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# FORUM

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## FRANCHISOR-FRANCHISEE RELATIONSHIP QUALITY: TIME OF RELATIONSHIP AND PERFORMANCE

*Qualidade do relacionamento franqueador-franqueado: Tempo de relacionamento e desempenho*

*Calidad de las relaciones franquiciador-franquiciado: Tiempo de relaciones y desempeño*

### ABSTRACT

Franchise literature disputes how the relationship between franchisors and franchisees develops over time. Traditional lifecycle theory views relationships following an ascendant curve, in which relationship quality and performance strengthen over time. Another perspective better reflects the peculiarities of the franchisor-franchisee relationship, indicating that relationship quality in franchise systems follows a U-shaped curve. There is also limited research on the moderating effect of time on the relationship between relational variables and outcomes. This study sheds light on the influence of relationship duration on relationship quality and financial performance in the franchisee-franchisor relationship. Using a self-report survey from a sample of 342 franchisees, mean and regression analyses are conducted to test relationships. Results confirm the time effect on franchisor-franchisee relationship quality and performance, but the hypothesized shape of relationship phases is only partially confirmed. Moreover, time has a positive moderating effect on the impact of relationship quality on financial performance.

**KEYWORDS** | Franchise, relationship quality, financial performance, U-curve theory, time of relationship.

### RESUMO

A literatura sobre franquia diverge acerca de como o relacionamento entre franqueadores e franqueados se desenvolve ao longo do tempo. A teoria tradicional do ciclo de vida considera que os relacionamentos seguem uma curva ascendente, na qual a qualidade do relacionamento e o desempenho fortalecem-se com o tempo. Outra perspectiva reflete melhor as peculiaridades do relacionamento entre franqueador e franqueado, indicando que a qualidade do relacionamento em um sistema de franquia segue uma curva em forma de U. Ademais, há um número limitado de pesquisas sobre o efeito moderador do tempo sobre o relacionamento entre variáveis relacionais e resultados. Este estudo lança luzes sobre a influência da duração do relacionamento sobre a qualidade do relacionamento e sobre o desempenho financeiro, no relacionamento entre franqueador e franqueado. Utilizando uma pesquisa de auto relato com uma amostra de 432 franqueados, foram realizadas análises de regressão e de média para testar os relacionamentos. Os resultados confirmam o efeito do tempo sobre o desempenho e a qualidade do relacionamento entre franqueador e franqueado, mas o formato hipotético das fases do relacionamento foi apenas parcialmente confirmado. Além disso, o tempo tem um efeito moderador positivo sobre o impacto da qualidade do relacionamento no desempenho financeiro.

**PALAVRAS-CHAVE** | Franquia, qualidade de relacionamento, desempenho financeiro, teoria da curva em U, tempo de relacionamento.

### RESUMEN

La literatura sobre franquicias disputa cómo se desarrollan las relaciones entre los franquiciadores y franquiciados con el transcurso del tiempo. La teoría del ciclo de vida tradicional ve las relaciones siguiendo una curva ascendente en la que la calidad y el desempeño se fortalecen con el pasar del tiempo. Otra perspectiva refleja mejor las peculiaridades de las relaciones franquiciador-franquiciado, indicando que la calidad de las relaciones en los sistemas de franquicias sigue una curva en U. También hay investigaciones limitadas sobre el efecto moderador del tiempo en las relaciones entre variables relacionales y resultados. Este estudio arroja una luz sobre la influencia de la duración de las relaciones sobre la calidad y el desempeño financiero en las relaciones de franquiciados-franquiciadores. Utilizando una encuesta de autoinforme de una muestra de 342 franquiciados, se conducen análisis de medias y de regresión para probar las relaciones. Los resultados confirman el efecto del tiempo en la calidad y desempeño de las relaciones franquiciadores-franquiciados, pero la forma hipotética de las fases de las relaciones está confirmada sólo parcialmente. Además, el tiempo tiene un efecto moderador positivo en el impacto de la calidad de las relaciones sobre el desempeño financiero.

**PALABRAS CLAVE** | Franquicia, calidad de relaciones, desempeño financiero, teoría de la curva U, tiempo de relaciones.

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## INTRODUCTION

Franchising is one of the fastest developing forms of business in the world, and a rich field for studies in marketing and other relevant areas, such as economics, law, management, finance, and entrepreneurship (Grewal, Iyer, Javalgi, & Radulovich, 2011), due to its varied possibilities on governance formats and inter-organizational behaviors (Dant, Grünhagen, & Windsperger, 2011). The success of the franchise system depends on the performance of inter-organizational behaviors in the franchisor-franchisee dyad over time (Grayson, 2007; Heide & Wathne, 2006). Indeed, satisfactory relationships between franchisor and franchisees have long been recognized as critical to the success of the franchise system (Watson & Johnson, 2010).

