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ENGINEERING HEALTHY FRANCHISE RELATIONSHIPS

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Building Bridges

At 11.50 am on 15 October 1970, a 367 foot span of the West Gate Bridge, known as span 10–11, collapsed during construction. Two thousand tons of steel and concrete subsequently came crashing down into the muddy banks of Melbourne’s Yarra River, taking 35 bridge workers to their deaths.

Four months earlier on the other side of the world in Milford Haven, Wales, a similar type of box girder bridge, designed by the same engineering firm, collapsed during construction. Within three years a total of four bridges around the world using this design would collapse.

As it happens, my wife went to University with the young engineer in charge. He had only completed his studies a couple of years earlier and was relatively inexperienced. At the time of the collapse he had been trying to fix a fundamental problem – the two spans of the bridge were about four inches out of alignment and not meeting in the middle! He and some workers were trying to engineer a forced fix by realigning the bolts. He also perished in the collapse.

A Royal Commission identified poor design compounded by poor management and communication as the main causes of this disaster.

There are many parallels between designing and constructing bridges that can withstand the forces of gravity and building franchise relationships that will withstand the pressures of franchising. Both serve a purpose - bridges help people reach their destinations, often travelling over difficult conditions. Franchise relationships assist franchisors and franchisees to achieve their mutual objectives, often under difficult circumstances¹. Franchise relationships, like bridges, need to be constructed and maintained with care or the consequences can be catastrophic. Collapses in a franchise relationship can occur between individual franchisees and their franchisor, or groups of franchisees and the franchisor. Sometimes a whole franchise system can go down.

The Science of the Franchise Relationship

While the science of building healthy franchise relationships may not be as precise or predictable as that of building bridges, there is a science behind the dynamics of the franchise relationship nonetheless. A team of psychologists at the Franchise Relationships Institute (FRI) in Brisbane, Australia, has been researching this topic for 20 years. This has involved over 200 franchise networks around the world, including all sizes of franchise systems from small emerging systems to large established corporations with thousands of franchisees. The franchisees we have studied have also encompassed the full “mad, sad, glad” spectrum. In some companies franchisee satisfaction and performance have been high, whereas in others, there have been vast numbers of franchisees who have been angry, confused or demoralized².

¹ These objectives typically relate to maximizing the profitability of a franchisor and its franchisees, expanding market share, developing the brand, maintaining high levels of customer satisfaction and creating a better quality of life for all stakeholders.

² In addition to our own research we have strategic alliances with a number of academics and businesses around the world working in this area, enabling us to tap into a broader pool of research and data.

Our research into the nature of healthy and unhealthy franchise relationships is thus drawn from a balanced and valid cross section of the franchising sector³ and draws on a combination of the following methods:

Quantitative methods use rating scales to measure the attitudes, attributes and performance of franchisees and their perceptions of the relevance of various franchisor support strategies to their satisfaction and success.⁴ Quantitative data is useful for analyzing differences between groups, identifying underlying trends within the data and measuring changes in attitudes over time. Most of this quantitative data has been collected using a proprietary instrument called the Franchisee Mood Monitor⁵.

Qualitative methods use open-ended questions to draw out the opinions and experience of franchisors and franchisees.⁶ Qualitative techniques are useful for identifying themes or underlying issues which may be overlooked if people are not given the opportunity to express themselves openly.

Ethnographic methods, also known as participant observation, involve members of our team spending time with franchisors and franchisees, observing their behaviour as they interact together, and talking with them in a casual manner. This enables us to observe actual behavior, as opposed to measuring people's claims of what they say they do which, as will be shown below, is often unconsciously distorted or biased⁷.

Introducing the Psychological Contract

While the global culture of franchising has been largely defined and shaped by legal frameworks, particularly in the USA, the relationship between a franchisor and its franchisees is influenced by a range of factors which go beyond legal contracts. A contract may signify the presence of a relationship, but the contract is not the relationship, just as the power plug on a wall is not the electricity.

The franchise relationship actually exists independently of the legal contract in another form, a type of "psychological contract", defined in this context as:

“A set of beliefs or expectations around the reciprocal obligations of franchisees and franchisors.”

³ While much of our research is conducted in Australia, which does have a different legal system and a slightly different approach to some aspects of franchising practice, most of the material covered below is drawn from universal principles of human behavior as applied to franchise networks worldwide.

⁴ Success in this context relates to their profitability, their ability to build a customer base and their willingness to participate constructively in the franchise program.

⁵ This is a psychometrically validated tool consisting of 58 statements that measure how franchisees feel about specific issues known to impact on the health of the franchise relationship. Franchisees indicate whether they Strongly Agree, Agree, Disagree or Strongly Disagree with each statement and these results are weighted and reported on an Index of Positive/Negative Affect.

⁶ This data is collected through written responses to internet based surveys or verbal responses to interviews.

⁷ Participant observation is enlightening because much of the available literature on franchise relationship practices comes from industry articles and conference speeches delivered by franchisor representatives who understandably tend to present an overly favorable impression of how their companies operate.

Back to the electricity analogy, we know electricity has both a creative and a destructive power. Relationships also have the power to create or destroy - in business and in life. The quickest and surest way to wreck a marriage or make a sports team, business partnership or organization vulnerable to failure is to create an environment of poor communication, conflict and mistrust.

The concept of a psychological contract, which is based largely on how people feel about their relationships, is a well researched area of psychology⁸. While often applied to employment relationships, it can also be applied to personal relationships, business relationships, customer service relationships and franchise relationships.

Mutual Obligations Are Often Implied

In a sense all relationships have a psychological contract or a mutual set of expectations that evolve over time. More often than not, beliefs about what is fair and reasonable behavior are implied rather than stated, and, like most important things in life, we tend to notice their significance more when they are missing. In fact the psychological contract is so inextricably bound into our day to day interactions that we often don't notice it. In the following examples consider how others would react if you failed to honor your obligations.

- Kissing your partner when you leave in the morning.
- Saying hello to your colleagues when you arrive at work.
- Putting out the garbage at home.
- Asking how a colleague is feeling after receiving bad news.
- Laughing when someone tells you a joke.
- Restraining yourself from tasting food from a stranger's plate in a restaurant.
- Thanking a customer for their business.

I doubt if any of these behaviors have been written down as obligations, or even discussed (perhaps except for putting out the garbage). The point is that much of a psychological contract between two parties is inferred or expected. This does not mean that elements of a psychological contract will not be put in writing or discussed. For example good behavior in the work place is often written into mission statements or codes of conduct. During the recent swine flu epidemic President Obama did request that people wash their hands and cover their noses when sneezing.

However, paradoxically, it is in not writing down or discussing our most important mutual obligations that make them so important and powerful as agents of influence. "They should have known better!" we say when someone breaks their part of a psychological contract. This, often unfounded, assumption that people understand what they expect from each other in their relationships, is the cause of much confusion, disappointment and conflict in relationships, including the franchise relationship.

In other words the franchise relationship includes franchisors and franchisees meeting a set of implied or implicit obligations that are not written into the franchise agreement.

⁸ See for example David Guest, *Is the Psychological Contract Worth Taking Seriously?*, JOURNAL OF ORGANIZATIONAL BEHAVIOR, Vol. 19, 1998, at 649-664.

Indeed when it comes to engineering healthy franchise relationships, FRI's research clearly shows that franchisee satisfaction and business performance in franchise networks are influenced as much by elements of the psychological contract as by legal contracts or commercial factors. These include, in particular, perceptions by franchisees that the people who lead and manage the franchisor company have integrity, are concerned for their success and are competent to run things.

When a franchisee's business is losing money, his or her financial anxieties will of course have a negative impact on how they feel about the business and their franchise relationship. However when people are in financial distress, psychological factors still play an important moderating role, as demonstrated below.

In Franchising, Business *is* Personal

Early in my consulting career I was approached by the franchisor President (we will call him George) for advice about a franchisee who was threatening to sue his company for misrepresentation. The franchisee's business had never reached break even and after two years of trading losses and royalty payments not being made, the franchisor decided to terminate the franchise agreement. George told me his company had done everything they could for the franchisee and he could not understand why this person was threatening to sue.

I phoned the franchisee, explained that George had told me about his predicament and that I was interested to know what had gone wrong and how he was coping. Toward the end of the conversation he said to me, "You know Greg, I really appreciate you calling and talking with me about this. The thing that has really upset me and my family about this whole situation is that George has not even called or spoken to us to say he is sorry about us losing the business."

I recounted these comments to George. His response surprised me. He said, "It's not as if it's personal".

A principle in franchising is that to a franchisee who invests his money, his personal pride and his sense of purpose into a franchise, *it is extremely personal*. By the franchisor not showing empathy for his loss, this franchisee felt the franchisor had violated the psychological contract (though he would not have expressed it in this way). The legal posturing was primarily a way to bring this sense of personal injustice to the attention of the franchisor.

A Holistic Understanding of the Franchise Relationship

It is my contention that a holistic understanding of the franchise relationship needs to encompass three perspectives - legal, commercial and psychological - and, like the legs of a stool, all three play an equally important role in creating a stable and robust foundation for franchisees and franchisors to work effectively together. These perspectives are perhaps best explained with reference to how important decisions are made.

The Legal Perspective

This is concerned with protecting the rights of franchisors or franchisees and ensuring that decisions do not expose the parties to unnecessary risk. Because the expertise of my organization lies outside the legal realm, and these issues will have been well served by other experts at this Forum, this will not be a focus for this paper.

The Commercial Perspective

The commercial perspective focuses on whether decisions are going to provide a satisfactory return on time and investment. In other words, will the decision leave the parties better or worse off financially. This approach defines the interests of franchisors and franchisees in economic terms. The attraction of the commercial perspective is that it simplifies decision making to an analytical numbers exercise. There are however several limitations to this approach. The first concerns time frames. For instance decisions made for short-term financial gains, perhaps to meet shareholder expectations, may result in significant damage to the company's relationship with its franchisees and undermine the longer-term viability of the franchise system. Another limitation of a purely commercial perspective is that it is amoral and, if overemphasized, can lead to decisions that are illegal, socially destructive⁹ and which can thus undermine trust. A third limitation is that it ignores the influence of emotions on human behavior.

The Psychological Perspective

The psychological perspective of the franchise relationship considers how a decision by the franchisor will impact on trust levels and franchisee commitment. Do franchisees trust the decision? Do they feel it is fair? Will they support it?

The psychological perspective thus taps into the world of expectations, emotions, perceptions and feelings. This is largely the focus of this paper. Before discussing the factors that build and undermine healthy franchise relationships a word on definitions.

What is a Relationship?

A relationship can be simply defined as “a feeling of connectedness that influences people's behavior”. This does not have to be positive, it does not have to be two-way and it does not even have to be with another person – it can be with a thing or a group. If a person believes they have a relationship with someone or something, then this belief is going to influence their behavior. In fact businesses actively encourage people to have such feelings of connectedness with their brands, their products or the actors and celebrities that appear in their advertisements as this impacts on their buying behavior.

