FRANCHISEES, CHANGE, AND THE LIFE CYCLE

Christian L. van Tonder and Lucia C. McMullan
University of Johannesburg, South Africa

ABSTRACT

By virtue of the franchisor-franchisee relationship a franchise is neither a small business nor a large corporate and more aptly viewed as a hybrid organizational form. Despite this anomaly the franchise still has to contend with the standard business challenges including constant change in the operating context. Mindful of the multiple sources of change that could impact on the franchise, and the paucity of research in this regard, the current study set out to explore the nature of organizational change experienced at the level of the franchise. Twenty-one (21) franchisees of a large retail institution participated in a qualitative study which utilized a semi-structured interview schedule for data gathering. Franchisee narrative was subjected to content analysis and a multitude of change themes were extracted. The findings revealed that franchises are subjected to an extensive array of changes originating both external and internal to the franchisor. Moreover, it was observed that the salience of change phenomena life cycle stage-specific. The implications of the study are briefly indicated.

INTRODUCTION

Franchising has become a popular and effective business format and its prolific growth (Bordonaba-Juste & Polo-Redondo, 2008; Dant, 2008; Knight, 1986; Michael & Combs, 2008) has generally exceeded expectations (Knight, 1986; Rajagopal, 2007). This is particularly true for the retail sector where most of the growth in the franchising concept has been recorded (Rajagopal, 2007). Indeed, it is regarded in some quarters as the world's fastest growing form of retailing (Dant, 2008). Franchising generally refers to the business form and practice whereby an entrepreneur (the franchisee) acquires the right (or license) from another business (the franchisor) to use the latter's brand name or trademark(s) and its business system to distribute goods or services (Castrogiovanni, Combs & Justis, 2006; Michael & Combs, 2008). It is also generally recognized that the distribution of these products or services occur in accordance with franchisor-established standards and practices (Emerson, 1998). The franchisee typically pays an initial entry fee and thereafter ongoing royalties and advertising fees to the franchisor (Combs, Michael & Castrogiovanni, 2004; Grünhagen & Dorsch, 2003). Franchising assumes the character of a symbiotic relationship where both the franchisor and the franchisee shares the benefits and burdens of this unique business relationship – a decidedly distinctive form of business collaboration (Davies, Lassar, Manolis, Prince & Winsor, 2009) where, it is argued, "…everybody gains and no one loses" (Newby & Smith, 1999).

The contribution of franchising to business growth, employment creation and economic development is now widely acknowledged (Barthélemy, 2009; Rajagopal, 2007). The magnitude of this contribution is suggested, for example, by the presence of 1500 franchising chains in the USA alone. At the time of reporting, these franchise chains comprised 760 000 franchises, provided employment to approximately 18 million employees and collectively generated a total annual economic output in excess of US$1,53 trillion (Dant, 2008). In the United Kingdom and the franchising contribution by 1997 was £6.5billion compared to £0.9 bn in 1984 (Kirby & Watson, 1999). Franchising similarly contributed significantly to the Australian economy where more than 17 000 franchised businesses generated AU$32 billion in annual sales by1999 (Hing, 1999). The contribution of franchising, however, is not limited to the economic growth domain. It has become an important avenue for the endeavours of enterprising individuals (Michael & Combs, 2008) and a primary force for small business creation (Newby & Smith, 1999). It was also argued that franchises 'absorb' and hence reduce much of the risk associated with the franchisor business (Minkler, 1992) while simultaneously serving as a 'test site' where many of the innovations that the franchisor requires to adjust to a changing operating context, are generated and effected (essentially tested) at the level of the franchisee (Kaufman & Eroglu, 1999).

 ©Copyright 2010 by the Global Business and Technology Association

THE NATURE OF FRANCHISING IN SOUTH AFRICA

Franchising also garnered substantial interest in South Africa, in much the same way that it has in other parts of the world. While the roots of the franchising concept is traced to the USA during the 1930s and 1940s, the origins of the South African franchise environment dates back to the late 1950s, when franchise opportunities were limited to the fast-food sector. In the decades that followed the South African franchise environment continued to expand across various industry sectors, to the extent that South Africa's current franchising share of the global retail and services markets amounts to 12% and is growing at around 13% annually. In 2008 the Standard Bank Franchise Factor, a survey monitoring the growth of franchising in South Africa, observed that the sector's turnover grew by 37% over a two-year period, with 81 of the 531 existing franchised systems located in the retail business category (Martinez, 2009). The survey revealed healthy growth in the number of franchise systems, with 22 new concepts introduced in the retail industry since the previous survey in 2006. The largest contributors were baby, confectionary, and clothing and shoe operations. At the time of reporting 64 franchise brands were traded in South Africa through 4603 outlets (Berndt, 2009).

South African franchise systems follow one of two distinct models of franchising namely *product/trademark* franchising and *business format* franchising. The former focuses primarily on the brand and product offered and the role of the franchisor centers on controlling the product range, service delivery, guarantee and warranty issues, and the provision of product training and some advertising support. Within this model each *franchisee* develops his administrative functions, processes and controls to his specific business, with very little operational support from the franchisor. In the business format franchising model a *"... franchise is a grant by the franchisor to the franchisee, entitling the latter to the use of a complete business package containing all the elements necessary to establish a previously untrained person in the franchised business and enable him or her to operate it on an ongoing basis, according to guidelines supplied"* (FASA, 2007). In this business model the roles and in particular the relationship of the franchisor and franchisee, at least initially, are quite different. In addition to the provision of a comprehensive (and tried and tested) blueprint for the successful operation of the business, the franchisor is obliged to provide substantial initial and ongoing training and support to the franchisee. And, while it is generally acknowledged that the success of the franchise concept hinges on the quality of the relationship between the franchisor and franchisee, with each party honoring its obligation to the other (Berndt, 2009; Bordonaba-Juste & Polo-Redondo, 2008) this relationship is often also a source of challenge (and tension – cf. Cox & Mason, 2007). This is particularly relevant to the South African setting where tumultuous changes have brought substantial pressure to bear on the cost structures, operating efficiency and ultimately the sustainability of businesses.

