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Franchisor-Franchisee Relationships: An Interaction Approach

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The purpose of this paper is to examine franchise relationships by using an interaction approach which involves several exchanges or actor bonds between a franchisor and franchisee. The study is based on a web survey directed towards franchisees in Sweden. A total of 191 survey responses were obtained from a wide range of industries, representing a 16.2% response rate. A Pearson Correlation test was performed for the hypotheses. Results demonstrate a significant correlation on the impact which adaptations have on commitment in franchise relationships. Furthermore, information exchange is positively related to enhanced franchise outlet performance. The paper contributes to filling the gap within franchise relationship literature by applying an interaction approach in contrast to prior economic theories in this field of study.

Keywords- Franchising, relationships, interaction theory, contingency theory

1. Introduction

Franchising is often described as a powerful economic engine which has played an important role in business growth and expansion for nearly half a century. The franchise business system is a fast developing segment and one of the most adopted growth strategy particularly in the retail sector (Kwong, 2001; Roh and Yoon, 2009). The United States marketplace is crowded by 600,000 franchise outlets and The International Franchise Association estimates that franchise businesses will account for 40 percent of U.S retail sales in the near future (Spinelli *et al.*, 2004; Tikoo, 2005). With over 100,000 employees and annual sales of over 80 billion Swedish kronor, franchising is today an important part of Sweden´s economy (Effectum Franchise Consulting, 2012). Franchising means that a franchisor sells the rights to use an established brand name and business model to a franchisee who is legally independent; in exchange the franchisor receives a share of the profits. By applying a complete and well tested business concept, the franchisee thereby minimizes the risks associated with opening a business (Roh and Yoon, 2009).

The transactions between a franchisor and franchisee is a lot more complex than traditional buyer-supplier interactions, not only are there certain responsibilities in a

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franchise relationship to retain the value of the trademark, but the relationship is also sensitive to conflicts due to power and dependence between the parties. Hence, there is need for research that examines the relationship within this particular business format (White, 2010; Tikoo, 2005). The franchise relationship is a long-term cooperation between the parties who have entered into a binding contractual agreement with specified obligations. Both parties are dependent of each other; the franchisor is dependent on franchisee's effectiveness, the franchisee on the other hand is dependent on the help and experience from the franchisor (Harmon and Griffiths, 2008). According to Kwong (2001), franchisor and franchisee strive to maximize their own profit, therefore, the relationship between these two parties is different from a employer-employee perspective because there is less necessity for a franchisor to monitor the performance of the franchisee since the franchisee makes considerable investments in his or her own outlet (Combs and Ketchen, 2003).

Franchising has been a well researched subject for over thirty years, where the vast majority of studies were published during the 1990s and solely focusing on traditional or economic theories such as resource scarcity and agency theory (Combs and Ketchen, 2003; Combs *et al.,* 2004; Roh and Yoon, 2009). In this study, we aim to examine and provide insights to the franchise relationship from an interaction and contingency point of view with focus to explain the importance of organizational factors as technology, organizational size and structure, and especially from the franchisee's perspective since few prior studies have paid attention to this research area (Davies et al., 2011; Grunhagen and Mittelstaedt, 2000). While Hopkinson and Scott (1999) provide micro-economic explanations of franchising, Tikoo (2005) strongly argues that franchising is also a social system with close relationships between the parties rather than solely being an economic system. This is also supported by Hornibrook et al. (2009) who argue that relationships are not only concerned with economic transactions but also include social elements. . In a study made by Watson & Johnson (2010) the findings suggest effective communication to be critical in ensuring a relationship characterized by trust and commitment. In this study we examine construct as cooperative norms impact on performance, social exchange relation to trust and the role of contracts and adaptation by the parties in a franchisor-franchisee exchange.

