

A Study of Fast-Food Franchising as a Popular Business Model in the South African  
Dining Landscape

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Research Report

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*I hereby declare that the Research Report submitted for the IIE BCom Honours in Management degree to The Independent Institute of Education is my own work and has not previously been submitted to another University or Higher Education Institution for degree purposes.*

## Abstract:

The franchise business model is popular among businesses operating in the South African dining landscape. Franchise fast-food outlets have grown in numbers and potential exists for these numbers to grow further. Both local and international businesses haven chosen to use the franchise model in the operations of their businesses in the South African dining landscape. Various factors contribute to the popularity of the franchise model.

This research report explores the various factors which promote franchising as a popular business model. Challenges to the franchise model are identified and discussed. The nature of the relationship between franchisee and franchisor is explored. Using Agency Theory (Brickley, Dark and Weisbach, 1991), this research study identifies and explores the factors which promote franchising as a popular business model, whilst attempting to understand the relationship between franchisee and franchisor.

From an interpretivist paradigm, the study follows the phenomenological research tradition. This was used in order to understand the reasons contributing to the popularity of the franchise model in the fast-food industry as a phenomenon. The data collection method used was semi-structured interviews. The data analysis method was thematic analysis as well as using inductive reasoning to explore the research questions.

The findings of the study showed the reasons why business owners chose to own a franchise business. The reasons were the existing business model which accompanies a franchise business and the effective support services provided by the franchisor. These have been identified as the factors promoting the attractiveness of the franchise model. Conflict between franchisee and franchisor, and business challenges facing franchise businesses are challenges to the franchise model. The franchisee-franchisor relationship has been identified as not being mutually-beneficial to a large extent to a large extent.

## Introduction:

### Contextualisation:

The prominence of franchise fast-food outlets in the South African market is evidenced by the number of outlets operating in shopping malls and service stations across South Africa. The top 10 fast-food franchises in South Africa have over 3600 active outlets (SME South Africa, 2014a). The continued successes of local franchise groups such as the Famous Brands Group, which includes two of the top five franchises in South Africa namely, Steers and Debonairs (SME South Africa, 2014a), has reflected the increased popularity of the franchise as a business model.

International franchises such as Burger King, Dominos and Starbucks have all opened outlets in South Africa for the first time, along with Pizza Hut, who have re-entered the South African market after an absence of 10 years (SME South Africa, 2015b). Famous Brands are planning to open an increasing number of outlets year on year (Finweek, 2014).

Various factors have contributed to the popularity of the franchise model. These factors require investigation in order to determine why franchising is a popular business model. The analysis will empower business owners and the strategic management of firms with knowledge on selecting a relevant and effective business model, in relation to their own businesses.

### Rationale:

The study has the primary intention of understanding the franchise model comprehensively, in terms of its benefits and challenges. This intention can inform and influence the decisions made by the strategic management and ownership of firms in the selection of an appropriate business model.

Franchising as a business model is very popular, and is considered viable for entrepreneurs to use to purchase their own businesses. Business owners and

operators need a clear and distinct understanding of the options available to them for the expansion and growth of their businesses and business interests. Therefore, having a comprehensive understanding of one of the most viable and popular business models is extensively relevant to the strategic management of any organisation.

With a clear understanding of different business models, business owners can select a model suited to their business needs and goals, thus ensuring movement towards optimum performance and the desired financial results.

Strategic Management can be defined as “Being concerned with the overall effectiveness and choice of direction in a dynamic, complex, and ambiguous environment.” (Louw and Venter, 2013). Understanding and choosing the correct business model is relevant to the strategic management and ownership of firms (Louw and Venter, 2013). Choosing to use the franchise model as part of a business strategy can be considered as a choice of direction for the organisation.

The research study aims to add to the current existing body of knowledge, which could further empower entrepreneurs to use franchising as a business model to grow their business ambitions. The strategic management of firms are required to make critical decisions regarding the business model the firm will use, how the firm plans to expand and the overall direction of the firm. Comprehensive knowledge of the franchise model will provide the platform for the strategic management of organisations to build a sound understanding of a potentially successful option as a business model.

Problem Statement:

Fast-food franchising in South Africa is fast-growing and has already proven to be both popular and successful in the South African market (SME South Africa, 2014). The world's biggest fast-food franchises are opening in South Africa at a steady rate (Businessstech, 2016). Fast-food franchising is popular in South Africa, and various reasons have contributed to this growing popularity.

Business format franchising is attractive to potential entrepreneurs owing to their growth, financial strength and low failure rates (Cavaliere and Swerdlow, 1988). The franchise model offers advantages such as achieved business efficiency and economies of scale (Kavaliauske and Vaiginiene, 2011). The franchise model does however have certain distinct disadvantages. Conflict between franchisee and franchisor may deter entrants into the franchise model (Brickley, Dark and Weisbach, 1991). Substantial previous research supports the notion of the franchise model offering many advantages to franchisees, however the potential exists for conflict within the franchisee-franchisor relationship.

Various factors have contributed to the popularity of franchising increasing, therefore these factors are required to be investigated and defined in order to determine the reasons as to why franchising is a popular business model in the South African dining landscape. Whilst the franchise model is popular, the disadvantages and challenges associated with the model must also be considered.

#### Purpose Statement:

The purpose of this study is to explore the factors contributing to the popularity of the franchise business model in the South African fast-food dining landscape for a research report, using a phenomenological design. The result will be a discussion of the themes which are potential contributors to the popularity of the franchise model in South Africa. These themes have been identified as the advantages and challenges associated with the franchise model and the relationship between franchisee and franchisor.

At this stage in the research, the study of fast-food franchising as a popular business model in the South African dining landscape will be defined generally as a study of the

reasons contributing to the popularity of franchising as a popular business model in the South African fast-food dining landscape.

#### Research Objectives:

To explore the various factors which promote franchising as a popular business model.

To explore the various challenges that the franchise model presents

To what extent is the relationship between franchisee and franchisor mutually-beneficial.

#### Research Questions:

What are the factors that promote the attractiveness of franchising as a business model for business owners?

What are the challenges to the franchise model?

Is the relationship between franchisee and franchisor mutually-beneficial?

#### Literature Review:

#### Theoretical Foundation:

The theoretical foundation of the research study lies in two theories, namely, Agency Theory of Franchising by Brickley, Dark and Weisbach (1991) and Resource Scarcity Theory (Combs and Ketchen, 1999). These theories will be used to provide an explanation for the success of the franchise model. Previous research into the franchise model has consistently utilised either Agency Theory (Brickley, Dark and Weisbach, 1991) or Resource Scarcity Theory (Combs and Ketchen, 1999) as the rationale for the existence of the franchise model. In this research study, both theories will be utilised primarily owing to the validity of both arguments, and to provide a more comprehensive understanding of the franchise model.

Theory 1: Agency Perspective on Franchising (Agency-Cost Explanation) (Brickley, Dark and Weisbach, 1991)

Brickley, Dark and Weisbach (1991) developed the Agency Theory from a franchising perspective to explain the relationship between the franchisee and franchisor. In a typical franchise agreement, the franchisee purchases the rights to the profits generated by a particular business via the payment of an initial joining fee (upfront fee) and further ongoing royalty fees generated from sales, which are then paid to the franchisor (Brickley, Dark and Weisbach, 1991). The franchisee then has the right to the utilisation of the trademark and operations procedures which accompany the brand itself, at a specific outlet and its location (Brickley, Dark and Weisbach, 1991). A franchise agreement includes the rights of franchisees to the choices of outlet advertising and hiring of employees (Brickley, Dark and Weisbach, 1991).

The franchisor therefore has the right to constantly monitor the franchisee, in terms of their output quality, and their maintenance of the value of the brand (Brickley, Dark and Weisbach, 1991). The Agency relationship develops when the franchisee performs activities contrary the quality standards of the franchisor, such as using lower-quality goods (Brickley, Dark and Weisbach, 1991). This reduces the quality of output and damages the franchisor's reputation. However, the franchisee gains financially in cost-saving (Brickley, Dark and Weisbach, 1991). The interests of both parties diverge in the relationship and results in conflict between franchisee and

franchisor, and such conflict results in the poor performance of the franchise outlet (Brickley, Dark and Weisbach, 1991).

Agency Theory (Brickley, Dark and Weisbach, 1991) is relevant to the study, as it offers an explanation of how the franchise model functions. Agency Theory (Brickley, Dark and Weisbach, 1991) can influence the opening of more franchise modelled businesses, as the relationship between franchisee and franchisor is critical to the success of the business. New outlets may not open owing to negative reviews of the franchisee-franchisor relationship. Entrepreneurs may possibly choose not to invest into a franchise system owing to the possibility of a negative relationship with potential franchisors, furthermore discouraging the franchising business model. However, successful relationships between principal and agent will promote the popularity of franchising extensively.

If the relationship between franchisor and franchisee is positive, (both parties enjoy positive returns) this can promote franchise model to business owners. As a result of this, business owners may then choose to purchase a franchise business.

