

A QUALITATIVE ANALYSIS OF THE FORMATION AND MAINTENANCE OF THE FRANCHISEE/FRANCHISOR RELATIONSHIP

Research report in partial fulfilment of the requirements for the degree of

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by

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DECLARATION

I, Jeff Rodgerson, hereby honestly and truthfully declare that this is my original research work, it's being submitted as partial completion of my Masters of Business Administration studies at Rhodes Business School (Rhodes University). This work has never been submitted at any university or institution; all the work of others used research paper has been acknowledged.

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Date:

Abstract

A number of studies have examined the franchisee/franchisor relationship to investigate how to select the correct franchisee and, subsequently, how to maintain a productive franchisee/franchisor relationship. A literature review was therefore conducted on the selection process and the maintenance of the franchisee/ franchisor relationship. The literature suggests that a set of selection criteria to increase the chance of a successful franchisee/franchisor relationship has not been clearly identified. Therefore, this study's first objectives are: 1) the selection criteria that are used by the franchisor in selecting franchisees. Specifically, how RE/MAX South Africa selects local franchisees; and 2) how the franchisor manages the relationship to ensure compliance by the franchisees who have been selected. For this study, the selection criteria identified by Nevin (1999) and Olm et al. (1988) will serve as the basis of the first part of the study. The four selection criteria categories that have been identified by Nevin (1999) include: financial capability; experience and management skill; demographic characteristics; and attitude towards business.

The literature reveals that the viewpoint of the franchisee is often overlooked by researchers, and yet the need of the franchisee should be ascertained to increase the chance of a successful franchisee/franchisor relationship. The literature has indicated that if the franchisors can keep the franchisees satisfied, the opportunity of franchise success and gaining franchisee compliance is much greater. In other words, if a franchisor can attain the correct people and know exactly what they want out of a franchise relationship, this will provide the franchise with a greater chance of success. The third objective of this research is, therefore, to analyse – from the perspective of both franchisees and their franchisor - how the relationship between them is maintained, and ultimately how the franchisor gains compliance from the franchisees. The model of Trust and Compliance (Davies, Lassar, Manolis, Prince and Winsor, 2011), which sets out the relationship between satisfaction, conflict, trust and compliance, was used to examine the franchisee/franchisor relationship.

The practices of RE/MAX South Africa served as a case study for this research. Interviews were conducted, with the CEO and five franchisees, to identify the criteria used to select franchisees and gain a holistic understanding of the process of maintaining the relationship. The interview questions were structured using the Davies

et al (2011) Model of Trust and Compliance. The data analysis technique that was used to analyse the interviews was thematic analysis.

The findings firstly revealed that due to the fluid and low barriers to entry within the real estate industry, RE/MAX as an organisation does not have a standardised set of selection criteria but that an in-house guideline, called the RE/MAX Formula, was vital to this selection process.

Secondly, in maintaining the franchisee/franchisor relationship and referring to the four factors of the trust and compliance model (Davies et al., 2011), the following key findings were noted. Firstly, the relationship between satisfaction and trust was primarily based around reciprocation within the franchisee/franchisor relationship. Secondly, various sources of conflict were identified, and it was noted that if conflict was not dealt with adequately, there was a breakdown of trust within the relationship. Finally, the building of trust was based on transparency, accountability, goal congruency and credibility.

Recommendations for franchise management and further research were made.

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I can say I am very happy that this is completed.

Chapter 1: Introduction

1.1 Background

Franchising can be described as a contractually based business arrangement between the franchisor who develops the product or service and the franchisee who buys the right to use the franchisor's trade name and sell the product or service (Khan, 1992). Franchising opportunities are seen as a low risk way to enter a business, and franchises are thought to have a greater chance of survival compared to start-ups. According to Bradach (2003), the failure rate for new franchises is less than half of that of small business start-ups.

RE/MAX International is an international real estate network, with its franchises operating in more than 90 countries around the world. The franchises are independently owned offices providing real estate services in residential, commercial, referral, relocation, and asset management (RE/MAX Worldwide, 2017). The Real Estate/Sales environment is interesting, in that the Real Estate Sector businesses are selling identical products. This study is an investigation into the real estate sector, particularly franchising. RE/MAX International is one of the most successful brands, and identifying factors contributing to its success would be of interest to researchers and practitioners alike.

RE/MAX was chosen because it is successful and has adopted a unique business model, compared to all other Real Estate Franchises. Remax had a strong belief in all franchise holders "being in business for themselves but not by themselves" (RE/MAX Worldwide, 2017). This means, that all the franchisee are allowed to run their office autonomously, within guidelines, and provide their own way of approaching the industry. This would mean that the broker-owners of each franchise would have full authority to adopt any systems and protocols they wish, within their branch. Generally, franchises have stringent requirements and rules for operations. This provided a departure point as the set-up within the RE/MAX fraternity seemed different to the more traditional franchise set-up. "A critical factor influencing the success of a franchise unit is the ability to standardise key activities that are part of the franchisor's business model (Bradach, 2003, p. 22). This is what made RE/MAX unique. They do

not do this, but instead recruit experienced franchisees who are looking for flexibility within a substantial brand.

RE/MAX South Africa is a market leader within the field of RE/MAX. They currently have around a 17% market share and have the goal of growing to 25% by 2025 (Goslett, 2018). This is an ambitious goal, as one company owning a quarter of such a saturated market is challenging. RE/MAX currently has 190 offices country wide and 2400 agents (Goslett, 2018). The respondents of this study were drawn from different metropolitan areas around Southern Africa.

1.2 Problem Statement

Correct franchisee selection and relationship management plays a vital role in the success of a franchise. However, little is known about how this is done. Using RE/MAX as a case study, the main purpose of this research is to analyse two pivotal factors that ensure the success of a franchise. These are: 1) the selection criteria that are used by the franchisor in selecting franchisees. Specifically, how RE/MAX South Africa selects local franchisees; and 2) how the franchisor manages the relationship to ensure compliance by the franchisees who have been selected. In terms of compliance, this dissertation is concerned with how franchisors provide franchisees with some flexibility, but also get them to achieve the desired behaviours and conform to key internal business processes such as branding.

1.3 Conceptual Framework For The Study

The selection of potential franchisees plays a vital role in the future success of franchisors, as the franchisees conduct business on their behalf (Poe, 1991; Olm Eddy and Adaniya, 1988). The relationship between the franchisee and franchisor is one of interdependence, as they work as partners towards a common goal (Tatham, Douglass and Bush, 1972). As a starting point, it is therefore crucial for franchisors to select the correct franchisee to ensure future performance. The franchise context does not suit every potential franchisee (Nevin, 1999), and, as such, it is essential for franchisors to be able to identify those prospective franchisees that will flourish under

the franchise system (Nevin, 1999). However, there are no absolute criteria to determine the most suitable franchisees. For this study the selection criteria identified by Nevin (1999), and Olm et al. (1988) will serve as the basis of the first part of the study. The four selection criteria categories that have been identified by Nevin (1999), and Olm et al. (1999) include: financial capability; experience and management skill; demographic characteristics and attitude towards business.

Furthermore, given the problem of new franchisees and how the franchisee/franchisor relationship is managed, a model of trust and compliance (Davies, Lassar, Manolis, Prince and Winsor, 2011) can be used to analyse the franchisee/franchisor relationship. The model consists of four constructs, namely satisfaction, conflict, trust and compliance.

1.4 Purpose of The Study

The aim of the study is to explore how the franchisor has tried to secure successful franchisor/franchisee relationships in establishing RE/MAX South Africa. The objectives are:

1. To analyse how RE/MAX South Africa selects local franchisees and to identify based on the selection criteria used by Nevin (1999) and Olm et al. (1988) for selecting franchisees.
2. To determine if RE/MAX South Africa has standardised the selection criteria, and if so, describe how this is done.
3. To analyse how the relationship between franchisee and franchisor is maintained and ultimately how the franchisor gains compliance from the franchisees using the Davies et al. (2011) Model Of trust And Compliance.

1.5 Research Methodology

This study follows a qualitative approach. The research paradigm which will be used is the interpretive paradigm, and the research method to be used is an evaluative case study. According to Kawulich (2016), the purpose of interpretative research is to understand different individual's experiences. The interpretative paradigm helps to understand the world we live in. Given that the qualitative concepts being analysed in

this study are intangible, the way the constructs are perceived by the individuals being researched is central to the understanding of the study. Interviews will be held in two phases. The sample included, firstly, Adrian Goslett, the CEO, who answered questions regarding how RE/MAX selects potential franchisees and how they ensure compliance from their franchisees. Secondly, five franchisees, were interviewed about how they were selected and what factors affect their compliance. A thematic analysis was conducted to analyse the results. The data was analysed through deductive thematic data analysis (Braun & Clark, 2015). From an ethics perspective, Informed consent was obtained and anonymity for all franchisees was ensured.

1.6 Significance Of Study

In examining the case of RE/MAX, this study hopes to provide insight as to how to establish and manage a successful franchisee/franchisor relationship. The focal point of this study was to research the relationship between the franchisee and franchisor. The intended contribution of this study is to provide further insight from the perspective of the franchisee. Many studies assess the franchisee/franchisor relationship, but focuses on the franchisor. This study will provide insight into the key factors which franchisees feel are most relevant to positive relationships with their franchisor. In addition, a gap within the literature was found that the South African Real Estate franchising Industry has received little attention from researchers. Furthermore, very little research had been conducted regarding the Conceptual Model of Trust and Compliance and how this model is applied. Therefore, the intended contribution of this study is to provide further research into understanding franchisee/franchisor relationships, specifically from the perspective of the franchisee.

1.7 Limitations Of The Study

Qualitative research may have some limitations which were out of the researchers' control. One of the main limitations is that their findings cannot be extended to the greater population with the same degree of certainty as that of a quantitative analysis of a large, representative sample (Atieno, 2009). This is due to the fact that when qualitative research is conducted, they are not tested to be statistically significant. Secondly, due to the nature of the research, it is challenging for other researchers to repeat qualitative studies (Hamilton, 2018).

1.8 Organisation Of The Study

This study consists of six chapters.

The purpose of Chapter 1 is to provide an introduction to the study. This chapter provides an introduction to the research problem and gives the broader context of the research problem. The chapter also gives a brief background and the reason for pursuing this topic. Furthermore, the problem statement and the research objectives are given. Lastly, the research methodology and limitations are briefly discussed before outlining the chapters.

Chapter 2 provides an overview of the literature which is currently available for this field of study. The chapter starts with a review of the various selection criteria that have been used in franchises. An overview of the Model of Trust and Compliance (Davies, Mark *et al*, 2011) is then described, and other studies that have applied the model are reviewed. The conceptual model sets out to explain the interconnected relationships between trust, conflict, satisfaction and compliance and how they are associated with a successful franchise relationship. In short, according to Davies, *et al*. (2011), satisfaction and conflict have a direct implication on trust and indirectly causal effect on franchisee compliance.

Chapter 3 provides a description of the research methodology that was used for the dissertation and explains the process which was followed in carrying out the research. This Chapter includes a discussion of the ethical considerations and how quality was assured. The chapter concludes with a description of the process of data analysis.

In Chapter 4 the findings of the study are reported and interpreted, while in Chapter 5 the findings are discussed in the light of the literature.