Furthermore, there is a widespread perception in the agency theory that the principal and agent do not share the same interest and, therefore, problems like moral hazard may occur in the relationship which is normally solved through monitoring. The reason why we do not consider agency theory to be applicable to the franchise relationship context is because both franchisor and franchisee have incentives to maximize their own profit, (Barthélemy, 2011; Kwong, 2001). By applying interaction approach this paper contributes to filling the gap within franchise research literature where we explain the exchange episodes from a relationship oriented way contradict to hieratical way.

The paper is structured in the following manner: first, a conceptual framework will be presented which leads to the development of hypotheses. Second, the research methodology chosen to test the hypotheses is discussed. The final part of this paper presents the results, conclusion, research limitations followed by suggestion for future research.

2. Literature Review

The present paper aims at analyzing empirically the structure or relationship between a franchisor and franchisee through the use of elements from the interaction model (Ford, 2002). In recent years the marketing literature have shifted from long-lasting business-to-business relationships towards mutual benefits and loyalty between the provider and the client (Molina, Saura, Contri, 2009). Prior studies have shown that fast changes in technology as a result of environmental dynamism can damage the competitive advantage of a firm and decrease the extent of closeness in company relationships (Fredericks, 2005). According to Ford (2002), the interaction relationship depends on the characteristics of the interacting parties which includes organizational factors such as technology, organizational size and structure, also known as contingency factors. Contingency theory is described as a theoretical lens which is used to view organizations (Donaldson, 2001). The theory argues that firm effectiveness is a result of the coherence of organizational characteristics with contingency factors (Ifinedo and Nahar, 2009). The description of organizational size is connected to the number of employees in the workforce. Firm size is classified as follows; firms with less than 50 employees are considered to be small and firms with more than 250 employees are large firms. Firms with a number of employees between 50-250 are described as medium-sized companies (Ifinedo and Nahar, 2009). Organizational structure is described as a framework that has an impact on the interaction process where the extent of centralization and specialization influence the exchange and communication channels between the parties (Ford, 2002). Centralization and specialization dimensions are believed to be suitable for describing technology-structure relationships. A centralized company means that the decision making process is retained at the top of the organizational hierarchy, whereas the decisions in a decentralized firm are delegated to lower levels (Ifinedo and Nahar, 2009; Morton and Hu, 2004). According to Ifinedo and Nahar (2009),*"structural dimensions create a basis for measuring and comparing organizations"* (p.121). The organizational structure of smaller firms is flatter and the firm culture is often more trusting and cooperative compared to larger firms (Jayanth *et al.,* 2010). Technology and IT systems are argued to be more common in larger firms due to financial resources and general computer skills among employees (Ifinedo and Nahar, 2009). Computerized applications are less successful in smaller organizations which is supported by Sedera *et al.* (2003) who reports that firm size is directly related to the performance of information systems.

Inspiration for the following elements has been gained from previous interaction research by Metcalf *et al.* (1990) and Ford (2002).

Cooperative norms

Cooperation reflects the willingness to work together as a team rather than just fulfilling the needs of one party. Both parties have joint responsibilities towards changing conditions (Cannon and Perreault, 1999). According to Bobot (2011), firms who enter into cooperative arrangements such as franchising expects to increase product developments, expand markets and secure technology. A valuable attribute of franchising is its capacity to create competitive advantage for the franchisee (Pilling, 1991), however, the study by Bracker and Pearson (1986) did not show any difference in performance between independent and franchise businesses. Nevertheless, the need to examine the relationship between franchising and enhanced competitive advantage is discussed in the article by Pilling (1991). On the basis of the above discussion, the following hypothesis is examined: cooperative norms relate positively to competitive advantage in franchise systems. Competitive advantage refers to *”the superior capabilities of the firm over rivals and means of competition involve resource allocations”* (Bobot, 2011, p.41).

Hypothesis 1. Cooperative norms relate positively to competitive advantage in franchise systems.

