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FRANCHISEE ASSOCIATION

AND ITS MEDIATION OF RELATIONSHIP

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ABSTRACT

Purpose: The objective of this research is to understand the actions undertaken by Franchisee Associations (FAs). We aimed to: 1. identify the role played by FAs regarding their relationship with franchisors; 2. understand conflict procedures alongside with franchisors (by means of FAs); and 3. identify FA's abilities to play a relevant governance role in franchisee-franchisor relationships.

Originality/gap/relevance/implications: This research complements the researches of Dandridge and Falbe (1994), Cochet and Ehrmann (2007), Lawrence and Kaufmann (2010, 2012), bringing up other perspectives regarding practices in managing relationships, and governance methods proposed by the FA, which are aspects not deeply analyzed in other FA studies.

Key methodological aspects: Qualitative research with multiple case studies involving data triangulation. The sample of this study comprised the franchise chain Skill Idiomias, and the interviews involved four Directors, six Franchisees and the Skill franchisor Executive.

Summary of key results: There is a strong sense of trust only among some of the network members, as well as a partial cooperation among them. With reference to the governance, one may point out that the rules and the penalties that compose their policies are well known and applied. The influence of the leaders that form the association's board of directors and the voting process in FAs is a determining factor for the resolution of conflicts.

Key considerations/conclusions: The lack of trust represented by the other part of the association board and the franchisees indicate that most part of the involved actors does not trust the network of the association. The influence of leaders that compose the membership of the Board was a determining factor in conflict resolution. The way of governance exercised by the FA is applied for all members when rules are infringed.

KEYWORDS

Franchisee associations. Franchise chain. Entrepreneurship. Small business. Relationships.

1 INTRODUCTION

The basis of the franchising system is the franchisor-franchisee relationship, which is formed by agreements made by both parties. Franchising can be considered a form of cooperative strategy once its adoption enables knowledge sharing while minimizing the risks involved in this sort of business, which involves tangible and intangible resources for both franchisor and franchisee, e.g. financial and marketing support, trainings and sales (products or services) (Combs & Ketchen, 1999; Gillis, 2007; Shane, 2005).

Particularly with regard to franchise chains involved in education and training, the revenue registered in 2012 was around US\$2 billion, a 10% increase compared to 2011. This increase represented a breakthrough for franchise chains involved in education and training programs, which implied in the creation of 270 chains and 19,000 units – a boost of 15 and 4% respectively. In 2013, the education and training segment achieved a growth of 16.6% compared to 2012; there was an emphasis on language teaching and vocational programs in the period (Associação Brasileira de Franchising [ABF], 2014). Due to the significant growth of the franchising system and the emergence of conflicts between franchisors and franchisees, Franchisee Associations (FAs) became the responsible actors for promoting a sustainable relationship in the franchise system (Lawrence & Kaufmann, 2010). Lawrence and Kaufmann (2010; 2012) recognize FAs as a formal structure that mediates the relationship between franchisors and franchisees. The advances in researches on franchisee associations in the franchise system are internationally known; it is, however, necessary to develop further studies regarding franchisee associations in the Brazilian franchise system. Such international studies were not developed for the Brazilian case, as it has been demonstrated by an analysis accomplished in this decade (Melo & Andreassi, 2010).

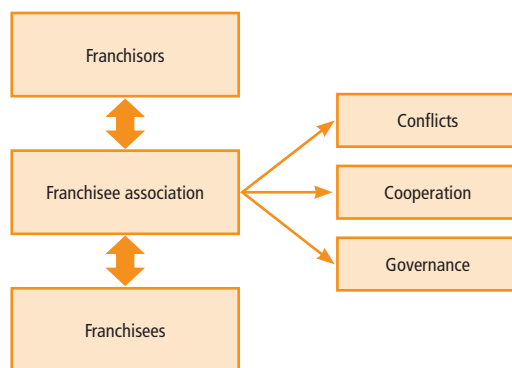
Dandridge and Falbe (1994) are the main international references regarding FAs, since they were the first ones to acknowledge the existence of a group of franchisees acting as both board and committee in order to give advices on relevant operational issues. On the other hand, the studies of Cochet and Ehrmann (2007) provide solutions for possible conflict resolutions between franchisors and franchisees. Finally, Lawrence and Kaufmann (2010; 2012) recognize FAs

as a formal structure that measures the relationship between franchisors and franchisees, highlighting the way FAs work within the franchise system.

Thus, the purpose of this research is to understand the actions undertaken by Franchisee Associations (FAs). More specifically, we aimed to: 1. identify the role played by FAs regarding their relationship with franchisors; 2. understand conflict procedures alongside with franchisors (by means of FAs); 3. identify FA abilities to play a relevant governance role in franchisee-franchisors relationships. To accomplish such goals, a language school franchise will be analyzed, which takes part in FAs to mediate the relationship between franchisors and franchisees. In other words, this paper analyzes the role played by three main actors: FAs, franchisors and franchisees. We hope that this study contributes, therefore, to the literature concerning franchising by highlighting the importance of FAs as guiding agents to mediate the relationship between franchisors and franchisees (Cochet & Ehrmann, 2007; Dandridge & Falbe, 1994; Knight, 1986; Lawrence & Kaufmann, 2010; 2012). Figure 1 below shows the proposed framework of this paper.

FIGURE 1

FRANCHISEE ASSOCIATIONS RELATIONSHIP



Source: Elaborated by the authors.