Organisational change and the franchisee

The advancement of the sustainability agenda, insofar as organisations are concerned, however, has to occur in the face of continuous pressures for organisational change and against a backdrop of an increasingly competitive operating environment (Van Tonder, 2009). Effectively dealing with such organisational change has become crucial to organisational survival (cf. By, 2005; Luecke, 2003) and present institutional managers with a formidable sustainability challenge. Change has to be embraced to enable the organisation to adapt to environmental discontinuities and so ensure its continued viability and ultimately survival. Ineffectual responses to change (e.g. because of inertia) by contrast, are invariably problematic and in such circumstances change becomes a significant liability (George & Jones, 2001). With an escalation in company liquidations and rationalisations (Van Tonder, 2006), a situation unlikely to improve soon (cf. Kavanagh & Ashkanasy, 2006), organisations have little choice but to pay careful attention to change dynamics and engage these in a calculated and considered manner. Organizational longevity or sustainability is facilitated when the organisation aligns with environmental conditions (Armenakis & Bedeian, 1999), which is secured when the organisation through its management responds in an appropriate adaptive fashion – typically any of a range of responses including rationalisations, restructurings, business process redesign initiatives, other forms of reorganisation, mergers and acquisitions, revised strategies or strategic repositioning, new technology adoption and various other forms of related large-scale or major change initiatives. However, the reported success rates for organisational change initiatives are exceedingly poor (Van Tonder, 2004) and knowledge of organisational change phenomena in various areas (e.g. its measurement, micro dynamics and impact) is still substantively lacking (By, 2005; Burnes, 2003; Hacker & Washington, 2004; Kohler, Munz & Grawitch, 2006). This is also true for research conducted on change in small businesses where, in addition, the organizational change concepts usually applied in large organizations (e.g. reengineering) do not necessarily apply (Teeter & Whelan-Berry, 2008).

If we then consider the franchisor-franchise business form we observe that the franchisor fits the profile of a large corporate, but that it's primary operational enactment occurs through franchises that *approximate* the notion of a small business more than it does that of a large corporate, yet it also forms part of such a corporate (the franchisor). One of the ramifications of this complexity, is evidenced, for instance, in a recent ruling by the courts in the USA that upheld the premise that the franchisor is the owner of the franchise business and *not* the franchisee (Dant, 2008), This then is also the primary reason why most research to date has focused on the franchisor rather than the franchisee Dant, 2008; Michael & Combs, 2008).

The domain of business format franchising is not excluded from the pervasiveness of change in the operating context generally, and business format franchising is affected as much as any other business form. From one perspective it can be argued that if the franchisor-franchisee relationship is functioning optimally, the franchisor may emerge as a powerful buffering element that may shield the franchise and franchisee to an extent from environmentally induced change events, leaving the latter to contend only with internal i.e. operational and immediate situational (franchisor-related) changes. However, as indicated, the franchisor is itself not immune to the effects of environmental change. The 'buffering role' with regards to franchisee change, consequently, cannot be absolute and environmentally-induced changes in the franchisor-organization will translate into change for the franchisee. Notwithstanding, firstly, the probability of change in the franchise organization as a consequence of operating context and, secondly, changes in the franchisor organization, research on the organizational lifecycle suggests that changes may occur in the franchise, in the third instance, as a consequence of the natural growth and decline process or life cycle of the franchise organization itself.

Although a fair amount of research has been done on the organizational life cycle and several of these studies have explored the life cycle dynamics of small businesses (Masurel & Van Montfort, 2006; Rutherford, McMullen & Oswald, 2001; Teeter & Whelan-Berry, 2008), studies that actually focus on life cycle stages as a particular form of *change* in franchises, are limited. Moreover, studies on the life cycle of small businesses often generate inconclusive or ambiguous results. Dodge and Robbins (1992) for example noted statistically significant relationships between identified life cycle stages and clusters of (distinctive) organizational problems in small businesses, while Dodge, Fullerton and Robbins (1994) observed that the life cycle was less of an influence than competition (a contextual variable) in small businesses' problem perception. All these studies succeed in doing, are to reaffirm the unremarkable namely that change may well be a consequence of the business, the context or both. However, a recent case study by Teeter and Whelan-Berry (2008) indicated that multiple changes and tensions characterize the transitions of the small professional firm as it progresses to maturity. Of particular significance, is a study by Masurel and Van Montfort (2006) that focused specifically on change over the life cycle of the 279 small professional firms involved in their study. The authors found that sales diversification, labor force differentiation, and labor productivity increased over the first three stages of the life cycle and decreased during the last stage (their four-stage model emerged empirically from the data) – suggesting that characteristic changes and transitions are associated with pertinent stages of growth and decline in these smaller businesses.