While we talk of relationships as though they were “out there”, they actually exist as perceptions in people's minds. They are thus influenced by values, personal prejudices, expectations and the information available at the time. For this reason the effective management of relationships requires care and attention.

⁹ One of the indirect but significant consequence of the Global Financial Crisis was an undermining of community confidence of the integrity of commercial sector. This concern over corporate social responsibility has led to schools of thought that promote socially responsible management practices such as “The Triple Bottom Line”. See, e.g., ANDREW SAVITZ & KARL WEBER. THE TRIPLE BOTTOM LINE: HOW TODAY'S BEST-RUN COMPANIES ARE ACHIEVING ECONOMIC, SOCIAL AND ENVIRONMENTAL SUCCESS. (Wiley Publishers, 2006).

When we talk of a franchise relationship we are usually referring to how franchisees and franchisors feel about each other, particularly in relation to trust and commitment. While the franchisee is usually seen as a person, the franchisor can be seen as a management team, a company, a brand or as a person – usually the President of the company.

In other words franchise relationships are complex and they can be fickle. While this makes their measurement and management a challenge there are methods that can be used to measure reliably how people feel. There are also predictable patterns in the franchise relationship, and proven strategies that franchisees and franchisors can adopt to manage their relationships more effectively.

At the Franchise Relationships Institute we describe a healthy franchise relationship in the following way.

- Franchisees and franchisor employees are glad of their decision to be involved in the network.
- There is collaboration and transparent sharing of information between franchisor and franchisees as well as between franchisees.
- Dealings are conducted with courtesy and respect.
- People give each other the benefit of the doubt.
- People comply with their agreed obligations without coercion.

How Important Are Constructive Relationships?

In our work with franchisor teams we sometimes ask them to rate on a five-point scale, how important they believe constructive relationships with their franchisees are to the success of their franchise systems. While around 90% rate constructive franchise relationships as *very important* or *essential*, when asked why they responded as they did, most people have difficulty articulating their reasons except to say that it is more satisfying and enjoyable to work cooperatively with other people. This is of course true, however there are good commercial reasons why franchisors, franchisees and their advisers need to take seriously the creation of constructive franchise relationships.

Communication

The commercial power of franchising lies in the effective sharing of knowledge and resources, not only between franchisor and franchisee, but also the sharing between franchisees. In our surveys franchisees frequently rate the communication that occurs between them as equally important and useful to their business success as the communication that occurs with their franchisor.

This is an important finding as it suggests that part of a franchisor's role should be to facilitate good communication as well as to be a participant in the communication. The distinction is subtle but significant and the best franchise companies build facilitative processes into their franchisee support services. These processes include online discussion forums; open forums at meetings; best practices workshops where franchisees share methods by which they have been attaining outstanding results; and consultative committees. It is through such open sharing of information that franchise systems gain and maintain their competitive advantage.

On the other hand when relationships become strained people often withdraw their energy as a form of defense. Communication subsequently closes down. The most common symptoms of communication withdrawal are people not returning phone calls or emails, or a lack of physical or emotional participation in meetings. Someone may physically attend a meeting but be emotionally disengaged. People may also deliberately withhold information in the hope that this will make life difficult for the other party. Inevitably business performance will be affected.

Commitment

When people stop communicating a drop in commitment is likely to follow. This may show up as suspicion over initiatives and a tendency to focus on the negatives. We have found that if meetings become dominated by a few disenchanted franchisees, franchisor executives will become defensive and authoritarian, and other franchisees will stop attending the meetings - a vicious cycle that further erodes commitment and morale.

Because franchisees are to a large extent operating their businesses autonomously, engaging commitment to new initiatives is essential. While staff and managers of corporate units can be instructed to implement changes, and will do so even if they secretly disagree with them, franchisees will resist initiatives they do not believe in.

Commitment to innovation or change will only occur if franchisees feel able to ask questions and express concerns without fear of retribution. Clearly this can only take place where there is a robust relationship of trust and good communication. When people have the opportunity to participate in well run discussions, they will identify more strongly with the group and its goals. In most cases their commitment to the group and its goals will increase significantly.

Group Psychology

People have a need to have strong feelings validated, which means unhappy franchisees who are unable to resolve significant differences with their franchisor, will seek out people who will listen to them. While this may be a family member, a friend or an attorney, the most likely people they will seek will be other unhappy franchisees. When a group of unhappy franchisees get together to share their experiences they will quickly move to a group position where they see the franchisor as an “outsider” who doesn’t understand their needs and who is perhaps the cause of their problems. Psychologists call this the “in group/out group bias”¹⁰. As franchisees vent their frustrations with each other, the degree and intensity of their problems will become inflated in their own minds and they will increasingly close ranks against the outsider franchisor.

On the other hand people in a constructive mindset with a shared goal will tend to motivate each other to greater commitment and performance, as in sports teams. Such groups are characterized by enhanced creativity, concentration, energy and positive emotions. Psychologists have observed a ratio of four positive comments to every one negative comment in such high performance teams or in satisfying productive partnerships. Dysfunctional relationships with low morale and performance tend to be

¹⁰ See Henri Tajfel, Experiment in Intergroup Discrimination, SCIENTIFIC AMERICAN, Vol. 223 at 96-102.

characterized by more negative comments to every positive comment¹¹. Under normal operating conditions most of the franchise relationships we see are characterized by a low positive to negative ratio comments ratio. When frustrated franchisees get together and the “in group/out group” effect kicks in, there is likely to be *no* positive comments heard!

The appointment of an attorney to protect a group of franchisees in this mindset from the outsider franchisor who is now perceived as a threat, is an attractive option. The attorney’s focus is of course to protect his or her client’s rights leading to an escalation of the in group/out group effect. A battle of wits and resources follows where franchisor and franchisees are pitted against each other with valuable resources diverted away from the day to day running of their businesses into winning the fight against each other.

Brand Damage

While such confrontations are stressful for all parties, they also carry serious commercial implications and risks. A drop in customer satisfaction in the business of disaffected franchisees is common because stress and frustrations of franchisees tend to extend into their relationships with their staff and customers. A drop in sales revenues can also follow. For instance one large Australian company experiencing system wide conflict with its franchisees had an extraordinary drop in sales across the group of 10% over a six week period¹².

Furthermore, groups of unhappy franchisees can develop an uneasy alliance with the media, who know that such stories attract the attention of their readers and viewers. This can quickly result in damage not only to their businesses, but the brand and the businesses of other franchisees not involved with the disaffected group. The Internet and the emerging social media phenomenon has of course greatly magnified this risk.

Management Distraction and Stress

When a franchise relationship breaks down and attorneys become involved the associated costs can, of course, be significant. However, the indirect costs in terms of management distraction and lowered morale can be even more commercially damaging. For instance, in cases where senior management have been embroiled in long standing disputes with franchisees there is likely to be a significant drop in productivity and innovation and an increase in sick leave and management turnover.¹³

When the morale of the franchisor leadership group drops, there will also follow a drop in the morale of franchisees. In one case the franchisor team had been fighting two significant legal actions by a relatively small number of franchisees for several years. The lack of energy in the head office management team was palpable. The CEO privately commented, “We all feel so jaded it’s hard to get enthusiastic about anything.”

¹¹ See Barbara Frederickson and Marcial Losada, *Positive Affect and the Complex Dynamics of Human Flourishing*, AMERICAN PSYCHOLOGIST, Vol. 60, 2005 at 678-686.

¹² As reported to the author by a senior executive of the company. During this period many franchisees were involved in extraordinary meetings and phone conference calls with each other.

¹³ Franchisor stress is common because franchisor managers are often under ongoing performance pressure in relation to their decisions from both their shareholders and their franchisees.

When the people at the top of an organization feel like this, their feelings of stress and despondency cannot fail to be transmitted down the line. Not surprisingly, a subsequent franchisee satisfaction survey of this system showed some of the lowest results we have seen, particularly in the area of franchisee confidence in leadership and optimism about the future.

Franchisee Validation and Referrals

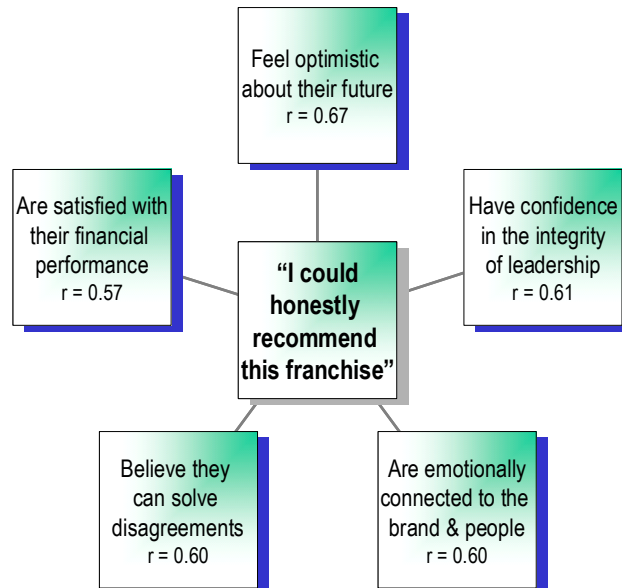
Our research in both Australia and the USA indicates that around 72% of franchisees will feel comfortable recommending their franchise system to prospective franchisees and around two thirds say if they had their time over they would do it again. However these figures differ significantly from one franchise system to another, some averaging as low as 30% and others as high as 95%.

Franchisee advocates are of course an invaluable source of growth for a franchise system so we have examined the factors that are likely to turn franchisees into advocates for their franchise system.

To do this we examined the franchise relationship profiles of 5,000 franchisees to see what factors most correlated with agreeing to the statement, “I could honestly recommend this franchise to a prospective franchisee.”

Results are shown in Figure 1 below. The letter “r” indicates the correlation coefficient. In this type of research correlation coefficients of over 0.5 are considered to show a clear and strong relationship between the factors.

Figure 1: Relationship between franchisee validation and elements of the franchise relationship



These are all highly significant correlations indicating a strong relationship between these five factors and a propensity for a franchisee to advocate for their franchise system.

In order of strength, the best predictors are:

- Feeling optimistic about the future of the group and their business.
- Having confidence in integrity of franchisor leadership.
- Feeling an emotional connection with the brand and the people in the franchise network (both franchisees and franchisor staff).
- Believing they are able to solve disagreements or conflict with the franchisor.
- Believing their financial performance is in line with their expectations.

These findings add another dimension to the common wisdom that franchisee satisfaction is all about financial satisfaction. Yes financial satisfaction is important, but factors such as optimism, confidence, emotional connection and feeling able to resolve disagreements are even more important!

Why Franchise Relationships Flourish or Fail

When trying to identify the predictors of a healthy franchise relationship it is not always easy to discriminate specific factors because some, for example the quality of leadership, have such a broad impact on a whole range of areas. Similarly separating symptoms and causes can also be a challenge. Does optimism about the future direction of the group cause a franchisee to be more satisfied? Or do satisfied franchisees tend to feel more optimistic about the future?

