

An Empirical Study on How Psychosocial Factors Impact on Franchisee Satisfaction¹

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International Society of Franchising

2022 Annual Conference

McMaster University, Canada

June 2-4, 2022

¹ We wish to thank ISoF for the invitation to submit this scientist-practitioner paper. Our goal is to complement existing academic franchising literature with access to research insights from the significant sample sizes we have access to through our work in the franchising sector.

² The author would like to thank and acknowledge Dr Nicole Simpson, David Thorpe, Amelia Graham and Dr Jacalyn Hall for assistance with editing, and data preparation and analysis.

³ The Franchise Relationships Institute (FRI) is a self-funded research and education business with a mission to foster the creation of profitable partnerships in the global franchising sector. FRI employs psychologists who develop evidence-based tools and models

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Abstract

While the franchising sector has had a positive impact on the Australian economy, a Parliamentary Inquiry in 2018 raised criticisms about franchising's negative social and financial impact on franchisees and their families. These conclusions were largely based on submissions from existing or ex-franchisees that mainly contained stories of unfair treatment, breaches of trust and unconscionable conduct, and personal hardship brought about by financial failure. The other submissions to the Inquiry were from franchisors arguing for the robustness of their business models, lobby groups supporting the interests of their members, and advisors making recommendations based on philosophical positions or theoretical models.

An analysis we conducted of all the submissions reveals a lack of substantive empirical data or evidence to support the claims of stakeholders, regardless of their positions. Also, while a third of the concerns raised in the submissions were focused on psychosocial issues, including the mental health of franchisees, the ethical behaviour of senior franchisor executives, and a perceived unhealthy imbalance of power in the franchise relationship, the focus of subsequent Government recommendations and amendments to the Franchising Code remain largely legal and commercial.

This paper seeks to highlight the important role of psychosocial factors in contributing to a healthy franchising sector, and argues for a more balanced approach to understanding the franchise relationship, which includes legal, commercial *and* psychosocial perspectives. We explain the psychosocial components of the franchise relationships in terms of a psychological contract which taps into instinctive behaviours genetically coded into the human brain, including the need for respect, belonging, autonomy, certainty, purpose, and fairness.

We also report on two studies containing quantitative and qualitative data from a sample of over 7,000 franchisees, which elucidate the factors that drive a healthy franchise relationship. Using a psychometrically robust survey instrument with 58 items we have been able to identify the psychosocial factors that significantly influence the creation of an ACE Mindset in franchisees, defined as a state of mind where they feel predominantly positive about their involvement in the franchise. We have also analysed the responses of 1,684 franchisees who reported not trusting their franchisor, and we identify 11 behaviours that undermine trust in the franchise relationship.

Using this data we provide specific evidence-based recommendations for franchisors, franchisees and other sector stakeholders that will create a socially and economically sustainable franchising sector with greater levels of mutual trust and commitment between all stakeholders.

Key words: (Franchise relationship, psychology, trust and commitment)

BACKGROUND

A lucrative sector that can't be trusted?

The Australian franchising sector has evolved over the past 30 years to hold a significant position in Australia's economic and social landscape. The sector consists of an estimated 79,000 to 95,000 franchised businesses operating under commercial and legal agreements with 1,300 franchisor companies⁴. Together these franchisees and franchisors generate \$182b (9% of GDP) and employ 594,000 Australians⁵.

Despite these impressive statistics that support franchising's positive economic impact, the nature and quality of its *social* impact has recently come under scrutiny⁶. In particular, the ethics of franchisors and the cultures of the franchise networks they lead, as well as the adequacy of franchising laws to protect franchisees, has been a focus for journalists, politicians and policy makers in recent years. This was spearheaded by a series of investigative media stories⁷ and led to a 2018 Parliamentary Inquiry into the operation and effectiveness of Australia's Franchising Code of Conduct⁸, and subsequent amendments to the Code, which came into effect in May 2021⁹.

Purpose of this paper

The purpose of this paper is to highlight the role of psychosocial factors in contributing to problems identified in the franchising sector, and how these create or detract from franchisee satisfaction. We argue that a more balanced approach to understanding the franchise relationship, which includes legal, commercial *and* psychosocial perspectives, will improve the quality of decision making, and lead to better outcomes for all stakeholders.

While much of the past academic research into the franchise relationship has used Agency Theory to explain the commercial and legal controls used by franchisors to

⁴ Figures obtained from 2016 Franchising Australia survey by Griffith University and 2019 IBISWorld Franchising in Australia Market Research Report.

⁵ *ibid.*

⁶ See for example Waters, Cara. and Fergusson, Adelle. *Manifestly failed': Damning report calls for franchise sector overhaul*. Sydney Morning Herald. March 14, 2019.

<https://www.smh.com.au/business/small-business/parliamentary-inquiry-calls-for-total-overhaul-of-franchise-sector-20190314-p5143e.html>

⁷ See for example: Ferguson, A. (Reporter). (2015, August 30). 7-Eleven: The Price of Convenience. *Four Corners* [Television series episode]. ABC Television. <https://www.abc.net.au/4corners/7-eleven-promo/6729716> and

Ferguson, A. (2017, December 9). Cup of Sorrow: The brutal Reality of Australia's franchise king. *Sydney Morning Herald*.

⁸ For the full briefing on the aims and scope of the Inquiry see: Australia. Parliamentary Joint Committee on Corporations and Financial Services. (2018). *The operation and effectiveness of the Franchising Code of Conduct*.

https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Corporations_and_Financial_Services/Franchising

⁹ Hurley, D. (2021). *Competition and Consumer (Industry Codes—Franchising) Amendment (Fairness in Franchising) Regulations 2021*. Australian Government.

<https://www.legislation.gov.au/Details/F2021L00670>

shape the relationship¹⁰, more recently there has been greater recognition of the franchise relationship as a multi-dimensional construct that also contains a large psychological component. For example, Benjamin Lawrence and Patrick Kaufman demonstrate in a recent ethnographic study how the nature of the relationship between franchisees and their franchisor can be diametrically different to the relationship they have with their peers and their brand¹¹, highlighting the emotional, legal and commercial components of the franchise relationship¹². This is complemented by other recent studies that focus more on the psychological attachment franchisees have to their brands and networks to which they belong¹³, and how franchisee perceptions of franchisor support impact on their brand commitment and citizenship behaviour¹⁴.

The constructs and models referred to in this paper have been created using grounded theory and abductive reasoning¹⁵, and are based on observations, discussions and surveys with thousands of franchisees and hundreds of franchisor executives¹⁶. We also share two studies using original quantitative and qualitative data, collected from a sample of over 7,000 franchisees, which elucidates the factors that drive healthy franchise relationships.

The aims of this paper are to:

1. Highlight how implicit biases in Government interventions ignore the psychosocial causes of the franchising sector problems they are trying to address.
2. Explain important psychosocial factors that impact on the health of the franchise relationship.
3. Identify the factors that contribute most significantly to franchisee satisfaction, and examine the current health of the franchise relationship on these factors. (Study 1)
4. Identify the factors that undermine trust in the franchise relationship. (Study 2)
5. Share suggestions on what franchisors and concerned stakeholders can do to improve the satisfaction of franchisees and the health of the Australian franchising sector.

