The development of a model on which to base franchise relationships

By

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ABSTRACT

This paper aims at developing a model on which to base good quality franchise relationships.

The franchise sector has the potential to generate wealth for the franchisee and the franchisor, create employment and be a tool of empowerment. It is also associated with relatively less risk than other forms of self-employment. However, there have been a disturbing number of failures in the sector and reported cases of abuses of franchisees by franchisors. Some franchisors have sought liquidation of franchise units in courts of law.

An investigation was commissioned into the sector with the objective of uncovering problems in the quality of the relationships in the sector. The obligations of both the franchisees and franchisors were stipulated. Aspects of quality were then considered to lay a foundation upon which improvements in the relationships could be based. This was followed by a survey to find the performance gap between the quality of service that was expected from the franchisor and what the franchisees were actually receiving. Five dimensions of service quality – tangibles, reliability, responsiveness, assurance and empathy were empirically investigated. The findings of this research revealed that the quality of service of franchisors fell short in all dimensions. It is arguable that other aspects of quality are being neglected by the franchisors.

It is against this backdrop that a model is proposed to improve the quality of service in the franchise relationships. The model incorporates contemporary ideas on quality. Principles of total quality management, quality function deployment, customer satisfaction and self-assessment are applied to the franchise relationship. The use of the model will contribute towards better relationships in the franchise sector.
DECLARATION
This work has not been previously accepted in substance for any degree and is not being concurrently submitted in candidature for any degree.

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NOTE ON GENDER

The male gender terminology is used in the research paper. The terminology applies to the female gender too.
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CHAPTER 1

INTRODUCTION AND PROBLEM STATEMENT

1.1 INTRODUCTION

The franchisee-franchisor relationship exists between a franchisor, the owner trademark or service mark, an idea, a patent and the goodwill and know-how associated with it and the licensing of it to a franchisee in return for a service fee or royalty (Kotler, 2000:534; FASA, 2002). The franchisee operates within the operating system that is provided by the franchisor. However, the franchisee is an independent owner of the franchised business and not a partner, agent or representative of the franchisor (Potgieter, 1999:19). The franchising relationship is supposed to be a mutually beneficial partnership between the franchisor and the franchisee for the generation of wealth for both parties. The franchisor provides opportunities by selling franchises to would-be entrepreneurs, the franchisees (Mayfield, 1997:4). They benefit from growth, franchise fees and royalty payments. Ideally the franchisor provides a complete business package that will enable even the inexperienced franchisee to engage in business successfully. The franchisees benefit from buying into a brand and a proven marketing and distribution system. The relationship is also long-term with contracts running for several years on average.

The franchisee is an important stakeholder in the franchising organization and is part of the system since his operations affect the standing of the franchising organization, and the franchisee in turn is affected by the franchising organization. The franchisee is a customer of the franchisor and like any customer his satisfaction should be a priority. The franchise and the franchising organizations are independent businesses and typical franchisees are entrepreneurs themselves and should not be looked at as hired hands of the franchisor.

In South Africa, there are no specific laws, acts or regulations for franchising. The relationship is a common law contract between two independent parties. Government promotes self-regulation in the industry through a strong, independent, professional
association and the acceptance of a formal Franchising Code of Practice and Standard Conduct (Competition Board, 1994).

1.2 THE DEVELOPMENT OF THE PROBLEM

In moving into new markets, the franchisee provides the monetary and time investments necessary to establish the franchise into the new market territory. Therefore it is the franchisee that bears the primary risk for expanding into new territories and benefits when he earns a decent living (Kotler, 2000: 524). Ryan, Lotz and Maskulko (1997: 116) argue that the conflict in the franchisor-franchisee relationship exists because of their independent nature and the seemingly unequal balance of power in favour of the franchisor. Lynn, as quoted by Whittermore (1994:49), cites three major problems in franchising:

- There are some abuses by franchisors of the franchisees, either intentionally or accidentally.
- There is a fear of potential abuses among franchisees.
- Corporate takeovers of franchised companies lead to increased communication breakdowns with franchisees.

In South Africa, in order to promote the concept of ethical franchising, a group of some 30 franchisors formed the Franchising Association of South Africa (FASA) in 1979 (FASA, 2002). Today the membership stands at 150 franchisors plus 50 professional organizations with an interest in franchising. FASA formulated a Code of Ethics and Business Practices to ensure fair dealings between the franchisors and their franchisees. The code was binding on its members and FASA could act against those who trespassed. Franchising entered a boom period following the demise of sanctions and the code proved inadequate to control the activities of the unprincipled few who attempted to use franchising for their own ends (Shapiro, 1999:22).

In 1994 FASA introduced the need for members to have a Disclosure Document – a document that clearly outlines a franchisor’s business and financial status and allows for total transparency. Despite the very good intentions of FASA, problems still abound
franchising. Hendricks (2001:9) feels that the growth of the sector has also been accompanied by an increase in the incidence of unethical practices. The cases outlined below highlight some of the problems in franchising and their results.

Over the last decade, franchisees have lost a lot of money when the franchises they bought did not live up to expectations. O’Hagan’s Irish Pubs and Grills and stationers PNA run into problems (Naude & Keenan, 2001:18). Some leading franchisors do not appear to act in the best interests of their franchisees, as illustrated in the liquidation cases of 7-eleven stores by the franchisor (Schoonakker, 2002). The same franchisor, who was voted “Franchisor of the Year” by FASA in 1996, was not passing on discounts he negotiated for his franchise chain to franchisees. Kwik-Fit, an auto parts fitment chain, was not paying rebates to the franchisees and was not paying its suppliers. It was taken over by Super Quick but has now imploded with the franchisees jumping ship with some going it alone and others joining other franchisors. Lipson (2002:12) notes that there are now fewer franchisors in South Africa than there were in the boom period of the mid-1990s and quoting Gordon (2002) writes that most franchisors do not have the right management skills – both in terms of managing a franchise and broader management.

Parker (1999), an executive member of FASA in 2002, as quoted in the Franchise Book of South Africa (1999:49), states that there problems in the franchising industry and experts argue that there is a need to avoid the mistakes that have been made elsewhere. He goes further and suggests that the industry be regulated, a view that is supported by Gordon (2001), another executive member of FASA in 2002 as quoted by (Naude and Keenan, 2001:11). FASA does not have enough control as a self-regulating body, for example, no franchisor can be compelled to become a member. Elsewhere, in the United States of America, franchising had similar problems and the solutions that were suggested included fostering an atmosphere of more inclusion, where franchisees and franchisors would be viewed as partners (Lynn, 1994:49). Other measures included increased disclosure by the franchisors on franchise offers, strengthening regulations aimed at protecting franchisees and ensuring that potential franchisees receive accurate statistical information about franchising (LaFalce, 1994:51).
There is therefore a need to improve the quality of a franchising relationship so that it becomes more beneficial to the franchisee. The main problem of this study is thus stated as:

**How can the quality of the franchisee-franchisor relationship be improved upon so that it enhances the effectiveness of the franchisee?**

**1.3 SUBPROBLEMS**

In order to address the main problem, the following sub-problems were formulated:

1. What aspects of the franchisor-franchisee relationship have to be considered to determine its quality?
2. What makes a quality relationship?
3. What gap exists between the quality of the franchisee-franchisor relationship and what it should be?
4. What framework can be used to close the gap between the quality of the franchisee-franchisor relationship and what it should be?

**1.6 DEFINITION OF KEY CONCEPTS**

In order to ensure that key concepts are understood they are defined below.

**1.4.1 Franchising**

According to Seidel (1996:70), no definition of a franchise is generally accepted in South Africa or internationally and he offers the one put forward by the International Franchise Association that reads: ‘The franchise operation is a contractual relationship between the franchisor and the franchisee in which the franchisor offers, or is obliged to maintain continuing interest in the business of the franchisee in such areas as know-how and training; [in which] the franchisee operates under a common trade mark, format or procedure owned and controlled by the franchisor, under which the franchisee has made, or will make, a substantial capital investment in his business from his own resources.’
Seidel (1996:70) summarizes franchising as being a sophisticated form of licensing. Morobe (1999:94) quotes one of the most famous lines in many descriptions of franchising, that is “the opportunity to be in business for yourself, but not by yourself”. He adds that in essence a franchise is a legal and commercial relationship between the owner of a trademark, service mark, trade name or advertising symbol and an entrepreneur(s) seeking the right to use that identification in a business.

1.4.2 Business format franchising

Business format franchising is an ongoing relationship between the franchisee and the franchisor that includes the product, service mark and trademark and enables the franchisee to acquire the right to use the franchisor’s entire business concept (FASA, 2002). This includes the franchisor’s name, goodwill, products and services, marketing procedures, administrative and operating systems and support facilities.

1.4.3 Product and trade name franchising

This is a sales relationship between the supplier and the dealer in which the dealer is granted the right to sell the supplier’s products only (FASA, 2002). This type of franchising is dominated by petrol service stations, car dealerships and cool drink bottlers.

1.4.4 Quality of franchisee-franchisor relationship

The franchisee is a customer of the franchisor. For this paper the view of Oakland (2000:4), that quality is simply the meeting of customer requirements will be adopted as the definition of quality. The quality of the franchisee-franchisor relationship will be defined as to the extent that relationship meets the requirements of the franchisee. The franchisee-franchisor relationship will also be referred to as the franchise relationship.
1.5 DELIMITATION OF THE RESEARCH

The delimitation of the research serves the purpose of making the research manageable. The omission of certain topics does not imply that there is no need to research them.

1.5.1 Sector

The research will be limited to business format franchising in the fast moving consumer goods (FMCG) sector, for example the supermarkets and automotive parts fitment centres such as those that fit shock absorbers, silencer boxes and tyres, for example Super Quick. The research therefore excludes fuel service stations, fast food outlets and restaurants.

1.5.2 Emphasis

Emphasis will be placed on the problems of the franchisees in the franchisee-franchisor relationship and how to solve or, at least, to address them. Franchisor problems in the relationship will not be considered.

1.5.3 Geographical

The empirical component of this research will be limited to organizations in the greater Buffalo City and Amathole district. This is an area that encompasses the metropolitan areas of East London, King William’s Town, Alice and Peddie.

1.6 IMPORTANCE OF THE RESEARCH

Worldwide franchising has been the fastest-growing retailing development in recent years (Kotler, 2000:506). The franchise concept has not yet taken root in the South African community to the same extent as in other countries. In 1996 only 12 percent of retail sales were being provided by franchises (Naude & Keenan, 2001:10). This pales in comparison to the USA and Australia, where the figures stand at 52 percent and 28 percent respectively. With such potential for growth in the industry, care needs to be
taken by prospective franchisees so that they are not taken advantage of by unethical franchisors. Such franchisees and existing ones would also benefit from improvements in the relationship.

Franchising is bound to succeed for the franchisee, as one buys into a business that has made profits for other people in similar circumstances (Fowler & Fowler, 1985:19). Reported figures of failure are low, but these figures exclude franchisee transfers and “illegitimate fringe” operations (Stanworth, Purdy & Price, 1997). In the United States of America (USA), the rate of failure doubles if such activities are included. Gordon (2001:22) provides some statistics on the average openings and closures per franchise system for 1999 and 2000 that are reason for concern. These are reproduced in Table 1.1 below.

<table>
<thead>
<tr>
<th>Year</th>
<th>Opened</th>
<th>Closed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>5.7 units</td>
<td>1.6 units</td>
</tr>
<tr>
<td>2000</td>
<td>7.5 units</td>
<td>4.0 units</td>
</tr>
</tbody>
</table>

Source: Franchise Book of Southern Africa 2002 p. 24

The table, while clearly demonstrating that franchising does not eliminate business risk, shows that in 2000 the rate of closures is 53 percent of the businesses that opened. The corresponding percentage for 1999 is 28. This shows an increase in the failure rate and the high turnover may suggest dissatisfaction with franchising. The study seeks to find out the reasons for this and explore possible solutions.

Franchising is an opportunity for people to start in business. Sheltz (1982:2) points out that franchising has provided the last refuge in which a small businessperson can gain a foothold into the business world. The support provided by the franchisor should assist inexperienced people to become successful businesspeople. Hendricks (2001:9) writes that the Government recognises that franchising is one of the safest routes to self-employment and franchisees can employ others thus helping to reduce the high unemployment in the country. It is important that such prospective employers are not
overwhelmed by the problems in the franchising relationship. Franchising can also be a tool of economic empowerment in the previously disadvantaged communities. It has been identified as a key driver in the development of small business and as a job creator (Hendricks, 2001:9; Macartney, 2000:5). There are many franchising opportunities that can be exploited.

The South African market is open to international franchise systems, which may offer better products. Efforts need to be directed in the direction that will make franchising more competitive. Businesses from South Africa are expanding into the rest of Africa and the world at large. Better franchising products will enhance such endeavours.

1.7 RESEARCH METHODOLOGY

The author will work through the stated sub-problems in a systematic way, in so doing generate solutions to the main problem. The following broad methodology will be used:

1.7.1 Qualitative research

A literature survey will be undertaken to find out the principles on which the franchise relationship is based and the obligations of the parties to the relationship. Then the problems in the relationship will be investigated, with special emphasis on South Africa. The libraries of Port Elizabeth Technikon, University of Port Elizabeth and Rhodes University will be utilized for this purpose. The inter-net will also be used to seek for data.

1.7.2 Empirical research

A non-probability sampling method will be used. A questionnaire will be delivered to the franchisees. The questionnaire will be designed in consultation with a statistician so as to maximise the relevance of the data collected, maximise participation and facilitate the collection, analysis and interpretation of data.
1.8 ASSUMPTIONS

The following will be the basic assumptions of the research.
1. The franchisee is a customer of the franchisor. The principles of customer service, quality and satisfaction can be applied to the relationship.
2. The principles of franchising are the same globally. Literature from the USA, UK and other countries will be applied to the franchising relationship covered in the study.
3. A minimal influence of external factors on the relationship, for example the economic conditions, should be more or less normal.
4. The franchisee is suited to self-employment and has the right aptitude for the franchise operation.

1.9 THE STRUCTURE OF THE PAPER

The study has been designed to include the following chapters:
Chapter 1: Introduction.
The problem areas, importance of the topic, delimitations, the research approach and the key assumptions of the research.
Chapter 2: Literature survey.
The obligations of the franchisor and franchisee, the problems in the franchise relationship.
Chapter 3: Literature survey.
Discussion of service quality and quality models.
Chapter 4: Empirical study.
Research design, questionnaire, data collection, capturing and analysis.
Determination of the service quality levels.
Chapter 5: Application of results.
Integration of the findings of the literature survey and the results of the empirical survey to develop a model of franchising.
Chapter 6: The development of a franchise model on which to base the franchise relationship.
Chapter 7: Summary and conclusions.
1.10 CONCLUSION

In this chapter the research problem and sub-problems were stated. In addition, the key concepts were defined and the area of research demarcated. Finally the importance of the research was discussed and the structure of the paper outlined.

In Chapter 2 the obligations of the franchisor and franchisee are discussed. The principal documents that relate to the franchising situation are mentioned and their relevance and implications on the relationship discussed. Finally the problem areas in the franchise relationship are identified.
CHAPTER 2

ASPECTS OF THE FRANCHISE RELATIONSHIP

2.1 INTRODUCTION

In Chapter 1 the problems in the franchising industry in South Africa were illustrated by giving examples of some franchise chains that have run into trouble and the problems on which the research is focused were also stated.

In this chapter some aspects of the franchise relationship are considered. The franchise relationship comes into existence as a result of the franchisor’s efforts to recruit franchisees and the interest of the franchisees in owning and operating a business of their own (Mendelsohn, 1999:148). Firstly, the obligations of the parties in the relationship are considered with emphasis being placed on the obligations of the franchisor. Then the principal documents that are involved in the franchise relationship are examined. Lastly, some problems in the relationship are pointed out.

2.2 OBLIGATIONS OF THE FRANCHISOR

The obligations of the franchisor can broadly be divided into pre-franchising aspects, ethics, and provision of initial services at the franchise establishment and the provision of ongoing services and communication.

2.2.1 The pre-franchising aspects

The pre-franchising aspects involve factors that have to be considered by the franchisor if he is to carry out franchising successfully. These form a solid foundation upon which the franchising has to be based. The factors are the business concept, the market, finance and a pilot operation.
a) The business concept

It is essential to keep the business simple because others will have to be taught to operate it as successfully as the innovator, and the more complex it is, the more difficult it will be to recruit, train and sustain franchises (Mendelsohn, 1999:53). For example, for retail operations apart from the essentials of design, décor and layout, the stock inventory should not be extensive. This will reduce the risk of poor stock choice, poor control and mismanagement. The overall aim should be to simplify control, reduce paperwork and make the system as foolproof as possible.