This theory is critical to the research, as the research investigates the popularity of the franchise business model. Agency Theory (Brickley, Dark and Weisbach, 1991) proposes a possible reason why franchises may not be selected to be used as a business model, owing to the conflict in the relationship between franchisee and franchisor.

#### Theory 2: Resource Scarcity Theory (Combs and Ketchen, 1999)

The Resource Scarcity Theory was developed by Combs and Ketchen in 1999 in order to explain why firms choose to franchise. The theory was developed in order to establish the reasons why some firms use the franchise model to grow their business by having owner-operated outlets. The theory places emphasis on the scarcity of resources (capital) which firms have with their single, or small number of outlets. Resource Scarcity Theory (Combs and Ketchen, 1999) offers an explanation of why the franchise model exists.

Franchisees provide capital to firms (franchisors) through the up-front fees and investments in multiple outlets of the franchise, in multiple locations (Combs and Ketchen, 1999). Franchisee capital is less costly in comparison to investment from debt from loans and investment in equity markets (Combs and Ketchen, 1999). Franchising is a low-cost capital option for firms to utilise to build capital (Combs and Ketchen, 1999). Franchisees have direct control of their investment into franchises, through abiding with the franchise agreement, resulting in the franchisor not incurring the costs of division of control and ownership (Combs and Ketchen, 1999). This confirms that the franchise model is a low-cost option for franchisors to gain capital. Firms with scarce resources (capital) therefore utilise franchising as a business model to increase capital reserves, by selling outlets to franchisees and therefore gaining capital from their investments and up-front fees.

Resource Scarcity Theory (Combs and Ketchen, 1999) can be considered a seminal and foundational source, because it offers reasons as to why the franchise model exists, as well as how the model operates. The study aims to build understanding of why franchising is a popular business model. Resource Scarcity Theory (Combs and Ketchen, 1999) provides reasoning as to why certain organisations choose to franchise their businesses. Resource Scarcity Theory (Combs and Ketchen, 1999) offers reasoning of why the franchise model is popular from the franchisor's perspective, rather than why franchisees choose to purchase franchises. The franchise model may perhaps be a popular business model owing to it being a more effective method for franchisors to receive investment income, and to grow their brand. The theory provides a foundational understanding of why the franchise model exists, which is required in order to ensure a full understanding of the model. The theory provides an alternative to other reasons for the popularity of the franchise model, and is valuable to the research. Resource Scarcity Theory (Combs and Ketchen, 1999) provides valuable information into building understanding why franchising is a popular business model.

#### Contextual Literature:

Three distinct themes have been identified from the literature researched for the intention of exploring what research has already been conducted in the research of why the franchise model is popular in the South African dining landscape. From this research, it can also be identified what gaps exist in the previous literature and research done in the area of study.

#### Benefits of the Franchise Model:

Previous research has emphasised the benefits the franchise model offers franchisors who offer the sale of a franchise model. The franchise model offers franchisors various advantages, namely, the franchisor establishes its presence in the market place using the investment and capital gained from franchisees, rather than using their own capital (Cavaliere and Swerdlow, 1988). Initial franchise start-up fees paid by franchisees pays for the support facilities (training and development) and it may constitute a profit to the franchisor. The franchisor is allowed to a gain a control of the market for the goods they produce, as it can be stipulated that the franchisee must use the franchisor as a supplier of goods (Cavaliere and Swerdlow, 1988). Kavaliauske and Vaiginiene (2011) also argue that the franchise model offers the creator (franchisor) advantages such as faster market penetration with lower costs and increased market share and brand value. Initial responsibility of outlet location and employee selection is transferred to the franchisee (Kavaliauske and Vaiginiene, 2011).

Cavaliere and Swerdlow's (1988) information is older, however it can be considered as a seminal source. Cavaliere and Swerdlow's (1988) information provides the foundational advantages which have contributed to the rise in the popularity of the franchise business model. The source is valuable, as it provides information on why franchisors choose to franchise their businesses, providing reasons for the popularity of the franchise model from the perspective of the franchisor. The sources do however have limitations, as it does not provide advantages of franchising, from the franchisee perspective. Kavaliauske and Vaiginiene (2011) offer different advantages to the franchisor, however, they can be considered as effective updated advantages from Cavaliere and Swerdlow's (1988) foundational advantages. While Cavaliere and Swerdlow (1988) outline advantages to the franchisor from the perspective of cost saving and capital gain from the franchisor's perspective, Kavaliauske and Vaiginiene

(2011) focus on advantages to the franchisor based on increased efficiency and exposure of their brands by the use of the franchise model. From this comparison, it can be identified that previous research of an older nature was highly focused on purely financial benefits of the franchise model to franchisors, however, more recent research of the franchise model has identified other advantages of the model to franchisor based on increased efficiency in growing the brand sold by the franchisor.

Previous research has identified the advantages offered to franchisees who purchase into a franchise model sold by a franchisor. Van Aardt (2014) identified that franchisees benefit from purchasing into a franchise model through various advantages such as a reduced capital outlay with increased profits, ongoing advice, research, training and development, increased success rates, brand awareness from consumers, existing infrastructure services and an exit strategy. These advantages are valuable to the research, due to providing possible reasons as to why business owners elect to purchase into a franchise model, thus potentially providing reasons for the popularity of the model, from the franchisee's perspective.

Zeidman (2003) argues that franchising is a low-risk method of developing a business. Various opportunities exist in franchising, and fast-food franchise systems have a material growth curve, largely owing to the increasing number of retail shopping malls being developed and opening across the country (Zeidman, 2003). Zeidman's (2003) analysis contributes to the knowledge of the benefits of the franchise model. Zeidman's (2003) analysis can be interpreted from both the franchisee and franchisor perspective, offering a wider perspective of the benefits of the model.

Van Aardt's (2014) advantages offers a contrasting perspective to the benefits of the franchise model in comparison with Cavaliere and Swerdlow's (1998) and Kavaliauske and Vaiginiene (2011) franchisor's advantages, as Van Aardt (2014) states from the franchisee's perspective. The combination of the franchisor and franchisee perspective from previous research provides the study with various benefits of the franchise model. These benefits of the model can be seen as contributing to the popularity of franchise model, and forming part of the factors which are promoting the attractiveness of the franchise model.

## Challenges to the Franchise Model:

Substantial previous research into the franchise model has identified disadvantages and risks associated with the franchise model. These factors are the challenges of the franchise model.

Zeidman (2003) argues that owing to an upswing in the interest of franchising, under-informed, under-funded and unscrupulous franchisors entered the South African marketplace. The biggest risk associated with the franchising business model (in a South African context) is franchisees signing franchise agreements with unscrupulous franchisors, which will result in a loss of investment for the franchisees (Finweek, 2008). Such a risk provides a perspective that the franchising model offers various challenges to business owners, in the form of franchisors who only seek to gain capital from franchisees, without providing anything in return (Finweek, 2008). Van Aardt (2014) states that franchise agreements with franchisors are often vehicles for fraud and franchisors often do not honour their commitment as franchisors in terms of support structures. Zeidman's (2003) and Finweek's (2008) information is valuable to the area of research, despite its age, owing to it being specific to a South African context. Little research has occurred specifically into the South African franchise industry, which has resulted in large parts of the literature coming from Asian and American perspectives. The combination of Finweek's (2008), Van Aardt's (2014) and Zeidman's (2003) views provide a perspective of the risks faced by franchisees when dealing with franchisors. This combined perspective is valuable to the research as it provides a challenge of the franchise model in the form of risk from dealing with unscrupulous franchisors.

Van Aardt (2014) identified various disadvantages of the franchise model. These disadvantages provide various challenges of being a franchisee. The franchisor places restrictions on the franchisee in terms of the products or services offered, including the pricing of both (Van Aardt, 2014). Considered as the most critical restriction, the franchisor can restrict the geographic territory of the franchise outlet (Van Aardt, 2014). The duration of the franchise agreement can be limited, and the franchisee can have little influence over this (Van Aardt, 2014). The franchise brand purchased by the franchisee is not always valuable owing to customer dissatisfaction, rather than

product and service quality (Van Aardt, 2014). Van Aardt's (2014) disadvantages provide various challenges of the franchise model, from the franchisee's perspective. Such disadvantages are valuable to the research, as they offer challenges of the model.

Van Aardt's (2014) disadvantages do not however consider any challenges of the model from the franchisor's perspective.

Challenges of the franchise model are evident from previous research. Franchisees may potentially deal with unscrupulous franchisors, which is a major risk facing franchisees (Finweek, 2008; Van Aardt 2014; Zeidman; 2003). Various disadvantages of being a franchisee also provide challenges of the franchise model (Van Aardt, 2014).

Conflict:

Conflict between franchisees and franchisors has been identified by previous research as a drawback of the franchise model.