¹⁰ See for instance the large and influential study by Lafontaine, F., Shaw K.L. Targeting managerial control: evidence from franchising, *RAND Journal of Economics*, 36 (2005): 131–150.

¹¹ This refers to how franchisees feel about being associated with the company's name and reputation.

¹² Lawrence, B., Kaufmann, P.J. Channel members' relationships with the brands they sell and the organizations that own them. *Industrial Marketing Management* 83 (2019): 148-161.

¹³ See for instance Badrinarayanan, V., Taewon S., Kim, K. Brand resonance in franchising relationships: A franchisee-based perspective. *Journal of Business Research* 69.10 (2016): 3943-3950. Also Ghantous, N., Christodoulides, G. Franchising brand benefits: An integrative perspective. *Industrial Marketing Management* 91 (2020): 442-454.

¹⁴ Nyadzayo, M.W., Matanda, M.J., & Ewing, M.T. The impact of franchisor support, brand commitment, brand citizenship behavior, and franchisee experience on franchisee-perceived brand image. *Journal of Business Research* 68 (2015): 1886-1894.

¹⁵ Grounded theory involves constructing theories and models through the methodical gathering and analysis of data. Abductive reasoning seeks to find explanations through data and observations, and is increasingly being used in management research. See Bamber P, A, *AMD—Clarifying What We Are about and Where We Are Going*. Academy of Management Review, Vol 4, No 1. (2018): 1 – 10. <https://doi.org/10.5465/amd.2018.0003>

¹⁶ Each year, the FRI team interacts with over 9,000 franchisees and franchisor executives from over 175 franchise networks through participation in events, educational programs, focus groups and surveys.

THE AUSTRALIAN PARLIAMENTARY INQUIRY AND ITS CONCLUSIONS

The Parliamentary Inquiry into the operation and effectiveness of Australia's Franchising Code of Conduct attracted 400 submissions: 80% from existing or ex-franchisees and 20% from franchisors, lawyers, researchers, advisers, lobby groups, and government agencies. Almost half of the submissions were confidential¹⁷. In addition to formal submissions, there were nine public hearings where 103 people responded to questions and expressed their opinions.

Our review of submissions indicates those from franchisor executives generally supported the robustness, fairness and success of their business models. On the other hand, submissions by franchisees and ex-franchisees characteristically contained stories of unfair treatment, breaches of trust and unconscionable conduct by their franchisors, financial failure and human misery¹⁸. Submissions by most of the advisors were academic and legal in their perspective, with recommendations or conclusions generally based on philosophical positions, case studies or theoretical models rather than extensive empirical data. Submissions by lobby groups were, understandably, likely to be biased to support the interests of their members.

An assumption within the recommendations of these different stakeholder groups, was the franchise relationship is primarily a legal relationship, therefore any problems need to be remedied through legal or regulatory channels.

The resulting report, entitled *Fairness in Franchising*, concluded there were systemic problems in how the franchising sector operated with accusations of unfair and overly opportunistic conduct by many franchisors. The report's authors stated "The current regulatory environment has manifestly failed to deter systemic poor conduct and exploitative behaviour"¹⁹.

The report identified ten main issues concerning franchisor behaviour, raised throughout the submissions²⁰. After reviewing these issues and counting the frequency in which specific types of concerns were raised, we have recategorized them for simplicity into three main areas of concern (see Table 1).

¹⁷ Report of Parliamentary Joint Committee on Corporations and Financial Services: Fairness in Franchising. Australia. March (2019): 19-22.
https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Corporations_and_Financial_Services/Franchising/Report

¹⁸ An analysis of the public submissions conducted by the Franchise Council of Australia found most franchisee submissions expressed significant distress from their personal experiences in franchising. We assume most of the 190 confidential submissions were from existing franchisees not wanting to jeopardise their franchise relationship by publicly criticising their franchisor.

¹⁹ Ibid. Page xii.

²⁰ Ibid. Page 22.

Table 1: Areas of concern in Inquiry submissions and their frequency

Areas of concern	Frequency
Legal: Unfair contract terms relating to rebates, renewal conditions and restraints of trade	47%
Behavioural: Bullying, intimidation, providing misleading information, and ineffective management of conflict	31%
Commercial: Problems associated with the viability of the business model	22%

When the issues are reviewed in this simplified context, they would appear to cover legal, behavioural and commercial concerns, with behavioural issues representing almost a third of the concerns.

Review of Parliamentary Inquiry recommendations

The Parliamentary Inquiry report provided 71 recommendations which it said were designed “to develop greater, transparency and accountability; fairness and protection; and education and awareness.” Many of these recommendations were multi-faceted revealing 102 specific recommendations.

We conducted a thematic analysis of these recommendations which revealed four categories – structural, legal, commercial and psychosocial²¹. Table 2 shows the percentage of recommendations relating to each of these categories.

Table 2: Classification of Inquiry report recommendations and their frequency

Nature of the recommendation	Frequency
Commercial recommendations: These included reviews or changes to commercial processes. E.g., examine conflicts of interest associated with supplier rebates and third line forcing; examine and determine how common it is for goodwill to be included in franchise transfers.	40%
Legal recommendations: These included changes or additions to existing laws. E.g., update item 18 of Annexure 1 disclosure document to reflect any changes to clause 30 of the Code; review clause 23 of the Code to determine whether it is fit for purpose.	37%
Structural recommendations: These include the creation of new bodies, committees, systems or reporting mechanisms. E.g., establish a Franchising Taskforce to monitor the feasibility and implementation of the recommendations; merge the OFMA with the ASBFEO.	14%
Psychosocial recommendations: These included strategies that directly attempt to influence interpersonal behaviour. E.g., require franchisors who take matters straight to court to demonstrate that the matter cannot be resolved through mediation; require mandatory disclosure of a reasonable estimate of the personal workload in running and operating the business.	9%

²¹ A psychosocial perspective looks at how social, cultural, and environmental factors influence people’s behaviour.

While the intention of the *Fairness in Franchising* report was to protect franchisees and address several behavioural problems in the franchising sector, most of the recommendations were focused on legal, commercial and structural interventions. This report was then passed to an inter-agency Government Franchising Taskforce that consulted with franchise sector stakeholders, and examined the feasibility of implementing the recommendations²². The Task Force released an interim Regulation Impact Statement Paper²³ in 2020 which explored some of the options to emerge from its consultative processes. In May 2021 the Australian Government finally released its Fairness in Franchising amendments to the Code²⁴.

These amendments focused mainly on commercial, legal and structural issues. For instance, greater disclosure of commercial information, extended cooling-off periods, changes in termination rights of franchisees, the allocation of legal costs, inclusion of conciliation and arbitration in dispute resolution, and restrictions on the retrospective changing of franchise agreements. Very few of the psychosocial issues raised in the Parliamentary Inquiry were addressed. Not surprisingly, since the release of the updated Code, the focus and resources of franchisors has mainly been of a legal nature²⁵.