We have used a combination of the three research methods - quantitative, qualitative and ethnographic – to identify what we believe are eight specific areas that have a significant impact on the health of franchise relationships. These are:

1. Franchisee stress
2. The management of change
3. Communication
4. Leadership and culture
5. Franchisee profitability
6. Franchisee recruitment practices
7. Management of expectations
8. Management of The Franchise E-Factor

The following sections will elaborate how these eight areas impact either positively or negatively on the health of franchise relationships. Consider them as foundational pillars on which the franchise relationship is built. A significant weakness in any of these areas will undermine the franchise relationship and in some cases, can bring down a whole system.

Opportunity # 1 – Monitor Franchisee Stress

Using our franchisee database at The Franchise Relationships Institute (FRI) and the database of The Franchise Business Review (FBR)¹⁴ we have been able to look at lifestyle trends in a sample of over 50,000 franchisees.

Franchisees face constant pressure on a number of levels. There is the emotional pressure of having one's life savings on the line combined with a constant stream of demands from customers, staff and the franchisor. The negative impact of these ongoing demands can be exacerbated by the uncertainty of fluctuating sales, especially in recent times, and the frustration of dealing with rising expenses and dwindling profit margins.

As a result, franchisees can become physically and emotionally worn down and suffer symptoms of burnout. Indeed 54% of franchisees agree with the statement, "Franchisees in this system get burnt out by the demands of the business" and 44% believe the pressures of running their business have a negative impact on their personal life and 43% believe they do not have a balanced life.

The irony of these figures is reflected in the findings of an in-depth psychological study we conducted on 890 franchisees across 32 franchise systems¹⁵. In one question franchisees were asked to rank in order of importance to them, six possible reasons why they chose franchising as a career option. The percentages ranked as a first option are shown below in Table 1.

Table 1 - Percentages of first option rankings on why franchisees chose franchising

Have more flexibility and life balance	31%
Build more personal wealth	22%
Have greater control on how I do things	15%
Have more security and stability	14%
Achieve a personal challenge	13%
Be able to work with my family	5%

Flexibility and life balance was clearly the strongest motivator followed by building more personal wealth. This goes against the accepted wisdom that franchisees are only interested in making money. It is also a reminder for franchisors not to underplay the realities of long hours and hard work when building a business as this may lead to later disappointment and resentment, factors that can only demoralize a franchisee and undermine their performance.

¹⁴ We are grateful to Eric Stites, President of the Franchise Business Review, for allowing us access to their USA database.

¹⁵ Greg Nathan, Chris Jackson and James Allen, *Psycho-Social Predictors of Franchisee Success and Implications for Selection*, PROCEEDINGS FROM INTERNATIONAL SOCIETY OF FRANCHISING 22ND ANNUAL CONFERENCE, 2008, Saint Malo

Incidentally we found that franchisees primarily motivated by more control or wanting a personal challenge were significantly more likely to be better performers, while franchisees primarily motivated to have more security and stability or to work with their family were more likely to be worse performers.

Burnout can result from a person feeling constant emotional, mental and physical exhaustion. The four main symptoms of serious burnout can be summed up in the acronym **ICED** which stands for:

Isolated — withdrawing and cutting off communication with others.

Cynical — doubting the motives of others.

Exhausted — lacking the physical, emotional and mental energy to face each day's challenges.

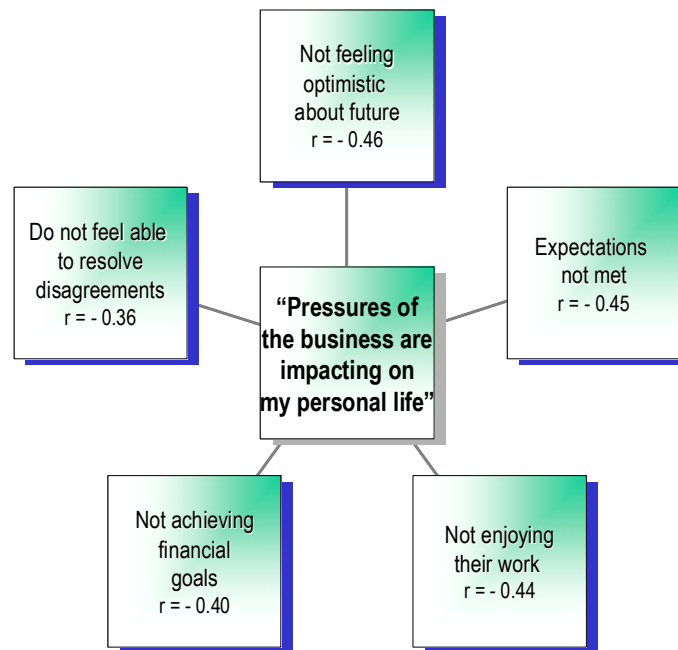
Despondent — feeling emotionally low with loss of joy or enthusiasm for life.

In most cases, franchisees who have been under constant stress tend to show milder forms of the above symptoms with around 14% experiencing more serious forms. While these symptoms are not generally life or business threatening in themselves, **they will have a negative impact on the quality of the franchise relationship**. People who are stressed have a lower tolerance for frustration with a tendency to be more critical and dissatisfied with decisions that inconvenience them, especially when they come from a franchisor who is seen to be removed from these daily pressures.

The good news is that 58% of franchisees¹⁶ say they do have flexibility with their work schedules. The bad news is that 46% are working over 50 hours a week, 60% are working evenings at least a couple of times a week and 72% regularly work weekends.

The relationship between stress and elements of franchisee satisfaction is shown in Figure 2 below. Again the letter “r” indicates the correlation coefficient.

¹⁶ These figures are from the USA FBR database.

Figure 2 - The relationship between stress and franchisee satisfaction

When it comes to franchisee stress there is a strong relationship between franchisees feeling stressed and:

- Not feeling optimistic, e.g. not believing their business will grow.
- Their expectations not being met, e.g. believing the business has not lived up to their expectations.
- Not enjoying their work, e.g. finding it dull and boring.
- Not achieving their financial goals, e.g. not considering their business to be a financial success
- Not being able to resolve conflict, e.g. not being able to resolve disagreements in an open and frank manner.

Most of these negative feelings can be addressed through good management and communication practices. To identify what these might be we studied a “high stress” retail franchise network where 80% of franchisees felt people were getting burnt out by the business. We found that the 20% of franchisees who were experiencing significantly lower levels of stress were using the following strategies to reduce its negative impact on them:

- Have a senior staff member and trained staff they could rely on.
- Use the franchisor’s business planning tools and rosters.
- Speak with their franchisor about possible solutions to difficulties.
- Organize to take regular time off.
- Spend social time with family or friends.
- Step back and work more “on the business”

Note that three of these are relationship based strategies. Supportive relationships not only make a big difference to wellbeing, they also impact on business performance. For instance strong levels of social and family support have been consistently found in our research to be a highly significant predictor of franchisee sales, profitability and customer service¹⁷.

Relationship between Stress and Franchisees Exiting

Another negative implication of high levels of stress is that this is likely to lead to franchisees wanting to exit the system, potentially costing a franchisor time, money and, perhaps most importantly, a loss of people who know their systems and are thus potentially lower maintenance to support. The correlation of people looking to exit the franchise system and experiencing high levels of stress is quite significant at 0.45.

One last comment about stress. While stress levels do tend to be high in franchise systems so is enjoyment of the work. Overall 88% of franchises say they enjoy their work, and this tends to act as a positive buffer to feelings of stress.

Opportunity # 2 - Manage the Change Process

All businesses today face the challenge of keeping up with new technology, competition from globalization and a more finicky customer who wants things faster, better and cheaper.

This requires franchise groups to continuously update and change their franchise operating and marketing systems, while simultaneously getting franchisee buy-in and commitment to these changes. While some franchisors believe franchisees will just fall into line if they introduce change in a well-organized and orderly manner, this is a myth. Introducing change is typically tiring, frustrating and confusing for both a franchisor and especially its franchisees. A new initiative may mean that the business model franchisees initially bought into is different to the one they will be running in the future. Understandably this will raise concerns, especially if the revised model requires significant investment and new types of work or activities.

Franchisors need to carefully consider a change initiative from the three perspectives mentioned earlier - legal, commercial and psychological. In other words, is it consistent with the franchise agreement? Will it be good for the business? What do we need to do to get franchisee buy-in and commitment to this change? This last perspective is often an after thought, which is why most change programs fail to achieve their objectives¹⁸.

¹⁷ Nathan, Jackson and Allen, *supra*

¹⁸ See, e.g., Michael Beer and Nitin Nohria, *Cracking The Code Of Change*, HARV. BUS. REV., June-July 2000, at 133-141.

The Two Types of Change

There are two types of change and this is an important distinction when understanding how to prevent change from damaging the franchise relationship.

- **Type 1** change is “the change we choose” – where we feel we have some control; for instance taking a holiday, buying a business, looking for a new place to live. Most people find this type of change interesting, motivating and exciting.
- **Type 2 change** is “the change that chooses us” - where we feel we are being told to do something different or that we have no choice because of forces outside our control. This type of change is, at best, challenging but is more often experienced as intimidating, demotivating, frustrating and, in some situations, depressing. Indeed, when people on the receiving end of Type 2 change are asked to express how they feel, they usually describe it as an intensely unpleasant experience.

Because franchisors are usually the people driving the changes through a franchise network, they are more often experiencing Type 1 change while their franchisees are typically on the receiving end experiencing Type 2 change. So it is not surprising to find a disconnect between the franchisor team who are excited, enthusiastic and motivated while their franchisees are suspicious, fearful and resentful. Franchisors who fail to recognize the difference between the two types of change find this reaction by franchisees difficult to understand and can soon find their franchise relationships under enormous strain.

14 Tips for Getting Buy-In to Change

Below are 14 practical things that franchisors can do to encourage franchisees to support a change program. These are based on our research into both successful and failed change programs in franchise groups:

1. Being able to justify the change and explain the benefits to franchisees in terms they understand. These benefits should include savings in time and money, improvements in profits and customer service and a stronger competitive position in their local market.
2. Being sensitive to how a change could undermine the organization’s culture or the franchisees’ sense of identity. Changes that touch a cultural nerve will often be described by franchisees in terms of the company losing its heart or soul.
3. Testing or piloting initiatives to ensure they work before releasing them into the network. Impatience or a false sense of urgency is often the reason why initiatives are not adequately tested.
4. Not mistaking silence for agreement, i.e. not assuming that because franchisees do not question a change they agree with it. They may just initially be too stunned to say anything!

