Factors that drive the perceived success of franchises in South Africa

Stefanie de Wet and Geoff Bick
Graduate School of Business,
University of Cape Town,
Portswood Rd., Greenpoint,
Cape Town, South Africa
Email: stefaniedewet1@gmail.com
Email: geoff.bick@gsb.uct.ac.za

Russell Abratt*
School of Business,
George Mason University,
4400 University Drive,
Fairfax, VA 22030, USA
Email: rabratt@gmu.edu
*Corresponding author

Abstract: Franchising as a business format has become increasingly popular on a global scale in both developed and emerging countries, as it develops entrepreneurship, provides growth, fosters skills transfer, and leads to job creation. While prior studies have focused on financial growth, network expansion, survival, and franchisor-franchisee relationships, there is limited knowledge about the drivers behind franchise success, particularly in emerging markets. Consequently, the purpose of the research was to identify the key factors that drive franchise success in South Africa. A mixed methods approach was used, with a qualitative study of eight franchisors, and a quantitative study of 156 franchisees. Confirmatory factor analysis revealed seven factors that drive franchise success: brand strength and support, mutual trust and sharing, customer-centricity, franchisee dedication, relationship experience, brand consistency and brand resonance. The three factors, customer-centricity, brand consistency and brand resonance, are new findings. A conceptual framework has been developed for franchise success, comprising three categories: brand support, intellectual connection and emotional commitment.

Keywords: franchising; South Africa; customer relationships; emerging markets.


Biographical notes: Stefanie de Wet is a South African entrepreneur who co-owns the Creative Crafting Club, a membership that helps women globally start and grow their own creative businesses. Prior to co-founding the business,
she was division manager at an online retailer in Cape Town. She has published in the *South African Journal of Industrial Engineering (SAJIE)* and holds a Master’s degrees in Industrial Engineering and Business Administration.

Geoff Bick is an Emeritus Professor of Marketing at the Graduate School of Business, University of Cape Town. His research interests include marketing metrics, customer equity and brand equity, business-to-business marketing, CRM, and marketing and technology. He has published in *Journal of Marketing Management, Journal of Marketing Theory and Practice, Journal of Brand Management, Journal of Product and Brand Management*, and *Journal of Promotion Management*, as well as local business management journals.


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1 Introduction

In recent decades, franchising as a business format has become increasingly popular on a global scale (Blair and Lafontaine, 2005; Ghantous and Das, 2018; Nijmeijer et al., 2014). Empirical evidence has shown that franchising has an impact on economic growth in both developed and emerging countries (Lanchimba and Medina, 2018), and the global market for new franchise development remains robust. Although franchising is often associated with large organisations, such as McDonalds and Subway, the majority of franchises are small to medium in size (International Trade Administration, 2016). The USA has the world’s most mature franchise system. In this developed economy, the franchise market output was estimated to grow by 6.2% in 2018 (versus 4.3% growth overall in the US Retail sector) to reach $757 USD billion, contributing approximately 3% to the US GDP (IHS Market Economics, 2018). Franchised businesses are important drivers of the US economy, as they employ over 8.8 million people, which equates to one in seven jobs, and contributes 50% to Retail sales (International Trade Administration, 2016).

The growing South African middle-class provides opportunities for franchises for local as well as international players (Wingrove and Urban, 2017). The franchise sector contributed 13.3% to the overall GDP in 2017, and has shown steady growth from R465 billion ($33 billion) in 2014 to R587 billion ($42 billion) in 2017 (FASA, 2018). This growth is in direct contrast to the exceedingly slow gross domestic product (GDP) growth of South Africa. According to a survey conducted by the Franchise Association of South Africa, 66% of South African franchisors have been in business for longer than a decade, which, given the economic downturn experienced in South Africa during this period, points to a resilient and viable business sector (FASA, 2018). There are 865 franchise systems in South Africa that operate from over 45,000 outlets owned by 40,528 franchisees, and which employ 369,573 people nationally (FASA, 2018). The growth of
the sector is driven not only by local chains that are expanding, but also by the entry of international brands such as burger chains, coffee houses and retail stores (KPMG, 2016).

Within the industry, the Fast Food and Restaurant category is the largest and fastest growing in the South African franchise system, contributing 2% of total franchise revenue (Constantaras, 2015). The rapid growth in this category has been attributed to rising disposable incomes, increased participation of women in the workforce, and the rising black middle class (Wingrove and Urban, 2017). Retail is the second largest category contributing 12% of the total revenue, followed by the building, office and home services sector at 11% contribution. Other relatively large categories include automotive products and services (9%), childcare, education and training (8%), and business-to-business services at 7% of total turnover. The other categories contribute 6% or less (Constantaras, 2015).

Following the trend of franchise globalisation (El Akremi et al., 2015; Ghantous and Das, 2018), FASA (2018) indicated in its 2018 Annual Report that the number of international brands in South Africa increased from 12% in 2017 to 27% in 2018. South African franchisors are also looking beyond the country’s borders with 39% claiming to have stores abroad in other African countries (Sharpe, 2019). While South Africa is classified as an emerging market, it effectively has a dual structure with elements of first and third world economies prevalent. Consequently, the South African context presents opportunities to understand the similarities and differences of franchise success factors relative to other markets.

A review of the literature revealed two major gaps in our knowledge of franchising. Firstly, the performance of international franchised chains has been receiving increasing attention in terms of financial growth (El Akremi et al., 2015), network expansion (Dant et al., 2011; Hoffman and Preble, 2004), survival (Blair and Lafontaine, 2005; Shane, 1998), and franchisor-franchisee relationships (Colla et al., 2018; Nijmeijer et al., 2014; Weaven et al., 2014), but there is limited knowledge of the drivers behind franchise success. Secondly, very little is known about the success factors of domestic franchising in the fragmented South African market. This is an opportunity as franchising contributes a sizable portion to the South African economy and plays a large role in its growth (Wingrove and Urban, 2017). Successful franchising holds major benefits to the South African economy as it creates entrepreneurship, provides growth, fosters skills transfer, and leads to job creation (FASA, 2018; Kasselmann et al., 2002). Given the importance of successful franchising in South Africa, and building on prior research on influencing factors in other markets (Ghaitous and Das, 2018; Nijmeijer et al., 2014), this study aims to contribute insights to the literature by investigating franchises in South Africa and determining the various factors that influence success. Consequently, the research question is:

- What are the key factors that drive franchise success in South Africa?