We see this lack of focus on psychosocial issues as a potentially wasted opportunity to create a healthier franchising sector, as we explain below.

A need for better data and a more balanced focus

In this paper, we argue there are two themes to emerge from the recent public debate on the economic and cultural health, and sustainability, of the Australian franchising sector.

Firstly, the lack of substantive empirical data to support claims by various stakeholder groups, has been conspicuous in its absence. The submissions and evidence given to the Parliamentary Inquiry and its discussion in media articles has been dominated by emotion, opinion, philosophical positions, and anecdotal stories. While many academics have attempted to provide an objective contribution to the debate²⁶, a lack of up-to-date data from representative samples of franchisees or franchisors has constrained the impact of their suggestions²⁷.

Secondly, many of the concerns raised about the health of the franchising sector have been focused on psychosocial issues, including the mental health of franchisees, the

²² See Franchising Taskforce Issues Paper in relation to the Government's response to the Fairness in Franchising Report of the Parliamentary Joint Committee on Corporations and Financial Services. August (2019).

²³ See Regulation Impact Statement in relation to the Fairness in Franchising Report of the Parliamentary Joint Committee on Corporations and Financial Services.

²⁴ Competition and Consumer (Industry Codes—Franchising) Amendment (Fairness in Franchising) Regulations (2021). <https://www.legislation.gov.au/Details/F2021L00670>

²⁵ Communications within the sector have been flooded with webinars and articles by attorneys advising franchisors on how they need to update their documentation to comply with the updated Code regulations.

²⁶ See for instance Submission #1 Dr Courtenay Atwell and Submission #16 Dr Jenny Buchan; https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Corporations_and_Financial_Services/Franchising/Submissions

²⁷ Much of the research into the franchise relationship is hampered by relatively low sample sizes due to limited resources by individual researchers, restricted direct access to franchisees and franchisor executives, and low response rates to research instruments.

ethical behaviour of senior franchisor executives, the culture within franchise networks, the satisfaction of franchisees, and a perceived unhealthy imbalance of power in the franchise relationship. However, while the intention of the Parliamentary Joint Committee and its Task Force was to explore how to prevent unfairness, bad behaviour and the conditions under which opportunistic or exploitative cultures occur, the focus of recommendations and amendments to the Code remain largely legal and commercial rather than psychosocial.

DEFINING THE 3-LEGGED STOOL OF FRANCHISE RELATIONSHIPS

One model we use in our franchising work, called the 3-Legged Stool, assumes the franchise relationship has three components. These could be visualised as the legs of a franchise relationships stool, where all three are required to support sustainable franchise relationships.

Legal component

This describes the legal obligations of all stakeholders, and it can usually be readily defined by relevant legal contracts, agreements and laws. In franchising, the legal component is largely defined by the franchise contract, but it also includes relevant Federal, State and Municipal laws, as well as laws concerning the industry in which a business operates.

While laws are designed to influence behaviour, there are whole industries devoted to helping opportunistic individuals and companies find ways to circumvent the intentions of these laws. For this reason, we would argue that only taking a legalistic approach to resolving problems in the franchising sector, for instance by just rewording laws and regulations, will result in more complexity, costs and inefficiency to franchisees and franchisors, and it will produce little change to the problematic behaviours that led to the Parliamentary Inquiry.

Commercial component

This is largely the motivating factor as to why franchisors and franchisees choose to enter into their franchise relationships. This is typically to minimise commercial risks and maximise commercial benefits. The commercial component of franchise relationships is based on the principles of barter – “you give me this and I’ll give you that”. To work effectively, there needs to be an assumption of fairness that the exchange is adding roughly equal value to the parties. Also, a level of trust that the assets of both franchisor and franchisee will, at minimum, be protected but preferably improve in value due to the time, money and resources being invested into the relationship.

While commercial relationships are largely based on a transactional approach, humans also make decisions based on emotional factors²⁸.

Psychosocial component

In all relationships, including the franchise relationship, there is a type of psychological contract²⁹ defined in this context as *the mutual beliefs and expectations that franchisees*

²⁸ The field of behavioural economics which has emerged in recent years applies psychological insights that impact on commercial decision-making.

and franchisor executives have of each other. These beliefs and expectations are often implied and tap into instinctive behaviours that are genetically coded into the functioning of the human brain. Important mutual expectations that have been identified by recent neuroscience research, and which all humans share, include feeling respected, having a sense of certainty, having a sense of connection and belonging, having autonomy and control, and being treated fairly³⁰. The psychological contract goes beyond the transactional focus of legal contracts or commercial considerations, and has a relational component which implies a degree of care and consideration for the success and welfare of others.

MEASURING PSYCHOSOCIAL FACTORS IN THE FRANCHISE RELATIONSHIP

Examples of how psychosocial factors impact on trust and commitment

Australia's Franchising Code of Conduct includes an obligation by franchisors and franchisees to act in good faith. However, there has been ongoing discussion and debate on what this means in practice³¹. We would define 'good faith' as *being fair, honest and well-intentioned in delivering on one's obligations*. While most franchising lawyers would argue that a franchisor's good faith obligations do not extend to include a fiduciary obligation to act for the benefit of their franchisees³², around 12% of the issues raised from submissions to the Parliamentary Inquiry related to franchisors not passing the benefits of supplier rebates onto their franchisees³³.

Our findings are that most franchisees expect their franchisor to have their best interests at heart when making strategic decisions, and that a belief that their franchisor has acted in a self-serving manner will fundamentally undermine trust and commitment.

For instance, we analysed data from a sample of 650 franchisees belonging to 34 different franchise networks who had completed a franchisee satisfaction survey, and responded negatively to the statement, *I feel optimistic about my future in this franchise*³⁴. When we conducted a thematic analysis of responses, the theme with the

²⁹ While the concept of the psychological contract has traditionally focused on employment relationships, it is also applicable to franchise relationships. See Guest, D. Is the Psychological Contract Worth Taking Seriously? *Journal of Organizational Behavior*, Vol. 19, (1998): 649-664.

³⁰ These drives continue to be researched and understood through the work of evolutionary psychologists and social neuroscientists. See for example:

- Nicholson, N. *Evolutionary Psychology and Family Business: A New Synthesis for Theory, Research, and Practice*. (2008). <https://journals.sagepub.com/doi/10.1111/j.1741-6248.2007.00111.x>

- Rock, D. *Your Brain at Work*. Harper Collins, New York. (2014).

³¹ See for example Terry, A., Lernia, C. Franchising and the Quest for the Holy Grail: Good Faith or Good Intentions? *Melbourne University Law Review* 33(2), (2009): 542.

³² See for example, Hipwell, G., Reid, J., Martin, M. *Good faith in franchise relationships* (2015) where the authors state "A good faith obligation should not be confused with a fiduciary obligation. A fiduciary relationship is where a person has an obligation to exercise rights and powers in good faith and for the benefit of the other person." <https://www.maddocks.com.au/goodfaith/>

³³ Report of Parliamentary Joint Committee on Corporations and Financial Services: Fairness in Franchising. Australia. March (2019): 22.