In the last chapter, the dissertation is concluded with a summary of the main findings of the study and recommendations for future practice and research.

Chapter 2: Literature Review

2.1 Introduction

The purpose of this study is to analyse how the franchisor has tried to secure a successful franchisor/franchisee relationship. In particular, it investigates how franchisees are selected and what the franchisee seeks out of the franchisee/franchisor relationship.

This chapter will review the current literature on selection criteria regarding franchisees. The literature will therefore have two parts. Firstly, the focus will be on the selection criteria and selection process. Secondly, the model of trust and compliance (Davies *et al.*, 2011) will be what is required by the franchisee to provide compliance to the franchisor. This chapter concludes with an explanation of how the variables interact with one another, resulting in compliance.

2.2 Selection Criteria

The selection of potential franchisees plays an important role in the future success of franchisors, as the franchisees conduct business on their behalf (Adaniya and Olm, 1998; Poe, 1991; Adaniya, Eddy, Olm, 1988). As a result, the relationship between the franchisee and franchisor is one of mutual dependence, as they work as partners towards a common goal (Tatham, Douglass and Bush, 1972). The correct selection of potential qualified franchisees is perceived to be an important decision within franchise businesses.

The selection of quality individuals can have effective outcomes whilst poor recruitment choices can result in continuous issues for the franchisor (Justis and Judd, 1989). The success and future of the franchisor's system depends to a degree on the screening and recruitment process to select good potential franchisees who will operate on behalf of the franchisor (Poe, 1991; Olm *et al.*, 1998). As such, the success of the relationship between the two parties, franchisee and franchisor, is mutually dependent, so therefore it is crucial that careful consideration is undertaken when forming this relationship. Creating this relationship is to use selection criteria that will select the individual with the desired traits from a group of potential franchisees, which will improve the chance of a

successful business relationship. Axelrad and Rudnick (1987) noted some time ago that it was unfortunate that there was no reliable screening process or established set of selection criteria for selecting franchisees. Instead, the decision to appoint an individual was decided upon subjectively. Unfortunately, there is still little guidance when it comes to selection criteria. A more recent study, such as Clarkin and Swavely (2006), has also found that little is known about the selection criteria of a franchisee. According to Clarkin and Swavely (2006, *p.* 135) “Hundreds of thousands of individuals enter into franchise agreements throughout the world, yet comparatively little is known about the selection process and criteria”. Even though franchising is relatively common in everyday life, selection criteria remain a largely unexplored topic (Clarkin and Swavely, 2006). Franchisors should be adopting relevant and applicable selection criteria in their choice of a prospective franchisee. Appropriate and practical selection criteria will provide franchisees with a greater chance of success while giving franchisors a significant advantage to select the individuals with the desired traits when entering into their franchise agreements.

A review of the literature could find no study that examined the selection criteria in real estate franchises. In a review of the literature of franchises more generally, several selection criteria were identified, even though there has been limited research in this field of study. These provide some general guidelines for franchisee selection.

The International Franchising Association’s (IFA) code of ethics states that “A member shall select and accept only those franchisees who upon reasonable investigation appear to possess the basic skill, education, experience, personal characteristics and financial resources requisite to conduct the franchised business and meet the obligations of the franchise under the franchise agreements” (U.S Department of Commerce, 1991, 16). These guidelines suggested by the IFA serve only as guidelines for franchisors as they are not specific enough to be considered selection criteria. Furthermore, it is crucial for franchisors to identify the desired traits in a franchisee to ensure future performance. The franchise context does not suit every potential franchisee (Nevin, 1999), and as such, it is crucial for franchisors to be able to identify those prospective franchisees that will flourish under the franchise system (Nevin, 1999).

While a more recent study has been able to identify specific hard skills, soft skill and local knowledge that distinguishes successful from unsuccessful franchisees (Gaul, 2016), there is no absolute set of criteria to determine the most suitable franchisees. For this study, the often cited selection criteria identified by Nevin (1999) and Olm *et al.* (1988) will serve as the basis of the first part of the study. Four selection criteria categories have been identified by Nevin (1999) namely: financial capability; experience and management skill; demographic characteristics and attitude towards business. Similarly, Olm *et al.* (1988) suggests the following four categories: financial indicators, skills, background characteristics, and attitudes/ personality of the potential franchisee. Each of these concepts will be discussed below.

2.2.1 Financial Capability

Financial position is seen to be the most important aspect of all the selection criteria which are used by franchisors (Olm *et al.* 1988). In addition, Axel and Rudnick (1987), Clarke (2006), Nevin (1999) and Olm (1988) all agreed that financial capability was significant. Axeldrad and Rudnick (1987, p. 33) stated that “for a prospective franchisee, before the first scheduled meeting, the prospect should have demonstrated the willingness and ability to meet the company’s financial capability.” A factor that can be vouched for the potential franchisees financial capability is that of personal savings (Olm, et.al.1988). These savings provide clarity as to whether the franchisee values savings and whether he has acted in a financially responsible manner. Investing large amounts of the franchisee’s personal savings, in the form of capital, will serve to lock in the individual and form dependency on the franchisor (Nevin, 1999). The franchisee should have done enough research about the franchisor and not have second thoughts with regard to the large capital investment. Due to the significant investment from their personal savings, franchisees should act in a less opportunistic manner in the relationship with the franchisor (Nevin, 1999).

According to Nevin (1999) several different aspects regarding experience should be considered: Prior experience, prior self-employment, ownership of other businesses and involvement in other businesses.

2.2.2 Experience And Management Skill

In the literature which was reviewed, all of these factors played a significant role in the selection process of franchisees. According to Nevin (1999) prior experience can be defined as “the extent to which franchisees have previous experience in business in a similar venture.” There is a debate within the field of study between authors about whether previous experience within the franchise system plays a negative or positive role. These conflicting opinions raise an interesting point of discussion. Olm *et al.* (1988) and Edens *et al.* (1976) have both suggested that prior experience plays a crucial role in the selection of a franchisee. According to Owen (1989, p. 223) franchisors should select prospects with at least five years of prior business experience in similar businesses.” On the other hand, Axelrad and Rudick (1987) suggested that if a potential franchisee has prior experience in a similar business it may be more difficult for them to accept new business practices and unlearn the old ways of how to do things.

2.2.2.1 Prior Self Employment

A crucial indicator to becoming a franchisee is the independence which the work environment offers (Felstead, 1993). Kaufman and Stanworth (1995) found that individuals who had previously been self-employed were more likely to become franchisees. With this background information, it, therefore, serves as a good indicator as to whether the franchisee has the capability to be successful in an independent environment

According to Felstead (1993) franchisees often go into franchising with the idea that they will be their “own boss”. This, to a certain extent, is true, but franchisees also need to understand that there will be specific policies put in place. These policies imply that the franchisee would have to adhere to the requirements and restrictions of the franchise agreement.

2.2.2.2 Involvement in other business

An important factor to take into consideration is whether the potential franchisee has other business commitments (Nevin, 1999). Axelrad and Rudnick (1987, p. 35) stated that “it is important to evaluate the conflicting business affairs of franchisees because it will affect their commitment to the business.”

Involvement in other businesses may therefore have a detrimental effect due to their many business commitments.

Finally, day-to-day personal management by franchisees will influence the success of the franchise. Franchises need to be run by the individual who is responsible for the franchise, as this has shown greater success. Axelrad and Rudnick (1987) suggest that when a franchisee hires a manager to oversee their business it could result in poorer performance than when there is owner-management. This has resulted in some franchisors only granting franchisees a franchise on the condition they are owner-operated businesses. However, there is a counter-argument, which suggests a growing trend that franchisees are becoming investors and having multiple franchises run by competent managers (Nevin, 1999). Therefore, franchisees need to be able to run their franchise operation on a day to day basis or ensure that the individual who is running the business on his/her behalf is fully competent.

2.2.3 Attitude Towards Franchising

One of the key indicators seen as a crucial factor to consider in the selection criteria of a franchisee is their attitude towards business (Axelrad and Rudnick 1987; Olm *et al.* 1988). A set of appropriate attitudes towards business was identified in the selection criteria of franchisees. According to Nevin (1999), attitude towards business is a general feeling toward the franchised business. Five dimensions were identified (Axelrad and Rudnick 1987; Olm. *et al.* 1988; Poe 1990), namely: perceived innovativeness, desire for personal development, pursue work-related challenges, personal commitment to the business and business risk-taking.

2.2.4 Perceived Innovativeness

According to Nevin (1999: *p.* 367) perceived innovativeness can be defined as “The franchisees tendency to engage in and support new ideas, novelty, experimentation, and creative processes that may result in new products and services for the franchise system.” In the literature there are views that franchisees should be innovators. Whilst, on the other hand, they should not. Weinrauch (1986) and Axelrad and Rudnick (1987) support the position that franchisees should be innovative, allowing new fresh ideas to be brought into the business. Strutton *et al.* (1995) found that franchisees that were given

greater chance to be innovative, resulted in them having positive attitudes and greater solidarity with their franchisors. The opposing argument is suggested by Olm *et al.* (1988) who found that in a franchise environment, there is very little room for creativity and innovativeness due to the restrictive nature of the franchise agreements. This sort of environment would, therefore not be conducive to that enjoyed by entrepreneurs, which many franchisees claim to be (Olm *et al.*, 1988).

2.2.5 Desire For Personal Development

The extent to which a franchisee has the desire for personal development is of utmost importance when assessing a potential franchise relationship (Nevin, 1999). Nevin (1999) stated that “The desire for personal development which includes the development of new skills and advancing one’s growth are both essential characteristics that franchisors expect. This could also be a double-edged sword, as franchisees are driven by personal development. This means the franchisee is trying to better himself and not the franchise system (Nevin, 1999). If personal gains are of greater importance, these franchisees may choose to personally better themselves at the expense of the franchise.

2.2.6 Seek Work-Related Challenges

Olm *et al.* (1988) suggested that franchisors seek industrious, hardworking and self-motivated individuals to become potential franchisees. These individuals would comprise people who are not afraid to take tasks head-on and have a positive attitude towards difficult tasks.

2.2.7 Personal Commitment To Business

This part of the selection criteria pertains to an individual’s attitude towards business. It is crucial to the success of the franchisor that the franchise has committed individuals (Poe, 1991). Personal commitment results in increased business involvement and more committed franchisees will improve franchise performance (Withane, 1991). Morgan and Hunt (1994) believe that commitment to the relationship allows for increased cooperation. As such, it is argued that commitment to the business within the franchise system has similarities to that of a relationship.

2.2.8 Business Risk Taking

The last dimension of attitudes towards business is that of business risk-taking. There are conflicting ideologies within the literature with regard to business risk-taking. O'Donnell (1984) suggests that franchisees are generally seeking structured environments and who value order and security above risk. This implies that franchisees typically go into the franchise agreement with the thought that the structured environment would result in lower levels of risk. Olm *et al.* (1988; p. 233) has similar sentiments by stating "That risk averse individuals are preferable in franchising compared to the risk takers". On the other hand, Withane (1991) stated that being a risk-taker is an essential attribute to becoming a successful franchisee. A statistic by Withane (1991, p. 32) stated "60% of franchisees thought that being an independent business owner was more risky than being a franchisee." Therefore, the general consensus seems to be that being a franchisee is a less risky option.