The measure of franchise performance includes both non-financial (e.g., relationship quality) and financial indicators of performance (e.g., sales growth and profitability) (Venkatraman & Ramanujam, 1986, 1987). Although the relevance of the franchisor-franchisee relationship is evident, there are few studies concerning how this relationship develops over time (Dant, Li, & Wortzel, 1995; Dant, 2008). Indeed, relationship marketing shifted its focus from discrete transactions to long-term relationships (Jap & Ganesan, 2000), raising the need to distinguish between short-term transactions and long-term relational exchanges (Dwyer, Schurr, & Oh, 1987). Therefore, the influence of time, as well as its role on relational and outcome variables, are relevant issues.

In numerous studies, the concept of time is considered as the relationship duration (Athanasopoulou, 2009), and most theories focus on the relationship between organizational buyers and sellers (Dwyer et al., 1987) or on the behavior of the individual representing each organization (Ring & Ven, 1994). Literature in relationship marketing, under the traditional lifecycle theory (Blut et al., 2011; Dant & Nasr, 1998; Dwyer et al., 1987), sees relationships in franchises following an ascendant curve, in which relationship quality and performance strengthen over time and relationship variables are potentially affected by relationship duration (Jap & Anderson, 2007). In fact, buyer-seller relationships are the base for the traditional relationship lifecycle theory, whose study first originated in the U.S. during the early 1980s, initially focusing on the distribution channels approach and, later, on the buyer-supplier relationship. Focusing on business relationships, economic exchanges, and efficiency, research on buyer-seller relationships seeks to explain governance structures and the nature of dyadic behavior in the market-channel context (Möller & Halinen, 2000).

However, buyer-seller relationships may not adequately represent the relationship pattern for franchisor-franchisee relationships, since franchise relationships do not resemble a traditional business-to-business (B2B) exchange relationship

(Grace & Weaven, 2011). Indeed, franchisee-franchisor relationships should be analyzed in the context of inter-organizational exchange, as well as within the context of inter-personal interactions, given their social and subjective nature (Dant, Weaven, & Baker, 2013), whose relationship building parallels marriage analogies (Doherty & Alexander, 2004). Most studies in the marriage context suggest a U-shaped pattern, with high marital happiness in the early years of marriage, a decline in marital happiness during the middle years, and a rise in marital happiness in the later years (VanLaningham, Johnson, & Amato, 2001). Blut et al. (2011) propose that relationships in franchise systems follow a similar logic to the U-shaped curve of marriage contexts. This alternative pattern would explain the evolution of relational variables in franchising better than the traditional lifecycle theory. Given this controversy, this study sheds light on the influence of relationship duration on relationship quality and financial performance in the franchisee-franchisor relationship.

The success of the franchise system depends not only on the relationship quality performance for franchisors and franchisees, but also on the financial performance achieved by these two major players (Brown & Dev, 1997). Considering a broader conceptualization of performance in franchising, this study also investigates the influence of time of relationship upon financial indicators of performance (Venkatraman & Ramanujam, 1986), such as sales growth and profitability (Venkatraman & Ramanujam, 1987). Although financial performance has been acknowledged as a consequence of relationship quality (Athanasopoulou, 2009), there have been few studies that analyze the relationship between nonfinancial measures—such as relationship quality—and financial performance (Banker, Potter, & Srinivasan, 2005). Huntley (2006) finds evidence of the link between relationship quality and profitable outcomes in B2B relationships; however, this issue is still relatively unexplored in the franchise context. Consequently, the present work also seeks to elucidate and address this important issue.

## LITERATURE REVIEW AND PROPOSED HYPOTHESES

### Franchising and relationship constructs

Franchising can be defined as contractual arrangements that represent a form of relational exchange (Grünhagen & Dorsch, 2003), characterized by a long-term continuous perspective, involved in complex relationships, where the survival of the relationship takes precedence over any single exchange (Strutton, Pelton, & Lumpkin, 1995). The satisfactory relationship between franchisor and franchisees has long been recognized as critical to

the success of a franchise system, where satisfactory relationships specifically mean that franchising provides benefits for the entire network (Watson & Johnson, 2010). Initial research into franchises focuses on the choice of franchising as an organizational form, grounding its assumptions predominantly on either resource scarcity or agency theory. However, over time, the focus of research has moved toward understanding the relationship between franchisors and franchisees (Watson & Johnson, 2010).

Franchisors are expected to provide services for their franchisees, such as training, research and development, advertising and marketing support, management assistance, and supply provision (Watson & Johnson, 2010), which are relevant for system promotion and uniformity (Monroy & Alzola, 2005). Positive or negative franchisee evaluation of these services over time affects both their satisfaction and dissatisfaction, leading to greater trust or ensuing conflict in the relationship, which affects the perception of the franchisee's relationship quality (Chiou, Hsieh, & Yang, 2004).