2 LITERATURE REVIEW

2.1 FRANCHISEE ASSOCIATIONS

Franchisee Associations (FAs) become active when a franchisor demonstrates an opportunistic behavior towards their franchisees, granting the association

the provision of a protective mechanism of their rights. Misleading agreements, franchise misrepresentation, termination of contracts, unfair profits distribution and use of coercive force are examples of opportunistic behaviors that can be pursued by franchisors (Lawrence & Kaufmann, 2010).

FAs can, therefore, consciously strengthen the identity between franchisors and franchisees while providing cooperation between their members; when FAs cannot achieve such purposes, the conflict between franchisors and franchisees can get out of control and destroy any hope of cooperative work to support the sustainability of the franchise system (Lawrence & Kaufmann, 2012).

Lawrence and Kaufmann (2012) state that a successful FA is capable of sustaining itself over time. When FAs adapt to relationships, they do not remain in a static position of cooperation or conflict; they keep on representing the interests of franchisees, or become irrelevant when all conflicts are solved. The franchisor, when recognizing a FA, acknowledges that its power and authority will become somehow divided, which is a critical decision to be made. If the franchisor chooses to legitimize the FA, it may or may not be successful among franchisees, depending on the association's focus on the sustainability of the relationship. When the franchisor legitimizes a FA focused on strategic divergences, conflicts should be reduced, and the franchisee will feel more like a real part of the franchise system. However, when the focus of an FA relies on an opportunistic behavior, conflicts will not be reduced and any franchisor's effort to legitimate the FA might become useless (Lawrence & Kaufmann, 2010). The ability to create an identity among associated franchisees is very relevant, and such identity should be recognized by members as an organization whose core values represent the collective interests of franchisees within a dynamic network (Lawrence & Kaufmann, 2012).

Franchisee Associations, whose focus relies on the franchisor's opportunistic governance, emphasize conflicts of interest between franchisors and franchisees, strengthening the relationship among franchisees within the association. When the focus of FAs is rooted in the general sustainability of the franchising network, their main goal is to lead franchisees and franchisors to an alignment of interests and to conflict resolution (Lawrence & Kaufmann, 2010).

The promotion of communication to integrate FAs within the franchise system indicates a strong commitment in order to reduce the separation between the association and the franchise. Once this communication is successful, the association members shall better identify themselves alongside with the franchisor, which might reduce intergroup conflicts (Lawrence & Kaufmann, 2012).

In order to strengthen the interdependence of franchisees and franchisors, partnership agreements must be developed and formally established, detailing

how each member shall contribute to such relationship, in which the franchisor' and franchisees' position is established. The development of such agreements provides a mechanism through which the overall goals remain and are promoted by associations, franchisees and franchisors (Tichy, 2002).

The emergence and permanence of an FA provide a valuable opportunity to investigate concurrently the franchisee, the franchisor and the franchise (the triad of the relationship) and the effects of the group relationships on the franchise system. An FA, its creation, its focus and the subsequent reaction of the franchisor towards its existence may lead to results, which can affect the whole franchise system (Lawrence & Kaufmann, 2010). The franchisor instability upon the franchise business management reflects on the results and on the relationships with franchisees. Changes in franchisor's ownership or management may cause certain instability in the franchise. When these changes are not expected by the group, they will also be affected by the position adopted by the FA (Lawrence & Kaufmann, 2012).

The relationship between franchisors and franchisees result in key implications for the management and research of the franchise system. The formalization of these sustainable structures, such as FA implies that there might be additional actors and roles within the franchise system, which promote incentives while monitor the behavior of both franchisor and franchisees. It also means that collective actions may become more successful than individual actions when reacting to franchisor's initiatives (Lawrence & Kaufmann, 2012). Chart 1 shows the main international publications addressing Franchisee Associations within franchise studies.

CHART 1

INTERNATIONAL PUBLICATIONS ON FRANCHISEE ASSOCIATIONS

YEAR	AUTHOR	TITLES	JOURNAL	CONTRIBUTION
1986	Knight	<i>Franchising from the franchisor and franchisee points of view.</i>	<i>Journal of Small Business Management</i>	Conflict perceptions between franchisor and franchisees
1994	Dandridge and Falbe	<i>The influence of franchisees beyond their local domain.</i>	<i>International Journal of Small Business</i>	Franchisee groups acting as franchise representatives when advising other franchisees

(continue)

CHART I (CONCLUSION)

INTERNATIONAL PUBLICATIONS ON FRANCHISEE ASSOCIATIONS

YEAR	AUTHOR	TITLES	JOURNAL	CONTRIBUTION
2007	Cochet and Ehrmann	<i>Preliminary Evidence on the Appointment of Institutional Solutions to Franchisor Moral Hazard – the Case of Franchisee Councils.</i>	<i>Managerial and Decision Economics</i>	Suggestions and possible resolutions of conflicts between franchisors and franchisees
2010	Lawrence and Kaufmann	<i>Franchisee Associations: Strategic Focus or Response to Franchisor Opportunism.</i>	<i>Journal of Marketing Channels</i>	The significant role of franchisee associations when mediating relationships within a franchise
2012	Lawrence and Kaufmann	<i>Identity in Franchise Systems: The Role of Franchisee Associations</i>	<i>Journal of Retailing</i>	Franchisee associations' rules

Source: Elaborated by the authors.