2.3 Model Of Trust And Compliance

As important as the selection criteria are in franchising, it is also of paramount importance to ensure compliance in the franchisee/franchisor relationship. That is, Davies *et al.* (2011) have concluded that the success of franchise organisations is directly related to the enforcement of franchise-related operational standards. Thus, compliance of the franchisee will have a direct effect on the economic performance and the brand value of the franchise (Dada, 2012). However, within the franchise relationship, the franchisee should be allowed a certain level of entrepreneurial decision making. One of the largest challenges facing franchisors is that of ensuring the compliance of franchisees without upsetting the ambitions of these franchisees. A poor working relationship between franchisee/franchisor may result in a dysfunctional relationship (Grunhagen and Dorsch, 2003). How this occurs is currently not well understood. The model which will be used to explain the franchisee/franchisor relationship is the Model of Trust and Compliance (Davies, *et al.*, 2011). As illustrated in Figure 2.3.1, the model explains the roles and relationship of the variables satisfaction, conflict, trust and compliance. The model was created by Davies *et al.* (2011) is grounded in the structure-conduct-outcome (SCO) paradigm of channels research. The point of the model is to analyse the central themes which play a role in the success of the franchisee/franchisor relationship. Dwyer *et al.* (1987) and Rempel

et al. (1985) suggested that in the interdependent relationship, the element of trust is critical within the franchise relationship. Each of these concepts will be explained in the sections to follow.

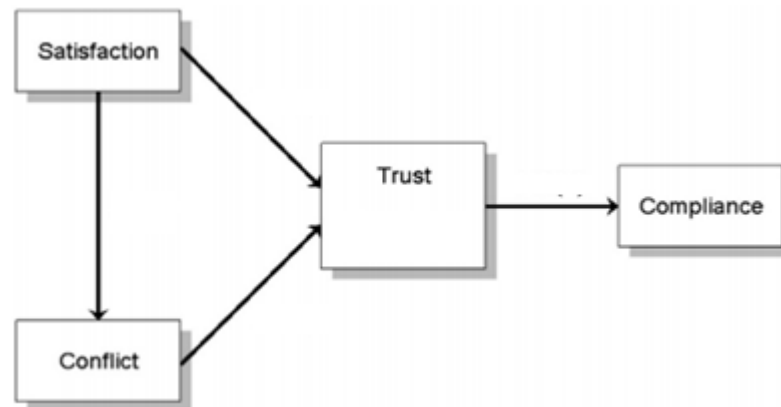


Figure 1. Model Of trust And Compliance (Davies *et al.*, 2011)

2.3.1 Variables Within The Model of Trust And Compliance

2.3.1.1 Satisfaction

Satisfaction, according to Anderson and Narus (1990) can be defined as having been achieved when *“the working relationship with their franchisor has been met.”* Satisfaction can therefore be managed by franchisors by meeting the expectations of the franchisees (Davies, *et al.*, 2011). These expectations are widely linked to the support which is provided by the franchisor to which they are economically dependent (Gassenheimer *et al.*, 1994; Hunt and Nevin, 1974; Lewis and Landbert, 1991). Furthermore, franchisee satisfaction is also linked to the acceptance of the asymmetrical power relationship due to contractual obligations, goal compatibility and the perceptions of fairness of the franchise relationship (Morrison, 1996; Spinelli and Birley, 1998). Franchisors who make a concerted effort to cultivate favourable work-related attitudes and strong organisational attachments will result in a cooperative working relationship and create an environment for stronger performance from franchisees (Morrison, 1997). Lastly, satisfaction also has strong links to loyalty to the

franchisor (Hing, 1995). Franchisee satisfaction is crucial to franchise performance, which therefore indicates that satisfaction is a legitimate precursor to compliance.

2.3.1.2 Conflict

Conflict could also be present in the franchisee/franchisor relationship. Conflict can be defined as “either perceived differences on perspectives that can impede goals between parties”(Gaski and Nevin, 1985, pg 133). Conflict can arise in many different areas, such as: priorities, goal incongruency, forms of earning, the difference on fundamental issues, and perceptions. High levels of conflict can result in a dysfunctional relationship and the failure of the partnership (Grunhagen and Dorsch, 2003). As a result, these differences which are experienced in the franchisee/franchisor relationship are not easily resolved, which can result in disputes and create dysfunctional conflict (Davies, *et al.*, 2011). Dysfunctional conflict results in increased distractions obstructs goal alignment, reduces synergy between partners (Anderson and Narus, 1990; Gaski, 1984). Furthermore, conflict within interaction between franchisee/franchisor threatened the survival of the relationship and lead to costly litigation for both parties (Grunhagen and Dorsch, 2003). Due to the nature of the intricate balance between franchisor control and franchisee autonomy, the franchise's success will be determined by how the franchisor manages the conflict that arises between the two parties (Fulop and Forward, 1997).

2.3.1.3 Trust

According to Coleman (1990; p. 493), trust can be defined as: “The franchisees confidence in accepting a calculated level of risk with the franchisor”. Increased levels of trust allows the franchisee to have the ability to cope with the high levels of vulnerability involved in franchising (Coleman,1999). Furthermore, trust will result in less costs being incurred by the franchisor in monitoring franchisees and will also prevent oppurtunism (Davies, *et al.*, 2011). Trust is fostered in a mutual way, it is an exchange between two parties, which will have salutary effects on the relationship (Davies, *et al.*, 2011). Mutual trust allows the franchise relationships to reduce the effects of distractions and prevent the occurrence of opportunism. According to Davies, *et al.* (2011), a requirement for increased franchisee trust is franchisors

showing competence and integrity. If a franchisee perceives their franchisor to be a competent individual regarding industry knowledge and experience, greater levels of trust could be expected. Furthermore, integrity plays a large role within the franchisee/franchisor relationship.

If the franchisee has no knowledge of the franchisor, the way in which the brand is perceived and its reputation may be a signal of competence of the franchisee. Secondly, brands that are financially stable and successful will be assumed to be competent. Although this may be the case, when franchisees with limited experience enter into a franchise agreement, judging their competence may be difficult due to lack of prior franchise experience (Davies, *et al.*, 2011). With the previous statement in mind, according to the literature, franchisees may have to place more emphasis and rely more on the concept of integrity concerning their expectations within the franchise relationship.

According to Altinay *et al.* (2014, p. 323), “researchers frequently conceptualise trust using two dimensions: benevolence and credibility. From a benevolence perspective, this is the understanding that other individuals will behave in the interests of another (Anderson & Naurus, 1990), whereas credibility is the assumption that an individual has the ability to complete his obligations (Morgan & Hunt, 1994). These two previous concepts build on the area of trust and what impact it can play on the franchisee relationship as such trust has a positive effect and serves as the building blocks for viable long-term franchise partnership, which reduces the chance of conflict. Furthermore, it makes sense that a lack of trust between franchisee and franchisor will have a negative effect on the relationship and performance of the franchisee.

With regards to integrity, Davies, *et al.* (2011) states that this can be deciphered from the terms and policies which are reflected in the franchise agreement. The expectations within the relationship are then gauged as the relationship progresses (Scheer and Stern, 1992).

2.3.1.4 Compliance

The last variable is compliance. The Variable is ultimately the pivotal factor of the franchisor/franchisee relationship. Compliance can be defined as “an outcome of

commitment, motivation, and cognitive processes that jointly drive decisions of one party to do what the other party desires” (Davies, *et al.*, 2011, 67). Franchisee compliance is of grave importance for franchisors and can be seen as a performance objective (Elango and fried, 1997). Most franchisors seek to do this through an incentive system. Payan and Mcfarland (2005) suggest the individuals who do not comply with the recommended policies often perform poorly and achieve below-average profitability. This ensures that both parties comply with their contractual obligations and relational expectations. These are considered working norms within the franchise agreement. This level of compliance is directly proportional to the level of satisfaction within the relationship and the absence of conflict between the two parties. If these two factors are apparent in the relationship, the franchisor is more likely to comply with the demands and requests of the franchisee.

In accessing and reviewing RE/MAX of Southern Africa, this study hopes to provide insight into managing a successful franchisee/franchisor relationship. If the correct persons are chosen as franchisees, and the relationship between the franchisor/franchisee is well managed, this will ensure greater success.

2.4 Relationships Between the Variables

Firstly, relating to satisfaction and conflict, the relationship between the franchisee and franchisor has some commonalities with the social exchange theory. According to Cook, *et al.* (2003), social exchange theory is one of the major theoretical perspectives in the field of social psychology and proposes that social behaviour is the result of an exchange process (Cook, *et al.*, 2003). Furthermore, research on social exchange theory has also explored links between the nature of social exchanges and issues such as fairness and trust (Cook, *et al.*, 2003). A social transaction needs to be implemented for a positive relationship to develop where both parties feel the exchange is fair.

The satisfaction of the franchisee within their franchise relationship creates an environment for greater cooperation with their franchisor (Davies, *et al.* 2011). This could be attributed to, in part, the role that satisfaction plays in reducing conflict, which may arise and detract from the franchisee/franchisor relationship (Lewis and Lambert, 1991; Spinelli and Birley, 1996). One of the greatest factors contributing to the increase of satisfaction within a franchise relationship is economic satisfaction(Lewis

and Lambert, 1991; Spinelli and Birley, 1996). This is because franchise relations are determined by the perceptions of equity with regard to resources in the form of profit. Subsequently, the greater the level of satisfaction, the lesser the conflict.

Secondly, considering satisfaction and trust, Selnes (1998, p. 307) states that trust represents a higher conceptual level than satisfaction, while at the same time, satisfaction is an important source of trust: "Satisfaction is the manifestation of the other party's capacity to fulfil relational norms, and this generates trust." Franchisees tend to attain a high level of satisfaction through their franchisor's meeting their expectations. These expectations are formed by the nature and quality of the exchanges over the period of the franchisee/franchisor relationship (Hing, 1995).

Franchisees expect ongoing operational support services, including regular in-store training, marketing assistance, staff training, accounting, and feedback on how the business is performing (Hing, 1995). These forms of support services allow the business to become more profitable. The increase in satisfaction from economic success provides belief in the franchisor's competence. Like all partners, the social exchange theory underpins the relationship. Franchisees expect a certain level of fairness within the relationship. Satisfied franchisees perceived the relationship as fair to a greater extent than dissatisfied franchisees. Therefore, if the level of satisfaction is increased, it will have an effect on trust in a positive way.

Next, the relationship to be explored is between conflict and trust. Trust is the crucial aspect within the franchisee-franchisor relationship and this trust needs to be mutual (Gambetta, 1988). Within any relationship, there is bound to be conflict and disagreements. How this is handled will determine the outcome of the conflict and the bearing it will have on trust. When conflict is perceived negatively, this results in lower levels of trust between the two parties. When conflict is managed in a functional and correct manner, such as when there is an opportunity to exchange views on issues, relationships will be strengthened. Geyskents *et al.* (1998, p. 340) state that "conflicts which consistently suppress trust include perceptions of goal incompatibility, domain disagreement and unfairness." These could be areas among others in the franchise agreement which neither party are willing to compromise.