The business must have the potential of being established as a brand (Parker, 1999:40). He notes that great franchises like McDonald’s are recognised as great brands. A good brand is easily recognisable and pronounced, so that the consumers will remember it easily. This will assist in ensuring repeated sales. Mendelsohn (1999:54) concurs and asserts that the franchisor should aim to make the business distinctive in its total image. Each franchised business that has been successful has its own innovative concept, which sets it apart from other businesses of the same type. Copying or imitating others is discouraged because of legal implications and the risk of always lagging behind. The franchisor must be something of a visionary, constantly looking around to ensure that his brand remains at the cutting edge of market developments (Abatzoglou, 2002:52).

The product or service must be able to command a premium price (Parker, 1999:40). The consumers should be willing to pay the premium for the added value, for example, exceptional service.

b) The market

Mendelsohn (2000:54) emphasizes the importance of clearly defining the market at which the business is aimed. For example, the business should not be dependent on referrals in the particular trade, who do not see the need to deal with one’s business, or who are already coping with the aspect of the business in which one is interested. The other individuals will see no benefit for themselves in dealing with a business that is providing a similar service or product.
The market should be large enough to sustain the franchised network or more than one franchisee since competition will inevitably enter the market place (Parker, 1999:39). A large growing market will also contribute to promising margins, making it an attractive business for prospective franchisees. The market should have the potential to grow for a long period of time as the franchisee usually signs a long-term contract. The franchisor needs to expand the network because profitability relies on the multiplier effect and the franchisor also has to build a solid infrastructure to support the franchised network. Gordon (1999:12) also points out that the market should have sufficient potential to open a number of franchised stores and rapidly actualise its potential by an aggressive rate of expansion, so that the critical mass can be achieved. The greater the number of franchisees in place, the greater the cumulative management fees earned by the franchisor.

c) Finance

The margins should be sufficient to cover the monthly royalty and for the franchisee to obtain a return on his investment (Parker, 1999:39). Mendelsohn (1999:56) affirms this and adds that the returns should also allow for the franchisee to earn a decent, if not good, reward for his labours. The franchisor too must be able to make a sufficient ongoing profit from the fees received from the franchisees. Financial projections need to be made that are based on current operations.

Parker (1999:40) mentions that the franchisor will need to have access to sufficient capital to pilot the concept, develop the franchise package and build the necessary infrastructure. The initial stages in franchising are capital intensive and the franchisor needs to be financially stable to survive them. The franchisor should expand professionally and invest in technology and professional assistance. Franchising must be developed from a sound financial and business base, that will not make calls upon the resources that have to be devoted to the franchising activities (Mendelsohn, 1999:53). He adds that franchising is not a path to salvation for an ailing business.
d) The pilot operation

Franchising involves the development of a business format that will be successful and the extension of the format to other entrepreneurs. Mendelsohn (1999:56,148) emphasizes that the franchisor has to run a pilot test and prove that the business is profitable and argues that if a franchisor has not proved his ability to operate his package with success and put his own money at risk, he has no right to market the franchise. Nor, indeed, will he have established the goodwill, reputation and identity of the name that is associated with his package. He further states that it is irresponsible to establish a franchise by trial and error, at the expense and risk of the initial franchisees since they will have to part with large sums of money, change their whole way of life, and depend largely on the franchisor’s concept and system for the welfare of themselves and their families.

Mendelsohn (1999:57) also justifies the pilot project for the following reasons:

- The viability of the concept in practice will be developed and established as acceptable and exclusive in the mind of the consumer.
- Problem areas will be identified and enable the franchisor to provide solutions in relation to, for example, of marketing, health and safety at work requirements, methods of marketing, promotion and merchandising, acceptability and availability of the product and service and staff availability and training requirements.
- The franchisor will be able to experiment with layouts and discover the best combination of equipment as well as the cost effectiveness of resources in its acquisition.
- The potential and actual trading experience in different types of location can be obtained.
- It provides for training in the operational side of the business, business management and accounting techniques. Particular attention should be paid to the introduction of simple and effective systems of accounting, stocktaking and controls.
• The franchisor will need an OPM manual. The pilot operation will provide the basic information from which the manual will be prepared and the franchisor must be careful to record the lessons learned so that they can effectively be employed to the benefit of franchisees.

After the establishment of the viability of the franchising concept, the 'pilot operations' should become company-owned units. They will provide the franchisor with units where continuous experimentation for improvements can take place (Mendelsohn, 1999:59). Such units will also give the franchisor the leverage he may need to persuade the franchisees that their stores need refurbishment and equipment has to be replaced. The franchisees will be able to see the benefits that can accrue to such changes in the owner’s stores.

The franchisor needs to have one or a number of pilot operations and company owned outlets in place that form the foundation of profitability from which the franchise infrastructure can expand (Gordon, 1999:12).

2.2.2 Business ethics

The franchise chain has to be established and run on sound ethics so as to build trust in the franchise relationship. Tenets of the required ethics are considered below.

a) Transparency

Abatzoglou (2002:52) maintains that transparency is an essential component of every successful franchise network and that the franchisor should be honest and open with all members of the network. He recommends that the franchisor should afford franchisee representatives opportunities to participate in decision making, for example, in advertising campaigns and changes in product mix. Macartney (2000:5) also emphasizes the importance of transparency as it results in trust. Franchisors need to make franchisees aware of their strategic plans, cost structure and how the ongoing management and advertising fees are used. Mendelsohn(1999:151) agrees with this point, adding that during preliminary discussions between the two parties, the franchisor
should reveal to the prospective franchisee all sources of income the franchisor derives from the operation of the franchise network. No franchisor should have any source of income that the franchisees do not know about and the franchisor should not make any secret profits. He further stresses that the relationship will suffer considerably in terms of loss of trust and respect if the franchisees find that the franchisor is profiting at their expense from a source of which they are not aware.

b) Disclosure document

The disclosure document is a pre-requisite for FASA members, and as noted previously, not all franchisors are members of FASA. The disclosure document should provide an understanding of the business being offered, details of the experience of the principal officers in both the business field and franchising, a detailed explanation of the total investment, together with ongoing costs and the methods of calculation and details of any restrictions placed on the franchisee (Macartney, 2000:5). The disclosure document should be provided to the prospective franchisee at least seven calendar days prior to the signing of any franchise agreement (FASA, 2002). The franchise agreement will contain a clause referring to the disclosure document and a recording that the information contained therein, to the best of the franchisor’s knowledge and belief, is true and accurate and that no material information is being withheld.

c) Advertisements

According to the FASA Code of Ethics, advertisements referring to performance records, figures or data in respect of income or earnings of franchisees shall be factual and avoid deception (FASA, 2002). In addition, advertisements containing information or making reference to the investment requirements of a franchise shall be detailed as necessary to avoid being misleading in any way. It shall be specific as to whether the stated amount(s) is/are partial or the full cost of the franchise, the items paid for by the stated amount(s), financing requirements and other related costs. The advertisements shall be free of any ambiguity and comply with all applicable rules and laws promulgated by any government body or agency having jurisdiction.
d) Misrepresentation

FASA (2002) takes a serious view of misrepresentation of any kind. Members of FASA are barred from offering, selling or promoting any franchise, product or service that is likely to have a tendency or capacity to mislead or deceive. Imitation of trademarks, trade names, corporate name, slogan or other mark of identification of another business is not allowed, nor is the pyramid or chain distribution system.

e) Choice of franchisees

Mendelsohn (1999:149) charges the franchisor with the responsibility of exercising care in his choice of franchisees and not to accept any one who merely applies and has the money. The franchisee has to be able to cope with the strains of self-employment and demonstrate the qualities that the particular business requires. FASA, (FASA, 2002) also asserts that the franchisor shall select and accept those franchisees, whom, upon reasonable investigation, appear to possess the basic skills, education, personal qualities and financial resources adequate to perform and fulfil the needs of the franchise.

The franchisor shall not discriminate while selecting on the basis of race, colour, religion, age, disability or sex, though he may grant franchises to some franchisees on more favourable terms than others as part of making the franchises more widely available (FASA, 2002). Mendelsohn (1999:151) disagrees with the consideration above, emphasizing that the franchisor should do no special deals, as such deals may result in the successful franchisee regarding himself as a special case. Such deals may also sow resentment amongst those franchisees who don’t get the deals and those who do and the franchisor.

2.2.3 Provision of initial services

Mendelsohn (1999:107) stresses that the franchisor has to provide several services to the franchisee. The first service is to pilot the business as explained in Section 2.2.1 (d). The other initial services provided involve the selection, training of the franchisees and assisting them in opening for business. These services commence with the development
stage through to the day of opening of the franchisee’s business and sometimes a few
days beyond that day (Mendelsohn, 1999:108). Included are recruitment, training,
premises, site selection, planning, lease negotiations, design and modelling of premises,
equipment requirements services. Attention is now turned to these.

a) Recruitment

Mendelsohn (1999:108) argues that the selection process should include the franchisor
assisting the franchisee in making an objectively balanced judgment about whether self-
employment is right for the franchisee, that the franchised business matches the
franchisee’s skills and aptitudes, that the franchisee is right for the franchisor and vice
versa.

b) Training

According to Mendelsohn (1999:108), training should cover basic business skills and the
operational aspects of the business. The basic business skills include accounting,
reporting methods and systems, staff selection, staff management and control, business
procedures, documentary systems necessary for controlling the operation and the ability
to detect problems as they arise in business. The training should be limited in its
application and scope, for instance, the accounting system should be arranged so as to
provide the minimum of work and effort for the franchisee, consistent with the provision
of the maximum vital information for effective management. Any forms designed by the
franchisor for the business should be able to show the performance of the operation and
demonstrate to the franchisee the areas in which both parties need to improve. After the
training, the franchisee should be able to step into his business, opening it and running it
with enough insight about the business.

c) Premises

Many franchisors assist the franchisee in acquiring suitable premises and then preparing
them for use as a franchise outlet (Mendelsohn, 1999:110). This involves application of
site selection criteria, planning and by-law compliance, lease negotiations and the design
and remodelling of premises. Regarding site selection, the franchisor will evaluate proposed site against the site criteria that he has established and assess if the franchise can be accommodated in the space available. The franchisor will usually be able to assist the franchisee in obtaining the necessary approval under planning legislation, for instance, rezoning in those cases where the premises found may not comply with the regulations. In addition, the franchisor may assist the franchisee to negotiate the lease of premises and in some cases, become the tenant and sublet the premises to the franchisee. The premises will have to be designed and remodelled so that they conform to the franchisor’s requirements (Mendelsohn, 1999:112).

c) Equipment and opening stock

The franchisor will, if standardized equipment is not part of the package sold to the franchisee, advise the franchisee in the selection of the correct equipment at the right prices. The franchisor will also provide the franchisee with opening stock inventory or make arrangements for the franchisee to purchase it.

d) Business launch

Mendelsohn (1999:112) states that many franchisors will provide the franchisee with on-the-spot assistance for the store opening. A team of two or three people may be in the location for a few days to assist the franchisee to get the business off the ground.

2.2.4 Provision of ongoing services

According to Mendelsohn (1999:113) the range of ongoing services includes monitoring and support, training, ‘head office’ organization, research and development, market research, advertising and promotion and communications.

a) Monitoring and support

Mendelsohn (1999:113) argues that this system ensures that the franchisor has a method of checking that the correct fees are paid and provides him with necessary information.
needed to monitor the franchisee’s performance and to detect any warning signs. In addition the franchisee should have access to someone at the ‘head office’ team so that he knows who deals with what. A member of the franchisor’s field support team should regularly be in touch with the franchisee by phone and personal visits to the outlet. The field staff will then be able to detect early if anything is not going well or bad habits have developed or the franchisee has not adopted notified improvements to the system. The franchisor has to investigate any failures in the network and draw useful lessons for the future from them. The franchisor should be aware of developing insolvencies in the business before the point of no return is reached, as insolvency does not develop overnight, and ensure that his organization has the right skills to be brought in as soon as the danger signs become evident. He also has the duty to try to help a franchisee that is running into difficulties, either to recover as much of his loss as possible or to bring in someone to sort out the business or put him back on the rails if he can.

b) Training

The franchisor has to carry out training. This is necessary for the franchisees that do not operate the system properly. He must train the franchisees when innovations are introduced and assist the franchisee in training his staff (Mendelsohn, 1999:117). Abatzoglou (2002:52) concurs and argues that training must be continuous and that the underlying programmes need to be evaluated from time to time to ensure that they meet not only the needs of the ever-changing market, but also the changing training needs of the franchisees and their key personnel.

c) ‘Head office’ organization

At the head office the franchisor should have specialists in each of the fields in which the franchisee is likely to require assistance (Mendelsohn, 1999:117). There should be specialists in management, accountancy, advertising, marketing, public relations, quality control and equipment quality and control. In addition, if the franchisee wishes to sell his business, the franchisor should be able to assist him in obtaining a prospective purchaser.
d) Research and development

Mendelsohn (1999:118) advises that the franchisor should have research and development facilities in relation to the products, the services or the market image projected. The facilities should be experimenting with new product lines and the introduction of new or improved services. The innovations should be compatible with the existing business and be thoroughly market tested in the franchisor’s co-owned stores and in selected franchises.

The franchisor should also explore new sources of good quality materials, supplies and products to keep the costs to the franchisee to the most appropriate levels. The franchisees also have to benefit from bulk purchasing by the franchise chain.

e) Advertising and promotion

The franchisor will undertake the responsibility for advertising, promotion and public relations for the network (Mendelsohn, 1999:119). Factors that need to be considered by the franchisor in advertising arrangements include:

- The establishment and maintenance of a strong brand for the network.
- The most effective method of reaching the consumer market.
- The use of in-house or outsourcing of advertising services.
- Permission to allow the franchisee to advertise locally.
- The degree of consultation with the franchisees.

Abatzoglou (2002:53) advises that the franchise network’s advertising or marketing fund should be operated independently and be governed by its own constitution. Monies should be earmarked for product and brand building only, and franchisees and company-owned stores should make equal financial contributions.
Mendelsohn (1999:156) notes that good communication channels will enhance the franchise relationship. The franchisee will only respond positively to the franchisor if the points to be conveyed are made clearly and effectively by the franchisor. In addition the franchisee will feel he is getting more value from the fee payments if excellent means of communication are in place. Such channels will also ensure that franchisee concerns are addressed in time.

Abatzoglou (2002:53) asserts that franchisees that fail to adhere to the tried and tested system should be made to toe the line, promptly and decisively. He argues that it takes many years to build the reputation of a brand, but the ill advised actions of one errant operator can do irreparable damage to it in a short period of time. Franchisees who adhere to the guidelines of the network could, through no fault of their own, suffer losses attributable to the aforementioned irresponsible behaviour.

2.3 OBLIGATIONS OF THE FRANCHISEE

The obligations of the franchisee include pre-franchising aspects, business ethics and financial aspects.

2.3.1 Pre-franchising aspects

Pre-franchising aspects cover the factors that the prospective franchisee should consider before choosing the franchise to be involved in. O’Conner (1999:30) advises that since the decision to go into franchising is a very important one, the prospective franchisee must do some homework. He should investigate as many franchises as possible, compare their support systems, training, administration and back-up, talk to existing franchise people, seek legal, banking and accounting opinions on the venture and sign nothing and pay nothing until everything has been checked out. Macqueen (2001) as quoted by Naude and Keenan (2001:11), also urges caution before one chooses what
The prospective franchisee should look at the price as overcapitalization may cause failure, check out the projected yields and the financial health of the franchisor and the consideration of other franchisees. She advocates the avoidance of franchises with a lot of gimmicks, with a number of failed franchises, those with a history of legal problems and those ones with poor support. In addition, the franchisee should investigate who determines the location of the franchise and if the expected profitability is achievable and due consideration should be given if the franchisee cannot earn more elsewhere. In evaluating the franchise opportunities, Mendelsohn (1999:150) emphasizes the importance of objectivity and heeding danger signals. The prospective franchisee should, in particular, find out if the franchisor’s contractual arrangements don’t place the franchisee at a severe disadvantage in such matters as product supply, price, the terms of transfer of business and renewal rights. In addition the franchisee should not allow anyone else to “short list’ the prospective franchise opportunities and he should meet as many franchisors as possible, as this is likely to lead to the right choice.

In making the right franchise choice, O’Conner (1999:30) advises that prospective franchisees should assess their personalities, strengths and weaknesses so that they match their personalities with particular franchisee activities. Some of the issues that need be considered would involve the franchisee’s interests and finding the occupation that is most compatible with his interests, the ability to work with and manage people, and whether one is shy or an extrovert. In addition, it is important to consider one’s age and health as some activities may require substantial amounts of energy and time. One also needs to consider his/her background in training, work experience and education to find out if they are advantaged in a particular business opportunity. Mendelsohn (1999:150) suggests that prospective franchisees should also be honest with themselves whether they have the qualities to cope with self-employment and if their families are prepared to live with the disruption which self-employment can bring with it.

