
GOAL CONGRUENCE AND COMMUNICATION IN FRANCHISING SYSTEMS

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ABSTRACT

Purpose: *Franchising systems tend to use hierarchical governance, unlike the market governance of independent firms. To date, the establishment of successful long-term cooperative relationships in franchising systems remains an issue. This study integrates theories of agency, communication, and social exchange to establish an antecedent model for the commitment of the franchisee to the franchiser.*

Design/methodology/approach: 275 questionnaires were collected from owners or managers participating in the operations of the franchising stores. These franchising stores included convenience stores, watch and glasses retailers, telecommunications, photo developing and printing, and real estate agents in Taiwan. The proposed model was tested using structural equation modeling.

Findings: Results show that goal congruence and communication between the franchiser and the franchisee will affect the franchisee's trust in and satisfaction with the franchiser, in turn affecting the commitment of the franchisee to the franchiser. Further, goal congruence is more important than communication, especially regarding the influence on trust. Compared with independent channels, franchising systems particularly need a common goal. In addition, the effect of communication in franchising systems is relatively low.

Research limitations/implications: In channel relationships, goal congruence, which is generally neglected in traditional market governance, is highly important in a hierarchically governed franchising system. This result suggests that agency problems can be ameliorated by goal congruence.

Practical implications: For franchisers, understanding the importance of goal congruence enables more effective improving relationship quality with franchisees.

Originality/value: Prior research on channel relationships showed that communication significantly affects social exchange. Furthermore, this study finds that in franchising, communication is influential, but its effects are restricted and not as important as goal congruence. This is the first work to indicate relationship context of the social exchange is important to determine the importance of the antecedents of relationship quality.

Keywords: *Commitment; Communication; Franchising; Goal congruence; Satisfaction; Trust*

Introduction

Franchising is a kind of organizational cooperation, in which the franchiser agrees to limitations that give the franchisee the authority to conduct business in a certain period of time at a specific place. In return, the franchiser acquires royalties or other returns. The franchiser is the party that empowers, while the franchisee is the party that receives the power (Elango and Fried, 1997).

Chain franchising is a form of cooperation and resource interdependence between upstream and downstream firms in pursuit of mutual benefits. Studies on chain franchising suggest several reasons for its prevalence. First, chain franchising has numerous advantages for the franchiser. For instance, it can rapidly establish a sales system using less investment and at lower risk, immediately expanding market share and enhancing the company's reputation. It can also lower purchase costs and promotion costs through scale economies, strengthening market competitiveness. Chain franchising also offers many advantages for the franchisee. With the guidance of the franchiser, stores may be opened more rapidly. Franchisees can learn business and management skills, lower their failure risk and strengthen their sales using the franchiser's brand image and knowledge. Through the scale advantages of chain franchising, franchisees obtain marketing benefits (such as national advertising) not available to independent stores.

Another advantage of chain franchising can be explained from the perspective of agency theory. The franchiser is the principal and the franchisee is the agent in a principal-agent relationship. The franchisee operates the franchiser's point of sale. Since franchised stores are the franchisee's own business, franchisees put great effort into operating them. Thus, through franchising, the franchiser gains a group of partners who are devoted to their work.

Although there are many advantages of chain franchising for both parties, it does not guarantee success. Many factors affect franchising performance, including relationship quality (Dertouzos, Lester, and Solow, 1989). Since franchisers often believe that franchising contracts can compel the franchisee to continue the relationship, they often neglect their relationship with the franchisee, leading to conflicts. Chiou, Hsieh, and Yang (2004) suggest that conflicts over benefits and power are common in franchising systems. One reason for this may be the problem of goals. When the goals of franchisers and franchisees diverge, the franchising relationship becomes difficult to manage.

Franchising contracts are not contracts produced by negotiation but are generally standardized contracts that all franchisees must follow. Franchising contracts are not totally fair. For example, the termination clauses in some contracts show that the slightest violation by the franchisee will result in termination of the relationship. Franchising contracts primarily protect the franchiser's privileges (Hunt, 1972). Franchisees are in a vertically integrated channel structure, strongly regulated by the franchising contracts. They thus inhabit unique channel environments. Research on relationship quality has largely focused on channels with market governance. However, chain franchising usually employs hierarchical governance, an area with remarkably few studies (Bordonaba-Juste and Polo-Redondo, 2008). Some studies indicated that relationship marketing is important for franchising systems (Chiou, Hsieh, and Yang, 2004).

Relationship marketing refers to all marketing activities for constructing, developing, and maintaining a successful relationship exchange (Morgan and Hunt, 1994). Communication is one of the most important activities in relationship marketing (Duncan and Moriarty, 1998; Holden and O'Toole, 2004). However, given the control created by chain franchising contracts, the positions of the franchiser and the franchisee are different. What then is the effect of communication between franchiser and franchisee? If their goals are

divergent, can communication remain effective? When studying the partnerships in chain franchising systems, it appears necessary to consider goal congruence and communication. However, after reviewing the literature, this study did not find any relevant research.