Information exchange

Cannon and Perreault (1999) operationalize information exchange as the open sharing of important information that is useful for both parties such as sharing cost information, development plans, supply and demand forecasts. Exchanges between partners can also be defined as: *“the amount, frequency and quality of information shared”* (Agnihotri *et al.,* 2009, p.475). By sharing information and working towards a common goal, the involved parties will be able to better understand each other’s behavior and in the end increase the performance. Prior studies argue that information exchange is a key dimension of performance and, therefore, is crucial to the success of a company and to the creation of a strong relationship between trading partners (Stank *et al.,* 1996; Porterfield *et al.,* 2010). The second hypothesis in this study intends to investigate the correlation between information exchange and performance. Does important information sharing between franchisor and franchisee lead to increased performance? Franchise outlet performance refers to outcome results such as sales revenue.

Hypothesis 2. Information exchange is positively related to enhanced franchise outlet performance.

Social exchange

Social exchange is defined as an obligation to behave in a way that benefits the firm. Social exchange theory (SET) proposes that exchange partners seek to establish long-term benefits rather than concentrate on short-term transactions. Trust is often identified as an important element of social exchange theory and the most valuable asset of any business (Byrne *et al.,* 2011; Luo, 2002). Trust is a well researched topic within buyer-seller relationships; however, studies have failed to pay attention to the subject in a franchise setting. Trust is critical in a franchise relationship due to the concept of power and dependence, which is supported by Moore and Cunningham (1999) who explains that the exchange of benefits between partners contributes to interdependent relationships and mutual trust. Byrne *et al.* (2011) describe trust as*” the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor”* (p.111). Because franchise outlets are independent businesses and due to the fact that direct supervision is less common in franchising, trust is especially required in a franchise relationship where a contract cannot control every aspect that may occur in the relationship (Camén *et al.,* 2011; Barthélemy, 2011; Kwong, 2001). Previous research have given particular importance on how trust between exchanging partners can limit opportunistic behaviour (Grzeskowiak and Al-Khatib, 2009).

Hypothesis 3. Social exchange has a positive impact on trust in franchise relationships.

Legal bonds/Contract

Legal bonds are formal agreements between two trading partners which can give protection against environmental uncertainty or other future threats (Cannon and Perreault, 1999). The franchise contractual agreement specifies the responsibilities between the franchisor and franchisee and regulates the partners´ contribution to the relationship. Although contracts are rarely used once they are signed, they can be utilized as a tool as well as a form of control mechanism to minimize opportunistic behavior (Boulay, 2010; Camén *et al.,* 2011). Furthermore, Camén *et al,* (2011), argue that trust is not necessarily the basis for signing a contract in the beginning, therefore, it is important for the parties to understand the nature of the agreement. Even though franchise outlets are independent businesses, the contract is a way to monitor the relationship and the performance of the franchisee, and there is usually no space for negotiation; hence, the franchisee have to comply with the rules (Boulay, 2010).

Hypothesis 4. Contractual agreement in a franchise context is positively related to compliance.

Adaptation

Relationship-specific adaptations refer to one party's adaptations to the needs of another party in the relationship. According to Cannon and Perreault (1999); Metcalf *et al.* (1992) adaptations are substantial investments in products and process technology tailored at an exchange partner. Adaptations mean that the partners are committed to maintaining the relationship in order to secure continuity (Metcalf *et al.,* 1992). Commitment, just like adaptations, means that the exchange partners care about the ongoing relationship and therefore, make efforts to maintain it by adapting to the needs of one partner (Moore and Cunningham, 2009).

Hypothesis 5. Adaptations are positively associated with commitment.

The proposed five hypothesis of franchisor and franchisee interaction elements including cooperation, information and social exchange, legal bonds, and adaption leads to long-term franchise relationship and have positive ,outcomes on competitive advantage, franchise outlet performance, trust and commitment.

The environment is analyzed based on organizational factors such as firm size, structure and technology which create the basis for comparing organizations (Ifinedo and Nahar 2009). Previous research postulates that organizational size is directly related to the performance of technology (Sedera *et al.,*2003), therefore, one of the objectives of this study is to investigate the correlation between size and technology and whether the usage of information systems has led to enhanced franchise outlet performance.