Though franchises are hybrid organisations that form part of a larger franchisor organisation, they largely resemble small businesses and scholars often turn to small business research as point of departure for their own research, mostly as a result of the paucity of research involving franchisees. Indeed, in considering the causes of failure among franchises, Michael and Combs (2008) indicate that very little has been done to gain an improved understanding of those factors that contribute to franchisee performance – echoing the view that research on the consequences of franchising for franchisees has been rare (Combs, Michael & Castrogiovanni, 2004). Mindful of the possible sources of change operating on the franchise, the *purpose* of the current study was to explore the nature of organisational change experienced at the level of the franchise. More specifically, the study wanted to establish, *firstly*, what organisational changes are salient for franchisees (where 'franchisee' refers to the owner-manager of the franchise)? The study *secondly* aimed to determine the dominant source of noted changes, where a distinction is made between *external* (environmentally induced change that originate beyond the boundaries of the franchisor organisation) and *internal* (intra-organisational i.e. changes that originate within the franchisor organisation) sources of change. In the *final* instance it aimed to establish if the sources of prominent (salient)

©Copyright 2010 by the Global Business and Technology Association

changes nominated by franchisees differed for franchises residing in different life cycle stages. Being an exploratory study, it is anticipated that the results of the study will create a platform for more focused research, but also prove mutually beneficial to franchisors and franchisees. In this regard the improved understanding among franchisor managers and franchisees, of the changes experienced at the level of the franchise, may contribute to a reduction in the disruptive and counterproductive influences of change, and contain or regulate the incidence of certain forms of change. The latter should meaningfully improve the operational functioning and efficiency of the franchise and ultimately contribute to more sustainable franchise models.

EMPIRICAL STUDY

Design and Methodology

The setting for the study is the franchise environment (division) of a major supermarket retailer in and around South Africa, which comprises inter alia 255 owner-run franchise businesses nationally and geographically dispersed across the country. These franchises range in age from 2 months to 16 years in maturity. Although the franchisor recognises different categories of franchisees, largely on the basis of franchise age, this categorisation currently do not impact on or transfer to business operations as differentiated franchisor policies, procedures and practices for different categories of franchisees. Indeed, the franchisor pursues a single, uniform approach in its dealings with franchises which also applies to the introduction and management of organisational change and the change support provided at the level of the franchise / franchisee.

The exploratory nature of the study, specifically the focus on franchisees' perceptions of changes that they experienced and regarded as salient, invoked an interpretive research paradigm and the associated qualitative research methodologies. Epistemologically, the data needed for analysis purposes were franchisees' accounts of experienced change and the meanings they ascribe to these events. A structured interview schedule, assuming the form of a written, open-ended survey, was used to obtain written narrative from franchisees. Of the four open-ended questions posed to the respondents, two are pertinent to the current study. These required franchisees to indicate the organisational changes that were most salient to them (during the past 6 months), and the impact of these on their businesses. The survey afforded them the opportunity to add any additional comments. After securing approval for the study from the executives overseeing the franchisor division, the purpose, research process and involvement of franchisor representatives and franchisees in the research were communicated in writing to the franchise division and all franchisees. Five (5) primary stages in the life cycle of the franchise business were then identified by the franchisor managers, assisted by the researcher. The franchisor managers relied essentially on the 'age' of the franchise operation and behavioural and financial indicators they have come to recognise and associate with franchises in the respective categories (see in Table 1).

Table 1: Franchisor-identified stages in the life cycle of the franchise

Franchise Life cycle stages	Brief description	Franchise start-up date between…
Stage 1: Gestation	This stage entails the pre-opening preparation of the franchise 'store' (business) and incorporates all facets from the identification of the site, to obtaining approval from the franchisor and the actual launch / opening of the store.	Sep 2009 – Sep 2010
Stage 2: Entrepreneurial	The initial, business start-up phase. The franchisee (and franchise) is simultaneously excited and overwhelmed, anxious, and uncertain about the 'way things should be done'. Requirements, systems and procedures have not yet been internalised and entrenched ("bedded down").	Mar 2008 – Aug 2009
Stage 3: Methods and Systems	The franchise business is in place and operating to expectation. The franchisee's focus is largely directed at refining systems and methods, and on achieving margins.	Mar 2004 – Feb 2004

©Copyright 2010 by the Global Business and Technology Association

Franchise Life cycle stages	Brief description	Franchise start-up date between…
Stage 4: Maturation / Decline	The franchise business is by now a known quantity and operating effectively - the business is essentially on 'cruise control'. The management team is established and demands on management innovation and capacity are minimal. The franchisee is not innovating or investing the same degree of effort as he/she did in previous stages and could lose interest (experience boredom). In this stage the original debt incurred when purchasing the franchise ('store') in all probability has been repaid and the franchisee often experiences newfound wealth. This situation could lead to a stage of renewal or decline.	Mar 2001 – Feb 2004
Stage 5: Renewal	When reaching this stage, the franchisee is usually confronted with the choice (decision) of revitalising (and revamping) the business or putting it up for sale. This stage typically prompts the onset of the next 'entrepreneurial' stage and the life cycle continues at a new level of functioning.	Mar 1993 – Feb 2001

Purposive sampling was employed as a means to secure a group of franchisees for participating in the study. This was accomplished primarily on the basis of the average financial turnover of the franchise per month, calculated over a 13-month period, for each of the categories (stages) except stage 1. Those franchisees in stages 2 to 5 whose turnover clustered closest to the mean (financial turnover) for the category (stage) were identified and five franchisees per category were approached. All the approached franchisees agreed to participate. Prospective franchisees i.e. those applicants in the process of securing a franchise business were approached but only one participant had not previously owned a franchise store (a qualifying condition). Equal numbers of franchisees who best reflected the features of the category, were sought as this would enhance transferability and confirmability of the findings. Twenty-one (21) franchisees were eventually secured for the study. Prior to the respondents completing the survey, they were again informed that participation was voluntary, that they would remain anonymous at all stages of the research and that all individually nominated information will remain strictly confidential. This was done to facilitate accuracy and authenticity, and to ensure that data were of maximum value.