The franchisee is the main agent of the franchiser's sales and services, and a strong franchisee commitment to the franchising relationship will result in better sales and service performance (Palmatier, Dant, and Grewal, 2007). Thus, this study treats the franchisee's commitment to the franchising relationship as the outcome variable. However, the causal model of commitment focuses largely on relationships among independent firms. This study investigates the unique channel relationship of chain franchising. Dant (2008) suggested that future research into franchising should move beyond North America and toward original theories (such as resource scarcity theory). Hence, this study adopts a new perspective and studies a new phenomenon. The literature review shows that goal congruence has been neglected by studies of franchising. The role of communication in a special channel (franchising) also lacks significant exploration by researchers. Through integrating theories of agency, communication, and social exchange, this study constructs and researches a model of the effects of goal congruence and communication on commitment in franchising relationships.

Theoretical Foundations

Agency theory and the concept of goal congruence

In principal-agent relationships, the principal empowers the agent to conduct the business of the principal. However, agents and principals may have different goals and profit objectives, causing agency conflict. Franchisees typically are buyers while franchisers are sellers. Buyers focus on making cost-effective purchases while sellers attempt to create sales with the highest profit margins or revenue potential (Jap, 2001). In addition, the profit sources of the franchiser and the franchisee are different. The franchiser makes profits through the operational performance of the whole franchising system, whereas franchisees rely on profits of their individual franchises. Franchisees may free ride and maximize profit for themselves instead of supporting the franchising system (Castrogiovanni, Combs, and Justis, 2006). For instance, individual franchisees may sacrifice service quality by reducing employee compensation, leaving the promotion of the good image of the franchising system to others (Tracey and Jarvis, 2007).

Two tools are used to prevent such problems. First, agents can be offered incentives to perform behaviors expected by the principals. Second, principals can directly monitor the behavior of agents to ensure the principal's benefits are maintained (Castrogiovanni, Combs, and Justis, 2006). In short, the design of contract incentives and punishments can deter agency problems (Tracey and Jarvis, 2007). The construction of common goals thus represents an incentive for franchisees.

Goal congruence is the degree of commonality of goals between franchisees and franchisers. In the field of organizational behavior, there are many studies of goal congruence. When determining the fit between employees and organizations, Schneider (1987) suggested that organizational goals should be one of the concerns. Member identification with organizational goals will influence satisfaction, organizational commitment, and turnover intention (Vancouver and Schmitt, 1991; Vancouver, Millsap, and Peters, 1994). Thus, organizational goals are a critical variable for member attitude and behavior. Though the literature on goal congruence in channel relationships is sparse, this study expects that goal congruence should also be an important variable for channel members' attitudes and behaviors.

Communication theory and the concept of communication

Sharma and Patterson (1999) suggested that communication refers to the formal and informal sharing of meaningful and immediate information. Andersen (2001) argued that the purpose of communication is to acquire the expected effect by information exchange. Thus, communication focuses on the final efficacy instead of the frequency or modality of information exchange. Total communication quality includes timeliness, completeness, credibleness, accuracy, and adequacy of communication flows (Mohr and Sohi, 1995; O'Reilly, 1982; Stohl and Redding, 1987). For a close relationship, communication will be more timely, complete, credible, accurate, and adequate (Holden and O'Toole, 2004). When measuring communication, Anderson and Weitz (1992) emphasized the openness and sharing of information, which refers to having smooth communication channels and useful information exchange. Thus, for communication, in addition to the content, the channel is also important.

All social interactions are related to communication. In the information exchanges between the franchiser and the franchisee, an effective communication system is a key success factor (Bordonaba-Juste and Polo-Redondo, 2008).

Social exchange theory

Exchange may be divided into social exchange and economic exchange. A key difference between social exchange and economic change is that the cost of economic exchange is concrete while the cost of social exchange is uncertain (Nakonezny and Denton, 2008). Economic exchange is based on agreements and is typically implemented within legal frameworks. Social exchange emphasizes intangible dimensions such as love, respect and knowledge, and does not guarantee reciprocity (Liao, 2008). A type of long-term exchange, social exchange is voluntary and emphasizes future returns, which are not guaranteed. Social exchange is associated with interpersonal obligations, gratitude and trust (Aryee, Budhwar, and Chen, 2002; Blau, 1964; Haas and Deseran, 1981). With the existence of trust, there will be a commitment to cooperation (Nakonezny and Denton, 2008).

Social exchange is a pattern of interaction, in which two people or two groups provide resources to each other voluntarily. Thus, social exchange is a type of voluntary resource exchange in which two parties think they can acquire benefits (Byrd, 2006). Social exchange theory emphasizes the importance of relationship quality. Trust, satisfaction, and commitment are the important variables of relationship quality (Wulf, Odekerken-Schroder, and Iacobucci, 2001), as well as the outcomes emphasized by relationship governance (Palmatier, Dant, and Grewal, 2007).

Chain franchising is a long-term cooperation system. The literature on relationship marketing shows that long-term relationships must have a high degree of trust and commitment, while short-term relationships have weaker relationship governance (Morgan and Hunt, 1994). Using four mediating models, Palmatier, Dant, and Grewal (2007) examined the effect of commitment on organizational relationship performance, finding that commitment directly influences performance without the mediation of other constructs. Thus, commitment to a relationship can strongly affect performance. Based on the above, trust, satisfaction, and commitment are important variables of relationship governance, and were included in the research model. Commitment was treated as the final outcome variable.

Concept of trust

For franchisers, constructing franchising systems with competitive advantages and harmonious franchising relationships is critical. Trust significantly affects interactions in organizations and plays an important role in franchising operations and management (Morgan and Hunt, 1994).