2.2 CONFLICTS

Conflicts in a franchise chain arise from processes that cover the relationship between dependence and the desire to possess independence (Ahuja, Polidoro, & Mitchell, 2009; Oliver, 1996). Such conflict is perceived as a declared behavior and comes within a process in which some of the parts seek to develop their own interests in the relationship over the others (Habib, 1987).

The sequence of the conflict is usually established in stages, represented by four phases: latent conflict, perceived conflict, emotional conflict and manifested conflict. In the first phase, conflict (Ahuja *et al.*, 2009) may be considered latent due to disobedience to commands, allocation of scarce resources, incompatible goals, communication problems, and the search for independence. The conflict is perceived once a simple feeling is established and observed by one of the parts. In the third phase, conflict is characterized as affective or emotional, which is related to factors such as stress, rivalry, tension, and irritation.

The most common causes for conflicts are the divergence of objectives, the lack of understanding on the business management, opportunistic behavior and

the perception of inconsistencies (Reve & Stern, 1979). Zaheer, McEvily and Perrone (1998) mention that trust is one of the main factors that could reduce the emergence of conflicts.

Among the problems that arise in a franchise system and that may influence the resolution of current problems, FAs should operate based on two assumptions: 1. disagreements regarding the strategic direction of the franchise system; 2. arguments involving the perception of the franchisor, which acts in a harmful or destructive way and disregard the interests of franchisees, supporting, therefore, conflicts between franchisors and franchisees (Lawrence & Kaufmann, 2010).

Franchisee Associations (FAs) have as a main purpose the representation of rights of franchisees during the emergence of possible conflicts. FAs aim to, therefore, maintain cooperation among their members through the development of an organizational identity – different from the franchisor's –, in order to provide benefits for their members (Lawrence & Kaufmann, 2012).

2.3 COOPERATION

The social approach is responsible for the investigation of several relationships that characterize networks, especially cooperation. Studies on cooperation among networks have received particular attention over the past three decades (Nohria, 1992). Cooperation networks are a current phenomenon in organizational theory and have been studied in different theoretical approaches (Grandori & Soda, 1995). According to Granovetter (1985), both behavior and institutions are affected by social relationships. In his studies, Granovetter investigates the extent to which economic action is embedded in social relationship structures.

Zawislak (2000) explored some useful variables regarding the issue. When cooperation is present among the actors, one may find as result learning and creation of collective skills. Then, it would also be possible to infer the existence of tangible and intangible assets exchanges, which is responsible for the generation of new skills, contributing for actors to perform their functions in a better way while developing other virtues.

In agreement with Morgan and Hunt (1994), trust and commitment are the key factors to ensure the success of an alliance, since they create the conditions for cooperation while preventing opportunistic behavior. The variables commitment, confidence and power contribute strongly to make things either easier or harder regarding the complementarity of resources through cooperation relationships, especially with reference to intangible resources (Reed & Defillippi, 1990).

The existence of reliable relationships can provide considerable benefits to both parties within a franchise chain. The cooperative effort between franchises and franchisees results in the creation of associations, which can generate better supplies of raw materials and/or other goods.

2.4 GOVERNANCE

To make correct statements regarding the governance of networks, it is necessary to distinguish the concept of corporate governance from other concepts usually related to it. Corporate governance is strongly associated with power relationships within corporations according to the agency dilemma (or theory of agency, as it is also known) (Jensen & Meckling, 1976).

The term governance may have different meanings. Williamson (1979; 1998) adds an economic perspective to the term governance while emphasizing social aspects, in which, according to Gulati (1998), social relationships, organizations and individuals come together. In line with Wegner and Padula (2010), governance, on an organizational perspective, can be translated into the rules of structure, coordination and internal organization of network elements. The procedures for cooperation, decision-making and resolution of conflicts can be found within the rules.

A network control structure shall present a bilateral or trilateral governance and has as a main feature the behavior management and monitoring of autonomous entities in which the collective decision process is made (Park, 1996). Several scholars, considering the *vox populi*, argue that unions can, in fact, be beneficial for the company, once they can increase motivation, cooperative behavior and, concurrently, productivity and management (Bok & Dunlop, 1970; Slichter, 1960).

Governance is one of the most essential mechanisms in a scenario in which there is complexity of tasks and union between partners is sought (Jones, Hesterly, & Borgatti, 1997). However, in a business network, governance is not always visible and can be manifested either implicitly or explicitly, once it involves independent companies (Zaccarelli, Telles, Siqueira, Boaventura, & Donaire, 2008).

Governance, according to Das and Teng (2001), is a set of guiding rules that control behaviors due to some conflicts of interest arising from the relationships among actors in a network. One can perceive this governance by analyzing the following factors: 1. Rules regarding admission and exclusion of actors from a selected group; 2. Penalties; 3. Equality among actors; 4. Purchase of goods and services with partners; 5. Distribution or delivery of produced or purchased goods; 6. Control by authority or reputation of a more powerful actor; and 7. social control (blogs, community websites). Lui and Ngo (2004) point out that the adoption of

contracts can anticipate opportunistic behavior by adopting fines or penalties and reducing costs.

When a franchisor uses its power either to punish franchisees that have formed an association or to reward franchisees that have left the group, one can infer that both are coercive attitudes and may be taken as abuse of power. These actions are the ones that contribute to increase dissatisfaction (Dwyer, 1980; Hunt & Nevin, 1974; Wilkinson, 1979). As a compensatory way of governance, FAs are sometimes very similar to unions, since they have the task of negotiating with franchisors in order to protect the interests of all franchisees.