There are pertinent issues that play significant roles in trust deterioration between the franchisee and franchisor. Conflict may emerge when topics such as goal

incompatibility, domain consensus and financial performance come into play. Franchisors also have the responsibility to provide advice, training and local advertising, which would add value to the franchisee's enterprise (Davies, *et al.*, 2011). Consequently, the franchisee will feel that the franchisor has not fulfilled the franchise agreement, and the level of trust will lessen. Franchisees enter into a franchise agreement with the understanding that there will be a certain level of entrepreneurial autonomy within the relationship. When franchisors employ control strategies to ensure franchisees act in the desired manner, this may result in a detrimental outcome within the relationship. Goal incongruity may arise if franchisors place certain policies and operational standards across all business units within the franchise (Davies, *et al.*, 2011). In turn, these differences in opinion may be overall business practice control, how products are sourced, priced, or sold, the appearance of the premises and operating manuals (Antia and Frasier, 2001). Although initial operational standards and policies are agreed upon, franchisors may need to amend these as later circumstances may result in policy shifts to avoid misalignment of values.

When a franchisee feels that the operational terms and policies favour the franchisor, perceptions of unfairness are perceived (Lim and Fraser, 2000). If a level of unfairness is perceived by the franchisee, this will result in a lack of trust and deterioration of the relationship. Therefore, if there is a high level of conflict within a relationship, there will be low levels of trust.

Lastly, the model demonstrates how trust leads to compliance, where mutual trust has been established within a relationship, expectations and needs are communicated effectively (Schurr and Osanne, 1985). In addition, when trust is established, there is a greater chance that franchisee goals are aligned with the franchisors, which will increase trust and in turn, compliance.

Franchisees often come into a franchise business model without having prior knowledge of the franchisor. The initial trust of the franchisor is established from reputation and the success of the brand (Davies, *et al.*, 2011). This presence of trust will result in franchisees increasing the relationship and willingness to grow within the partnership. The relationship will be reassessed as the relationship materialises over

time. Therefore, lower levels of trust will result in franchisees being less willing to build relationships (Anderson and Weits, 1992). This result in less compliance.

2.5 Previous Research On The Franchisee/Franchisor Relationship.

Now that a conceptual overview of the model has been presented, a review of research studies that have applied this model will be presented. During this research process, it became apparent that the conceptual model of trust and compliance Davies *et al.* (2011) had been used in multiple scenarios, not only franchising. For the purpose of this dissertation, emphasis will be on how the model was used in franchising.

Firstly, some studies have focused on the model as a whole. In their quantitative study, Altinay, et *al.* (2014) explored the relationship between the variables within the conceptual model of trust and compliance. Altinay, et *al.* (2014). Altinay, et *al.* (2014) research examines multiple franchisees to study the franchisor's role performance, cultural sensitivity and satisfaction within the franchise relationship. The study takes the franchisor's viewpoint and speaks to what the franchisor should do to gain the franchisee confidence/trust. Altinay *et al.* (2014) suggest "franchisors should perform their partnership roles effectively though the provision of training and operational support, to gain franchisee confidence". Furthermore, Altinay *et al.* (2014; p. 723) highlight the significant positive impact that trust has on the satisfaction of franchisees, noting that "once trust is developed with the franchisor on the basis of role performance and cultural sensitivity, franchisees are likely to express satisfaction with franchising."

Secondly, the role of trust has featured prominently in several studies. A study conducted by Levent, Brooks, Madanoglu and Aktas (2013) provides a greater understanding of the development of trust and satisfaction within the franchisee partnership. The findings from their study showed that there was a positive relationship between performance and trust, which is consistent with Altinay *et al.* (2014), and Harmon and Griffiths (2008). Levent *et al.* (2013) suggest that franchisors should focus on areas such as training and operation support to gain franchisees' confidence in their capabilities. More specifically, their study provides empirical evidence of the relationship between satisfaction and trust. According to Levent *et al.* (2013, p. 727) "when franchisees develop trust in the franchisor on the basis of their role performance and cultural sensitivity, franchisees are likely to express satisfaction.

Croonen and Brand (2013) investigated why franchisees did not trust their franchisors, noting that very little information is available about how a franchisee can create and maintain trust. Croonen and Brand's (2013) study proposed two particular antecedents: 1) franchisees' propensity to trust an organisation and 2) the franchisees' ideals around the franchisor and franchising environment. Furthermore, Croonen and Brand (2013, p. 145) stated "when empirical literature on franchisee trust would help franchisees manage their franchise relationship.

Thirdly, there has been some interest in entrepreneurs as franchisees. In a review of the literature on trust and entrepreneurship, Welter (2012) highlighted the complex world of trust and entrepreneurship, noting the role trust plays in starting and growing a new business. A study by Akremi et al. (2015) tries to provide a greater understanding of why some franchise chains are more likely to drive superior performance than others. They observed that some franchisees progressively lose their commitment to maintaining a franchisor's knowledge and standards. They grow in confidence in their skills and comply less and less with the franchisor's operating routines. In another study Weaven (2011) noted that relational satisfaction had been shown to influence franchisees' commitment towards and intention to remain within the relationship, thus minimising the need for recourse to preventative legislation. Altinay *et al.* (2014) study recognise the challenge of managing the tension between the franchisor's goal of achieving uniformity across the system and the franchisees' desire for autonomy and thus departing from standard ways of operating. They advise that a franchisor needs to have controls in place to ensure the conformity of the franchisee.

Fourthly, a few studies have adopted a qualitative approach. Dant (2015) conducted a qualitative study to determine what franchisees require to create trust with their franchisor. This study showcases five determinants that play a role within franchisee trust. These determinants are: franchise engagement, confidence in the franchise system, perception of strong team culture, franchisor competence, and franchisor character.

Finally, a common theme that emerged from the literature review above was that there was a clear focus on what the franchisor would expect of the franchisee, as opposed to what the franchisee would want. It was challenging to find any studies that have

examined this relationship from the franchisees perspective. It also became clear that most studies that used the model of trust and compliance (Davies *et al.* (2011) were quantitative studies. This research intends to explore this model qualitatively, which will provide in-depth insights, which a quantitative study cannot do.

2.6 Chapter Summary

In summary, this chapter introduced the problem statement and how a successful franchisee/franchisor relationship is constructed. Specifically, the chapter looked at the current literature on selection criteria for franchisees and literature relating to the model of trust and compliance (Davies *et al.*, 2011) was explored. The next chapter discusses the research method.

Chapter 3: Research Methodology

3.1 Introduction

The section to follow begins with a presentation on the aims and objectives of the study and is followed by an explanation of the research methodology.

3.2 Aim and Objectives Of The Study

The aim of the study is to investigate how the franchisor has tried to secure successful franchisor/franchisee relationships in establishing RE/MAX South Africa. The objectives are therefore:

- To analyse how RE/MAX South Africa selects local franchisees and to identify the selection criteria used for selecting franchisees.
- To determine if RE/MAX South Africa has standardised the selection criteria, and if so, describe how this is done.
- To analyse how the relationship between franchisee and franchisor is maintained and ultimately how the franchisor gains compliance from the franchisees.

The next section will give an explanation of how the data that was analysed was collected.

3.3 Primary Research

Primary research refers to sources of data that originated from the researcher's empirical work for the analysis at hand (Sikmund and Babin, 2007). The benefit of this type of data is that it allows the researcher to solve the current issue at hand. The primary research was conducted once institutional permission and ethical clearance was provided. The study's focus will specifically address *how* the CEO of RE/MAX South Africa selects his franchisees and *how* he ensures compliance. Furthermore, The franchisees provide information on what they require to be compliant. The data collection will consist of Appendix A with the CEO and franchisees around the country. The study interviewed franchisees.

3.4 Research Paradigm

This study follows a qualitative approach. The research paradigm which will be used is the interpretive paradigm, and the research method to be used is an evaluative case study. According to Kalwulich (2016 p. 10), interpretative research aims to understand different individual's experiences. The interpretative paradigm helps to understand the world we live in. Given that the constructs being investigated in this study are intangible, the way the constructs are perceived by the individuals being researched is central to the understanding of the study.

3.5 Research Method

Sainal (2007, p.43) states that a case study can be defined as “a research method which enables a researcher to explore and investigate contemporary real-life phenomenon through detailed contextual analysis of a limited number of events or conditions, and their relationships.” The case study method is about the construction and building of theory, and the focal point is to understand real-life phenomena through researchers having in-depth understandings (Reige, 2003). According to Sainal (2007), case studies are seen as essential analysis tools that explain social situations. This is particularly pertinent to this study as the relationships, attributes and values of the individuals are at the forefront of the study.

3.6 Population and Sampling

The population of a study refers to the individuals who possess a common set of characteristics that are conducive to the research problem. For this current study, the population will be REMAX broker-owners who have the necessary qualification. Non-probability sampling is the process of selecting candidates from a population of interest (Sikmund *et al.*, 2013). The sample will be chosen from current REMAX brokers. Convenience sampling was decided to be the most appropriate form of sample selection. This was the chosen form of sampling to limit travel costs and gain the data in the shortest time (Sikmund *et al.*, 2013). Convenience sampling involves selecting individuals who are available to the researcher (Sikmund *et al.*, 2013). Once this had been decided, the size of the sample needed to be selected. Obviously, it is of utmost importance that the sample size is large enough to make precise interpretations about the sample (Kumar *et al.*, 2002). Due to the nature of the study, a sample of up to five

respondents would be enough. The franchisee sample ranged from new brokers to very experienced and included different races and genders. The franchisees had to have the relevant NQF 5 broker qualification. In addition, their CEO was interviewed. This would give a clear indication tat if the want from the franchisor met the needs of the franchisee.

3.7 Data Collection

The data was collected through interviews with the relevant sample. The Interviews were done in two phases. The CEO explained the selection criteria used and how he gains compliance. The franchisees were questioned on what they expected going into a franchise relationship and whether or not their expectations were met.

Firstly, the CEO was asked a separate set of questions that addressed *how* he selects his franchisees *to ensure compliance*, secondly, how the franchisor manages the relationship to ensure compliance by the franchisees who have been selected.

The interviews were constructed to have open-ended questions to allow for a free-flowing discussion, which allowed for as much information as possible to be attained from the respondents. The franchisees were questioned on what they expected going into a franchise relationship and whether or not their expectations were met. The conceptual model of trust and compliance (Davies, *et al.*, 2011) served as the basis for the interview questions

3.8 Data Analysis and Quality Assurance

Sikmud and Babin (2007) state data analysis is the application of reasoning to understand the data that has been gathered. The data analysis provides a standpoint where meaning can be derived from the data collected. The end goal is to derive conclusions and make sense of (Sikmund *et al.*, 2013).

Since the conceptual model of Trust and Compliance (Davies, *et al.*, 2011) served as the basis for the interview questions, the data was analysed through deductive thematic data analysis (Braun & Clark, 2015).

According to Riege (2003, p. 79), “credibility, transferability, dependability and confirmability can and should be incorporated to enhance the quality of a case study.” Each of these will be described and applied to the case study.

Firstly, credibility, Korstens and Moser (2018, p. 9) defined credibility as “the confidence that can be placed in the truth of the research findings. Credibility establishes whether the research findings represent plausible information drawn from the participant’s original data and is a correct interpretation of the participants’ views.