Tan and Tan (2000) suggested that organizational trust refers to the employees' perception after their overall evaluation of the trustworthiness of an organization. When employees trust the organization, they believe that organizational actions will benefit them, or at least not hurt them. According to Shockley-Zalabak, Ellis, and Winograd (2000), organizational trust is an individual's positive expectation toward other members' intentions and behaviors. Kumar, Scheer, and Steenkamp (1995a, 1995b) suggested that trust is the belief in partners' honesty and consideration.

Concept of satisfaction

Satisfaction is a post measurement of consumption. It is an emotional reaction to the divergence between expectations and actual experience (Parasuraman, Zeithaml, and Berry, 1985). The most common definition of channel members' satisfaction is that it is a kind of positive emotion, the product of channel members' evaluation of all dimensions of the work relationship (Anderson and Narus, 1984; Frazier, Gill, and Kale, 1989; Gaski and Nevin, 1985). Several studies suggest that it can be measured by the internal environment of channel organizations and the relationships among the channel members (Schul, Little Jr., and Pride, 1985). Other studies have indicated that it can be measured by psychological aspects, returns, interactive relationships, and transactional behaviors (Seashore and Taber, 1975).

Concept of commitment

Since Whyte's publication of *The Organization Man* in 1956, commitment has been widely discussed. Among the definitions of commitment, that of Porter, Steers, Mowday, and Boulian (1974) is the most representative. They define commitment as an individual's identification and involvement with a specific organization. According to Bowen and Shoemaker (1998), commitment means the belief that it is extremely important to continue the relationship, the intention to maintain the relationship, and a willingness to make short-term sacrifices for long-term benefits. Gruen, Summers, and Acito (2000) suggest that commitment can be regarded as members' psychological attachment to organizations.

Commitment is the guarantee of continuity of the relationship between the two parties. It is the intention to sacrifice short-term benefits to accomplish long-term benefits (Dwyer, Schurr, and Oh, 1987). In cooperation, commitment is an important base of social norms (MacNeil, 1980), and is the relationship outcome expected by the two parties. Porter, Steers, Mowday and Boulian (1974) suggest that members with high organizational commitment have three characteristics: strong belief in and acceptance of organizational goals and values, the intention to make greater effort in the organization, and the intention to continue being a member of the organization. Thus, the franchisee's commitment to the franchiser is an important variable in the relationship between the two.

Many scholars have indicated that commitment consists of several dimensions. For instance, affective commitment is based on positive affective relationships, continuance commitment is formed by economic concerns such as benefits or costs, and normative commitment is formed under the influence of social norms (Meyer, Allen, and Smith, 1993). In this study, commitment refers to affective commitment, since chain franchising is long-term oriented.

Development of hypotheses

Goal congruence and communication

According to the perspective of agency theory, when a conflict over benefits arises between the franchisee and the franchiser, opportunistic behavior may occur. To resolve this problem, agency theory suggests that franchisers should provide franchisees with incentives to align their actions with franchiser benefits. One way to do this is to construct common goals for the two parties (Pedersen and Andersen, 2006). When two parties have the same goals, any action that benefits one party will be good for the other. Through the development of common goals, franchisees will have positive perceptions of franchisers and will not fear that franchisers may behave opportunistically (Anderson and Weitz, 1989; Atuahene-Gima and Li, 2002). Franchisees will tend to believe that what benefits the franchiser will be good for them, and the two parties will be more likely to sincerely cooperate with each other (Jap, 1999). Conversely, when the franchisee and the franchiser have different goals, incompatibility and tension will occur, and overall identification with the franchising system will be low (Frazier, Gill, and Kale, 1989).

Clearly, the existence of common goals between the franchisee and the franchiser enhances communication effectiveness. High quality communication will also help in aligning the two parties' goals (Bordonaba-Juste and Polo-Redondo, 2008).

Based on the foregoing, there should be a mutual influence between the goal congruence of the franchisee and the franchiser and the franchisee's perceived communication with the franchiser. Thus:

H1: Goal congruence between the franchisee and the franchiser is positively related to the franchisee's perceived communication with the franchiser.

Effect of goal congruence on trust and satisfaction

Goals affect interactions and results through their influence on expectations and actions. Group members with common goals realize that if they accomplish their goals, everyone will benefit, and collective efforts will result in collective success. In addition, group members with common goals will interact to accomplish goals, pursue mutual benefits and solve problems. They will support organizations using their capabilities, while their partners will consider the approaches they use as able to increase value (Chen, Tjosvold, and Liu, 2006).

When the franchisee's and the franchiser's goals are more consistent, their benefits will become aligned. Thus, the necessity and possibility of suspicion of the other will be lower (Anderson and Weitz, 1989; Atuahene-Gima and Li, 2002). In addition, common goals facilitate collective learning (Pearson and Pandya, 2006) and teamwork (Molyneux, 2001). Morgan and Hunt (1994) suggested a positive correlation between shared values, common organizational behavior, goals, and policies, and trust. Thus, this study suggests that enhancement of goal congruence between franchisee and franchiser reinforces the franchisee's trust in the franchiser.

Since common goals reduce mutual doubt, they lower the motive for opportunistic behavior. They also encourage the two parties to forego personal benefits and instead seek overall benefits (Anderson, 1988; Jap, 2001). Wong, Tjosvold, and Yu (2005) suggested that when two parties have a shared vision, they tend to have cooperative goals instead of competitive and independent goals.

