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Autonomy and Dependence in Franchisor-Franchisee Relationship

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ABSTRACT
Franchisees choose franchising because they feel that they can work as an independent business entity while getting support and resources from the franchisors. But sometimes, to earn more profits franchisees attempt to reduce costs of the product or service by lowering the quality of product or service, which may deteriorate the image and reputation of the franchisor in the market. To stop the franchisee from lowering the product or the service quality, franchisors maintain tight control on the franchisee outlet and do not give any authority to the franchisee. When the franchisee who started the franchisee outlet to become his own boss doesn't get the authority to take decisions from the franchisor for his own outlet, he gets unsatisfied and tries to break out of the relationship. This paper discusses a detailed review of the studies investigating the franchisor franchisee relationship. This paper talks about the agency theory and how it is relevant in the context of franchisor franchisee relationship. This paper also explains the autonomy and dependence and further interprets its paradox in franchisor franchisee relationship.

KEYWORDS : *Franchisor, Franchisee, Relationship, Autonomy, Dependence, Agency Theory.*

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I. INTRODUCTION

Franchising is one of the most preferred modes of entry as it gives flexibility with economies of scale to worldwide operations. In franchisee-franchisor model, the franchises are promoted very frequently on platform to become your own boss, however in practical there are not many exits from the franchise contracts that are tolerated by the franchisors. The behavior control is also not possible fully by keeping a check due to involvement of high costs, with human errors that are bound to happen on monitoring. Some activities require decentralized decision-making and the franchisors are also not willing to engage in some activity.

Franchise management is the modification of the franchisor's desire for autonomy, control, reliability, standardization and safeguard of its brand equity and goodwill {Stanworth1995}. Autonomy is an important aspect of the organizational framework of franchise chains since large restraints on the outlet operations lessens the motivation of the franchisees {Gundlach,Dant 1999}. Excessive centralization also prevents leverage of franchisee outlets related knowledge [Windspergr 2004]. Balance of forces of autonomy and control thus become a significant activity to maintain the long-run viability of the franchise model. This paper helps us to understand the paradox of autonomy and dependence in the franchisor franchisee relationship.

Objectives Of The Study

The main objective of studying this paper is

1. To study the franchisee–franchiser relationship in terms of balancing the need for control and autonomy.
2. To draw implications to sustain long-term relationship between franchisee and franchisor.

II. FRANCHISING BUSINESS MODEL

The word 'franchise' is of Anglo-French derivation from franc means free, and is used both as a noun and as a (transitive) verb. Franchising may simply be defined as: "a business opportunity in which the owner (franchisor) of a service or trademark product grants rights to an individual for local distribution and/or sale of the service or products and in return, receives a payment or royalty in conformance to quality standards. It is a business model in which many different owners share a single brand name. A parent company allows entrepreneurs to use company's strategies and trademarks and in exchange, the franchisee pays an initial fee and royalties based

Franchising is the practice of using another firm's successful business model. For the franchisor, the franchise is an alternative to building 'chain stores' to distribute goods that avoids the investments and liability of a chain. The franchisor's success depends on the success of the franchisees.

Franchising can be defined as a continuous relationship in which the franchisor offers a privilege with a license to do business, as well as assistance in organizing, training, marketing and administration in exchange for a consideration. As mentioned above, at least two participants are involved in a franchise relationship. The franchise relationship is interdependent, since both the franchisor, which lends the business name and the business system, and the franchisee, which pays the right to do business under the name and system of the franchisor, take advantage of each other. In a sense, the franchisor is a true entrepreneur who founded a company from scratch and is now looking for expansion. The franchisee is an entrepreneur whose job is to take care of the franchisor's legacy as a tutor. Both benefit from this relationship. The franchisor finds the franchisee necessary for the growth of his business, and the franchisee sees the franchisor as a model for his personal growth. Franchising is perhaps the most widely used method of business expansion by international and national players. Although Indian law does not officially define franchising, the term refers to a way of doing business that involves the use of a person ("franchisee"), in accordance with a license, of the business model, name, image and activity of a other person ("franchisor"). Identity together with their confidential knowledge to exploit their intangible assets in a particular territory during a specific period, with or without financial returns insured to the franchisor. **S. Shiva Ramu (1997)** opines that franchising has served as a vehicle for the small businesses to grow successfully into the nation-wide chains and is a way for individuals to establish their own businesses. Franchising can be defined as a continuing relationship in which the franchisor provides a licensed privilege to do business, plus gives assistance in organizing, training, merchandising and management in return for a consideration.

Franchising is built on an ongoing relationship between a franchisor and a franchisee. The franchisor-franchisee relationship is important for the success of the franchise business and for the individual franchisee business unit. The franchisor and franchisee enter into a contractual agreement for a period ranging from three to fifteen years.

Franchising is a faster, cheaper form of expansion than adding company owned stores, because it costs much less the parent company when new stores are owned and operated by a third party. On the flip side, potential for revenue growth is limited because the parent company will only earn a percentage of the earnings from each new store. 70 different industries use the franchising business model, and according to the International Franchising Association the sector earns more than $1.5 trillion in revenues each year. The USA is a leader in franchising since 1930 when it used the approach for fast-food restaurants, food inns and, slightly later, motels at the time of the Great Depression.

Franchisee benefits from the franchisor’s business experience. In fact, experience is the essence of what a franchisee is buying from the franchisor. A franchisor has climbed up the learning curve and can share with franchisees the secrets of success that he or she has discovered in the industry. One of the basic tenets of franchising is cloning the franchisor’s success.

The ideal franchisor-franchisee relationship is built on mutual trust, consideration, and cooperation, and is vital for the success of both parties in developing a win-win relationship. The termination of a franchisor-franchisee relationship has many implications for both franchisor & franchisee. The implications of the franchisor-franchisee need to be fully explored so as to have a better understanding of factors that produce a high-quality relationship between franchisor and franchisee beneficial to both parties.