Mendelsohn (1999:151) points out that the franchisee should understand what the franchising method of marketing is, how it works in practice and the nature and scope of the franchising relationship. He adds that the quality of the franchisor’s training is a key factor in ensuring that the foundations for franchising are properly explained. The
training will also provide the introduction to the franchisor’s operational manuals and the day-to-day operation of the franchised business. Potgieter (1999:19), in supporting the need for the training of franchisees, recommends that some selected employees should also undergo initial training and provision should be made for refresher training.

2.3.2 Business ethics

The franchise must be run on sound ethical grounds to enhance the franchise relationship. Principles of running the franchise ethically include transparency, complying with the operations and procedures manual (OPM), abiding by the franchise agreement and hard work on part of the franchisee. These are considered briefly below.

a) Transparency

Meiring (1997:64) states that the franchised business is usually carried out from premises approved by the franchisor. The franchisee has to allow the franchisor to carry out the inspections or investigations that he may consider necessary to ascertain compliance with the franchise agreement.

b) Complying with OPM and abiding by the franchise agreement

Potgieter (1999:18) emphasizes that the franchisee is required to comply with the OPM and any alterations thereto. Johnson (1999:37) states that the objective of the OPM is to facilitate repetition of the same level of performance, consistently and regardless of who carries out the task. Franchisees should also remember that the OPM remains the exclusive property of the franchisor and they should not be passed on to anyone else or reproduce the document in any format. The franchise agreement should also be abided by.
c) Hard work on part of the franchisee

Mendelsohn (1999:125) notes that to succeed as a franchisee, will take a lot of hard work, complete commitment to the business and the patience to allow time for the business to become established. There is no such thing in franchising as work-free overnight riches or success.

d) Business dealings

According to Wheeler (2001:54), the franchisee should conduct business dealings with their suppliers, customers and stakeholders in an ethical function. They should pay their accounts on time, use approved suppliers and deal with staff in the correct manner. Franchisees will also be expected to uphold the image of the brand and the network and support other franchisees, as this has the capacity to reinforce the strength of the brand, to the benefit of the entire brand-family. The franchisee should disclose correctly all relevant personal and financial information as well as pay initial and ongoing fees when they fall due.

2.3.3 Finance aspects

According to Seidel (1996:71), the franchisee payments to the franchisor will usually consist of an initial lump-sum payment for the rights and information granted, and a continuing loyalty or commission typically calculated on turnover. In this respect O’Conner (1999:30) recommends that the respective franchisees should ask themselves if they have adequate financial resources available for the franchises they are contemplating. They should consider primarily the money they have for investing, not what they have to borrow.

Naude and Keenan (2001:18) state that the most important consideration for someone who wants to buy a franchise is whether the business will make money. It is therefore worthwhile to check out how the franchise is doing. Latest FASA awards identify the better franchises, for example, in 2000 Debonairs Pizza was awarded the first prize of Franchisor of the Year. In the same year the magazine Finance Week commissioned a
scientific study into the franchise industry that determined financial returns of franchises. The top five franchises were Something Fishy, Debonairs, PG Autoglass, King Pie and Mica Hardware. The prospective franchisee is also likely to pay more for the top performers. A selection of what franchises cost is revealed in the following figure.

**Figure 2.1  What a franchise will cost**

<table>
<thead>
<tr>
<th>Price*</th>
<th>Franchise</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to R50 000</td>
<td>Beaux Arts, Better Babies, Karmicheal Education</td>
</tr>
<tr>
<td>Up to R500 000</td>
<td>Boston Business College, Supa Quick, Something Fishy.</td>
</tr>
<tr>
<td>R500 000 and more</td>
<td>Debonairs, Pick ‘n Pay Family Supermarkets, Kentucky Fried Chicken.</td>
</tr>
</tbody>
</table>

* The prices are merely a guideline

Naude and Keenan (2001:19) also warn that the amount paid for the franchise does not cover everything. Allowance needs be made for cash flow and loans needed for basic operating expenses, especially in the startup period. They advise for the provision for basic expenses for at least three months to cover items like wages, bond repayments, transport, and electricity and telephone costs.

### 2.3.4 Training

Wheeler (2001:54) observes that reputable franchisors provide initial and ongoing training programmes designed to enhance business performance. Franchisees will be expected to attend such programmes and to pass on the knowledge they acquire to their staff members.
2.4  PRINCIPAL DOCUMENTS IN THE FRANCHISE RELATIONSHIP

The principal documents that govern the franchise relationship are the Franchise Agreement and the Operations and Procedures Manual (OPM).

2.4.1 The franchise agreement

Potgieter (1999:14) asserts that the franchise agreement is the founding document in terms of which the franchise is licensed to operate the franchised business in accordance with a predetermined business system and it allows the franchisor to have control over all aspects of the franchisee’s business to maintain effectiveness. The following provisions, though not exhaustive, will normally be covered in such an agreement: definitions for the purpose of clarity and consistency, records, rights granted, duration and renewal, franchisee obligations, franchisor obligations, use of intellectual property, transfer of title, death or incapacity of the franchisee, restraint of trade, warranties and franchisor liability, dispute resolution, termination and, notices and general legal provisions. The obligations of the franchisor and those of the franchisee have been discussed in Sections 2.2 and 2.3.

In drawing up the franchise agreement, Potgieter (1999:17) advises that the following basic duties must be fulfilled:

- The relevant common law and statutory requirements have to be observed.
- The contract should be sound from a practical point of view, that is, one that gives expression to the intention of the parties, secures performance and avoids disputes and litigation.
- The contract should be a memorial of the transaction that the parties can read and understand without difficulty and that does not require interpretation by a court.

2.4.2 The Operations and Procedures Manual (OPM)

According to Johnson (1999:37), the OPM forms the backbone of the business format franchising and it can be defined as a description of how the business operates. The
OPM should contain everything the franchisee needs to know in order to operate the business, from the moment he or she opens the doors until closing time, as well as pre-opening and post-closing procedures. Johnson (1999:38) further advises that in preparing the OPM the following should be kept in mind:

- Careful planning and development to ensure flexibility for future changes and enhancements.
- Clear articulation to ensure that the franchisee as well as head office support staff understand what is expected of them.
- The instructions contained in the OPM must be clearly accepted by all franchisees as being reasonable to live up to.
- The procedures and standards set out in the OPM must be consistently applied to all franchisees and must be rigidly enforced.

Johnson (1999:38) recommends that the OPM should be a living document that should be updated as business flows and changes, be practical and to the point and reflect current business practices. The responsibility for updating the OPM lies with both the franchisor and the franchisees.

2.5 FRANCHISEE – FRANCHISOR RELATIONSHIP PROBLEMS

The main problems in the franchise relationship are described below under the headings of business ethics, financial aspects and communications.

2.5.1 Business ethics

The franchisor may contribute to poor franchise relationships if he falls short in any or several of the following issues that have been identified as the most common causes of failures of franchisors.
a) Inadequate pilot tests

With a new concept, the franchisor may not have pilot-tested his system sufficiently and proved its viability in the market place because of time, financial constraints and not allowing for the seasonal factors (Mendelsohn, 1999:122).

b) Poor franchisee selection

The franchisor may accept franchisees that are not suitable because he may be under pressure to make quick sales or he may fail to identify the characteristics and qualities that his franchise requires (Mendelsohn, 1999:122).

c) Bad structure of the franchise

According to Mendelsohn (1999:122), a badly structured franchise may be the result of inadequate pilot testing, the inability to anticipate likely problems and/or failure to draw the right conclusions from the experience gained during pilot testing. Structural problems lead to operational difficulties, financial problems and difficulties in managing a network of franchises.

d) Poor running of the franchise network

There may be business errors by the franchisor in running the business (Mendelsohn, 1999:123).

e) Site selection and territory

Nieman (1998:133) mentions that problems occur with the quality or lack of quality of location and maintains that even the strongest franchise system will develop problems in an over-saturated or under-populated market. In addition, the site may be selected poorly, yet in retailing location is very important (Parker, 1998) as quoted by Illetschko (1999:49). The franchisee usually does not question the company’s position, assuming that the franchisor knows best.
Franchisors at times aggravate the territory problem. Kotler (2000:524) states that complaints against parent companies are on the increase, with complaints of franchisors encroaching on franchisee’s territory by bringing in another store. Mayfield (1997:5) concurs, writing that since the franchisor has relatively deep pockets, he can move into the territory and would be within the legal limits. The franchisee’s business will be cannibalised resulting in a lot of ill will.

f) Inadequate support

There is a tendency by some franchisors to under-service existing franchisees since they may be busy opening new stores (Parker, 1998) as quoted by Illetschko (1999:49). There is also a tendency of doing short-term marketing instead of brand building, at the expense of the franchisee who relies on the brand to add value to the business. Mayfield (1997:5) advises that since it is said one person cannot be in two businesses at the same time franchisors choose between the selling of franchises and the marketing of products.

Parker (1998), as quoted by Illetschko (1999:49), states that there is insufficient training. This is detrimental to the spirit of franchising, since it is impossible to replicate a business if the franchisees are not trained to operate in exactly the way as the company-owned stores.

2.5.2 Finance aspects

Most franchisors are undercapitalised when they start. As a result they may not be able to give support to the franchisees (Parker, 1998) as quoted by Illetschko (1999:49). Training and marketing will be neglected under these circumstances. Stanworth, Purdy and Price (1997:75) argue that the royalty regime is a heavy burden to bear, particularly where conditions of recession and market saturation take their toll. This may force franchisees to charge more, making them less competitive. Parker (1998) as quoted by Illetschko (1999:49) also mentions that buying benefits are often not passed on to the franchisees, yet franchises are sold on the basis that they will enjoy the good price structure that comes with bulk buying. By not receiving the bulk price, they have no
advantage over the independent operator who does not have to pay royalties to anyone. Rapid growth of franchising may result in the franchisor becoming dependant on the franchise fees. He loses objectivity and may accept unsuitable franchisees. Related to this problem are some franchising operations that are put on the market without first being fully tried out.

Nieman (1998:133) states that some franchisors that may be experiencing financial problems may mismanage the advertising fund. Such franchisors are inclined to ‘borrow’ from the fund and fail to promote the network properly.

2.5.3 Communication problems

Meaney, Purvin, Seldon and Wayne (1997:50) point out that the growth and meeting of challenges of the franchise depends on effective communication and co-operation. They identify the following barriers to effective communication:

- The unrealistic expectations of the two parties. The franchisee buys into the promise of a proven successful system, which frequently proves less than true. In addition communication systems must respond to market changes and competition, necessitating modifications leading to increased costs and stress for those who must bear the cost.

- The built-in divergence of business interests with the mutual goal of profit at another’s expense. The franchisor wants more gross sales, usually achieved by higher market share and low prices. The franchisee wants better margins.

- The franchisor may change his strategies or the management or the ownership may change. Any of these may result in the deterioration of communication.

- The trust factor, which is always important in productive relationships. Once trust is lost, earning it back can prove difficult.

- The franchisor may become overzealous in protecting the value and integrity of his trademark and may try to control every detail of the franchise and erode the independent status of the franchisee.
Disagreements and disputes are unavoidable in relationships. The existence of the disputes and how they are handled when they arise, can present a serious barrier to communication.

Some companies do not keep up with the latest developments in information technology (Parker, 1998) as quoted by Illetschko (1999:49). By so doing, franchise companies allow their franchises to fall behind the competition.

The documents guiding the relationship may be complicated and may necessitate getting legal advice by the franchisee (Seidel, 1996:72).

2.6 CONCLUSION

In this chapter, aspects of the franchise relationship were considered. These included the franchise agreement, the document that controls the relationship and the OPM that lays out how the franchised business should be run. It was noted that the franchisor is obliged to have a proper business concept, enough finance to sustain the business and pilot test the business before offering it for franchising. In addition, he has to run the business on sound business ethics, build and win the trust of the franchisees and provide various support services. The importance of proper communication in the franchise chain was mentioned. The franchisee obligations in the relationship were outlined. These include abiding by the franchise agreement and the OPM, running the business ethically and working hard at the business. Problems in the franchisee relationship were stated. To explore how the problems can be solved or at least be minimized, the author will in the next chapter consider some quality models that can be used to enhance the quality of the franchise relationship.
3.1 INTRODUCTION

In the previous chapter some problems in the franchising relationship were outlined and it can be deduced that the quality of the franchising relationship needs to be improved upon. In this chapter aspects of quality are investigated. It has been noted previously that the franchisee is a customer of the franchisor. Where the writing in the text that follows refers to the organization and customer, these two will be construed to apply to the franchisor and franchisee respectively.

In this chapter the concept of quality will be discussed followed by an outline of the contribution of three experts (gurus) on quality. Next the elements of quality – design, conformance and performance will be outlined with a view to designing for quality and measurement of quality. Finally some Total Quality Management (TQM) models will be introduced.

3.2 QUALITY

3.2.1 Conceptualisation of quality

Parasuraman, Zeithaml and Berry (1988:15) explain that there are two ways of approaching quality – the objective (mechanistic) quality and the subjective (humanistic) quality. The former involves the objective aspect or feature of a thing or event while the latter involves the subjective response of people to objects and is therefore a highly relativistic phenomenon that differs between judges. Vazquez, Bosque, Diaz and Ruiz (2001:2) summarize the properties of the two approaches in the figure that follows.
Figure 3.1 Approaches to the concept of quality

<table>
<thead>
<tr>
<th>Objective quality</th>
<th>Subjective quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal view of quality</td>
<td>External view of quality</td>
</tr>
<tr>
<td>Production/supply approach</td>
<td>Marketing/demand approach</td>
</tr>
<tr>
<td>Adapting to pre-established specifications</td>
<td>Customer is the real judge of quality</td>
</tr>
<tr>
<td>Error-free service transactions, lowering costs and avoiding deviations from set standard</td>
<td>Company's ability to determine customer needs and expectations</td>
</tr>
<tr>
<td>Appropriate for standardised activities</td>
<td>High customer activities</td>
</tr>
</tbody>
</table>

Source: Vazquez, Bosque, Diaz and Ruiz (2001:3)

According to Wheeler (2001) and Mendelsohn (1999: 151) franchisees are expected to observe and support fully the operations manuals, marketing manuals, advertising and promotional campaigns and training programmes. These reflect issues of objective quality. As pointed out in Chapter 2 section 2.2.4 (c), the franchisor is obliged to experiment and introduce new or improved services. In supporting this view, Naumann and Giel (1995:6) point out that the level of customer expectations is constantly changing and customers demand that firms improve on their performance and deliver better customer value. They add that firms should be asking what could be done to improve customer value. This is focused externally on the customer. Attributes must be found that convey value to the customers. These views coincide with the subjective approach of quality. Both approaches to quality will be applied in the paper on franchise relations.

3.2.2 Quality versus satisfaction

Parasuruman et al (1988:16) distinguish between service quality and satisfaction. Perceived service quality is a global judgement, or attitude, relating to superiority of the service, while satisfaction is related to a specific transaction. They also point out that in their interviews respondents gave several illustrations of incidents when they were
satisfied with a specific service but did not feel the service firm was of high quality. Satisfaction and quality are therefore related, in that incidents of satisfaction over time result in perceptions of service quality. Ruyter and Wetzels (1997:83) take a similar stand on service quality arguing that it depends on the quality of individual episodes that can be seen as links in a chain. They point out that such a chain will only be as strong as the weakest link and that customers may change their attitude, intentions and behaviour following a positive or negative service experience.

Parasuraman et al (1988:13) point out that service quality is an abstract and elusive construct because of three features unique to services: intangibility, heterogeneity, and inseparability of production and consumption. They contend that service quality involves perceived quality - a consumer’s judgment about an entity’s overall excellence or superiority. It is a form of attitude and results from a comparison of expectations with perceptions of performance. Various instruments have been proposed to measure the quality of services rendered with SERVQUAL proving to be the most popular one (Caruana, Ewing and Ramaseshan; 2000:57).

### 3.3 SERVQUAL

#### 3.3.1 Description of SERVQUAL

According to Parasuraman et al (1998:23), SERVQUAL is a generic instrument for service quality measurement with good reliability and validity and it aims to serve a diagnostic methodology for uncovering broad areas of a company’s service quality shortfalls. SERVQUAL consists of five dimensions that are listed together with their descriptions in the figure below:
### Figure 3.2 SERVQUAL dimensions

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tangibles</td>
<td>Physical facilities, equipment, and appearance of personnel</td>
</tr>
<tr>
<td>Reliability</td>
<td>Ability to perform the promised service dependably and accurately</td>
</tr>
<tr>
<td>Responsiveness</td>
<td>Willingness to help customers and provide prompt services</td>
</tr>
<tr>
<td>Assurance</td>
<td>Knowledge and courtesy of employees and their ability to inspire trust and confidence</td>
</tr>
<tr>
<td>Empathy</td>
<td>Caring and the individualised attention the firm provides to its customers</td>
</tr>
</tbody>
</table>


The last two dimensions, assurance and empathy, contain items that originally, in the early stages of SERVQUAL development, represented seven dimensions: communication, credibility, security, competence, courtesy, understanding/knowledge of customers and access (Parasuraman et al, 1988:23).