Brickley, Dark and Weisbach (1991) identified that a conflicted agency relationship develops between franchisee and franchisor when each party's interests are not aligned. In event of franchisees using inferior quality goods in operations of the franchise, the franchisor's brand reputation gets damaged, whilst the franchisee enjoys cost saving measures. This event ultimately results in a conflicted franchisee-franchisor relationship (Brickley, Dark and Weisbach, 1991). In a study of the relationship between franchisees and franchisors in India conducted by Soni and Trivedi (2016), findings showed that 47% of franchisees had disagreements with their franchisors within a year of the franchise agreement inception. Soni and Trivedi (2016) also found that 20% of franchisees had disagreements with their franchisor within two years. Lee, Khan and Ko (2010) conducted a study of South Korean franchisees, and identified that a critical success factor of the franchise model lies in the health of the contract and relationship between franchisee and franchisor. If the relationship between franchisee and franchisor is conflicted, it can negatively impact on the success of the franchise outlet (Lee, Khan and Ko, 2010).

It is evident from past research that the franchise model contains the possibility of a conflicted relationship between franchisee and franchisor, and that a conflicted relationship results in the poor performance of the franchise unit. Brickley, Dark and Weisbach's (1991) research is a seminal source of the franchisee-franchisor relationship, and how the relationship is a challenge of the franchise model, as it revolves around Agency Theory. Soni and Trivedi's (2011) and Lee, Khan and Ho's (2010) respective studies show that a conflicted relationship between franchisee and franchisor is a reality amongst franchisees today. Both research studies do not provide a South African context, but are valuable because they offer an understanding of the franchise model at a generic level, showing that challenges of the franchise model are a reality in large economies such as India and South Korea. These sources provide valuable information of conflict inherent in the franchise model.

Previous research also explores the reasons contributing to conflict in the franchise model. Baucus, Davis-Sramek, Germain and Meek (2011) state that variability in the operations of the franchise outlet is a cause of conflict between franchisee and franchisor. Variability also comes from the franchisor when franchisors attempt to implement system-wide changes, franchisees often resist these changes in the interest of profit-making (Baucus et al., 2011). Lee, Khan and Ho (2011) previously mentioned that disagreements in the contract between franchisee and franchisor results in a conflicted relationship. Roh (2000) expanded on this point by stating that higher royalty rates in the contract, as a result from lower monitoring rates, between franchisee and franchisor is an influential contributor to a conflicted relationship between franchisee and franchisor.

Baucus et al. (2011) and Roh (2000) provide different reasons for conflict in the franchisee-franchisor relationship, but contribute effectively to the discussion of the franchisee-franchisor relationship being an influential factor of the franchise model. The reasons for conflict from Baucus et al. (2011) and Roh (2000) provides factors contributing to a conflicted relationship and can be considered as factors which may reduce the popularity of the franchise model.

A conflicted franchisee-franchisor relationship is thus a prominent factor of the franchise relationship (Brickley, Dark and Weisbach, 1991; Soni and Trivedi, 2011; Lee, Khan and Ho, 2010). The factors contributing to the conflicted relationship are also disadvantages and challenges of the franchise model (Baucus et al., 2011 and Roh, 2000).

### Conclusion:

Large segments of previous research have focused on the various advantages the franchise model offers the franchisors of businesses. Research has also produced various advantages offered to franchisees from the use of the franchise model. It appears that literature in the area of study leaned towards a notion of the franchise model providing more benefits to the franchisor, than to the franchisee.

Research into the franchise model has produced a core challenge of the model, a conflicted relationship between the franchisee and franchisor. The research also supports that a conflicted franchisee-franchisor relationship negatively effects the performance of the franchise outlet. When business owners purchase into a franchise model, the primary challenge facing franchisees is a potentially conflicted relationship with their franchisors. Other challenges are also emergent from the franchise model, in the various disadvantages of being a franchisee.

The various benefits associated with the franchise business model can be considered as the reasons contributing to the popularity of the franchise model in the South African dining landscape.

### Conceptualisation:

1. Franchise: "A contract granted by a national or regional chain allowing one the exclusive right to operate one of their outlets within a specified area, based upon payment of an initial fee or a percentage of gross sales, usually with the parent

company furnishing equipment, supplies, merchandising and advertising.” (Cavaliere and Swerdlow, 1988)

The term, franchise, will be used to refer to the actual outlets which presently exist. The research is focused on franchises, not single businesses, thus the term franchise is integral in the research topic, as it determines the type of business which the focus is on.

2. Franchisor: “The franchisor is a parent company that has developed some product or service for sale.” (Rubin, 1978: p.224 as cited by Hoy and Stanworth, 2003)

Reference to the franchisor will occur frequently in the research, owing to the importance of the franchisor. The franchisor is the central figure within the franchise model.

3. Franchisee: “A franchisee is granted the right to engage in the business of offering, selling, or distributing goods or services under a marketing plan or system prescribed in substantial part by a franchisor.” (Sherman, 2004)

The term “franchisee” will be utilised frequently in the research, owing to the nature of whom the franchisee is. As the franchisee is the investor in the franchise, he/she, it could be argued is the second most important figure in the franchise model. In context of the research topic, the franchisee will be integral, as the topic seeks to investigate what seemed attractive to franchisees for them to seek to purchase a franchise business.

4. Royalty: “A management service fee (sometimes referred to as a royalty) paid for the right to use the franchisor’s name and for the latter to provide ongoing management–support services such as training, advice, guidance, marketing strategy, an operations manual, and research – the fee is frequently computed as a percentage of turnover on a pre-determined regular and ongoing basis, and less frequently as a percentage of the purchases or indeed a fixed monthly fee.” (Van Aardt, 2014)

As an integral factor in the success or failure of a franchise, the royalty fee will be referred to frequently in the research. Understanding the concept royalty fees paid franchisees to franchisors will be integral in understanding the challenges of the model.

5. Franchise Agreement: "...one lasting for a definite or indefinite period of time in which the owner of a protected trademark grants to another person or firm, for some consideration, the right to operate under this trademark for the purpose of producing or distributing a product or service." (Caves and Murphy, 1976: p.572 as cited by Hoy and Stanworth, 2003).

Recurring reference to the franchise agreement will be made in the research in context of the agreements which are made between franchisee and franchisor in order to establish the purchase, operations and monitoring of a franchise business.

### Research Design and Methodology:

#### Research Paradigm and Approach:

The research approach was of a qualitative nature. When a research study has the objective to build understanding and explore certain behaviours, trends and

phenomena, it is considered as qualitative research (Davis, 2014a). The phenomenon identified is the popularity of the franchise model within the South African dining landscape. The aim of the research study was to build an understanding of the phenomena, and explore the factors contributing to it.

The research paradigm of the study was from an interpretivist viewpoint. The Interpretivist paradigm was developed to build understanding of why certain phenomena occur (du Plooy-Cilliers, 2014 and Nieuwenhuis, 2016). The aim of interpretivism is to gain an in-depth understanding of a certain subject (du Plooy-Cilliers, 2014). Interpretivism is the relevant paradigm to the research study because the research was a study of the contributing factors to a certain phenomenon. The research has identified the popularity of franchising as a business model in South Africa as the phenomenon, furthermore, the aim of the research is to build an understanding of the factors contributing to the phenomenon.

Interpretivism was relative to the research study because of the nature and the primary aim of the study to build an understanding of the factors contributing to the popularity of franchising in South Africa as a phenomenon.

#### Methodological Design:

The design of the research study was of a qualitative nature. When a research study has the objective to build understanding and explore certain phenomena, it is considered as qualitative research and requires qualitative research methods in order to meet such objectives (Davis, 2014b and Nieuwenhuis, 2016). Such methods to conduct qualitative research include the researcher performing in-depth interviews, observing participants and/or textual analysis (Davis, 2014b and Nieuwenhuis, 2016). The research study entailed the interview of various franchisees, in order to gain an in-depth understanding of why the franchise model was chosen amongst such business owners. The research study aimed to interpret the understanding of certain trends (popularity of franchising businesses) by understanding the factors contributing to the model's popularity. The research study was centered on providing an understanding of the popularity of the franchise business model, which is thus developing an understanding of a certain phenomenon, henceforth the research study

can be regarded as being qualitative in nature. The research design encompassed the interpretivist paradigm, because it aimed at identifying factors contributing to a phenomenon. With the utilisation of such research methodology, the researcher was able to gain an in-depth understanding of the phenomenon, which is the essence of qualitative research and interpretivism.

#### Phenomenology:

The study followed phenomenology research tradition. Phenomenology focuses on understanding the essence of experiences of a phenomenon (Nieuwenhuis, 2016). The research study aimed to understand the reasons contributing to the popularity of the franchise model. The research was therefore phenomenology as the research aimed to understand the reasons contributing to a phenomenon.

#### Inductive Reasoning:

The research followed an inductive line of reasoning. When applying inductive reasoning, theoretical concepts are inferred from the data collected in the research study (Bezuidenhout, 2014). By following inductive reasoning, the research study moved from specific to general assumptions and applied the findings of the study to the theoretical foundation and literature (Bezuidenhout, 2014).