A franchise usually lasts for a fixed time period (broken down into shorter periods which each one requires renewal), and serves a specific territory or geographical area surrounding its location. One franchisee may manage several such locations. A franchise is merely a temporary business investment involving renting or leasing an opportunity, not the purchase of a business for the purpose of ownership.

Franchise fees are on an average of 6-7% with an additional average marketing fee of 2% Franchise brokers help franchisors find appropriate franchisees. There are also main 'master franchisors', who obtain the rights to sub-franchise in a territory. After the brand and formula are carefully designed and properly executed, franchisors are able to sell franchises and expand rapidly across countries and continents using the capital and resources of their franchisees by reducing their own risk.

Franchising globally is considered to be a distinct entry model very different from the exporting/ licensing. According to Shane (1996), franchising requires two different companies who can work with each other and form relations for being successful by earning profits together and benefiting each other. There are three components, which must be existing in the relationship between franchisor and franchisee; (i) There is a contract-based agreement between the franchisee and the franchisor (ii) there are two independent parties involved but after the contract they become inter-dependent, and (iii) they become partners in a business that is already into existence.

Franchising, a business development method for expanding a company and distributing goods and services using an established business system and a recognized brand name, has advantages and disadvantages.

III. OVERVIEW OF GLOBAL SCENARIO

Franchising activities have been very successful in the West, particularly in the US, after the 1960s. Franchising has proved its viability in the U.S economy. Franchising emerged as a significant way of doing business in the second half of the twentieth century and continued to expand during the 1980s and 1990s, and is becoming a major force in the United States' economy.

Franchising, though is a western concept, is not limited to the developed nations only. It has spread its mark to developing countries also; like India, Brazil, and China etc. Even the African nations, over the last few decades, have started tasting the flavors of franchising. Nigeria is one such country, which is attracting a lot of attention in the Franchising space given the huge consumer class. Foreign brands, such as KFC, Dominos etc. have already set up franchisee outlets in the country to tap this potential. Franchising contributes almost 10-25 percent of the GDP of most of the OECD (Organization for Economic Cooperation and Development) countries.

The following table illustrates the growth of franchising in few countries

Table - 1.1: Growth of Franchising in selected countries

Country	Franchisors in 2012	Growth in the last 5 years (CAGR)	Franchisee establishments in 2012	Growth in the last 5 years (CAGR)	Franchisees / Franchisor Ratio - 2012
USA	3500	n.a	7,50,000	-0.60%	213
Australia	1200	4.2%	73,000	2.80%	62
Brazil	2426	15.2%	100,000	9%	41
UK	929	2.8%	40,000	2.10%	43
China	5000	7.4%	300,000- 350,000	22.40%	24
Malaysia	550	5.5%	13,000	7.60%	69
Germany	960	1.1%	66,000	3.40%	66

Source: KPMG Report (2013)

From the above Table 1.1, it is evident that China and Brazil have achieved relatively higher growth in new brands resorting to franchising as a business model for expansion as well as new franchisees. US leads other countries when it comes to number of Franchisees for every Franchisor (Brand) operating in the country. This suggests the relative maturity of the concept and widespread acceptability of franchising as a business model. USA is the leader in the world of franchising with around 84 of the top 100 franchised brands globally and has seen a continuous growth. Employment, generated by the franchising sector, also has been growing, over the years in the US, and suggesting the immense potential for the sector to contribute in job creation. Brazil has seen a tremendous growth in franchising over the last decade with a CAGR of around 16 percent from 2005 to 2012. The total turnover of the franchising sector in 2012 stood at $103 Billion, which is around 4.16 percent of the Brazilian GDP in 2012 ($2476 Billion). Franchise sales in the United Kingdom have seen a continuous rise in the last couple of years. The growth of the UK's franchising sector except in 2005 and 2008, exceeds country's GDP growth rate. With growth rate of around 8 percent in 2011, franchising has helped the country to increase revenue for the government as well as created more jobs for the public. With an employment potential of close to 6 lakhs in 2011, this sector holds a lot of promise for the UK economy.

IV. OVERVIEW OF INDIAN SCENARIO (KPMG REPORT)

The economy of India has seen a constant progress since liberalization initiated in 1991. This is because of increase in the number of consumers owing to the growth of young generation, increase in disposable income and the growing urbanization. Globalisation and increased brand awareness have greatly impacted the country's economy. India is now seen as one of the world's largest and fastest emerging markets in the international arena, its vast population size and cultural diversity have made it a prime environment in which franchising can thrive.

Franchising is one of the most common entry modes used for business expansion by both, international and domestic players. It is growing at a rate of 30-35% per annum and the sales turnover of the sector was recently valued in billions US$.

In the last decade, the franchising industry has come up amongst the list of the top most feasible and productive methods of expanding business in the Indian subcontinent. There are a number of industries; like Food and Beverages, Fashion, Education, Tourism and Hospitality that have leveraged their growth in the economy by franchising their products and services. Today, India is a home of about 3000 brands, which follow the franchising model.