3 METHODOLOGY

3.1 OBJECT OF STUDY: CHARACTERIZATION AND PROFILE

The decision in choosing the franchise chain Skill Idiomas in our study is due to their representativeness in the Brazilian language school market and due to their involvement in Franchisee Associations (FA). This particular franchise chain pertains to the largest language franchise group in Brazil, which is represented by the Pearson Group. This group includes the following language franchise chains: Wizard, Yazigi, Skill and Quatrum, which represents approximately 1,800 franchised units in Brazil. There are, however, two factors that differ Skill from the other franchise chains: 1. Skill is the only franchise chain that includes the franchisor in the association, which indicates greatest concern, and 2. Skill is strongly concentrated in the State of São Paulo – 42% of the franchisees operate in this region. Such aspects indicate a relevance to analyze a Franchisee Association based on this geographical region (Skill Idiomas, 2016; Pearson, 2016).

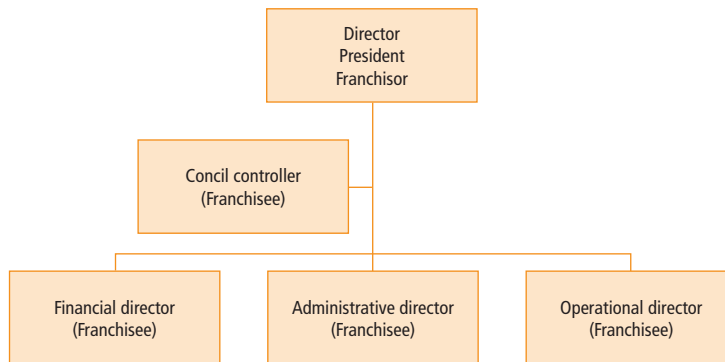
We chose these specific cases because of the involvement of some researchers in this particular franchise chain, which enable the dissemination of knowledge based on the franchise chain's specific policies, culture, history and environment (Godoy, 1995).

The object of study of this paper is the franchise chain Skill Idiomas (language school), which belongs to the Pearson Group. Information regarding the FA was collected and provided by the directors of the association. The association Skill Idiomas São Paulo Capital e Grande São Paulo was created in 2005 in the city City of São Paulo, Brazil, by its franchisor and franchisees. The main purpose of the association is the creation of networking by turning associated members' ideas into a real knowledge management; and to promote the discussion about the allocation of regional advertising funds according to advertising campaigns approved by the national council of Skill franchises.

Figure 2 highlights the FA's organization chart. All positions are elected at a general meeting; the term of office is two years and a renewal is allowed, except for the CEO, who holds a lifetime position.

FIGURE 2

FA'S ORGANIZATIONAL CHART



Source: Elaborated by the authors.

3.2 DATA COLLECTION

The sample of this study comprised the franchise chain Skill Idiomas (language school), located in the City of São Paulo, in the Metropolitan area, and in the ABC Region (encompassing the cities of Santo André, São Bernardo do Campo and São Caetano do Sul). Chart 2 indicates more details of the sample.

CHART 2

SAMPLE FACTS

GROUP	SAMPLE COLLECTION
Franchisee Association	4 Directors
City of São Paulo (Franchisee)	2 Franchisees
Metropolitan Region of São Paulo (Franchisee)	2 Franchisees
ABC Region of São Paulo (Franchisee)	2 Franchisees
Franchisor	Brand Manager

Source: Elaborated by the authors.

The franchise was divided into regions: 2 operate in the city of São Paulo (capital), 2 in the Metropolitan Region of São Paulo, and the other 2 in the ABC region. The choice of splitting the sample by regions occurred because there could be differences between and within the regions. Table 1 below demonstrates the units represented by the FA analyzed in the sample.

TABLE 1

UNITS REPRESENTED BY THE ASSOCIATION

REGION	REPRESENTED UNITS (QUANTITY)
City of São Paulo	36
Metropolitan São Paulo	4
ABC São Paulo	11
TOTAL	55

Source: Elaborated by the authors.

Interviews were conducted in the headquarters of each franchisee in the city of São Paulo. To collect data, we used a semi-structured interview guide consisting of open questions, which provided responses that are more detailed, greater participation and a better understanding of the interviewee's perception of reality. The interview guide was based on indicators and dimensions exposed in Chart 2. The interviews were scheduled in six franchisees represented by the FA, with a brief description of the research proposal.

To fulfill the objectives proposed, a content analysis and a data triangulation were accomplished. Lincoln and Guba (1985) emphasize that triangulation is a way of increasing the credibility and trust through observation and document analysis. Azevedo, Oliveira, Gonzalez and Abdalla (2013) assert that triangulation can combine different methods of analysis and qualitative and quantitative data, thus contributing to the observation of a phenomenon from multiple perspectives with different point of views, which enables the development of new theories while updating the obsolete ones.

Data triangulation avoids biased analyses and helps to build a more complete and accurate analysis through the convergence of sources (Eisenhardt, 1989; Yin, 2005). It is also important to emphasize that data triangulation avoids potential biases because there is more than one data source being used, which

enables the development of more complex and precise analyses due to the convergence of sources of evidence. This is the reason why we used three different data collection methods: interviews, document analysis and direct observation. The triangulation of data also allowed the analysis of the reporting provided by interviewees and the documents analyzed by our research team.