During the analysis of the data, the researcher did not perform analysis by identifying codes and themes using Agency Theory (Brickley, Dark and Weisbach, 1991) and Resource Scarcity Theory (Combs and Ketchen, 1999). Codes and themes were generated from the data and was then applied to the theoretical foundation and of the research study. This reflects the use of an inductive line of reasoning.

#### Exploratory Research:

The study was one of exploratory research. One of the overall purposes of exploratory research is to identify key concepts (Davis, 2014b). Exploratory research is also used to confirm assumptions and to identify consequences of research problems (Davis, 2014b). The research study aimed to understand the reasons which contributed to the

popularity of the franchise model. These reasons can be considered as key concepts of the franchise model, which confirms the research as exploratory.

#### Cross-Sectional Time Dimension:

The time-dimension of the research study was cross-sectional. A Cross-sectional research study intends to create a once-off image of a certain phenomenon, at one point in time (du Plooy-Cilliers and Cronje, 2014). Cross-sectional research is non-repetitive, thus the research occurs only once, and not again at a later stage of the research.

In this research study, interviews of the sample population were undertaken, and analysis of the respondents then occurred. No repetition of the interviews occurred. i.e. The original interview was undertaken with the population once. Owing to the interview having occurred at one stage in time, the research study had a cross-sectional time dimension.

#### Units of Analysis

Units of analysis can be defined as the smallest elements of a research study which can be investigated for the purpose of gathering data for the research study (Pascoe, 2014).

The smallest units of analysis of the research study were the actual franchise food outlets franchisees (individuals) who were interviewed for their opinions and analysis on why franchise food outlets are a popular business model. The individual owners (franchisees) of the outlets provided insight into why they selected franchising as a business model, which therefore contributed to the research. Outlet owners were interviewed for advantages, challenges and the perception of the franchising business model.

#### Population and Sampling:

The target population of the research study was franchise fast-food outlet owners. The findings of the research were generalised to all fast-food franchise outlet owners. The accessible population of the research study was the individuals who were accessible and actually included in the study (Pascoe, 2014). The accessible population of the research study were the owners of different fast-food franchise outlets in Durban. As a result, the findings were generalised to owners of fast-food outlets in Durban.

The population characteristics of the research study was:

- Owners of franchise fast-food outlets
- Owners of an outlet for more than one year
- Owners must own at least two or more outlets
- The owner must be an operating owner of their outlets

Non-probability sampling was employed, as the research was completed with the accessible population of owners of franchise fast-food outlets in Durban, as this population was readily accessible. The entire population of all fast-food outlet franchisees nationally was impossible to access. In non-probability sampling, the focus lies on the research reaching a saturation point, rather than reaching a certain number of interviewees (Pascoe, 2014). The research aimed at understanding reasons as to why franchising is a popular business model in the fast-food landscape, therefore research only occurred until the saturation point of the reasons why franchising is a popular business model from the interviews. The sample was selected from the accessible population, thus underlining the research being of non-probability sampling.

A purposive sampling method was employed, which is a method of non-probability sampling. Purposive sampling involves the purposeful choice of elements included in the sample, based on a list of characteristics (Pascoe, 2014). The sample was selected from the accessible population based on the characteristics.

The research therefore employed purposive sampling, as the sample was selected from the accessible population of franchise fast-food outlet franchisees, based on the list of characteristics. Such characteristics being: Owners of franchise fast-food outlets, owners of an outlet for more than one year, owners must own at least two or

more outlets and the owner must be an operating owner of outlet, not just an investor. The sample was drawn from the accessible population, based on the population characteristics. Three franchisees from the researcher's network of franchisees, were selected, contacted and asked to participate in the interviews. If permission was denied, more franchisees from the network would have been asked to participate. Purposive sampling was used to purposely choose franchise outlet owners to contribute to the findings of the study, as their knowledge of the franchise model was extensive as they were invested in the model.

The advantage of using purposive sampling ensured that all elements of the sample contributed to the research in terms of relevant information, which thus benefited the research study (Pascoe, 2014).

The research study only sampled franchise fast-food outlet owners, thus the contribution to the research was valuable owing to the knowledge of the sample surrounding the franchise system. Purposive sampling was used owing to the potential valuable knowledge guaranteed from the sample, thus eliminating all irrelevant information.

Purposive sampling allowed the research study to occur without spending time and resources investigating irrelevant sources in the sample, and thus ensuring all information gained benefited the research study. The sampling occurred by the selection of the sample from the accessible population of franchisees, furthermore screening of franchisees occurred in order to meet the required characteristics.

#### Sample Size:

The sample size of the research study was three franchisees of fast-food outlets in Durban. The sample size of three was used primarily owing to the use of in-depth interviews, which were time consuming. Time constraints of the research study did not allow for an ideal sample size to be interviewed. The sample size met the requirements of the characteristics of the population.

### Data Collection Method:

The data collection method used in the research study was semi-structured, in-depth interviews. The interviews took forty-five to sixty minutes to complete. In-depth interviews can be used to pose questions to participants to learn more about views and opinions on a phenomenon (Bezuidenhout and Strydom, 2014). In-depth interviews allow the interviewees to clarify answers and provide detailed explanations (Bezuidenhout and Strydom, 2014). In-depth interviews were used in order to gain in-depth, valuable information from franchisees regarding factors which contributed to their choice of the franchise model. The franchisees' answers provided explanations of the reasons contributing to the popularity of the franchise model, which is the phenomenon of the research. The interview applied the general interview approach. The general interview follows a conversational approach, certain themes are covered by predetermined questions, while a great degree of freedom is given to the interviewee (Bezuidenhout and Strydom, 2014). This method benefited the research, as the interview consisted of pre-determined open-ended questions, with allowance for varied opinions and responses which were not pre-determined by the researcher. This allowed the researcher to gather answers of questions, and gain other new information from the franchisees.

The interviews were of the sample group of three fast-food franchise owners in Durban. In-depth interviews were used in order to gain information from the sample using a formal and efficient method. The interviews were recorded via audio recording and then stored upon completion, analysed for valuable information, and reference was made at a later stage of the research, as required.

Using interviews as the method of data collection was an efficient and effective method, which benefited the research study in-terms of accessibility to information. Interviews allowed the researcher to fully understand and interpret the answers of the interviewees, as the interviewer asked the participant to clarify and explain answers further. The interviewer also asked further questions based on the conversation, which were not originally scripted (Bezuidenhout and Strydom, 2014). These factors

benefitted the research, owing to efficiency of access to information, and flexibility of the research.

In the data collection process, the interviewees were met by the researcher at a location which was convenient to both parties, at a time convenient to both parties. Prior to the interview being conducted, the interviewer explained the informed consent and acknowledgement of audio recording forms to the interviews and explained how their anonymity would be ensured in the research report. How the interviewees' views would be used in the report was also explained by the interviewer. The required documentation was signed by the participants before the interview was conducted.

The resources used in the data collection were a mobile phone and voice recorder, both used to record the interview. Two recordings were taken in order ensure a back-up existed if one of the recording devices used faulted during the interview. This also provided a further back-up version of the interview recording if one of the recording files were lost or corrupted.

#### Data Analysis Method:

The research study utilised the qualitative data analysis method of thematic analysis. This was owing to the nature of the data collection method being interviews of various franchisees. The interviews were recorded via audio and then transcribed verbatim. It is essential to make a recording of the conversation, which may be time-consuming for the researcher (Bezuidenhout and Cronje, 2014). The recordings were analysed for the answers given by the interviewees in response the questions from the interviewer. It is essential to gain written consent from the interviewees regarding their knowledge of being recorded via audio, as well as the disclosure of their identities (Bezuidenhout and Cronje, 2014). The data analysis occurred though the use of thematic analysis, which was used in order to extract the themes embedded in the answers provided by the participants. Thematic analysis of the data occurred using Braun and Clarke's six steps of thematic analysis (Braun and Clarke, 2006). This process involved the generation of codes to the information evident in the transcript of the interview. After the initial codes were generated, similar and repetitive codes were eliminated and consolidated (Braun and Clarke, 2006). The final codes were then

consolidated and developed into the final themes and sub-themes evident in the findings from the interview (Braun and Clarke, 2006). Applicable quotes were then allocated to each theme and sub-theme of the findings (Braun and Clarke, 2006). These quotes were used as the evidence of the findings in the presentation of findings.

The answers from the franchisees had multiple evident themes embedded in each different answer. Such themes were extracted in order to successfully add the franchisees' true opinions surrounding franchising to the body of knowledge of the research study. The themes surrounding franchising evident from the data provided valuable information to the research study surrounding the reasons why it may be a popular business model.

#### Findings and Interpretation of Findings:

The findings were gathered from three participants, who are referred to as Allan, Bryan and Calvin in this section. These names act as pseudonyms for the protection of the identity of the participants. The participants of the study met all the population characteristics, as specified in the population and sampling section of the report. All the franchisees are well-respected owners of their outlets and own multiple stores of reputable fast-food brands.