The most salient change themes were identified and prioritised for each of the pre-defined franchise business categories with the aid of basic content analysis. This was accomplished through inductive category coding and frequency counts for the different changes mentioned in the narratives of franchisees. From this the various change themes emerged, which were then prioritised per life cycle stage. This procedure is consistent with Miles and Huberman's (1994) view that the understanding of a phenomenon is enhanced when objects are clustered together and further conceptualised on the basis of similar patterns or characteristics. To minimise interpretation errors, two colleagues skilled in content analysis (a university lecturer and a doctoral candidate) were requested to read through the data and to consider the correctness of interpretation during the content analysis. Where interpretation differences were encountered, these were resolved through discussion and consensus.

Findings

The results of the content analysis are summarised in Tables 2 and 3. The emergent change themes that characterise the world of the franchisee, the frequency with which they were cited for each life cycle stage, and the overall frequency count and rank for the change themes, are presented in Table 2.

Table 2: Frequency: Citation of change themes per life cycle stage

No.	Change Theme[a]	*f*[b] Stage 1	*f* Stage 2	*f* Stage 3	*f* Stage 4	*f* Stage 5	Total	Rank

©Copyright 2010 by the Global Business and Technology Association

No.	Change Theme[a]	f[b] Stage 1	f Stage 2	f Stage 3	f Stage 4	f Stage 5	Total	Rank
1	Electricity crisis **Shortages of electricity/load-shedding; rise in costs; decreased disposable income (due to electricity price hikes)**	-	1	5	1	4	11	1
2	Effect of Global Recession **Economic downturn; unemployment; customers buying less**	-	1	3	1	4	9	2
3	External Financial Factors **Increase in interest rates; increase in fuel prices and food inflation**	-	1	-	2	5	8	3
4	Internal financial management **Projected turnover not achieved; marginal store / business; loss of margin; pressure on gross profit; change in loyalty rebate payment**	-	4	2	-	-	6	4
5	In-store management **Streamlining SKU's; sourcing from other suppliers (fruit & vegetables from market); shrinkage; proper stock control; involvement in store (being hands on); audits**	-	2	1	3	-	6	4
6	Centralized distribution **Change over process to centralized distribution; Distribution Centre / Warehouse problems**	-	1	1	-	3	5	5
7	IT Solutions **Implementation of SAP; Problematic IT systems**	-	1	2	1	-	4	6
8	Centre impact **Centre re-design / extension / revamp; Non-delivery on promised marketing; Accommodating additional parking bays**	-	1	1	1	1	4	6
9	Increase in expenses **Security Costs; increased input costs; increased labour costs**	-	1	2	-	-	3	7
10	People management / staff **Resignations due to staff being poached; decline in morality of staff; Staff crime leading to termination and vacant positions**	-	1	-	-	2	3	7
11	Increased competition in catchment area **Competitor stores; same brand stores**	-	-	1	1	1	3	7
12	Customer relations **Effective management of the checkouts; selling basic commodities at the right price; building customer loyalty**	-	3	-	-	-	3	7
13	Re-branding exercise **Brand re-launch; change in marketing strategy**	-	-	2	-	-	2	8
14	Store Maintenance **Equipment packing up; store revamp**	-	-	1	-	1	2	8
15	Store set-up / start-up **Taking over a corporate store; new site identified**	1	1	-	-	-	2	8

No.	Change Theme[a]	f[b] Stage 1	f Stage 2	f Stage 3	f Stage 4	f Stage 5	Total	Rank
16	Pricing **Competitors cutting prices; fighting price perception that opposition is cheaper**	-	2	-	-	-	2	8
17	Business additions / store extensions **Additions e.g. Liquor Store opening adjacent to store; cameo machine installed**	-	-	2	-	-	2	8
	Total frequency	**1**	**20**	**23**	**10**	**21**	**75**	-

Note. Frequencies refer to the number of franchisees that nominated the specific change as being of importance for example a total of 11 franchisees indicated the electricity crisis as an important and salient change.
[a]Illustrative commentary accompanying the cryptic change themes, were extracted from the narrative provided by respondents. [b]In this stage the franchise does not yet exist as a reified entity (despite its paper-based existence). Virtually all the changes that established franchisees experience do not apply. A single prospective franchisee provided commentary.

From Table 2 it is evident that the three *most salient change*s in the lives of franchisees at the time of the research were essentially economic and financial in nature, thus affecting the essential core of the business (the electricity crisis, global recession and external financial factors). The incapacity of the national electricity provider to service the needs of business, which ranks at the top of the list of noted significant changes, surfaced because of its pronounced financial impact on the franchisee ('electricity price hikes and reduced disposable income, but also due to store 'down time' during electricity outages and inability to trade as well as losses due to refrigerated food products going to waste).