Relationship quality is a crucial concept in the development of long-term and mutually beneficial relationships (Athanasopoulou, 2009), and, for some authors, represents the strength and magnitude of a relationship (Dant et al., 2013; Monroy & Alzola, 2005). Analyzing the franchise context, Monroy & Alzola (2005) introduce the concepts of transactional and relationship quality as different but interdependent constructs. Transactional quality is related to short-term business performance, considering two dimensions for franchisees (i.e., contents and assistance), which include attributes such as training, support, information, supply, financial facilities, management assistance, and accessibility, and also two dimensions for franchisors (i.e., formality and identity), which include business development, training attendance, payment accomplishment, uniformity, and transparency. Relationship quality, on the other hand, is related to the long-term performance of franchise partners. It includes variables such as trust, commitment, and relationship, and requires time to be developed and consolidated. Therefore, transactional quality "guarantees a satisfactory business start-up, constituting the first step in the development of a long-term relationship" (Monroy & Alzola, 2005, p. 598).

Relationship quality, according to mainstream academic research, is considered an overall assessment of relationship strength, and treated as a global or higher-order construct that reflects a combination of multiple first-order factors (Palmatier, 2008), which capture different but related facets of a relationship (Palmatier, Dant, Grewal, & Evans, 2006). Relationship quality's most cited dimensions in academic research are trust, commitment, and satisfaction (Athanasopoulou, 2009; Palmatier et al., 2006).

Trust is one of the most relevant constructs in relationship marketing (Anderson & Narus, 1990; Doney & Cannon, 1997; Ganesan, 1994; Mohr & Spekman, 1994; Morgan & Hunt, 1994), and

is tied to the belief in partner integrity and predictability (Morgan & Hunt, 1994). Under this view, a company acts in order to generate positive results and does not take unexpected actions which may harm their partners (Anderson & Narus, 1990). This is an important factor in building long-term relationships (Ganesan, 1994), since in the presence of trusted long-term idiosyncratic investments can be made with limited risk (Doney & Cannon, 1997).

Commitment is related to the intention and desire of the parties to maintain a given relationship in the future (Wilson, 1995). In marketing literature, commitment is associated to survival, performance (Anderson & Weitz, 1992; Geyskens, Steenkamp, Scheer, & Kumar, 1996; Morgan & Hunt, 1994) and successful long-term relationships (Walter, Mueller, & Helfert, 2000). Therefore, commitment is associated to the partners' intention to continue the relationship, and their willingness to accept short-term sacrifices in order to achieve long-term benefits (Morgan & Hunt, 1994) by means of relationship survival and stability (Anderson & Weitz, 1992; Dwyer et al., 1987).

Satisfaction is the most popular construct in empirical studies of channel relationship models (Geyskens, Steenkamp, & Kumar, 1999), and is typically positively linked to the continuity of long-term relationships, and negatively linked to conflicts in the relationship (Anderson & Narus, 1990). Satisfaction is related to the perceived discrepancy between prior expectations and actual profits (economic perspective) or to an emotional response to the overall working relationship with the channel partner (non-economic perspective) (Crosby, Evans, & Cowles, 1990; Geyskens et al., 1999). Within the franchise context, satisfaction has been tied to the franchisee's commitment and intention to remain in the relationship (Chiou et al., 2004).

Successful inter-organizational relationships are a critical issue in terms of financial performance (Palmatier, Dant, & Grewal, 2007), since firms with higher levels of cooperation and reduced conflict are more willing to improve innovations, expand markets, and reduce costs (Cannon & Homburg, 2001). In fact, good relationships, trust in partners, and commitment should improve organizational performance, given that, in an environment of this nature, exchanges produce greater satisfaction and efficiency (Wang & Yang, 2013). There are many key drivers of inter-organizational relationship performance. Palmatier et al. (2007) claim that at least four main theories dominate attempts to understand these drivers—commitment-trust theory (Morgan & Hunt, 1994), the perception of dependence (Bucklin & Sengupta, 1993), transaction cost economics (Williamson, 1979), and the perspective of relational norms (Kaufmann & Dant, 1992).

Therefore, although performance has been measured from various viewpoints, depending on the research questions, disciplinary focus, and data availability, the main focus has been

towards business economic performance, which is reflected by dimensions such as sales growth, net income growth, return on investment, profitability, relative market position, and market share (Venkatraman & Ramanujam, 1987). In franchise literature, financial performance has been measured mainly by franchise profitability, annual sales, and sales growth (Soontiens & Lacroix, 2009).

Following the work of Blut et al (2011), this study operationalizes the measure of financial performance using the informant's perceived performance rather than objective measures of performance. Accordingly, it also focuses on the franchisee's perception of sales growth and profitability in order to measure perceived financial performance.