## Discussion and analysis of themes:

### **Existing Business Model**

A prominent factor evident in the research was the existing business model that accompanies purchasing a franchise outlet. The existing business model acted as both a factor that attracted the participants to purchase a franchise business, as well as a primary advantage of owning a franchise outlet. Van Aardt (2014) identified that the franchise model offered advantages of brand awareness, increased profits and increased success rates to franchisees. The participants identified that part of the existing business model they purchased, an established brand name and image existed, as well as that profitability accompanied the purchase and ownership of a franchise outlet. An established brand name and image, and profitability have been identified as sub-themes of the first evident theme of the research, the existing business model.

This was illustrated in the reasons why the participants chose to purchase a franchise outlet.

*Bryan: [...] allows you to operate in a bigger environment, as compared to a small business, with a branded name and um, utilising the expertise of a national network, um, in terms of marketing and, and obviously these brands have been around for a long time so it's giving you a, um, vast, err, knowledge of experience and, and that they've acquired over many, many years. [Sic]*

*Bryan: [...] getting into franchising would be a scenario where you are kinda stepping into a model that is already running well, which has already shown, um, a history and, and effectively and shown good growth, um, and has market share already, so, so that was purely the reason. [Sic]*

Bryan's reasons for why he chose to purchase a franchise business reflect the importance of the existing business model and established brand to the franchisees, and this is also reflected by Calvin.

Calvin: [...] *it's a viable business, it's, it's well-known, you don't have to put too much thinking power into who should you capture, it's already on the table...you don't have to reinvent the wheel basically. It's an existing brand, strong brand, it's a brand that's been around [...]*

Allan provided various reasons for his choice of a franchise business, many of which link to the existence of a business model and its established brand name and image.

Allan: [...] *being our first business, uh, and not having to think about menu, changes, what to put on the menu, err, what sells, what doesn't sell, there was an existing customer, err, base....an existing model helped me a lot as my first business, to take a lot of err, err, section of like the marketing, the new product, the training [...]*

It is evident from these quotes that the existing business model and established brand name that accompanies a franchise outlet is prominent as an attractive element and advantage of the model, however, profitability was also identified as an element of the franchise model that attracted a participant to purchase a franchise business (Allan). It must be acknowledged that the participants had identified that profits of the business have eroded recently, however, this will be discussed as a separate theme. A participant also identified that franchise businesses have a minimal percentage of failure (Bryan).

Allan: [...] *it had always been a profitable business...it was a very good profitable business, they was a good net profit making benefit, err, being our first business [...]* [Sic]

Bryan: [...] *you've gotta established brand that is generally known national and perhaps to some extent internationally....you've got a wide reach of consumer base...it's a proven product...it's my perception that the, the percentage of failure is, is minimal.* [Sic]

It is evident from the information gained from the participants that the existing business model which accompanies a franchise business, as well as its components of an

established brand name, are primary factors which attracted the participants to purchase a franchise business. The existence of an established brand name which customers are aware of is directly linked to previous literature of Van Aardt's (2014) analysis of the advantages of owning a franchise business, the advantage of an existing brand awareness of the franchise. A participant's views also linked to Van Aardt's (2014) analysis in terms of the profitability of the franchise model to franchisees, as Allan views the profitability of owning a franchise business as his primary attraction to the franchise model. Bryan's identification of relatively low failure rates of franchise businesses links to Van Aardt's (2014) analysis of franchising offering increased success rates to franchisees. The primary reasons which attracted the participants to purchase a franchise business, such as, an existing business model, established brand name and image, and the profitability of franchise businesses linked directly to Van Aardt's (2014) analysis of the advantages of franchising.

### **Effective Support Services**

The franchise model offers the advantage of ongoing advice, training, research and development to franchisees who purchase a franchise business (Van Aardt, 2014). Existing infrastructure services also accompanies the purchase of franchise businesses, such as marketing and proven systems (Van Aardt, 2014). The existing infrastructure and services provided by franchisors to franchisees has been identified as support services. The participants identified that the support services provided by their franchisors are effective to a large extent. Effective support services are evident as a prominent theme of the research. These support services were identified as a factor which promoted the attractiveness of the franchise model to the participants, as well as one of the primary advantages of the franchise model.

Calvin described how his franchisor provided support services to his business and how these services have affected his business.

*Calvin: Look there is a lot of support comes from there, a lot of guidelines, which is important I think in business, especially with the, the times we are in, it's important to have guidelines because you can't just open a business and say let me try this, err, head office tries everything, they analyse everything and*

*that's what I like, they give that support structure and they give you the guidance [...] they have different, a lot of courses that they develop themselves [...] they have leadership courses [...]*

Calvin stated that the support services such as the guidelines provided by his franchisor were very helpful in business and it was something he found attractive of the franchise model. Bryan also identified that leadership courses offered by his franchisor are effective as support services. It is evident that Bryan identified that the support services have benefited his business. Effective support services are evident as an advantage of the franchise model, to franchisees.

Bryan also believes the support services provided by his franchisor are effective. It is evident that the participants found the support services provided by their franchisors effective in general.

*Bryan: [...] they have tried and tested methods and err, fantastic stock control systems, um, which makes it easy to run, um, I wouldn't say remotely but reasonably remotely...I think, um, they would be generally very effective, I think they are generally very good structures in place, franchise managers, training, product development, err, so on a general level, its exceptionally good...you're getting good marketing, uh, because of a, um, because marketing is channeled through a, single entity, and it's a, it's a basket that everybody's funds go into and marketing gets done from there, so it's a good spend, um, franchise companies are able to get into sport sponsorships, so effectively it's a little guy who had one store on his own would never be able to do but by belonging to a family of numerous stores under one brand name gives him a lot more buy in, um, whether it be in the procurement aspect or the marketing aspect. [Sic]*

Allan further supported the notion of support services from the franchisor being effective to a large extent. Similar to Bryan, Allan found the marketing and training provided by the franchisor, as effective support service. Calvin focused on the business guidelines as an effective support service provided by his franchisor.

Allan: [...] section of like the marketing, the new product, the training, err, initially they we very good with all those type of things [...]

It is evident that the support services provided by franchisors to franchisees are well-received by the franchisees. The participants identified various different types of support services provided by their franchisors. The support services identified are diverse in nature, such as, marketing, stock control systems, leadership courses, product development and training and guidelines. Whilst each participant identified different support services as effective, it is evident that the umbrella of various support services, such as marketing and training, are considered as effective to a large extent by the participants. This links directly to literature of Van Aardt (2014), who identified that the franchise model offers the advantage of ongoing advice, training, research and development to franchisees. Whilst the different specific support services identified by Van Aardt (2014) may differ to the support services identified by the participants, it is evident that the research is linked to the literature of Van Aardt (2014). The participants identified marketing and business guidelines as prominent support services, which is different to Van Aardt (2014), but these support services underline the advantage given to franchisees by the provision of the support services by the franchisor. Similar to Van Aardt (2014), stock control systems were also identified as an effective support service a participant (Bryan).

The effective support services provided by franchisors links directly to Van Aardt's (2014) advantages of the franchise business model. Effective support services provided by the franchisor therefore acted as a factor promoting the attractive ness of the franchise model, as well as an advantage of the franchise model.

### **Conflict between Franchisee and Franchisor**

Agency Theory (Brickley, Dark and Weisbach, 1991) provides a perspective on franchising where the relationship between franchisee and franchisor is conflicted owing to various reasons. Conflict is caused by franchisees performing activities contrary to the franchisor's standards (Brickley, Dark and Weisbach, 1991). All the participants had experienced conflict with their franchisor in past, owing to multiple different reasons. Conflict between franchisee and franchisor has been identified as a critical theme of the research, however, it has been identified that the conflict was

caused by reasons other than provided by Agency Theory (Brickley, Dark and Weisbach, 1991). The participants provided different reasons for conflict with their franchisor and these have been identified as operational conflict and conflict of strategy. These different types of conflict act as the reasons for conflict between franchisee and franchisor.

Calvin stated that he had experienced conflict with his franchisor over the location of stores. This has been identified as operational conflict.

*Calvin: Um, good couple times they told us put in a \_\_\_\_\_ (store name), like we have a store in \_\_\_\_\_ (location), we've been there for fifteen years or so, at that point. Then they indicated to us if we don't open another store outside that mall, they were going to get another franchisee to go open...so obviously now we're panicking now because if somebody else comes in they gonna take our, our money away...then they forced us to open the other store, which we opened in 2014. Ever since then we've been making a loss. Because now instead of making incremental, they believed we'll make incremental sales but it didn't. It didn't, it didn't, all it did was cut the business in half. [Sic]*

From Calvin's experience of operational conflict with his franchisor, it is evident that the conflict had a negative implication for his business. His sales had reduced by half owing to being forced to expand in an area Calvin found too close to his existing store. Calvin stated that conflict of the same nature occurred again at a later stage, where he was again forced to expand to a different location he found unsuitable. This resulted in negative financial implications for his business again. Bryan had also experienced conflict with his franchisor in the past, over multiple areas, which has been identified as a conflict of strategy.