2 Literature review

A wide number of theories have had a marked influence on franchise studies (Dant et al., 2011; Varotto and Neto, 2013). Varotto and Neto (2013) found that the most used theoretical perspectives were agency theory and resource scarcity theory. Dada (2018) similarly discovered that the most frequently used theoretical perspective is agency
theory followed by resource-based theory. Combs et al. (2004) believe that applying multiple theoretical perspectives offers greater diversity and enhanced explanatory power. Furthermore, combining organisational economics, strategic management and relational views on networks is a very promising research approach to understand integrated networks (Windsperger et al., 2011). Our study will apply three theoretical perspectives to develop a theoretical foundation of the concept of franchise success: an organisational economics-based approach (agency theory), an organisational strategic management approach (resource-based theory), and a relationship/social-psychological approach (relational exchange theory).

2.1 Factors influencing the success of franchises

The performance of franchises depends on the joint actions of the franchisor and franchisee bound by a legal contract (Grewal et al., 2011). The known factors that influence franchise performance are as follows.

2.1.1 Factors grounded in agency theory

Agency theory is one of the traditional perspectives from which franchising is viewed by researchers and is rooted in the principal-agent relationship (Varotto and Neto, 2013). The theory is underpinned by agent entrepreneurial autonomy, as the principal (franchisor) who delegates authority for local decision-making to the agent (franchisee) (Colla et al., 2018; Combs et al., 2004). Agency Theory perceives franchising as an instrument to balance and enhance incentives for both the franchisor and franchisee (Combs et al., 2004). In a franchise arrangement, franchisees are typically required to pay an upfront franchise fee to purchase a franchised outlet, as well as an ongoing royalty fee, which is generally calculated as a percentage of the franchisee’s sales revenue (Shane, 1998). In return for this investment, the franchisee obtains the right to use the business concept and services provided by the franchisor (Combs et al., 2004; Grace and Weaven, 2011). Franchisors utilise these cash contributions to grow the brand and invest in research and development. According to Blair and Lafontaine (2014) the upfront franchise fee contributes only a small percentage of the total fees paid to the franchisor over the duration of the franchise agreement. According to Shane (1998), franchise systems that require higher upfront investments are more likely to succeed. A study conducted by El Akremi et al. (2015) on 189 top US franchised chains, confirms this belief in concluding that higher franchising fees correlated positively with higher franchise performance.

Extant research shows that the magnitude of the royalty fee does not have an effect on franchise performance or survival rate (El Akremi et al., 2015; Nijmeijer et al., 2014; Shane, 1996, 1998). Grace and Weaven (2011) highlight that disagreement on the amount of the franchise fee and the allocation of royalties are considered two of the foremost reasons for conflict in franchise relationships. On the other hand, investment risk can be minimised from the perspective of the franchisee if they perceive the quality that they are receiving from the franchisor is in line with the monetary value that they have invested (Grace and Weaven, 2011). They further determined that franchisees place more value on emotional/relational satisfaction than on monetary value. The role and impact of contract design and length has been investigated extensively in the literature (Castrogiovanni et al., 2006; Chiou and Droge, 2015; Dada, 2018; El Akremi et al., 2015; Ghantous and
Franchisors protect their intellectual property through the franchise agreement. This contract ensures that information regarding transferred knowledge and standardised processes is kept confidential and not shared with competitors. Franchisors use stern clauses in the contract and monitor franchisees accordingly, to ensure standards are held and that franchisees remain compliant with processes and policies (El Akremi et al., 2015).

The following elements of contract design that impact franchise performance have been identified by prior studies. Firstly, providing exclusive territories in which franchisees can operate has a positive impact on performance (Huang, 2003; Nijmeijer et al., 2014). Secondly, franchisee satisfaction with contractual clarity and fairness regarding regulations (e.g., clauses on restrictions and termination of contract) is important for franchise success (Nijmeijer et al., 2014). Thirdly, Nijmeijer et al. (2014) established that tying agreements, such as centralised purchasing, do not have an influence on the success of franchising.

Studies on the effect of contract length on franchise performance appear to be mixed in terms of evaluating franchise performance. Shane (1998) believes that franchises that enter into short-term franchise agreements are more likely to fail. On the contrary, El Akremi et al. (2015) showed that the length of the contract does not have an impact on performance; however, the risk of conflict between the parties increases with longer contracts. Over time franchisees demand greater autonomy, which may also lead to conflict (Colla et al., 2018). On the other hand, Nijmeijer et al. (2014) argue that longer term contracts have a positive effect, as a stronger relationship and increased cooperation can be developed between the franchisor and franchisee over time, which leads to improved performance. Research shows that it is crucial for a franchisor to first develop its business concept and establish standardised processes before franchising. Nijmeijer et al. (2014) believe that there are no negative effects for a franchisor for longer testing of the concept before expanding through franchising. Once a franchisor decides to franchise, Shane (1998) argues that doing so at a rapid speed is critical for success as it would lessen competing firms’ opportunity to replicate the initiative.

Extant research frequently refers to the impact of the age and size of a franchise system on its performance (Castrogiovanni et al., 2006; Dada, 2018; El Akremi et al., 2015; Ghantous and Das, 2018; Huang, 2003; Nijmeijer et al., 2014; Shane, 1996; Vázquez, 2009; Weaven et al., 2017; Windsperger et al., 2011). Huang (2003) suggests that the age of the franchise system is closely and inversely linked to the failure rate. Vázquez (2009) concurs with this statement in stating that new franchise systems have a higher probability of failure or lower performance compared with older, more established firms. The results of a study conducted by Castrogiovanni et al. (2006) suggest that franchisors learn how to manage franchisees better over time. Vázquez (2009) believes franchisors enhance their purchasing power and increasingly optimise their standardised processes and systems as their total number of outlets grow. The larger the firm, the more resources it has to support its franchisee network and absorb failure (Rosado-Serrano and Paul, 2018).