After we accomplished the data collection procedure, we initiated the content analysis, which was used, according to Bardin (2010), to describe and interpret messages present in the information obtained in the study. When organizing the collected data analysis, three different steps were applied (Bardin, 2010): pre-analysis, exploration of the obtained material, and data processing. The content was, therefore, codified and analyzed based on analytic dimensions present in the theoretical framework.

3.3 CONSTRUCTION OF THE DIMENSIONS

This section presents the dimensions that set this research. The description of the dimensions is as follows: 1. the role of the FA regarding the relationship with franchisors; 2. relationship practices and conflict resolution between franchisees and franchisors; 3. cooperation in relationships between franchisors and franchisees; and 4. governance in the relationships and conflict resolution between franchisees and franchisors. Chart 3 describes these dimensions with more details.

CHART 3

RESEARCH DIMENSIONS

	DIMENSIONS	DIMENSIONS COMPOSITION	PURPOSE	AUTHORS
I	Franchisee Association	Franchisor's perception; Franchisee's perception	Main role of the FA	Lawrence and Kaufmann (2010; 2012)
II	Conflicts	Conflicts; problems arising from disparities; solution forms of conflicts originated by asymmetries	Relationship	Pody (1967), Reve and Stern (1979), Zaheer, McEvily and Perrone (1998), Steven (2000)

(continue)

CHART 3 (CONCLUSION)

RESEARCH DIMENSIONS

DIMENSIONS	DIMENSIONS COMPOSITION	PURPOSE	AUTHORS
III Cooperation	Combined solution of problems of any kind; sharing; labor sharing and coordinated actions	Cooperation in the relationship between franchisors and franchisees	Nohria (1992), Grandori and Soda (1995), Granovetter (1985)
IV Governance	Rules on admission and exclusion of franchisees; penalties; hierarchy; equality between franchisees; leadership and operation; control by authority or reputation of a more powerful actor	Governance in the relationship and conflict resolution	Gulati (1998), Larson (1992), Balestrin; Vargas (2004), Zaccarelli <i>et al.</i> (2008)

Source: Elaborated by the authors.

4 INTRA-CASE ANALYSIS

4.1 FA'S ACTIONS

4.1.1 Franchise Association

Taking into account the perspective of directors of the Franchisee Association, there is a clear agreement regarding the main roles played by this association, which includes the representativeness of franchisees and the management of regional advertising funds. Since the geographic region has a high number of franchisees (70 franchisees), the association is responsible for the needs and expectations of this group. Besides working as a mediator to manage advertising funds, it is important to emphasize that such associations are relevant to attract new students. Director 4 summarizes the main duties of an association:

The main duty of an association when it comes to represent franchisees is to manage the funds for regional advertising and to discuss relevant subjects which are taken to the franchise chain through minutes prepared with one of the franchisor's members.

4.1.2 Franchisees

For the franchisees of the ABC region, the main duties of the Franchisee Association involve synergetic actions between franchisees and franchisor, besides the regional development of advertising campaigns. Franchisee 2 indicates the main duties that a Franchisee Association should have:

It should connect franchisees and franchisor, provide support regarding strategies, sales and processes. It should also help the group and the franchisor as well, because we have to work together [...]. It is important to have good advertising plans along with the franchisor [...] and they should set a few things for franchisees to accomplish in their own units.

The franchisees of the city of São Paulo affirm that the duties of the Franchisee Association should be an instrument to enable the smaller parts of the franchising system (e.g. the franchisees) to express themselves. According to that, Franchisee 1 states that:

An association should connect the group of franchisees so that they may question and even criticize decisions made by the franchisor. One swallow does not make a summer, but together I believe that all franchisees can make a change.

On the other hand, the franchisees of metropolitan region of São Paulo criticize the fact that the Franchisee Association has to intermediate the implementation of the franchisor's actions with their franchisees. According to them, the franchisees' needs and expectations are, that way, neglected. Franchisee 1 mentions such perspective:

The Association is very pressured by the franchisor. It happens like that: 'things have to be done this way', 'this is the path you have to follow', 'you have to work things out', 'you need to do something because this situation is very bad!' Nobody has a clue about what is really happening!

4.1.3 Franchisor

The legal representative of franchisor has a very optimistic way to analyze the roles played by the Franchisee Association, and believes that, due to this association, there is a high level of professionalism and performance among franchisees due to best practices dissemination.

The Association needs a greater goal, which is the regional growth and strengthening. It is responsible for decisions. It should also bring up, during meetings with the franchisor, all the needs, expectations, difficulties, and new ideas of franchisees. Besides disseminating knowledge, the association has to disclose best practices and has to have scale gains with suppliers.

4.2 CONFLICTS

4.2.1 Franchise Association

According to the directors of Franchisee Association, conflicts are intrinsic to business relationships – these conflicts are not, however, predominant in such association studied. These conflicts involve not only financial issues, but also noncompliance with the rules and disagreements in the franchising relationship. There is, however, a very positive perspective, since conflicts foster new attitudes within the group. Director 2 mentions such fact: “There is always conflict, but also great respect. I think that people understand they do not have to always agree with one another, so conflicts lead to healthy discussions and are very positive”.

4.2.2 Franchisees

The franchisees of ABC region of São Paulo noticed that conflicts are related to geographic regions due to the predominance of a socioeconomic class that demands for distinct commercial practices. The economic factor generates restrictions and can raise certain conflicts in the franchising relationship due to the reduction of operating margins. Such perspective is corroborated by franchisees of this region:

The reality of one franchisee is different from the reality of other franchisees; if certain franchisee is located in a region where the socioeconomic class is different from the one of other franchisee, there will be disagreements and, therefore, differences.