Secondly, transferability can be defined as “the degree to which the results of qualitative research can be transferred to other contexts or settings with other respondents” (Korstens and Moser, 2018, p.9). According to Korstens and Moser (2018), the researcher needs to get descriptions from the interviewee which describes their context so meaning can be deciphered from the interview.

Thirdly, dependability is defined as “the stability of findings over time. Dependability involves participants’ evaluation of the findings, interpretation and recommendations of the study such that all are supported by the data as received from participants of the study” (Korstens and Moser, 2018, p.11). The research steps are transparent and available at any stage to show how the research was conducted from start to finish.

Lastly, confirmability is defined as “the degree to which the findings of the research study could be confirmed by other researchers” (Korstens and Moser, 2018).

3.9 Ethics

The research received ethics approval from the university, and permission to conduct the research was obtained from the franchisor. Due to the nature of qualitative research, certain ethical issues may be encountered during interviews (Sanjari *et. al*, 2014). Firstly, informed consent from the interviewees (i.e. both the franchisor and the franchisees) was obtained. All participants consented to the terms of research. Secondly, anonymity for all franchisees was ensured due to the fact that dissatisfaction in the relationship may be discovered from the interview process. A formal consent form was used, and respondents were given the option to remain anonymous or not (Wiles, Crow, Heath & Charles, 2008).

Chapter 4: Findings

4.1 Introduction

The previous chapter presented the research methodology which was used in this study. This chapter reports the findings of the thematic analysis. These themes will be expanded through subthemes that arose from the responses from Appendix A. The relationship between each variable will be discussed and how they affect the franchisee/franchisor relationship.

Table 4.1 shows the themes which emerged from the interview process. The themes that emerged were as follows:

- Selection of franchisees
- Predictors required by RE/MAX
- Maintaining the relationship and increasing satisfaction
- Reasons for conflict
- Factors that affect the creation of trust within the franchisee/franchisor relationship
- Compliance within the Franchisee/franchisor relationship

Each theme has been broken down into sub-themes. These themes will be discussed in the section to follow.

Table 4.1. Franchisee Interview Thematic Analysis

Themes	Sub-Themes
Selection of franchisees	<ul style="list-style-type: none">• Understanding/Experience/Knowledge of franchising.• Remax reputation/success of the brand• Business model (Independent offices)• Training and business structures.
Criteria required by REMAX	<ul style="list-style-type: none">• Business plan/CV• Financials• Interview Process

	<ul style="list-style-type: none"> • Proven track record/Industry experience
Maintaining the relationship and increasing satisfaction	<ul style="list-style-type: none"> • High levels of training/marketing • Policies provided/Business structures • Recognition of superiors • Strong Interpersonal relationships
Reasons for conflict	<ul style="list-style-type: none"> • Areas of operation • Franchise rules are open to interpretation. • Same franchise fees (different size offices) • Lack of transformation (Small recruitment pool for low-income market)
Factors which affect the creation of trust within the franchisee/franchisor relationship	<ul style="list-style-type: none"> • Transparency • Being Knowledgeable/Accountable • Strong Interpersonal relationships/Goal congruency • Allow for entrepreneurial scope (mutual trust)
Compliance within the Franchisee/franchisor relationship	<ul style="list-style-type: none"> • Mature business relationships • Goal Congruency • Fairness • Industry rules

The following section deals with the first theme, selection. This study's objectives set out to: Analyse how RE/MAX South Africa selects local franchisees and identify the selection criteria used for selecting franchisees; secondly, to determine if RE/MAX South Africa has standardised these selection criteria. The CEO, Adrian Goslett, was interviewed in relation to these two objectives.

Before discussing the selection criteria, the selection process will be described. The predictors which are generally used in the application process are:

- Curriculum Vitae

- A business plan for the proposed franchise
- A letter stating the way in which the franchisee intends to run the business
- A formal Interview
- The applicant's current financial position.

The selection of franchisee and the selection criteria are both considerations in the initial process of assessing a potential franchisee. These concepts will be explored further in the sections below.

4.2 Selection of Franchisee

The curriculum vitae provides a description of what accomplishments the individuals have achieved in the past. It shows their interests and their skill sets. RE/MAX allows for flexibility regarding structures within the business. Therefore, a business plan needs to be created to provide the franchisor with an indication of how the prospective franchisee intends to run his business. The business plan will also indicate the level of proficiency the applicant has. The business plan is combined with a letter stating the way in which the franchisee intends to run the business; this helps predict the cultural fit. The interview process allows the franchisee and franchisor to discuss what the franchisee wants to achieve and how he plans to do this. It also allows the franchisor to determine how the individual will respond in certain scenarios through asking situational questions. Lastly, acquiring a franchise will come at a particular expense, so it is crucial to know that the applicant is in a sound financial position and has enough reserves to get the business into to a good financial standing.

These criteria were not used in a standardised way but are changed from one franchisee selection to another. The franchisor was of the view that every application is different when it comes to selecting a franchisee. Individuals differ in their experience, skill-set and financial capability. When decisions are being made, all of these factors need to be considered to make the best decision, according to the information provided.

An example of an individual who was appointed without following a typical application process was Respondent 5. This respondent had a proven track record within the field of real estate. This resulted in him being nominated by a practising broker.

“I think the recruitment approach with me was a little different. You know, I already had the skills behind me. So, it was a matter of him motivating that I join RE/MAX and as a result before buying the franchise I was invited to attend a Broker owner meeting for the guys who have just signed up.”

In summary, when RE/MAX decides to go into partnership with a franchisee, discretion is used and the decision is made subjectively. This means that when a decision is made, whether that individual will be a successful franchisee, there is no definitive process. According to Goslett (2018), “It is difficult to have a clear blueprint regarding franchisee selection as there is no one size fits all. South Africa is such a rainbow nation, and you have little cosmopolitans all over the place.”

4.2.1 Selection Criteria

Turning now to the selection criteria, four key characteristics were identified, namely: cultural fit, correct attitude, entrepreneurial orientation, and tenacity,

In explaining cultural fit, Goslett emphasized that it was crucial to include the RE/MAX formula in selecting RE/MAX’s franchisees. *“At RE/MAX, we have found the best way to do this is by combining predictors alongside the RE/MAX formula”* (Goslett, 2018).

The RE/MAX formula is divided into two sections, top-line principles and bottom-line principles, and underpins creating a unique culture. The RE/MAX formula was designed to be used as a management tool and assist in the way RE/MAX does business. The RE/MAX formula was established in 2003. Top line principles are as follows:

- In business for yourself, not by yourself.
 - Independent operators with franchise support.
 - Freedom within boundaries
- Be different
 - Innovation
 - Non-conventional
- Maximum commission concept
 - On the “100%” system or working towards it
- Clients for life

- After sale service
 - Client appreciation
- Accountability
 - Take responsibility for your actions
- Interdependence
 - Sharing/Networking
- Operating systems that work
 - Adhere to Policies and procedures
- Community involvement
 - Giving something back
- Fun
 - Enjoy what you do
- RE/MAX Quality Assurance
 - Five Stars
- Effective leadership
 - Enabling others/Get the best out of people
- Recognition
 - Awards at all levels/making success visible
- Financial Discipline
 - Pay everyone on time
- RE/MAX passion
 - Love the balloon

Bottom line principles are as follows:

- The wrong people
 - Don't fit with the formula
- Brand bashing
 - Misuse of the brand
- Referral failure
 - Lack of feedback/no follow through
- Greed
 - Self-centred/not sharing
- Uncontrolled Mavericks

- Not team players and on their “own mission”
- Out of the picture
 - Poor communication
- Negative attitudes
 - Half empty glass
- Inadequate training
 - No commitment to learn and grow
- Power plays
 - Cliques
 - Politics
- Black Mambas
 - Gossip/hidden agendas
- Poor presentation
 - Unacceptable appearance
- Being average
 - Accepting second best
- Nonparticipation
 - Uninvolved
- Dishonesty and unprofessional conduct

The RE/MAX culture was therefore central to the selection of a franchisee “. ... *The RE/MAX culture was developed in 2003, and it can be described as what the business is trying to achieve and what it stands for.*” (Goslett; 2018). The RE/MAX formula is discussed with the potential franchisee to determine whether the individual fits the culture of the business. Goslett (2018) stated, “*if the answer is “no” from the franchisee, as to whether they can agree with the culture, there is no point in going any further. Therefore, cultural fit is crucial to the success of a franchisee within RE/MAX*”. This comment from the CEO of RE/MAX of Southern Africa suggests that there is a particular culture. If the recruit does not agree to work accordingly, the relationship will not be successful.

Secondly, in addition to culture fit, having the correct attitude was important. From a RE/MAX perspective, having the correct attitude means that you are flexible and willing to learn (Goslett, 2018). If an individual is willing to listen and learn, RE/MAX

could teach that person how to be successful in real estate (Goslett, 2018). To check for the correct attitude, the interview process provides insight into how the individual will react in certain scenarios. Their answers will also indicate if the individual is willing to learn and if their attitude is suited to the RE/MAX culture. Goslett (2018) believes he can teach anybody real estate; they must have the correct attitude.

Entrepreneurial ability and tenacity are the final characteristics that are looked for in a franchisee. Franchising provides an entrepreneurial environment, which is not easy for everyone to succeed in. The entrepreneurs needed to have a hunger and the ability to succeed, even when markets were down, and business had taken a downturn.

4.3 Maintaining the relationship and increasing satisfaction

Appendix A revealed clear factors that franchisees found particularly important on what they expected to get out of the franchisee/franchisor relationship. During the data analysis, it became apparent which factors were crucial to maintaining the franchisee/franchisor relationship. Two themes that stood out were recognition from superiors and strong interpersonal relationships.

4.3.1 Recognition from Superiors

Recognition was a theme that appeared on numerous occasions from respondents. The respondents felt that recognition from superiors encouraged superior performance. This type of reward is very effective as individuals seek recognition and it does not cost the business anything. This can be reinforced from a quote from respondent number 1, who states *“The boss, Peter Gilmore, personally came to our opening function. From day one, they have been there for us and recognised our contribution.”* This was particularly important for the franchisee as he felt that having his superior at his opening event was a special occasion for his franchise.

4.3.2 Strong Interpersonal Relationships

The nature of all relationships especially working relationships such as franchisee/franchisor relationships, are based on mutual respect and reciprocal efforts from both parties. When asking respondent number 2 about relationship with the franchisor the respondent stated: *“we have had good times and we have had bad times; a mature relationship help you to acknowledge this. I also understand that our attitudes towards one another is the most important aspect. If a good relationship is kept, challenges will be overcome”*. This statement shows that strength within the

franchisee/franchisor will play a large role whether or not the relationship will be a success.