Time, as a variable, is included in numerous studies as relationship duration, and the role of time in relationships can be analyzed from more than one vantage point (Athanasopoulou, 2009). Indeed, the concept of relationship dynamics is explained by a multitude of theories adapted from sociology, as to explain relationship development in inter-organizational contexts (Ring & Ven, 1994). One of these points of view is the episodic perspective, under which relationships follow a cycle, replete with a construction, development, and a likely end (Athanasopoulou, 2009). Time is seen as a series of phases or periods in which relationship variables change according to time phases (Dwyer et al., 1987; Morgan & Hunt, 1994; Wilson, 1995). Traditional lifecycle theory sees relationships proceeding through a sequence of phases (Dwyer et al., 1987), typically differentiated as (1) formation, (2) exploration, (3) maturity, and (4) termination.

Following traditional lifecycle theory, after the first experiences between the parties in the initial relationship phase, relational variables, such as cooperation and dependence, are assessed more favorably over time. As the relationship matures, the ties between partners strengthen, thus increasing their interdependence (Blut et al., 2011). Life-cycle theory has produced empirical results that suggest that numerous relational variables follow an inverted U-shaped curve (Jap & Anderson, 2007). However, Blut et al. (2011) find that this life-cycle configuration may not extend to other inter-organizational arrangements that differ from those based on traditional buyer-seller relationships, such as franchisor-franchisee relationships. These researchers, in contrast to the life cycle theory, suggest that relational constructs in the franchise context may follow a U-shaped curve over time, with a "honeymoon" initial phase, following stages of "routine," "crossroads," and "stabilization." Blut et al. (2011) find evidence of a U-shaped curve in variables such as satisfaction, trust, commitment, and performance.

Therefore, following the perspective of Blut et al. (2011), this study examines if relationship quality and financial performance do follow a U-shaped curve, leading to the following hypotheses:

H1a: The relationship between relationship quality and time follows a U-shaped curve, which is high in the first and fourth phase, and low in the second and third phase.

H1b: The relationship between financial performance and time follows a U-shaped curve, which is high in the first and fourth phase, and low in the second and third phase.

The moderating role of time on the effects of relational variables, such as trust and commitment, on relational outcomes has been examined in business-to-consumer contexts, but it has been somewhat neglected in B2B settings (Victoria Bordonaba-Juste & Polo-Redondo, 2008). In fact, only the moderating role of relationship time in the effects of trust and commitment on satisfaction and the intention to continue a relationship were tested by Victoria Bordonaba-Juste and Polo-Redondo (2008), but the moderating role of time on the effect of relational variables, such as relationship quality, on financial performance is still unexplored.

In longer relationships, parties benefit from mutual experience and variables, such as trust, commitment, communication, and cooperation. Over time, bonds become stronger and the relationship closer (Athanasopoulou, 2009). There are also evidences that, in general, long-term relationships are more profitable than short-term ones (Reichheld & Teal, 2001).

Therefore, during the lifetime of a relationship, relational variables, such as relationship quality, should receive better assessments, as well as financial performance evaluations, by partners in long-term relationships than in short-term ones. From this point of view, the following hypothesis is also tested:

H2: The effect of relationship quality on financial performance is stronger in long-term relationships than in short-term ones.

## METHODOLOGY

### Sampling procedures

The sample for this investigation was drawn from the list of franchisees of three Brazilian franchisors within the educational and fast food segments. These franchisors provided the researcher with a list of franchisee stores and their e-mail addresses. The questionnaire was tested and revised prior to general administration. In total, 1237 franchisees were invited to participate in an on line survey. To encourage participation, we emphasized the premise of confidentiality, as franchisors would only have access to aggregate data. A total of 348 usable surveys were obtained, representing a response rate of 28.1%. To reinforce confidentiality, responses were obtained in an anonymous fashion. Examination of sample characteristics



indicates that females represent 54.4% of respondents and 70.0% of the franchisees operate only one unit. There is no significant difference among the franchisees' profile of the three franchise networks. A Mahalanobis distribution analysis to identify outliers was performed, and six elements that presented difference in behavior were eliminated, leaving 342 questionnaires.

## Measures employed and psychometric assessment

Relationship quality was measured by the same scale used by [Dant et al. \(2013\)](#), in a study which measures the perceived relationship quality between franchisors and franchisees. Three scales measure satisfaction, trust, and commitment, and all three scales are seven-point Likert-type scales, from 1 (strongly disagree) to 7 (strongly agree).

