified by integer numbers from 1 to the total number of classes, the researcher can feel tempted to use the linear regression. The recommendation for such cases is to use ordinal regression or another model that avoids the assumption of constant distances between the classes of the variable.

Given the exploratory nature of this study, the researcher began the analysis using multiple regression, due to lower complexity and the easier interpretation of this analysis, compared to the ordinal regression. This was done, while acknowledging the need to use ordinal regression, given the nature of the dependent variable.

Multiple linear regression identified 3 components as significant predictors of the variable 'opinion of Presidents about the Standardization Project'. These three components were coded as "CB as a connection to the Club", "Involvement that the Project suggests" and "Desire to influence the Club's life", respectively. Given the existence of several instrument variables which were not included in this model, it was tried a new multiple linear regression including other variables in the questionnaire. This regression resulted in the same three components: "CB as a connection to the Club", ( $\beta = 0.336$ ), "Involvement that the Project suggests" ( $\beta = 0.360$ ), and "Desire to influence the Club's life" ( $\beta = 0.398$ ), plus a variable representing "Sense of physical presence in the contact" ( $\beta = 0.306$ ). This model was significant and explained 48.1% of variability of the opinion that the Presidents of CB had about the Standardization Project.

### **Cluster Analysis**

Cluster Analysis was carried out with a non-hierarchical k-means method. Given the sample size in this exploratory study ( $n = 45$ ), it was decided to choose the non-hierarchical method as it allows the choice of the number of clusters to be defined. Results described the 45 Presidents into 2 Clusters. According to the analysis and to the bivariate tables, cluster 1

corresponds to the Presidents who were closer from SLB, while cluster 2 represents the Presidents who demonstrated to be less close from the SLB.

## **Ordinal Regression**

Using linear regression with ordinal dependent variables can produce inconsistent or incorrect results (Maroco, 2007). Thus, ordinal regression was used, in order to increase the mathematical and statistical rigor of the model resulting from the test carried out using linear regression. A log-log complementary link function (F-1) was chosen, as the classes of the dependent variable of higher order are the most frequent (71.6% of respondents completely agree with the Standardization Project and 26.7% only agree). Of the 5 original classes, only 2 were used by respondents: "Completely Agree" and "Agree". This model predicts correctly 90.6% of the class "Completely Agree" and 50% of the class "Agree". For a total of 45 respondents, 35 were correctly classified. .

The variable D2.6 did not come out of the model, leaving the three components as the three predictors of the dependent variable. The model is statistically significant ( $G^2(3) = 61.155, p = 0.00$ ), and the dimension of the effect considered high ( $R^2_{CS} = 0.743$ ) (Maroco, 2007). The pseudo  $R^2$  (Cox and Snell) of the ordinal regression was then higher than  $R^2$  initially generated by linear regression.

## **Discussion**

The relationship model presented earlier that directed the variables to be questioned to the sample was particularly useful as it allowed additional information about the relationship. It is therefore important to understand which of the variables presented in the latest literature were in fact related with the opinion about the standardization project. These variables were: the transfer of know-how, communication between franchisor and franchisee, the reliance by the franchisor and the franchisee in the franchisor's commitment to the relationship.

Transfer of know-how was divided into two sub-variables: technology application and training, represented in two groups of the instrument. As for technological applications, Presidents interviewed seemed interested in the development of an CB Intranet, all agreeing with this application, and most willing to use it often. This may be useful in the future, when making a decision about which technology applications to implement. Thus, it could be said that there is actually interest of respondents in the development of CB Intranet, allowing them to thus control of the business in real time without the need for physical presence (Schmich, 2004).

Concerning training, the vast majority of respondents required at least 1 of the 4 areas proposed in the instrument. Mendelsohn (2005) suggests that the training provided to franchisees increases the likelihood of achieving the same degree of success that the franchisor in the franchise network. These findings emphasize the need of training using the specific skills of CB Presidents.

The second variable present in the final model was the communication between franchisor and franchisee, with the sub-variable "quality of communication". Communication for Mendelsohn (2005) is a "two-way" process since the effort made to optimize the relationship will only serve its purpose if it is guaranteed effective communication channels between both parties. This has resulted in the existence of effective channels of communication at the time of the study, where the main means of communication in both directions were contacts by e-mail and telephone. In this particular case, the monitoring of CB is done by CB Department that, according to the collected data, received a very positive evaluation.

Trust deposited in the franchisee by the franchisor was another variable assessed in the instrument, having as sub-variables control and ethical values. Discussing control, Stanworth (2001) states that it is usually maintained through periodic visits to the franchisees by the franchisor operators, or in other ways such as the use of mystery buyers, inviting dissatisfied customers to visit the franchisor, advertisements in newspapers and magazines or even facilitate the contacts of the franchisor in places of high visibility. The vast majority of the respondents agreed with periodic visits scheduled as a type of performance evaluation at CB. Surprise visits and the contact of CB Department in places with high visibility were also widely accepted. This shows awareness among the respondents about the need for more effective monitoring by the Department of the CB, keeping the image of the CB intact, not allowing the failure of one CB to jeopardize the image of the entire group. In regard to ethical values, the agreement of the respondents with each of the duties in the CB ethical code, was evaluated with a relative disagreement in Section 5 "All board members of the CB must be members of the Club". The Club must therefore question the inclusion of this point in the CB ethical code or associate members of the CB as SLB members.