Further, common goals help develop a harmonious relationship of cooperation. Congruent goals for franchisees and franchisers may lead to closer relationships. Holden and O'Toole (2004) studied communication relationships between manufacturers and retailers, and found that close relationships exhibit more intensive communication, better communication quality, higher contact frequency, more positive

responses, and fewer negative responses. The partners will share specific information, provide suggestions, and participate in planning. However, inconsistent goals will lower the level of total identification (Frazier, Gill, and Kale, 1989). Cooperation that lacks identification reduces the level of satisfaction with the cooperation (Gaski and Nevin, 1985). Parties with inconsistent goals tend to have conflicts, reducing satisfaction (Smith and Koenig, 1985). Thus, this study suggests that enhancement of goal congruence between the franchisee and the franchiser will facilitate franchisee satisfaction with the franchiser.

H2: Goal congruence between the franchisee and the franchiser positively affects the franchisee's trust in the franchiser.

H3: Goal congruence between the franchisee and the franchiser positively affects the franchisee's satisfaction with the franchiser.

Effect of communication on trust and satisfaction

Communication refers to the sharing of meaningful and immediate information with others through formal and informal approaches. In integrated channels, to fulfill the two parties' benefits, communication is critical (Mohr and Nevin, 1990). The franchiser must have proper explanations of decisions, give timely responses to franchisee questions, and have open communication with the franchisee (Sharma and Patterson, 1999; Whitener, Brodt, Korsgaard, and Werner, 1998).

Good communication prevents franchisees from having false expectations. The franchisee's expectation will match reality, lowering the gap between the franchisee's actual experiences and expectations. In addition, good communication can improve the cooperative atmosphere between the two (Anderson and Weitz, 1989; Morgan and Hunt, 1994), enabling the franchisee to recognize the franchiser's consideration and efforts. Communication can even help the franchisee develop a sense of closeness and ease, and then thus establish emotional and social bonds with the franchiser (Sharma and Patterson, 1999). Mohr, Fisher, and Nevin (1996) found that collaborative communication can create an atmosphere of support and trust among channel members. In addition, through information exchange and sharing, good communication between the two parties will lead to coordination and cooperation. Thus, channel members will be more confident in maintaining the relationship (Anderson and Narus, 1990; Anderson and Weitz, 1989; Dwyer, Schurr, and Oh, 1987).

Franchising is a type of long-term cooperation. Bordonaba-Juste and Polo-Redondo (2008) found that communication can improve the partners' perceptions of the relationship, enhancing trust, more significantly in long-term than in short-term relationships. Therefore, franchisers' enhanced communication with franchisees can strengthen franchisee trust in the franchiser.

Communication between the franchisee and the franchiser refers to the formal and informal sharing of information (Anderson and Narus, 1990). If the franchisee can acquire useful information from the franchiser, the franchisee can more efficiently accomplish tasks. It will also enhance franchisee satisfaction (Mohr and Spekman, 1994). Spreng, MacKenzie, and Olshavsky (1996) suggested that overall satisfaction is based on two dimensions: satisfaction with products or services and satisfaction with information. Satisfaction with information depends on communication, implying a close relationship between communication and overall satisfaction. In addition, communication can help the franchisees adjust their expectations toward the products or services to be closer to the actual outcome, reducing franchisee dissatisfaction. Therefore, communication will enhance satisfaction (Selnes, 1998).

However, research suggests that when channels have a higher degree of integration and control, the effect of communication on channel outcomes (such as commitment, satisfaction and coordination) will be lower (Mohr, Fisher, and Nevin, 1999). Chain franchising is an operation with a higher degree of integration and control. Thus, this study contends that good franchiser communication helps enhance franchisee trust and satisfaction. However, the effect of communication in chain franchising will be lower than in a general channel. Thus:

H4: The franchiser's communication with the franchisee positively affects the franchisee's trust in the franchiser.

H5: The franchiser's communication with the franchisee positively affects the franchisee's satisfaction with the franchiser.

Relationship among trust, satisfaction and commitment

Satisfaction is the important outcome after evaluating the overall working relationships (Anderson and Narus, 1990). In other words, satisfaction is the result of the overall evaluation of relationship fulfillment (Dwyer and Oh, 1987). Trust is a factor used to evaluate relationship fulfillment. Partnerships without a perception of trust are unsatisfying (Geyskens, Steenkamp, and Kumar, 1998). Most empirical studies support the effect of trust on satisfaction (Bordonaba-Juste and Polo-Redondo, 2008; Duarte and Davies, 2004).

Kale, Singh, and Perlmutter (2000) applied relational capital to alliance organizations, finding that the trust, respect and friendship between alliance members are important relational capital that can create more intimate relationships. In addition, relational capital helps alliance members learn the know-how and capabilities which exist in an alliance relationship.

In trust-based franchising relationships, the franchisee usually makes positive predictions of the franchiser's actions. For instance, the franchisee tends to believe that the franchiser does not have opportunistic behavior (Andaleeb, 1992; Anderson and Narus, 1990; Moore, 1998). With positive expectations for partners' behavior, evaluations of and satisfaction with partners' behavior will be higher (Andaleeb, 1996). Anderson and Narus (1990) find that trust increases cooperation and lowers conflict and that high cooperation and low conflict will enhance satisfaction. Geyskens, Steenkamp, and Kumar (1998) studied the factors affecting satisfaction and found that the effect of trust is the most significant.