### 2.1.2 Factors grounded in resource-based view theory

Resource-based view (RBV) theories are often used to complement agency theory (Nijmeijer et al., 2014). The resource-based view seeks to understand how a firm’s
unique resources and capabilities may be used to improve performance and gain competitive advantage (Ghantous and Das, 2018). According to the resource-based view, the more strategic the resources offered by the franchisor are, the stronger the performance of the franchisees will be (Asgharian et al., 2012). Resources that are valuable, rare, difficult to imitate and non-substitutable (VRIN) help firms achieve sustainable competitive advantage (Barney, 1991).

All the prior studies on the strength of the franchise brand showed a positive correlation with franchise success. A recognisable brand name has a positive influence on franchise performance (Nijmeijer et al., 2014), and a strong brand name has a positive effect on franchisee satisfaction, enabling franchisees to establish themselves more quickly (Chiou and Droge, 2015). Interestingly, Blair and Lafontaine (2014) point out that franchisors with very valuable brands tend to own and operate a greater proportion of the total outlets directly.

Initial and ongoing training of franchisees has a positive effect on the performance and survival rate of outlets (Nijmeijer et al., 2014). The length of the initial training period has a positive correlation to performance (El Akremi et al., 2015). Conflict is also lessened when franchisees receive training that is perceived to be of high quality by the franchisees (Combs et al., 2004; El Akremi et al., 2015). Support provided by the franchisor to the franchisee shows a positive impact on performance and relationship satisfaction (Parker et al., 2019). However, ongoing support is more beneficial to the franchisee than to the franchisor (Nijmeijer et al., 2014). Effective knowledge transfer from the franchisor to franchisee, and vice versa, encourages learning and improves performance (El Akremi et al., 2015). Furthermore, frequent communication and information exchange has a positive effect on franchisee satisfaction (Chiou and Droge, 2015), and reduces the probability of conflict-driven contract termination (Nijmeijer et al., 2014).

2.1.3 Factors grounded in relational exchange theory

The franchisor-franchisee relationship comprises a series of relational exchanges and involves “give and take cooperation and reciprocity” bounded by a contractual arrangement [Grace and Weaven, (2011), p.367]. Social-psychological theories such as relational exchange theory have made a significant contribution in terms of understanding the franchisor-franchisee relationship and interactions in franchise research (Nijmeijer et al., 2014), and providing a theoretical measure of the strength of the relationship (Huang, 2003). Relational exchange recognises that emotional exchange forms part of transactions (Huang, 2003). Research shows that relationship satisfaction has a significant impact on franchise performance (Ghantous and Das, 2018). Low levels of franchisee satisfaction could lead to reduced performance and conflict (Grace and Weaven, 2011).

Franchisor-franchisee relationship satisfaction was highlighted as crucial for franchise success in the literature. According to a study conducted by Chiou and Droge (2015), sales performance has a direct and strong impact on relationship satisfaction. Interestingly, the study concluded that service performance has no correlation to satisfaction. The authors hypothesised that this may be due to the franchisees not perceiving a direct connection between service performance and profitability, as they do with sales performance and profitability (Chiou and Droge, 2015). Furthermore, greater levels of dependence in the franchisor-franchisee relationship has a positive impact on franchisee satisfaction and performance (Nijmeijer et al., 2014).
Nijmeijer et al. (2014) highlight the important relationship characteristics to consider between franchisor and franchisee as: closeness of the relationship; commitment; trust; communication/information exchange; dependence; and conflict and opportunistic behaviour. Franchisee satisfaction has great benefits for both parties relating to commitment, loyalty and trust (Grace and Weaven, 2011). Bourkheili (2016) and Croonen and Broekhuizen (2019) argue that trust is one of the most important dimensions in the franchisor-franchisee relationship. According to Nijmeijer et al. (2014, p.72), “franchisor–franchisee relationships with higher levels of trust predominantly yield superior performance”. Not only does trust increase franchisee satisfaction and performance, but it also reduces uncertainty, enhances cooperation (Bourkheili, 2016), and increases the franchisee’s intention to remain in the agreement (Chiou and Droge, 2015).

Research confirms that franchisees that are committed and willing to work hard have greater probability for success (Nijmeijer et al., 2014). Franchisees’ current capabilities play a bigger role in driving performance than their prior experience (Nijmeijer et al., 2014). Nijmeijer et al. (2014) explain that franchisors have two strategies to influence franchisee behaviour: coercive strategies (threats based on contract) and non-coercive strategies (through communication and support), and found that non-coercive strategies tend to be more effective at a franchisee level than coercive strategies.

The literature reviewed has highlighted the critical success factors for franchising, mainly in developed economies. We therefore develop the following proposition:

- Research proposition 1: The critical success factors of franchising include: level of upfront investment and ongoing payments; contract design and duration; age and size of the franchised system; brand power; training and support; knowledge transfer; relationship satisfaction; trust; and franchisee commitment and motivation.

3 Methodology

The study followed a mixed methods approach to draw on the strengths of both qualitative and quantitative approaches (Onwuegbuzie and Johnson, 2004). According to Johnson and Onwuegbuzie (2007) the mixed methods approach leads to fuller, richer and more useful answers to research questions. Furthermore, mixed methods can provide understanding and insights that may have been overlooked if a single method is used.

3.1 Qualitative phase

The qualitative research phase adopted an exploratory approach to determine which of the factors identified in the literature review are most relevant to franchise success in the South African context, as well as to identify new factors that had not been highlighted in prior research. The findings from the qualitative phase were used to advise the direction of the quantitative study. The population in the qualitative phase of the study included all South African-based franchisors. A purposive sample of eight established South African franchisors based in Cape Town, Johannesburg, Pretoria and Durban was selected to participate. Three criteria were considered in the profile of the respondents and the organisations represented by the respondents: firstly, the size of the franchise (number of outlets); secondly, years that the franchise had been in business; and thirdly, respondents
Factors that drive the perceived success of franchises in South Africa

were the owners of the franchise. These criteria were important to ensure that the respondents had sufficient length and depth of experience of franchises and their success factors.