5. Communicating clearly and simply. Franchisees do not like wading through long-winded documents that fail to address their concerns. Face-to-face is always the best way to communicate change. Any written materials should be relevant and to the point.
6. Consulting with the people who have to implement the change and asking them what they need in order to make it work.
7. Considering other stakeholder groups who could either help to make the change work or block it. These groups might include suppliers, competitors or the families of franchisees.
8. Running open forums on hot issues using a structured facilitation process to guide how people communicate. While it's important to have open discussion, this can turn negative if not competently facilitated.
9. Acknowledging emotional reactions such as fear, loss or anger as legitimate and not trying to talk people out of their feelings using logical arguments. Franchisees will not be open to listening to a franchisor's ideas unless they also feel heard.
10. Treating the change process as a two-way communication process – not a sales exercise. Franchisees will respond better to relevant facts and information than razzle-dazzle and clichés.
11. Being transparent and not glossing over or covering up mistakes in the implementation. Franchisees will inevitably find out and, when they do, the long term damage to trust will be worse than any short term damage in credibility from an honest mistake.
12. Not being defensive and treating all franchisee concerns and questions as legitimate. Franchisees who ask a question are providing an opportunity to explain the benefits of the change.
13. Remembering that all new initiatives need to operate within an existing system. Franchisors sometimes fail to consider the ripple effect of decisions on other people or parts of the organization.
14. Not giving up when faced with resistance. If franchisees resist an initiative this does not mean it is wrong or flawed. It may just mean more communication is needed or that people are still getting used to the idea.

In summary there is now a widespread appreciation that **how** messages are communicated about a change is just as important as the actual changes itself.

Opportunity # 3 – Manage the Communication Process

Effective communication, one of the fundamental building blocks of good personal and business relationships, is easier to talk about than to put into practice. This section will discuss some of the common barriers to effective communication and their implications for the franchise relationship.

Lessons From Marriage Research

Many writers have drawn a similarity between franchising and other interdependent relationships such as marriage, in which two parties depend on each other for mutual satisfaction and support. Indeed the feelings of excitement and hope in the early stages of the franchise relationship are not dissimilar to those experienced by people embarking on a partnership at the personal level.

A review of the research literature on interdependent relationships, such as marriage, reveals some potentially useful lessons for the franchising sector. Professor Kim Halford,¹⁹ analyzed hundreds of studies on marriage and partnership breakdowns to identify consistent principles or trends. He found that during the first year, half of all married people had some doubts about their decision and wonder whether the relationship is going to work. Of this half, 20% experience relationship problems. In other words, 10% of legally committed relationships develop problems early in the relationship.

The most fascinating aspect of this marriage research is that the couples that went on to experience serious problems could be predicted in advance with 91% accuracy, using the following four predictive indicators which have great relevance to franchising.

- An inability to deal with conflict
- Poor communication skills
- Unrealistic expectations
- A lack of supportive networks

An Inability to Deal With Conflict

The single best predictor of partnership breakdown is poor management of conflict. The most important skill in managing conflict is the ability of each party to listen and show interest and respect for the other's point of view. Another important skill is simply talking about the problem. Numerous studies show that people who avoid talking about topics that they are in conflict over inevitably suffer from relationship problems. At the other extreme, attacking the other party is just as unsatisfactory. This actually can lead to an escalation of hostility. In franchising we frequently see this escalation of hostility played out through litigation battles.

¹⁹ W. KIM HALFORD. DEPARTMENT OF FAMILY AND COMMUNITY SERVICES *AUSTRALIAN COUPLES IN MILLENNIUM THREE: A RESEARCH AND DEVELOPMENT AGENDA FOR MARRIAGE AND RELATIONSHIPS EDUCATION.*, 2000 Canberra

Poor Communication Skills

A recent survey by the IFA Franchise Relations Committee asked franchisees and franchisors to rate the importance and effectiveness of different types of communication.²⁰ In this survey franchisors rated their communication as twice as effective as did franchisees!

This type of bias is common in communication. The reason is that, while we may be acutely aware of what we are thinking and feeling at any point in time, we are blind to our own behavior because our eyes are pointing outwards! Anyone who has seen themselves on a video replay will know how surprising it is to see oneself from the point of view of others. Yet while others may be acutely aware of our behaviour, our thoughts and feelings are invisible to them.

Most of us will have had the experience of assuming that because we have seen or read something, or feel strongly about an issue, that others somehow automatically have shared our insight (and obviously agree with us). We become surprised, irritated and even hostile when they look at us blankly and say something like “What are you talking about?” While some people are more perceptive at reading body language than others, no one is a mind reader. If we do not constantly make an effort to communicate accurately what we are thinking and feeling, others are going to be left to fill in the gaps themselves.

Another barrier to good communication is when someone gives mixed messages by saying one thing and conveying a different message through their behavior, usually because they are not really convinced about what they are saying. Perhaps they have been told to announce a policy they don't believe in, or they are trying to convince franchisees of a new initiative they have not yet properly thought through. Many franchisees tend to be “street smart” and have a good sense for picking up on these mixed messages which can undermine trust.

The point is that what we think we have communicated is often different from what other people have seen, heard or experienced. As social psychologist, Hugh Mackay, points out, “It's not what our message does to the listener but what the listener does with our message that determines our success as communicators”.²¹

Unrealistic Expectations

Unrealistic expectations at the start of a relationship are highly correlated with feelings of subsequent disappointment and betrayal. The franchise sales and qualification period is absolutely the best time for clarifying the expectations of both parties. Unfortunately it is often more like a tale of exaggeration, distortion and beauty!

Franchisees join a franchise system because they believe it will help them achieve their goals with less risk than running an independent business. They are looking to the franchisor to deliver on the promise of being in business for themselves but not by themselves.

²⁰ Bruce V. Bloom and Steve Nelson, *Improved Communication Means Improved Franchise Relations*. (International Franchise Association Franchise Relations Committee) available at <http://www.franchise.org/files/FRC%20HandbookX.pdf>.

²¹ HUGH MACKAY. *THE GOOD LISTENER* (Pan MacMillan1997).

Strains in the relationship will occur if the franchisor is not seen to deliver on its promises of relevant support or if the benefits of being in the system do not enable them to achieve the success they had envisaged. Perhaps the franchisor would do better to counsel franchisees to lower their expectations from the outset.

There is now substantial evidence that franchisee satisfaction with the support they receive decreases significantly over time. For instance while 75% of franchisees are satisfied with the initial training provided by their franchisor, this level of satisfaction drops to around 63% for ongoing support.

Unless franchisees and franchisors have initially agreed on specific financial goals (which is unlikely given the legal risks involved for the franchisor) feelings of failure, disappointment and even betrayal are bound to cause strains in the relationship. The Franchise E-Factor model, explained further below, also predicts that as a franchisee's confidence and competence grows, their needs become increasingly more difficult to satisfy.

A Lack of Supportive Networks

The fourth predictor of partnership breakdowns is concerned with the level of outside support the parties receive. When problems occur, it helps to have someone constructive to talk to who can break the vicious cycle. Many franchisors report that they gain great support and encouragement from discussing with their peers problems that arise in their networks.

While franchisees can also find it useful to provide mutual support for each other when facing conflict with their franchisor, we strongly recommend these discussions are led by an objective but supportive facilitator so meetings do not fall victim to the group psychology pitfalls referred to earlier.

Advisers can play an important and constructive role by acting as a sounding board on difficult issues. It is however important that such a person has honorable intentions, is neutral and not personally committed to a particular outcome, and is favorably disposed to franchising and the existing relationship. By seeking advice from third parties with a vested interest in intensifying the conflict or undermining the relationship, franchisees and franchisors can find an already strained franchise relationship further damaged. This brings us to the role of third parties in the helping the franchise relationship flourish or flounder.

The Role of Lawyers

When a franchise relationship comes under strain attorneys are often engaged to protect the rights of their clients, using the franchise agreement and relevant law as their main point of reference. An inherent dilemma here is that lawyers traditionally encourage their clients to take a defensive stance and prove their position is right, which of course makes the other party wrong. This "rights based paradigm" can exacerbate an already strained franchise relationship, even if this is not the intention.

Of course lawyers do not always take a rigid legalistic approach and many disputes are resolved using more pragmatic approaches such as negotiation and mediation, which focus on interests, not positions. In Australia franchisors and franchisees operate under a mandatory Franchising Code of Conduct with enforceable guidelines to participate in

dispute resolution processes such as mediation, in the event of conflict. The Office of the Mediation Adviser (OMA) is a government funded service providing mediation advice and access to a panel of qualified mediators, mostly lawyers. Of the 3500 enquiries received since the OMA opened in 1998, 1116 mediations have been organized and settlement reached in 78% of cases. While mediations were initially mainly instigated by franchisees, 30% of requests to use the service are now coming from franchisors.

Could mediation represent an opportunity for franchise lawyers to move outside their traditional legal paradigm and facilitate a new approach to contributing to healthy franchise relationships? Franchise lawyers we have spoken with who have been adopting this approach, report encouraging results in building stronger ongoing relationships with their clients who tend to use them as relationship advisers rather than ad hoc problem fixers.

The Role of Franchise Brokers

Franchisors, particularly in the USA, often use the services of professional franchise sales brokers who are paid on hefty results based commissions. To the broker the franchise relationship is primarily a sales transaction – understand the needs of the prospect, sign the deal and move on to the next prospect.

Because franchise brokers are often the first point of contact for prospective franchisees they have considerable influence over the franchisee's perceptions of the franchise relationship and they have a vested interest in creating as favorable an impression of the franchise as possible. While most brokers today are careful not to legally misrepresent a franchise opportunity, they do tend to over sell the benefits and feed the hopes of their prospects.

Not surprisingly, strains in the franchise relationship can later occur if there is a significant mismatch between the dream that the broker and the prospective franchisee conjured up together, and the reality that the franchisee faces in later running the business.

It is in a franchisor's longer term interests to train and brief brokers not to oversell their franchise opportunity and to put in place checks and balances, perhaps even linked to compensation, to ensure this does not happen. While a franchisee's longer-term success may be out of a broker's control, their expectations and suitability to proceed with the franchise are not.

Franchise sales brokers and franchise lawyers may seem like unlikely bedfellows, but they are often unwittingly involved in an unhealthy informal alliance. The broker sets up the franchisee with a set of unrealistic expectations and, when these are dashed, the lawyer is there waiting to pick up the pieces!

Brokers should be discouraged from viewing the sale of a franchise as just closing a deal or selling a commodity. In reality they are joining two parties together in a long-term relationship. In other words they need to operate more like match makers and less like real estate consultants²².

²² Steve Hockett, President of FranChoice, one of the large franchise broking firm describes how they see the role most accurately when he says, "We're like real estate agents. Our service is free to the candidate"

In an attempt to distance themselves from the salesperson stereotype, several broker groups in the USA promote themselves as “franchise coaches”. This is controversial in some circles because it promotes a false image of objectivity and of being motivated solely by what is in the best interests of the (prospective franchisee) client. When the relationship is driven by a hefty commission check from the third party they are recommending this is clearly not going to be the case.

Opportunity # 4 – Monitor Leadership and Culture

Because leadership and culture are so intertwined they will be treated together in this section.

In nearly every analysis of our franchisee satisfaction data, leadership comes up as one of the most significant factors in predicting the health of the franchise relationship. Healthy relationships are characterized by high confidence in leadership, whereas low confidence in leadership is associated with high levels of disputation, reluctance to recommend the franchise and intentions to leave the franchise.