Parasuraman, Zeithaml and Berry (1991:421) state that SERVQUAL is in the form of a questionnaire that is completed by the customer. It consists of two sections: a 22-item section to measure customers’ service expectations of the companies within a specific sector and a corresponding 22-item section to measure customers’ perceptions of a particular company in that sector. The questions cover all dimensions of the model and the customer rates each item on a scale of one to seven.

The difference between the perceptions (P) and the expectations (E) is used as a measure of service quality (Q).

$$Q = P - E$$
Parasuraman et al (1988:39) point out that in the questionnaire customers are asked to think of companies in general which offer a particular service. They are asked to respond to the first set of items, 22 of them originally, as to what services they would expect from an ideal organization offering that service, for example, in the reliability dimension, a customer is asked, based on his experience, to rate on a scale of one to seven, where seven is when the item is absolutely essential, whether:

- When these firms promise to do something by a certain time, they should do so.
- When the customers have problems, these firms should be sympathetic and reassuring.

Each of these items and the rest are rated accordingly. The average score for each dimension is then computed for the expectation score, E.

Parasuraman et al (1988:39) add that the customers are then given the same set of items but this time referring to a particular company. They then show how they believe the given company satisfies the described features, for example, the corresponding questions for the two items, for the company XYZ under investigation, are:

When XYZ promises to do something by a certain time, it does so.
When you have problems, XYZ is sympathetic and reassuring.

The data is treated similarly to compute the perception score, P. The gap, Q, between the perceptions and expectations, is then computed as already explained.

### 3.3.2 Application of SERVQUAL

Parasuraman et al (1988:31) contend that SERVQUAL can be applied in the following situations:

- The determination of the relative importance of the five dimensions in influencing customers’ overall quality perceptions.
- The categorisation of firm’s customers into perceived-quality segments on the basis of their individual SERVQUAL scores, for example high, medium and low.
- The tracking down of the level of service provided by a multi-unit retail company to each store. SERVQUAL scores can also be used to group outlets into clusters with varying quality images.
- The assessment of a company’s performance relative to its principal competitors.

### 3.3.3 Guidelines for using SERVQUAL

Parasuraman et al (1991:445) assert that since SERVQUAL is the basic “skeleton” underlying service quality, it should be used in its entirety as much as possible. Minor modifications in the wording of items to adapt them to a specific setting are appropriate but the deletion of items could affect the integrity of the scale and cast doubt on whether the reduced scale fully captures service quality. Secondly, context-specific items can be used to supplement SERVQUAL. However, the new items should be similar in form to existing SERVQUAL items and should be classified under the most appropriate SERVQUAL dimension. Finally, the use of SERVQUAL can fruitfully be supplemented with additional qualitative and quantitative research to uncover underlying key problem areas or gaps identified by a SERVQUAL study.

### 3.3.4 Shortcomings of SERVQUAL

Moolla and du Plessis (2002) write that most researchers, even while commending SERVQUAL for its face and/or content validity, have added to, deleted from or amended the item content so as to make the questionnaire more relevant to a specific service situation. This raises the question as to what extent the proposed 22-item scale offers a generic measure. The middle points are not labeled and the midpoints may confuse the respondents. SERVQUAL may present meaningless information with respect to the interpretation of gap scores, that is where the respondent ‘does not know’ and may therefore record a ‘4’ on the perceptions scale.

Moolla and du Plessis (2002) add that the SERVQUAL model has also been criticized for ignoring price or value. Consumers’ expectations and consequent evaluation of the service must be affected by price. Zeithaml et al (1990) as quoted by Moolla and du Plessis (2002) argue that a key influence of customers’ expectations is price, but the conceptualization of quality as distinct from value is why it is not perpetrated into the definition of perceived quality.
Ruyter and Wetzels (1997:83) observe that SERVQUAL is static rather than dynamic in that it assesses the overall quality of service overtime without assessing individual episodes, as customers interact with an organization. The two should be measured since the weight customers attach to the quality of each service episode remains unknown.

3.4 THE GAP MODEL

According to Moola and du Plessis (2002), Parasuraman, Zeithaml and Berry in 1985 developed a model that depicts how various gaps in the service process may affect the customer’s assessment of the quality of the service. The model, shown in Figure 3.3, is useful in assisting managers and staff to examine their own perceptions of quality and to recognise how much they really understand the perceptions of customers.

Figure 3.3  The Gap Model

Moolla and du Plessis (2002) describe the five gaps on the model as:
**Gap 1** is the difference between the customer’s expectations and management perceptions of customer expectations. Management does not understand how the service should be designed and what support or secondary services the customer requires, that is, what the right quality for the customer is.

**Gap 2** is the difference between the company’s quality specifications and management perceptions of customer expectations of the service and its quality. Often in an attempt to reduce costs, management places internal restrictions on how a service is to be performed, restrictions that deprive the staff of the opportunity to meet the customer’s expectations.

**Gap 3** is the difference between the quality of the service delivery and quality specifications. Even if the quality of the service is carefully specified in a company, the result in practice may be different from what was intended. Service quality is difficult to standardise since it is often dependent on personal contact between the customer and company staff.

**Gap 4** is the difference between the quality of the service delivery and the quality promised in communicating the product/service. It is important not to promise the customer more than the company can deliver. At the same time, it is important for the company to inform customers about the efforts being made to elevate the quality, that would otherwise not be visible to the customer.

**Gap 5** is the most crucial gap because it indicates the difference between expected and perceived service quality. This gap is a function of the other four gaps:

That is; Gap 5 = f (gaps 1, 2, 3, 4)

According to Moolla and du Plessis (2002) it is this gap that Parasuraman et al. (1985) seek to measure using the SERVQUAL instrument. It is important to look at the gap from the customer’s view through what can be termed as the “lens” of the customer.
3.5 BUILDING THE “LENS” OF THE CUSTOMER

3.5.1 Overview

Johnson and Gustafsson (2000:5) contend that the organization’s efforts at products and services should be looked at from the point of view of the customer in what they term the ‘lens’ of the customer. The “lens” will show the management of the organization its products and services as they really appear in the marketplace, rather than the potentially misleading picture likely to be got from looking through the “lens” of the organization.

Johnson and Gustafsson (2000:5) illustrate this point with an example of a convenience store. Management may view the store as providing customers with people (service), products, and operations. The customers view the products and services from the standpoint of the problems they solve. They may be looking for safety, convenience, and cleanliness.

3.5.2 The basic Model

Johnson and Gustafsson (2000:49) provide a model for building the lens of the customer that consists of concrete attributes, abstract benefits, customer satisfaction and loyalty. Concrete attributes are aspects on which customers can readily report performance via survey measures, for example, if employees of an organization keep their appointments. Benefits are the drivers of satisfaction. Satisfaction in turn leads to loyalty or in the context of this paper, quality. Figure 3.4 shows how the lens of the customer can be built.
3.5.3 Developing benefits attributes

According to Johnson and Gustafsson (2000:52), there is a wide choice of qualitative methods that can be used to identify product and service attributes. These include one-to-one interviews, group interviews or focus groups and the critical incident technique. A critical incident is a specific example of the service or product that describes either a positive or negative performance. The critical incidents should be as specific as possible in describing a single feature of the customer’s consumption experience.

3.5.4 Developing the satisfaction and loyalty side of the lens

The lens is completed by adding the desired consequences of satisfaction. Those that require customer assessment or evaluation in a survey should be included. Examples are convenience, store layout, service and cleanliness. As mentioned before, customer loyalty is perhaps the most important and desired outcomes of satisfaction.
3.6 THE CONTRIBUTION OF THREE EXPERTS ON QUALITY

3.6.1 Overview

Mitra (1998:43) acknowledges three pioneers – W.E. Deming, P. B. Crosby and J. Duran in the field of quality control as being largely responsible for the global adaptation of quality control and quality assurance in industry. They put forward philosophies that have the same goal of developing an integrated quality system with the continual drive for improvement. Some of their ideas are discussed below.

3.6.2 Definition of quality

Oakland (2000:364) writes that Crosby defined quality as conformance to requirements, Deming defined it as a predictable degree of uniformity and dependability at low cost and suited to the market of a product and Juran, as the fitness for use of a product. Mitra (1998:72) asserts that in the definitions, Juran’s accommodates the customer’s needs most. Crosby’s definition also caters for customer needs in that requirements will be based on them. Deming’s concern about the quality of the product is reflected in the quality of the process and does not emphasise the customer as much as the other two.

3.6.3 Management commitment

According to Mitra (1998:72), the three experts stress the importance of top management commitment. He notes that Deming’s philosophy consists of 14 points, all of them aimed at management, implying management’s undivided attention is necessary to create a total quality system. Mitra further states that Crosby stresses the importance of management communicating its understanding and commitment and that Crosby’s philosophy is focussed on the creation of ‘quality culture’. Mitra also points out that Juran’s quality planning, control and improvement process seeks management support at all levels.
3.6.4 General approach

According to Oakland (2000:364), Crosby recommended prevention, not inspection, and a zero defects attitude and Deming the reduction of variability by continuous improvement and the end of mass inspection. Juran emphasised management to quality, especially the human elements.

Oakland (2000:34) and Mitra (1998:72) point out that Crosby calls for quality improvement teams and quality councils. Juran also calls for a team and quality circle approach. Deming called for employee participation in decision-making and the breaking down of barriers between departments. The three experts agree that the employees of the organization should be involved in quality management.

3.6.5 Quality improvement

Mitra (1998:73) contends that Deming, Crosby and Juran believed in the never-ending process of improvement. Deming proposed a PDCA (plan-do-check-act) cycle to sustain this never-ending process. Juran’s breakthrough sequence of quality planning, control and improvement is also non-ending. Crosby also recommends a similar cycle.

According to Oakland (2000:364) the three experts have different bases for improvement. Crosby contends that there should be improvement goals and that improvement is a ‘process’ not a ‘programme’. Deming recommended the elimination of goals at the cost of quality and improvement should be continuous to reduce variation. Juran preferred the setting of goals and a project-by-project team approach.
3.6.6 Education and training

Mitra (1998:73) observes that the availability of an adequate supply of people who are educated in the philosophy and technical aspects of quality is fundamental to quality improvement. Deming focused on education in statistical techniques and Crosby emphasises the need for quality education. The latter however, emphasises the development of a quality culture within the organization. Juran does not explicitly call for education and training but contends that people must be knowledgeable to diagnose effects and determine remedies.

3.7 ELEMENTS OF QUALITY

3.7.1 Quality of design, conformance and performance

Mitra (1998:9) states that the three aspects usually associated with quality are: quality of design, quality conformance and quality of performance. Quality of design implies that the product or service must be designed to meet, at least minimally, the needs of the consumer. According to the QFD Institute (QFD Institute:2002) the QFD (quality function deployment) helps organizations seek out both spoken and unspoken needs, translates these into actions and designs, and focuses various business functions toward achieving a common goal. A product or service is designed by focusing everybody toward customer satisfaction. QFD also called the “house of quality” is discussed in section 3.7.2 below.

Mitra (1998:9) further states that quality of conformance implies that the product or service rendered meets the standards selected in the design phase and quality of performance is concerned with how well the product functions or service performs when put into use. It measures the degree to which the product or service satisfies the customer. The tools for these purposes are considered in section 3.7.3 and 3.7.4 below.
Figure 3.5  The three aspects of quality
Source: Mitra (1999:9)

3.7.2 Designing for quality

According to Oakland (2000:39), quality function deployment (QFD) is a system for designing a product or service based on customer demands, with the participation of members of all functions of the supplier. It translates the customer requirements into appropriate technical requirements for each stage. Oakland states that the activities included in QFD are: market research, basic research, innovation, concept design, prototype testing, final-product or service testing, after-sales service and trouble shooting.
Diagram 3.6 The QFD or house of quality tables

Adapted from Oakland (2000:41) and Mitra (1998:96)

Oakland (2000:41) states that the construction of the quality table begins with the identification of customer requirements that are determined through the ‘voice of the customer’ – the marketing and market research activities. These form the ‘whats’ and the importance of each is rated and the rankings added (Room 1). The customer requirements are then examined in terms of customer ratings of the organization’s performance in comparison with the competitors’ performance. The results are placed to the right of the central matrix (Room 4). The ‘whats’ are converted into the ‘hows’ forming the technical design requirements (Room 2). The technical design requirements themselves are placed immediately above the central matrix. Rankings of the technical difficulty, development time or costs appear below the customer requirements and below it comes the benchmark data, which compares the processes of the organization against its competitors. The central relationship matrix (Room 3) is the working core of the HOQ diagram. The ‘whats’ are matched with the ‘hows’, and each customer requirement is systematically assessed against each technical requirement. The roof of
the house shows the interactions between technical design requirements. The very bottom of the HOQ diagramme shows the target values of the technical characteristics.

The target technical characteristics may be used to generate the next level of the HOQ diagramme, where they become the “whats”, and the QFD determines the further details of how they are to be achieved (Oakland, 2000:43). In this way the process “deploys” the customer requirements all the way to the final operational stages.

According to Oakland (2000:43), the benefits of QFD include:

- The coordination of inter-functional activities and skills within an organization which leads to products and services designed so that the customers will want to purchase them and continue to do so.
- The use of competitive information in QFD helps to prioritise resources and to structure existing experience and information.
- Reduction of midstream design changes, post-introduction problems and implementation time.
- Promotion of teamwork and the creation of communications at functional interfaces;
- Increase in customer satisfaction and loyalty.

3.7.3 Measuring quality of performance

Oakland (2000:117) argues that for the organization to succeed over the long term, performance must begin to be measured by improvements seen by the customer. He adds that in the cycle of never-ending improvement, measurement plays an important role in:

- Tracking progress against organizational goals.
- Identifying opportunities for improvement.
- Comparing performance against internal standards.
- Comparing performance against external standards.
- Ensuring if customer requirements have been met.
• Highlighting quality problems and determining which areas require priority attention.
• The provision of feedback for driving the improvement effort.

Self-assessment will be considered as one way by which an organization can measure its quality of performance. The franchisor provides services to the franchisee. Parker (2002) asserts that it has become a widely accepted practise for companies to measure the quality of service they deliver to their clients. SERVQUAL, an instrument for measuring service quality, was discussed in section 3.3 above.

3.7.4 Self assessment

According to Oakland (2000:100), organizations everywhere are under constant pressure to improve their business performance, measure themselves against world-class standards and focus their efforts on the customer. The South African Excellence Foundation (SAEF) provides the South African Excellence Model which can be used by organizations to assess or measure themselves and to carry out the so-called ‘gap analysis’. The South African Excellence Foundation (SAEF, 2002) defines self-assessment as a comprehensive, systematic and regular review of an organization’s activities and results referenced against a benchmark of business excellence. The Self-Assessment process allows the organization to clearly identify its strengths and areas in which improvements can be made and culminates in planned improvement actions, which are then monitored for progress.

It is also an effective means to co-ordinate an organization’s quality improvement initiatives, for example, ISO 9000 and Process Re-engineering.
The model has enablers and results as its main parts.

a) **Leadership** (100 points / 10%)
How the behaviour and the actions of the executive team and all other leaders inspire, support and promote a culture of Performance Excellence.

ii) **Policy and Strategy** (70 points / 7%)
How the organization formulates, deploys, reviews and turns policy and strategy into plans and actions.

iii) **Customer and Market Focus** (60 points / 6%)
How the organization determines the requirements, needs and expectations and enhances relationships and determines satisfaction of customers and markets.

iv) People Management (90 points / 9%)
How the organization develops and releases the full potential of its people.

v) Resources and Information Management (60 points / 6%)
How the organization manages and uses resources and information effectively and efficiently.

vi) Processes (120 points / 12%)
How the organization identifies, manages, reviews and improves its processes.

b) Results

vii) Impact on Society (60 Points / 6%)
What the organization is achieving in satisfying the needs and the expectations of the local, national and international community at large (as appropriate).

viii) Customer Satisfaction (170 points / 17%)
What the organization is achieving in relation to the satisfaction of its external customers. This criterion forms the largest single percentage of the model.

ix) People Satisfaction (90 points / 9%)
What the organization is achieving in relation to the satisfaction of its people.

x) Supplier and Partnership Performance (30 points / 3 %)
What the organization is achieving in relation to the management of supplier and partnering processes.

xi) Business Results (150 points / 15%)
What the organization is achieving in relation to its planned business objectives and in satisfying the needs and expectations of everyone with a financial interest or other stake in the organization.
3.8 TOTAL QUALITY MANAGEMENT (TQM)

3.8.1 Overview

Total Quality Management (TQM) is the term applied to the approach which organizations adopt to improve their performance on a systematic and continuous basis (Cook, 1992:69). As noted previously, quality in the franchise relationship could be gauged by the extent to which the customer requirements are met. According to Mitra (1998:44), Deming believed in the adoption of a total quality programme and emphasized the never-ending nature of quality control in the quality improvement process. TQM is a programme that can achieve the desired goals of quality improvement and customer satisfaction.