³⁴ This follow up was achieved through an open-ended branched question in the survey that was only asked of the participants who responded negatively to the statement.

second most frequently reported comments, mentioned by 23% of the sample, was that they believed their franchisor was self-serving and inconsiderate towards their needs³⁵.

Furthermore, in a separate published study we conducted with data from 1,570 franchisees belonging to 35 franchise networks, multilevel analyses showed a significant positive relationship between franchisees believing their franchisor was concerned for their success and their financial performance. On the other hand, we found that low levels of perceived concern had a dampening effect on franchisee commitment and performance³⁶.

For these reasons, we recommend a psychosocial perspective be included in all discussions about the franchise relationship as it helps franchisors to make fairer decisions, maintain the trust and commitment of their franchisees, and gain better outcomes for all stakeholders.

Introducing the concept of The ACE Mindset

We now introduce a concept called the 'ACE Mindset' as a way of measuring trust and commitment, which are important components of a healthy franchise relationship. We define trust as *a perception that a situation or a relationship is psychologically safe*. In the franchising context, psychological safety means a franchisee feels they are respected, informed, supported and treated fairly. It also means they are confident they will not be embarrassed, marginalised, punished or exploited.

Commitment means a person willingly engages in activities and prosocial behaviours³⁷ to benefit themselves and others. Commitment goes beyond a feeling of trust, because it implies action. In the franchise relationship, we define commitment as a state where *franchisees will speak positively about their franchise network, actively participate in initiatives, and continue to invest time, energy and resources into their business*. This is similar to the concepts of brand commitment and brand citizenship behaviour that are increasing being explored by franchising researchers³⁸.

As part of our research into the factors that drive franchisee satisfaction, we have operationalised trust and commitment into a concept known as the ACE Mindset, where

³⁵ Incidentally, the most frequently reported theme, mentioned by 40% of the sample, was concerns over a lack of profitability and the growing phenomenon of margin compression.

³⁶ Parker, S.L., Cutts, S., Nathan, G., Zacher, H. Understanding franchisee performance: The role of personal and contextual resources. *Journal of Business Psychology*, 34 (2018): 603–620. <https://doi.org/10.1007/s10869-018-9558-5>

³⁷ Prosocial behaviours imply compliance to group norms and, while they have an intent to benefit others, they can also be motivated to benefit one's own needs, if this does not undermine the needs of others.

³⁸ See for instance Nyadzayo, M. W., Matanda, M.J., Ewing, M. T. "The impact of franchisor support, brand commitment, brand citizenship behavior, and franchisee experience on franchisee-perceived brand image." *Journal of Business Research* 68 (2015): 1886-1894.

franchisees are advocates³⁹ for their franchise network; commit to remaining with the franchise network⁴⁰; and actively engage with franchise network activities⁴¹.

To measure the ACE Mindset, which we define as *a state of mind where franchisees feel positive about their involvement in their franchise*, we have developed an ACE Mindset scale made up of four items (see Table 3). Franchisees respond to these items on a 7-point Likert scale, from *Strongly Agree* to *Strongly Disagree*, enabling us to create an ACE Mindset score for each franchisee. The internal reliability of the ACE Mindset scale using Cronbach’s Alpha is 0.82.

Table 3: ACE Mindset scale items

ACE Mindset scale items
<i>I could honestly recommend this franchise network to a friend, family member or colleague.</i>
<i>I am committed to being part of this franchise network for the foreseeable future.</i>
<i>I actively involve myself as much as possible in this franchise network.</i>
<i>All things considered, I am satisfied with my experience in this franchise network.</i>

Drivers of the ACE Mindset

Based on previous research into the satisfaction and performance of franchisees, involving a sample of 2,401 franchisees from 74 franchise networks⁴², we have developed a survey instrument known as the Franchisee Mood Monitor. This requires franchisees to respond to 58 statements on a four-point Likert Scale: *Strongly Agree*, *Agree*, *Disagree* or *Strongly Disagree*. The four-point scale deliberately omits an *Uncertain* middle option, enabling us to more accurately measure the affect⁴³ of franchisees in several important areas.

The 58 items, developed from previous work surveying and interviewing thousands of franchisees on what they care about, form six separate dimensions, clustered into 24 scales. These dimensions and scales were developed using exploratory cluster analysis. Table 4 below shows the definitions and reliabilities of each dimension and scale. The alphas for each dimension and scales were calculated separately including the relevant items. A General Satisfaction score, based on all 58 items in the Mood Monitor ($\alpha = 0.97$) will also be used to assist with some analyses.

³⁹ An advocate in this context is someone who would recommend the franchise as a desirable investment to someone who enquired. This is based on the Net Promoter Score concept, a widely used measure of customer loyalty. See Reichheld, F, F. The One Number You Need to Grow. *Harvard Business Review* 81(12) (2004): 46-54.

⁴⁰ Intention to stay is a commonly accepted measure of commitment in employee research. See for example, Gerarda, Y., et al. The future of workplace commitment: key questions and directions, *European Journal of Work and Organizational Psychology*, 27:2, (2018): 153-167, <https://doi.org/10.1080/1359432X.2018.1443914>

⁴¹ Work engagement in employee research refers to people feeling positive, dedicated and involved in their work. See Bakker, A. and Albrecht, S. Work engagement: current trends, *Career Development International*, Vol. 23 No. 1, (2018): 4-11. <https://doi.org/10.1108/CDI-11-2017-0207>

⁴² Nathan, G. Franchise excellence research report. Victoria: Franchise Relationships Institute. (2012). <https://www.franchiserelationships.com/shop/franchise-excellence-research-report-intl/>

⁴³ In this context, affect refers to the positive or negative reactions or feelings people have to their environment.