Based on social exchange theory, Singh and Sirdeshmukh (2000) indicated that customers' trust before purchase directly and positively affects satisfaction after purchase. Thus, this study argues that the franchisee's cumulative trust in the franchiser will directly and positively influence satisfaction with the franchiser (Chiou, Hsieh, and Yang, 2004). Thus:

H6: The franchisee's trust in the franchiser positively affects the franchisee's satisfaction with the franchiser.

Commitment has potential harm and sacrifice. Thus, the franchisee does not easily become committed unless trust has been established, meaning that trust is the cause of commitment (Garbarino and Johnson, 1999). Social exchange theory explains the causal relationship between trust and commitment by the common reciprocity principle. The theory suggests that trust is two-way. When individuals find that others

do not trust them, they will protect themselves and will not trust others. Transactions between them become direct short-term transactions. Finally, since the two parties do not trust each other, they will reduce their commitment to the relationship (McDonald, 1981).

In addition, trust can lead to many benefits. Trust is a kind of value for the partnership (Arrow, 1974) and is useful for both parties in the cooperation (Barber, 1983). First, with partnership based on trust, organizations are more willing to engage in shared action since they do not worry that their partners will take advantage of them (Morgan and Hunt, 1994). Second, in partnerships based on trust, neither party need invest in costly monitoring of the other or construct contracts for security (Andaleeb, 1996). Thus, transaction costs are lower. Since trust has many benefits, parties in trust relationships will intend to continue their long-term cooperation. Thus, commitment is higher. Research on organizational management shows that trust in supervisors can enhance subordinates' perception of relationship value, in turn enhancing commitment (Ramaswami and Singh, 2003). Thus, this study argues that after the franchisee trusts the franchiser, commitment will grow:

H7: The franchisee's trust in the franchiser positively affects the franchisee's commitment to the franchiser.

When channel members are satisfied with the channel relationship, they will have positive attitudes and behaviors. For instance, Hunt and Nevin (1974) suggested that satisfied channel members will have higher morale and close cooperation, reducing their potential to leave the system or take legal action against it. Thus, channel members' satisfaction represents the perceived effectiveness of the cooperative relationship. In addition, channel members' satisfaction can predict future action. Anderson and Narus (1990) found that satisfaction has a positive correlation not only with current cooperation but also with future cooperation. Relationship continuity is a basic requirement for the establishment of a long-term relationship (Anderson and Weitz, 1989). Shamdasani and Sheth (1995) found that there is a positive correlation between the overall satisfaction with a relationship and the intention to continue a relationship. Thus, a satisfying cooperative relationship can facilitate the establishment of a long-term relationship.

Wetzels, Ruyter, and Birgelen (1998) studied the relationship between office facility manufacturers and their industrial customers in Holland, and found a significant and positive relationship between satisfaction and affective commitment. Ramaswami and Singh (2003) investigated salespersons and suggested that most of the empirical models support job satisfaction as being the antecedent of commitment. In research on salespersons, Jaramillo, Mulki, and Solomon (2006) found that job satisfaction positively affects organizational commitment. Organizational commitment reflects individuals' identification with and attachment to organizations. When employees are satisfied at work, they show a favorable attitude, which leads to organizational commitment.

Based on the above arguments from channel and organization research, this study argues that after the franchisee is satisfied with the franchising relationship, they will become committed to the relationship. Thus, satisfaction positively affects commitment:

H8: The franchisee's satisfaction with the franchiser positively affects the franchisee's commitment to the franchiser.

Research Framework

Based on foregoing discussions, this study develops the research framework as shown in Figure 1. The causal relationship among constructs is shown by arrows.

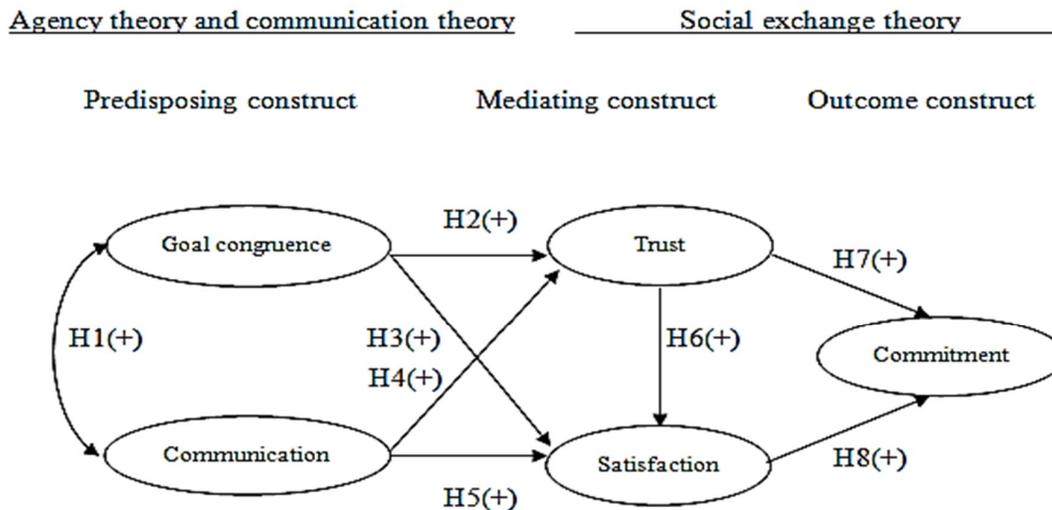


Figure 1
 Research Framework

Research Method

Operational definitions and measurement of constructs

In order to enhance the content validity of the questionnaire, this study reviewed scales related to channels, and revised the wording according to the actual operation of the chain franchising system. Based on the suggestion of Churchill (1979), the questionnaire was constructed using multiple indices.