Mitra (1998:85) writes that according to the US Department of Defence, TQM is both a philosophy and a set of guiding principles that comprise the foundation of a continuously improving organization. Various models for TQM have been proposed, two of which are discussed below.

3.8.2 The 3-cornerstone TQM model by Oakland

Oakland (2000:18) proposes a 3-cornerstone TQM model that is aimed at improving the competitiveness, effectiveness and flexibility of the whole organization. According to Oakland (2000:33), the core TQM is the customer-supplier relationship, where the processes must be managed. The soft outcomes of TQM – the culture, communications and commitment – provide the foundations for the TQM model. The process core must be surrounded by the “hard” management necessities of systems, tools and teams. A discussion of the outcomes of TQM follows the drawing of the model below.
a) Processes and customer – supplier relationships

A process is the transformation of a set of inputs, which include actions, methods and operations, into outputs that satisfy customer needs and expectations (Oakland, 2000:11). Each process in the organization ought to be analysed to determine some of the actions necessary to improve quality.

The customer – supplier relationships in the model represent internal quality chains in the organization that must not be broken if failures are not to be passed on to the outside customers (Oakland, 2000:7). The interactions between the owner of the business and his secretary or financial manager would exemplify the relationship.
b) Commitment and policy

Oakland (2000:20) argues that for TQM to be successful everyone in the organization must be committed to it and the commitment has to start at the top and filter downwards. There must exist a quality policy that ought to be publicised and be understood at all levels of the organization.

c) Creating or changing the culture

Oakland (2000:22) defines culture, as the beliefs that pervade the organization about how business should be conducted, and how employees should behave and be treated. According to Oakland (2000:24), TQM is concerned with moving the focus of control from outside the individual to within, with the objective of making everyone be accountable for their own performance, and to get them committed to attaining quality in a highly motivated fashion.

d) Communication

Oakland (2000:229) points out that TQM will significantly change the way many organizations operate and will therefore require direct and clear communications in the organization. He adds that failure to communicate effectively creates unnecessary problems, resulting in confusion, loss of interest and eventually, in declining quality.

e) System

Oakland (2000:79) defines a quality management system as an assembly of components, such as organizational structure, responsibilities, processes and resources for implementing TQM. He adds that such a system should apply to and interact with all processes in the organization and should begin with the identification of customer requirements and end with their satisfaction, at every transaction interface.

The International Organization for Standardization (ISO) 9000:2000 series set out methods by which a system can be implemented to ensure that the specified customer
ISO 9000:2000 and ISO 9004:2000 (2002) describe eight quality management principles which can be used by organizations towards improved performance. These are:

- Customer focus – organizations depend on their customers and therefore should understand current and future needs, should meet customer requirements and strive to exceed customer expectations.
- Leadership – leaders establish unity of purpose and direction of the organization. They should create and maintain the internal environment in which people can become fully involved in achieving the organization’s objectives.
- Involvement of people – people at all levels are the essence of an organization and their full involvement enables their abilities to be used for the organization’s benefit.
- Process approach – a desired result is achieved more efficiently when activities and related resources are managed as a process.
- System approach to management – identifying, understanding and managing interrelated processes as a system contributes to the organization’s effectiveness and efficiency in achieving its objectives.
- Continual improvement – continual improvement of the organization’s overall performance should be a permanent objective of the organization.
- Factual approach to management – effective decisions are based on the analysis of data and information.
- Mutually beneficial supplier relationships – an organization and its suppliers are interdependent and a mutually beneficial relationship enhances the ability of both to create value.

According to (ISO, 2002) the main benefits of ISO 9000 are:

- Increases in awareness of quality.
- Helps to get everyone involved in the quality effort.
- Helps to ensure consistency through standardising and documenting procedures.
- Holds improvements in place.
- It introduces management disciplines such as regular audits and reviews.
f) Tools

As seen above, ISO 9000:2000 effective decisions should be based on the analysis of data and information. Oakland (2000:140) supports this view and emphasises that a thorough system of data gathering, recording and presentation is essential. Some of the tools that can be used to interpret and derive the maximum use of data are the following:

- Histograms show what the variations look like.
- Pareto analysis can be undertaken to find out which problems are the biggest. Pareto analysis reveals that some 80% of the problems are typically due to 20% causes.
- Cause and effect diagrams or Ishikawa diagrams. The effect that is being investigated is shown at the end of a horizontal arrow. Potential causes are then shown as labelled arrows entering the main cause arrow. Each arrow may have other arrows entering representing sub-causes.
- Nominal group technique or brainstorming.
- Statistical process control (SPC). This is a strategy for reducing variability, the cause of many quality problems. A representative sample is selected randomly and analysed to make decisions regarding the current performance of the process.

g) Teams

Oakland (2000:197) argues that teamwork is the only efficient way to tackle process improvement and complex problems. Teamwork for quality improvement is driven by a strategy, needs a structure, and must be implemented thoughtfully and effectively. Oakland (2000:190) outlines several types of teams that may contribute towards TQM. These are:

- Process quality teams (PQT) and quality improvement teams (QIT) made up of individuals with the appropriate knowledge, skills and experience brought together to improve processes and solve particular problems usually on a project basis.
• Quality circles or Kaizen teams which are groups of people who do similar work and meet regularly in normal working time to identify, analyse and solve work related problems.

h) Criticism of the 3-cornered model

The main criticism of the 3-cornered model is that it focuses on the internal quality improvement efforts. Yet, Deming, as quoted by Mitra (1998:45) envisioned the extended process of an organization that extended beyond the traditional organizational boundaries to include suppliers, customers, investors, employees and the community. A model that includes customers is shown below.

3.8.3 A TQM Model by Mitra

a) Overview

Mitra (1998:89) cites a TQM model that has the company vision and mission and management commitment as its core, binding three main themes of the customer, the process and the people. The importance of management commitment, teams and communication has been outlined in the 3-cornered model above. Emphasis will be placed on the company vision and mission, customer, process analysis and continuous improvement.

b) Company vision, mission and management commitment

At the core of the model are the company vision and mission and management commitment (Mitra, 1998:89). A company’s vision is what the company wants to be and the mission lays out the company’s strategic focus. Mitra argues that every employee should understand the company’s vision and mission so that individual efforts contribute to the organizational goals. Commitment especially of management must exist at all levels for the company to succeed in implementing TQM.
b) Process

According to Mitra (1998:90) management is responsible for analysing the process to continuously improve it. Vendors (suppliers) are part of the extended process as advocated by Deming as integrating them in the process will improve the products and services supplied to the organization.

c) Customer

Mitra (1999:90) emphasises that satisfying customer needs and expectations is a major theme in TQM – in fact, it is the driving force. He states that direct feedback using a data-driven approach is the best way to identify customer expectations and needs.

Johnson and Gustafsson (2000:148) have developed a framework for linking internal quality and customer satisfaction.
3.9 THE GUSTAFSSON AND JOHNSON FRAMEWORK

3.9.1 Overview

The framework integrates quality function deployment (QFD) with customer satisfaction modelling (Johnson & Gustafsson, 2000:148). Satisfaction models translate overall satisfaction into the customer benefits that drive satisfaction and into the product and service attributes that provide the benefits. These form the uppermost stages of the framework. The lower stages are formed by the QFD and translate theses attributes further down into their means of accomplishment or production. Figure 3.10 shows the framework.

**Figure 3.10** Framework linking internal quality to customer satisfaction

Source: Johnson and Gustafsson (2000:149)
3.9.2 Translation downstream

The arrow pointing downwards shows the movement from customer satisfaction to production. Abstract, subjective evaluations are translated into concrete, objective means of accomplishment (Johnson and Gustafsson, 2000:148).

3.9.3 Translation upstream

The process of moving up in the framework is more of an inductive or a change monitoring process (Johnson and Gustafsson, 2000:148). After determining what changes to make, it is important to track the changes back upstream to check their effect on customer perceptions and satisfaction.

3.10 CONCLUSION

The importance of management’s commitment in ensuring quality products and services has been pointed out. It has also been emphasised that the customer is the focus of quality efforts and improvements in quality have to be aimed at closing the gap between their expectations and what is delivered. Quality efforts should start with finding out what the customer requirements are. QFD can be used in this endeavour. The organization can use self-assessment and benchmark itself against the SAEM and use SERVQUAL to find out the gaps in their performance and seek to close them. Some TQM models were also introduced.

The next chapter seeks to identify problems in the franchise relationship in the demarcated area, the requirements of the franchisees and their expectations. Attention will also be given to how the relationship can be improved.
CHAPTER 4

MEASUREMENT OF THE QUALITY OF SERVICE PROVIDED BY THE FRANCHISORS TO FRANCHISEES

4.1 INTRODUCTION

The preceding chapters have reviewed the literature pertaining to the problems in franchising and quality issues. SERVQUAL, a model for measuring service quality, was discussed, the lens of the customer introduced and TQM models were outlined. A model for customer satisfaction was described.

The objective of this chapter is to measure the quality of service that franchisees in the delimited area and sector receive from their franchisors. Firstly an outline of the design of the research will be presented. The measuring instrument will then be discussed and lastly, a description of the data collection, capturing and analysis will be set out.

4.2 RESEARCH DESIGN

4.2.1 Overview

According to Leedy (1997:97), research design is the planning that brings together a careful early inventory of resources, the problem and the sources of data. It involves the development of a problem and sub-problems, the collection, interpretation of data, and the visualisation of the problems associated with the employment of those data in the entire research project. Figure 4.1 shows schematically the research design process.
Figure 4.1  A schematic representation of the general research design

Development of the
Main problems and
Sub-problems

Delimitation of the
study

Literature study

Design questionnaire

Administer questionnaire

Capture and inspect data
Anlyse data

Draw conclusions

Source: Adapted from Leedy (1997:96)
4.2.2 Steps followed in the research process

In this research the main problem, “How can the franchise relationship be improved upon so that it enhances the effectiveness of the franchisee?” was stated in the first chapter. To find solutions to the problem, four sub-problems were formulated. The first one is, “What are the obligations of the franchisor and the franchisee?” In Chapter 2 the obligations of both parties were discussed. The second sub-problem, “What makes a quality relationship?” was discussed in the third chapter. This chapter will deal with the question of finding the gap between the service provided by the franchisor and what the franchisees receive. A questionnaire was designed and administered to a sample of the franchisees in the delimited area. The data was then captured and analysed.

4.3 THE RESEARCH SAMPLE

A sample consists of respondents from a population that have been selected to be included in a survey (Johnson and Gustafsson, 2000:77). The research sample consists of 26 franchises made up 14 supermarkets and 11 auto parts fitment centres. The distribution of the sample among the different towns is shown in Table 4.1.

<table>
<thead>
<tr>
<th>Town</th>
<th>Supermarkets</th>
<th>Fitment centres</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>East London</td>
<td>11</td>
<td>08</td>
<td>19</td>
</tr>
<tr>
<td>King Williams Town</td>
<td>02</td>
<td>03</td>
<td>5</td>
</tr>
<tr>
<td>Peddie</td>
<td>01</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Alice</td>
<td>01</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>15</td>
<td>11</td>
<td>26</td>
</tr>
</tbody>
</table>
4.4 THE INSTRUMENT USED

4.4.1 The Questionnaire

A self-administered questionnaire based on SERVQUAL was used. A copy of the questionnaire and the covering letter appear in Appendix A. This method was preferred to the other methods of gathering data like the interview, because of time constraints on the part of the researcher and the franchisees. Note needs to be made that franchisees are independent businessmen that are constantly attending to their customers’ needs and the administration of business. The method was also preferred over a telephone survey because of the large amount of information that is needed.

As noted previously, SERVQUAL is a generic instrument for measuring service quality with good reliability and validity and broad applicability (Parasuraman et al, 1991:420). SERVQUAL serves as a diagnostic methodology for uncovering broad areas of a company’s service quality shortfalls and strengths. The developers of SERVQUAL also stated that minor modifications in the wording of items to adapt them to a specific setting are appropriate. This is what was done in the test and final questionnaires, mainly by replacing “company” by “franchisor”, “customer” by “franchisee” and “employees” by “staff”. The development of SERVQUAL will now be considered.

4.4.2 The original SERVQUAL

According to Parasuraman et al (1988:17), their exploratory research in 1985 revealed that criteria used by consumers in assessing service quality fit 10 potentially overlapping dimensions. These were tangibles, reliability, responsiveness, communication, credibility, security, competence, courtesy, understanding/knowing the customer and access. Then some 97 items, representing various facets of these dimensions, were generated to form the initial item pool for the SERVQUAL instrument. Each item was recast into two statements – one to measure expectations about firms in general within the service category being investigated and the other about the particular firm whose service quality was being assessed. A seven-point scale ranging from “Strongly Agree” (7) to “Strongly Disagree” (1), with no verbal labels for scale levels 2 through to 6,
accompanied each statement. The expectations statements were grouped together and formed the first half of the instrument. The corresponding perceptions statements formed the second half.

Parasuraman et al (1988:18) write that the 97-item instrument was subjected to two stages of data collection and refinement. The first stage focused on:

- Condensing the instrument by retaining only those items capable of discriminating well across respondents having different quality perceptions about firms in different categories.
- Examining the dimensionality of the scale and establishing the reliabilities of its components.

The result was the emergence of seven dimensions. Five of them - tangibles, reliability, responsiveness, understanding/knowing customers and access remained distinct and two others that emerged after the five dimensions of communication, credibility, security, competence and courtesy collapsed. The items also reduced to 34. The second stage involved the evaluation of the 34-item scale and its psychometric properties. Data was collected pertaining to the service quality of four nationally known American firms – a bank, a credit-card company, a repair and maintenance firm and a long-distance telephone company. The robustness of the 34-item scale when used to measure the service quality of the four firms was also evaluated. A refined scale (“SERVQUAL”) resulted with 22 items spread among five dimensions of tangibles, reliability, responsiveness, assurance and empathy. The last two dimensions (assurance and empathy) contain items representing seven original dimensions – communication, credibility, security, competence, courtesy, understanding/knowing customers, and access that did not remain distinct after the two stages of purification. SERVQUAL has only five distinct dimensions but they capture facets of all 10 originally conceptualised dimensions.

4.4.3 The refined SERVQUAL

Parasuruman et al (1991:422) effected the following changes to the 1988 SERVQUAL:
Recognising that the “should” terminology in expectation statements might be contributing to unrealistically high expectation scores, a slightly different wording was adopted. The revised wording focused on what customers would expect from companies delivering excellent service, for example, the statement “Telephone companies should keep their records accurately” was changed to the statement “Excellent telephone companies will insist on error free records.”

The instructions pertaining to the expectations items were also appropriately changed.

Of the 22 SERVQUAL items included in the pre-test questionnaire, sixteen were worded positively and six negatively. The pre-test results indicated that the negatively worded items might be problematic as they had bigger standard deviations than the positively worded items. They were awkward, according to managers of five companies who reviewed the preliminary questionnaire and the reliability coefficients for them were consistently lower than those that were positively worded. The negatively worded items were all changed to a positive format.

Two new items – one each under tangibles and assurance – were substituted for two original items to more fully capture the dimensions and to incorporate suggestions from managers who reviewed the questionnaire. An item focusing directly on employee knowledge was introduced.

Minor wording adjustments were also made in a few items, like “up-to-date equipment” was changed to “modern-looking equipment”.

A question was included that required customers to allocate a total of 100 points across the dimensions according to how important they considered each to be. The question listed the descriptive definitions of the five dimensions without naming them.
4.4.4 The reliability and validity of SERVQUAL

a) Reliability

Naumann and Giel (1995:110) define reliability as the ability to get consistent results, time after time, with repeated samples. Cronbach’s Alpha coefficient can be used to determine reliabilities with values of less than 0.6 considered poor, the 0.7 range considered acceptable and those over 0.8 considered good.

According to Parasuraman et al (1991:424), the reliability of coefficients for the perception minus-expectations gap scores for the five SERVQUAL dimensions were found to be consistently high across the various samples they tested. Most of the reliability coefficient (Alpha) values were above 0.8.

b) Validity

Validity is concerned with whether a particular item really measures what it is supposed to measure (Naumann & Giel, 1995: 37). Collective findings from various replications by and large provide consistent support for the validity of SERVQUAL on the five dimensions (Parasuruman et al, 1991:441).

4.5 PILOT STUDY

The questionnaire was pre-tested in two franchisees, a supermarket and an auto parts fitment centre. The respondents were asked to comment on any aspects of the questionnaire and to suggest ways of improving on it. The recommended changes were effected prior to the circulation of the questionnaires.

4.6 PROCESS OF DATA COLLECTION

The questionnaires together with the covering letter were hand delivered to the franchisees. This was done to speed up the process. The date of 1st November 2002 was set as the due date. On the due date each respondent was telephoned to facilitate further
the receipt of the questionnaire. An extension to the 6\textsuperscript{th} November 2002 was given to some respondents who were not able to complete the questionnaire by the 1\textsuperscript{st} November 2002.