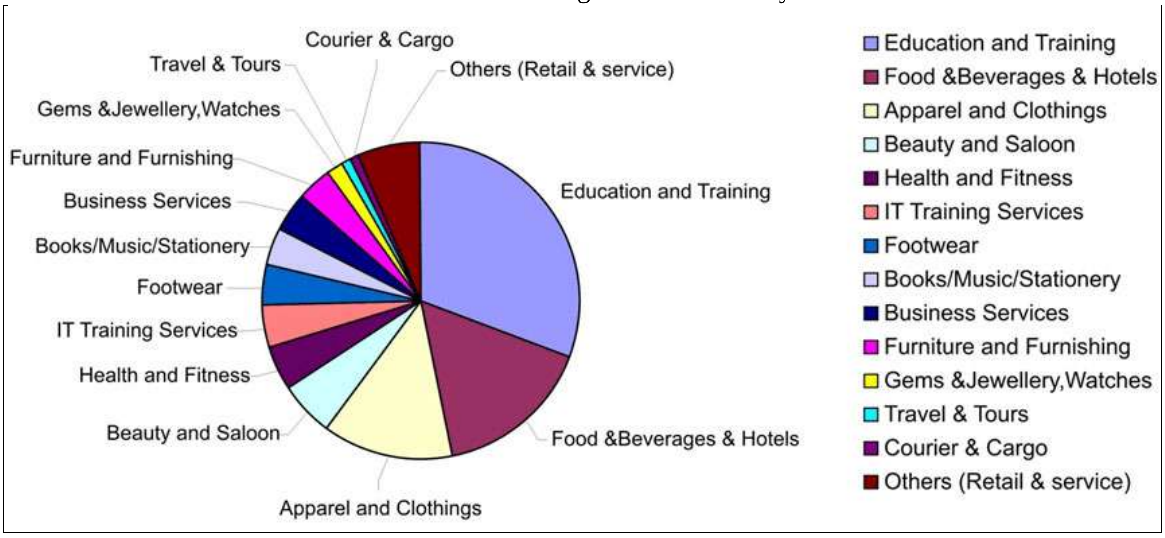
Bata, is one of the leading brands in footwear industry, is amongst the pioneers of franchisors in India. Others in the list are Apollo Hospitals, NIIT, Titan Watches etc. There is a lot of top-level international brands, like McDonald's, Baskin Robbins, Dominos, Yum Brands, Subway, etc. that have already made their presence felt in India through franchising. Franchising industry will consistently benefit the economy mainly due to support from the government in different sectors.

The Indian franchising concept is developing at a very impressive rate since the year 2008, as Indian entrepreneurs believe that franchising is the most feasible solution to attract the Indian consumer base. The information by Indian KPMG has estimated that Franchising in Indian subcontinent had been \$13.40 billion in 2012 and has shown 30% CAGR in the following five years from then. This was equivalent to around 1.40% of the India's Gross Domestic Product (GDP) in 2012. The contribution of Franchising to the growth of economy of a country can be analysed by many ways; like creation of jobs, providing essential goods and services, thus contributing to the tax revenue of the country.

The Indian Franchising industry is getting popular amongst domestic and international companies. Successful franchisees in different industries in developed nations become motivation for the growth of franchising in various major industries in our country. Franchising in Retail, Beverages and Food, Health Franchising, Beauty and Wellness, Customer Services, Training and Education are the main sectors that have high future prospects.

The Franchising concept, which started in the western countries, has spread now in developing nations also; like Brazil, China, India, etc. Dominos, KFC brands of foreign origin have already established their franchisees in India.

The table 1.2: Franchising In India - Industry Wise



Source:https://www.francorp.in/franchising-in-india.php

Franchise Industry is a very popular business format amongst the organized retailers, especially in small cities. The Indian FDI reforms in retail industry are luring international retailers to India. The current retail companies of India are under enormous pressure to spread their franchising network to compete with their foreign competitors, because there are many multinational companies, namely IKEA and Wal-Mart that are trying to establish their set-up in India. However, the government of India has allowed global retail companies to open units that are owned and run by them only, which can create obstacles in the development of franchising in the field of retail industry in India.

There is a lot of scope for the franchising industry in India for growing in the retail and education sectors. Food and Health sectors also have a great scope from the perspective of revenue. The KPMG report about Indian subcontinent suggests that the franchising industry prospects would be much higher in the Customer Service, Food Services, Retail, Education, Health and Wellness sectors. Combined together, all sectors can add about one lakh franchisees in around 5 years. Of these, the highest market potential is within the retail industry.

Franchising industry has given employment to 1.4 crore people by 2017, which is 10% of the actual workforce in the given year. There is a tremendous need for skilled workers in franchisee industry and, therefore, it becomes imperative to identity the skill gaps and works towards bridging them. The employment potential estimated is 77 lakhs (5% of workforce) in retail sector, 10 lakhs (1% of workforce) in food and beverage, 31 lakhs (2.2% of the workforce) in consumer service sector and 20 lakhs in the education sector (1.5% of the total workforce).

Problems In Growth Of Franchising In India

These days, India is the most profitable and attractive country for most global brands. Franchising is the preferred entry mode for global brands to enter the Indian market. Franchising offers one of the best ways to enter or expand the market for a company that wants to expand quickly. It is also the most used form in the distribution of services, particularly in retail. Franchising is an important means of doing business for small businesses. The degree to which a franchise system penetrates the target market over the time is often influenced by the speed with which its individual affiliates expand. But the decision of a franchisee to expand the commercial operation depends on the perception of the value that the franchisee expects to receive from the franchisor in exchange for a variety of rates. Affiliate satisfaction is vital for continued participation in the franchise system. The collaboration between franchisors and franchisees is fundamental to the success of franchised companies. There are several ways to collaborate between franchisors and franchisees, such as project configuration, marketing, employee training, operations management, revenue management, cost management and risk management. Project Start-Up Support is the first area of collaboration between the franchisor and the franchisee. Most of the franchisors participate in the demographic analysis of the site, the site evaluation, the survey and the approval, the structures planning and architectural design of the opening of shops and stores (retail customers). The franchisees also recognize the importance of the franchisor's contribution to correctly understanding the basic concepts of the project.

Concerned about the lack of sales information and other theft activities in franchised stores, franchisors conduct periodic audits to obtain evidence of incomplete notification, unauthorized transfer, unauthorized distribution channels and supply. Not only do the affiliates have an incentive to behave in an opportunistic manner (means that work only to their advantage through the abuse of authority granted by the franchisor), but also some franchisors engage in questionable practices, such as invading the territories of the franchisee (Schneider et al. 1998). Do not properly use cooperative advertising funds (Luxenberg, 1986), with the fixing of unfair product prices (Emerson, 1998) and also use unfair contract terminations (Rau 1992). In general, franchisors have more contractual power than their franchise partners and, therefore, it is possible for franchisors to extract unjust concessions from franchisees (Kumar 1996).