Perceived financial performance is measured by means of a Likert-type scale derived from [Venkatraman & Ramanujam \(1987\)](#) and [Griffith et al. \(2006\)](#), which measures the constructs

of franchisee sales growth and profitability. These scales were originally developed and applied in English. For this reason, they were translated into Portuguese and subsequently validated. Both are five-point Likert-type scale, from 1 (much worse) to 5 (much better), with a defined neutral point anchored with a response of 3 (equal). In these questionnaires, franchisees provide answers regarding their sales growth and profitability in comparison with similar stores in the region.

Time of relationship is measured as the number of months of the relationship between the franchisees and their respective franchisors. For testing, the sample is distributed in four groups (phases), following the parameters adopted by [Blut et al. \(2011\)](#):

1. Honeymoon—ends after one year
2. Routine—ends after four years
3. Crossroads—ends after eight years
4. Stabilization—begins after eight years

Table 1 shows reliability analysis for the scales above.

Table 1. Reliability analysis

Construct	Item	Factor loading	Composite reliability	Cronbach's Alpha
Commitment	We are very committed to the relationship with our franchisor	0.887	0.96	0.96
	I enjoy working with this franchisor	0.823		
	I feel as though the franchisor and I are "in it together"	0.894		
	It feels like the franchisor and I are constantly doing something for each other	0.810		
	I feel that the values of this franchise system match my own	0.874		
	We try our best to maintain our relationship with our franchisor	0.807		
	We feel proud to belong to this franchise system	0.862		
	We intend to continue functioning as a franchisee of our franchisor	0.667		
	We have a mutually beneficial relationship	0.834		
	The franchisor and I get along well together	0.855		
	The franchisor and I tend to share similar values	0.843		
Satisfaction	Overall we consider our relationship with the franchisor to be: Satisfying	0.847	0.96	0.94
	Overall we consider our relationship with the franchisor to be: Friendly	0.806		
	Overall we consider our relationship with the franchisor to be: Considerate	0.860		
	Overall we consider our relationship with the franchisor to be: Cordial	0.874		
	Overall we consider our relationship with the franchisor to be: Supportive	0.873		
	Overall we consider our relationship with the franchisor to be: Fair	0.906		
	Overall we consider our relationship with the franchisor to be: Healthy	0.893		
Trust	I can rely on my franchisor to keep the promises they make to me	0.894	0.96	0.96
	I can count on my franchisor to be honest in its dealings with me	0.928		
	My franchisor can be counted on to do what is right	0.899		
	My franchisor is sincere in its dealings with me	0.918		
	My franchisor is a company that I have great confidence in	0.865		
	My franchisor is a company that stands by its word	0.917		
Sales growth	Compared to other stores in this region, its sales growth is (if you have more than one unit measure the average):	0.934	0.91	0.80
Profitability	Compared to other stores in this region, its profitability is (if you have more than one unit measure the average):	0.892		

## RESULTS AND DISCUSSION

The mean analysis statistical technique is applied to investigate the differences in the means of relationship quality and financial performance variables along the proposed relationship phases (hypotheses H1a and H1b). This technique is used to determine if the means of the variables associated with relationship quality and financial performance are significantly different within the four tested phases of the relationship. Regression analysis is used to test the influence of the time of relationship in the link between relationship quality and performance (hypothesis H2).

In order to test H1a and H1b the sample is distributed as in Table 2.

Table 2. Groups for phases

Relationship phases	Value label	Number
1	Honeymoon	40
2	Routine	87
3	Crossroads	59
4	Stabilization	156

Source: Software SPSS 18.0

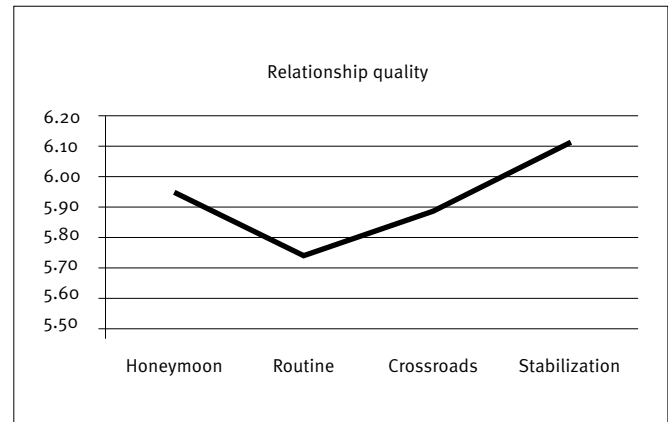
Table 3 shows the average and standard deviations of relationship quality and performance constructs in the four defined stages of the relationship.

