

Positive integration of the franchise system: A new perspective on leadership, followership, trust and group efficacy

Hoe-Chang Yang*, Young-Hwang Ju**

Abstract

This study has been conducted by focusing franchisor's leadership style, franchisee's followership, group-efficacy and their trust in order to achieve positive integration of the franchise system.

The key results of empirical examination on the moderating effect of group-efficacy and trust between leadership style proposed by Path-Goal Theory and followership has been found as follows.

First, franchisors should be showed their leadership style to fit their mutual business situation. Second, Franchisors and franchisees will be found many ways to increase level of franchisee's group-efficacy. Third, Franchisors will be obtained trust from their own franchisees.

These efforts will be given high level of franchisees' trust and group-efficacy. As a result, positive integration of the franchise system will both enhance their competitiveness.

Keywords : Franchise system, franchisor, franchisee, leadership style, followership

1. Introduction

Recently, franchising has been recognized as a successful business model in the world. In the example of the Unites States, approximately 4% of all businesses are franchisee-worked (Quoted by the International Franchise Association website). According to the International Franchise Association (IFA), from 2001 to 2005 the franchising sector grew at a faster than many other sectors of the U.S. economy. And direct economic output expanded by over 41 percent from 625 billion dollars to 881 billion dollars, while economic output of other businesses grew by 26 percent, from 16 trillion to 20.1 trillion dollars. Also, employment generated by franchised businesses grew by 12.6 percent, from 9.79 million to 11 million, compared to 3.5 percent for all businesses, from 132 million to 136.7

million.

In the case of Korea showed a remarkable growth in the franchise industry, too. Specifically, from 2002 to 2005 the franchising sector expanded by over 47.1 percent from 42 trillion to 61 trillion won, compared to 7.9 percent of gross domestic product (GDP).

Some researchers, such as Michael (2000) and Lutz (1995), provided that the reasons for the increase in franchise operation are their bargaining power (Michael, 2000), ownership rights and incentives (Lutz, 1995). But other researchers, they pointed out various negative issues in franchise operation, provided agency-theoretic explanations for franchising, including moral hazard (Lafontaine, 1992) and count to entrepreneurship problem (Kanfmann and Dant, 1998), etc.

Despite of various positive reasons, the rapid growth of the franchise industry in Korea is causing a lot of side effects. For example, according to Korea Fair Trade Mediation Agency (KOFAIR), during the year 2010 they received 279 cases for grievance mediation, it increase four-fold in the past 3 years. Another example reported in previous study (Yang & Lee, 2010), such as uniform legal regulation about franchisor has to be suppressed franchisor's leadership activities (e.g., activities such as to convince their policies and strategies for franchisee's change and innovation).

This study focused on how to succeed through positive integration (i.e., the franchisor and franchisee, their ultimately goal is to obtain profits through cooperation.) of the franchise system in Korea. Especially, this study focused on the question of whether franchisors' leadership style has an impact upon the followership, trust and group efficacy of the franchisees has been subjected to considerable empirical exploration.

Thus, the goal of this study is to explore the effects of franchisor's leadership style on franchisee's followership, trust and group efficacy.

And other purpose of this study to explore the effect of franchisee's perceived trust and group efficacy between franchisor's leadership style and franchisee's followership, respectively.

Results of this study are expected to provide important theoretical and practical implications for improving the positive integration of the franchise system.

2. Theoretical Background

2.1. Characteristics of Franchise system

In general, franchise system follows two forms just like markets

* Full-time lecturer, Department of Distribution Management, JangAn University, Korea.

Tel: +82-31-299-3133. E-mail: pricezzang@empal.com

** Full-time lecturer, Department of Distribution Management, JangAn University, Korea.

Tel: +82-31-299-3289. E-mail: mktju@hanmail.net

and firms (Coase, 1937). According to Norton (1988), the market-like qualities arise from the existence of trade between two entities that operate in capital, labor, and product markets. The franchisor, the parent company, develops a product or service for sale by the franchisees that market it in a particular location. Typically, a franchisee pays a lump sum fee for the right to market the product and also pays royalties, such as a percentage of sales. In addition, the franchisee may purchase specific inputs from the franchisor.

The firm-like qualities arise from the nature of the restricted bilateral nexus between the two types of entities. The relationship often resembles full vertical integration. Franchisors typically offer managerial assistance- for example, site selection, training programs, standard operating procedures, design of physical layout, and advertising- to the franchisee, and the franchisee agrees to run the business according to the franchisor's stipulations. The franchisor typically exercises substantial control over the franchisee. Reliance upon clauses that permit unilateral termination by the franchisor as well as strict performance criteria make the relationship resemble an employer-employee contract (Rubin, 1978), although the control of franchisors over franchisees has been reduced somewhat by legal decisions in recent years (Klein, 1980).