4.3.3 High Levels Of Satisfaction

4.3.3.1 *Strong brand recognition and market penetration*

Satisfaction within the company was a prominent emerging theme. Many of the Broker owners went into franchising, and specifically RE/MAX, because of the brand and the awareness and penetration into the market that the brand provides. According to Kimmons (2018; p. 1), *“It was named number 1 real estate franchise and the 8th best franchise overall in the 2017 Franchise Times survey.”*

According to respondent 2: *“I think the most important thing which I needed was immediate credibility and access to market within the field of real estate”*. Respondent 4 stated: *“We were an independent family company and buyers were from out of town and nobody knew of our independent brand. RE/MAX was making major news in the market and we decided to have an interview with them”*

These responses show that brand strength is one factor that gets franchisees to consider a move to RE/MAX. The franchisee is looking for immediate credibility. If an independent real estate agent starts a new company, it will take a period to build their brand. When stepping into a franchise of RE/MAX's size, credibility happens immediately.

4.3.3.2 *Business structures and policies provided*

The provision of business structure and policies was a theme that was important for all respondents, but there were differing views as to whether it had been achieved. The opinions of the respondents changed as the brand matured. The brokers who had been with RE/MAX from its inception or early stages found insufficient policies and support at the time. RE/MAX South Africa's business model initially was one where each office would be run independently. Respondent 3 stated, *“starting off they did not give us as much as I wanted. We were asking for best practices, but because they didn't want to prescribe to us how to run the company, which is what everybody wanted, was working against them.”*

The more individuals who entered the company without the relevant industry knowledge, resulted in issues arising. It is also important to understand that there are different types of brokers. Firstly, an individual who was previously an agent and becomes a broker. Secondly, a broker who moves franchises. Lastly, a broker who has come from a completely different industry. This shows a vast pool for attaining new brokers, and all need different levels of support. Respondent 2 stated, *“Personally, there should have been more support to new brokers in respects of systems and structures”*. Furthermore, Respondent 1 stated, *“I do think that some support from an administrative point of view would make life easier for brokers. This may be where the weaker brokers are not successful and drop out.”*

The business model has since been adapted. Over the years, the policies and structures have been improved and brokers who have matured with the brand now thrive. There is greater support for new brokers, which eliminates the initial concerns for the inexperienced broker. Respondent 3, who was very new to the business, stated that *“we got a starter pack which was quite good. They gave us videos, a manual and modules which provided a structure”*. Furthermore, *“they have a clear vision and know where they are going. They have an all-inclusive plan which involves training, financial assistance, and they provide business models.”*

RE/MAX has become a mature business, and this is shown from the respondents who initially identified the shortfalls within the RE/MAX model. The franchise then addressed these and now has bridged the gaps to accommodate new experienced and inexperienced franchisees.

4.3.4 Reasons for Conflict

Appendix A revealed all respondents had similar reasons, which had resulted in conflict within the franchise systems. The reasons which were found to be the most common across the respondents were: areas of operation, franchise rules being open to interpretation, a standard franchise, and a lack of transformation. Reasons for conflict will be in the section to follow.

4.3.4.1 Areas of operation

Areas of operation or responsibility within RE/MAX has been something that has caused a lot of conflict in the franchisee/franchisor relationship. When new RE/MAX franchisees enter the market, they expect to have a certain area which only they can sell in. This is not the case within RE/MAX, as there are no boundaries as to where different franchisees can operate. This is part of the business model. Adrian Goslett states, *“An issue we encounter is when franchisees have other individuals working in their area. We need to explain how RE/MAX works again, as we do not have defined areas - unlike traditional models - so, the Agent can operate in those areas”*. This issue has led to franchisees suggesting that areas of operation should be designated for franchisees, allowing them exclusive access to certain areas. This has become a topic of discussion as brokers feel differently around the areas of operation, as it benefits some and not others. Respondent 2 stated, *“There could be possible conflict in the future as RE/MAX are discussing changing the areas of responsibility and this could provide issues for certain brokers”*. Respondent 1 states, *“The areas of responsibility will be an issue for me as if it is a certain radius around your geographical location. Most of my area would be in the sea due to a beachfront business.”*

This shows two areas that link back to satisfaction. Franchisees expect a certain level of access to an area when they purchase a franchise. The fact that anybody can operate in their area is resulting in tension between the franchisee and franchisor. This area of conflict is now being discussed within RE/MAX to find a solution that will keep all parties happy.

4.3.4.2 Franchise rules are open to interpretation

Respondents 1 and 3 stated that some of the franchise rules might be open to interpretation. A business that is as fluid as RE/MAX will always have individuals *“pushing boundaries”*. Respondent 1 stated, *“franchisees have “spheres of influence” which they conduct business in. They also can have satellite offices in other towns”*. This was an issue for more than one respondent as when franchisees enter into a franchise agreement; they expect the exclusive right to their “sphere of influence”. The competitive nature of real estate does not always allow for this as they are often competing in the same area, resulting in franchisees trying to create solutions for this.

4.3.4.3 Same franchise fees

The same franchise fee theme came because smaller franchises must pay the same fee as a much larger organisation. The more significant concern for the franchisees is where the potential new franchise is situated and the surrounding areas average market price. Respondent 4 stated, *“if you look at my market, I have to sell ten houses to match up to another franchises one sale in a different area. The average house we sell is two hundred thousand, whereas others are 3 million.”* Furthermore, *“You still find the franchisors expect you to pay the fees and all of that, which is something that I have negotiated. On numerous occasions, but I still think that it’s not proportional towards what it should be and maybe it’s one of those things that one needs to address.”* Respondent 4 which took part in the interview, stated, *“There are thoughts with us being a small company that there could be cheaper franchise fees.”* There are two sides to this argument as RE/MAX CEO states, *“We provide the same service for all franchisees”*. From the franchisee viewpoint, their external environment needs to be considered in the fees which they are charged.

4.3.4.4 Lack of transformation

A theme that appeared from one of the respondents was the lack of transformation within the real estate industry. Respondent 5 stated: *“Only 5 percent of the fifty thousand agents in South Africa are black. When I say five percent of that is black, I mean Indians, Coloured’s and so on. if you count from 1994 to date, it’s a very long time to have this industry not transform.”* This is a critical issue within the real estate industry. Comparatively, RE/MAX South Africa is one of the most transformed real estate business, but the respondent felt RE/MAX could be doing more to help and train upcoming estate agents of colour.

4.3.5 Factors that effect the creation of trust within the franchisee/franchisor relationship

Trust is something which incredibly important in the franchise relationship. Several respondents discussed the mature relationship and the chance to speak there case before decisions were made. Respondent 3 stated, *“the fact that accountability and that they provided me with the opportunity to state my case is incredibly important. The positive interaction with the conflict allowed for greater trust within the relationship. We need to have rules and regulations and communicate to one another for the benefit of the brand.”* Respondent 3 stated, *“RE/MAX allows for a mature relationship where*

our opinions are considered before decisions are made” These themes show that franchisees are in a vulnerable position as they are subject to decisions by management above them

4.3.5.1 Transparency

The theme transparency is one which in all respondents responses describes as being one of the strongest ways to produce trust within the franchisee/franchisor relationship.

Trust is an interesting concept as it requires a reciprocal relationship. Interviewee 3 believed RE/MAX's initial openness regarding the company's financial position allowed for a strong basis of trust to be formed. Interviewee 3 stated, *“When I went to my first meeting, they were very open regarding financials and current financial position. In my past experiences with franchising, if the company can tell you about their financial position and they are open with figures, and you deem those figures to be correct and true, it then serves as a strong trust base.”*

From the CEOs perspective, he believes there is no prescribed way to build trust, but transparency is most important. Goslett (2018) states, *“My personal definition of trust is if you are going to say something then you do it. The more you do that, the better the relationship gets.”* The way he does this personally is by being in front of people, being honest, and being transparent in all business areas. He further states, *“We have to say things as it is, sometimes we won't like it, but it needs to be said. I think that is the only way to build trust is to say what you are going to do and follow through with it.”* RE/MAX has a culture where all information is available and discussed openly. This allows everyone to be up to date on happenings within the company and how the company is functioning.

4.3.5.2 Accountability

Following on from the topic of transparency is the role of accountability within the franchisee/franchisor relationship. This definition fits the scenario as when franchisees purchase a franchise, it is primarily the franchisor who needs to build a high level of trust to ensure success within his business. Respondent 1 states, *“RE/MAX has stuck to its ethos and stayed true to themselves. They have done what they said they would do”*. Another interviewee states, *“Committing to deadlines and committing to doing*

what they say they going to do. Doing what they say in the business plan and they get a lot of things done.” Furthermore, *“Even when it comes to goals, when they were not number one in the world when we started out. But they said that they would overtake the other companies and they have managed to do that.”* The actions of the franchisor have resulted in a good reputation amongst the franchisees, as expectations were met.

4.3.5.3 *Credibility*

The RE/MAX brand provides a huge amount of credibility due to its business practices and its success globally. RE/MAX has 115 000 agents globally in over 100 countries. RE/MAX was named the number 1 real estate franchise globally in 2016 by the franchise times survey (Kimmoms, 2018).

4.3.5.4 *Goal Congruency*

It would be expected in a franchise relationship for the two parties’ goals to be aligned, but often, this is not the case. Respondent 1 stated, *“I would say RE/MAX’s goals and my goals are different and we need to be mature about that. As the brand has matured, the gap has closed”*. On the other hand, respondents 1,2 and 3 felt that their goals were aligned with the franchisor’s goals. Respondent 2 stated, *“Our Goals are aligned to the organisation’s goals as we also are trying to reach a 25% market share by 2025”*.

4.3.5.5 *Allow for entrepreneurial scope*

RE/MAX business model is a unique one where they allowed the franchisor to manage each franchise independently. RE/MAX provides best practices, policies and business structures. This was to attract the more experienced franchisee and allow them to run an autonomous franchise.

Respondent 1 states *“RE/MAX has stuck to recruiting strategies of recruiting competent people. It’s not there for the inexperienced broker, it’s there for the innovative entrepreneurial broker who is willing to take the risks involved. It has not changed in all the years. Consistency throughout has built the trust.”*

This sort of relationship requires high levels of trust within the franchisee/franchisor partnership. This sort of relationship allows for the franchisee to be independent and

be responsible for their own business. This shows that the franchisor is instilling trust in the franchisee.

4.3.6 Compliance Within the Business

The last set of themes is about compliance. Compliance in this section has to do with those factors that play a role in getting one party to do what the other party desires. Behaviourally, from a franchisor's viewpoint, franchisee compliance is conformance to the contractual obligations and relational expectations from working norms (Brill, 1994). Compliance is also the last stage in the relationship from the franchisee's perspective. The following sub-theme will be explored: Mature business relationships, goal congruency, fairness and industry rules

4.3.6.1 Mature business relationships

Mature business relationships were something that came up in the interview responses regularly. The nature of the relationships within RE/MAX are based on mutual respect and have matured. A scenario regarding the way grievances are dealt with within RE/MAX follows. Respondent 3 disagreed with the franchisor. The scenario was as follows:

"I did have an incident. There was an issue with one of the agents which wanted to work for me who was in "undisclosed area" and we basically discussed it. I always say fairness is always important. I understand why they had to do it and why they called me in as I initially never knew I was doing something wrong. If there is a rule, then you need to adhere to it and I think without rules and structure there can be anarchy. I accepted there ruling. I stated my case and what I enjoyed was that they listened and then they adhered to my request.

A mature relationship is extremely important. The conversation resulted in new criteria being created due to the discussion and now it's a national rule".