3. Method

Data collection

This study is based on a web survey directed towards franchisees in Sweden. The web survey enabled us to get access to a large number of franchise relationships which would not have been possible through interviews (Perry *et al.,* 2002). A published list of franchise firms including the number of units (*n*= 2397) and a concise description of each organization were collected from the Swedish Franchise Association and FranchiseNet.se. Each organization (*n*=23) in the survey population was contacted by telephone in order for us to gather a list of e-mail addresses to franchisees. Firms were then selected to participate in the study depending on the availability of contact information to franchisees provided either by the franchisor or accessible on the firms´ website. Several franchisors announced their interest in taking part of the findings for their particular industry sector. The questionnaire together with a cover letter that informed participants about assured anonymity in the study were e-mailed to 1179 individual franchise units from a wide range of industries. In order to ensure a sufficiently high response rate, participants were reminded after one week to respond to the survey which contributed to a further 17 responses. At the end of the survey period, a total of 191 survey responses were obtained, representing a 16.2% response rate.

Table 1 provides a profile of the survey sample. A summary of demographic variables indicate that the majority of the sample consists of small centralized firms with more than eight years length of relationship with the franchisor. The largest sample, 132 firms, consists of a workforce between 0-9 employees. It is also evident that a large number of respondents operate in retail chains, hostels and restaurants and they exchange information and communicate with franchisors via technology/information systems.

Table 1 .Profile of survey sample (n=191)

Measure	Value	Frequency (N)	Percentage (%)
Size (employees)	0-9	132	69.1
	10-19	34	17.8
Small firms	20-29	9	4.7
	30-49	5	2.6
Medium-sized firms	50-250	8	4.2
Large firms	More than 250	3	1.6
Length of relationship	Less than 1 year	10	5.2
	1-3 years	34	17.8
	4-7 years	55	28.8
	More than 8 years	92	48.2
Structure	Centralized	146	76.4
	Decentralized	41	21.5
	Other	4	2.1
Technology/IT System	Yes	160	83.8
	No	31	16.2
Industry	Restaurant/Fast Food	31	16.2
	Retail Chain	65	34
	Building Materials	21	11
	Service/Consulting	18	9.4
	Marketing/Sales	15	7.9
	Travel/Tourism/Hostels	41	21.5

Measures

The following constructs were adapted/modified from existing literature to be able to fit into this research context (i.e. interaction approach in a franchise relationship). A battery of 12 scale items were measured from the franchisee's perception on a seven-point Likert scale, extending from 1=strongly disagree to 7=strongly agree.

First, the measurement of organizational factors will be explained. Firm size is operationalized by Jayanth *et al.* (2010) as the number of employees in the organization and classified into three groups; small (less than 50 employees), medium-sized (between 50-250 employees) and large firms (more than 250 employees). Organizational size was formulated as an open survey question where participants were asked to fill in the number of employees for their company. The number of employees was then divided into three groups based on classification guidelines from Ifinedo and

Nahar (2009). Since small companies were overrepresented in this study a further subdivision of size was made for this group; 0-9, 10-19, 20-29, 30-49.

Length of relationship is operationalized as the number of years the business unit has been a franchisee to the current franchisor (Stanko *et al.,* 2007). With regards to environmental dynamism and information systems, respondents were asked to consider the following statements with a Yes/No answer option: our business is dynamic with changing customer needs and new product developments; and information sharing with the franchisor is processed by an IT system. Organizational structure was assessed in the survey by asking the respondents to choose between three alternatives for their organization: centralized; decentralized; or other structure.

Cooperative norms

Cooperative norms have been tested in former research by Cannon and Perreault (1999). In coherence with this study, three Likert scale items, anchored by strongly disagree/strongly agree, were utilized to measure cooperation (α= 0.884). Respondents were asked to evaluate the degree to which they believe that the franchise partnership has lead to competitive advantage/increased sales for their particular unit. Moreover, the franchisee's comprehension of the franchisor as an important partner in future business operations was ascertained.