In-depth, semi-structured interviews were conducted with the sample. A semi-structured interview schedule was used, with open-ended questions to probe for franchise information and perceptions of factors that make franchises successful. The interviewer also used a prompt sheet of success factors derived from the literature, to validate the factors relevant to the South African context, in addition to probing for additional factors. The interviews lasted approximately 25 minutes over the phone and were voice-recorded using Apple’s QuickTime Player audio recording application. The recordings were then transcribed using Amazon Transcribe, an automatic speech recognition service. To ensure accuracy of the transcriptions, a manual review of the transcriptions against the original recorded responses was done. Data analysis was conducted through thematic analysis using an inductive approach. Thematic analysis enables the abstraction of high-level themes from within and across data texts (Cooper and Schindler, 2006). An inductive approach to thematic analysis is driven by data and ensures that conclusions of themes, topics and relationships are based on particular facts. The inductive approach ensures that the researcher does not attempt to force data into a specific frame during the coding process based on pre-existing conceptions (Bell et al., 2019). The results of the qualitative phase were used to develop the questionnaire that was used in the quantitative phase of the study.

3.2 Quantitative phase

The target population of the quantitative study included all franchisees that operate under a franchise agreement within South African borders. The sample comprised both the franchisees of the franchisors interviewed during the qualitative phase as well as other franchisees that were targeted directly.

An online survey, which was set up via Google Forms, was used to collect data from the sample frame drawn from the population (Zikmund et al., 2012). The survey distribution to franchisees was done telephonically and via email using four different approaches: firstly, via the participants of the qualitative phase to their network of franchisees; secondly, via other franchisors contacted directly to their network of franchisees; thirdly, through snowball sampling (Cooper and Schindler, 2006), asking participants to pass on the survey to other franchisees; and lastly, by contacting selected franchisees directly. It was important to distribute the survey to a geographically diverse group of franchisees to ensure the results were representative of the target population (Bell et al., 2019). To further increase reliability and validity, the aim was to collect responses from a minimum sample size of 120 franchisees. According to Hair et al., (2010) a valid sample size has to be at least five times greater than the number of Likert scale questionnaire statements.

The research instrument used was a structured questionnaire containing 24 items. The questionnaire was derived from previously validated questionnaires developed by Bourkheili (2016) and Weaven et al. (2017). Following the qualitative interviews, the statements were redefined based on the factors most relevant for the South African context. A 5-point Likert scale, with the anchors ranging from strongly disagree (rating 1) to strongly agree (rating 5), was used to test the factors that drive the perceived success of
franchises. Prior to commencing the data collection process, a pilot study was conducted using three respondents to test the questionnaire and the data collection tool.

The quantitative data was analysed through factor analysis using IBM’s SPSS statistical software platform. The groups of factors derived from factor analysis form unique clusters that are linear and, therefore, do not correspond or correlate with each other (Cooper and Schindler, 2006). Confirmatory factor analysis was used for the purposes of this research, to test and confirm the factor structure for franchise success in South Africa, as identified from the literature and the results of the qualitative interviews (Kaplan et al., 2004).

## 4 Results

### 4.1 Qualitative study

#### 4.1.1 Respondents

Eight franchisors were selected from the five largest categories contributing to South African franchising. The categories included fast food and restaurant, retail, building, office and home services, automotive products and services, and childcare, education and training. Furthermore, the franchises included in the study had been in business for between five and 120 years and had franchise networks ranging from 14 to 137 outlets. The profile of the respondents is shown in Table 1.

<table>
<thead>
<tr>
<th>Category</th>
<th>Size of business (number of outlets)</th>
<th>Franchise years in business</th>
<th>Franchise years in franchising</th>
<th>Perceived % successful outlets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent 1 Fast food and restaurant</td>
<td>14</td>
<td>29</td>
<td>29</td>
<td>Not answered</td>
</tr>
<tr>
<td>Respondent 2 Retail</td>
<td>137</td>
<td>18</td>
<td>8</td>
<td>55%</td>
</tr>
<tr>
<td>Respondent 3 Building, office and home services</td>
<td>23</td>
<td>50</td>
<td>30</td>
<td>95%</td>
</tr>
<tr>
<td>Respondent 4 Automotive products and services</td>
<td>62</td>
<td>120</td>
<td>22</td>
<td>70%</td>
</tr>
<tr>
<td>Respondent 5 Childcare, education and training</td>
<td>40</td>
<td>5</td>
<td>5</td>
<td>Not answered</td>
</tr>
<tr>
<td>Respondent 6 Fast food and restaurant</td>
<td>22</td>
<td>10</td>
<td>8</td>
<td>80%</td>
</tr>
<tr>
<td>Respondent 7 Childcare, education and training</td>
<td>19</td>
<td>9</td>
<td>5</td>
<td>70%</td>
</tr>
<tr>
<td>Respondent 8 Retail</td>
<td>24</td>
<td>60</td>
<td>40</td>
<td>100%</td>
</tr>
</tbody>
</table>

The profile of the franchisors was seen as representative of the South African franchise industry. Furthermore, the franchisors were regarded to be experienced specialists in their field as they were the owners of the businesses.
Critical success factors

The following critical success factors were highlighted as consistent with those identified in the literature.

**Brand strength** was unanimously highlighted as a key factor for franchise success. Some respondents mentioned that the size of the franchise network contributes to the brand strength: the larger the network, the greater the perceived brand power.