*Bryan: Um, they will always be disagreements, um, particular marketing strategies, um, product strategies, um location of stores, um, and that kind of thing, um, which is day-to-day operational glitches that you would find at any business, so yes there is some kind of element of, of conflict...you would find that certain marketing ploys or certain product, err, innovation would not necessarily benefit everybody [...]*

Bryan, like Calvin, had identified locations of stores as a source of conflict with his franchisor, however, Bryan also acknowledged different sources of conflict. Marketing strategies and product strategies were also sources of conflict between franchisee and franchisor (Bryan). Marketing strategies and product strategies have been identified as conflict of strategy. Bryan further stated that franchisees would be disadvantaged by these areas of conflict, such as strategy.

*Bryan: [...] when it comes marketing and product and that kind of thing, I don't think you're going to change very much. But like I said, it's difficult to be able to satisfy all of the individuals all of the times, so you, you will be disadvantaged, depends on location and, and, LSM and, and population and race and that kind of thing [...]*

It must be acknowledged that although Bryan had experienced conflict with his franchisor, he stated that it was not to the extent he would disinvest from the franchise model. Franchisees have also experienced a separate issue of financial conflict however it will be analysed as a separate theme owing to its significance to the franchisee-franchisor relationship.

It is evident that conflict has occurred between the participants and their franchisors and the sources of the conflict has been identified as operational conflict and conflict of strategy. Agency Theory (Brickley, Dark and Weisbach, 1991) has been identified as a theoretical foundation of the research study. Furthermore, Agency Theory (Brickley, Dark and Weisbach, 1991) offers the perspective that the franchisee-franchisor relationship is conflicted in nature. The reasons provided by the participants for their conflict with their franchisors differs from the reasons for conflict offered by Agency Theory (Brickley, dark and Weisbach, 1991).

While Agency Theory (Brickley, Dark and Weisbach, 1991) advocates that the source of conflict in the franchisee-franchisor relationship is franchisees performing tasks contrary to the standards of their franchisor, the sources of conflict provided by the participants are operational conflict and conflict of strategy. The exact sources of conflict differed between Agency Theory (Brickley, Dark and Weisbach, 1991) and the

information gained from the participants, however, the existence of conflict in franchisee-franchisor relationship is evident from the information gained from the participants. A direct link exists between Agency Theory (Brickley, Dark and Weisbach, 1991) and the information from the participants, as it is evident that the franchisee-franchisor relationship is conflicted in nature, although owing to different reasons than provided by Agency Theory (Brickley, Dark and Weisbach, 1991). There is agreement between Agency Theory (Brickley, Dark and Weisbach, 1991) and the participants' information that the franchisee-franchisor relationship is conflicted in nature.

### **Business Challenges to the Franchise Model**

The participants provided different challenges which they faced in the ownership of a franchise business. These challenges were not evident among either of the theories used in the theoretical foundation, nor among the any information from the literature. Whilst the literature provided various disadvantages of the franchise model, the information gained from the participants has no direct link among any of the literature. The challenges faced by the franchisees in the operation of their businesses has been identified as business challenges to the franchise model.

Bryan identified that the biggest obstacle he faced in the operation of his franchise outlet was staffing. Calvin supported this notion by stating that staffing was also the biggest obstacle in his operations.

*Bryan: Staffing. Staffing and err, I think we're in an industry where we're probably the literally the minimum pay, wage kind of industry, so, um, it's difficult to have, err, to obtain good staff and continuity, err, of good staff in an industry that pays minimum wage, err, obviously soon as the employee gets a job that pays a better rate he will move, so your employees are not totally loyal, so we generally have a high turnaround of staff in our industry [...]*

*Calvin: Staff. Staff is the major thing...ten years ago you would see, there is a different caliber type of staff. The work ethic has changed, people are more younger, peoples' mindset is different, they gone more lazier...the hardest thing to control honestly is staff, I think with any business the mindsets, err, where*

*the mind is going now, err, how you get them to be more efficient for you [...] so it's all about the people I guess, people make your business successful. [Sic]*

It is evident that staffing was a major obstacle and challenge to the participants in the operations of a franchise business (Bryan and Calvin). Staffing was therefore evident as a major business challenge to the franchise model. All the participants also acknowledged rising operating costs as a major business challenge they faced in their operations.

*Allan: [...] as you know, wages, we have no control over that, the government's minimum requirement, the electricity has gone up, more than doubled over the last four years, five years...I was paying R5000 electricity now I'm paying R25 000...so your expenses have gone up a lot, wages, rentals, electricity are the top three.*

Various increased operating costs had been identified by Allan, such as wages, rental and electricity costs, which offered a challenge to his business. Increased rental has been singled out as a major operating cost (Bryan).

*Bryan: I also believe that, um, one of the other huge drawbacks of the model is the fact that the rentals are, particularly in the malls, becoming crazy, err, we're now getting to a stage where we're paying probably up to and in excess of 10% of your turnover in terms of rentals.*

Calvin identified a different operating cost which had increased and offered a challenge to his business.

*Calvin: Costing of supplies is gone very high, like to build a \_\_\_\_\_ (outlet name) now, it's extremely expensive. [Sic]*

Whilst the participants had identified different costs which had increased significantly and challenged their businesses, it is evident that increased operating costs is a major business challenge to the franchise model, along with staffing. Van Aardt (2014) and Zeidman (2003) offered challenges to the franchise model which were different to the information gained from the participants. Van Aardt (2014) had identified that the

franchisor places restrictions on the franchisee in terms of products and services, while Zeidman (2003) identified that under-informed, under-funded and unscrupulous franchisors had entered that South African marketplace. The information gained from the participants differed to Van Aardt's (2014) and Zeidman's (2003) challenges. Staffing and increased operating costs had been identified by the participants as the most significant challenges to their operations. Staff and increased operating costs were therefore business challenges to the franchise model. It is evident that the information from the participants had differed to the literature. The business challenges faced by the participants in their operations is evident as a challenge to the franchise model.

### **The Franchise Model has Changed to Favour the Franchisor**

The final theme evident from the information gained from the participants, perhaps the most prominent of the research, was that the franchise model has changed to favour the franchisor. The participants identified that the franchise model had begun to change, to the extent that it started to favour the franchisor. The participants identified that their Gross Profit (GP) had significantly reduced over time. It was also identified that the franchisors had started to act in their own self-interest.

These factors have been identified as the sub-themes of the franchise model changing to favour the franchisor. This has been identified as a critical challenge to the franchise model and a significant factor which effects the franchisee-franchisor relationship.

Bryan stated that he had noticed the franchise model had started become "skewed" to an extent after his involvement in franchising for eight years.

*Bryan: Having been involved in the brands now for eight years, I think some of the disadvantages we've seen is that the, err, model is starting to get a little bit skewed I would believe [...] we started with GP's in excess of 60% and due to rising food costs, err, foreign competition...more competition in the market place, we've had to erode some of our GP's [...] however as a franchisee, you've, you've owned GP's and taken less margins to a certain extent, but the franchisor's model has not changed, his royalties have stayed fixed and in some cases have even gone up slightly [...]*

Like Bryan, Allan had also identified that his Gross Profit (GP) had significantly declined. A reduction of gross profits has been identified as a sub-theme. Allan identified that his gross profits had reduced because his franchisor had become too greedy. This has been identified as franchisor self-interest.

Allan: [...] *it had always been a profitable business, I'm not saying it's not profitable but the profits have eroded a lot over the last twenty years due to the franchisor being too greedy, they have gone to go buy all their suppliers, where before they would say, "we can't negotiate a better price" now they've bought all their suppliers so they can negotiate better prices, and the GP today is 10% lower than it was twenty years ago. [Sic]*

Bryan: [...] *some of the brands were in the early 60%'s when I bought into them, we've now dwindled down to 55% and err, some periods over the last year or two we've been sitting on 51% or 52% [...] when a national decision is made to a, err, run a specific promotion, it could be at a very low GP and in turn the franchisor doesn't lose any money because he still gets his percentage off the top of the sales. Irrespective of what the, err, GP model says, for me that's the major drawback.*

A reduction in gross profits was evidently critical to the participants in their operations and Allan accredits this to the franchisor being more focused on their own activities.

Allan: [...] *they lost focus, err, and then lost us in the mean-time and the only focus of their own was to make sure that their profits was very high every year and by doing that, we have had to sacrifice some businesses. We, our profits got smaller and smaller and they would not listen to our, err, feedback [...] you lose focus on the franchisee, who are generating all this money and now they've become more greedy [...] [Sic]*

It was evident that franchisors had placed focus on achieving their profit margins, regardless of the amount of profits franchisees are achieving. This reflects that the franchisors are acting in their own self-interest. When asked if the franchise agreement

is mutually beneficial, Bryan stated that franchise agreements have also become “skewed”.