The top-ranked (salient) changes, all originate in the *external environment* i.e. beyond the institutional boundaries of the franchisor, suggesting minimal franchis*or* influence over these changes (as opposed to franchi*see* influence), while the fourth ranked changes (change themes 4 and 5) assume a more *internal* character, relating more to operational change dynamics. Changes impacting on the franchisees however generally originate in both the external and internal environments, with more change emerging from an external than an internal origin (see Table 3),

Table 3: Frequency: Citation of change themes per life cycle stage

Life Cycle Stage	Source of change: 'External'		Source of change: 'Internal'	
	f[a]	%[b]	f[c]	%[d]
1	-	-	1	100
2	12	60	8	40
3	12[e]	48	13[e]	52
4	8	80	2	20
5	18	85.7	3	14.3
Total	**50**	**65**	**27**	**35**

Note. A description of life cycle stages is provided in Table 1. *External* changes refer to changes that originate beyond the boundaries of the franchisor organization e.g. the electricity crisis or the effects of the global recession. *Internal* changes refer to change that originate within the franchisor organization e.g. changes in IT systems or distribution centers.
[a]Frequency with which *external* changes were nominated for a given life cycle stage. [b]Citation frequency for *external* changes expressed, as a percentage of total change citations per life cycle stage. [c]Frequency with which *internal* changes were nominated for a given life cycle stage. [d]Citation frequency for *internal* changes, expressed as a percentage of total change citations per life cycle stage. [e]Two changes were deemed to originate both in the external and internal environments, resulting in a total frequency of 25 for stage 3 compared to the 23 indicated for stage 3 in Table 2.

Inspection of Table 2 further suggests that the perceived prominence of organisational changes differ for the respective franchisee life cycle stages. The three most salient changes appear to be more relevant to franchisees

 ©Copyright 2010 by the Global Business and Technology Association

in the *methods and systems stage* (stage 3; f = 5) and the *renewal stage* (stage 5; f = 4), suggesting greater sensitivity and potential vulnerability during these stages. At the same time it is intuitively logical that change(s) affecting the internal financial dynamics of the franchise (ranked 4) would be more pertinent to (mostly) franchisees in the *entrepreneurial stage*[1] (stage 2, f = 4) as a consequence of the unique demands associated with rapid growth in this stage. This is true to a lesser extent for franchisees in the *methods and systems stage* (stage 3, f = 2) (stage 2). In-store management changes (also ranked 4) similarly appear to be more salient to franchisees in the first stages of the life cycle, suggesting that the franchise business may be more prone and vulnerable to these types of changes in the early stages of the life cycle. Changes in the franchisor distribution system (theme 6), the information technology systems in use (theme 7) and the centers in which franchises are located (theme 8) are, understandably, prominent to all franchisees regardless of life cycle stage. Overall, total frequency counts per life cycle stage indicate that it is only the *maturation / decline stage* where change generally appears to be less of a challenge (f = 10 compared to 20, 23 and 21 for stages 2, 3 and 5 respectively). Those changes regarded as salient, however, differ in character for the different stages in the life cycle. This observation is echoed, more generally, by the ratio of external to internal changes per life cycle stage (Table 3). This is consistent with the observation that changes originating in the internal (i.e. franchisor) environment appears to be slightly more prominent than changes originating externally to the organization during this stage in the franchisee life cycle. By contrast changes originating in the *external* environment are substantially more salient to franchisees, and increasingly so, in the progressive sequence of stages from 2 to 4 and 5.

DISCUSSION

The study set out to explore the perceived salience of different organizational changes at the level of the franchisee and whether these were predominantly external or internal to the franchisor. At the same time it wanted to determine if the perception of salient change was influenced by the life cycle stage in which the franchise found itself. At a general level the findings revealed that organizational change at the level of the individual franchise is pervasive and assumes multiple forms that originate externally and internally to the franchisor organization. The findings suggest useful though preliminary perspectives on the nature of perceived change at the level of the franchisee and points to a consideration of franchisor strategies in relation to, firstly, the origin of the experienced changes and secondly, the life cycle stage in which the franchise is located. These perspectives are briefly elaborated.

Internal-external change and the franchisor-franchisee relationship

Franchisee commentary on the salience of organisational changes confirms the intrusive nature of change originating in the operating context of the franchisor and, indeed, the vulnerability of individual franchises to these environmental jolts. At the same time these observations also suggest that the notion of a franchisor buffering role between the external environment and the franchise does not materialise simply because of the nested existence of the franchise within the structure of the franchisor (the legitimate 'owner' of the franchise – cf. Dant, 2008). The impact of the economic factors and global financial dynamics in this case example does not appear to be cushioned by the franchise's encapsulation within a franchisor business format model.

The first two change themes (Table 2) approximate a radical Type II change (cf. Van Tonder, 2004; 2008; 2009) and, being an external environmental change, should affect the franchisor and franchisee equally. While the franchisor, seemingly, is not able to mitigate the experience of 'external' change at the level of the franchise, organisational changes originating within the formal boundaries of the franchisor institution suggest an area where the franchisor could alter the franchisees' (franchises') experience of change. Salient organisational changes ranked fourth to seventh (Table 2), all reside within the ambit of the franchisor's control. These change dynamics could significantly compound the impact of external "environmental jolts" (change themes 1 to 3, Table 2) on the franchisee.