Information exchange

Information exchange (α= 0.905) was measured by three scale items: Exchange of information in this relationship takes place frequently; we both share relevant information (cost, forecasts etc); sufficient information exchange with the franchisor has lead to increased performance/sales for our franchise outlet.

Social exchange

Social exchange theory identifies trust as an important element and valuable asset of any business (Byrne *et al.,* 2011; Luo, 2002). Trust is operationalized by Moberg *et al.* (2002) as:*" the willingness to rely on an exchange partner in whom one has confidence* (p.759). With reference to the discussion, social exchange (α= 0.939) in this franchise setting is measured by the following two Likert scale items acquired from established research by Huntley (2006); Metcalf *et al*., (1992): The franchisor keeps our best interest in mind; we have full confidence in the information provided to us by the franchisor.

Legal bonds/Contract

Furthermore, legal bonds (α= 0.358) were measured by two items: We have detailed contractual agreements with the franchisor; we often feel that we have no other choice than to simply comply with the rules in the contract.

Finally the fifth construct, adaptation (α= 0.518), was measured in the seven-point Likert scale with the two sequent items modified from prior research by Huntley (2006): The franchisor is often interested in joint development activities; our franchise outlet is willing to make adaptations and efforts to maintain the relationship with the franchisor.

Adaptation

Adaptations just like commitment is defined as:*"an enduring desire to maintain a valued relationship"* (Moberg *et al.,* 2002, p.760). A summary of descriptive statistics including mean, standard deviation and Cronbach´s alpha for all scale items and constructs is provided in the Appendix II, table V.

Measurement reliability

Reliability refers to the consistency of findings and the robustness of the questionnaire which means whether or not the study will generate consistent results under other conditions (Saunders *et al.,* 2009). Cronbach´s alpha (measure of internal consistency) was used to assess the reliability of the twelve Likert scale items in this study. Guidelines on how to analyze the results from Cronbach´s alpha is provided by Griffin (2005) in order for us to interpret the results properly. The tables below are listwise deletion based on all twelve selected variables in the procedure (N of Items=12, see table 2 and 3).

The statistical findings show that Cronbach´s overall alpha (α) for all items is 0.916, which points to a strong consistency of the results and, therefore, indicates a high reliability for this research. The alpha coefficient extends from 0 to 1 which means that the closer to number 1 the higher reliability for the scale items (Roh and Yoon, 2009). According to Griffin (2005), a high alpha result implies that participants who selected high scores for one scale item also tended to choose a high score for another item, hence, a low alpha would not have made it possible for this type of score prediction.

Table 2. Case Processing Summary

		N	%
Cases	Valid	191	100,0
	Excluded[a]	0	,0
	Total	191	100,0

Note: a. Listwise deletion based on all variables in the procedure.

Table 3. Reliability statistics

Cronbach's Alpha	N of Items
0.916	12

4. Results

The findings of this study were analyzed using SPSS Statistics version 18 LS which includes Correlation analysis (Pearson), Cronbach´s Alpha, Descriptive Statistics and Crosstabulation. Analytical guidelines and index of interpretation was collected from Statistics Solutions (2011); Martin (2011); and Michael (2011).

Hypotheses testing

Pearson’s Correlation Coefficient test was performed for the five hypotheses, compiled in table 4. According to Statistics Solutions (2011), the following criteria indicates the degree of correlation :”Perfect correlation appears when the value is near ± 1; value between ± 0.75 and ± 1 implies a high degree of correlation; value between ± 0.25 and ± 0.75 has a moderate degree of correlation; value between 0 and ± 0.25 indicates a low degree; furthermore if the value is 0 then there is no correlation”. Hypothesis 1 intends to explain the relationship between cooperation and competitive advantage in franchise systems. Test results for cooperative norms show that the construct is statistically significant, thus, the hypothesis is supported (0.702^{**} moderate degree). Information exchange is positively related to enhanced franchise outlet performance which is strongly supported by the test results (0.782^{**}, high degree of correlation). Based on Pearson’s Correlation analysis, findings confirms that there is a perfect degree of correlation (0.886^{**}) for hypothesis 3, social exchange has a positive impact on trust in franchise relationships. The fourth hypothesis indicates a positive correlation between contractual agreement and compliance, however, the degree is very low (0.247^{**}). Moreover, results demonstrate a significant correlation on the impact which adaptations have on commitment in franchise relationships, at a moderate degree level (0.365^{**}).