Table 4 – Franchisee Mood Monitor dimensions, scales and reliability

<i>Dimensions</i>	<i>Scales</i>
<p>Franchisee Achievement ($\alpha = 0.90$)</p> <p>The extent to which franchisees believe their business is successful and progressing in a positive direction</p>	<p>Financial performance ($\alpha = 0.81$) Definition: <i>Satisfaction with financial performance</i></p>
	<p>Optimism ($\alpha = 0.78$) Definition: <i>Feeling optimistic about future success</i></p>
<p>Franchisee Lifestyle ($\alpha = 0.84$)</p> <p>The extent to which franchisees are enjoying their work and coping with the demands of the business</p>	<p>Expectations ($\alpha = 0.81$) Definition: <i>Expectations of the franchise being met</i></p>
	<p>Stress ($\alpha = 0.78$) Definition: <i>Coping with the stress of the business</i></p>
<p>Franchisor Leadership ($\alpha = 0.94$)</p> <p>The extent to which franchisees feel confident in the franchisor team</p>	<p>Lifestyle ($\alpha = 0.79$) Definition: <i>Having lifestyle flexibility</i></p>
	<p>Fulfilment ($\alpha = 0.80$) Definition: <i>Finding fulfilment in their work</i></p>
<p>Connection ($\alpha = 0.86$)</p> <p>The extent to which franchisees feel connected to the group's culture and feel proud of their association with the brand.</p>	<p>Family & Social Support ($\alpha = 0.67$) Definition: <i>Family/friends feeling positive about the business</i></p>
	<p>Franchisor Competence ($\alpha = 0.87$) Definition: <i>Believing the franchisor is competent</i></p>
<p>Franchise Partnership ($\alpha = 0.89$)</p> <p>The extent to which franchisees feel informed, respected and able to resolve conflict.</p>	<p>Franchisor Care ($\alpha = 0.73$) Definition: <i>Believing the franchisor cares</i></p>
	<p>Franchisor Integrity ($\alpha = 0.80$) Definition: <i>Believing the franchisor is trustworthy</i></p>
<p>Support ($\alpha = 0.90$)</p> <p>The extent to which franchisees feel they have access to effective support and systems that are relevant to their needs.</p>	<p>Franchisor Commitment ($\alpha = 0.83$) Definition: <i>Believing the franchisor has a long-term view</i></p>
	<p>Franchisor Vision ($\alpha = 0.79$) Definition: <i>Believing the franchisor has a clear future strategy</i></p>
	<p>Brand Passion ($\alpha = 0.75$) Definition: <i>Having passion for the brand</i></p>
	<p>Belonging ($\alpha = 0.76$) Definition: <i>Feeling a sense of belonging to the group</i></p>
	<p>Involvement ($\alpha = 0.70$) Definition: <i>Feeling involved and collaborating with others</i></p>
	<p>Communication ($\alpha = 0.80$) Definition: <i>Feeling informed about important matters</i></p>
	<p>Consultation ($\alpha = 0.70$) Definition: <i>Feeling consulted and listened to</i></p>
	<p>Harmony ($\alpha = 0.59$) Definition: <i>Feeling able to resolve conflict</i></p>
	<p>Appreciation ($\alpha = 0.76$) Definition: <i>Feeling valued and appreciated</i></p>
	<p>Practical Support ($\alpha = 0.79$) <i>Having access to relevant support</i></p>
	<p>Training ($\alpha = 0.70$) Definition: <i>Having access to useful ongoing training</i></p>
	<p>Business Systems ($\alpha = 0.74$) Definition: <i>Having access to proven systems and useful data</i></p>
	<p>Marketing ($\alpha = 0.80$) Definition: <i>Having access to beneficial marketing</i></p>
	<p>Innovation ($\alpha = 0.61$) Definition: <i>Believing the network is innovating to stay relevant</i></p>

STUDY 1: SPECIFIC FACTORS THAT CONTRIBUTE TO FRANCHISEE SATISFACTION

A note of the direction of effects

In this section we will show the specific psychosocial factors that contribute most significantly to franchisee satisfaction, defined as *a state of mind where franchisees feel positive about their involvement in their franchise* (as measured by the ACE Mindset). This will be done by examining the correlations between ACE Mindset scores and Mood Monitor scales with a large sample of franchisees.

While we are unable to conclusively determine the direction of the relationship between the ACE Mindset and the Mood Monitor scales, our previous work over 20 years with tens of thousands of franchisees suggests that the Mood Monitor items, which largely refer to a franchisee's day-to-day experience of operating a franchise and interacting with a franchisor team, are driving the ACE Mindset and not the other way around. This view is further supported by our direct observations of how changes in the behaviour of franchisor leadership teams, and the cultures they create, regularly lead to significant changes in franchisee ACE Mindset scores⁴⁴.

Methodology

Franchisees were informed by their franchisor that they would receive an invitation to anonymously complete a franchisee satisfaction survey by the Franchise Relationships Institute (FRI), that no-one from the franchisor team would know who did or did not respond, and that their responses would be confidentially analysed and consolidated by FRI to produce an overall report on trends. They were encouraged to fill out the survey honestly and told the survey results would be used to identify areas where the franchisor could build on its strengths and improve on any areas needing attention. An FRI representative confidentially followed up non-responders until a minimum 66% response rate was achieved.

We are confident that respondents were the intended franchisees as each individual survey link was associated with their email address and could only be completed by them.

Data sample and analyses

Internal reliabilities

The internal reliability of the ACE Mindset score, and the Mood Monitor's six dimensions and 24 scales were analysed using Cronbach's Alpha. The ACE Mindset score and all Mood Monitor dimensions and scales achieved Cronbach's Alpha scores above 0.7 except for *Family & Social Support* ($\alpha = 0.67$), *Harmony* ($\alpha = 0.59$) and *Innovation* ($\alpha = 0.61$) which are still at acceptable levels (see Table 4).

⁴⁴ See for instance 2022 case study interview with Jack in the Box CEO, Darin Harris. <https://www.franchisorelationships.com/how-we-make-a-difference-fri-blog/interview-with-darin-harris-ceo-of-jack-in-the-box-on-franchise-leadership/>

Time period for collection of data

Over a five-year period, from 2015 to 2019, 92 franchise network surveys were conducted (which we will refer to as franchise network cases) across 49 franchise networks (22 of the brands were surveyed again in subsequent years). Table 5 shows the number of franchise network cases conducted each year.

Table 5: Number of franchise network cases conducted by year

Year	Number of franchise network cases
2015	20
2016	19
2017	20
2018	19
2019	14
Total	92

To ensure the time period for collecting data was not a confounding variable, an Analysis of Variance (ANOVA) using the five yearly groups was conducted on the ACE Mindset and the General Satisfaction score (a composite of all 58 Mood Monitor items). There was no statistical difference between the year the surveys were completed and the ACE Mindset [$F(4, 86) = 0.1, p = .98$] or General Satisfaction scores [$F(4, 86) = 0.58, p = .68$].

Franchise networks by size and industry

Franchise networks in the sample were divided by size into four groups, and by industry type into four groups (see Table 6) to also check if these could be confounding variables. Indeed, these questions of whether franchisee satisfaction is affected by a network's size or industry type are regularly raised with us. For instance, whether larger franchisors with external investors and professional management have different levels of satisfaction than smaller networks where the franchisor founder is still in charge. Or whether different industries have higher or lower levels of franchisee satisfaction.

Table 6: Sizes and industry types of franchise networks in the sample

Size of network (by franchisees)	Size of sample	% of sample
Less than 50 franchisees	17	35%
50 to 100 franchisees	15	31%
100 to 200 franchisees	11	22%
More than 200 franchisees	6	12%
Total	49	100%
Industry type		
Retail Food (e.g. convenience food, coffee)	18	37%
Retail Service (e.g. hairdressing, massage)	11	22%
Retail Product (e.g. pharmacy, tiles)	9	18%
Business & Home Services (e.g. mortgage broker, building)	11	22%
Total	49	100%

ANOVAs were conducted to examine the potential impact of franchise network size or industry type on the ACE Mindset and General Satisfaction scores. There was no statistical difference between the groups for franchise network size on the ACE Mindset [$F(3, 87) = 1.17, p = .33$] or for General Satisfaction [$F(3, 87) = 1.23, p = .30$]. There was also no statistical difference between the groups for industry type on the ACE Mindset [$F(3, 87) = 1.79, p = .15$] or General Satisfaction [$F(3, 87) = 1.55, p = .21$]. We are thus confident we have a relatively homogeneous sample with no confounding variables in the data.