Table 3. Relationship phases: Descriptive statistics

	Relationship phases	Mean	Standard deviation	Number
Relationship quality	Honeymoon	5.96	0.82	40
	Routine	5.76	1.23	87
	Crossroads	5.9	0.97	59
	Stabilization	6.12	1.04	156
	Total	5.97	1.07	342
Performance	Honeymoon	3.25	0.52	40
	Routine	3.10	0.72	87
	Crossroads	3.32	0.78	59
	Stabilization	3.35	0.82	156
	Total	3.27	0.76	342

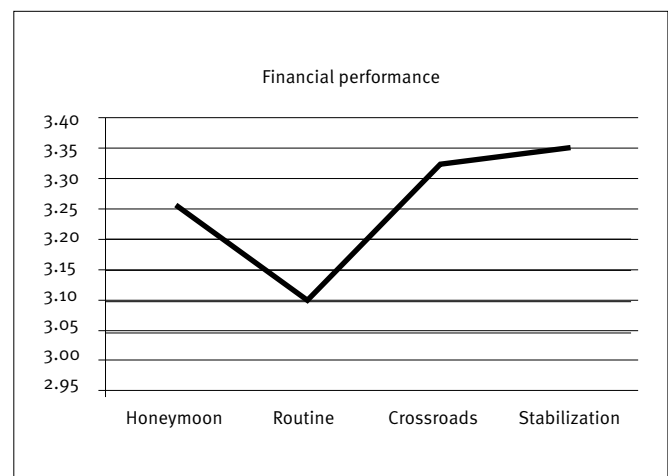
Table 3 indicates that the averages of relationship quality and performance seem to follow the stages of a U-shaped behavior, with higher averages in the extremes of the honeymoon and stabilization, and lower averages in the routine and crossroads stages, as portrayed in Graph 1 below.

Graph 1. Relationship quality by relationship phase



A similar pattern is found for the financial performance variable, but with a greater increase in the crossroads stage as compared to the honeymoon stage, and continuing to rise as relationship time increases, as portrayed in Graph 2 below:

Graph 2. Financial performance by relationship phase



In all factors that measure relationship quality and performance variables, the significance levels are below 5% ( $p < 0.05$ ), which indicates non-normality of the data. Based on this data profile, the Kruskal-Wallis non-parametric test is applied to investigate the null hypothesis, in which the population averages in these two variables are the same for the four stages of the relationship. Table 4 indicates the average ranks for the relationship phases.

Table 4. Relationship quality and financial performance mean ranks for relationship phases

	Phases	Number	Mean rank
Relationship quality	Honeymoon	40	155
	Routine	87	153.57
	Crossroads	59	160.03
	Stabilization	156	190.07
	Total	342	
Financial performance	Honeymoon	40	166.99
	Routine	87	151.94
	Crossroads	59	177.65
	Stabilization	156	181.24
	Total	342	

Table 5. Kruskal-Wallis test for relationship quality and financial performance

	Relationship quality	Performance
Chi-square	10.308	5.505
Sig.	0.016	0.138

According to the results from the Kruskal-Wallis test (Table 5), there is in fact a significant difference between averages in the stages of relationship for the relationship quality variable. Regarding the financial performance variable, no significant difference can be observed between the averages in the relationship stages.

Subsequently, a post hoc test is conducted on the relationship quality variable to verify whether the averages among the four stages of the relationship are different. The results are shown in Table 6.

As per Table 6, a significant difference (10% significance level) is observed between the averages of the routine and stabilization stages, which, at least in part, confirms the curve pattern of the relationship quality variable.

Regarding the performance variable, bearing in mind that the differences in the averages of the constructs show no difference, the analysis of sales growth and profitability variables are performed separately, by means of the Kruskal-Wallis test, to verify if differences could be observed in the averages of these variables within the relationship stages.

Table 6. Post hoc tests: Multiple comparisons on relationship quality

Phases (1)	Phases (2)	Mean difference (1-2)	Standard error	Significance
Honeymoon	Routine	0.2	0.2	0.76
	Crossroads	0.05	0.22	1
	Stabilization	-0.16	0.19	0.82
Routine	Honeymoon	-0.2	0.2	0.76
	Crossroads	-0.15	0.18	0.85
	Stabilization	-0.36	0.14	0.05
Crossroads	Honeymoon	-0.05	0.22	1
	Routine	0.15	0.18	0.85
	Stabilization	-0.22	0.16	0.54
Stabilization	Honeymoon	0.16	0.19	0.82
	Routine	0.36	0.14	0.05
	Crossroads	0.22	0.16	0.54

Table 7. Sales growth and profitability mean ranks for relationship phases

	Phases	Number	Mean rank
Sales growth	Honeymoon	40	188.90
	Routine	87	159.15
	Crossroads	59	171.92
	Stabilization	156	173.77
	Total	342	
Profitability	Honeymoon	40	147.06
	Routine	87	147.98
	Crossroads	59	180.68
	Stabilization	156	187.41
	Total	342	

Table 8. Kruskal-Wallis test for sales growth and profitability

	Sales growth	Profitability
Chi-square	3.090	13.553
Significance	0.378	0.004

According to the Kruskal-Wallis test, only the profitability variable presents significant differences among the relationship stages. Considering this result, the post hoc test was conducted on the profitability variable to verify between which stages of the relationship the averages are different.