But there are almost in the form of hybrid types that include elements of both firms and markets in Korea. As they are severely managed by contract (because franchisor can be denied renewal) as well as pay royalties, purchase specific inputs from the franchisor.

2.2. Franchisor's leadership style

Leadership style adopted by the study based on the path-goal theory developed by House (1971) is one theory of leadership which has attempted to situationally define leadership behavior and its effect on subordinate behavior and attitudes. According to Downey et al (1975), House's path-goal theory of leadership effectiveness posited that the motivational functions of a franchisor are to: (a) assure the subordinates' personal rewards for accomplishing work goals by clarifying the paths to their desired rewards and removing roadblocks to successful work performance, and (b) improve the opportunities for work satisfaction en route by showing consideration and support for the franchisees.

According to Northouse (1994), for each of the leadership style is as follows.

Directive leadership characterizes a leader who gives subordinates instructions about their task, including what is expected of them, how it is to be done, and the time line for when it should be completed. A directive leader sets clear standards of performance and makes the rules and regulations clear to subordinates.

Supportive leadership consists of being friendly and approachable as a leader and includes attending to the well-being and human needs of subordinates. These leaders using supportive behaviors go out of their way to make work pleasant for subordinates. In addition, supportive leaders treat subordinates as equals and give them respect for their status.

Participative leadership consists of inviting subordinates to share in the decision making. A participative leader consults with subordinates,

obtains their ideas and opinions, and integrates their suggestions into the decisions about how the group or organization will proceed.

Achievement-oriented leadership is characterized by a leader who challenges subordinates to perform work at the highest level possible. This leader establishes a high standard of excellence for subordinates and seeks continuous improvement. In addition to expecting a lot from subordinates, achievement-oriented leaders show a high degree of confidence that subordinates are capable of establishing and accomplishing challenging goals. House and Mitchell (1974) suggested that leaders may exhibit any or all of these four styles with various subordinates and in different situations.

This concept applies that franchisors should not formalized their leadership style because their business situation is also change as shown PLC(Product Life Cycle)(Vernon, 1966) and small-group development (Tuckman, 1965).

2.3. Leader-follower relationships and role of follower attributions

The relationships performed by leadership include various situations (e.g., decision-making, goal-setting, etc) often need some delegation to followers, which reveals the interlocking system of relationships between leaders and followers, and their commonly desired characteristics (Hollander & Webb, 1955; Kouzes & Posner, 1987). And leadership also operates within constraints and opportunities that are presented by followers (Stewart, 1982). The constraints include the expectations and perceptions of followers which can influence leaders (Hollander, 1985, 1986; Lord & Maher, 1990).

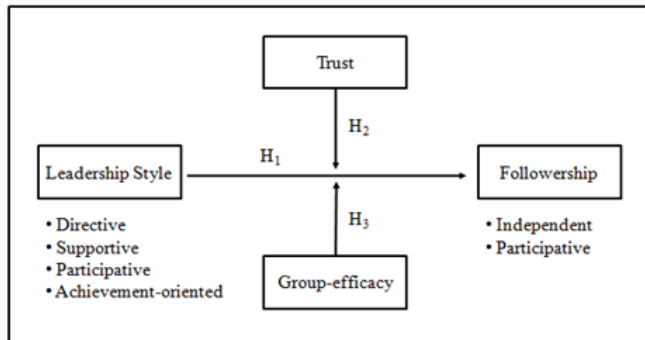
According to Hollander (1992), given their need for mutual responsiveness, leadership and followership can be considered to be reciprocal systems requiring synchronization. Leadership is usually seen as the more active system, but followership can be proactive, not only reactive, as seen especially in social movements. Empowerment in some sectors of activity would be another instance of giving followership a more proactive role, as an accompaniment to leadership in the traditional directive mode. Follower attributions about leaders affect followers' responses to and relations with their leader. These are affected by the leader's perceived attributes, including his or her competence, motivation, and personality characteristics, as related to followers and the prevailing situation (Hollander, 1992). Lord and Maher (1990) consider these perceptions to be checked against prototype held by followers of leader attributes, such as intelligence and expectations of how leaders should perform. In this feature of leadership, follower perceptions are seen as the key linking past performance and future performance, as part of the greater attention now to cognitive elements in leader-follower relations (Hollander, 1992).