The number of the questionnaires delivered to the different towns and responses on the different dates are set out in Table 4.2 below.

<table>
<thead>
<tr>
<th>Town</th>
<th>Questionnaires</th>
<th>1\textsuperscript{st} November</th>
<th>6\textsuperscript{th} November</th>
<th>Response Total</th>
<th>Response percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>East London</td>
<td>19</td>
<td>6</td>
<td>4</td>
<td>10</td>
<td>52.6</td>
</tr>
<tr>
<td>King Williams</td>
<td>05</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>60</td>
</tr>
<tr>
<td>Peddie</td>
<td>01</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Alice</td>
<td>01</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>8</td>
<td>6</td>
<td>14</td>
<td>53.8</td>
</tr>
</tbody>
</table>

Two respondents declined to fill in the questionnaire, claiming that they were not franchises though they trade under well-known franchise brands. Another respondent declined on the grounds that the franchise chain he operates in, requires its franchisees to fill in a form periodically that is similar to the questionnaire.

4.7 DATA CAPTURING

The data from the returned questionnaires was captured into Microsoft Excel spreadsheets. Each of the five service quality dimensions was allocated a worksheet. For each questionnaire the respondent’s scores on expectations (Es) and perceptions (Ps) were recorded. The arithmetic means (means) of the expectations (E) and perceptions (P) were calculated. The perceived quality gap (difference) was calculated using the formula:
\[ Q = P - E \]

Arithmetic means (M*), shown in Appendix B, were also calculated for each item for all respondents. To illustrate, the mean of perception 1 (the franchisor has modern-looking equipment at head office) was calculated for the 14 respondents. This was to allow for a more detailed analysis of the scores of the individual items. This procedure was undertaken for all 22 items, resulting in the means of the 22 perceptions and corresponding items to be recorded.

4.8 DATA ANALYSIS

A positive value of Q indicates that the respondent perceives that the services provided exceed his expectations. Ideally an organization should aim at the positive range. When there is no difference (Q = 0), the expectations of the respondent and perceptions are the same. Other factors remaining the same, respondents in these categories will be taken as being satisfied with the service provided.

A negative value of Q indicates that the respondent’s perception is less than his expectations and this implies that there exists a service quality gap. Such a respondent is dissatisfied with the service, other factors remaining the same. The values of SERVQUAL range from 1 to 7. The biggest value of satisfaction is +6 and the largest value of dissatisfaction is -6. On the scale, values of -1 and -3 would correspond to dissatisfaction levels of some 16.7 and 50 percent respectively. In the sections that follow, results and their analyses are given under the headings of the questionnaire, that is, ranking of the quality dimensions, tangibles, reliability, responsiveness, assurance and empathy.

4.9 RANKING OF QUALITY DIMENSIONS

Each respondent was asked to allocate a total of 100 points amongst the five dimensions according to how important a dimension was to him. The dimensions were not mentioned by their names, only descriptions of them were given. The results are given in Table 4.3.
Table 4.3  Point allocation to the five dimensions

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tangibles</td>
<td>11.6</td>
</tr>
<tr>
<td>Reliability</td>
<td>26.9</td>
</tr>
<tr>
<td>Responsiveness</td>
<td>27.3</td>
</tr>
<tr>
<td>Assurance</td>
<td>20.9</td>
</tr>
<tr>
<td>Empathy</td>
<td>13.4</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Appendix B Table B.1

The table reveals that the franchisees attach the greatest importance to responsiveness with a mean value of 27.2 percent and this is closely followed by reliability at 26.9 percent. The tangibles of the franchisor are accorded the least importance at 11.6 percent. The results are illustrated in Figure 4.2.

Figure 4.2  The importance of the five dimensions to franchisees

Source: Table 4.3

Percentages have been rounded off to the nearest unit.
4.10 TANGIBLES

In Figure 3.1, tangibles are described as the physical facilities, equipment, and appearance of the personnel of the service provider. The respondents were asked to rate their expectations and perceptions of the tangibles of their franchisor. The scores are shown in Appendix B Table B2.

The respondents scored perceptions one (P1) and two (P2) low. These deal with the franchisor having modern equipment and the franchisors’ physical facilities being visually appealing respectively. The expectations on these items are high with the majority of the scores being six and above. Only two scores on expectations on the items are five and one score is a two. A service quality gap exists in this dimension that is illustrated in Table 4.4 and Figure 4.3. Ranges of perceived quality and percentages of respondents that fall in the given ranges are given.

### Table 4.4 Perceived quality on Tangibles

<table>
<thead>
<tr>
<th>Nature of quality</th>
<th>&lt; -2.0</th>
<th>-2.0 - -1.5</th>
<th>-1.5 - -1.0</th>
<th>-1.0 - -0.5</th>
<th>-0.5 - 0</th>
<th>0</th>
<th>&gt;0 - 0.5</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of respondents</td>
<td>1</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>4</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>% of respondents</td>
<td>7.1</td>
<td>28.6</td>
<td>21.4</td>
<td>7.1</td>
<td>28.6</td>
<td>7.1</td>
<td></td>
</tr>
</tbody>
</table>

Source: Appendix B Table B.2

The information is illustrated further in Figure 4.3 that shows the percentage of respondents plotted against the perceived quality ranges.
Figure 4.3  Tangibles: percentage of respondents and quality ranges

The table and the figure show that at least 64 percent of the respondents feel that the perceived quality under this dimension does not meet their expectations. 28.6 percent feel that the services provided by the franchisor under this dimension meet their expectations and only 7.1 percent feel that the franchisors exceed their expectations. The service quality gap should be considered in the light that the respondents scored this dimension’s importance low at 11.6 percent. The deficiencies in the tangibles dimensions are therefore not so significant.

4.11  RELIABILITY

Reliability is the ability to perform the promised service dependably and accurately (Figure 3.1). The scores the respondents gave under this dimension are recorded in Appendix B Table B3.

The franchisees perceive that the franchisors do not perform services right the first time and do not insist on error free records. Other items in this dimension also reveal that franchisors do not meet the expectations of the franchisees. Table 4.5 and Figure 4.4 are drawn to illustrate this point.
Table 4.5  Perceived quality on Reliability

<table>
<thead>
<tr>
<th>Nature of quality</th>
<th>&gt;-1.5 - -1.0</th>
<th>&gt;-1.0 - -0.5</th>
<th>&gt;-0.5 - 0</th>
<th>0</th>
<th>&gt;0 - 0.5</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of respondents</td>
<td>1</td>
<td>5</td>
<td>4</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>% of respondents</td>
<td>7.1</td>
<td>35.7</td>
<td>28.6</td>
<td>14.3</td>
<td>14.3</td>
</tr>
</tbody>
</table>

Legend: Less than expected  Equals expectations  More than expected

Source: Appendix B Table B.3

Figure 4.4  Reliability: percentage of respondents and quality ranges

The table and figure show that less than 30 percent of the respondents feel that their franchisors offer reliable service quality. At least 70 percent of the respondents feel that the service is inadequate. This is significant because the respondents ranked the reliability dimension second in importance with 26.9%.

4.12  RESPONSIVENESS

It was seen in section 3.3.1 that responsiveness is the willingness of the service provider to help customers and to provide prompt services. In the survey franchisees were asked about their expectations and perceptions of the responsiveness of the their franchisor. The scores of the franchisees are recorded in Appendix B table B4.
The respondents rate item P10, which deals with the staff of the franchisor telling the franchisees when the services will be performed low. It is possible that the staff are not communicating well. Item P11 that deals with the staff offering prompt service is also rated low. Table 4.6 and Figure 4.5 summarise the perceived quality of the respondents on responsiveness.

Table 4.6  Perceived quality on Responsiveness

<table>
<thead>
<tr>
<th>Nature of quality</th>
<th>&lt;&lt; &lt;&lt;</th>
<th>-&gt; -&gt;</th>
<th>-&gt; &lt;-</th>
<th>&lt;- &lt;-</th>
<th>&lt;&lt; &lt;-</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perceived quality</td>
<td>&gt; -2.0 - -1.5</td>
<td>&gt; -1.5 - -1.0</td>
<td>&gt; -1.0 - -0.5</td>
<td>&gt; -0.5 - 0</td>
<td>0 - 0.5</td>
</tr>
<tr>
<td>No. of respondents</td>
<td>1</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>% of respondents</td>
<td>7.1</td>
<td>28.6</td>
<td>21.4</td>
<td>28.6</td>
<td>14.3</td>
</tr>
</tbody>
</table>

Legend: << Less than expected  <-> Equals expectations  -> More than expected

Source: Appendix B Table B4

Figure 4.5  Responsiveness: percentage of respondents and quality ranges

The table and the figure illustrate that at least 85 percent of the respondents do not feel that their franchisors are delivering enough service quality on the responsibility dimension. Only 14.3 percent felt that the franchisors met their expectations. No respondent felt that his franchisor met the expected level of service. The gaps in service
quality on the responsiveness dimension are significant since respondents rated it first in importance at 27.3 percent as it was seen in Section 4.9.

4.13 ASSURANCE

Assurance was described in Figure 3.1 as the knowledge and courtesy of employees and their ability to inspire trust and confidence. These form an important link between the franchisee and the franchisor and the respondents rated the assurance dimension third in importance at 20.9 percent.

The perception (P15) that required the respondents to rate their feelings on safety in their transactions with their franchisor received a low score, yet the corresponding expectation (E15) was rated highly in the dimension. This indicates a serious problem in the transparency between the two parties. Further analysis of the responses yields Table 4.7 and Figure 4.6.

Table 4.7 Perceived quality on Assurance

<table>
<thead>
<tr>
<th>Nature of quality</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Perceived quality</td>
<td>&gt;-1.5 - -1.0</td>
<td>&gt;-1.0 - -0.5</td>
<td>&gt;-0.5 - 0</td>
</tr>
<tr>
<td>No. of respondents</td>
<td>4</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>% of respondents</td>
<td>28.6</td>
<td>21.4</td>
<td>7.1</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>28.6</td>
<td>14.3</td>
<td></td>
</tr>
</tbody>
</table>

Legend: ← Less than expected ↔ Equals expectations → More than expected

Source: Appendix B Table B.5
At least 57 percent of the respondents perceive the service quality is less than what is expected. It is also noted that on the graph that at least 28 percent of the respondents perceive a big service quality gap in the interval of (-1.5, -1.0). This indicates a high level of dissatisfaction on this dimension.

4.14 EMPATHY

Empathy was described in Figure 3.1 as the caring and individualised attention the firm provides to its customers. The respondents scored the dimension second last in importance with 13.4 percent. The scores on both expectations and perceptions are low as shown in Appendix B Table B6. This may be due to low interpersonal contact between the franchisor and the franchisee. Table 4.8 and Figure 4.7 summarise the scores on the dimension.

Table 4.8 Perceived quality on Empathy

<table>
<thead>
<tr>
<th>Nature of quality</th>
<th>≤-1.5 - -1.0</th>
<th>&gt;-1.0 - -0.5</th>
<th>&gt;-0.5 - 0</th>
<th>0</th>
<th>&gt;0 - 0.5</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of respondents</td>
<td>1</td>
<td>1</td>
<td>7</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>% of respondents</td>
<td>7.1</td>
<td>7.1</td>
<td>50</td>
<td>21.4</td>
<td>14.3</td>
</tr>
</tbody>
</table>

Source: Appendix B Table B6
The table shows that at least 64 percent feel that the perceived quality on the dimension is less than expected. The rest feel that the service quality delivered, largely meets the expectations.

4.15 CONCLUSION

In this chapter the research design was considered briefly, and a questionnaire was constructed and administered to a sample of franchisees in the demarcated area. The questionnaire covered the service quality dimensions of tangibles, reliability, responsiveness, assurance and empathy. Of 26 questionnaires that were administered, 14 were responded to giving a response rate of 53.8 percent. The results revealed that the franchisees that responded were not getting the service they expected. This establishes that there is a performance gap on the service quality.

In the following chapter, results and the outcomes of the literature survey will be discussed with the objective of looking for possible improvements to the relationship.
CHAPTER 5

INTEGRATION OF THE EMPIRICAL STUDY AND LITERATURE SURVEY

5.1 INTRODUCTION

In Chapter 1 the concepts in franchising were defined. The main problem and sub-problems of the research were also stated. This was followed in Chapter 2 by the discussion of the obligations of the franchisor and the franchisee. Several problems in the franchising relationship were stated. Chapter 3 dealt with the conceptualisation of quality, a discussion of SERVQUAL, QFD, self-assessment, TQM models and a model of customer satisfaction was introduced. The previous chapter dealt with the method of collecting data issues surrounding data collection. The data was captured on spreadsheets and analysed.

In this chapter the results of the survey will be discussed in more detail under the quality dimensions of responsiveness, reliability, assurance, empathy and tangibles. Reference will also be made to the literature survey.

5.2 RESPONSIVENESS

It was seen in Section 4.12 that at least 85 percent of the respondents do not feel that their franchisors are delivering well on this dimension. The perception statements of the items that make up the dimension are given below. The average of the scores of perceptions and the average of expectations were calculated. The difference between these scores is shown in brackets alongside the perception statement.

- P10. The staff of the franchisor tells you when services will be performed (-0.9).
- P11. The staff of the franchisor gives you prompt service (-1.1).
- P12. The staff of the franchisor is always willing to help you (-0.4).
- P13. The staff of the franchisor is never too busy to respond to your requests (-0.3).
This closer inspection of the individual items also reveals franchisors are not delivering quality on any item.

The first two items in this dimension have a bearing on communications. In Section 2.3.4 (f) it was seen that good communication channels enhance the franchise relationship. The importance of communication is also highlighted in the TQM models. In Section 3.7.1 (d) it was pointed out that direct and clear communication is needed inside any organization. TQM is aimed at customer satisfaction and in section 3.7.1 (c) it was seen that the ISO 9000: 2000 management systems also put the focus on the customer. For a franchise network, franchisees ought to be satisfied with the quality of services they receive from the franchisor. The requirements of the franchisees have to be determined through QFD. Good communications channels have to be established between the franchisor and the franchisee to achieve this objective. Several factors that may contribute to communication problems are listed in Section 2.5.3.

Responses to the next two statements (P11 and P12) indicate that the franchisees are not being supported enough. In Section 2.3.4 (a) it was pointed out that that a franchisee should have someone at head office he deals with and that person should be knowledgeable enough to handle the franchisee’s problems. More support should be given to the franchisee by field staff. The lack of support also brings to the fore the recruitment and training methods of the franchisor. If any of these are not carried out properly the result will be staff that are unable to solve the problems of the franchisees and franchisees that are not able to solve routine problems. The franchisees may contact the franchisor staff many times and eventually will overwhelm the “head office” staff. In Section 2.3.4 (c) it was seen that the franchisor should have specialists in the different functional areas at the “head office”. The importance of training was also emphasised by the quality gurus – Deming and Cosby and is mentioned in Section 3.6.6 above.

The responses to the statements also indicated that the culture of the staff of the franchisor organization is not tuned to the needs of the franchisees. The necessity for a culture change in organizations is mentioned in Section 3.8.2 (c) above. The focus of control of the staff ought to move to within the individuals so that they are accountable for their own performance and be committed to the franchisees in a highly motivated...
fashion. As seen above in Section 3.8.2 (e), the involvement of the people of an organization is one of the quality management principles advocated by the ISO 9000:2000 series.

Lack of staff commitment and the right culture are revealed by the responses to the last statement, P13. The perceived quality gap on this item is the smallest of the four that make up the dimension.

5.3 RELIABILITY

In Section 4.11, reliability was described and it was seen that at least 70 percent of the respondents feel that there is a perceived quality gap on this dimension. The means of the respondents’ perception scores on each of the items were calculated. The respondents’ expectations were treated similarly and the differences in the perceptions and expectations were found. The perceptions on the reliability dimension are shown below with the differences given in brackets.

- P5. When the franchisor promises to do something by a certain time, he does so (-0.4).
- P6. When you have a problem, the franchisor shows a sincere interest in solving it (-0.6).
- P7. The franchisor performs the service right the first time (-0.5).
- P8. The franchisor company provides its services at the time it promises to do so (-0.3).
- P9. The franchisor insists on error-free records (0).

This dimension concentrates on the franchise network leadership. The respondents indicate that the franchisors meet their expectations on only item P9, which has zero difference. It is also noted that the scores on the expectations of the franchisees all items were also low. There are reasons for concern why the expectations of the franchisees on the franchisors insisting on error free records are rather low. Records are cardinal to any measurement of quality of performance whose importance was pointed out in Section 3.7.3. Accurate measurement and analysis of data also comprise principle 7 of the
quality management principles of the ISO 9000:2000 series as outlined in Section 3.8.2 (e).

The low scores on the franchisees’ expectations also raise questions as to whether the right tools are being used in the measurement procedures of the network. The tools that can be used are discussed in Section 3.8.2 (f).

In Section 3.6.5 it was noted that the three gurus on quality recommended non–ending processes of improvement. Though the franchisors appear to have an acceptable score service quality performance on item P9, they should endeavour to perform even better on the item.