All the interviewees highlighted **franchisor training** as a key factor for franchise success, and mentioned that their organisations offer intensive upfront training programmes for their franchisees. Some of the respondents mentioned that their initial training programme includes written assessments, where others mentioned in-store training or ‘shadowing’ programmes to ensure the franchisees are fully trained before starting their own operations. Some of the respondents mentioned that they only provide upfront training, after which they offer support. Others stated that over and above the initial training, they also offer regular ‘refresher training’ programmes for their franchisees, to ensure consistency, and to introduce new products, services, processes and procedures. Lastly, a few of the interviewees revealed that they send representatives to visit the franchisees’ stores or operations unannounced, in order to identify potential opportunities where further training is required.

The majority of the interviewees highlighted the **transfer of knowledge** and business know-how as key for franchise success. Some of the interviewees mentioned that franchisors need to have a certain amount of flexibility in their thinking and create opportunities for knowledge sharing, as franchises often have territory-specific challenges in South Africa. Some of the interviewees mentioned the use of conferences, other get-togethers, internal centralised systems, and Social Media or WhatsApp groups to create forums for knowledge sharing.

All the interviewees reported that **relationship strength** is key for franchise success. Many of the respondents suggested that they regard this as the most crucial factor for franchise success. A strong relationship between the franchisor and franchisee creates trust and transparency. Some of the respondents believe that, even though there is a non-negotiable core operating requirement when it comes to franchising, it is important for franchisors to recognise and understand the nuances and different needs across their franchisee base. Furthermore, some respondents added that franchisors need to allow for a certain amount of flexibility in thinking and operations to ensure the maintenance of strong relationships.

There was a unanimous response from all the interviewees that **trust** between the franchisor and the franchisee is crucial for success. This factor goes hand in hand with the franchisor-franchisee relationship satisfaction factor. Most of the interviewees highlighted that trust is crucial for a strong relationship and that a strong relationship is key to success.

There was a unanimous response from the interviewees that **franchisee motivation and commitment** is crucial for success.

Non-influencing factors of franchising

The interviewees stated that they do not necessarily consider that the contract design and duration, the level of upfront investment, or the age and size of the franchise, which are all agency theory factors, directly impact success. All the franchisors interviewed made
use of standard franchise agreements with a term of five years. For physical stores, the lease agreement and the franchise agreement are concurrent. The majority of the interviewees did not regard the level of upfront investment and ongoing payments as an influencing factor for franchise success. It is a factor that is inherently complex, and interviewees were not able to provide sufficient information to analyse the impact of the factor on franchise success.

4.1.4 Newly identified critical success factors of franchising

A few of the interviewees highlighted that consistency in service, as well as active ownership of the franchise, and systems, processes, and controls, are all key factors in driving success. The majority of interviewees indicated consistency as key for franchise success. Many of the respondents touched on other factors in elaborating on consistency and customer experience, such as the importance of training and knowledge sharing. The majority of the interviewees highlighted active ownership of outlets as a key success factor for franchising. Some of the interviewees mentioned that they regard passive ownership as one of the key reasons for failure. The majority of the interviewees considered systems, processes, and controls as a key success factor for franchising. Most of the interviewees mentioned the use of internal systems for day-to-day operations. These systems often also give the franchisors visibility as to how their franchisees are performing.

The insights that were gathered from the interviews were used to validate and finalise the questionnaire used in the second phase of the research. Open-ended questions were added to the quantitative questionnaire, which allowed participants to add additional factors which they believed influence franchise success.

4.2 Quantitative survey

The Google Form that was utilised to capture the responses was set up in such a way as to ensure that respondents were the owners of the franchised outlet, and that they were operating within South African borders. Respondents were not able to submit the form unless they answered these qualifying questions, and this led to 156 usable questionnaires.

4.2.1 Profile of the respondents

The gender split of the sample was 61% male and 39% female. As for their age, 33% were between 36 and 45, another 33% were between 46 and 55, 19% where older than 56 and the remainder were younger than 36. The education profile of the sample indicated that 69% of the respondents had completed an undergraduate or master’s degree. The locations of the outlets owned by the respondents had representation in all of the provinces in South Africa. The majority of the outlets were based in Gauteng (33%), Western Cape (32%) and KwaZulu-Natal (14%). The Fast Food and Restaurants, Childcare, Education and Training, and Retailing sectors were most prominent in the sample, contributing 66% of the respondents. 66% of the outlets owned by the respondents had been in operation for less than 10 years and 34% for more than 10 years. Furthermore, 72% of the respondents owned only one outlet, whereas 9% owned two outlets and 19% more than two. Respondents were asked whether they rate their outlets’
performance as above average compared to the other outlets in the franchise network. 48% agreed that the performance of their outlets was above average, 39% were neutral and 13% were in disagreement with this statement.

4.2.2 Factor analysis

A confirmatory factor analysis (CFA) was conducted on the data using IBM SPSS statistical software to test whether the variables are consistent with the factors derived from the theory (Hair et al., 2010). The KMO test of sampling adequacy produced an outcome of 0.868, which indicates good adequacy to use the data in factor analysis as the measure is well above the minimum threshold of 0.60. Bartlett’s test of sphericity was conducted on the data, with a significance of 0.00, which indicated that sufficient correlation existed among the variables to proceed with the factor analysis (Hair et al., 2010). Cronbach’s alpha was used to test internal consistency of the questionnaire data with a resultant value of 0.83, above the recommended value of 0.7.

From the CFA, a seven factor solution was chosen which explained 68% of the cumulative variance, indicating a high degree of correlation, and these were therefore retained for the rotation. These seven factors also had eigenvalues greater than 1.0 and were therefore retained. The rotated sums of squared loadings represented a relatively evenly distributed rotation and justified that seven factors were present. A rotated factor matrix indicating the variables which loaded onto each factor was generated by the IBM SPSS analysis, using the orthogonal varimax rotation method. Of the 24 variables tested in the factor analysis each variable loaded onto one or two factors consistently. According to Hair et al. (2006) a factor loading of 0.40 or greater is meaningful. The factor loadings after orthogonal varimax rotation, as well as the names of the factors, are shown in Table 2.