According to the franchisees of city of São Paulo, some conflicts are created due to the distribution of regional funds, since some regions are considered more relevant and others demand larger advertising investments. According to Franchisee 1:

A very recent example is the allocation of funds in the ABC region, where such allocation was not considered fair and there was a general mobilization to discuss such issue. I am not saying it is fair or not, but we discuss such issues to understand everybody's point of view.

According to the franchisees of metropolitan region of São Paulo, the causes of such conflicts occur due to performance competitions and generational conflicts among franchisees. Franchisee 1 agrees with such statement:

The franchisee that is not that successful tends to observe other successful franchisees as real competitors. This unsuccessful franchisee feels inferior because how can the business of Company A be more successful than his/her own if they are all in the same team? [...] Unfortunately, our franchise chain is nowadays subdivided. When we have to plan certain event, the new generation will go for trendy stuff, but people from older generations will prefer having things that are more traditional and they certainly believe that trendy things will never work, since new things never seem to work out.

4.2.3 Franchisor

The franchisor affirms that such conflicts exist because they are normal in any and every relationship between different people. It is, however, necessary to create tools in order to minimize their existence, taking into account meritocracy and group decision making. According to the franchisor:

There are no exclusive benefits, it is all based on meritocracy and it is valid for everyone, it does not matter how long this person is working with us, if it's a man or a woman, where the franchisee is located. We have no reasons to give privilege for one particular group if we know that it's going to generate conflicts later.

4.3 COOPERATION

4.3.1 Franchisee Association

The directors of Franchisee Association are unanimous when mentioning that there is a strong lack of cooperation among members. Such cooperation is partial and can be observed in franchisees in which there is a sense of collective thinking. Director 2 agrees with such statement:

I think that we have made several improvements in such aspect, but we cannot count on the whole association when a problem comes along. We need help, but the participation of members is not uniform. There is always a group that is more active, more participative, with more synergy, availability, and determination.

4.3.2 Franchisees

According to the franchisees of ABC region of São Paulo, cooperation occurs partially among the members of the association; such cooperation is limited due to the belief that it may cause work overload. Franchisee 2 emphasizes such issue:

In general, people tend to mobilize, maybe not everybody, but not because they don't feel like cooperating, but because they are afraid... They don't know if they should help or not, they don't know how much time they are going to waste.

According to the franchisees of city of São Paulo, some franchisees do not cooperate and the reason is that there is a lack of trust in the group as a whole. That way, the cooperation between some franchisees occurs due to an identification of values within the group. Both franchisees agree with such perspective:

The most involved ones always want to help one another. Most of them are just worried about their own benefits and do not trust other people. Sometimes, it seems that it is one against the other. Some franchisees see other franchisees as competitors and it shouldn't be like that!

The franchisees of metropolitan region of São Paulo believe that cooperation is partial because of the belief that leaders are enough to solve problems in the association. According to such issue, Franchisee 2 states:

I think that it ends up limited in the hands of a small number of people, not because most people are not interested, but there are leaders within the association and these people are the ones that take the lead. That way, the other ones tend to observe the problem being solved.

4.3.3 Franchisor

According to the franchisor, there are leaders among franchisees, but they are not the only ones responsible for cooperation. The franchisor emphasizes its own role in the mediation with franchisees in order to meet the needs of less participative franchisees. According to him:

I have the impression that people believe that cooperation is present only in some franchisees. I do not agree. I understand that there are spontaneous leaders. As a member of the franchisor group, I have to listen to people agreeing or not in order to bring up discussion and information exchange.

4.4 GOVERNANCE

4.4.1 Franchisee Association

The Franchisee Association has statutes that regulate its functioning, defining procedures for the selection of board members, terms, norms, rules and penalties to be imposed to franchisees. According to Director 4: “There are rules to be complied and the ones who do not do it, even if they do not take part in the association, have to be punished”.

4.4.2 Franchisees

The franchisees of ABC region point out the existence of assignments divided among the board of directors, such as guidelines, minutes and accounting management. Franchisee 1 argues that: “There is a distribution of tasks to each person responsible for a certain action within the group, such as guidelines and minutes of meetings. There is an accounting firm, which publishes reports regarding financial results”.

Taking into account the perspective of franchisees of city of São Paulo, the association has, as a governance tool, punishment procedures that correspond to fines imposed to franchisees that do not attend meetings. According to Franchisee 2: “If the franchisee does not attend meetings, he/she is punished. I think this is the least the association can do, considering that the franchisee has the obligation to attend these meetings”.

Governance practices for the franchisees of metropolitan region of São Paulo are a bit different: penalties are imposed when the franchisee becomes in default. Franchisee 1 points out that: “If the franchisee is in default towards

the association, it will be automatically blocked. That way, it will not be possible to purchase new didactic material, which wrecks the possibility to sell courses”.

4.4.3 Franchisor

The franchisor points out that the governance practices of the association are performed within an organizational structure that provides defined hierarchy levels, statutes, participative management and financial control. According to him:

There is a president, a board of directors and advisors who are elected by the group. The representative of franchisor I is also part of the board of directors. This is, therefore, an organized structure with provision of accounts, which is structured in a democratic way.

5 INTERCASE STUDIES

By analyzing the different franchisee groups of our study, it is possible to affirm that a Franchisee Association can be very beneficial. According to the Directors of the Association, such entity is very legitimate when representing franchisees and very successful when managing efficiently regional advertising funds, franchisees tend to see the Association as an entity capable of providing a broader negotiation power to the franchisor. The franchisor, on the other hand, emphasizes that the Association is responsible for the dissemination of best practices among franchisees.