However, it is argued that the franchise's experience of external change can be buffered through direct franchisor interventions designed to minimise or delay the impact of external change on the franchisee (effectively 'shield' the franchise from the change or its effects). Such a buffering role could also be interpreted as bolstering (creating, enabling or strengthening) franchisee capacity for attending effectively to externally-imposed change. This can be accomplished in any of several ways. From the results of this study it would appear that internally-generated changes i.e. changes initiated by the franchisor and relating to, or impacting on... franchisee *financial practices / management* (change theme 4, Table 2), operational or '*in-store*' *management* (change theme 5), changes to the *distribution practices* of the franchisor (change theme 6) and changes to *franchisor systems* – specifically information technology systems (change theme 8) are pronounced. These change dynamics, which are ranked fourth to seventh after the 'external' changes, are essentially within the control of the franchisor organisation. Moreover, while the franchisor is not entirely responsible for the change dynamics conveyed by change themes 9 to16 (Table 2), it 'owns' a significant portion of the change and / or performs a major instrumental role in the onset of these dynamics (e.g. by opening up other non-franchised, same brand businesses in the same catchment area; in the changes it introduces in its marketing strategies and campaigns, its negotiations with the labour unions; product pricing practices and policies). If it is acknowledged that franchisor policies in respect of franchisees often impede franchisee performance (cf. Michael & Combs, 2008) it follows that a considered franchisor approach and strategy when contemplating the introduction of changes may prove less problematic than that which contributes to the reported experience of change by franchisees in the current study. Such an approach can be accomplished through differentiated timing and implementation strategies, for example delayed or staggered change implementation carefully designed to align with franchise life cycle stage. A consequence of the latter will be that franchise (franchisee) resources such as focus, energy, time, and liquidity and cash flow, among other, that are otherwise tied up in internal organisational changes could be 'released' or made available for contending with those externally-induced changes over which the franchisor may have less control. Conversely, by not consciously considering the simultaneous impact of both external and internal changes in its change policies and implementation practices, the franchisor effectively increases the vulnerability of the franchise and inadvertently increases the level of risk for the franchisee.

Situated change perception: The franchise life cycle

Notwithstanding substantial parallels between Masurel and Van Montfort's (2006) conceptualisation of the life cycle of a small professional firm and that employed in the current study, the focus was not on validating the life cycle trajectory of the franchise but rather to qualitatively explore variations in perception – in this instance in respect of experienced organisational change. The results furthermore reveal patterns in franchisees' perceptions of organisational change that broadly align with these franchise categories. This is consistent with the Dodge and Robbins' (1992, p. 33) finding that the owner-manager has to contend with different problems during the different stages of the small business life cycle. This, they argue, points to different operational contexts that are evoked. In the current study four primary patterns in the perception of salient change are noted.

At a general level the frequency with which changes are cited across the full spectrum of change themes by franchisees in the *methods and systems* stage (Stage 3, $f = 23$, Table 2) it would seem that this stage is one of greater susceptibility to change and potentially more troublesome to franchisees. Although total change citations in the second and fifth stages do not differ substantially from the methods and systems stage ($f = 20$ and $f = 21$ respectively), the changes cited by franchisees in these stages are concentrated to a greater extent in specific areas. By contrast franchises in the *maturation / decline* stage (Stage 4, $f = 10$) appear the least affected by the changes in the franchisee environment – indicated by the low frequency of change citations ($f = 10$). One plausible account for this dynamic may relate to the level of competence and mastery that has been achieved by the franchisee and franchise at this point in the life cycle. The likelihood of encountering entirely novel challenges is remote, the franchisee has appropriate financial and logistical management capacity (unlike franchisees in the entrepreneurial stage) and has developed some skill in contending with the wide range of change challenges that are encountered during the methods and systems stage (stage 3). Secondly, while organisational changes originating in the external environment is felt by all franchises, the effect of these changes (notably change themes 1 to 3) is pronounced for the more established and mature franchises in the *methods and systems* and *renewal* stages and less marked for franchises in the early *entrepreneurial* stage. The disruption imposed by such extreme changes is likely to be greater and more damaging for established, competing and finely balanced businesses compared to start-up or young franchises experiencing rapid growth and that are still in the process of establishing a market presence and consequently not yet exposed to the full competitive force of similar businesses in the operating context. A third pattern or trend is suggested by the frequency with which changes impacting on or relating to financial and operational management in the franchise

©Copyright 2010 by the Global Business and Technology Association

are cited by franchises in the *entrepreneurial* and *methods and systems* stages, while no such citations are recorded for franchises in the *maturation/decline* and *renewal* stages (stages 4 and 5, Table 2). This suggests that these younger franchises may not as yet have developed the deep, internalized understanding of the business and the accompanying capacity that enables effective management of these challenges. Finally, several changes are perceived as disruptive by franchises *across all stages.* These relate to information systems changes introduced by the franchisor, physical and or contractual changes introduced by the shopping centre or complex management, in which the franchise is a tenant, and changes to the competitive environment in which the franchise operates (see change themes 6 to 8, 11; Table 2). It can be argued that these challenges relate to the core structure of the business format franchising model (franchisor-franchisee business) and that systems, facilities and competitive architecture are critical success factors in the overall sustainability of such businesses.

These findings suggest that the salience of organisational changes at the level of the franchisee is to a large extent situation-dependent, more specifically, grounded in the life cycle stage in which the franchise finds itself. There is consequently substantial merit in applying life cycle theories to the franchise domain. Moreover, the need for a differentiated franchisor approach not only in terms of the conceptualisation, structuring and implementation of change initiatives but certainly in terms of the nature and support provided to franchises during such changes, is bolstered by the results recorded in this study.

Notwithstanding the former, a few caveats need to be borne in mind. The exploratory objectives and consequently the methodology employed in the study precludes generalization of the obtained results and at best suggests transferability of perspectives to sufficiently similar franchisor settings. Although the franchise life cycle obtained from franchisor managers has some implicit validity that is born out to a degree by the results of the current study, the notion of conceptually distinct franchise life cycle stages need to be subjected to rigorous empirical testing. In addition to the research implied by these limitations, several potentially productive future research avenues are suggested by the current study. Generally franchises have not received meaningful research attention and available research tended to focus more substantively on the franchisor as opposed to the franchisee. Not only does this suggest a broadening of the research in this rapidly growing and important area of economic activity, but it also points to a deepening of knowledge in several areas pertaining to the nature of the franchise business form. These include the unique organizational form of the franchise (being a hybrid small business); the complexity and dynamics introduced by the existence of a regulating 'owner' which seemingly does not buffer the franchise from extreme environmental dynamics; the interpretation and enactment of the franchisor-franchisee relationship by both parties (a critically important sustainability factor), and the growth, decline and rejuvenation i.e. the life cycle of the franchisee.