Profile of participating networks and response rates

Descriptive statistics of the franchise networks and demographics of the franchisees in the sample are shown in Tables 6 and 7.

Table 7: Descriptive statistics of franchisee sample

Category	Statistics
Average number of franchisees invited per network	161
Average number of franchisees responding per network	92
Average response rate per network	74%
Average age of franchisee participants	47 yrs 8 mths
Average tenure of franchisee participants	7 yrs 10 mths
Multi-unit owner franchisee participants	32%
English as a second language franchisee participants	20%

In addition to the broad representation of franchise networks by size and industry, the average profile of franchisees, and the high response rates, indicate there is a representative sample of franchisees and franchise networks in this study.

Incidentally, a review of all the networks in this study three years on, as of 2022, indicates 48 of the 49 appear to still be trading well as franchise networks, despite the pressures of COVID-19. One network decided to buy back its franchise stores using a formula that was agreed to as reasonable by its franchisees, and it is now trading strongly as a company-owned network.

Including repeated surveys

We now address the question of whether it is wise to include franchise network surveys from the same brands over subsequent years. Because there are an estimated 25% of new franchisees entering franchise networks each year, as well as significant shifts in franchisee sentiment within networks due to changes in leadership, systems, strategy and culture⁴⁵, we believe the advantages of having a larger data sample that includes repeated surveys, outweighs any potential disadvantages.

To check for adequate variations in the data within the same networks over time, we conducted T-tests on the Mood Monitor scores for a cross section of brands that we had resurveyed. While some networks improved significantly on General Satisfaction, others declined. There was also both positive and negative changes in the Mood Monitor scales, indicating considerable variation in franchisee satisfaction over time⁴⁶. We believe this, in addition to evidence from consumer satisfaction surveys⁴⁷, justifies including some surveys from the same brands.

Final sample

After removing incomplete franchisee survey responses from the data, we were left with a sample of 8,425 franchisee responses. Correlational analyses were then conducted on these 8,425 surveys between the ACE Mindset and the Mood Monitor scales.

Findings

Table 8 shows the relationship (Pearson's correlation coefficient) and shared variance (coefficient of determination) between ACE Mindset scores and Mood Monitor scales, in order of strength. The highly significant correlations ($p < .0001$) indicate a strong relationship between franchisee satisfaction and the 24 areas. As mentioned previously, while we can't conclusively assume that improvements in these areas will drive higher levels of satisfaction, our applied experience suggests that this is probable.

⁴⁵ This is based on our experience working with a broad range of franchise networks each year.

⁴⁶ Because of the relatively small sample sizes in many of these networks, changes were not always statistically significant, however in at least half the cases, changes that were highly significant ($p < .01$) or approaching significance ($p < .07$) were noted on five to 24 of the Mood Monitor Areas.

⁴⁷ Dawes J, Stocchi L, Dall'Olmo-Riley F. Over-time variation in individual's customer satisfaction scores. *International Journal of Market Research*. 62(3) (2020): 262-271. doi:10.1177/1470785320907538

Table 8: Correlations between the ACE Mindset and Mood Monitor scales

Scales	Correlation with ACE Mindset	Coefficient of determination
Satisfied Expectations	$r = .79$	$R^2 = .617$
Optimism	$r = .70$	$R^2 = .485$
Belonging	$r = .65$	$R^2 = .424$
Fulfilment	$r = .65$	$R^2 = .417$
Franchisor Competence	$r = .64$	$R^2 = .411$
Franchisor Care	$r = .63$	$R^2 = .402$
Franchisor Commitment	$r = .62$	$R^2 = .381$
Business Systems	$r = .62$	$R^2 = .380$
Financial Performance	$r = .61$	$R^2 = .369$
Brand Passion	$r = .60$	$R^2 = .359$
Franchisor Integrity	$r = .60$	$R^2 = .358$
Involvement	$r = .60$	$R^2 = .356$
Consultation	$r = .59$	$R^2 = .350$
Balance	$r = .59$	$R^2 = .344$
Franchisor Vision	$r = .58$	$R^2 = .333$
Practical Support	$r = .58$	$R^2 = .338$
Appreciation	$r = .58$	$R^2 = .332$
Harmony	$r = .57$	$R^2 = .320$
Training	$r = .56$	$R^2 = .314$
Communication	$r = .56$	$R^2 = .312$
Marketing Support	$r = .56$	$R^2 = .311$
Family and Social Support	$r = .47$	$R^2 = .222$
Innovation	$r = .44$	$R^2 = .196$
Lack of Burnout	$r = .32$	$R^2 = .100$

To identify the factors that make the biggest difference to franchisee satisfaction, we have decided to focus on the Mood Monitor scales which have a shared variance of 35% or more ($R^2 \geq 0.35$), shown in order of strength in Table 9, along with sample items from each scale that also show strong correlations with the ACE Mindset score.

We have also included the percentage of franchisees in the sample agreeing with each sample item, which provides a useful indicator reflecting the health of the franchise relationship on these specific factors.

Table 9: Mood Monitor scales having the biggest impact on the ACE Mindset

Mood Monitor Scales	Correlations with ACE Mindset	Sample item from each scale	Franchisees agreeing with sample item⁴⁸
Satisfied Expectations	$r = .79$	<i>Being a franchisee in this network has lived up to my expectations.</i>	61%
Optimism	$r = .70$	<i>I feel optimistic about my future in this franchise.</i>	67%
Belonging	$r = .65$	<i>I feel a sense of belonging to our franchise group.</i>	69%
Fulfilment	$r = .65$	<i>I really enjoy running this business.</i>	85%
Franchisor Competence	$r = .64$	<i>The franchisor team are competent to run this franchise network</i>	69%
Franchisor Care	$r = .63$	<i>The franchisor team genuinely care about my success.</i>	65%
Franchisor Commitment	$r = .62$	<i>Top leadership are personally committed to the long-term future of this network.</i>	72%
Business Systems	$r = .62$	<i>Our franchise network gives us access to a proven business model.</i>	77%
Financial Performance	$r = .61$	<i>My business is on track to be a financial success.</i>	61%
Brand Passion	$r = .60$	<i>I feel proud of our brand and our reputation.</i>	87%
Franchisor Integrity	$r = .60$	<i>I am treated fairly by the franchisor team.</i>	79%
Involvement	$r = .60$	<i>I look forward to participating in the various meetings and events available to me.</i>	77%
Consultation	$r = .59$	<i>The people from the franchisor team listen to the views of franchisees.</i>	62%

It is interesting to note that **Expectations** are clearly the biggest driver of franchisee satisfaction, highlighting the important role of the psychological contract, which we defined earlier as *the mutual beliefs and expectations that franchisees and franchisor executives have of each other*. Note that only 61% of franchisees in the sample agreed the network has lived up to their expectations.