Therefore, in the franchise system, the relationship between franchisor's leadership style and franchisee's followership is very important. Especially, level of franchisee's trust and their perceived group efficacy will be positive impact for their integration.

3. Research Model and Hypotheses

3.1 Research Model

Figure 1 illustrates the research model of this study. In this model, it was hypothesized that franchisor's leadership styles affect the franchisee's followership. And perceived franchisee's trust and group-efficacy moderated between franchisor's leadership and franchisee's followership, respectively.



<Figure1> Research Model & Hypotheses

3.2 Hypotheses

Theoretically, the path-goal approach suggests that franchisors need to choose a leadership style that best fits the needs of franchisees and the work they are doing. According to House and Mitchell (1974), the theory predicts that a directive style of leadership is best in situations in which franchisees are dogmatic and authoritarian, the task demands are ambiguous, and the organizational rule and procedures are unclear. In these situations, directive leadership complements the work by providing guidance and psychological structure for franchisees. For work that is structured, unsatisfying, or frustration, path-goal theory suggests that leaders should use a supportive style. Supportive leadership offers a sense of human touch for subordinates engaged in mundane, mechanized activity. Participative leadership is considered best when a task is ambiguous because participation gives greater clarity to how certain paths lead to certain goals; it helps franchisees learn what leads to what. Furthermore, path-goal theory predicts that achievement-oriented leadership is most effective in settings in which franchisees are required to perform ambiguous tasks. Hypotheses are shown in Figure 1.

4. Methods

4.1. Data and Sample

Participants from 86 chicken franchise companies on the food service industry were surveyed. A total of 237 participants (132 males and 105 females; Age $M = 42.7$, Business record $M = 45.09$ month, Supervisor's monthly visit $M = 2.08$) took part in this study.

4.2. Self-Report Measures

Leadership style was measured 20 item 7-point likert scale developed by Indvik (1985), followership was measured 20 item 7-point likert scale based on Kelly (1994), considering the Korean situation modified by Song & Shim (2007), group-efficacy was measured 7 item 7-point likert scale developed by Riggs & Knight (1994), trust was measured 15 item 5-point likert scale developed by Lewicki & Bunker (1996).

5. Results and Discussion

Results of multiple regression analyses for the relationship between franchisor's leadership style and franchisee's followership shows that the relationship between supportive leadership style and independent followership ($\beta = .27, p < .05$) was only significant. This result interpreted that they do not accept the franchisor's decision without their own independent evaluation of its soundness (Kelly, 2008).

However, the relationship between supportive leadership style and participative followership ($\beta = .44, p < .001$), participative leadership style and participative followership ($\beta = .20, p < .05$) was significant, respectively. These results interpreted that they are positive, and always in franchisor's side, and if franchisors asks them to do something (e.g., supportive and participative), they've got the energy, and they'll go forward with it (Kelly, 2008)

In this study, it was predicted that franchisees' perceived group-efficacy and trust would moderate the relationship between franchisor's leadership style and franchisee's followership. Results of multiple regression analyses shows that group-efficacy was significantly moderated between participative leadership style and independent followership ($\beta = .27, p < .05$), achievement-oriented leadership style and independent followership ($\beta = -.30, p < .05$), respectively. But trust was not significantly moderate the relationship between every leadership style and independent followership, respectively.

Compared with independent followership, the results of multiple regression analyses shows that group-efficacy was marginally significantly moderated between directive leadership style and participative followership ($\beta = .23, p = .058$), achievement-oriented leadership style and participative followership ($\beta = -.18, p = .053$), respectively. And trust was only significantly between directive leadership style and participative followership ($\beta = -.31, p < .05$).

These results indicate that due to the franchisor's coercive leadership style lead to franchisee's distrust (e.g., trust was significantly moderate between directive leadership style and participative followership, but the result of Beta was shown negative effect. The result of group-efficacy was showed similar patterns, too).

6. Conclusions

This study has been conducted by focusing franchisor's leadership style, franchisee's followership, group-efficacy and their trust in order to achieve positive integration of the franchise system.

The key results of empirical examination on the moderating effect

of group-efficacy and trust between leadership style proposed by Path-Goal Theory and followership has been found as follows.

First, franchisors should be showed their leadership style to fit their mutual business and franchisee's situation as concept of a "life cycle" model (Gibbard & Hartman,1973), Product Life Cycle (Vernon, 1966) and small-group development (Tuckman ,1965).

Second, Franchisors and franchisees will be found many ways to increase level of franchisee's group-efficacy. Because of group-efficacy is a group's belief in its ability to perform effectively (Lindsly et al, 1995).