Five constructs are measured in this study, including two predisposing constructs (goal congruence and communication), two mediating constructs (trust and satisfaction), and one outcome construct (commitment). The measurements were based on 7-point Likert scales, ranging from 1 (strongly disagree) to 7 (strongly agree). A higher score indicates a more positive perception of the construct. Operational definitions and scale sources are described below. The measurement items of the constructs are shown in Table 1.

Goal congruence

Goal congruence refers to the commonality of goals between franchisees and franchisers. In this study, measurement of goal congruence is based on the scale developed by Jap (2001).

Communication

Communication refers to communication channels without obstructions and in which information freely flows between franchisees and franchisers. Items of communication are based on the scale of communication between manufacturers and distributors of Anderson and Weitz (1992), including open communication and sharing of information.

Trust

Trust refers to the belief of franchisees that franchisers are honest and they are concerned about franchisee benefits. Measurement of trust is based on the scale of Kumar, Scheer, and Steenkamp (1995a, 1995b).

Satisfaction

Satisfaction in this study means franchisees' perception of franchisers' services, franchising benefits, and relationship value. Items for satisfaction are based on the scale of franchisee satisfaction developed by Schul, Little Jr., and Pride (1985).

Commitment

Commitment in this study refers to affective commitment, the franchisees' intention to maintain a long-term relationship with the franchiser because of affective attachment. Measurement of commitment is based on the affective commitment scale of Meyer, Allen, and Smith (1993).

Research samples

The research population consists of the chain franchising systems of convenience stores, watch and glasses retailers, telecommunications, photo developing and printing, and real estate agents in Taiwan. Those franchises all operate under franchising contracts. Contact between franchises and franchisers are usually handled by the owners and managers of the stores. Therefore, in this study, respondents were owners or managers participating in the operations of the franchising stores. By purposive sampling, this study collected 275 questionnaires via interview.

The research samples were collected from convenience stores (29.8%), the watch and glasses industry (25.5%), the telecommunications industry (20.4%), the photo developing and printing industry (16.4%) and the real estate industry (7.9%). The samples are distributed across northern Taiwan (40.7%), central Taiwan (28.4%) and southern Taiwan (30.9%). Males comprised 48.7% of respondents. Most franchises had been in operation 1-3 years (27.3%) followed by 3-5 years (24.7%).

Common method variance

All construct measurements of this study use a Likert 7-point scale, and each respondent fills in all items of the questionnaire. Thus, common method variance (CMV) may be an issue. Since the constructs of this study are all personal perceptual constructs, they should be answered by the same respondents. However, in order to avoid common method variance, this study followed Podsakoff, MacKenzie, Lee, and Podsakoff (2003) and designed the questionnaire by mixing items of different constructs, improving the wording of items, hiding the names of constructs, and inserting reverse items. After retrieving the questionnaires, the researcher conducted Harman's single-factor test, which is the most often used to measure common method variance, to determine whether CMV exists. If common method variance were serious, the exploratory factor analysis should find that only one factor is acquired (condition 1), or a general factor explains most of common variance of all measurements (condition 2) (Podsakoff, MacKenzie, Lee, and Podsakoff, 2003). According to exploratory factor analysis, this study extracted five factors with eigenvalues above 1. Condition 1 is thus rejected. In addition, the general factor explains just 27.88% variance, and it cannot explain most of the common variance of all measurements. Condition 2 is thus rejected. Therefore, serious CMV was not found.

Reliability and validity of measurement

Table 1 shows the measurement items, factor loadings, individual item reliability, composite reliability (CR), and average variance extracted (AVE). Using confirmatory factor analysis, this study tested the measurement models of all constructs. Each measurement item within the measurement models was restricted to load under its construct, and the constructs were related to each other. Test results were $\chi^2_{(109)}=278.02$ ($p<0.001$); $\chi^2/df=2.55$; SRMR=0.041; GFI=0.90; AGFI=0.85; CFI=0.99; RMSEA=0.074. Except for the chi-square value, all values exhibit goodness of fit. Thus, the measurement model fit is good (Bagozzi and Yi, 1988; Joreskog and Sorbom, 1989). In addition, the individual item reliability of all constructs is higher than 0.5 and composite reliability (CR) is above 0.7, suggesting that there is good internal consistency in measurement of all constructs (Joreskog and Sorbom, 1989). For convergent validity, all measurement items have significant factor loadings ($p<0.001$) onto their corresponding constructs. The AVE of all constructs is above 0.5 (Fornell and Larcker, 1981), suggesting that measurement of all constructs has good convergent validity (Anderson and Gerbing, 1988).

According to Table 2, the square root of the average variance extracted for every construct is higher than the correlation between that construct and all the other constructs, suggesting that all construct measurements have good discriminant validity (Fornell and Larcker, 1981). Additionally, to address discriminant validity, this study tests the chi-square difference of two nested models in pair constructs. In one model, the researcher conducts a free estimation on the correlation coefficients of the pair constructs. In the other model, the correlation coefficient of the pair constructs is restricted to 1. The test results show that, for all pair constructs, the unrestricted models have significantly low chi-square values ($p<0.05$) than the restricted. Thus, the discriminant validity of construct measurement is again supported (Palmatier, Dant, and Grewal, 2007). Clearly, the measurements of the constructs have good reliability and validity.