*Bryan: Um, I go back to the point of the franchise model is changing, franchise agreements are pretty rigid [...] So I do think that the franchise agreements are generally skewed, um, to be beneficial to a certain extent to the franchisor [...]*

Allan supported this notion simply. Both these statements contribute to the notion of the franchise model having changed to favour the franchisor.

*Allan: No, it's for their benefit.*

It must be acknowledged that none of the previous literature or theoretical foundation had identified the reduction of gross profit occurring in the franchise model, or that franchisors had acted in their own self-interest. As a result, the franchise model changing to favour the franchisor had not been identified in the literature or theoretical foundation. A reduction in gross profit can however be identified as a source of conflict between the franchisee and franchisor. Whilst Agency Theory (Brickley, Dark and Weisbach, 1991) provides different reasons for franchisee-franchisor conflict, reduced gross profits for franchisees supports the notion of conflict occurring in the franchise model, as per Agency Theory (Brickley, Dark and Weisbach, 1991). Roh (2000) stated that higher royalty rates in the franchise contract is an influential contributor to a conflicted franchisee-franchisor relationship. Royalty rates remaining unchanged whilst gross profits were low was identified by Bryan and was therefore evident as a source of conflict, as per Roh's (2000) analysis.

Franchisor self-interest is identified as a source of conflict in the franchisee-franchisor relationship, as the participants disapproved of their franchisors' actions, owing to a loss of focus on the franchisees and their businesses. This provides another source of conflict different from the reasons for conflict as per Agency Theory (Brickley, Dark and Weisbach, 1991). The notion of conflict occurring in the franchisee-franchisor relationship, as per Agency theory (Brickley, Dark and Weisbach, 1991), is supported by the occurrence of franchisor self-interest. The combination of franchisees experiencing reduced gross profits as a result of franchisor self-interest and the

element of franchisor self-interest independently, is identified as a single theme, the franchise model changing to favour the franchisor. This has been identified as an influential source of conflict in the franchisee-franchisor relationship.

#### Trustworthiness:

The research used trustworthiness to measure the reliability and validity of the research study (Koonin, 2014). In qualitative research, the overarching term for validity and reliability of the research is trustworthiness (Koonin, 2014). The purpose of trustworthiness lies in the researcher's requirement of persuading the readers of the research study, and its participants, that the findings of the research study are therefore credible and will make a worthy contribution to the body of knowledge (Koonin, 2014).

There are four aspects that contribute to and determine the trustworthiness of a research study: (Koonin, 2014)

#### Credibility:

This refers to the accuracy of the interpretation of the gathered data by the researcher. The information gathered from the interviews of franchisees were recorded accurately as per the exact contributions from the franchisees and was transcribed verbatim in the transcripts, in order to ensure credibility. In order to increase the credibility of the research, the time taken to complete the interview was sufficient, which avoided the franchisees providing answers with haste (which will result in less accurate perspectives given). The interviewer had no influence over the answers provided by the franchisees and the researcher did not lead the participants into providing certain answers or views which suited the research. These measures ensured the credibility of the research.

#### Transferability:

This refers to the ability of the research to be applied to a similar research study/situation and then deliver results similar to the original research study. The research having such transferability would therefore be the degree to which the results and the analysis of the research can be applied beyond a certain research project

(Koonin, 2014). The findings of the research study can be used in other research of the franchise model. Other research studies of the franchise model can use this research as an example of research of fast-food franchises in South Africa, and this could be applied to a larger study of franchising across all industries in South Africa. The research study could be used as an example of research into the franchisee-franchisor relationship and the occurrences within the relationship.

If the findings of the research can be transferred to a similar research study, it therefore has transferability. This would increase the trustworthiness of the research study.

#### Dependability:

If the integration process between the theory relative to the research and the data collected from the data collection method and the following data analysis is a quality process, the research therefore has dependability (Koonin, 2014). The process of the interviews in terms of its compilation, completion procedures and the analysis of the franchisees' answers was conducted with quality, thus research study has dependability. The interviews were conducted in secluded areas, to avoid the participants having any concerns regarding their answers being overheard by others, which ensured the confidentiality of their answers. Neither the audio recordings of the interviews, or the transcripts of the interviews, were listened or seen by anyone external to the research study. Only the researcher and the researcher's supervisor had access to the recordings and transcripts. The creation of the interview questions occurred with quality, and the execution of the interviews with the franchisees was a quality process. The interviews questions were developed in various drafts and were only seen by the researcher and the supervisor prior to the actual interviews. As these processes were conducted with quality, the research has dependability.

#### Confirmability:

How well the data collected from the research study supports the findings and the interpretations of the researcher refers to the confirmability of the research, which indicates the flow of the findings to the data (Koonin, 2014). In order for the research to have confirmability, the researcher described the process of research fully, this would allow other researchers to comprehensively scrutinise the research design (Koonin, 2014). Other researchers who analyze the research data must be able to come to similar conclusions that of the original research. If other researchers can come

to similar conclusions about the popularity of the franchising model using the same data, the research will have confirmability. In order to ensure confirmability, the researcher did not distort or manipulate the answers provided by the franchisees, therefore other researchers will be able to use authentic data in order to perform further research.

These areas were treated as imperative to the research study, in order to ensure to ensure that the research study was conducted with complete trustworthiness.

### Discussion and Conclusion:

It is evident from the data that franchisees found various different factors promoted the attractiveness of the franchise model. Whilst the franchisees each had different motivations and reasons for the choice of owning a franchise business, commonalities were found between the data provided by the participants.

The franchisees found that a primary factor which attracted them to purchase a franchise outlet was the existing business model which accompanies the purchase of a franchise business. An advantage of owning a franchise outlet is the existing brand awareness which consumers have of the franchise brand (Van Aardt, 2014). The information gained from the participants linked directly with Van Aardt's (2014) literature, as part of the existing business model which accompanies a franchise business is an existing customer base. The franchisees gave their accounts of how an existing business model attracted them to purchase a franchise business and benefitted them in the start-up of their businesses, by not having to consider factors such as menu's, pricing and procedures.

Effective support services provided by their franchisors was also identified as a major advantage of the franchise model and a factor which attracted the franchisees to purchase a franchise business. Ongoing advice, research, training and development provided by franchisors to franchisees is considered a major advantage of owning a franchise business (Van Aardt, 2014). The participants found that the support services provided by their franchisors in areas such as marketing, stock control systems and leadership courses were effective to a large extent. Effective support services provided by franchisors is the second primary factor which attracted the franchisees to purchase a franchise business. The existing business model which accompanies a franchise business and effective support services provided by franchisors are the primary factors which promotes franchising as a popular business model.

Conflict was evident as a reality of the franchise model and major challenge to the franchise business model. The franchisees had experienced conflict with their franchisors over various business areas such as, the location of stores. This was identified as an operational conflict. Another source of conflict was conflict of strategy, where the franchisees experienced conflict with their franchisors over marketing and product strategies. Conflict occurs between franchisees and franchisors owing various reasons, according to Agency Theory (Brickley, Dark and Weisbach, 1991). Agency Theory (Brickley, Dark and Weisbach, 1991) provides reasons for conflict which were different to those provided by the franchisees, however, Agency Theory (Brickley, Dark and Weisbach, 1991) is considered as a critical theoretical influence on the research study.

The reasons for conflict in the franchisee-franchisor relationship differ between the research data and the theoretical foundation, however Agency Theory (Brickley, Dark and Weisbach, 1991) identifies that conflict does occur in the franchisee-franchisor relationship, and the research data confirms this. Whilst the reasons for conflict differ in the research data, the data confirms that conflict does occur in the franchisee-franchisor relationship. The data is in agreement with Agency Theory (Brickley, Dark and Weisbach, 1991) in terms of the existence and occurrence of conflict in the franchisee-franchisor relationship. Conflict between franchisee and franchisor is the primary challenge of the franchise model.

Different, and perhaps unexpected challenges to the franchise model was also evident in the data. These challenges were identified as business challenges to the franchise model. The literature provided by Van Aardt (2014) and Zeidman (2003) identifies disadvantages and challenges to the franchise model which differ to the challenges provided by the data. It was evident in the data that the franchisees had identified that franchise businesses faced two main business challenges, identified as staffing and the increasing costs of business. The franchisees identified that having a consistent pool of competent staff was a major challenge they faced in the operations of their businesses. It was also identified that the increasing costs of business is a challenge to the franchise model, as increased rental, supplies and electricity costs offered a challenge in the operations of business. The challenges of staffing and increased costs of business were evident as business challenges to the franchise model. Conflict between franchisee and franchisor and business challenges to the franchise model are the two primary challenges to the franchise model.