This scenario shows the perfect way to have a mature discussion around a misunderstanding within the business. The scenario had a positive outcome and resulted in a stronger relationship between the franchisee/franchisor. The franchisor

showed he is flexible and willing to take in other viewpoints for the betterment of the brand.

4.3.6.2 Goal Congruency

Goal congruency is area topic that arose in many different areas of the interview process. It has been prevalent across all themes and is crucially important to attaining franchisee compliance. Adrian Goslett stated when asked about the employee's goals, *"We always say to our franchisees we want to know where you are going. We want to know what your dreams and aspirations are. So, we advocate that they share that dream with us."*

The relationship will be a lot more successful if we both know where they are going. Furthermore, Adrian Goslett stated, *"It's purely a relationship-based business, I know it's a sales environment, but it's purely relationship-based"*.

4.3.6.3 Fairness

The sub-theme of fairness is one that plays a large role in the way RE/MAX deals with situations. Due to the nature of the business model, the franchisor must exercise fairness when making decisions.

Adrian Goslett stated "The rules within RE/MAX are set by a council and therefore they are not always cast in stone and therefore they are open to interpretation."

Interpretation of the rules is linked to the maturity of the brand and the individuals who oversee making large scale decisions. This shows that RE/MAX is a flexible and non-rigid organisation.

Respondent 3 Stated "I understand why they had to it and why they called me in as I initially never knew I was doing something wrong. If there is a rule, then you need to adhere to it I always say fairness is always important."

The respondents felt that if a large decision is made that affects them, it becomes a lot easier to implement.

4.3.6.4 Industry Rules

Of all the sub-themes under the theme of compliance, industry rules had the largest impact. A lot of how RE/MAX gains its compliance from its franchisees is through rules and regulations within the real estate industry. Adrian Goslett stated, *“No, it’s more a stick approach than a carrot approach. That’s the law, and that’s what you need to do.”*

From a franchisees perspective, they had a similar view regarding compliance to the rules and regulations within the industry and RE/MAX:

Respondent 4 stated, “As a person, I like to do things right, I want to comply and do things right. If I don’t agree with the rule, I will say it and contest the rule. If there is a new rule and it is fair, then I will do it. If it is not fair, I will then voice my opinion, and that is important.”

“You don’t have to agree with it. As long as it’s fair.”

Respondent 2 stated, “Ya we did, for us there was no problem as we were starting from scratch. We went and did everything according to the specifications. If things change, we will have to apply as to their schedule. If they had to say everything must change today, it would be a different story. There again, they are very reasonable. If something must change, they say it must be done in a certain period. They’ve made it pretty easy.”

All these quotes show that one of the greatest factors at play here is the perceived fairness of the decision which is made by the council. Council is top-level management of RE/MAX of Southern Africa (Goslett, 2018). If there is not a perceived fair exchange. Resistance will be encountered. Franchisees also understand the nature and regulations of the industry.

4.4 Chapter Summary

In summary, the chapter set out the themes which emerged from the interview process. The chapter was structured to describe the selection criteria RE/MAX has in place, and the areas that Davies *et al.* (2011) feel are important within the construct of trust.

The most significant selection criteria was that of the RE/MAX formula and its use in ensuring that there would be a “cultural fit”. RE/MAX South Africa was looking for

individuals with specific characteristics that would align with the RE/MAX formula and add value to the RE/MAX brand.

Furthermore, the conceptual model of trust and compliance by Davies *et al.* (2011) served as the basis of the structure of the interview questions. The interview questions were based around the following areas:

- Satisfaction within the relationship
- Reason for conflict within the relationship
- Building of trust
- Compliance within the business.

These four factors gave insights into areas that ultimately allowed RE/MAX to gain compliant franchisees and identify areas where the franchisees felt the franchisor had fallen short.

Chapter 5 will be the discussion chapter where selection criteria and relationship management and compliance will be explored.

Chapter 5: Discussion

5.1 Introduction

In this chapter, the research findings will be discussed in relation to the current literature. Key factors that emerged from the research will be addressed, and unusual or unanticipated findings will be noted and explored.

The aim of the study was to analyse how the franchisor has tried to secure successful franchisor/franchisee relationships in establishing RE/MAX South Africa. The research addressed the following objectives:

- To analyse how RE/MAX South Africa selects local franchisees and to identify the selection criteria used for selecting franchisees.
- To determine if RE/MAX South Africa has standardised the selection criteria, and if so, describe how this is done.
- To analyse how the relationship between franchisee and franchisor is maintained and ultimately how the franchisor gains compliance from the franchisees.

The review of the literature noted that research investigating how a franchisor gains compliance was 1) quantitative in nature and 2) from a franchisor's perspective. This dissertation was structured to gain as much insight from the franchisees' perspective to analyse what the franchisee wanted out of the franchise relationship. Therefore, a qualitative study was conducted to provide significant insight into the workings of the franchisee/franchisor relationship.

5.2 Selection Criteria

The first two objectives of the research pertaining to the selection criteria used by RE/MAX.

Firstly, in examining the selection criteria, what became apparent through the interviews was that RE/MAX does not have a standardised set of selection criteria.

The explanation given for this was that every candidate and scenario is different. Individuals who apply to become franchisees come from many different walks of life. The barriers to entry to get into Real Estate are low, and the franchisee's selection will play a large part in their success. RE/MAX's selection criteria for franchisees is based on the RE/MAX formula and the cultural fit. If the current protocol used by RE/MAX for selecting franchisees as compared to the literature, it does not use the standard selection criteria that the literature suggests. The selection of franchisees is a crucial factor in the success of a franchise, and systematic screening processes needs to be conducted (Poe, Olm *et al.* 1988).

Nevin (1999) suggests that financial capability, experience and management skills and attitude towards business are the most crucial factors. Analysis of appendix A shows, it is apparent that RE/MAX does enquire about the current financial standings and the individual's experience. The individual's attitude towards business is where most emphasis is placed when selecting a franchisee. Other factors which need to be considered are perceived innovativeness, the desire for personal development, seeking work related challenges, business risk-taking and personal commitment to the business (Nevin, 1999).

The RE/MAX business model has a large emphasis on entrepreneurship and autonomy. Therefore, the potential franchisees should have an entrepreneurial background. Franchises who allowed franchisors to be innovative, found a positive reaction towards the franchisor (Strutton *et al.*, 1999). If a franchisee has a history of entrepreneurial endeavours, this will show they have a certain way of thinking and allow for new ideas to be brought to the business. An entrepreneur has a greater chance of success within the RE/MAX system. This success would be aligned with the franchise's success and result in a strengthened partnership between the franchisee/franchisor (Nevin, 1999).

5.3 Relationship Management and Compliance

The third objective of the study focuses on the maintenance of the relationship between franchisee and franchisor, and how the franchisor gains compliance. Furthermore, an area of concern that needs to be considered is how the franchisor increases satisfaction and decreases conflict to increase the level of trust and ultimately gain compliance from the franchisee. This can be done by explaining the

relationship between the variables of the trust and compliance model (Davies *et al* 2011).

This section will explain how the franchisor can gain compliance from the franchisee. The trust and compliance model (Davies *et al* 2011) was formulated from the franchisor's perspective. The areas which will be discussed are recognition, social exchange theory, transparency and trust, reciprocal respect and credibility. The following section intends to apply the model from the perspective of the franchisee

A starting point is what effect increased satisfaction has on trust. The SET plays a considerable role in the satisfaction/trust relationship. The thinking behind this statement is that satisfaction is creating the franchisor's capacity to fulfil relational norms, which will generate greater levels of trust (Hing, 1995). If the franchisor understands the importance to the franchisee of the different themes within the thematic analysis high levels of trust will be established. The franchisee is looking to form a relationship with a franchisor which will be mutually beneficial. The RE/MAX formula (2003) states "interdependence" as one of the "Top Line Principles". This is congruent with the franchisee's need as they are looking to form long-standing, strong relationships. The nature of a franchisee/franchisor relationship is based on mutual respect and a certain level of reciprocal effort from both parties. Cropanzano (2005, p. 213) states that "relationships in organisations evolve over time into trusting, loyal and mutual commitments".

Social exchange theory is predominantly based on the expectation of reciprocity. For an exchange to occur, there needs to be a bidirectional transaction, which means one party should give something and the other party return something (Cropanzano (2005). If the franchisor supplies a benefit, the receiving party should respond in kind (Gergen, 1969). Therefore, the social exchange theory serves as the basis for the relationships which are formed between the franchisee/franchisor. Three of the respondents stated that the relationship with the superior was mature, and they had a mutual understanding.

The social exchange theory plays a role in the understanding of the scenario. The franchisee expects to acquire a franchise, which is the expectation for the franchise to provide immediate credibility and brand awareness within the real estate marketplace.

If this occurs, high levels of satisfaction will be attained. This is consistent with the trust and compliance model (Davies *et al* 2011) as the relationship are fluid and interlinked.

The next relationship, conflict and trust, is one that can be a positive and negative one. From the scenarios presented by the interview responses, conflict can lead to an increase in trust and lead to a breakdown in trust. If the conflict is seen to be dealt with a mature and fair manner, the general outcome of the experience for both will be a positive one. On the other hand, if there is a negative experience such as the one that occurred with the CEO, a breakdown in trust will occur. According to (Davies *et al.* 1999, 333) “conflict and the way it is handled, will have a significant bearing on how trust is formed.” This shows that mature and fair protocols need to be in place when dealing with conflict. Furthermore, Davies *et al.* (1999, p. 329) “When conflict is interpreted negatively as a power struggle, trust levels will be low. When discord is perceived as functional, as an opportunity for an exchange of views and a means of understanding different perspectives on issues, relationships will be strengthened, leading to greater franchisee trust in their franchisor's advice.”

The last relationship which needs to be discussed is that of trust and compliance. Trust is such a fascinating concept within the trust-compliance model because it has a vast amount of different meanings, so it has been difficult to define and measure (Rousseau, Sitkin, Burt, & Camerer, 1998). Regarding the franchisee/ franchisor relationship Spicer (2007, p. 1681) states, “stakeholder/franchisees are in a vulnerable position of having to trust the organisation in times where strategic decisions are made which may affect their well-being”. The subthemes which underlie the building of trust were transparency, accountability, goal congruency and credibility.

The Miriam-Webster dictionary defined transparency as “free from pretence and deceit” and “characterised by visibility or accessibility of information especially concerning business practice (Rawlins, 2008, p. 18)”. The franchisor will not get trust from stakeholders if they are not willing to trust them in return (Rawlins, 2008). The franchisor needs to instil trust in the franchisee to allow for the information they acquire to be used responsibly. As Fort (1996) explains, “Institutions which are trustworthy open themselves to criticism. Their decisions and reasons for such decisions are open to examination and evaluation by stakeholders”.

Furthermore, Accountability can be defined as “essentially accountability is about the provision of information between two parties where the one who is accountable, explains or justifies actions to the one to whom the account is owed” (Gray *et al.* 1997, 9). This definition gives the exact expectation which is required from a franchisee from the franchisor. Lastly, credibility is from the viewpoint of the franchisor being holistically knowledgeable regarding the industry. Roger, Davis and Schoorman (1995, p 716) stated, “credibility has been linked to two factors: expertise and trustworthiness”. The essential factor here is the expertise and ability of the franchisor. The second factor, trustworthiness was addressed in the accountability.