Table 1
Measurement Items and Result of Confirmatory Factor Analysis

Constructs and measurement items	Factor loading	Individual item reliability	Composite reliability (CR)	Average variance extracted (AVE)
Goal congruence			0.87	0.68
1.We share common goals with the franchiser	0.89	0.80		
2.We have consistent goals with the franchiser	0.85	0.72		
3.We have different goals from the franchiser's (-)	0.73	0.53		
Communication			0.86	0.68
1.The franchiser tells us important information about operations	0.76	0.58		
2.The communication channel between the franchiser and us is open	0.90	0.81		
3.The franchiser asks us to provide market information	0.80	0.65		
Trust			0.88	0.64
1.We believe that what the franchiser tells us is truth	0.74	0.55		
2.We believe that the franchiser is decent	0.83	0.69		
3.When the franchiser makes important decisions, he/she considers our benefits	0.82	0.67		
4.We believe that the franchiser is concerned about the effect of his/her decision making and action on us	0.80	0.64		
Satisfaction			0.90	0.70
1.The franchiser makes us a valuable member	0.83	0.69		
2.The franchiser provides us with services offering competitive advantages	0.81	0.65		
3.We feel proud to be part of the franchising system	0.89	0.80		
4.In comparison to other franchising systems, we have good profits	0.80	0.64		
Commitment			0.86	0.68
1.We intend to work for the future with the franchiser	0.82	0.67		
2.We do not have affection with the franchising system (-)	0.77	0.59		
3.We do not want to be part of the franchising system (-)	0.88	0.78		

Table 2
Descriptive Statistics and Correlation Coefficients

Constructs	Means	Standard deviation	1	2	3	4	5
1.Goal congruence	5.21	1.51	0.82 ^a				
2.Communication	4.13	1.59	0.63*	0.82 ^a			
3.Trust	4.72	1.40	0.71*	0.62*	0.80 ^a		
4.Satisfaction	4.76	1.49	0.72*	0.68*	0.79*	0.84 ^a	
5.Commitment	5.06	1.60	0.73*	0.59*	0.71*	0.73*	0.82 ^a

Note: *p<0.01; a is the square root of average variance extracted

Research Results

This study used LISREL 8.72 to test the hypotheses in our proposed model (see Figure 1). LISREL uses the maximum likelihood estimation procedure to estimate model fit. The indices of model fit were $\chi^2_{(111)}=301.61$ ($p<0.001$); $\chi^2/df=2.72$, SRMR=0.045; GFI=0.89; AGFI=0.84; NFI=0.98; CFI=0.98; RFI=0.97; RMSEA=0.078. Though the chi-square value is significant, the remaining indicators are near or above threshold values suggested by researchers. SRMR should be below 0.05, GFI, AGFI, NFI, CFI, and RFI should be above 0.9, and RMSEA should be below 0.08 (Bagozzi and Yi, 1988; Joreskog and Sorbom, 1989). This suggests that the model fit of this study is good.

Using squared multiple correlations (SMC), this study explored the explanatory power of the model on endogenous constructs. The SMC of the endogenous constructs is high: trust = 0.71, commitment = 0.74, and satisfaction = 0.85. Thus, the model of this study has good explanatory power for the endogenous constructs. This study thus selected useful antecedents for the three endogenous constructs, which are trust, satisfaction, and commitment.

The results of the hypothesis validation are shown in Table 3. Goal congruence and communication are two exogenous constructs. Their correlation coefficient is 0.72 ($p<0.001$). Thus, H1 is supported. The standardized path coefficient of goal congruence on trust is 0.66 ($p<0.001$). Thus, H2 is supported. The standardized path coefficient of goal congruence on satisfaction is 0.26 ($p<0.01$). Thus, H3 is supported. The standardized path coefficient of communication on trust is 0.23 ($p<0.01$). Thus, H4 is supported. The standardized path coefficient of communication on satisfaction is 0.18 ($p<0.01$). Thus, H5 is supported. The standardized path coefficient of trust on satisfaction is 0.55 ($p<0.001$). Thus, H6 is supported. The standardized path coefficient of trust on commitment is 0.37 ($p<0.01$). Thus, H7 is supported. The standardized path coefficient of satisfaction on commitment is 0.51 ($p<0.001$). Thus, H8 is supported.

Table 3
Analytical Result of SEM

Number of hypotheses	Descriptions of hypotheses	Correlation coefficients or Standardized path coefficients	t value	Result of hypothesis validation
H1	Goal congruence between the franchisee and the franchiser is positively related to the franchisee's perceived communication with the franchiser.	0.72	19.11**	Supported
H2	Goal congruence between the franchisee and the franchiser positively affects the franchisee's trust in the franchiser.	0.66	7.80**	Supported
H3	Goal congruence between the franchisee and the franchiser positively affects the franchisee's satisfaction with the franchiser.	0.26	3.09*	Supported
H4	The franchiser's communication with the franchisee positively affects the franchisee's trust in the franchiser.	0.23	3.00*	Supported
H5	The franchiser's communication with the franchisee positively affects the franchisee's satisfaction with the franchiser.	0.18	2.90*	Supported
H6	The franchisee's trust in the franchiser positively affects the franchisee's satisfaction with the franchiser.	0.55	6.07**	Supported
H7	The franchisee's trust in the franchiser positively affects the franchisee's commitment to the franchiser.	0.37	2.83*	Supported
H8	The franchisee's satisfaction with the franchiser positively affects the franchisee's commitment to the franchiser.	0.51	3.86**	Supported