It was evident from the data that the franchisees identified that the franchise model balance has tilted in favour of the franchisor. The franchisees identified that the model had begun to experience vastly reduced Gross Profit (GP) while their franchisors' profits and royalties had remained unchanged and uninfluenced by these events. It was also evident that the franchisees identified that their franchisors had begun to act in their own self-interest. This occurred by their franchisors not reacting to the reduction in GP's experienced by the franchisees and ensuring that the franchisors' profit remained unchanged. It was also identified that the franchisors had also focused on purchasing their suppliers, which was interpreted by the franchisees as the franchisors focusing on themselves. This has also been identified as franchisor self-interest. These two factors have been identified as the reasons why the franchise model has changed to favour the franchisor.

None of the literature or theoretical foundation had identified the franchise model changing to favour the franchisor, however this theme could be specific to franchising in a South African context. This is owing to a substantial amount of the literature and theoretical foundation coming from an American and Asian perspective. This change seen in the franchise model is a factor of the franchise fast-food industry in South Africa. The change identified in the model is also a source of conflict in the franchisee-franchisor relationship. This provides support of Agency Theory (Brickley, Dark and

Weisbach, 1991), which identifies that conflict does occur in the franchisee-franchisor relationship. The franchise model changing to favour the franchisor advocates for the notion of the franchisee-franchisor relationship not being mutually-beneficial. From the data, it can be argued that the franchisee-franchisor relationship is more beneficial to the franchisor, than to the franchisee.

#### Contribution of study for future practices:

The research study contributed to the existing body of knowledge of franchising, different business models and the fast-food industry. The information will benefit different parties, such as prospective business owners who seek to purchase a franchise outlet or to convert their own business into a franchise. The research study outlined the advantages and challenges of the franchise model. The study also identified which factors attracted present franchisees to purchase a franchise business. Such information can provide advice and guidance to prospective business owners who may seek to purchase a business.

Such information provides indicators and advice on what exactly to do with their future/current business propositions. The research study benefits students studying either franchising and/or business management. These students may be future entrepreneurs, and the information provided by the research study could benefit them in understanding the franchising model and thus possibly making their choices easier in terms of what field exactly to venture into upon completion of their studies. Finally, the research study benefits current franchise outlet owners who possibly do not fully understand why they should or should not continue owning a franchise outlet.

The research study builds a more comprehensive understanding of the franchise business model, particularly in the fast-food industry. By outlining and distinguishing the advantages and challenges to the franchise model, and understanding why it is a popular business model, the research eliminates incorrect assumptions around the industry, and adds new information surrounding the industry. The research study identified business challenges to the franchise model which was not evident in any of the prior literature and theoretical foundation associated with the study. The research study identified that the franchise model had changed to favour the franchisor, more

than the franchisee. This was again not evident in the prior literature and theoretical foundation. The research study therefore provides information of the franchise industry in South Africa which was not identified other literature and information of fast-food franchising in a South African context.

#### Evaluation:

It must be acknowledged that one of the theories within the theoretical foundation, Resource Scarcity Theory (Combs and Ketchen, 1999) was found to have no correlation with any of the data found in the research study. Resource Scarcity Theory (Combs and Ketchen, 1999) places a focus on why franchisors use the franchise model to grow their businesses. This was found to have no relevance to any of the data. This was owing to the fact that Resource Scarcity Theory (Combs and Ketchen, 1999) focuses from the perspective from the franchisor, while the study focused on the perspective of the franchisee. It has been realised that this theory could perhaps have not been used as a theoretical foundation, especially considering the relevance of Agency Theory (Brickley, Dark and Weisbach, 1991), which had a large influence on the research study. Future studies into the fast-food franchise industry in South Africa should consider the relevance of Resource Scarcity Theory (Combs and Ketchen, 1999) before using it as a theoretical foundation, as it had no relevance in this research study. This theory would be more applicable in a research study of South African fast-food franchisors and their motivations to be franchisors. This research study was conducted from the perspective of franchisees and thus the theory had no relevance as a result of this.

The research study can be considered to be a success to a large extent. The research study identified a large amount of information which was not identified in prior literature and theories. The research study also added information to knowledge of the fast-food franchise industry in a South African context, as a large amount of prior studies, literature and theories had been conducted from an American and Asian perspective.

#### Ethical Considerations:

Various ethical considerations are required to be analysed before conducting a research study. There are various ethical issues which will affect the participants of the research (Louw, 2014).

Informed consent:

The participants of the interviews were informed they would form part of a research study, if they agreed to participate. It was ensured that the participants understood what was required of them, that their identities would remain anonymous and how results of the interviews were used. In the research report, the franchisees had complete anonymity. Their contribution to the findings of the research study were not attached to their identities. This was essential to the research, as potential existed for the franchisees to have concerns around their identities being disclosed and their views on the franchise model could result in conflict with their franchisors. The research did not intend to discriminate against any particular franchisees or franchisors in the report. Discrimination of either party would have resulted in unethical research. To avoid this situation, the researcher ensured that full anonymity was given to the participants of the interview. To avoid discrimination of franchisors, the research did not use the names of any franchisors in the findings and discussion of the report. It was explained to the participants of the research that the interview was not to investigate considerations of their particular franchisors, but rather the entire franchise model. Any reference made to particular franchisors in the data collection was ignored in the findings and discussion of the final report. The research study did not focus on particular franchisors and/or franchise brands, but rather on the franchise model itself. This ensured that neither any particular franchisors, brands or franchisees were the focus of the study.

Informed consent documents were signed by the franchisees, in the form of a written informed consent document. This document disclosed that their identities remained anonymous in the final research report, and that the information they provided was used in the findings of the research, however without attachment to their identities.

Dealing with sensitive information:

Research often requires truthful but sensitive information from the participants about either themselves or their organisation (Louw, 2014). The researcher did not disclose

personal information and avoided any personal bias which would have influenced the research process. The interview asked various questions regarding the franchisees' franchisor that may prove conflicting between the two parties if disclosed, the sensitive information gained from the franchisees was not made explicit to any franchisors, surrounding which individual franchisees gave such feedback. The sensitive information was protected with anonymity in final report.

Ethical issues also affect the researcher (Louw, 2014) thus the following issue must be considered:

Falsifying of information:

This is the deliberate manipulation and fabrication of data to suit a certain situation and this is unethical (Louw, 2014). The researcher did not create any information which suited the research topic, such as creating false information from the franchisees which will motivate why franchising is a popular business model.

In conclusion, the researcher considered and acted upon such ethical issues in order to ensure and maintain the ethics of the research study.

Theses ethical concerns were addressed by the researcher to ensure ethical requirements of the study were sufficiently met.

#### Research Limitations:

The limitations of research can be defined as the various constraints which are out of control for the researcher, such as access to information, time and financial resources related to the research study Enslin (2014). These limitations could result in the need of the scope of the research to be redefined (Enslin, 2014).

The researcher did not interview franchisors in the data collection process. This is a limitation of the study, as franchisors can provide a different and valuable perspective of the reasons contributing to the popularity of the franchise model, as they are the principal members of the franchisee-franchisor relationship. The benefits and challenges of the franchise model from the franchisor's perspective were not considered in the research. A completely different perspective of the franchise model

was not gathered in the data collection. Time constraints of the study did not allow the researcher to interview more than three franchisees in the data collection. This is a limitation of the study, as if more franchisees were interviewed, richer findings could be gathered by the researcher. Richer findings could potentially provide further depth to the research study. The sample size of three franchisees was owing to accessibility constraints, as all franchisees of fast-food outlets in Durban could not be accessed in Durban within the time constraints of the study.

The research findings had no correlation with one of the theories in theoretical foundation, Resource Scarcity Theory (Combs and Ketchen, 1999). This can be considered as a limitation of the study, as a theory was chosen as a theoretical foundation and showed to have no relevance to the findings of the research study.

The limitations of the research were clearly identified and acknowledged. It reflects that the limitations of the research have been considered, and contributes to the reliability to the research study (Enslin, 2014). Limitations were out of the control of the researcher, but guided the researcher in the reporting process (Enslin, 2014).

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### Addendum 1:

#### Data Collection Tool:

#### Interview Questions:

1. What is the main reason for your choice of a franchise outlet as your business?
2. What element/s of the franchise model attracted you the most to purchase a franchise outlet?
3. What, do you believe, are the primary advantages of owning a franchise outlet?
4. What are the primary disadvantages of owning a franchise outlet?
5. Have you experienced conflict with your franchisor in the past?
6. At what stage of the relationship with your franchisor did you experience the conflict? (Inception, training, operations)
7. What was the nature of the conflict?
8. Was the conflict resolved? Explain how and why.
9. Did conflict arise again of a similar or different nature?
10. Would you describe the support services provided by your franchisor as effective or ineffective? Explain.
11. Would you describe the franchise agreement as mutually-beneficial?
12. What is your opinion on the concept of royalties?

13. What do you think is the biggest obstacle to operating a successful fast-food outlet? Explain.
14. If given the option, would you trade your franchise outlet/s for a non-franchise modelled business? Explain.
15. Given the opportunity, what change/s would you make to the franchise system/business model? Explain.