Therefore, we can say that although contracts exist to protect trade, but the incentive for opportunistic behavior is high for both franchisees and franchisees for franchise relationships. However, this behavior will reduce the long-term growth of affiliates in India, because if franchisors invade the franchisee, satisfaction part of affiliates will be reduced and this will lead to the disobedience of the franchisee with the policies of the franchisor and on that basis, the perception will be made accordingly of franchisees that the relationship with the franchisor is deteriorating. This will have a major impact on the sustainable growth of the country as many resources are wasted if a franchise store and the people working in the store become unemployed. Therefore, we must find ways to increase the satisfaction of franchisees and franchisors for their long-term relationship. For this long-term satisfaction of the franchisee, it is a must to resolve the relationship problems that arise in the franchisor-franchisor relationship. Therefore, this study helps to improve the relationship between the franchisor and the franchisee when it makes the decision of how much autonomy we can provide to franchisees. In most countries, the franchisee leaves the relationship with the franchisor, because both cannot resolve the control of disputes and autonomy that ultimately affect the sustainable growth of the franchise.

Agency Theory

Agency theory is a multi-disciplinary theory, because it can be used in economics, marketing, finance, accounting, political science etc. Agency theory is defined as "an agency relationship by which one party, the principal delegates work to the agent to carry out that work" (Eisenhardt, 1989). Ross (1973) defines Agency theory as "a relationship that arises between two parties when a designated agent acts as or on behalf of the other, the designated principal, in one aspect of decision making".

Afterward, Jensen and Meckling (1976) define "the agency relationship as being under a contract in which the principal engages the agent to develop an activity on their behalf by delegating decision-making and authority to the agent. Agency relationship have agency cost. Agency's costs are sum of the costs for the design and formalization of the contracts, the costs of monitoring the agent and those associated with the residual loss."

Agency theory is applicable on many types of relationship, which are based on two or more actors; like in franchisee relationships (Shane, 1998), mergers and acquisitions (El-Akremi et al., 2010) or an associated enterprise (Michael and Combs, 2008). In agency theory the contract is the most important thing between the parties of the contract. Agency theory helps established an efficient relationship between the principal and the agent.

In literature, studies on agency theory are based on the entrepreneurial-franchisee (agent), who is interested in that kind of business model, who is looking for activities that offer more guarantees and lower risk, even at the expense of a loss of independence and future profitability.

Castrogiovanni (1993) compared managers and entrepreneur-franchisees. They analyzed the attitudes of the managers of establishments owned by the chain and traditional entrepreneurs and came to the conclusion that franchisees have a profile more similar to a traditional manager than an entrepreneur; these franchisees exhibit a maximum commitment to the chain, but have lower skills than managers or independent entrepreneurs.

"Relationship of Agency" has been explained as an agreement where a single principal (franchisor), hires someone else (franchisee) to do services under the instructions of the former; like involvement of delegation of authority for decision making by the agent. In this situations both the parties can have distinct motivational factors and the agent might not always perform in the best way as per the instructions of principal. The main hurdle in an efficient relationship between the principal and the agent are Agency problems and the risk sharing.

There are problems in agency model in the company owned outlets, since the owner does not have the right capacity to keep check on the manager's deeds. The cost of the agency increases when interest of the owner and the manager conflicts. Franchisor has to bear the costs of monitoring of the managers of units of the organization, because the franchisor wants to ensure that all the managers put in their best efforts, which will lead to profit for the franchisor company outlets. Company owned outlets are mostly dispersed in different areas and monitoring of expenses of managers are more than their benefits. When monitoring is very expensive, owners will not be able to understand whether sales are low owing to low demand for products of the company or ineffective managers. The two other agency issues; namely adverse selection (Principal unable to verify the skills and abilities of agent as he may misrepresent them) and morally not correct (Principal may not know whether the agent is putting his best effort towards the company or guiding his efforts towards achievement of his personal goals) can be come in picture in company owned outlets. These two agency issues can be resolved if ownership is allocated as a compensation to the franchisee instead of fixing the compensation of the manager, who is a salaried person (Eisenhardt, 1989: Shane, 1996).

The monitoring costs are avoided by using franchising model instead of company owned outlet, but the efficiency of specialization is gone astray. The franchising model is more preferred by the franchisor than the organization's owned outlets due to less capital requirement, in the beginning, for each outlet. An intelligent franchisee is expected not to invest much in the assets. It has become a very common business model in the areas that are dispersed physically. The more is the dispersion of units of the company, the less are the gains from the ownership because of high monitoring cost of the geographically dispersed company owned outlets. So these days the franchising model is preferred over the company owned outlet.

The agency problem in franchising

Company owned outlets have high cost of monitoring of the manager, as explained earlier. Companies can go for franchising their outlet to save the monitoring cost. Franchising model is not entirely efficient, even-though it helps in economizing costs of monitoring the outlet. In case of franchised outlet, franchisor has to face three different problems that are namely free riding, quasi rent appropriations and inefficient investment. These three problems involve cost, called the agency cost, which the franchisor has to bear in case of franchised outlets. The company/franchisor has to take a calculated risk and decide between the costs of agency and the benefits of reduced franchisee monitoring cost while choosing a franchised outlet (Brickley and Dark, 1987; Krueger, 1991).