Table 4. Results of hypotheses Testing

Hypotheses/ Pearson's Correlation	Findings
H1. Cooperative norms relates positively to competitive advantage in franchise systems.	Supported: 0.702** (moderate degree)
H2. Information exchange is positively related to enhanced franchise outlet performance.	Supported: 0.782** (high degree)
H3. Social exchange has a positive impact on trust in franchise relationships.	Supported: 0.886** (perfect degree)
H4. Contractual agreement in a franchise context is positively related to compliance.	Supported: 0.247** (low degree)
H5. Adaptations are positively associated with commitment.	Supported: 0.365** (moderate degree)

Note: **. Correlation is significant at the 0.01 level (2-tailed).

		Information exchange with the franchisor is done by an IT System		
		Yes	No	Total
Firm size	Small firms (less than 50 employees)	149	31	180
	Medium-sized firms (50-250 employees)	8	0	8
	Large firms (more than 250 employees)	3	0	3
Total		160	31	191

Cross-Tabulation

Organizational variables including firm size, structure and technology were analyzed using cross-tabulation in order for us to identify patterns regarding contingency factors. Cross-tabulation shows joint frequencies and contributes with an understanding of how two or more categorical variables integrate and relate, also known as contingency table analysis which is one of the most applied analytic method in social sciences (Michael, 2011; Martin, 2011). Table 5 displays a combination of the independent variable size (divided into three employee categories; small, medium-sized, and large firms) and the dependent variable technology separated within the following two cells; Yes/No. Results shows that 160 firms exchange information with the franchisor through an IT system. A closer look at the findings regarding cross-tabulation on size and technology reveals that the 31 firms that did not exchange information through IT systems are small firms, thus, the remaining 11 firms belonging to the categories medium-sized and large firms are all utilizing information systems. In conclusion, a larger sample of these two categories would most likely expose a greater use of IT systems.

Table 5. Cross-Tabulation: size & technology

		Information exchange with the franchisor is done by an IT System		
		Yes	No	Total
Firm size	Small firms (less than 50 employees)	149	31	180
	Medium-sized firms (50-250 employees)	8	0	8
	Large firms (more than 250 employees)	3	0	3
Total		160	31	191

Furthermore, cross-tabulation was used to examine the relation between organizational structure (centralized, decentralized) and technology. Table 6 shows that 121 out of 146 centralized firms utilize information systems. The largest group of centralized firms which use technology can be found within retail chains. The survey sample also included 41 decentralized firms (see table I) from which 37 utilize IT systems to communicate with the franchisor (see table 6). Findings reveal that retail chains, restaurants and hostels are the most dynamic industries, however, it must be kept in mind that these groups represent the largest survey sample.

Table 6. Cross-Tabulation Structure & Technology

	Information exchange with the franchisor is done by an IT System.		
	Yes	No	Total
Centralized	121	25	146
Decentralized	37	4	41
Other	2	2	4
Total	160	31	191

Another comparison of two categorical variables; size and trust, was analyzed in a contingency table see table 7. Results of the contingency table show that there is a positive correlation between small firms and trust.