One of the findings from the Parliamentary Inquiry was the phenomenon of franchise sales representatives over representing the benefits and understating the risks and hard work associated with operating a franchise. This has been a long-standing problem in the global franchising sector and highlights the need for better education of both franchisor executives and franchisees in the early stages of the relationship, when these

⁴⁸ These percentages were based on the data we had collected up until these analyses were conducted in 2019. It is worth noting that some of these percentages have changes in recent years as a result of the COVID-19 pandemic. Interesting most of the percentages have improved as franchisors have stepped up to support their franchisees during these stressful times.

expectations are being formed. For instance, unrealistic expectations can be assessed using more thorough and systematic franchisee recruitment methods⁴⁹.

Given that **Optimism** has emerged in previous studies⁵⁰ as the second highest predictor of franchisee performance, we are not surprised that this factor emerged as the second biggest driver of franchisee satisfaction. While 67% of franchisees do feel optimistic about their future in the franchise, a third do not. Our historical data indicates optimism has reduced over the years with 80% agreeing with this item in 2005. Our qualitative data suggest this is primarily driven by margin compression caused by rising costs and flattening revenues, and the uncertainty of economic conditions.

The basic human need for **Belonging** has been identified by social neuroscientists as one of the five most important instincts the brain uses to assess psychological safety⁵¹, so it makes sense this has emerged as the third highest driver. This data showed that 69% of franchisees do feel a sense of belonging and seem to reasonably happy with this area. It is worth noting that franchisees typically gain great satisfaction from the relationships they have with their peers, more so than their relationship with the franchisor team. This is consistent with the ethnographic findings from Lawrence and Kaufmann's 2019 study⁵².

The need for **Fulfilment** and meaningful work taps into another basic human need for purpose, which psychologists have identified as being a strong human motivator that impacts significantly on energy, performance and satisfaction⁵³. **Brand Passion** is also linked to this sense of pride and purpose and has been identified as a strong predictor of performance and satisfaction in a previous study by FRI⁵⁴. Franchisees appear to be relatively satisfied in these areas with 85% enjoying their work, and 87% feeling passionate about the brand.

The franchisor related scales of **Competence**, **Care** and **Commitment** provide empirical evidence for the benefits of franchisors adopting a more collaborative approach to leadership based on evidence and influence, rather than command and control⁵⁵. While 69% of franchisees are satisfied with the competence and 72% with the commitment of

⁴⁹ Nathan, G., Jackson, C., & Allen, J. Psycho-social predictors of franchisee success and implications for selection. Paper presented at *International Society of Franchising Conference*. (2008). St Malo, France.

⁵⁰ Parker, S.L., Cutts, S., Nathan, G., Zacher, H. Understanding franchisee performance: The role of personal and contextual resources. *Journal of Business Psychology*, 34 (2018): 603–620.
<https://doi.org/10.1007/s10869-018-9558-5>

⁵¹ The SCARF model, developed by David Rock based on the work of social neuroscientists, defines the conditions for psychological safety as Status; Certainty; Autonomy; Relatedness; and Fairness. See Rock, D. SCARF: a brain-based model for collaborating with and influencing others. *NeuroLeadership Journal*, Issue 1(2008).

⁵² Lawrence, B., Kaufmann, P.J. Channel members' relationships with the brands they sell and the organizations that own them. *Industrial Marketing Management* 83 (2019): 148-161.

⁵³ Steptoe, A and Fancourt, D. *Leading a meaningful life at older ages and its relationship with social engagement, prosperity, health, biology, and time use*. Proceedings of the National Academy of Sciences. 116 (4) (2019): 1207-1212; DOI: 10.1073/pnas.1814723116.

⁵⁴ Nathan, G. Franchise Excellence Research Report. Franchise Relationships Institute, Victoria, Australia. (2012)

⁵⁵ Nathan, G. 10 Trends Shaping the Franchising Sector. *Franchise Leaders*, 1, (2018): 36-39,
https://issuu.com/marketingeyau/docs/franchise_leaders_2018_magazine_low

their franchisor teams, their feeling of being cared for by their franchisor team is relatively low at 65%. This is clearly a cultural opportunity for franchisor teams, who tend to be more transient and less committed to the culture of the franchise network, an observation also made by Lawrence and Kaufmann in their 2019 study.

The franchisor scale relating to **Integrity** is particularly important given the accusations of systemic unfairness by the media and in the Parliamentary Inquiry report. Note that 79% of franchisees believe they are treated fairly by their franchisor, which would appear to discredit the view that a significant number of franchisors are behaving badly.

Having proven **Business Systems** are clearly important to franchisee satisfaction, as they are what franchisees are largely paying for in their up-front and ongoing franchise fees. This was also mentioned as an issue of concern in 22% of the submissions to the Parliamentary Inquiry (See Table 1). With 77% of franchisees agreeing their franchise network gives them access to a proven business model, franchisors seem to be doing an adequate job here.

While **Financial Performance** did make it into this list of the top drivers of franchisee satisfaction, it is interesting that it was not at the top, dispelling a common claim we regularly hear from franchisors that “if they’re making money, they’re happy.” These findings clearly show that non-financial factors and the quality of a franchisor’s leadership are more important factors in influencing franchisee satisfaction. However, only 61% of franchisees agree their business is on track to be a financial success, which suggests more work is needed to help franchisees improve their profitability.

In summary, this study has empirically identified and prioritised specific psychosocial factors that drive franchisee satisfaction.

STUDY 2: SPECIFIC FACTORS THAT UNDERMINE TRUST IN THE FRANCHISE RELATIONSHIP

Trust is vital for interdependent business relationships such as the franchise relationship because it enhances collaborative behaviour, an important source of competitive advantage, and the commitment of franchisees to execute franchisor led initiatives. On the other hand, a lack of trust puts stress on people and their relationships, and undermines commitment to new initiatives.

To identify the factors that undermine trust in the franchise relationship we examined qualitative comments by franchisees who rated their franchisor as untrustworthy. We then themed and converted these responses into quantitative data for further analysis.

Methodology

An important Mood Monitor item, which forms part of the Franchisor Integrity scale (see Tables 8 and 9), asks franchisees to consider how trustworthy they regard their franchisor. The item is worded:

The franchisor team are trustworthy in their dealings with franchisees.

Franchisees rated this item on a four-point Likert scale, *Strongly Disagree*, *Disagree*, *Agree*, or *Strongly Agree*. Any franchisee who *Strongly Disagreed* or *Disagreed* received the following question later in the survey:

In your responses to the survey you disagreed with the statement, “The franchisor team are trustworthy in their dealings with franchisees”. It would be

useful to know why you feel this way. Please share your thoughts in the space provided.

Franchisees had the option of typing open-ended comments into a text box. These comments were then collated and themed.

Sample

Because this study examines perceptions of franchisor trustworthiness, an issue that has been in the Australian public spotlight, we decided to restrict the sample to Australian and New Zealand franchisees. This left 7,163 franchisees from 68 separate survey cases. Of these, 2,211 or 31% *Disagreed* or *Strongly Disagreed* with this item. A total of 1,684 franchisees responded with written comments, averaging 38 words per response.