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Statement</th>
<th>Factor loading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Systems and processes</td>
<td>I attribute my success to the good systems and processes provided by the franchisor rather than other factors.</td>
<td>0.808</td>
</tr>
<tr>
<td>Brand reputation</td>
<td>My outlet is successful mainly due to the good reputation of the franchise brand.</td>
<td>0.735</td>
</tr>
<tr>
<td>Training</td>
<td>If I did not receive regular training from the franchisors my outlet would have been less successful.</td>
<td>0.668</td>
</tr>
<tr>
<td>Brand strength</td>
<td>I attribute my success to the powerful brand that I joined rather than other factors.</td>
<td>0.664</td>
</tr>
<tr>
<td>Standards and Controls</td>
<td>The standards and controls put in place by the franchisor is more pivotal to the success of my business than other factors.</td>
<td>0.607</td>
</tr>
<tr>
<td>Support</td>
<td>The ongoing support I receive from my franchisor is one of the most important factors that drives my success.</td>
<td>0.594</td>
</tr>
<tr>
<td>Compliance</td>
<td>I believe a franchisee needs to completely adhere to the brand specifications as provided by the franchisor in order to be successful.</td>
<td>0.459</td>
</tr>
<tr>
<td>Reliability</td>
<td>Great reliability between the franchisor and franchisee is directly correlated with strong performance</td>
<td>0.441</td>
</tr>
</tbody>
</table>
Table 2  Factor loadings and names (continued)

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Statement</th>
<th>Factor loading</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Factor 2: Mutual trust and sharing</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trust</td>
<td>The stronger the trust between a franchisor and franchisee the greater the success of the outlet.</td>
<td>0.882</td>
</tr>
<tr>
<td>Mutual satisfaction</td>
<td>A mutually satisfying relationship between the franchisor and franchisee is one of the most important factors for success.</td>
<td>0.791</td>
</tr>
<tr>
<td>Knowledge sharing</td>
<td>Sharing of business knowledge and know-how between myself and the franchisor is pivotal to the success of my business.</td>
<td>0.733</td>
</tr>
<tr>
<td>Support</td>
<td>The ongoing support I receive from my franchisor is one of the most important factors that drives my success.</td>
<td>0.539</td>
</tr>
<tr>
<td>Honesty</td>
<td>A lack of honesty between the franchisor and franchisee will have a direct impact on performance.</td>
<td>0.483</td>
</tr>
<tr>
<td>Good communication</td>
<td>Stronger and more clear communication with my franchisor would have a direct impact on the success of my business.</td>
<td>0.419</td>
</tr>
<tr>
<td><strong>Factor 3: Customer centricity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer centricity</td>
<td>If my customer service and experience is sub-standard compared to the other outlets my business will not be successful.</td>
<td>0.804</td>
</tr>
<tr>
<td>Quality</td>
<td>Delivering a poor quality service for customers is directly correlated to poor success of the business.</td>
<td>0.797</td>
</tr>
<tr>
<td>Honesty</td>
<td>A lack of honesty between the franchisor and franchisee will have a direct impact on performance.</td>
<td>0.653</td>
</tr>
<tr>
<td><strong>Factor 4: Franchisee dedication</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purpose</td>
<td>My ‘why’, i.e. a clear understanding of my purpose/ why I own the business, is one of the major factors that drives my success.</td>
<td>0.785</td>
</tr>
<tr>
<td>Commitment and motivation</td>
<td>I attribute my success to my motivation and commitment to the business rather than other factors.</td>
<td>0.779</td>
</tr>
<tr>
<td>Product confidence</td>
<td>Believing in the brand and your product/service is the most important factor for success.</td>
<td>0.423</td>
</tr>
<tr>
<td><strong>Factor 5: Relationship experience</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loyalty</td>
<td>I believe my outlet can be successful even if I don’t feel loyal toward my franchisor.</td>
<td>-0.793</td>
</tr>
<tr>
<td>Relationship strength</td>
<td>An outlet can still be successful even if there is a poor relationship between the franchisor and franchisee.</td>
<td>-0.760</td>
</tr>
<tr>
<td><strong>Factor 6: Brand consistency</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consistency</td>
<td>If my product/service is not consistent with that of the other outlets my outlet is less likely to be successful.</td>
<td>0.801</td>
</tr>
<tr>
<td>Brand strength</td>
<td>I attribute my success to the powerful brand that I joined rather than other factors.</td>
<td>0.406</td>
</tr>
</tbody>
</table>
The first factor was named *brand strength and support* indicating the importance of brand strength as well as support functions (systems, processes, training and controls) for franchisees. The second factor was named *mutual trust and sharing* as it highlights the importance of trust between the parties as well as communication and honesty between them. The third factor was labelled *customer centricity* as it highlights the need for high levels of customer service, service quality, and honest relations between internal customers, i.e., the employees within the business (in-store staff, franchisee and franchisor). Factor 4 was named *franchisee dedication* as it conveys the purpose, motivation and commitment of the franchisee. Factor 5 was named *relationship experience* as it expresses loyalty and relationship quality between the franchisor and franchisee. Factor 6 was named *brand consistency* as it voices the need to provide consistent product and service delivery. The last factor 7 was named *brand resonance* as it emphasises the franchisee buying into the brand. That means that they are not only engaging with the brand on an intellectual level, but also being emotionally connected, communicating well and believing in the product or service.