Table 9 indicates the results.



Table 9. **Post hoc tests: multiple comparisons on profitability**

Phases (1)	Phases (2)	Mean difference (1-2)	Standard error	Significance
Honeymoon	Routine	0.02	0.162	0.999
	Crossroads	-0.28	0.174	0.374
	Stabilization	-0.34	0.150	0.109
Routine	Honeymoon	-0.02	0.162	0.999
	Crossroads	-0.31	0.143	0.146
	Stabilization	-0.37*	0.114	0.008
Crossroads	Honeymoon	0.28	0.174	0.374
	Routine	0.31	0.143	0.146
	Stabilization	-0.06	0.130	0.967
Stabilization	Honeymoon	0.34	0.150	0.109
	Routine	0.37*	0.114	0.008
	Crossroads	0.06	0.130	0.967

As observed in the relationship quality variable, a significant difference (10% significance level) could also be observed between the routine and stabilization stages for the profitability variable, which, at least in part, confirms this study's hypothesis.

Table 10 shows a comparison of the findings from [Blut et al. \(2011\)](#) and those from the present study.

Table 10. **Comparison: Blut et al. (2011) and present research**

	Relational variables	Honeymoon	Routine	Crossroads	Stabilization
<b>Blut et al. (2011)</b>	Relationship Quality* (7 point Likert-scale)	4.95	4.19	4.15	4.69
<b>This study</b>	Relationship Quality (7 point Likert-scale)	5.96	5.76	5.90	6.12
<b>Blut et al. (2011)</b>	Performance (7 point Likert-scale)	5.00	4.23	4.34	4.93
<b>This study</b>	Performance (5 point Likert-scale)	3.25	3.10	3.32	3.35

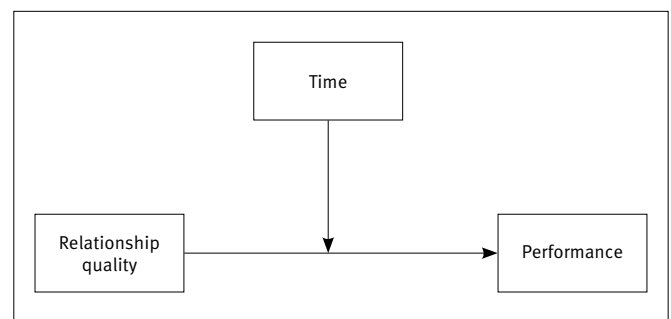
Note: \* Mean of the constructs satisfaction, trust, and commitment.

Table 10 results indicate that, although significant differences between the routine and stabilization stages were identified, the format of the curves throughout the stages is quite similar to that found by [Blut et al. \(2011\)](#), reinforcing the hypothesis that the relationship in franchises follows a different pattern from the traditional lifecycle theory.

The H2 hypothesis tests the influence of the time of relationship in the link between relationship quality and performance. To test this relationship, a regression analysis is applied utilizing model 1 (simple moderation) of PROCESS macro in SPSS ([Hayes, 2013](#)), with financial performance as the dependent variable, relationship time as moderator variable, and relationship quality as independent variable.

In the moderation analysis, relationship time was utilized in its continuous measurement (derived from all 342 responses, and not just by the averages of the four stages of the U-shaped curve). Considering the vast literature indicating that moderation analysis through qualitative dichotomization of the scale does not accentuate type II error ([Cadario & Parguel, 2014; Iacobucci, Posavac, Kardes, Schneider, & Popovich, 2015; McClelland, Lynch, Irwin, Spiller, & Fitzsimons, 2015, among others](#)), the decision for maintaining the continuous variable was justified by the high variability of the obtained measure (minimum time = two months, maximum time = 528 months,  $M = 120.72$  months,  $sd = 116.12$  months) ([Rucker, McShane, & Preacher, 2015](#)).

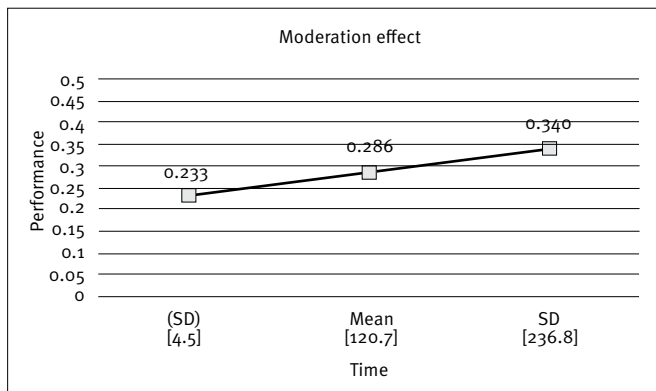
Figure 1 shows the relation between relationship quality and performance moderated by time.