In the franchisor franchisee relationship, the agency problem arises when the objectives differ between the principal (franchisor) and the agent (franchisee). One aspect, where this difference in opinion is most visible, is the so-called moral hazard and to prevent this problem, the principal sets some restrictive clauses (Lafontaine, 1992). There is always some deviation in between the interests of the agent and the principal. The principal makes delegation of work to the agency as the principal doesn't have the resources and skills to carry out the tasks. The principal wants that the agent should act in the best interest of the organization, however, self-interest of the agent can dictate otherwise. Free riding is also an agency problem that comes along with franchising. "Product shading quality can be externalized while gains can be internalized, that gives a motive to the franchisee for such activities (Carney and Gedajlovic, 1991).

An agreement of Franchising should explain the rights and obligations of both the franchisee and franchisor (Brickley, 1991), and it should protect the interests of both the parties financially (Castrogiovanni and Justis, 1998). It must put forth the terms and conditions for running the franchise and for the annulment of the franchise relationship (Hadfield, 1990; Brickley, 1991; Rubin, 1978).

The Franchising model does not come free although it solves numerous agency problems. These are followed by various other agency problems, like shirking responsibility and risk aversion for qualitative performance on part of franchisee and also the cost related to free-rider opportunities [that are totally disregarded for the franchisor and the franchisees, since the franchisees may sell inferior quality products, jeopardize the reputation of franchisor and can result in negative effects(Shane, 1996). This behavior of free ridership is usually present in trade where the customer base is less and not repeated (Brickley, 1991). The autonomy desire of the franchisee also results in problems of agency (Castrogiovanni and Justis, 1998).

The agency theory literature focuses on the control formally (Fama and Jenson, 1983; Monye, 1997; Shane, 1996; Stanworth, 1996). It searches the best possible control structure for relationship of agency and principal (Eisenhardt, 1989), it examines cost control (Brickley and Dark, 1987; Castrogiovanni and Justis, 1998), and monitors efficiency (Shane, 1996). In the perspective of agency theory, it is suggested to observe the dynamic and the static characteristics in the relation of franchising while focusing on the paradox of autonomy or control.

Dependence Of Franchisee

When the target company/franchisee depends on the source company/franchisor for getting desired results (profits), we can say that Target Company has the dependence on Source Company. According to the past studies, there are three different conceptual approaches for defining sources of dependence.

The first approach developed by El-Ansary and Stern (1972) is the “sales and profit” approach. According to this approach, profit and selling are two significant things for every business organization. Better contribution of profit and sales to the target company by source company, more dependence of franchisees on franchisor. Kale (1986) also defines Dependence of the franchisee based on the profit and sales approach.

The second approach Developed by Frazier (1983) in the literature is the “role performance”. According to this approach, how effectively the company is performing its role in a relationship channel with another company is important in deciding dependence. According to this author, “when the level of a source firm's role performance is perceived as being high, than the target should be highly motivated to maintain the exchange relationship. Furthermore, higher the perceived role performances of a source, fewer are the alternatives that should be available to the target to replace it sufficiently.” Means if the franchisor role performance is high, then the franchisee dependence will be high on franchisor.

The third approach is given by Heide and John (1988). According to them, there are four sources of dependence.

A) When the magnitude of the exchange is high, that is to say, the obtained results of a relationship are important and of high value,
B) When the results of a relationship are comparatively higher than the available results of alternative relationships,
C) When few available alternative sources exist for the target company, when it is difficult to replace the partner as a consequence of the investment in specific assets.
D) When it is difficult to replace the partner as a consequence of the investment in specific assets.

It is important to point out that in any relationship; the two partners present a certain degree of dependence, since even the most powerful companies have something to lose if they break the relationship. However, this reciprocal dependence that exists in all exchanges can be symmetrical or asymmetrical. The inter-dependence is symmetrical when the two companies in a relationship are equally dependent. Otherwise, the inter-dependence is asymmetrical; the company that needs the other firm more to achieve its objectives is the more dependent one. Asymmetric inter-dependence has also been referred to as the more dependent firm’s relative dependence (Anderson and Narus, 1990) or the less dependent partner’s relative power (Emerson, 1962; Frazier and Rody, 1991). Relative dependence determines the degree to which a company will have influence on and will be influenced by its partner. In this sense, it can be said that dependence has been recognized as the inverse of power, because if a Company-B is highly dependent on Company-A, then surely Company-A has power over Company-B (Emerson, 1962). The members of the distribution channel’s perceptions and the behaviour are not neutral with respect to the power-dependence relationship of each one of them. So, how much the target firm feels dependent on the source firm is very important in deciding how much autonomy they want in a relationship. That’s why dependence of the target firm or the franchisee on the source firm or franchisor is very important in franchisee franchisor relationship.

Autonomy Of Franchisee

Autonomy, on the other hand, refers to the franchisee’s freedom for making management decisions itself, without interference from the franchisor. The emphasis here is not on economic dependence, but on the scope franchisees have to manage their own operational activities without subordination or intrusion.

Autonomy can be conceived to the extent a party, here a franchisee, is unconstrained to make decisions independently (Feldstead, 1991; Dant and Gundlach, 1999).

Autonomy can also means the capacity of action and thought independently (Sims, Szilagyi and Keller, 1976).

Autonomy is concerned with the freedom given to decide how and which tasks are performed, like the liberty given to the franchisees to choose a new process (Lewin and Salomons, 1998). Hence, we can say that autonomy is the extent of freedom given to franchisees to manage the associated outlets on their own by taking decisions independently. Autonomy can also be stated as the aptitude or the capability for making decisions independently (Dant and Gundlach, 1999).

Some studies in the literature are of the opinion that autonomy should be given to franchisee for getting the better results in the franchisor franchisee relationship. But, some studies say that if we give too much autonomy to the franchisee, then it can be counter-productive and can give negative results.