The evaluation of the variable: "Commitment of the franchisor with the relationship", more specifically the sub-variable "Conflict", was not authorized by the Club, as the Project was in its early stage and this issue could create misunderstandings among the Presidents less enlightened. The instrument had only one question about this issue, which aimed to establish the potential of this Project as a contributor for the reduction of conflicts. The vast majority agreed that this conflict would decrease with the introduction of the Standardization Project.

Based on conflict literature, this Project to Standardize the CB should establish a style of conflict management, known as "collaboration". According to the model described by Thomas (1976, 1992), this style is defined by routing solutions for the negotiations win-win: "in order to meet the objectives that are valid for each of the players an understanding that will allow a shared set of expectations".

## **Discussion of the proposed objectives**

### **First Objective**

This exploratory study was based on the Project to standardize CB which despite not being a franchise in theory, is in practice similar to this business model. Thus, this study found

framing in the literature about relationship between franchisor and franchisee, although the "franchise" in question was not yet in activity.

This model tested if the opinion about the Standardization Project was conditioned by variables of the relationship between franchisor and franchisee. The components that predicted the dependent variable, i.e., "Opinion about the CB Standardization" were: "CB as a connection to the Club," "Involvement that the Project raised" and "Desire to influence the life of the Club".

The ordinal model assesses the probability of the event. Despite adapting to the nature of the dependent variable (ordinal), the model described above does not assess the causality of "variables" in the "opinion about CB Standardization".

As such, it was decided to perform a test with a more interpretive or explanatory value, by defining the causality of each variable on the dependent variable, not forgetting the reduced value of this analysis compared to a statistical model based on ordinal regression. It is important to emphasize that the use of this model of causality based on linear regression, was due to the exploratory nature of this study.

The involvement that the Project causes, the wish to influence the Club's life, CB as a link to the Club and the feeling of physical presence during contact, all cause a variability of 48.1% in the agreement about of CB Standardization Project. For these Presidents the relationship is characterized by physical and emotional proximity and has direct effect in their opinion.

It is therefore important to conclude that the development of the Project to standardize the CB, according to this study, is conditioned by the variables, defined by the relationship between SLB and CB. The way the Club engages Presidents to issues that are related to the Project, the notion that Presidents have about the connection that CB has to the Club, the level of desire of each President to influence the major decisions of the Club and their need to feel the physical presence of representatives of the Club, will set the verdict that the Presidents will give to this Project.

### **Second Objective**

Initially this Project to standardize the CB faced a potential barrier linked to the diversity of the Presidents: these Presidents had different characteristics such as the use of different means of communication in their daily management of the CB, different opinions on various technological applications to be implemented in CB, different profiles to communicate with the CB Department, different ideas about training, supervision and even divergent views on the code of ethics to be adopted, bearing in mind their inherent characteristics (demographic), such as gender, age, education level, employment status and years of presidency. It was therefore necessary to find a way to break this barrier, using the good relationship between the Club and CB, for the initial implementation of the Project. Being the purpose of the SLB ambitious, implementing the Project to all CB in a not too distant future, it would be extremely useful to divide this critical heterogeneous mass of Presidents in the least strategic groups as possible. As a result it was decided to find common ground, between the Presidents and their

characteristics that could lead to consensus, with which the Club could outline focused strategies, reducing the failure rate of the Project.

It was one of the objectives of this research to understand if, within the group chosen by the Club to answer to the questionnaire, there were in fact strategic groups, i.e. groups of Presidents with similar characteristics within and with different characteristics when compared with other group(s) of Presidents. The cluster analysis resulted in two clusters, i.e. two strategic groups of respondent Presidents. These clusters can be classified as according to the "closeness" of Presidents to the Club, one group of Presidents physically and emotionally closer to the Club, and another group less closed to the Club.

Assuming then the existence of at least two major interest groups of CB Presidents, we can say that the Club should not deal with the Presidents with a uniform strategy. This means that the Club must prepare at least two types of strategies and different approaches.

The first is a group of Presidents where the concern is to maintain the level of existing contact, that is, loyalty/quality of the existing relationship by managing their expectations. This group should be prevented from moving physically away from Club, or from feeling apart by not feeling influential, or cherished. It is important to understand that this group is the base that will underpin the approach of all other Presidents, because, ultimately, they will be all present in this group at the final stage of CB Standardization.

Concerning the second group, the critical approach may be related to the variables of the relationship that are present in the study as the quality of communication, the need for control, identification with ethical values and to the management of conflict. The quality of communication should be established by regular processes of communication and opportunities to ensure an open and honest communication. This creates a bond of trust in each quick answer and in each contact made (Bordow, 2006). Stanworth (2001) states that control is typically maintained by visits from the control agent's, scheduled or surprise. It's nevertheless important that the President feels the presence and concern of the CB Department towards his own CB and his problems. Código de Deontologia (1991) states that both parties should solve their conflicts and disputes fairly and in good faith to promote dialogue and direct negotiations: which means that despite their differences, even in the opinion about the CB ethical code, there must always remain the capacity for dialogue between the Club and the Presidents. It must therefore be defined a solution of conflict management through "collaboration" not allowing any conflict to be disruptive enough to place CB Standardization in a future risk (Dickey and Ives, 2000; Cunha et al., 2006).

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