Leadership in this context has five dimensions where franchise leaders are seen:

- as **committed** to the long-term success of the network.
- as **competent** to run the franchise network.
- to provide adequate long-term **direction**.
- to inspire **confidence**.
- to be **honest** and **fair** in their dealings.

Some of these significant correlations are shown in Table 2 below (“r” is the correlation coefficient with anything over 0.4 being high).

Table 2 – Health of franchise relationship and satisfaction with leadership

Indicators of relationship health	Correlation with leadership satisfaction
Whether franchisees are in a significant dispute	r = -0.49
Whether franchisees are willing to recommend the franchise	r = 0.61
Whether franchisees are intending to leave the franchise	r = - 0.53

The success of a franchise network is largely dependant on being able to attract, retain and develop a committed network of successful franchisees. With this in mind the mission of every franchisor should be to create a collaborative culture that facilitates the ongoing growth of successful franchisees.

Quoted in Gene Koprowski, *Successful Franchisees Embrace The System* STARTUP JOURNAL 2006, available at <http://www.startupjournal.com/franchising/franchising/20040308-koprowski.html>.

A healthy franchise relationship and a healthy franchising culture are two sides of the same coin so we could again describe a healthy culture in the following way:

- Franchisees and franchisor employees are glad of their decision to be involved in the business.
- There is collaboration and transparent sharing of information between franchisor and franchisees as well as between franchisees.
- Dealings are conducted with courtesy and respect.
- People give each other the benefit of the doubt.
- People comply with their agreed obligations without coercion.

The best performing franchise networks encourage a strong sense of community with a focus on collaborative sharing. Leaders in these networks regularly use stories and anecdotes to talk about what they are proud of in the way things are done and they use the power of culture as a method for influencing the behaviour of their franchisees.

Professor Ed Schein from M.I.T. defines culture as “the way we do things around here”. This includes the expectations that people have of each other and the unconscious habits they share. For instance the way they answer their phone, greet each other, respond to emails, even the expressions they wear on their faces when they are under pressure.

If culture is “the way we do things around here”, where do these habits come from? It is of course the leaders that set up the expectations that people buy into.

Because a healthy culture contains people that care about each other’s success, and leaders set the culture, then we might assume that leaders of franchise networks with healthy franchising cultures care about people. This is exactly what we have observed. Leaders in franchise networks with healthy cultures care about their customers, they care about their franchisees and they care about their brands.

What does caring look like in practice? It could be summed up as treating people with respect and listening to their point of view. Listening does not mean agreement, but it does mean respecting their right to think differently. A mark of a high functioning franchise leader is someone who can listen non-defensively to a franchisee who holds a different perspective from theirs.

Ralph Waldo Emerson wrote “An institution is the lengthened shadow of one man.” When franchise leaders complain about the behaviour of their teams or franchisees we recommend they take a look in the mirror.

Franchisor Cultural Types

As previously mentioned the greatest influence over the culture of a company comes from the leader. Joe Mathews²³ describes five types of franchise cultures summarized below. While these might be extreme examples, and no one company is likely to display all these elements, the insights are instructional. I have noted which of these cultures tends to drive healthy franchise relationships and high performance or low performance and disputation.

²³ Joe Mathews, et al. STREET SMART FRANCHISING. 2006, Entrepreneur Press 2006.

Anarchy - low performance/high disputation

The CEO and leadership team are disorganized, do not enforce quality standards and have little credibility with franchisees. Because of their lack of discipline and systems they will have lost control of their brand and franchisees will probably be doing what they please. While there may not be a lot of conflict in this group, the franchisor and franchisee will perform poorly and will probably fail or be bought by more skilled and better-organized competition.

Management by Committee - low performance/high disputation

The franchisor team is operating outside its level of competence, lacks a long term vision, and makes short-term compromises to try to please franchisees. Leadership will not make tough decisions for fear of making franchisees hostile. Because the franchise system has not been properly piloted or the franchisor is out of touch with the market, franchisees are left to fix or design the systems themselves. The franchisor has low levels of credibility and gives in to the demands of the more aggressive and vocal franchisees who drive initiatives to suit their own interests. This culture will not have a strong brand because of the inconsistencies of franchisees who are likely to be disengaged and happy just to do their own thing. If the franchisor tries to implement new initiatives, franchisees are likely to be divided or apathetic.

Benevolent Dictatorship - high performance/low disputation

The company is still headed by the founder, a charming, authoritarian and capable leader who has a clear and exciting vision and usually gets his or her own way. Because trust is valued over competence, the franchisor team often consists of family or loyal operations people who may have been promoted beyond their competence. Capable professional managers do not tend to survive, as the leader, while well meaning, dislikes being challenged. These companies have a high level of passion for the brand. Because the leader wants to grow, but can't let go, the company's development can be stunted. The benevolent dictatorship is the most common of all franchising cultures. In most cases the founder eventually realizes he or she needs to bring in strong and experienced senior leadership. However it may take two or even three attempts to find a suitable person who can work with the founder. In some cases the company will be sold. While franchisees will generally be happy because the group is performing well, they will probably say they would like to have more consultation and input into decision-making.

Dictatorship (Minus the "Benevolence") - low performance/high disputation

These companies are headed by domineering, ego-driven leaders. While they project themselves as visionary leaders and may initially seem charming, they are primarily motivated by fear of losing control and under pressure will show their true colors. They consciously use intimidation tactics to bully and control employees and franchisees, and tend to be hypercritical, breaching franchisees for the most minor infractions. They surround themselves with fearful people who give an impression of being competent. Dictatorships lack integrity and the leaders will get away with whatever they can. Companies with this type of culture are continually fighting off threats of litigation and usually take an approach along the lines of "attack is the best form of defense".

Franchisees are likely to feel angry or depressed. These are the organizations that often appear in the media stories that give franchising a bad name.

Empowered Leadership - high performance/low disputation

Franchisees and the franchisor team are clear on their roles and responsibilities and have the authority and resources to achieve their goals. When there are problems they work together to identify a solution, taking into consideration everyone's needs. There will be a cohesive leadership team guided by a clear mission and an articulated set of corporate values. Leaders do not feel the need to always be right and where appropriate they solicit franchisee feedback. While franchisees may not agree with everything the franchisor is doing, they believe the franchisor is acting in their combined interests. This franchising culture has the most satisfied franchisees and generally performs the best. Unfortunately it is not as common as it should be.

Opportunity # 5 – Monitor Franchisee Profitability

Many franchisors make comments such as “if they are making money you never hear from them.” Is this true? What is the relationship between financial performance and satisfaction?

In the FRI database, 62% of franchisees consider their business to be a financial success, including satisfaction with their profit and return on investment. This of course leaves 38% dissatisfied. That being said, 81% of franchisees believe their business will grow.

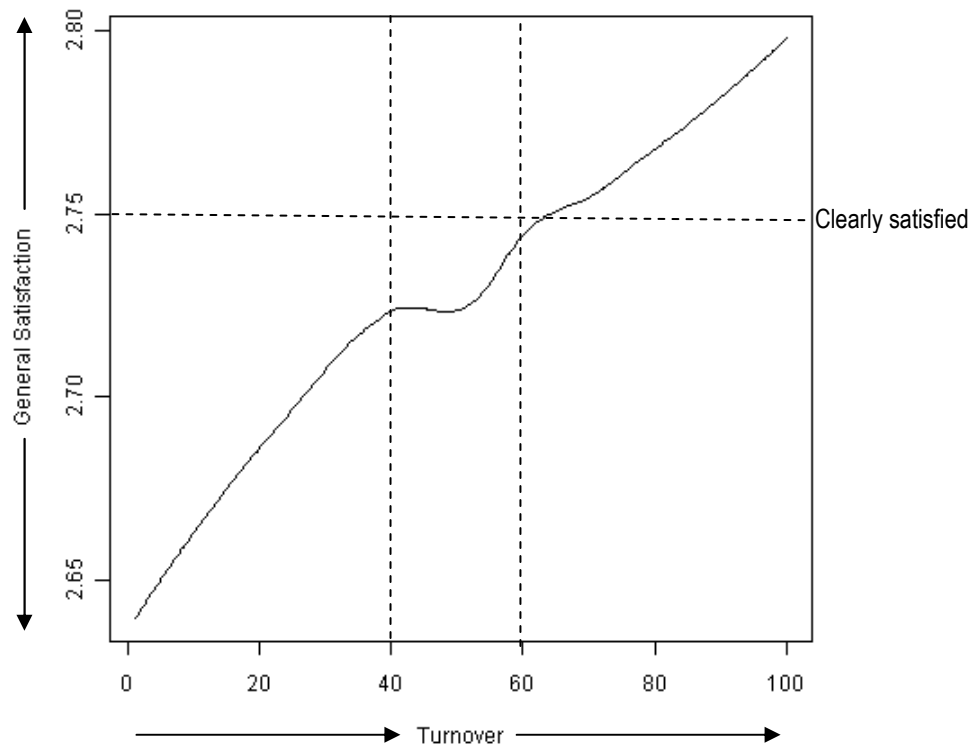
The USA FBR database shows a similar trend with 60% of franchisees agreeing their total investment in time and money has been consistent with their expectations, and around 78% describing the long term growth opportunity for their business in the upper end of moderately strong to very strong.

So franchisees are not all that happy about the money they are making but they are still highly optimistic. This optimism probably acts as a buffer against frustration and a loss of hope for franchisees experiencing low levels of profitability.

While we do not have profitability figures in the FRI database we do have sales results on 2,447 franchisees. Sales is highly correlated with profit so we have analysed the relationship between financial performance, as measured by sales results, and general satisfaction, as measured by the 58 items in the Franchisee Mood Monitor.

These results, shown below in Figure 3, support the claim that franchisees with higher sales are generally more satisfied. Remember however that this is a trend and does not necessarily apply in all cases. Indeed we have seen many cases where franchisees with high sales turnover are highly dissatisfied because of the fees they are paying.

Note the slight dip in satisfaction between the 40th and the 55th percentile indicating that franchises with just “average” sales turnover drop back a little in their satisfaction. It is at the 60th percentile for financial performance that satisfaction increases above the “clearly satisfied” zone (a quantitative point defined by our rating scales). In other words the franchisees in the top 40th percentile on financial performance are the ones most likely to be clearly satisfied with their decision to be a franchisee.

Figure 3 - Relationship between franchisee satisfaction and sales turnover²⁴

Does “The Rules of Thirds” Exist?

In private conversations when franchisors are asked how their franchisees are performing they often talk in terms of thirds, with a typical answer being “a third are doing really well, a third are doing okay and a third are struggling”. This is sometimes referred to as “the rule of thirds”. Because the rule of thirds is anecdotal we have sought more frank and objective information from franchisors on how they would categorize the success of their franchisees.

We asked franchisors from 18 franchise systems to rate each of their franchisees on a five point scale according to the following question;

“Knowing what you know now, if you had your time over would you select this franchisee into your franchise system?”²⁵

Results were:

- 29% Definitely Yes
- 40% Yes
- 31% Unsure, Possibly Not, No.