In a study by Breaugh (1985), a correlation between autonomy at work and satisfaction (with respect to work, use of capacities, supervisor and performance quality) is observed. An indirect relationship of autonomy is identified in his study that leads to satisfaction and satisfaction potentially liable to lead to better performance. So, according to him for getting better results in a relationship, franchisor should give autonomy to franchisee. According to Kaufmann and Eroglu (1998), thanks to local adaptation, variability of local demand (tastes, income, ethnicity, etc.) and its variation over the time, the franchisee can obtain higher revenues. Here too, the relationship between autonomy and performance is dependent on the franchisee's capacity to adapt the concept locally.

According to Pizanti and Lerner (2003), a balance is needed between control and autonomy, because too much autonomy can be counter-productive and negative.

Windsperger (2004) also suggests that there is a positive correlation between the decision-making powers of the players on the one hand, and performance on the other hand. Specific capacities at the sales outlet in the presence of high level of centralization may not generate a better performance, since the franchisees do not make effective use of their capacities. In the same way, capacities specific to the franchisor, in the presence of low levels of centralization, will struggle to optimize revenues as the franchisors do not have sufficient influence on use of the assets. The correlation between autonomy and performance depends on the complementary of decision-making powers (in between franchisee autonomy and franchisor decision-making powers).

As far as Cox and Mason (2003) are concerned, autonomy can lead to better results for the franchisee and the franchisor, with franchisee, in particular, being seen as a source of innovative ideas, but only with respect to peripheral components (as well as, potentially and to a limited extent, the core components of their context, but only in the initial phases of development).

As discussed earlier, monitoring cost plays a very important role in selecting franchising as preferred mode of entry than the company owned outlets. One must keep it in mind that the cost control can be different amongst various outlets (Slade and Lafontine, 1997), because of the differential scales for operations that are distributed within the channel. The units that have high monitoring cost are requiring more autonomy than the units that require lesser cost to monitor and henceforth require intensive control. The franchisor could accept deviations from contractually regulated business procedures if the franchisor feels that there are beneficial outcomes for the whole channel are expected. Conversely, due to power asymmetries between the principal and the agents, chains can enforce certain restrictions at (potentially opportunistic) stores even if these constraints are not formally incorporated in the contract or the handbooks. Lewin-Salomons (1998) argued and provided some anecdotal evidence that this kind of informal allocation of decision rights is a central source of franchisees operational realm. Thus, according to the Pizanti and Lerner (2003) in franchising, the level of control and autonomy may differ from one franchisee to another.

Autonomy And Dependence In Franchisor Franchisee Relationships

According to Zolkiewski (2004), a relationship is defined as "a mutually orientated interaction between two reciprocally committed parties" in a services context. It implies that a mutual way of thinking exists between the customer and the supplier (or the service provider). Although the literature portrays the relationship as one where the franchisee is the recipient of the franchisor's expertise and knowledge, it is important to recognize the franchisee as an intelligent participant, who is capable of contributing to the system.

There are predictable patterns in the franchise relationship and proven strategies that franchisees and franchisors can adopt to manage their relationships very effectively. Franchise systems consist of multiple organizations that are legally independent, but economically inter-dependent, and operationally indistinguishable to consumers. Franchise relationships are difficult to manage, given the very different goals and objectives of franchisors and franchisees. The franchisor will consider the performance of the entire franchise system, while the franchisees will focus on the performance of their particular outlet. It has further been suggested that franchisees remain in the franchise due to the perception that they continue to derive value from their involvement in the franchise. The consequence of the intention to remain within a franchise system is also significant. Short tenure of franchisees, drives franchise re-sales, and a high proportion of re-sales to total units not only reflects poorly on the system, but retards network growth (as more franchisees are needed), drains franchisor resources (from effort managing re-sales and training new franchisees) and reduces per unit performance while new franchisees take time to perform. The net result of poor recommendations, post purchase dissonance, and poor franchisee performance, low commitment to the organization, bad franchise relations and low tenure is not in the right direction of the growth path.

Conflicts of interests and exertions of different power sources are very common in the system. Laurie (2000) opines that neither a franchisor nor a franchisee can afford to waste time and energy on a discordant relationship. The stability of the relationship is important to any composite organization. Therefore, it is very important to establish a strong partnership and relationship in the franchise system to reduce the negative side of the relationship conflicts.

Solving this conflict will help to increase trust and satisfaction of the franchisor and the franchisee in franchisor franchisee relationship. This satisfaction helps for long term growth of the franchise. While positive levels of franchisee satisfaction contribute to network growth and development, poor satisfaction levels have the potential to destroy value of the franchise business. Hence, franchisee satisfaction is important. The literature review indicates that early research focused on the tendency of the franchise relationship to be conflict prone, and involving a great deal of dissatisfaction, due to the imbalance of power, among the parties involved.

The concept of franchisee satisfaction has been gaining prominence in franchising, as many franchisors recognize the importance of measuring and benchmarking the satisfaction levels. In future, more franchisors will measure franchisees' satisfaction and use results to improve their networks. Existing franchisees will expect regular surveys and prospective franchisees will demand to know their results before joining the system.

To solve the conflict between the franchisor and the franchisee, one has to understand the reasons of the conflict. There can be a number of reasons of conflict between franchisor and the franchisee, but the main reason of the conflict between franchisor and the franchisee is whether the franchisee's role is independent of the franchisor or heavily controlled (Cox and Mason, 2007; Felstead, 1991; Kaufmann and Eroglu, 1998; Pizanti and Lerner, 2003; Stanworth, 1995). The franchisee's role can be viewed as a controlled agent and utilized to grow the franchisors business or the entrepreneur as self-employed business owner. Macro-level research often acknowledges the franchisees as self-employed on the basis that they pay their own tax and social security (Felstead, 1991). Franchise organizations often adopt this angle to attract potential franchisees with an entrepreneurial or self-employment motive, using slogans such as "be your own boss" or "work your own hours" (Dant and Gundlach, 1999; Felstead, 1991). Research has demonstrated that franchisees and independent business owners are quite similar in their background and orientation, and that franchisees often consider both options before selecting franchising (Kaufmann and Stanworth, 1995; Peterson and Dant, 1990).