Figure 1. **Relation between relationship quality and performance over time**

Regression analysis identifies the direct effect of relationship quality on financial performance ( $b = 0.231$ ,  $CI\ 95\% [0.126, 0.335]$ ,  $p < 0.001$ ,  $R^2 = 0.194$ ), but does not identify a direct effect of time of relationship on financial performance ( $b = -0.002$ ,  $CI\ 95\% [-0.007, 0.003]$ ,  $p > 0.417 = n.s.$ ). As predicted by H2, a positive influence of time of the relationship is identified on the relationship between relationship quality and financial performance ( $b = 0.109$ ,  $CI\ 95\% [0.004, 0.017]$ ,  $p < 0.05$ ).

A spotlight analysis (Hayes, 2013) presented in Graph 3 indicates a positive moderation of relationship time.

Graph 3. Time moderation spotlight



According to the results presented, in the more mature stages of the relationship, it is evident that an increase in connection strength between relationship quality and performance occurs during the relationship duration.

## CONCLUSIONS

This study showed that the relationship in franchise systems seems to follow a different pattern than that of the traditional lifecycle theory (Dwyer et al., 1987), but similar to the U-shaped curve model proposed by Blut et al. (2011). According to the results of the present study, the relationship in franchise systems is developed following the stages of a U-shaped curve over time. It was confirmed that time of relationship influences the intensity of the connection between relationship quality and financial performance.

The intensity of the connection between relationship quality and financial performance, as well as its explanatory power, proved to be lower for the franchisees with a shorter relationship than for those franchisees with a longer relationship. This finding reinforces the importance of strong relationships for growth and profitability, and that deepening this relationship over time is responsible for the long-term success of franchise networks.

Although the averages of the variables of relationship quality and performance confirmed the hypothesis that the relationship in franchises follows a U-shaped curve, passing through four different stages, it was impossible to prove that the measurements are significantly different in all stages. It can be perceived that there is a variation between the averages of relationship quality and performance throughout the four stages. Nonetheless, it is clear that there is an important difference

when one compares the initial stages of the relationship (honeymoon, routine, and crossroads) and the more advanced stage (stabilization). The averages for the variables of relationship in the study conducted by Blut et al. (2011) present no greater differences in magnitude in the same stages of relationship than those identified in the present study. However, in the findings of Blut et al. (2011) the differences between averages were considered significant. It is likely that the difference in sample size (2668 versus 342) may well explain the fact that this study was unable to identify significant differences of the averages analyzed in the four stages of the proposed relationship.

Nevertheless, the graph configuration of the averages of these variables over time seems to confirm the theoretical proposal of Blut et al. (2011) in that the relationship in franchises does not follow the traditional cycle of the inverted “U” found in B2B relationships. Conversely, it appears to follow a U-shaped curve, in which the relationships worsen after the initial stages of positive expectation, and begins to improve and stabilize throughout the relationship.

Theoretically, this study shed light upon the role of the time of relationship between franchisors and franchisees, and reinforces the perception that relationships in franchises does not follow the traditional lifecycle theory (Dwyer et al., 1987).

We also suggested that the effect of relationship quality on financial performance is stronger in long-term relationships than in short-term ones. These results suggest that better assessments of relationship quality are associated to higher financial performance assessments, reinforcing previous theoretical findings in marketing literature (Athanasopoulou, 2009; Reichheld & Teal, 2001). The positive moderating effect of time on the relation between relationship quality and performance, although empirically observed, has not been tested in literature. Therefore, this study contributes to existing knowledge in the area by analyzing the moderating effect of time on the impact of relationship quality on performance in the franchisor-franchisee relationship.

This work also provides useful managerial implications due to the relation between financial performance and the quality of the relationship. Franchisors should be especially careful to avoid the declining tendency—in both relationship quality and financial performance—after the initial honeymoon stages. The understanding that franchise relationships follow a cycle whose stages are associated with different franchisees’ expectations and needs can help franchisors develop strategies that are properly adjusted to the specific demands of the franchisees. Perhaps the training and support efforts provided by the franchisors to the new franchisees need to be carried out for a longer period to avoid the drop in financial performance and relationship quality.

This special attention from the franchisors during the franchisee's crossroads stage could be reflected in strengthened relationship quality and overall network performance, and might deter any relationship discontinuity likely to take place in this phase.

This work adopted a transversal approach regarding the temporal dimension. Although this design is well established (Jap & Anderson, 2007; Jap & Ganesan, 2000), the conducting of longitudinal studies, with larger samples, in addition to the incorporation of other variables might provide new insights about how relationship quality and financial performance evolve during franchise relationships.

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