The final section of the questionnaire contained two open-ended questions, which allowed for the respondents to add information regarding additional factors they believed to be critical for the success of franchises, as well as factors that they believed might lead to failure of a franchised business. The responses to these questions were analysed, and the following new variables were identified:

### 4.2.3 Additional factors critical for success

A few respondents mentioned the following as additional factors that are critical for franchise success in South Africa: *motivating staff with incentives* which are aligned with the company’s goals was regarded as critical to uphold service levels. *Previous knowledge and experience in the industry* was believed to increase a franchisee’s chance for success. This construct is often found in entrepreneurial studies. Being involved in, generous toward, and supportive of the local community was seen as critical. *Building strong networks* and developing relationships with the customer base was critical and leads to referrals. *Creativity* was seen in the ability to come up with creative solutions to problems. *Clear goals and key performance indicators (KPIs)*, help to keep staff focused and working toward the things that drive the business forward. Having a *mentor* or business coach helps franchisees to build their businesses and get through difficult times, by navigating businesses out of situations that may have otherwise led to failure.
5 Discussion

5.1 Critical success factors for franchising in South Africa

5.1.1 Factor 1: Brand strength and support

This factor conveys the importance for franchisees to be backed by a strong and reputable brand, and the systems and functions that need to be in place to ensure franchisees are supported throughout their business journey. Chiou and Droge (2015) highlight that a strong brand name enables franchisees to establish themselves more quickly. In terms of the training and support variables, the results showed that respondents value ‘support’ more than ‘training’, which supported the findings of Nijmeijer et al. (2014) and Parker et al. (2019), who highlighted that support provided by the franchisor to the franchisee has a positive impact on performance, which is often linked to the managerial capability of the franchisor (Gillis et al., 2020).

5.1.2 Factor 2: Mutual trust and sharing

This finding is consistent with Bourkheili’s (2016) and Croonen and Broekhuizen’s (2019) work that shows that trust increases relationship satisfaction and performance, and enhances cooperation. Respondents concurred that ‘trust’, ‘knowledge sharing’ and ‘mutual satisfaction’ are critical for success between the franchisor and franchisee. In addition, the breakdown of this factor was highlighted in the literature (Grewal et al., 2011; Rosado-Serrano and Paul, 2018) as one of the key reasons for franchise failure. Furthermore, ‘honesty’ and ‘good communication’ convey mutual trust between the franchisor and franchisee and both were regarded as very important factors by the respondents.

5.1.3 Factor 3: Customer-centricity

Respondents agreed that ‘customer-centricity’ is key and reiterated this opinion with 24 references to ‘customer’ and ‘service quality’ as crucial for franchise success. The variable ‘honesty’ had the underlying construct of ‘trust’ and was regarded as one of the most important factors for success by the respondents. Grewal et al. (2011, p.550) mention “Strong franchise relationships, built on mutual goals and trust, perform better”.

5.1.4 Factor 4: Franchisee dedication

The factor franchisee dedication consists of ‘purpose’, ‘commitment and motivation’ and ‘product confidence’ as underlying constructs. The first two constructs loaded strongly onto the factor. The factor seems to play an important role in franchise success. It is grounded in the relational exchange theory, and this research confirmed that committed and willing franchisees have a greater probability for success (Nijmeijer et al., 2014). Grace and Weaven (2011) established that franchisees place significant importance on the ‘soft’ factors of franchising as opposed to monetary value.
5.1.5 **Factor 5: Relationship experience**

The factor *relationship experience* consists of ‘loyalty’ and ‘relationship strength’ as underlying constructs. Grace and Weaven (2011) found that loyalty is key for franchisee satisfaction. The franchisor-franchisee relationship is built on trust (Bourkheili, 2016) and is oftentimes needed for strong relationships to develop. Building healthy relationships involves mutual consideration and compromise (Grace and Weaven, 2011). Conversely, the literature identified ‘partnership breakdown’ as one of the key reasons for franchise failure (Grewal et al., 2011; Rosado-Serrano and Paul, 2018).

5.1.6 **Factor 6: Brand consistency**

The factor *brand consistency* was one of the newly identified factors for franchise success and had ‘consistency’ and ‘brand strength’ as underlying constructs. Although only ‘consistency’ loaded strongly onto the factor (0.801), the results indicated that the factor was regarded as important for franchise success. Respondents agreed that if a product/service is not consistent with that of the other outlets, the outlet is less likely to be successful. An analysis of the franchising literature did not refer to ‘consistency’ per se, but the construct relates to, and challenges, the Agency Theory, which explains the franchisor delegating authority to the franchisee. Excessive control of the brand by the franchisor was highlighted as one of the key reasons for partnership breakdown (Grewal et al., 2011). It can, therefore, be concluded that *brand consistency* plays an important role in franchising in South Africa.

5.1.7 **Factor 7: Brand resonance**

The underlying constructs of *brand resonance* loaded strongly onto the factor. ‘Good communication’ was a consistent theme in the literature, but neither ‘regular meetings’ nor ‘product confidence’ were found in the literature. The literature on franchisor-franchisee communication, underpinned by the relational exchange theory, confirms the role that ‘communication’ plays in successful franchising. Grewal et al. (2011) found that poor communication may lead to franchise failure. Huang (2003) highlighted communication as an effective tool for conflict resolution. Chiou and Droge (2015) added that frequent communication and information exchange have a positive effect on franchisee satisfaction.

5.1.8 **Additional success factors**

From the comments provided by the respondents in the open-ended questions, there were some additional factors. *Previous business experience* and *experienced management staff* were highlighted as additional factors for success. These factors are often found in literature on entrepreneurial studies (Asgharian et al., 2012; Bourkheili, 2016; Dada, 2018; Grewal et al., 2011). *Location* was highlighted as an additional factor that influences franchise success. The literature supports the importance of geographical location as well as exclusivity of location (Nijmeijer et al., 2014; Windsperger et al., 2011), particularly in retail. Several of the additional factors suggested by the respondents relate to business and operations. The importance of *marketing* (Huang, 2003; Windsperger et al., 2011), *clear performance goals* (Bourkheili, 2016) and *staff*
management (Chiou and Droge, 2015) were highlighted. Employee management is key to managing in-store theft. According to Vleggaar and Smit (2012), large levels of theft reflect poorly on the staff management abilities of a retail store owner. The respondents also highlighted innovation as critical for success. Nijmeijer et al. (2014) support this with evidence that innovation has a positive interrelationship with franchise success. Lack of capital to invest in the business to grow as well as high and escalating rental fees were highlighted by the respondents as critical factors for potential success or failure of the business.