From a strategic perspective, the franchise relationship can be viewed as dynamic with the potential for value to be added through the entrepreneurial actions of the franchisee. Arguably, the franchise system provides opportunities for a two-way transfer of knowledge between the franchisee and the organization, essentially allowing the franchisee to add value through "the creation of new strategies and new solutions to existing problems" (Phan et al., 1996**)**. Although franchisees can deliver value to the system, an entrepreneurial role is not necessarily encouraged by franchisors. Stanworth et al. (2002) notes as "some of the most cited examples of franchisee-led innovation result, from experimentation by franchisees, were not only not sanctioned by franchisors, but on occasion, actually discouraged."

Others have argued that it is questionable whether the franchisee contributes to the system as a leader, risk taker, creator and innovator (Felstead, 1991; Kaufmann and Dant, 1999). Felstead (1994) argues that in reality the franchisees' ability to innovate or act entrepreneurially is critically hampered by contractual restrictions placed on operations by the franchisor. Instead, the franchise relationship can be viewed simply as a vehicle for franchisor expansion by limiting organizational constraints of growth and providing capital for investment (Caves and Murphy, 1976; Spinelli and Birley, 1996**)**. Franchising enables franchisors to penetrate geographically dispersed markets with limited capital, although the role of franchisees can be viewed as adding little further value, therefore, franchisees should not be encouraged to pursue their entrepreneurial impulses (Felstead, 1991).

Felstead (1991) suggests that franchisees are best described as "controlled self-employed," owing to a paradoxical position between Autonomy and dependence. Some authors suggest that the level of entrepreneurialism associated with the position may change over the time (Dandridge and Falbe 1994; Tuunanen and Hyrsky 2001**)**. Autonomy in managing activities increases or decreases with maturity of the firm is, however, not firmly established. In the early stages of franchising, as the franchisor increases market share and knowledge, the franchisee is likely to be more familiar with local preferences and tastes (Cox and Mason, 2007). In these circumstances, the franchisee may be expected to take more control over the strategic direction of the franchise. Entrepreneurial franchisee's behavior is likely to be far more desirable in growing franchise than those who have achieved maturity (Tuunanen and Hyrsky, 2001). Dandridge and Falbe (1994) explain that "in a franchise system, which is growing or where the franchisor wants growth, the franchisor will find entrepreneurial behavior through franchisee as desirable." However, allowing greater entrepreneurial flexibility also increases the level of risk for the franchisee, and to compensate that risk, the franchisor may offer lower fees or royalties, as is often seen "when the franchise concept is still new" (Phan et al., 1996).

Conversely, other authors explain that when the franchise matures and the business concept has been tested several times in different geographical locations, the franchisor's confidence in the success of the concept increases and their reliance on franchisee-entrepreneurs declines (Kaufmann and Eroglu, 1998). In an established franchise, controlling franchisee autonomy is important for achieving standardization, quality control, focused decisional power, and a consistent brand image (Stephenson and House, 1971; Strutton, Pelton and Lumpkin, 1995). However, Kaufman and Eroglu (1998) add that standardization is most critical in earlier stages of business to project consistency for new customers, and so control will decline as the firm matures. This proposition corresponds with research presented previously that suggests mature franchise systems exert more control over franchisees than young systems (Gross-Turner, 1999; Paik and Choi, 2007; Pizanti and Lerner, 2003). Though a matured franchise system requires on-going market innovation for success of the system, however, franchisors may rely on the entrepreneurialism of multi-unit franchisees, as seen especially in international franchising (Dant and Nasr, 1998).

Based on the discussion given above, it is clear that implication of the balance of control and autonomy for franchisees is very important for effective relationship between franchisor and franchisee. The franchise relationship presents a potential for conflict as the franchisor seeks standardization and control on franchisees to maintain brand reputation, while franchisees strive for entrepreneurial autonomy (Kidwell et al., 2007). Enforcing strict restrictions on activities of franchisee can result in disappointment to franchisee's expectations of entrepreneurial behavior (Cochet et al., 2008), withholding support may dissatisfy franchisees, who anticipate a high degree of guidance.

It is seen that a major hurdle for the source company is controlling the relations with the target company and maintaining a proper balance between autonomy and dependence. Franchising can also be considered as a small trade, which is very closely related with the source company i.e. the franchisor, who meticulously manages unit that features the company policies of an independent source. Franchising models is promoted by the franchisor by saying that if anybody wants to be his own boss, then he may take franchisee of that company and when a person take the franchisee by having an impression that he can run his own outlet on the basis of his own terms, then he comes to know, after signing contract, that franchisee is not actually allowed to work outside the franchise agreements. Even though a few surveys of motivation of franchisees for selection of the franchising as an option reveals a lot of complexities (Dant, 1995). Generally, the franchising appeal has always attracted prospective franchisees in huge numbers with direct and vivid experience for doing their own work according to their own understanding (Hunt, 1971). These people are inclined towards getting autonomy and freedom for working on their outlets, franchised by them.

The franchisees may be independent in real terms as agreements are not enough to forecast the actual unforeseen events, perfect behavior controlling through monitoring people is not possible. Logically, it is also not possible that one has total control over another, as sometimes it becomes necessary to decentralize the decision making power; like in case of local staff where decision for their decentralization is necessary. Sometimes franchisors are also not willing to consume their time in certain activities, as they are not very inclined towards division of the labour. It is indispensable to have respect from franchisees, maintain goodwill and build trustworthiness so that business relations are good in the long run. Franchising management requires the franchisor to be consistent, having control on quality, maintaining standard and not losing the goodwill equity of brand and franchisee's wish of having Autonomy (Lumpkin, 1995). Autonomy and dependence are very important aspects in the franchising industry and that are always prevailing there as part of governing the organizations. If autonomy is given in excess, it can apprehend the franchisor from losing its originality and getting its brand equity diluted. On the other hand, taking control in excess can prove very costly as it will require total monitoring of the franchisee's behavior, which may lead agency to face problems also (Shane, 1995).