The existing conflicts occur due to different reasons. According to the Directors of Franchisee Association, such conflicts are caused by the (“unfair”) allocation of funds, violation of rules and by the lack of understanding regarding the obligations in a franchise system. The directors, however, see these conflicts as a positive feature, since they get franchisees out of their comfort zones, stimulating new attitudes among franchisees. Taking into account the different perspectives of the analyzed franchisee groups, it is possible to affirm that there are several conflicts in the franchise chain, which occur due to different socioeconomic regions where franchisees operate, the allocation of advertising funds, the performance competition among franchisees, the lack of collective thinking, and generational conflicts. According to the franchisor, the main purpose of the Association is to create tools to reduce conflicts among franchisees, to stimulate meritocracy and group decision making.

According to the Directors of Franchisee Association, the cooperation among franchisees is partial, only some members act in a collective way in order to provide help to the whole group. According to franchisees, all of them agree that there is only a partial cooperation among them. The reasons why franchisees claim that this cooperation is partial are a bit different – they believe that 1. franchisees are afraid that if they help other franchisees, there might be a work overload; they also mention that 2. there is a lack of trust in the group as a whole, which makes cooperation effective only in small groups; and they also think that 3. it is easier for some franchisees to outsource their leadership to other individuals. According to the franchisor, it is necessary to cooperate with franchisees that are not so expressive in the franchise chain in order to understand and meet their needs.

Finally, when it comes to governance in the Franchisee Association, the Directors affirm that governance is accomplished by statutes that regulate guidelines to establish electable positions, to establish rules and penalties imposed to franchisees. According to franchisees, governance practices are maintained by guidelines, minutes, accounting management, punishments to franchisees who do not attend meetings and defaulters. The franchisor emphasizes that governance is related to hierarchy structure, statutes, participative management and financial control. Chart 4 highlights the main results:

CHART 4

RESEARCH RESULTS

INTERVIEWEE	MAIN ACTIONS	CONFLICTS	COOPERATION	GOVERNANCE
1 Directors	<ul style="list-style-type: none"> To represent franchisees To manage regional advertising funds 	<ul style="list-style-type: none"> Positive for new ideas Financial issues Non compliance with rules Disagreements regarding the franchise system 	<ul style="list-style-type: none"> Partial; it could only be noticed in franchisees in which collective thinking was present 	<ul style="list-style-type: none"> Statute Procedures to choose the board of directors Standards Rules Sanctions
2 Franchisees ABC	<ul style="list-style-type: none"> Synergistic procedures between franchisees and franchisor Management of regional advertising funds 	<ul style="list-style-type: none"> Social and economic regional differences 	<ul style="list-style-type: none"> Partial, due to work overload 	<ul style="list-style-type: none"> Guidelines Minutes Accounting control

(continue)

CHART 4 (CONCLUSION)

RESEARCH RESULTS

INTERVIEWEE	MAIN ACTIONS	CONFLICTS	COOPERATION	GOVERNANCE
3 Franchisees City of São Paulo	<ul style="list-style-type: none"> • Increase in the number of franchisees 	<ul style="list-style-type: none"> • Allocation of regional funds 	<ul style="list-style-type: none"> • Partial; it only occurs due to the level of trust among franchisees helping one another 	<ul style="list-style-type: none"> • Penalties for the ones that do not attend the meetings
4 Franchisees Metropolitan region of SP	<ul style="list-style-type: none"> • Tool to implement franchisor's actions 	<ul style="list-style-type: none"> • Performance competition among franchisees • Absence of collective thinking • Franchisees' generational conflicts 	<ul style="list-style-type: none"> • Partial; franchisees' leaders are the ones who help solving problems 	<ul style="list-style-type: none"> • Penalties for association defaulters
5 Franchisor	<ul style="list-style-type: none"> • Professionalization of franchisees • Exchange of better practices 	<ul style="list-style-type: none"> • Creation of instruments to reduce conflicts • Meritocracy • Group decision making 	<ul style="list-style-type: none"> • Support for less participative franchisees in order to understand their expectations 	<ul style="list-style-type: none"> • Defined hierarchy levels • Participative management • Financial control

Source: Elaborated by the authors.

6 CONCLUSION

This research has explored the components of a franchise network represented by a Franchisee Association (FA), which consists of several members, directors and the representative of the franchisor. Chart 4 presented above sums up the main research results. Three secondary objectives were proposed here to implement the study regarding the association management of the franchisees.

The first objective was to identify the role played by the FA regarding the franchisor. The result indicated that the main purpose of the FA was to represent the wishes and demands from franchisees alongside with their franchisor. According to Lawrence and Kaufmann (2012), the success of a FA relies on the ability to create an identity for the associated franchisee, whose main values represent the collective interests of franchisees.

The second objective was to investigate the relationship and conflict practices mediated by franchisee associations and franchisors. Regarding the resolution of conflicts, the Board of the Association, franchisees in the ABC region, and franchisees of São Paulo Capital region identify the influence of leaders, who compose the membership of the Board, as a determining factor in the resolution of conflicts. In accordance with Lawrence and Kaufmann (2010), when the focus of franchisee associations is grounded on the general sustainability of the franchise network, its goal is to lead franchisees and the franchisor to align interests while solving conflicts.