* $p < 0.01$; ** $p < 0.001$

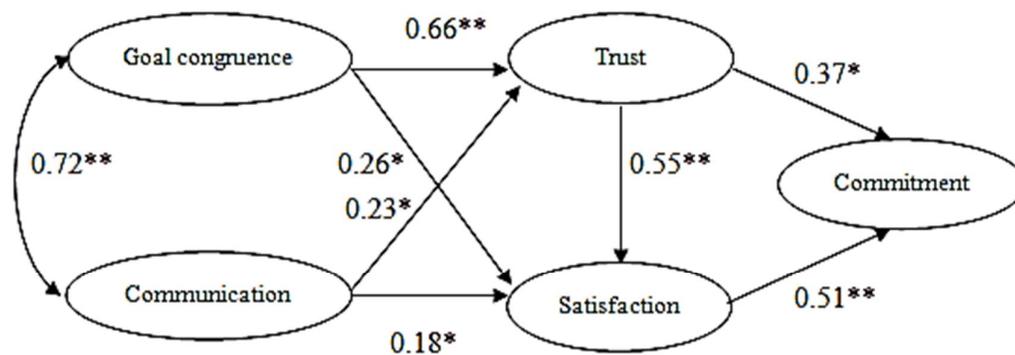
Conclusion and Suggestions

Conclusion

As members in a chain franchising system are bound by contracts, a long-term relationship must be developed. This makes franchising stores different from independent firms that may operate on short-term transactions. Few relationship marketing studies have explored chain franchising. This study suggests two strategies (goal congruence and communication) chain franchisers can use in order to attain outcomes (trust, satisfaction and commitment) that facilitate high-quality long-term relationships. This study used SEM to validate the relationship between goal congruence, communication, trust, satisfaction, and commitment. Based on the findings, the model proposed in this study is effective. Figure 2 shows the relationship among the constructs. Goal congruence and communication are significantly related. When the franchisers and franchisees have common goals, their communication will be easier, helping them to construct common goals. Although goal congruence and communication both positively affect trust and satisfaction, goal congruence is apparently more effective than communication, especially on trust. In addition, the effect of goal congruence and communication on trust is greater than on satisfaction. Finally, in the overall model, when the franchisers enhance goal congruence and communication with the franchisees, it will strengthen franchisees' trust and satisfaction, and in turn, enhance franchisees' commitment to the franchiser.

There are several theoretical and practical contributions of this study. First, this study integrated theories of agency, communication, and social exchange. This study found that goal congruence (from agency theory) and communication (from communication theory) will affect commitment via trust and

satisfaction (from social exchange theory), suggesting that there is a correlation among the three theories. Goal congruence and communication are the important antecedents of a franchising system in a social exchange. In channel relationships, goal congruence, which is generally neglected in traditional market governance, is highly important in a hierarchically governed franchising system. This result suggests that agency problems can be ameliorated by goal congruence. Prior research on channel relationships showed that communication significantly affects social exchange. This study found that in franchising, communication is influential, but its effects are restricted and not as important as goal congruence. Therefore, relationship context of the social exchange is important to determine the importance of the antecedents of relationship quality. For franchisers, understanding the importance of goal congruence enables more effective improving relationship quality with franchisees.



Note: * $p < 0.01$; ** $p < 0.001$

Figure 2

Empirical Results

Suggestions for future researchers

Jap and Anderson (2007) conducted a dynamic study on relationship variables and proposed that at different stages of the life cycle (exploration, expansion, maturity and decline), the level of relationship variables will change. This study suggests that researchers can explore the changes in the level and essence of goal congruence, communication, trust, satisfaction, and commitment at different relationship stages to determine how the model developed herein fits different relationship stages.

This study did not further define the dimensions of communication. However, information exchange in task- and society-oriented communication is different (Holden and O'Toole, 2004). Task-oriented communication is related to operations and action plans, while society-oriented communication is associated with feelings and affection. As franchisers have control rights and franchising contracts are favorable to them, researchers may investigate whether franchisers using hierarchical governance focus more on task-oriented communication and neglect society-oriented communication. In addition, researchers should explore the connections between task- and society-oriented communication and trust and satisfaction. In hierarchical governance, this study found that communication has a reduced effect on trust and satisfaction. Future studies should examine whether it be explained by franchisers' tendency toward task-oriented communication instead of society-oriented communication.

Suggestions for practitioners

This study found that the effect of communication is restricted in franchising situations. However, it is highly correlated with goal congruence, which can more effectively enhance trust and satisfaction, creating commitment. Thus, it is suggested that franchisers should make efforts to improve franchisers and franchisees' goal congruence and communication. Communication that improves goal congruence is more useful for trust and satisfaction.

Franchising systems are based on hierarchical governance, which has a higher degree of control than market governance. Hierarchical governance can create consistent goals (Ojha, 2004). Franchisers should make good use of this advantage to create favorable common goals to enhance the franchisees' trust and satisfaction. In addition, franchisers should frequently communicate with the franchisees to increase franchisee trust and satisfaction and enhance their commitment to the franchisers.

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