It becomes very difficult from perspective of the management to maintain a balance between autonomy and dependence in the franchising industry, which is not sustainable in the long run. This can be the dilemma for motivation and morale boosting amongst the franchisees. The study further will provide help to resolve this problem of maintaining a balance between autonomy and dependence in the franchising industry by suggesting factors effecting the autonomy and dependence of the franchisee in the franchisor franchisee relationship.
In the franchisor franchisee relationship, four types of combination of autonomy and dependence is possible as given in figure 2.1 below:-

Figure 2.1

Dependence \ Autonomy	High	Low
High	High Autonomy High dependence view according to latest channel prospective. (1)	Low Autonomy High dependence view according to Traditional channel prospective. (2)
Low	Low Autonomy High dependence view according to Traditional channel prospective. (3)	Low Autonomy Low dependence view (Rare combination in franchisee relationship) (4)

The low-low combination of autonomy-dependence in franchisor-franchisee relationship (cell 4, Figure 2.1) is feasible; however the theoretical arguments for such a combination are not accepted well in the existing literature. The franchisee in this cell would not be considered a model franchisee, and the franchisee's relationship period with the franchisor is also uncertain. So low autonomy and low dependence is the least viable state of relationships in the inter-organizational context, so we will not consider this combination in our study.

The belief of being dependent is regular feature of restricted autonomy given to franchisees; the low and high arrangement of autonomy and dependence has already tested in an organized way in the existing literature. In the literature, few researchers showed opposite association of dependence and autonomy of the franchisee in franchisor franchisee relationship (Pughetal, 1969; Thompson and McEven, 1958; Warren, 1967). Gouldner (1959) described that the autonomy is opposite to each other and depends upon the probability that a franchisee can or can't survive after partition from the association. On the other hand, many researchers in the literature have proposed that autonomy and dependence are highly co-existent socially (Garnier, 1982; Salancik, 1978; Pointer Begun and Luke, 1988). It was noted by them that it is very rare that in all the circumstances, one of them has advantage over the other in formation of structure on dependence.

An opportunity may arise where situation favors franchisor, as he has the special knowledge to resolve problems under that situation. Similarly, a situation may favor franchisee, because he may have achieved the ability to resolve problems then in a better than franchisor. Under the given scenario, it allows to develop relations that are regarded by higher autonomy and resources, in one domain, and dependence and resources, in other domain. This conceptual framework is related to the franchising model where both the parties contribute their abilities individually towards achievement of the organizational success, as a whole, without facing any issue related with the Division of Labour (Stanworth, 1995).So according to this discussion the franchisor must understand the importance of giving autonomy to the franchisee in some specific areas. If franchisor will give autonomy to the franchisee it will result in franchisee's satisfaction and this satisfaction of the franchise will result in long term sustainable relationship of the franchisor and the franchisee.

V. CONCLUSION

Many times, franchisees choose franchising because they feel that they can work as an independent business entity while getting support and resources from the franchisors (Fulop & Forward, 1997). But sometimes, to earn more profits franchisees attempt to reduce costs of the product or service by lowering the quality of product or service, which may deteriorate the image and reputation of the franchisor in the market (Combs & Castrogiovanni, 1994). To stop the franchisee from lowering the product or the service quality, franchisors maintain tight control on the franchisee outlet and do not give any authority to the franchisee. When the franchisee who started the franchisee outlet to become his own boss doesn't get the authority to take decisions from the franchisor for his own outlet, he gets unsatisfied and tries to break out of the relationship. The main reason of failure of this relationship is that both, the franchisor and franchisee are not able to maintain balance between the levels of autonomy given to franchisee along with the level of dependence. The study presented here suggests ways to help improve the relationships of the franchisees and the franchisor by taking the decisions as to how much autonomy we can provide to the franchisees. If franchisee is satisfied with amount of authority given to him in certain areas by the franchisor then this relationship of the franchisor and franchisee will go a long way. This long-term relationship between the franchisor and the franchisee will help in sustainable economic growth by maintaining the income of the franchisee and the persons employed in these franchisee outlets and by output creation in the economy.

Moreover, if the relationship between franchisor and the franchisee goes a long way, then this helps in generating higher rate of taxes due to higher surplus. Trade will become much more effective and infrastructure will be developed for the growth of the economy which will increase the degree of entrepreneurship and development of Small and Medium Enterprises (SME) in the longer run for sustaining the economy of the nation. So, balancing the autonomy and dependence in the franchisor franchisee relationship is important not only for the long-term successful relationship of franchisor and franchisee, but also for the sustainable growth of the economy.

As for the problems associated with the risk sharing (RS) that must support the parties, franchisors should delegate more decision rights when it is difficult to replicate the intangible resources to reduce opportunistic behavior (free-riding) (Mumdžiev and Windsperger 2011). To reduce the likelihood of the premature termination of the contract (hold-up), a guarantee could be feasible that allows the franchisee to belong to other professional groups or gives territorial continuity to the franchisee to enable collateral activities to be pursued (Chu and Liu 2010).

This study has some limitations that should be mentioned. The first and most notable is that it contains conceptual ideas that need to be proven empirically. The second limitation is determined by the degree of difficulty that may be involved when evaluating some of the factors that have been described. Despite these limitations our work sheds some light franchisee on giving autonomy to the franchisee is need of an hour. So the franchisor must think of giving autonomy to the franchisee wherever possible and beneficial for him. Future research work should be focused on the finding the factors which affects the level of dependence and autonomy given to the franchisee.

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