We take this to mean that 31% are performing at a low level or are struggling.

²⁴ This chart has been created using a best fit curve based on a locally weighted polynomial regression.

²⁵ Nathan, et al, supra

This result of nearly a third of franchisees operating at questionable business performance levels is supported by findings by David Campbell from the Brisbane based Avatar Business Navigators financial group, who has been collecting franchisee financial data for 10 years as part of a financial benchmarking program. After analyzing the financial performance trends of 2,400 franchisees from 30 franchise systems he concludes, “at least 30% of the franchisees we have studied are not viable after provision for all dependent debt²⁶.” He continues, “When franchisors recruit they are not looking at the debt load that has to be serviced from the business²⁷.”

David Campbell has found that many of these franchisees are surviving by having a partner working a separate job, selling assets, remortgaging their homes, not paying their correct taxes on time or holding back on their creditors, which is more often than not the franchisor.

He has also found that around 30% of franchisees are achieving acceptable levels of profitability, which he defines as paying themselves a salary commensurate with effort and achieving a return on investment of at least 30%. He describes the remaining 40% of franchisees in the database as “just pulling a decent wage but no more.”

Solving the Financial Performance Dilemma

Traditionally this profitability dilemma has only been discussed behind closed doors. But as technology enables greater transparency of information, many franchisors are finding they can no longer turn a blind eye to this problem.

The question of who is responsible and where the solution lies is not a simple one. Franchisees are clearly responsible for their own profitability however many are not achieving the levels of financial success they expected when they signed up for the franchise. This is also evidenced by only 51% of franchisees in the USA FBR database describing the current overall financial picture of their business as meeting or exceeding their expectations.

Furthermore there is a clear relationship between financial performance and franchisee satisfaction as shown in Table 3 below.

²⁶ Dependent debt is the money that must be paid to meet one's commitments and would include business loans and personal debts such as mortgage repayments.

²⁷ Personal correspondence.

Table 3 – Link between financial satisfaction and health of franchise relationship

Indicators of relationship health	Correlation of satisfaction with financial performance
Whether franchisees are willing to recommend the franchise	r = 0.54
Whether franchisees are intending to leave the franchise	r = - 0.46

There is ample evidence from our work with franchise networks that effective financial management systems, combined with effective field support, can make a significant difference to franchisee financial performance and satisfaction. These systems include:

- **Mandatory collection and benchmarking of finances.** Information is collected and passed back to franchisees with reports comparing their performance to their peers. These processes use the power of peer group pressure and behavioral feedback loops to drive financial performance improvement. One leading franchisor that uses sophisticated feedback loops to provide every franchisee with access to how their profitability performance compares against all other franchisees in the network, has estimated their percentage of financially struggling franchisees to be 10%²⁸, a third of the industry average. According to a recent Australian survey by Pricewaterhouse Coopers, 47% of franchisors are now collecting franchisee profitability information monthly²⁹. With an increasing array of sophisticated financial benchmarking software available to franchise networks at affordable prices, this is a positive trend that will no doubt increase.
- **Franchisee performance groups.** These are formal discussions, usually held monthly, where around six franchisees share and discuss their financial performance and business plans. While discussions are based around finances, many franchisees report the major benefit of these groups is the camaraderie and support they experience. They say this motivates them to initiate positive actions they would not normally take if working in isolation.
- **Financial coaching sessions.** This is where franchisees are taught the principles of breakeven analysis, Key Performance Indicator management and how to use specific business and sales strategies to drive profitability.

If franchisors want to retain their franchisees for longer in their systems and attract higher caliber candidates in the future there is clearly more work needed in the area of monitoring and enhancing franchisee profitability.

The reason most franchisors give for not discussing this issue more openly is a perceived threat of litigation from poor performing franchisees. There is surely an opportunity here for lawyers to help their franchisor clients identify low risk strategies to address this profitability issue.

²⁸ From a phone interview with the author.

²⁹ Pricewaterhouse Coopers *Research into the Health of the Australian Franchise Sector*, FRANCHISE SERVICES INDICATOR, 2009 Sept

Helping Franchisees Through the Downturn

While the Global Financial Crisis has clearly negatively impacted franchise networks around the globe, studies by the Franchise Relationships Institute last year³⁰ and more recently by Pricewaterhouse Coopers³¹ indicate franchise companies in Australia have been faring well. The most popular strategies used by franchisors to beat the downturn have been:

- Monitoring franchisee financial distress more closely. For instance franchisor executives visiting franchisees in their business to focus discussions on business health indicators such as debtors, stock turn, product mix and gross margin.
- Collaborating more closely with franchisees. For instance more face to face contact with franchisees through forums and meetings
- Providing emotional support and maintaining an optimistic outlook when talking with franchisees about the future.
- Providing franchisees with opportunities to share best practice with each other.
- Coaching franchisees to engage in more aggressive local area marketing.

The financial crisis has provided the franchising sector with an opportunity to show how collaborative practices can provide the encouragement and practical support so essential for keeping a small business on track. This brings us to the next opportunity for creating healthy franchise relationships.

Opportunity # 6 – Monitor Franchisee Recruitment Practices

Each year about a quarter of a million people around the world will make the decision to join a franchise network as a franchisee. For many it will be one of the biggest emotional and financial decision of their lives, next to getting married.

Franchisors are also taking a risk as they are literally putting their customers and their brands in the hands of these new franchisees. Furthermore, if any of these franchisees perform poorly or fail, and many will, the cost to the franchisor is significant.

Despite the high stakes for both franchisees and franchisors, research indicates that both parties often rely more on emotion, myth and gut feel than they do on good business practices or any form of science. For instance most of the application forms and interview processes used by franchisors do not measure the attributes that candidates needed to succeed³². Other research into the causes of franchisee failure indicate inadequate franchisee selection procedures as a major factor³³, more specifically a lack of relevant selection criteria or procedures, enabling weak franchisee candidates to gain entry into franchise systems.

³⁰ Greg Nathan, *Leading a Franchise Network in Tough Times*, AUSTRALIAN FRANCHISE REVIEW, 2009, 19

³¹ Pricewaterhouse Coopers, *supra*

³² Angus MacMillon. *Aspects of Franchisee Recruitment*. INTERNATIONAL FRANCHISE RESEARCH CENTRE, University of Westminster 1996, available at: http://www.wmin.ac.uk/IFRC/08_paper.PDF

³³ Lorelle Frazer, *Dimensions of Franchisee Failure: Insights From Franchisors and Franchisees*, paper presented at INTERNATIONAL SERVICES MARKETING CONFERENCE 2002 Brisbane.

Our own research suggests that, in a franchise system based on a proven business concept and providing sound support systems, around 40% of a franchisee's success will come down to their own hard work and talents. Most experienced franchisors will attest to this. For instance case studies of significant shifts in business performance when existing franchise units have changed hands are common.

Despite this the majority of franchisor companies do not have valid systems for assessing franchisee suitability and unwittingly allow entry to high risk candidates who suffer from one or more of the following afflictions:

Undercapitalized. People lacking sufficient working capital to support them while building the business. This is one of the major causes of failure for otherwise high potential candidates.

Unprepared. People not undertaking adequate research on the franchise system or their local market, not completing a business plan and budget, or not being systematically assessed to identify their training needs.

Unsuited. People lacking the temperament to deal with the public or manage a team, or whose personal situation is unsuitable for the stresses and strains of a business. For instance they may lack adequate family or social support.

Unrealistic expectations. As discussed above people who believe they are going to make unrealistic amounts of money in unrealistic time frames for doing unrealistically small amounts of work. These are the people most likely to become bitter, angry and litigious when things do not turn out as they imagined.

Myths About Franchisee Success

While franchisors and franchising trade associations promote franchising as a comparatively safe method for entry into business, franchising researchers have been unable to corroborate these claims. This is a controversial issue and in 2005 the IFA President, Matt Shay, sent a letter to members urging them to stop quoting uncorroborated research claims that the success rate of franchised establishments is much greater than that of independent small businesses.

There is no proof of abnormally high business success rates in franchising. Franchisees fail, either outright, or as discussed earlier, they fail to generate an adequate revenue stream and have to seek other sources of supplementary income to support themselves. Failure can also mean a failure in the franchise relationship resulting in an inability to continue to work with the franchisor and other franchisees. This does not mean that success rates in a well run franchise system are not superior to other businesses in the same industry. It does mean that success rates need to be examined on a case by case basis.

Drivers of Inadequate Selection Practices

It is our belief that franchisors can significantly reduce the risks of recruiting unsuitable candidates by incorporating sound selection practices into their franchisee recruitment programs. Furthermore we suspect that some franchisees, who could potentially be satisfactory candidates, start their franchising career on the wrong foot because they were inadequately prepared during the recruitment process. Indeed most franchise relationship breakdowns can be traced to some aspect of the recruitment process.

There appears to be three factors driving inadequate selection practices.

1. Confusion in the franchising sector as to whether the franchisee recruitment process is about selling a business opportunity or selecting a suitable franchisee. While sales and selection both clearly play a part in the franchisee recruitment process, an emphasis on selling rather than selection appears to be the norm.
2. A shortage of prospective franchisees in most developed countries, with franchisors around the world reporting this to be the number one hindrance to their growth.
3. A dearth of scientific selection tools for use in the franchising environment. While the use of psychological tests in the selection of employees is common, these tools are not designed for the unique blend of entrepreneurial and cultural attributes that franchisees need to succeed.

16 Research Based Tips to Improve Franchisee Selection Practices

The following recommendations have been developed from a major study³⁴ by the Franchise Relationships Institute into the psycho-social³⁵ predictors of franchisee success and are designed to reduce the damage caused by poor recruitment decisions.

1. Because buying a franchise is an emotional decision for the franchisee they should be encouraged to also take a business minded approach to their decision.
2. While it is important to understand the emotional motivators that are driving a franchisee, it is equally important not to exploit them. Creating or reinforcing unrealistic expectations about the lifestyle associated with running a franchise will lead to a disappointed and demotivated franchisee down the track.
3. Be cautious of people who are mainly motivated for reasons of security, stability or working with their family as these are negatively correlated with performance. Conversely regard the need for control and challenge as positives.
4. Expect franchisees with strong financial motivations to be more demanding about their level of financial return. Ensure expectations are realistic. High financial expectations are significantly correlated with later dissatisfaction.
5. Family and social support is three times more powerful a predictor than any other measure, so involve partners in the selection process and enquire about social support networks as part of interviews.
6. Optimistic outlook is the second most powerful predictor of success. Use proven assessment techniques to find out how candidates are likely to respond to adversity and also how they envision the growth and development of their franchise.

³⁴ Nathan, Jackson and Allen, 2008, *supra*

³⁵ Psycho-social attributes include habits, interests, values, attitudes, drives, skills, physical or emotional factors, and interpersonal relationships that have been found to significantly impact on a franchisee's success.