Once there is a high level of trust, the goals of the franchisee/franchisor have a greater chance of being aligned, and this results in greater levels of compliance (Davies, *et al.*, 2011). According to the relational exchange theory, if the goals of the franchisee and franchisor are not congruent, the relationship will be under threat. Therefore, high levels of trust will result in the most favourable outcome for the franchisor.

If Goal congruence is achieved, according to Ting (2016, p. 232) “Goal congruence is the degree of commonality of goals between franchisees and franchisors”. When a franchisee is being selected his/her goals and desires for development should be enquired about. This will provide an indication as to what the person wants to achieve and how they want to improve their skills to advance one’s growth (Nevin, 1999). Understanding this from a franchisor’s perspective will provide information on what the franchisee could potentially achieve. This could also predict the success of the ensuing relationship (Axeldrad & Rudnick, 1987).

The RE/MAX franchising model needs individuals who are fully dedicated if they want to achieve at a high level. The franchisor could ask questions that show commitment from the potential franchisees' past work commitments.

If there is a low level of trust, this can result in dysfunctional consequences, where parties are not willing to make sacrifices that would benefit the franchise. Therefore, when there are low levels of trust within a franchise, there is less compliance (Payan and McFarland, 2005). Furthermore, recognition allows for high levels of satisfaction. It is not new to literature or business that recognition of employees goes a long way to encourage superior performance (Whetten & Cameron, 1991). Luthen (2000, p. 189)

states, “A basic reward that a leader can utilise to positively reinforce performance-enhancing behaviour is recognition.”

Now that the respondent’s information has been underpinned by the trust and compliance model (Davies *et al.*, 2011). It provides an opportunity to discuss areas that were not addressed in the literature and emerged from the data collected. The areas of unexpected findings were primarily within the area of conflict within the Franchisor/Franchisee relationship.

Firstly, Policies and best practices provided an area of discrepancy between franchisees. Experienced franchisees who have the knowledge to put policies and systems in place will not require this from the franchisor. Furthermore, experienced franchisees do not want this from the franchise as they are looking for that entrepreneurial freedom which a business such as RE/MAX provides. On the other hand, inexperienced franchisees will require assistance in this area. This goes back to the RE/MAX formula and selection. RE/MAX should focus on recruiting experienced franchisees as this will allow for less conflict in this space.

Secondly, having a standard franchise fee is an issue for smaller franchisees. This is an interesting finding from the franchisee data. The problem that the smaller franchises are having is that there is a standardised franchise fee, no matter what market you operate in. This provides a very unfair scenario as an average housing price could be R200 000 in one area and R2 million in another area. This results in one franchisee having to sell numerous houses just to cover their franchise fee, as opposed to one house in a more affluent area. In a Real Estate environment, this may not be as big of an issue as the respondent suggested as the turnover of low-cost housing is that much quicker than more expensive real estate (Goslett, 2017).

Thirdly, lack of transformation is an issue in many industries, but particularly real estate. This is a work in progress, and numerous real estate bodies emphasise correcting the demographic within real estate.

Fourthly, under the issue of trust is the matter of transparency. The RE/MAX formula suggests nothing along the lines of transparency and trust. As discussed above,

transparency is one that the franchisees in all interviews describe as one of the strongest ways to produce trust within the franchisee/franchisor relationship. The issue of trust is paramount to the franchisee/franchisor relationship and this is not mentioned in the RE/MAX formula.

5.4 Chapter Summary

The focal point of this chapter was to assess the selection criteria of local franchisees and the relationships between the four elements of the trust and compliance model (Davies *et al.*, 2011). In addition, to identify any factors that affected the franchisee/franchisor relationship and which were not in the model.

On examination of the selection criteria, it became apparent that due to the fluid and low barriers to entry within the real estate industry, RE/MAX had no standardised set of selection criteria. RE/MAX believes they can teach individuals about real estate if they select the correct person via the RE/MAX formula. RE/MAX also places a particular focus on attitude towards risk, entrepreneurial abilities, and financial capabilities.

The next section that is dealt with how a franchisor/franchisee deals with relationship management. The trust and compliance model (Davies *et al.*, 2011) was used as the basis of the questioning of the franchisee to understand the relational need from the franchisee perspective. The relationship between satisfaction and trust is primarily based on reciprocation within the relationship. In the case of the variables of conflict and trust, if the conflict is not dealt with adequately, there will be a breakdown of trust within the relationship. The last issue is that of compliance and the subthemes which underlie the compliance-trust relationship. The building of trust is based on transparency, accountability, goal congruency and credibility.

The chapter then provides areas of unexpected findings within the area of conflict between the franchisee/franchisor. This included issues related to policies and best practices, franchise fees, a lack of transformation and transparency. The next chapter will deal with the conclusion of the dissertation.

Chapter 6: Conclusion

6.1 Summary Of Findings

The thesis had had two components that were combined to identify the best possible individuals who would create a strong franchise relationship if properly managed. Firstly, the selection process of RE/MAX was investigated, and it was concluded that it was not a standardised selection process. There are general guidelines that are derived from the RE/MAX formula, and these are adapted to each of the different cases. The most critical aspect in the selection process seemed to be the attitude of the individual. Skills, experience, qualifications and so forth were less critical. Therefore, the suggestion was RE/MAX should gain more information regarding the individual's work ethic, goals and aspirations. RE/MAX has a proven business model. Therefore it is the individual franchisees who make it a success. The basis of the decision is from the 14 top-line principles of the RE/MAX formula. The RE/MAX formula surprisingly had many commonalities with the relevant literature.

The second part of the thesis was to analyse the relationship between the franchisee and franchisor. This allowed for the factors which were most important to the franchisee to come to the forefront. This was of primary concern as franchisees have generally been overlooked, and for the most part, this type of study has been quantitative. This study allowed for the franchisee's needs to be compared qualitatively. This has provided new insights into the needs of the franchisee and ways for the franchisor to strengthen their relationships with the franchisee.

6.2 Practical Recommendations

Firstly, practical recommendations within the RE/MAX franchise systems. At the core of this dissertation is the RE/MAX formula, which has many commonalities with the research of Davies, Nevin, *et al.* (2011), whose research supports similar concepts. The research conducted also supports that franchisors rely on more instinctive methods to assess potential franchisees (Clarkin and Swavely; (2006). This is true in the case of RE/MAX of Southern Africa, as the decision is made on

predictors and cultural fit. The franchisee is a pivotal part of the success of a franchise, and a needs assessment could be done to get an understanding of where the applicant franchisee is lacking. This study provides a holistic understanding of the needs and wants of an applicant franchisee.

If a needs analysis was done using the predictors and cultural fit, this could allow for greater success in the selection of quality franchisees.

6.3 Research Recommendations

This study had limitations that need to be noted. Limitations from a methodological perspective were issues such as respondents sample size. The sample size was five franchisees and the CEO of the company. Generally, small sample sizes result in a lack of congruency in results (MacCallum, 2001). This dissertation was not a large concern as respondents generally had similar views, but a greater sample size would have given a better insight into the franchisee/franchisor relationship.

Furthermore, self-reported data was collected and was not independently verified and may contain potential sources of bias which need to be noted as limitations (Brutus & Stephane *et al.*, 2013, p. 53):

- Selective memory: “remembering or not remembering experiences or events that occurred at some point in the past
- Telescoping: “recalling events that occurred at one time as if they occurred at another time”
- Attribution: “the act of attributing positive events and outcomes to one's own agency but attributing negative events and outcomes to external forces”
- Exaggerating: “the act of representing outcomes or embellishing events as more significant than is actually suggested from other data”

Lastly, the suggestions for future research would be to implement similar studies in different franchises within the South African Real estate environment. Different

franchises have different target markets of potential franchisees. It would be interesting to understand what attracted franchisees to specific brands.

This dissertation has uncovered an area of vital importance to the future success of RE/MAX. The closer the franchisor can get to understand the needs and wants of the franchisee, the greater the success of RE/MAX of Southern Africa.

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Appendices

Appendix A: Interview Questions

Objective:	Broker Question:	Leading Questions
	Why did you decide on Franchising? And Specifically, Remax?	<ul style="list-style-type: none"> - What Specifically attracted you? - (Commission splits, business model)
	CEO Questions:	
1. Selection criteria:	What is REMAXS Selection process?	<ul style="list-style-type: none"> - Does Remax use predictors? (Interviews, CV etc.) - What characteristics are looked for during the interview process (Previous experience)? - Are long terms goals considered?
2. Standardised selection:	<ul style="list-style-type: none"> - Is there a standardised REMAX selection criterion? - What documents are used to standardise this selection? 	<ul style="list-style-type: none"> - Has the selection of potential franchisees changed as the business has matured? - Does Remax have standardised selection criteria?
3. Satisfaction within the relationship.	<ul style="list-style-type: none"> - How did RE/MAX ensure what was offered in the franchise agreement? - How is the relationship maintained? 	<ul style="list-style-type: none"> - Regular visits? What policies are used to ensure the franchisee is satisfied?
4a.Conflict	<ul style="list-style-type: none"> - Identify disagreements, if any, have you had with the franchisor? 	<ul style="list-style-type: none"> - Any specific, typical, or memorable issues, what happened? And how was this resolved? Was it resolved?

		<ul style="list-style-type: none"> - If that wasn't, was there a situation which was resolved successfully? How? - If not, what do you do to resolve issue?
4b. Trust	<ul style="list-style-type: none"> - Are there scenario/scenarios where there was a breakdown in trust within the relationship? - What is done to keep trust and build trust within the relationship? 	
4c. Compliance	<ul style="list-style-type: none"> - How as a franchisor did you ensure compliance from a Franchisee? - What do you feel increases the level of compliance within the franchise agreement? - Does the level of compliance within the franchise relationship effect trust between the two parties? 	<ul style="list-style-type: none"> - What was done to build the relationship (increase trust)? -
	Broker Questions	Leading Questions
Selection Criteria	What requirements were expected from you?	<ul style="list-style-type: none"> - Predictors (CV, interview process, Financial documents)?
Satisfaction within relationship	<ul style="list-style-type: none"> - What did you receive from REMAX to ensure satisfaction? 	<ul style="list-style-type: none"> - What was done for you by REMAX (advertising etc) - If not, where were they lacking?

	<ul style="list-style-type: none"> - Did they meet your expectations as a new franchisee? - What could have been done over your time at REMAX to increase the level of satisfaction within the relationship? 	
Conflict	<ul style="list-style-type: none"> - Identify Disagreements, if any, and what effect they had on the relationship? 	<p>Was it resolved? How was it resolved?</p> <p>How was the relationship after?</p>
Trust	<ul style="list-style-type: none"> - How do you feel a franchisor can gain your trust? - How has the relationship with the franchisor changed overtime? 	<p>What elements within the franchisee relationship are most important?</p>
Compliance	<ul style="list-style-type: none"> - As a Franchisee, did you comply? Why? (Due to franchise agreement or due to trust of the franchisor?) - What aspects are crucial to compliance within the franchise agreement? 	<ul style="list-style-type: none"> - What do you expect from a franchisor? (What is stipulated within the franchise agreement or more)