Third, Franchisors will be obtained trust from their own franchisees. For this reason, Morgan and Hunt (1994) conceptualized trust as existing when one party has confidence in an exchange partner's reliability and integrity. And trust is defined as a willingness to rely on exchange partner in whom one has confidence (Moorman et al, 1993).

Therefore, these efforts will be given high level of franchisees' trust and group-efficacy. As a result, positive integration of the franchise system will be increase competitiveness (e.g., profit, productivity and profits, and decrease their conflicts.

Received: July 28, 2011.

Revised: September 01, 2011.

Accepted: September 10, 2011.

References

- Coase, R. H. (1937), "The nature of the firm", *Economica*, 4(November), 386-405.
- Dowbey, H. K., Sehridan, J. E. & Slocum JR, J. W (1975), "Analysis of relationships among leader behavior, subordinate job performance and satisfaction: A path-Goal Approach", *The Academy of Management Journal*, 18(2)(Jun), 253-262.
- Gibbard, G. & Hartman, J. (1973), "The Oedipal paradigm in group development: A clinical and empirical study", *Small Group Behavior*, 4(3), 305-349.
- House, R. (1971), "A Path-Goal Theory of Leader Effectiveness", *Administrative Science Quarterly*, 16, 321-338.
- House, R. J. & Mitchell, T.R. (1974), "Path-goal theory of leadership". *Journal of Contemporary Business*, 3,81-97.
- Indvik, J. (1985), A path-goal theory investigation of superior subordinate relationships, Unpublished doctoral dissertation, University of Wisconsin-Madison.
- Kaufmann, P.J. & Dant, R. P. (1998), "Franchising and the Domain of Entrepreneurship Research", *Journal of Business Venturing*, 14, 5-16.
- Kelley, R. E. (2008), Rethinking followership. In B. Shamir, R. Pillai, M. C. Bligh, & M Uhl-Bein (Eds), *Follower-Centered Perspectives on Leadership: A Tribute to the Memory of Fames R.Meindl* (pp.5-15). Greenwich, CT: Information Age Publishing.
- Klein, B. (1980), "Transactions cost determinants of "unfair" contractual arrangements", *American Economic Review* (May): 356-62.
- Lafontaine, F. (1992), "Agency theory and franchising: some empirical results", *RAND Journal of Economics*, 13(2), 263-282.
- Lewicki, R. J. & Bunker, B. (1996), *Developing and maintaining trust in work relationships*. In: Kramer, T., Tyler, T. (Eds.), *Trust in Organizations: Frontiers of Theory and Research*. Sage, Newbury Park, CA, 114-139.
- Lindsley, D. H., Brass, D. J. & Thomas, J. B. (1995), "Efficacy-performance spirals: A multi-level perspective", *Academy of Management Review*, 20, 645-678.
- Lutz, N. A.(1995), "Ownership rights and incentives in franchising", *Journal of Corporate Finance*, 2(1-2), 103-131.
- Moorman, C., Deshpandé, R. & Zaltman, G. (1993), "Factors Affecting Trust in Market Research Relationships", *Journal of Marketing*, 57(January), 81-101.
- Morgan, R. & Hunt, S. D. (1994), "The commitment-Trust Theory of Relationship Marketing", *Journal of Marketing*, 58(July), 20-38.
- Northouse, P. G. (1974), *Leadership Theory and Practice*, SAGE Publications,127-149.
- Norton, S. W. (1988), "An Empirical Look at Franchising as an Organizational Form", *Journal of Business*, 61(2), 197-218.
- Riggs, M. L., & Knight, P.A. (1994), "The impact of perceived group success-failure on motivational beliefs and attitudes : A causal model", *Journal of Applied Psychology*, 79, 755-766.
- Rubin, P. (1978), The Theory of the firm and the structure of the franchise contract, *Journal of Law and Economic*, 21 (April), 223-233.
- Song, G.W., & Shim, W. S. (2007), "A Study on The Relationship Between Mentoring Functions and Organizational Effectiveness: Moderating Effect of Followership", *The Korean Journal for Human Resource Development*, 9(1), 77-95.
- Tuckman, B. W (1965), "Developmental sequence in small groups", *Psychological Bulletin*, 63(6), 384-399.
- Vernon, R. (1966), "International Investment and International Trade in the Product Cycle", *Quarterly Journal of Economics*, 80 (May), 190-207.
- Yang, H.C., & Lee, Y. C (2010), "An Empirical Study in Relationship between Franchisor's Leadership Behavior Style and Commitment by Focusing Moderating Effect of Franchisee's Self-efficacy", *Journal of Channel and Retailing*, 15(1), 49-65.