The contribution of the current study consequently resides in the awareness that it creates for the multiplicity of changes that characterize the day-to-day functioning of franchises. Unlike other small businesses, franchises do not only contend with the typical changes (market dynamics) of a small independent business, but also have to deal with and incorporate franchisor-induced changes, all of which pose potential sustainability challenges to the franchise. The study furthermore suggests the importance and utility value of life cycle theories of organizational (franchise) functioning and development, especially in the franchisor-franchisee relationship where franchisor policies in most cases do not differentiate among franchisees on grounds of life cycle-specific needs and dynamics. Finally, although the franchisor-franchisee relationship is now acknowledged to be a critical sustainability consideration, the current study suggests the theoretical plausibility of a franchisor buffering role e.g. during change, and the need to consider the legitimacy (and legality) of franchise expectations in this regard.

CONCLUDING PERSPECTIVES

Sustainability of business format franchising does not appear to be under threat if the prolific growth of this business form is considered. However, franchisees are exiting the franchise system in favor of independent business endeavors and dissatisfaction and unmet expectations in the relationship are some of the important underlying causes (Frazer, Merrilees & Wright, 2007). While little is known about the unique behavioral dynamics at the level of the individual franchise, and how this is influenced by the presence of an overseeing franchisor, the current study has revealed that the franchise (franchisee) has to deal with an extensive range and variety of change dynamics that pose significant challenges to the sustainability of the franchise. A significant proportion of these changes are generated internally by the franchisor. By implementing policies that do not acknowledge the impact, consequences and unintended (and undesirable) side-effects of such changes the franchisor may inadvertently erode the sustainability of franchises. While further research is required to illuminate the idiosyncratic dynamics that permeate the franchisor-franchisee relationship, awareness of the pervasiveness of changes impacting on the franchise (and franchisee) at this initial stage, is in the interest of both the franchisee and the franchisor.

REFERENCES

Armenakis, A.A., & Bedeian, A.G. “Organizational Change: A Review of Theory and Research in the 1990s”. (Yearly Review of Management), *Journal of Management*, Vol. 25, No. 3, (1999): 293-313.

Barthélemy, J. “Agency and Institutional Influences on Franchising Decisions,” *Journal of Business Venturing*, doi: 10.1016/j.jbusvent. (2009).05.002.

Berndt, A. “Franchisee Satisfaction Among Food Franchisees: An Exploratory Study”. *South African Business Review*, Vol. 13, No. 1, (2009): 1 – 20.

Bordonaba-Juste, M. V., & Polo-Redondo, Y. “Differences Between Short and Long-Term Relationships: An Empirical Analysis in Franchise Systems,” *Journal of Strategic Marketing*, Vol. 16, No. 4, (2008): 327-354.

Burnes, B. “Managing Change and Changing Managers from ABC to XYZ”, *Journal of Management Development*, Vol. 22, No. 7, (2003): 627-642.

By, R.T. “Organizational Change Management: A Critical Review.” *Journal of Change Management*, Vol. 5, No. 4, (2005): 369-380.

Castrogiovanni, G. J., Combs, J. G., & Justis R. T. “Shifting Imperatives: An Integrative View of Resource Scarcity and Agency Reasons for Franchising,” *Entrepreneurship Theory and Practice*, 1042-2587, (2006): 23-40.

Combs, J., Michael, S. & Castrogiovanni, G. “Franchising: A Review and Avenues to Greater Theoretical Diversity,” *Journal of management*, Vol. 30, (2004): 907-931.

Cox, J. & Mason, C. “Standardization versus Adaptation: Geographical Pressures to Deviate from Franchise Formats,” *The Services Industries Journal*, Vol. 27, No. 8, (2007): 1053-1072.

Dant, R. P. “A Futuristic Research Agenda for the Field of Franchising,” *Journal of Small Business Management*, Vol. 46, No. 1, (2008): 91-98.

Davies, M. A. P., Lassar, W., Manolis, C., Prince, M., & Winsor, R. D. “A Model of Trust and Compliance in Franchise Relations,” *Journal of Business Venturing*, doi: 10.1016/j.jbusvent. 2009.05.005.

Dodge, H.R. & Robbins, J.E. “An Empirical Investigation of the Organizational Life Cycle Model for Small Business Development and Survival,” *Journal of Small Business Management,* Vol. 30, No. 1, (1992): 27-37.

Dodge, H.R., Fullerton, S. & Robbins, J.E. “Stage of the Organizational Life Cycle and Competition as Mediators of Problem Perception for Small Businesses,” *Strategic Management Journal,* Vol. 15, (1994): 121-134.

Emerson R. W. “Franchise Terminations: Legal Rights and Practical Effects When Franchisees Claim the Franchisor Discriminates,” *American Business Law Journal*, Vol. 35, (Summer 1998): 559.