The third objective was to identify the franchisee association's ability to play a governance role in the relationship. The results herein indicated that the way of governance exercised by the FA is based on the rules that create their policies and the penalties that are known and applied for all members when rules are inflicted. Tichy (2002) highlights a partnership agreement in the relationship between franchisors and franchisees, in which governance rules are formally established.

The **academic contribution** of this research complements the international researches of Dandridge and Falbe (1994), Cochet and Ehrmann (2007), Lawrence and Kaufmann (2010; 2012), bringing up other perspectives regarding practices in managing relationships, and ways of governance exercised by the FA, which are aspects not deeply analyzed in studies of franchisee associations.

The **limitation** of this research was the superficial analysis regarding corporate governance issues. Once this issue is deepened, it can contribute for a better understanding of the formal and informal instruments set by the FA when sharing a franchise network management. As a **suggestion for future studies**, we affirm that one can better investigate the limitations of this research, exploring the corporate governance functions regarding franchises. We believe that the FA has a key influence in this matter. A second suggestion consists in comparing associations of franchise networks that develop different franchise generations, in order to find practical determinants in the development and management of franchise chains.

ASSOCIAÇÃO DE FRANQUEADOS E A MEDIAÇÃO DE RELACIONAMENTOS

RESUMO

Objetivo: Compreender as ações empreendidas pelas Associações de Franqueados (AF). Buscou-se: 1. identificar o papel desempenhado pela AF em relação a sua relação com franqueadores; 2. compreender os procedimentos de conflitos juntamente com franqueadores; e 3. identificar habilidades desempenhadas pelas AF nas relações de governança entre franqueado e franqueadores.

Originalidade/lacuna/relevância/implicações: Adiciona às pesquisas de Dandridge e Falbe (1994), Cochet e Ehrmann (2007), Lawrence e Kaufmann (2010, 2012), complementando com perspectivas em relação às práticas em gestão de relacionamentos e às formas de governança exercidas pela AF, que são aspectos não analisados em estudos de AF.

Principais aspectos metodológicos: Pesquisa qualitativa, com estudo de casos múltiplos envolvendo triangulação de dados. A amostra deste estudo compreendeu a rede de franquias Skill Idiomas, localizada na cidade de São Paulo. As entrevistas compreenderam o quadro Diretores da AF, seis franqueados e um Executivo da rede.

Síntese dos principais resultados: Há um forte sentimento de confiança somente entre alguns dos membros da rede, bem como uma cooperação parcial. Com referência à governança da AF, pode-se salientar que as regras e as sanções que compõem as suas políticas são bem conhecidas e aplicadas. A influência dos líderes que formam o Conselho da Associação é determinante para a resolução de conflitos.

Principais considerações/conclusões: A influência dos líderes que integram a composição do Conselho foi um fator determinante na resolução de conflitos. A forma de governança exercida pela AF é baseada nas regras que criam suas políticas e as penalidades que são conhecidas e aplicadas por todos os membros quando as regras são infringidas.

PALAVRAS-CHAVE

Associação de franquias. Redes de franquia. Empreendimento. Pequenas empresas. Relacionamentos.

ASOCIACIÓN FRANQUICIADO Y SU MEDIACIÓN DE RELACIÓN

RESUMEN

Objetivo: El objetivo de esta investigación es comprender las acciones llevadas a cabo por asociaciones Franquiciado (FA). Más específicamente, que tuvo como objetivo: 1. identificar el papel desempeñado por las FA con respecto a su relación con los franquiciadores; 2. entender los procedimientos de conflictos junto con los franquiciadores (FA); 3. identificar habilidades FA a jugar un papel relevante en la gobernanza franquiciado y franquiciadores relaciones.

Originalidad/laguna/relevancia/implicaciones: Esta investigación complementa las investigaciones internacionales de Dandridge y Falbe (1994), Cochet y Ehrmann (2007), Lawrence y Kaufmann (2010, 2012), la educación de otras perspectivas con respecto a las prácticas en la gestión de las relaciones, y las formas de gobierno ejercido por el FA, que son aspectos que no analizados profundamente en los estudios de asociaciones de franquicias.

Principales aspectos metodológicos: La muestra de este estudio comprendía la cadena de franquicias Skill Idiomas, ubicada en la ciudad de São Paulo y en su metropolitana y región ABC. Las entrevistas comprendían cuatro directores (que representa FA), seis franquiciados (que representan el São Paulo, región metropolitana y ABC región) y el Ejecutivo franquiciador.

Síntesis de los principales resultados: Algunos resultados se pueden extraer: hay un fuerte sentido de confianza sólo entre algunos miembros de la red, así como una cooperación parcial entre ellos. Con respecto a la gobernanza de la FAS, se puede notar que las normas y las sanciones que conforman sus políticas son bien conocidas y aplicadas. La influencia de los líderes que forman el Consejo de Asociación de gestión y el proceso de votación en AF son la clave para la resolución de conflictos.

Principales consideraciones/conclusiones: La influencia de los líderes que conforman la composición del Consejo fue un factor determinante en la resolución de conflictos. El proceso de votación en las reuniones de la asociación era un agente clave para la resolución de conflictos. La forma de gobierno ejercido por el FA se basa en normas que establecen sus políticas y sanciones que son conocidos y aplicados por todos los miembros cuando se imponen reglas.

PALABRAS CLAVE

Asociación de franquicias. Redes de franquicia. Emprendimiento. Pequeñas Empresas. Relaciones.

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