6 Conclusions, recommendations and future research

The purpose of this study was to determine the key factors that drive franchise performance in South Africa. Seven factors were identified that directly drive franchise success, namely brand strength and support, mutual trust and sharing, customer centricity, franchisee dedication, relationship experience, brand consistency and brand resonance. Six of the nine original factors as proposed in Proposition 1 were found during the study, and three new factors were identified. Furthermore, three of the original variables were not found in the South African context. Therefore, the results of the research findings confirmed that proposition 1 is partially supported. The three factors, customer centricity, brand consistency and brand resonance are new findings as they were not identified as success factors in the franchising literature, thus contributing to the theory on franchising.

6.1 Recommendations

A conceptual framework to guide franchise success has been developed, as illustrated in Figure 1. It has been structured into three main categories, namely brand support, intellectual connection and emotional commitment, which are seen to be the building blocks for franchise success in South Africa. Each category is underpinned by the relevant supporting theoretical perspective.

A strong reputable brand, robust systems, processes and controls, and continuous franchisee training and support, are fundamental elements for franchise success. The brand support function is seen as the cornerstone on which franchisee intellectual connection and emotional commitment is built. Franchisees and employees should be seen as brand ambassadors. Therefore, it is important for franchisors to create brand cohesion amongst their franchisee network. This should be done by developing a clear brand identity system, and ensuring franchisees and staff are in full alignment on the purpose, vision, mission and values of the brand. Training on ‘the brand’ should be held on a regular basis to ensure the whole franchise network is clear on what the greater brand strategy is. Furthermore, franchises need to ensure they use technology to increase brand image through driving active national marketing campaigns, and using digital marketing and social media to their advantage.
Training and support leads to greater performance. Franchisors need to ensure that ongoing local support is in place to guide and assist franchisees throughout their entrepreneurial journeys. It is recommended that franchisors put regional or area managers in place to continuously support the franchisees within a dedicated area and ensure training is conducted regularly, and that quality, standards and operations are in alignment with those of the broader group.

Even though franchisees do not regard ‘systems, controls and processes’ as key to drive success, it is crucial for a franchise system to operate optimally. The franchisor needs to implement and maintain robust systems, controls and processes across the network to ensure consistency. These tools would also alert the franchisor to underperforming outlets, which would make it possible for the franchisor to provide further support and training where necessary. Furthermore, new technologies bring major benefits to franchise systems, and franchisors need to embrace them to support their franchisees in remaining competitive. An example of this would be to host training programmes, operations manuals and other materials, and provide these online for franchisees to access.

Franchises need to ensure customer-centricity receives the full attention it requires. Technology needs to be utilised, such as customer relationship management (CRM) software, to understand customer behaviour and obtain insights about customers. Regular training to franchisees and staff on all systems, processes and operations should be provided to ensure the customer experience is optimised. A ‘model store’ could be set up as an example to franchisees of best practices. All franchisees and staff should spend time in a model store to ensure they understand the ideal customer journey. Franchisors could launch a ‘shadowing programme’ where new franchisees and staff spend time with a member of the franchise who is regarded as someone that exemplifies...
customer-centricity. Lastly, staff could be incentivised based on ratings and reviews of customer experiences.

Consistency needs to be in place on two levels for franchises: across outlets as well as in-store. Brand consistency refers to consistency across outlets, i.e. the entire franchise network. Brand consistency ties back to the recommendations for increasing internal customer-centricity, in that the same processes and incentives for increasing internal customer-centricity will assist in increasing consistency on a brand level. The most important recommendation to ensure brand consistency is regular training to franchisees and staff.

Further to intellectual connection, which is increased through means of training, fostering emotional commitment is more challenging, as it is emotive and therefore intangible on some level. Emotional commitment needs to be present across the five categories identified in Figure 1.

Franchisee dedication includes all aspects that draw the franchisee into their business – motivation, commitment, connection, and most importantly, purpose.

For prospective franchisees, it is recommended for franchisors to include tools such as a personality test in the interview process to get a fuller understanding of the strengths and weaknesses of the candidate before pursuing a franchise agreement. For existing franchisees, it is advocated for any business owner to partake in regular self-reflection to assess their level of motivation and dedication – to remember why they started the business and what their greater purpose is. Often, this process is guided by a mentor or business coach. Having a clear vision and goals in place for a business help keep business owners focused.

It is recommended that franchisees be actively involved in their business. This can be controlled by putting contractual restrictions on passive ownership in place. If the franchisee is actively involved in the day-to-day operations, they are better positioned to understand the challenges, and be more proactive and motivate their staff, which will lead to better performance.

In order to remain competitive, franchisors need to understand the nuances and challenges of the local markets in which the outlets operate. Since the franchisee is the more familiar with the local market, the franchisor should encourage bottom-up knowledge sharing.

The ideal franchisor-franchisee relationship needs to have high levels of trust and reliability, and low levels of conflict. This can only be fostered through cooperation and maintaining strong and open communication channels. The franchisor needs to build trust and gain cooperation from the franchisees, and can do so by employing more inclusive strategies, as opposed to following a more controlling or regulatory approach.

It is essential for franchisees to resonate with the brand and believe in what they are selling. The following are recommended to increase brand and product confidence: provide regular product training and support to franchisees and staff to ensure they have a very good understanding of the product, its benefits and unique selling propositions; and involve franchisees and staff in new product development as they will have upfront buy-in which will create loyalty to the product, as franchisees will feel that they have contributed and that their ideas and inputs are valued by the franchisor.
6.2 Research limitations and suggestions for further research

The sample profile for both the qualitative and quantitative phases included only business owners who are still in business. This provides an opportunity for future research to target failed business owners to truly understand the drivers behind franchise failure. A longitudinal study to understand the actual success rate of franchises against these success factors over time could be conducted. A cross-sectional mixed method study that focuses on specific categories within the franchising industry should be performed to shed light on category-specific nuances and success factors. A cross-sectional mixed method study that focuses on specific sizes of franchised systems (small, medium and large franchises in terms of outlets and/or turnover) is necessary to understand the success factors at a more granular level per franchise size. Lastly, a similar study could be conducted in other emerging markets to establish if the findings of this study are context specific.

References


Factors that drive the perceived success of franchises in South Africa