FASA. ”Franchise Association of South Africa.” (2007) http://www.fasa.co.za/news/2007/BegJul2007/begjul.htm accessed on 2 May 2009

©Copyright 2010 by the Global Business and Technology Association

Frazer, L., Merilees, B., & Wright, O. "Power and Control in the Franchise Network: An Investigation of Ex-franchisees and Brand Piracy." *Journal of Marketing Management*, Vol. 23, No. 9-10 (2007): 1037-1054.

George, J.M., & Jones, G.R. "Towards a Process Model of Individual Change in Organizations", *Human Relations*, Vol. 54, No. 4, (2001): 419–444.

Grünhagen, M., & Dorsch, M. J. "Does the Franchisor Provide Value to Franchisees? Past, Current, and Future Value Assessments of Two Franchisee Types," *Journal of Small Business Management*, Vol. 44, No. 4, (2003): 366-384.

Hacker, M. & Washington, M. "How Do We Measure the Implementation of Large-Scale Change?" *Measuring Business Excellence*, Vol. 8, No. 3, (2004): 52-59.

Hanks, S. H., Watson, C. J., Jansen, E., & Chandler, G. N. "Tightening the Life-Cycle Construct: A Taxonomic Study of Growth Stage Configurations in High-Technology Organizations," *Entrepreneurship Theory and Practice*, Vol. 44, No. 4, (Winter 1993): 5–30.

Hing, N. "Maximizing Franchisee Satisfaction in the Restaurant Sector." *Journal of Consumer Marketing,* Vol. 16, No. 5, (1999): 502 – 513.

Kaufmann, S. C., & Eroglu, J. G. "Entrepreneurial Failure: The Case of Franchisees," *Journal of Small Business Management*, Vol. 46, No. 1, (1999): 73-90.

Kavanagh, M.H., & Ashkanasy, N.M. "The Impact of Leadership and Change Management Strategy on Organizational Culture and Individual Acceptance of Change During a Merger", *British Journal of Management*, Vol. 17, (2006): S81-S103.

Kirby, D. & Watson, A. Franchising As a Small Business Development Strategy: A Qualitative Study of Operational and 'Failed' Franchisors in the UK". *Journal of Small Business and Enterprise Development,* Vol. 6, No. 4, (1999): 341 – 349.

Knight, R. M. "Franchising From the Franchisor and Franchisee Point of View," *Journal of Small Business Management*, Vol. 46, No. 1, (July 1986): 8-15.

Kohler, J.M., Munz, D.C., & Grawitch, M.J. "Test of a Dynamic Stress Model for Organisational Change: Do Males and Females Require Different Models?", *Applied Psychology: An International Review*, Vol. 55, Iss. 2, (2006): 168-191.

Luecke, R. *Managing Change and Transition*. Boston, MA: Harvard Business School Press. 2003.

Martinez, J. "Trends in franchising for 2009." http://www.bizassist.co.za/news.asp (2009), (accessed 2 January 2010).

Masurel, E., & Van Montfort, K. "Life Cycle Characteristics of Small Professional Firms," *Journal of Small Business Management*, Vol. 44, No. 3, (2006): 461-473.

Michael, S.C., & Combs J.G. "Entrepreneurial Failure: The Case of Franchisees," *Journal of Small Business Management*, Vol. 46, No. 1, (2008): 73-90.

Miles, M.B. & Huberman, A.M. *Qualitative Data Analysis*. Thousand Oaks, CA: Sage. 1994.

Minkler, S. C. "Entrepreneurial Failure: The Case of Franchisees," *Journal of Small Business Management*, Vol. 46, No. 1, (1992): 73-90.

Newby, R., & Smith, M. "A Comparison of the Impact of Franchising on Return and Risk for Two Australian Industries," *Accounting Forum*, Vol. 23, No. 2, (June 1999): 193-205.

©Copyright 2010 by the Global Business and Technology Association

Rajagopal, “Optimising franchisee sales and business performance,” *Journal of Retail and Leisure Property*, Vol. 6, No. 4, (2007): 341-360.

Rutherford, M.W., McMUllen, P. & Oswald, S. “Examining the Issue of Size and the Small Business: A Self Organizing Map Approach,” *Journal of Business & Economic studies,* Vol. 7, No. 2, (2001): 64-79.

Teeter, R.A.C., & Whelan-Berry, K. S. “My Firm Versus Our Firm: The Challenge of Change in Growing the Small Professional Service Firm,” *Journal of Business Inquiry*, Vol. 46, No. 1, (2008): 41-52.

Van Tonder, C.L. “Organisational Change as Arena of Risk and Ethics.” Paper presented at the World Ethics Forum, University of Oxford, England, 9-11 April. 2009.

Van Tonder, C.L. “Stacking the Dominoes... Courting Catastrophe at the ‘Edge-of-Chaos’”, Paper presented at the 9th *IFSAM World Management Conference*, Shanghai, People’s Republic of China, 26-28 July. 2008.

Van Tonder, C.L. “Type Change: The Perceived Structure of Organizational Change Events.” Paper presented at the Eleventh International Conference of the *Global Business and Technology Association* (GBATA), Prague, Czech Republic, 07-11 July. 2009.

Van Tonder, C.L. *Organisational Change: Theory and Practice*. Pretoria: Van Schaik Publishers. 2004.

ENDNOTES

1 The entrepreneurial stage identified as the second stage, is effectively and technically the first stage in the life cycle of the franchise business and can be regarded as such as the formally defined business only commences operating in this stage. While most life cycle stage theories tend to commence with the start-up or entrepreneurial stage (i.e. stage 1) they effectively deny the important pre-launch and pre-identity dynamics associated with the ‘gestation’ stage merely by its omission from the theory.

 ©Copyright 2010 by the Global Business and Technology Association