7. Look for evidence of whether a candidate has a history of emotional instability or has shown an inability to cope with stress. Emotional resilience is a significant predictor of success.
8. Assess business acumen, especially where the franchisee's financial investment is significant.
9. Do not underestimate the importance of cultural fit on performance. Assess the communication skills of candidates and their ability to co-operate with other people.
10. Integrity is important. Third party referees who have worked or done business with the candidate are probably the most effective way to assess this.
11. Women make better franchisees than men so they should be encouraged. Additional coaching and support in financial management may be useful if this has been identified as a weakness.
12. Men score lower on relationship competencies so educate them in the importance of relationship management for business success.
13. Encourage younger franchisees as they tend to make better franchisees. Provide coaching in financial management skills if necessary.
14. Encourage longer tenure franchisees to consider succession planning, especially those who appear to be lacking in enthusiasm for the future.
15. Consider how a franchisee's background experience may impact on their performance and cultural fit with the franchise system. Be cautious with people who have run previous businesses as this may have implications for compliance.
16. Maintaining customer focus is clearly important to business success. Investigate a candidate's experience and their attitude to customers.

Opportunity # 7 – Manage Expectations

Because the franchise relationship is unique and complex it is not uncommon for both parties to become confused about their respective roles, needs and obligations. The role of franchisor is to help franchisees achieve their reasonable personal and financial goals. For instance franchisees might expect to achieve an improved quality of life and a reasonable return on their investment, amongst other things. They rely on the franchisor to provide them with the systems, support and advice that will help them to run a successful business and meet these needs.

On the other hand, the role of franchisee is to support the franchisor's systems and maximize sales in the local market. Franchisors want market growth and positive brand awareness. They are relying on the franchisees to deliver on the values of their brand — for example speed, cleanliness, friendliness or reliability — and to cooperate in maintaining their systems and standards.

For the franchise relationship to work effectively, each party expects cooperation and support from the other in meeting its needs. In other words they have a psychological contract which they expect will be honored.

The Five Needs of Franchisees

Listed below are five things franchisees want from a franchisor, identified through our qualitative research. The more a franchisor can deliver on these the healthier their franchise relationships are likely to be.

Tools and processes that drive profitability

Anything a franchisor can do to help a franchisee save money, drive greater productivity or increase their sales is likely to be well received, especially in light of current sales declines and pressure on rents, wages and costs of goods, which have all been further squeezing franchisee profit margins.

Marketing support that drives brand awareness and customer enquiry

When asked to name the best things about their franchise system, most franchisees mention the brand. However, while 75% agree their franchise system has a well recognized brand they are not as enthusiastic about the effectiveness of tactical marketing programs for driving customers to their business. Indeed only 55% are satisfied with this aspect of their franchisor's marketing.

The problem here does not appear to be the quality of the marketing but how effectively franchisees are implementing these programs. There is an opportunity for franchisor marketing teams to engage more effectively with their franchisees at the local level. Our research suggests that companies that do this enjoy significantly higher satisfaction ratings of their company's marketing programs.

Leadership that is competent, trustworthy, committed and visionary

Franchisors tend to perform quite well in the leadership area. For instance 76% of franchisees believe their franchisor is committed to the long-term success of the business and 78% agree their franchisor treats them fairly. However franchisors tend to fall down in articulating their vision for the future with only 68% of franchisees saying they understand the long-term goals and direction of their franchise system.

Leadership that gives franchisees hope is particularly important in tough times³⁶. Franchisors need to explain how they intend to support their franchisees and share specific strategies for protecting market share, boosting sales and building customer loyalty. We have found that this is best communicated face to face through one on one discussions, regional meetings and conferences.

To feel respected and able to exchange ideas

Many franchisees refer to the satisfaction they feel from being part of their network. In particular they say they most value interacting with and learning from other franchisees at meetings and conferences. Yet only 62% feel they have adequate opportunity to exchange ideas with other franchisees and only 59% feel their franchisor respects their opinions, suggesting a considerable number are not feeling heard.

There are many small group processes that provide franchisees with the opportunity to participate more actively in meetings and conferences. Not only do these help to tap into the collective intelligence of the group, they also give all franchisees a voice, including

³⁶ See for example Greg Nathan, *How to Build a Culture of Confidence*, AUSTRALIAN FRANCHISE REVIEW, 2009, 21

the quieter people. We have found that these interactive processes significantly boost franchisee satisfaction.

Concern for their success with relevant, responsive support

We often hear franchisees saying they wish a franchisor representative would phone them to see how they are going. Consider that just 64% of franchisees believe their franchisor is genuinely concerned about their success and only 62% believe franchisor management make an effort to understand what they need to be successful.

When rating the services provided by their franchisor, a prompt response to phone calls and emails is usually rated near the top for importance but rated significantly lower for effectiveness. Franchisors in support offices need to remember that the operational decision making cycle of a franchisee is a lot faster than the strategic decision making cycle of a franchisor. Meeting with franchisees in their place of business is highly recommended as a way of staying in touch with the needs of the people at the front line.

Franchisors Also Have Needs

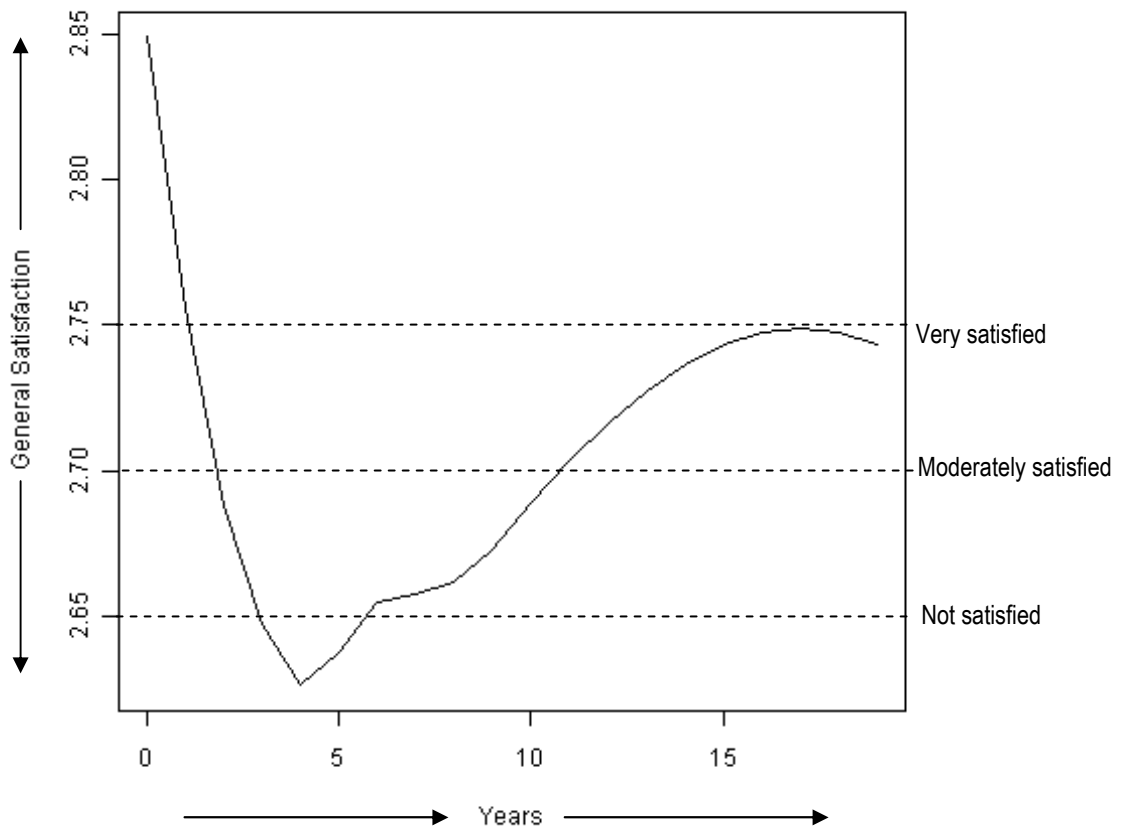
The franchise relationship is of course a two-way street. Just as franchisees need and expect certain things from their franchisor, franchisors expect and need certain things from their franchisees. When they don't get support for new initiatives, when they receive rude and unfounded criticism, or when franchisees fail to participate in meetings constructively, it is natural for a franchisor team to feel frustrated and hostile. These are all examples of breaches to the psychological contract from the franchisor's perspective.

The franchise relationship always functions most effectively when both parties are reminded of these interdependencies, rather than assuming everyone understands what is expected of them, particularly in terms of good franchise citizenship. Regular discussions on the needs and obligations from both parties at the individual and group level are recommended. These discussions typically need to be instigated by the franchisor as the senior party in the relationship.

Opportunity # 8 - Manage The Franchise E-Factor

Chart 4 below maps the general satisfaction of 5,600 franchisees over time and demonstrates how franchisee satisfaction drops dramatically during the first three years of the franchise relationship and then gradually increases, but never to the original level.

Chart 4 - Relationship between franchisee satisfaction and tenure³⁷



The Franchise E-Factor³⁸ is the name of model I developed to explain why this change occurs and how franchisors and franchisees might best manage this psychological journey.

The model is a useful reminder for franchise management about how franchisee needs and attitudes change over time and that the franchise relationship is always “work in progress” needing constant maintenance.

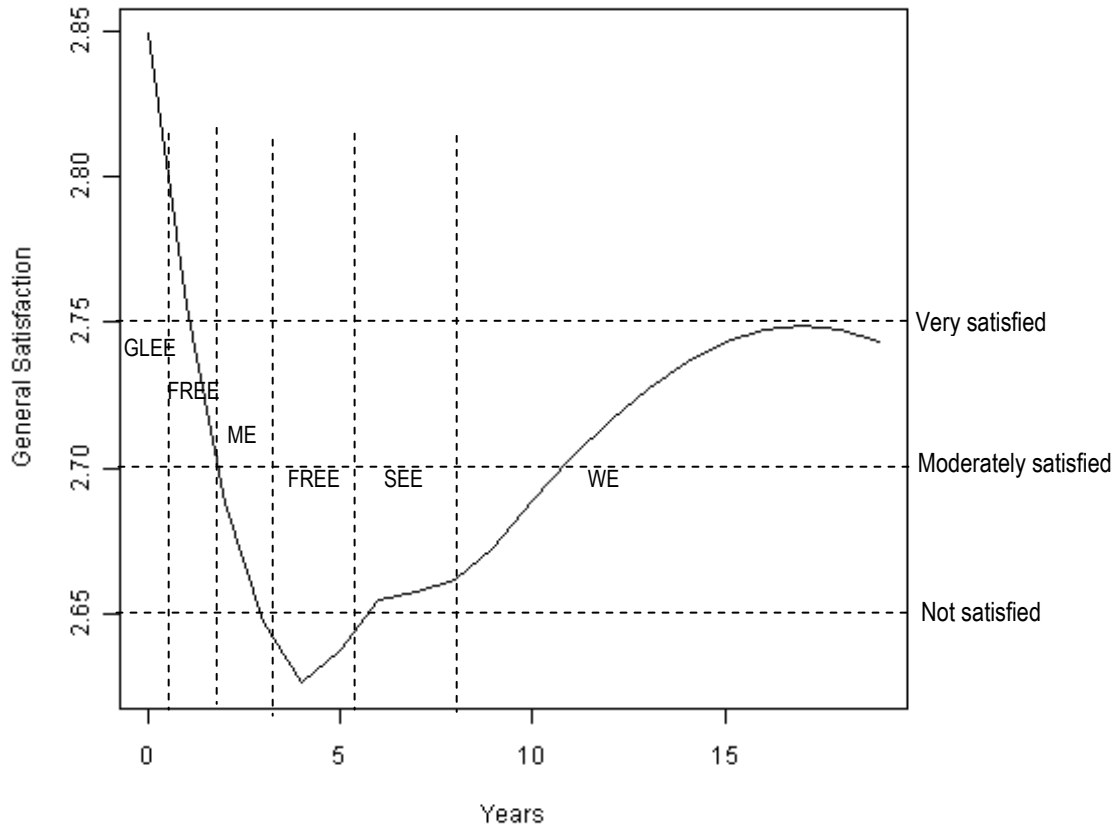
³⁷ This chart has been created using a best fit curve based on a locally weighted polynomial regression.