The results of the first item (P5) show that the respondents feel that the franchisors do not always fulfil their promises. This impacts negatively on trust, which as the discussion in Section 2.2.2 pointed out is an essential factor in productive relationships. The negative score may also be indicative of lack of commitment on the part of the franchisor. In Section 3.6.3 above, it was pointed out that top management have to be committed towards quality efforts, a fact that is supported by Deming, Crosby and Juran. Furthermore, the leaders of any organization are meant to be at the forefront of quality improvement efforts as seen in the discussions on TQM in Section 3.8. The franchisor, as the leader of the franchise network, needs to show that he is committed to improvement of quality principles and this commitment has to filter downwards to his staff. Leadership is the second principle of the quality management principles of ISO 9000:2000, as seen in Section 3.8.2 (e).

Item P6 is related to the support the franchisor gives to the franchisees. It has the lowest scores on the dimension. This points towards the lack of commitment of the franchisor as the franchisees are not being supported enough. Yet it was pointed out in Section 2.5.5 (f) that inadequate support is one of the main problems in franchise relationships.

The respondents also indicated that the franchisor do not perform services right the first time. This is in disagreement with Crosby, who advocated a zero defects attitude as seen in Section 3.6.4 and this has serious implications on the wastage of resources.
Item P8 is about the franchisees’ overall perception of the franchisor and his staff without pointing a finger in any particular direction. The negative score indicates lack of commitment on this item. This may lead to despondency on the part of the franchisees.

5.4 ASSURANCE

Assurance involves the knowledge and courtesy of the employees and their ability to inspire trust and confidence. In Section 4.13 it was revealed that at least 57 percent of the respondents perceive the franchisors are not performing well on this dimension. The statements, to which the respondents were required to comment on, are shown below. The differences between the means of the scores on their perceptions and expectations are indicated in brackets.

- P14. The behaviour of the staff of the franchisor instils confidence in the franchisees (-0.1).
- P15. You feel safe in your transactions with the franchisee (-1.2).
- P16. The staff of the franchisee is consistently courteous to you (0).
- P17. The staff of the franchisor has the knowledge to answer your questions (-0.3).

It is noteworthy that the franchisees have a big difference between their perceptions and expectations on item P15. This reflects badly on the business ethics of the franchisor. In Section 2.5.1 it was pointed out that poor business ethics are some of the main problems in the franchise relationship. The contributors towards poor ethics that were mentioned are inadequate pilot tests, poor franchise selection, bad structure of the franchise, poor running of the network, site selection and territory, and inadequate support.

Several features of franchisor business ethics were covered in Section 2.2.2. It was seen that franchisors needed to show transparency as it results in trust that is essential in the successful running of the network. It was also seen that ideally the franchisor should reveal all possible income he derives from the franchise network. Allowing franchisee representatives to participate in the decision making of the network would also contribute towards trust improvement.
Financial aspects also contribute towards mistrust between the franchisor and franchisee, as seen in Section 2.5.2. The payment of royalty fees may cause problems and so would the non-passing on to the franchisees of bulk buying benefits. Care needs to be taken with the advertising fund and as recommended in Section 2.2.3 (e), it should be managed independently to avoid “borrowing” from it by the franchisor.

The franchisees perceive that the franchisor is not delivering well on item P15. Transactions involve both parties and it is pointed out in Section 2.3 that the franchisees also have several obligations in the relationship. Of particular importance is doing their homework before taking up a particular franchise in order to be realistic in their expectations from the franchisor. Section 2.3.2 implores the franchisee to also run the franchise ethically by being transparent, complying with the OPM and the franchise agreement and to be hardworking and conduct his business dealings with all stakeholders ethically.

The responses to statements P14 and P17 also reveal that the franchisors are not delivering enough quality on these items. The lack of sufficient knowledge of the staff in dealing with the franchisee problems has been dealt with in Section 5.2 above. The staff behaviour of not instilling confidence may be due to communication problems and these too have been dealt with in Section 5.2. The franchisees are satisfied with the courtesy accorded to them. This is desirable but as seen in Section 5.3 the staff should aim at doing better than they are doing at present.

5.5 EMPATHY

Empathy is concerned with the caring and individualised attention that a franchisor gives to the franchisees. As shown in Section 4.14, at least 64 percent of the respondents feel that the franchisor in not fulfilling the franchisees’ expectations. It was also noted that the respondents’ expectation scores were also relatively low, presumably because of lack of contact between the two parties or because of the entrepreneurial nature of the franchisees as they tend to be more or less independent. The statements of the items in the dimension are given below. The figures in brackets show the differences in the
means of the scores on the perceptions of each item and the mean of the scores of the expectations on the corresponding item.

- P18. The franchisor gives you individual attention (-0.2).
- P19. The franchisor has opening hours convenient to all franchisees (0.1).
- P20. The franchisor and his staff give you individual attention (-0.4).
- P21. The franchisor has your best interests at heart (-0.4).
- P22. The franchisor staff understands your specific needs (-0.3).

Service quality is not being delivered on items P20, P21 and P22. Evidently the culture of the franchisor organization staff is not focused on the franchisee. The franchisor and his staff also lack commitment to the franchisee and the network at large. The implications of these observations have been dealt with in Sections 5.2 and 5.3 above.

5.6 TANGIBLES

Tangibles are described as the physical facilities, equipment and appearance of the staff of the franchisor. In Section 4.10 it was seen that at least 64 percent of the respondents perceive that the franchisor is delivering below their expectations. The statements of the items that make up the perceptions of the dimension as they appear in the questionnaire are given below. The figures in brackets show the difference of the means of the respondents’ perception scores and the means of the corresponding scores on the expectations on each item. These are:

- P1. The franchisor has modern looking equipment at his head office (-0.2).
- P2. The franchisor’s head office physical facilities are visually appealing (-0.9).
- P3. The franchisor’s staff are neat in appearance (-0.6).
- P4. Materials associated with the service are visually appealing at the franchisor’s office (-0.6).

These items contribute towards the overall impression of service quality of an organization. The franchisor and staff are not delivering quality on any of the items. This points towards a lack of commitment on their part. Modern equipment and materials are essential for an organization’s competitive advantage.
5.7 CONCLUSION

In this chapter, each service quality dimension was examined closely by analysing the items that make it up. Comparisons with the quality principles that have been discussed in other chapters reveals that the perceived gaps in services quality may simply be the outward signs of deeper quality problems in the franchise sector. There appears to be a lack of the application of modern quality management principles in the networks. This is one root cause of the problems in the sector.

In the chapter that follows a solution is suggested in the form of a model on which to base franchise relationships.
CHAPTER 6

THE DEVELOPMENT OF A MODEL FOR FRANCHISE RELATIONSHIPS

6.1 INTRODUCTION

In Chapter 5, closer analysis of the service quality dimensions led to the argument that the franchisors are not applying modern quality management techniques. It is clear that the current franchise relationships need to be improved upon so that the franchisees perceive that more quality is being delivered to them.

In this chapter a model incorporating current recommended quality management principles is proposed. First, the need for the model is expanded upon. The model is then presented and its advantages and disadvantages are outlined.

6.2 THE NEED FOR A MODEL

Franchising as seen in Section 1.1 involves the licensing to the franchisee of a trademark, or service mark, idea, a patent and the goodwill and, the know-how associated with it. The franchisee operates within the prescriptions of the OPM. In Section 2.3.1 it was pointed out that the franchisee should understand what the franchising method of marketing is and the nature and scope of the franchising relationship. The franchisee is expected to adhere to the instructions of the franchisor.

Business management has changed, as there is an increasing need to focus on the customer and to deliver better quality products and services. Franchisees are customers of the franchisors. In Section 3.6.2 it was seen that the definitions of quality by Crosby, Juran and, to some extent, that of Deming, involve the customer. Quality also has to be designed into the products and services by QFD. This is a process that starts with listening to the voice of the customer as seen in Section 3.7.2. Customer satisfaction is also the main theme of self-assessment as it was pointed out in Sections 3.7.4. In Section 3.8 it was revealed that that the customer should be the objective of the TQM efforts.
was also pointed out that products and services should be looked at through the “lens” of
the customer in Section 3.5.

There is therefore a need for a model that integrates these ideas that are basically for
improving the franchise organization internally. The model should include franchisee
satisfaction because improvements in quality are aimed at and should involve the
customer.

6.3 THE PROPOSED MODEL

6.3.1 Overview

The model is an integration of Total Quality Management (TQM), the Gustafsson and
Johnson Framework and benchmarking using the SAEM. These are subdivided into the
organization’s mission and vision, TQM, QFD, franchise satisfaction and franchise
quality. The model is shown in Figure 6.1

**Figure 6.1 A model for franchise relationships**
6.3.2 The franchisor vision and mission

The bedrock on which the foundations of TQM are laid is the franchisor’s vision and mission. As seen in Section 2.2.1 (a), the franchisor must be something of a visionary. The TQM model proposed by Mitra in Section 3.8.3 (a) has the company vision and mission, as one of the items at the core around which everyone’s effort in the company should revolve.

Johnson and Scholes (1999:68) point out that an organization’s vision can emerge from any or combination of the following:

- Deliberate formulation as part of the planning process in the organization.
- Personal association with the founder of the business and his vision becomes embedded in the history and culture of the organization.
- An external agency’s imposition of strategy for example when government regulations change.
- By intuition by executives who can espouse new ways of working.

Franchisors can use any or several of the above ways to formulate an inspiring vision for their networks.

Johnson and Scholes (1999:13) remark that an organization’s mission is sometimes referred to in terms of the challenging question “What business are we in?” One of the franchisor’s businesses is to deliver services to the franchisees. The following measures will enhance the delivery of effective services to the franchisees:

- The development of an effective OPM.
- Effective initial and continuing training. It was seen in Section 5.2 that inadequate training contributes to low scores on the responsiveness of the franchisors.
- Good handling of the advertising revenue and effective marketing programmes. In Section 2.5.2 it was seen that the poor handling of advertising revenue is one of the causes of the finance problems in franchise relationships.
• Effective teams at the head office and in the field service. Poor support of the franchisees impacts negatively on the franchise relationship as seen in section 2.5.1 (f). Analysis of empirical data in section 5.4 revealed that the staff is not delivering well on franchisee support and improvements are needed.

• The need of continuous research and development. The franchisor needs to maintain data on the competitors and to be innovative. Attention should also be paid to the equipment and physical facilities of the network’s headquarters.

• Careful site selection and territory. It was seen in section 2.5.1 (e) that poor site selection was one of factors that led to poor franchise relationships. Encroachment by the franchisor on franchisee’s territory has to be handled with sensitivity.

• Effective dispute resolution procedures. These may include negotiations, participation of neutral franchisees, non-binding mediation or an ombudsman. Litigation should only be used as a last resort.

6.3.3 Total Quality Management (TQM)

TQM rests on three pillars of teams, systems and tools. The walls are formed by commitment, communication and culture.

The importance of good communications in TQM was outlined in Section 3.8.2 (d). The franchise network should have clear, open communication channels to convey strategies and TQM concepts from the franchisor and his management to the staff. The channels should also allow for feedback to the franchisor from the staff. Open door policies improve communication and should be encouraged.

Excellent communication channels will also have to be established between the franchisor and the franchisees. Apart from electronic means of communication, face-to-face communication should be used with the franchisor staff visiting the franchisees regularly to check on the situation on the ground.
In Section 3.8.2 (b) it was pointed out that everyone’s commitment is essential for the success of TQM. The results of the survey in Section 5.3 show that commitment is lacking in the franchise networks, so the franchisor and the top management of the network must show commitment to the principles of TQM and this should filter down to the staff.

The role of creating or changing of culture in the organization to implement TQM was discussed in Section 3.8.2 (c). In Section 5.2 it is seen that the franchisor staff culture is at odds with the principles of TQM.

As seen in section 3.8.2 (g), teamwork is very important for TQM in improving the process and the solving of complex problems. Oakland (2000:195) outlines several types of teams that may contribute towards TQM that should be established in the franchise network. These are:

- Process quality teams (PQT) and quality improvement teams (QIT) made up of individuals with the appropriate knowledge, skills and experience brought together to improve processes and solve particular problems, usually on a project basis.
- Quality circles or Kaizen teams which are groups of people who do similar work and meet regularly in normal working time to identify, analyse and solve work related problems.

Ideas from franchisees should be gathered and be evaluated for creativity. The establishment of a franchisee association can assist in this endeavour.

Tools form another pillar of TQM. Tools assist in effective decision-making and should be used extensively in a franchise network. Some of the tools as listed by Oakland (2000:159) are the following:

- Histograms show what the variations look like.
- Pareto analysis can be undertaken to find out which problems are the biggest. Pareto analysis reveals that some 80 percent of the problems can be caused by 20 percent of the items.
• Cause and effect diagrammes or Ishikawa diagrammes.
• Nominal group technique or brainstorming.
• Statistical process control (SPC).

The other pillar of TQM is a quality management system. Oakland (2000: 79) states that such a system should ensure that it meets:

• The customer’s requirements. The organization’s desired products and services should consistently be delivered with confidence.
• The organization’s requirements both internally and externally, at an optimum cost, with efficient utilisation of the financial, material, human, technological and information resources available.

ISO 9000:2000 and ISO 9000:2000 as seen in Section 3.8.2 (e) meet the criteria and should be applied to the franchise relationship.

6.3.4 Quality function deployment (QFD)

QDF, a system of designing a product or a service beginning with identifying the needs of the franchisee, forms the next tier of the model. The first stage of TQM has the attributes of SERVQUAL as the “whats”. These are ranked in the order in which the respondents placed them as seen in section 4.9. The “hows” are usually generated through brainstorming by the management and staff of the franchisor. For illustration the author has chosen the staff and services as the means of delivering quality on the “whats” in the first stage of QFD drawn in Figure 6.2.
The central relationship matrix is completed by filling the grid with symbols that indicate the strength of the relationship between the “what” and the “how”. As an example a symbol can be chosen to represent a strong relationship and it may be given a weight of seven, a different symbol then chosen to represent a relationship of moderate strength and can be weighted at three and yet another symbol can represent a weak relationship and be weighted at 1. For the “whats” in the table and the culture column the relationships could be responsiveness (7), reliability (7), assurance (3), tangibles (1), empathy (3). If the dimensions are ranked 5 to 1, this generates a score of (5x7) + (4x7) + (3x3) + (2x1) + (1x5) = 79. The other scores are found in a similar way. All scores are recorded. The scored are then ranked in the relative scores row and the firm will be able to see what aspect needs to be prioritised.

<table>
<thead>
<tr>
<th>Required characteristics</th>
<th>HOWS Vs HOWS</th>
<th>Technical/cost Rankings</th>
<th>Customer Rating</th>
<th>WHATS Vs WHYS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prime</td>
<td>Response</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Details</td>
<td>Reliability</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Importance</td>
<td>Assurance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repetitiveness</td>
<td>Tangibles</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>opacity</td>
<td></td>
<td>Relative scores</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>HOWS Vs HOW MUCH</td>
<td>Technical ratings</td>
<td>(bunch markings)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figure 6.2    The first stage of QDF
6.3.5 The “lens” of the franchisees

The development of the franchise service quality attributes will be done through developing the “lens” of the franchisee. This is important because, as seen in Section 2.5.3, there is a built-in divergence of business interests of the franchisor and the franchisee. The franchisor looks at the franchise network as developing the format, adhesion to the OPM, and the generation of maximum possible turnover. The franchisee wants better quality services, flexibility and better margins.

The “lens” of the franchisee will have his satisfaction as the objective. Quality service from the franchisor is the benefit that is sought. The service has the dimensions of SERVQUAL – responsiveness, reliability, assurance, empathy and tangibles as its attributes. It is these attributes that form the input to QFD, as seen in Section 6.3.4. The figure below illustrates the “lens”.

Figure 6.3 The “lens” of the franchisee
6.3.6 Self-Assessment

In Section 3.7.4 it was seen that organizations are under constant pressure to measure themselves against world-class standards and that the South African Excellence Model (SAEM) can be used in self-assessment. The model that is being developed includes self-assessment at every major component of the model. One arrow, points towards self-assessment implying that the organization should measure itself against the benchmarks set by the SAEM. The other arrow points in the opposite direction to allow for the implementation of lessons learnt as a result of self-assessment.

The franchise’s vision ought to be formulated taking into account with what the best in class are offering otherwise it will not be a motivating factor to both the franchisor and his staff. The franchise mission which as seen in Section 3.8.3 lays out the strategic focus and what the network’s business is also ought to compare well with those ones that are best in class. As seen in Section 2.2.1 (a) a franchise business must have the potential of being established as a brand and the franchise relationship is a long term one.

The tenets of TQM have been described in Section 6.3.3 and they should be benchmarked against the SAEM. Figure 3.7 illustrates the important role of leadership in driving the total quality effort. The leadership formulates the policy and strategy, manages people, provides for the custom and market focus the resources and information management. The SAEM also provides for the measurement of results on the impact on society, customer satisfaction, people satisfaction, supplier and partnership performance.