Table 7. Cross-Tabulation Size & Trust

		We have full confidence in the information provided to us by the franchisor.							
		1	2	3	4	5	6	7	Total
Size	Less than 50 employees	9	6	10	24	35	44	52	180
	50-250 employees	0	1	2	1	1	0	3	8
	More than 250 employees	0	0	0	0	2	1	0	3
Total		9	7	12	25	38	45	55	191

5. Discussion and Conclusion

This research paper examined franchise relationship from an interaction approach and with consideration of organizational factors as explanations for business differentiation, thereby contributing with new insights in this field of study. With consideration to managerial implications, this study yields a greater understanding for franchisors when it comes to the comprehension of long-term relationships. Since the findings of this research show that the majority of firms have had more than eight years length of relationship with their current franchisor, this study has therefore, provided a good framework for understanding the long-term relationship from the franchisee's perspective within an interaction approach. Five hypotheses, formulated on the basis of interaction theory, were tested by Pearson's Correlation Coefficient. Results showed that all hypotheses were supported in the test, to different degrees but mostly a moderate to high degree. Data were collected based on a web-survey directed to franchisees from a large range of industries. With regards to contingency/organizational factors, previous research has argued that technology systems are more common in larger firms and less successful in smaller organizations (Ifinedo and Nahar, 2009; Sedera *et al.,* 2003), however, this study found that 145 small firms utilized information systems to communicate and exchange information with their franchisor. Thus, it is evident that technology has gained a greater impact among franchise relationships even in the case of smaller firms it contradicts to previous theories or findings. Considering the results from hypothesis 2 (supported on a high degree), franchisors who implement information sharing through IT systems should expect enhanced performance for several franchise outlets. This is supported by the President in United Franchisee group who mention the importance of technology based information system to improve grow (Titus 2012)

Furthermore, a firm's structure especially centralization is claimed to be related to technology-structure relationships. The current study supports this argument as the results show that 121 centralized organizations (see table XII) are exchanging information through an IT system. According to Jayanth *et al.* (2010) the firm culture in smaller organizations is often more trusting compared to larger firms. Findings from the cross-tabulation between size and trust (see table XIII) reveal that there is a positive correlation between small firms and trust. Prior research by Moore and Cunningham (1999) has shown that exchanging benefits between partners contributes to mutual trust.

This is also supported by our study with regard to hypothesis 3 which proved to have a positive correlation, perfect degree, between social exchange and trust in franchise relationships.

Moreover, trust in organizational exchange can have positive effects for control in a franchise relationship which means that trust in franchise interactions reduces the need to monitor the franchisee through formal contract, also discussed by Andaleeb (1995). Although hypothesis 4 showed a positive correlation between contractual agreement and compliance, this was at a very low degree, indicating that there is less compliance (0.247^{**}) and more trust (0.886^{**}) among the franchise relationships participating in this study. The proposed interaction of this study is confirmed by the results from the hypotheses on the basis that exchange factors between the franchisor and franchisee lead to competitive advantage, enhanced franchise outlet performance, trust and commitment. Research within franchising from the transaction-cost (economic) perspective describes the incentives for profit maximizing behavior between the parties and the franchisor's need for monitoring the relationship which can lead to conflicts (Spinelli and Birley, 1996). From the interaction approach perspective, the strength of the relationship is based on mutual trust between the franchise parties making it less necessary to monitor the relationship. Results from our study reveal that both sides are concerned about the other's profitability, and thus, conflicts between the exchanging partners will thereby be reduced.

6. Limitations and Research Implications

Limitations of this study involve the somewhat difficulty to obtain access to a large sample of franchisees because of franchisors´ unwillingness to provide contact and email information (in some cases due to confidentiality). The majority of firms participating in the study are categorized as small organizations; hence, a desired comparison of results from larger firms is, consequently, limited. It is argued that technology and size are positively correlated and that information systems are more common in larger firms, however, we were not able to examine this theory for larger organizations since the sample was homogeneous (small firms). Measurement of constructs were modified from previous research in order to match the interaction approach, thus, some items have not been tested before. However, all constructs showed a strong consistency (reliability) when tested in Cronbach´s alpha. There is very little knowledge available on interaction approach in a franchise context; therefore, a suggestion for future research is to continue examining franchise relationships within this field of study since a very large part of prior research has focused solely on economic theories. Social science is important for understanding the franchise relationship from a new perspective, as franchising is indeed a social system.

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