³⁸ See Greg Nathan, THE FRANCHISE E-FACTOR, 2007, (Franchise Relationships Institute, Brisbane).

Common behaviors at each of the 6 stages

The six stages of the Franchise E-Factor can be roughly mapped onto the trend curve as shown in Chart 5 below. Observed behaviors at each stage are also provided below.

Chart 5 – Franchise E-Factor stages mapped onto satisfaction curve



The Glee Stage

Nervousness. It is normal for there to be some fear about whether the new business will work out.

Excitement. The novelty of the business may create a sense of euphoria. Franchisees are likely to also idealize franchisor staff and the value of their expertise.

Optimism. It is natural for a franchisee to have a sense of optimism about the business' future. After all they are embarking on a journey to live their dream of self-employment.

The Fee Stage

Questioning. Franchisees become more demanding or questioning about what they are getting for their royalty fees and the value of the franchisor's services.

Commercially minded. As they become commercially astute they may request better training and support services. They may also complain about deficiencies in the competence of franchisor staff.

Skeptical. The relationship moves from a grateful, starry-eyed student eager to learn, to someone who is realizing that their franchisor-teacher is not as infallible as they thought.

The Me Stage

Self-centered. Failing to acknowledge the franchisor's contribution and becoming more demanding.

Proud. A heightened sense of pride and confidence to the extent that they may feel they know more than their franchisor and thus no longer need to listen to the franchisor's advice.

Frustrated. As franchisees feel they are catching up to or even passing their franchisor in their operational knowledge they can feel disappointed and critical.

The Free Stage

Cynicism. Questioning the franchisor's motives and challenging the reasons behind innovations or changes in strategy. An "us and them" mentality may color interactions.

Constrained. The franchisee can feel resentful that the franchisor is inhibiting their creativity. They may have developed innovative additions to the concept only to be told to stop these practices.

Combative. They may feel the need to test out the franchisor's commitment to them. Discussions and interactions will likely be tense with demands as to why they have to do certain things.

The See Stage

Inquisitive. A willingness to listen to the bigger picture and ask questions about why certain decisions or approaches have been adopted.

Open minded. As they appreciate they are part of a larger system in which everyone's individual needs cannot necessarily be met, they will be more inclined to let go of specific hobbyhorses.

Empathic. If the franchisor has genuinely listened to the franchisee's point of view, the franchisee will probably reciprocate.

The We Stage

Cooperative. Open to the mutual benefits in working with their franchisor. Ideas and opinions will likely be shared in a spirit of mutual trust and co-operation.

Assertive. While prepared to co-operate, they will also not be backward in stating their needs and views in a frank and direct manner.

Forward thinking. They will usually have thought through their long term business and lifestyle goals and will tend to have a business plan that extends for at least two years.

The Franchise E-Factor Threat

There is a sort of "zone of tolerance" that enables franchisees to absorb a certain amount of disappointment and frustration in their relationship with their franchisor. This zone is strengthened by franchisor behaviors that build trust and commitment such as active listening, reliability, transparency and consultation.

Where there is a healthy franchising culture a franchisee will generally be able to work their way through the Franchise E-Factor stages. But not all franchisees are able to manage this. Sometimes they are unwilling or unable to come to a resolution regarding how they feel about their franchisor or their business. They may decide to sell the business or leave the relationship.

If a franchisee decides to stay in the business they will emotionally disengage from the franchise relationship. Their attitude is typically “just leave me alone.” In such a case they may stop attending meetings and not return phone calls. Franchisors need a lot of patience and empathy in dealing with someone stuck in this frame of mind. It may be helpful to have a third party facilitate a discussion to help open up communication and move the person out of their frustrations.

Franchisors can also create difficulties for their franchisees and, in effect, hold them prisoner in the “Me” and “Free” stages. While this may be through an innocent misunderstanding or a breakdown in communication, franchisors can also behave badly through a lack of ethics, competence or empathy. For instance they may:

- Show a lack of integrity in their dealings or behave unconscionably over a specific issue.
- Consistently fail to deliver on their commitments and plans through incompetent management.
- Show a lack of respect or care in their dealings through short-sighted opportunism.

These sorts of behaviors can lead to a serious breakdown in trust and commitment and leave a franchisee feeling manipulated and betrayed. They also drive the franchisee further down into the dissatisfaction zone of the Franchise E-Factor. It is as if the franchisee has had a “revelation” over their franchisor’s failings or shortfalls and comes to the conclusion that “It’s just not fair!”

We all have an inbuilt sense of justice and can experience a sense of outrage if we believe someone has acted unfairly toward us. Interviews with many franchisees over the years who have been in disputes with their franchisors highlight how their hostile feelings are driven by deep a sense of unfairness and betrayal. We could refer to this as a violation of the psychological contract. Here are some typical comments:

“I was a fool to think they care about me – all they care about is meeting their own profit targets.”

“I thought they knew what they were doing but it turns out they are a bunch of bloody idiots!”

“I am so angry that they never consulted us – they just don’t seem to respect the fact that this is our money they are forcing us to spend.”

And here is my favorite quote taken from a franchisee three years into the franchise relationship:

“When I started out in this business I was treated like royalty – now I am treated like royalties.”

A franchisee in this state of mind will seek out sympathetic people who will listen to their complaints. This may be a fellow franchisee, a family member or an attorney. Chances are they will not take the initiative to talk with the franchisor as they may feel this will be waste of time or that it is the franchisor’s job to come and talk to them.

At this point the fabric of the franchise relationship, rather than being stretched, has been torn. It can be mended but this will usually take some serious listening, perhaps with an apology by franchisor management. A facilitated discussion or formal mediation may be needed. There is a high likelihood of legal action being taken, even if this is to just give the franchisor a message. If the relationship is not proactively managed things will just get worse.

Of course a franchisor may feel they have not done anything wrong and be reluctant to engage in this type of dialogue. Or their attorney may advise them to take a hard line position against the franchisee. We have seldom found this approach to be productive in the long run as it just breeds further resentment on both sides who are forced to mentally justify their respective positions. In psychological terms this is called “the self-serving bias”.

From Bad to Worse – Kamikaze Franchise Relationships

An already torn franchise relationship can be subsequently ripped apart by an “activating event” that triggers further damage to the relationship. Perhaps the franchisee’s business fails, they lose their home or experience a family separation as a result of business pressures. We have seen cases where there has been a public altercation between a franchisee and the franchisor leader, leaving the franchisee feeling humiliated and defeated.

This is a dangerous state of affairs and can cause a franchisee to behave recklessly and destructively. Angry, vicious outbursts on blogs or websites are common. It is as if the franchisee has lost hope that anything good will ever come out of the franchise relationship. All they see is loss and injustice. In their desire to seek retribution they are prepared to take themselves down with the franchisor. This could be referred to as Kamikaze franchise relationship and once a franchisee has reached this point reparation is highly unlikely. The franchisor will probably need to go into damage control.

Prevention is always better than cure.

Why Patients Sue Their Doctors

In closing there are some pertinent lessons for franchisors from the research into why patients sue their doctors. Analyses of malpractice lawsuits show that there is not a simple statistical relationship between a doctor being sued and the medical mistakes they make. Some highly skilled doctors get sued a lot and some doctors who make a lot of mistakes never get sued. The research shows that patients generally file lawsuits because they have experienced shoddy medical care and they felt were treated in an arrogant or patronizing manner at a personal level by their doctor. In other words these patients felt there had been a violation of their psychological contract which says their doctor’s job is to treat them with sensitivity, care and respect. What comes up again and again in malpractice cases is that patients say they were rushed, ignored or treated poorly.³⁹

³⁹ MALCOLM GLADWELL. BLINK. (Little, Brown and Company 2005).

Psychologists have been able to identify subtle but significant differences in the behaviors of doctors who do not get sued, summarized as follows:

1. They spend more time with each patient.
2. They set mutual goals with patients on what should be accomplished in appointments and encourage patients to ask questions.
3. They demonstrate active listening skills.
4. They build rapport with the patient and laugh during the consultation.
5. Their tone of voice is consultative - not dominant.

This last point is especially significant because independent judges in one study could predict which doctors would be sued just by the tone of their voice. The sued group had a dominant tone that indicated the doctor was not listening or was not treating them with respect.⁴⁰

Conclusion

This paper started with a story of a tragic bridge collapse caused by bad design, inexperienced management and poor communication, drawing an analogy between good engineering practices and the construction and maintenance of healthy franchise relationships.

It then explored the commercial consequences of poorly managed franchise relationships and introduced eight specific areas or pillars that have been identified through research to significantly impact on the health of the franchise relationship:

1. Franchisee stress
2. The management of change
3. Communication
4. Leadership and culture
5. Franchisee profitability
6. Franchisee recruitment practices
7. Management of expectations
8. Management of The Franchise E-Factor

Specific tips and strategies have been provided to assist in the management and strengthening of these eight pillars.

The concept of the psychological contract has been introduced as a way of understanding the more subtle elements of the franchise relationships and how commercial, legal and psychological components of the relationship need to be considered when making important decisions.

⁴⁰ NALINI AMBADY, et al., *Surgeon's Tone Of Voice: A Clue To Malpractice History*, quoted in Gladwell, *supra*, note 33.

Empirical evidence has been provided showing the components of healthy franchise relationships and how franchisee satisfaction is linked to financial performance. The data also show that franchisee satisfaction is influenced by a range of other factors, especially confidence in leadership, optimism for the future and a sense of natural justice.

The role of leadership in shaping a healthy franchise culture has been emphasized as has the importance of managing franchisees with respect, as they move through the six stages of the Franchise E-Factor.

I have also highlighted opportunities for lawyers to make a significant contribution to the construction and maintenance of healthy franchise relationships. The opportunities are there for those willing to embrace a more collaborative framework.