In Section 6.3.4 it was seen that QFD is an important stage in the model. In implementing QFD benchmarking can be incorporated by investigating how it is done by organizations that are best in class and applying the lessons learnt in the franchise organization.

Efforts at quality improvement are aimed at franchisees satisfaction. Continuous evaluation of their satisfaction ought to be carried out and be benchmarked against the competing franchises and other organizations offering similar goods and services.
6.3.7 Advantages of the Model

The model incorporates the needs of the franchisees, the people in the market place. The application of QDF ensures that services are designed with their needs in mind. The franchisees are also the focus of TQM efforts.

It is a framework upon which management of quality in franchise network is based. It serves as a point of reference and can be referred to time and again in the assessment of the franchise network’s performance. It is also useful in training of the staff at the “headquarters” of the network.

It encourages two-way communication between the franchisor and the franchisee. This helps in the proper implementation of changes in strategies of the network. Disputes and problems can be better handled.

6.3.8 Disadvantages of the Model

TQM is time consuming. It requires consulting the franchisees and staff each time new strategies are envisioned. These delays may impinge negatively on tactical strategies that have to be considered quickly.

It requires complete mind changes by the franchisors and their staff. This can be very hard as people are do not like instability.

Some franchisees may abuse the process of mutual consultation and take it as a weakness in the franchisor’s network control. Such franchisees may be tempted to introduce unapproved innovations that may be detrimental to the franchise network.

6.4 CONCLUSION

In this chapter a model on which to base the franchise relationship was developed. It incorporates the ideas of modern quality thinking. It is hoped that its implementation will ensure better franchise relationships.
CHAPTER 7

CONCLUSIONS AND RECOMMENDATIONS

7.1 INTRODUCTION

In this paper it has been seen that the franchise sector is an important part of the economy for a number of reasons. There is an increasing quantity of trade involved in it and it has the potential of generating wealth. In addition, it provides opportunities for self-employment that have relatively low risk, can be a tool for economic empowerment for the previously disadvantaged communities and the sector has the potential of creating jobs.

The Franchise Agreement and the Operation and Procedures Manual (OPM) govern the franchise relationship. The OPM should be strictly adhered to. It is argued that there is unequal power sharing in the franchise relationship in favour of the franchisor. The franchisor and franchisee have divergent interests, for instance the franchisor needs higher turnover because the royalty payments typically depend on it and, the franchisee primarily needs better margins. The franchise relationship is also self regulatory and the Franchise Association of South Africa (FASA) has a Code of Ethics to promote the ethical business behaviour of its members.

The closure of many franchise outlets provides evidence of the problems in the sector. This research paper concentrated on the problems in the quality of the franchise relationship. The summary of the research is outlined below.

7.2 THE SUMMARY OF THE RESEARCH

7.2.1 The Main problem

The main problem of the research was stated as “How can the quality of the franchisee – franchisor relationship be improved upon so that it enhances the effectiveness of the
franchisee?” In order to suggest solutions to this problem several sub-problems were generated and investigated. Summaries of this endeavour follow.

7.2.2 Sub-problem 1

The first sub-problem was stated as, “What aspects of the franchisee–franchisor relationship have to be considered to determine its quality?” In Chapter 2 the obligations of the franchisor and franchisee were discussed, and the documents that govern the relationship and problems in the sector were considered briefly.

The franchisor is obliged to provide a business format that is well tested, carry out research continuously in order to improve his products and services, and to be at the cutting edge of market developments. It is very important that he runs the network ethically, aims for total transparency and ensures that the finances of the network are well managed and that the network runs well. The franchisor has to support the franchisees and provide for their initial and ongoing training. He too must be a visionary and be at the cutting edge of market developments.

The franchisee has to abide by the OPM and have enough finances to sustain the franchise. He too should run his unit ethically and participate in the franchise network, like training effectively.

The main problems in the franchisee-franchisor relationship are poor ethics, finances and poor communications. Ethical problems include lack of transparency, inadequate support, poor site selection, poor franchisee selection and the poor running of the franchise network. Under-capitalisation is one financial problem that will adversely affect operations. The mismanagement of the advertising fund and the non-passing on of the buying benefits are two others. Communication problems are caused by the lack of trust between the two parties, poor handling of disagreements and disputes, arbitrary changes in the strategies of the franchisor and the unrealistic expectations of the two parties.
Sub-problem 2 was stated as, “What makes a quality relationship?” In Chapter 3 the following features of quality were considered. These are: conceptualisation of quality and its measurement of service quality using SERVQUAL, developing the lens of the customer and the contributions of Deming, Juran and Crosby on quality and the importance of self-assessment. QFD, a customer satisfaction model and two TQM models were discussed.

Quality can be approached in an objective way and a subjective way. The objective way is non-opinionated and is independent of the judge of quality, while the subjective way is highly relativistic and differs between judges. Both approaches were used in the paper. It was also argued that quality is a result of incidences of satisfaction.

SERVQUAL is used to measure service quality. It consists of the tangibles, reliability, responsiveness, assurance and empathy as its five dimensions. It measures perceived quality (Q) by finding out the difference between perceptions (P) and expectations (E). SERVQUAL has largely been accepted as a reliable and valid method by many authorities on quality.

Quality efforts are aimed at the customer (franchisee). A “lens” of the customer was developed to look at quality from the franchisee’s perspective. The lens consists of franchisee satisfaction as the objective and the five SERVQUAL dimensions as the drivers or attributes of service quality. The customer satisfaction model is based on the application of the “lens” of the customer.

Crosby and Juran emphasize the importance of having customers at the centre of quality efforts. The two, together with Deming, also stress that management has to be committed to quality efforts and that quality should be improved upon in a non-ending process. The people of an organization should possess adequate skills or be trained to achieve them.
QFD is a method of designing a product or service that incorporates the requirements of the customer. Customers are also the focus of TQM, the term applied to the approach that organizations adopt to improve their performance on a systematic and continuous basis. Management (franchisor) commitment towards the TQM principles is emphasized in the models of TQM that were discussed in the paper. Quality management systems like the ISO 9000:2000 series can be used to hold achievements of TQM in place. Franchise networks can also apply self-assessment to benchmark themselves. The South African Excellence Model (SAEM) can be used in this respect.

7.2.4 Sub-problem 3

Sub-problem 3 was stated as, “What gaps exist between the quality of the franchisee-franchisor relationship and what it should be?” A quantitative survey was carried out in order to find the solutions to this problem. This involved the designing of the questionnaire, administering it to a sample of the franchisees, the collection of data, and capturing and analysis of the data.

The questionnaire that was used is based on the dimensions of SERVQUAL. The questionnaire has two sections – the expectations section and the perceptions section. Each section has 22 items. For each item, respondents scored on a scale of one to seven their expectations of an excellent franchise. They did the same on the corresponding items in the perceptions section. The respondents also ranked in order of their importance the five dimensions.

The data was collected and analysed. The results revealed that the franchisees that responded to the questionnaire regarded responsiveness as the most important quality dimension. This was closely followed by reliability, which in turn was followed by assurance. Empathy and tangibles took distant fourth and fifth places.

The results also revealed that with varying degrees the respondents were not satisfied with the quality of service they received from the franchisors in all dimensions. The approximate percentages of the respondents that perceived that the service they received was below their expectations are indicated in bracket after the dimension.
Responsiveness (64), reliability (70), assurance (57), empathy (64) and tangibles (64). Gaps in the quality of service were therefore revealed.

7.2.5 Sub-problem 4

The fourth sub-problem was stated as follows, “What framework can be used to close the gap between the quality of the franchisor relationship and what it should be?” In Chapter 6 a model was developed for improved franchise relationships. It is based on the integration of ideas of total quality management (TQM), quality function deployment (QFD), a customer satisfaction model and benchmarking based on SAEM. These have been considered in the foregoing sections.

7.3 RECOMMENDATIONS FOR FURTHER RESEARCH

The franchise relationship involves the franchisors and the franchisees. This research has concentrated on what can be done to improve the relationship from the franchisee’s point of view. A major part of the model that has been proposed involves the franchisor. Research is needed to find out about the willingness and readiness of the franchisors to implement the ideas that have been proposed.

The research reveals that at least two executive members of FASA 2002 have called on the franchise sector to be regulated. Further research is needed to find out if the regulation of the sector could lead to improvements in franchise relationships.

In the research, concern was raised about the insufficiency of the training programmes of the franchisees and those of the franchise staff. Research is needed to find out the effectiveness of the programmes and how they can be improved upon.

Inadequate support of the franchisees was identified as one of the problems in the franchise relationships. Research is needed to find out the means by which franchisors can support franchisees more effectively.
7.4 A FINAL WORD

The franchisees operate in a dynamic, complex and uncertain environment. It is one way of empowering budding entrepreneurs especially those from the previously disadvantaged communities. For them to succeed it is important that the franchisors deliver effectively on their obligations.

It is hoped that this research will help in stimulating debate on an important sector of the economy that hitherto has been secretive about its dealings with the franchisees and has always been seen as a safe business haven.
REFERENCE LIST


O’Conner, N. 1999. How to choose a franchise that’s right for you! *Franchise Book of South Africa 1999*. Houghton, FASA.


APPENDIX A: COVER LETTER AND QUESTIONNAIRE

Godfrey Kirabira
P O Box 1296
King William’s Town
5600
25 October 2002

Dear Franchisee

SERVICE QUALITY PROVIDED BY THE FRANCHISOR TO THE FRANCHISEE

The franchise sector has been identified as having considerable potential for contributing towards wealth creation for both the franchisee and the franchisor. Businesses have to look for ways of improving themselves in order to maintain or increase their market share and to improve on profitability. The importance of the quality of service provided by the franchisor to the franchisee towards the achievement of these objectives by franchisee cannot be underestimated.

I am undertaking research to identify ways in which the quality of service provided by the franchisors to the franchisees could be improved upon. I need your help and would greatly appreciate if you could respond to the following questionnaire to assist in this endeavour. The responses will be treated with the confidentiality they deserve and no business names have been requested for. In case you desire the results of the research they will be availed to you and they can be forwarded to you on the address you fill in at the end of the questionnaire.

Thank you very much for your cooperation.

Yours sincerely

Godfrey Kirabira.
THE QUESTIONNAIRE

The questionnaire consists of two main sections – the expectations and the perceptions. The expectations section is concerned with attributes of an ideal franchisor. The perceptions section deals with what in reality actually takes place.

THE EXPECTATIONS SECTION

DIRECTIONS:

Based on your experiences as a franchisee, please think about the kind of franchisor that would deliver excellent quality franchise services – a franchisor that you would be pleased to do business with. Please show the extent to which you think such a franchisor would possess the feature described by each statement. If you feel a feature is not all essential for excellent service quality mark “1”. If you feel a feature is absolutely essential for excellent service quality mark “7”. If your feelings are less strong mark one of the boxes in middle. Each of the following statements is followed by a 7-point scale anchored at the end by labels “Strongly Disagree” (=1) and “Strongly Agree” (=7). Intermediate scale points are not labelled. Please mark with a cross the extent to which you disagree or agree with statements.

TANGIBLES

E1. Excellent franchisors will at their head-office have modern-looking equipment.

<table>
<thead>
<tr>
<th>Strongly Disagree</th>
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E2. The head office physical facilities at excellent franchisors will be visually appealing.

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E3. Staff of excellent franchisors will be neat in appearance.

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E4. Materials associated with the service (such as pamphlets or statements) will be visually appealing in an excellent franchisor company.

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**RELIABILITY**

E5. When excellent franchisor companies promise to do something by a certain time, they will do so.

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E6. When franchisees have a problem, excellent franchisors will show sincere interest in solving it.

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E7. Excellent franchisors will perform the service right the first time.

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E8. Excellent franchisors will provide their services at the time they promise to do so.

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E9. Excellent franchisors will insist on error-free records.

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**RESPONSIVENESS**

E10. The staff of excellent franchisors will tell the franchisees exactly when the services will be performed.

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E11. Employees of excellent franchisors will give prompt services to franchisees.

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E12. Staff of excellent franchisors will always be willing to help franchisees.

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E13. Staff of excellent franchisors will never be too busy to respond to franchisee requests.
E14. The behaviour of staff at excellent franchisors will instil confidence in franchisees.

E15. Franchisees of excellent franchisors will feel safe in their transactions with the franchisor.

E16. Staff of excellent franchisors will be consistently courteous with franchisees.

E17. Staff of excellent franchisors will have the knowledge to answer franchisees questions.

E18. Excellent franchisors will give franchisees individual attention.
E19. Excellent franchisors will have operating hours convenient to all their franchisees.

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E20. Excellent franchisors will have staff who give franchisees individual personal attention.

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E21. Excellent franchisors will have the franchisees’ best interests at heart.

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E22. The staff of excellent franchisors will understand the specific needs of their franchisees.

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PERCEPTIONS SECTION

DIRECTIONS:

The following set of statements relate to your feelings about your particular franchisor. For each statement, please show the extent to which you believe the franchisor has the feature described by the statement. Indicating a “1” means that you strongly disagree that the franchisor has the feature, and a “7” means that you strongly agree. You may indicate the numbers in the middle that show how strong your feelings are.

TANGIBLES

P1. The franchisor has modern-looking equipment at his head office.

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P2. The franchisor’s head office physical facilities are visually appealing.

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P3. The franchisor’s staff are neat in appearance.

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P4. Materials associated with the service (such as pamphlets or statements) are visually appealing at the franchisor’s.

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RELIABILITY

P5. When the franchisor promises to do something by a certain time, he does so.

Strongly Disagree   Strongly Agree
1  2  3  4  5  6  7

P6. When you have a problem, the franchisor shows a sincere interest in solving it.

Strongly Disagree   Strongly Agree
1  2  3  4  5  6  7

P7. The franchisor performs the service right the first time.

Strongly Disagree   Strongly Agree
1  2  3  4  5  6  7

P8. The franchisor provides its services at the time it promises to do so.

Strongly Disagree   Strongly Agree
1  2  3  4  5  6  7

P9. The franchisor insists on error-free records.

Strongly Disagree   Strongly Agree
1  2  3  4  5  6  7

RESPONSIVENESS

P10. The staff of the franchisor tell you exactly when services will be performed.

Strongly Disagree   Strongly Agree
1  2  3  4  5  6  7
P11. The staff of the franchisor give you prompt service.

<table>
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<th>Strongly Disagree</th>
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P12. The staff of the franchisor are always willing to help you.

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P13. The staff of the franchisor are never too busy to respond to your requests.

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ASSURANCE

P14. The behaviour of the staff of the franchisor instill confidence in the franchisees.

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P15. You feel safe in your transactions with the franchisor.

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P16. The staff of the franchisor are consistently courteous with you.

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P17. The staff of the franchisor have the knowledge to answer your questions.
Strongly Disagree          Strongly Agree

1  2  3  4  5  6  7

EMPATHY

P18. The franchisor gives you individual attention.

Strongly Disagree          Strongly Agree

1  2  3  4  5  6  7

P19. The franchisor has operating hours convenient to all its franchisees.

Strongly Disagree          Strongly Agree

1  2  3  4  5  6  7

P20. The franchisor has staff that give you personal attention.

Strongly Disagree          Strongly Agree

1  2  3  4  5  6  7

P21. The franchisor has your best interest at heart.

Strongly Disagree          Strongly Agree

1  2  3  4  5  6  7

P22. The franchisor staff understand your specific needs.
POINT-ALLOCATION QUESTION

DIRECTIONS:

Listed below are five features pertaining to the franchisor and the services he offers. I would like to know how important each of these features is to you when you evaluate your franchisor’s service quality. Please allocate a total of 100 points among the features according to how important each feature is to you – the more important the feature is to you, the more points you should allocate to it. Please ensure that the points you allocate to the five features add up to 100.

The appearance of the franchisor’s headquarters physical facilities, equipment, personnel, and communications materials. _____ points

The ability of the franchisor to perform the promised service to franchisees dependably and accurately. _____ points

The willingness of the franchisor to help franchisees and provide prompt service to them. _____ points

The knowledge and courtesy of the franchisor’s staff and their ability to convey trust and confidence. _____ points

The caring and individualised attention the franchisor provides its franchisees. _____ points

TOTAL POINTS ALLOCATED 100 points

THANK YOU FOR HAVING TAKEN THE TIME TO FILL IN THE QUESTIONNAIRE.

OPTIONAL:

If you would like the results of the research to be availed to you, please write the address they should be forwarded to in the spaces provided below.

Address:

____________________

____________________

____________________
## APPENDIX B: TABLES OF RESULTS

### Table B.1  The Point Allocation to Quality Dimensions

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AVERAGE  

|   | 6 | 4.8 | 5 | 5.4 | 6.2 | 7 | 7 | 6.4 | 5.4 | 5.8 | 5 | 4.8 | 5.4 | 5.2 | 5.671429  

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