Analysis of data and findings

Responses from each of the 68 network cases were separately analysed and themed so that franchise networks with larger samples did not bias the themes. This resulted in 176 themes from the 68 network cases, with many of the themes overlapping. An average of three themes emerged per network case.

The research team then identified common over-arching themes across all the data. Two researchers independently themed this data. While most themes were consistent, any variations were discussed until consensus was reached.

A total of 11 themes were finally identified, explaining why franchisees felt their franchisor was untrustworthy. Each of the original 176 themes was given a weighted score, based on the proportion of franchisees within the network who mentioned it in their response. This was then allocated to one of the 11 categories. A theme that represented more than 50% of all the comments in a network was given 3 points; a theme representing 25% to 50% of comments in a network was given 2 points; and a theme representing less than 25% of comments in a network was given 1 point.

Table 10 contains the 11 over-arching themes with their total weighted scores, using the above formula. To provide a sense of how important each theme is in the overall scheme of things, we have also provided the proportional strength of each theme, ordered from largest to smallest.

Table 10 – Franchisor behaviours that undermine perceived trustworthiness

Why franchisees felt their franchisor was untrustworthy	Weighted Scores	Proportional strength of each theme
Self-serving: Making decisions that advantage the franchisor at the expense of franchisees	58	19%
Lacking transparency: Not being open; hiding information; not admitting mistakes	51	17%
Not consulting: Not asking or listening to franchisees on issues that impact them; ignoring a partnership mindset	34	11%
Being dishonest: Breaking promises; misrepresenting information	34	11%
Being unresponsive: Lacking practical support; not following up on commitments	31	10%
Practising poor communication: Creating an environment of uncertainty and confusion	28	9%
Having unstable or ineffective leadership: High staff turnover; poor decision making; disorganisation; lack of accountability	23	7%
Lacking empathy: Not caring or understanding how franchisees feel or what they need	20	6%
Being unfair: Showing favouritism, or being inconsistent in dealings with franchisees	13	4%
Being intimidating: Using power, threats or coercive behaviour	8	3%
Being unprofessional: Not respecting confidences when dealing with franchisees	8	3%
TOTAL	308	100%

The most frequently mentioned behaviours that undermine trust related to franchisors acting in a self-serving manner to benefit themselves at the expense of their franchisees. This included behaviours such as keeping supplier rebates, acting opportunistically, or taking advantage of power imbalances to benefit the franchisor.

The poor management of communication, through a perceived lack of transparency or honesty when franchisors are making decisions that impact on franchisees, was also a major concern for these franchisees.

It is interesting to note that trust was also undermined by a perceived lack of concern, articulated under the themes of a lack of empathy, consultation or responsiveness. Franchisees clearly want to believe their franchisor cares about their commercial and personal wellbeing, and understands their reality.

Perceived incompetence resulting from high staff turnover at a franchisor's head office, disorganisation and poorly thought through decisions was also a major cause of mistrust, as was unprofessional behaviour, such as not respecting confidences.

Intimidation and unfair conduct, while important to some franchisees, were mentioned the least number of times. While the franchising sector has been accused of the systemic abuse of power and of acting unfairly, this did not seem to be a major issue for these franchisees.

DISCUSSION AND CONCLUSIONS

A review of the 2018 Parliamentary Inquiry process into the franchising sector, and the two studies reported in this paper, have sought to bring greater clarity and objectivity to the current debate on the health of the franchising sector in Australia. We have argued that an over emphasis on legal and commercial remedies to manage what is largely a psychosocial relationship driven by psychological instincts, will fail to produce improvements to how franchisors and franchisees engage with each other.

These instincts include the need for respect, belonging, certainty, purpose, and fairness. Furthermore, we would argue that the interdependence of the franchise relationship, where franchisees have placed their trust and often their family's financial security, in the hands of their franchisor, requires franchisors to go beyond legal and commercial obligations of good faith, which are currently restricted to acting fairly, telling the truth and delivering on one's minimal legal and commercial obligations. Interestingly the financial services industry in Australia has recently attempted to raise ethical standards of behaviour by encouraging financial services executives to sign up to the Australian Banking and Finance Oath. This describes behaviourally what it means to behave ethically, and with integrity⁵⁶.

The findings of these studies show that franchisees expect more of their franchisor, such as to act in their best interests and from a place of moral integrity. This includes such things as genuinely caring for their success and personal wellbeing, listening to their views, empathising with their challenges, and providing them with a sense of belonging. It also means providing a type of leadership that places a high priority on quality communication, high levels of transparency on how decisions are made, and a competent, reliable franchisor team that shares a long-term commitment to the success of the network.

Furthermore, and most importantly, the data suggests that franchisees expect their franchisors to resist from making self-serving decisions. This, more than any other factor, undermines trust. And trust is vital in the franchise relationship as it enhances collaborative behaviour, which gives most networks their competitive edge, as well as boosting the commitment of franchisees to execute franchisor led initiatives.

Our findings show that behaviours such as those mentioned above are what franchisees care about. While we can't say for certain that they directly drive higher ACE Mindset scores, the Mood Monitor items mostly measure how franchisees feel about aspects of their day-to-day experience being part of a franchise network. We are thus confident that these are more likely to influence whether franchisees will recommend, stay and engage fully with the business, (i.e. have the ACE Mindset), than the other way around, (i.e.

⁵⁶ See <https://ethics.org.au/join/the-banking-and-finance-oath/> for background information and a description of the Banking and Finance Oath.

having an ACE Mindset influences how a franchisee feels about the day-to-day aspects of the business).

More specifically, we have shown in Study 1 that 13 factors drive improvements to franchisee satisfaction, and the beneficial ACE Mindset outcomes mentioned above. Based on the percentage of franchisees agreeing to specific statements in these 13 areas, we have rated below how well we think Australian franchise networks are performing on these factors.

FAIR < 70% franchisee agreed; GOOD 70 > 80% agreed; EXCELLENT > 80% agreed.

1. Believing their expectations of the franchise have been met: FAIR
2. Feeling optimistic about their future success: FAIR
3. Feeling a sense of belonging to the franchise group: FAIR
4. Finding enjoyment and fulfilment in their work: EXCELLENT
5. Believing the franchisor team is competent to run the network: FAIR
6. Believing the franchisor team genuinely care about their success: FAIR
7. Believing the franchisor team have a personal long-term commitment: GOOD
8. Having access to a proven business model and systems: GOOD
9. Believing their business is financially successful: FAIR
10. Feeling proud of the brand and the networks reputation: EXCELLENT
11. Believing the franchisor team are fair and trustworthy: GOOD
12. Feeling involved and wanting to collaborate with others: GOOD
13. Feeling consulted and listened to: FAIR

Insights from the above, and the findings from Study 2, suggest that franchisee expectations need to be realistic, especially in the early stages of the franchise relationship. This would include the time and effort they will need to invest, the stresses they are likely to face, and the financial returns they are likely to enjoy. This means the psychological contract, defined as *the mutual beliefs and expectations that franchisees and franchisor executives have of each other*, should be regularly revisited, especially as franchisors are introducing changes to their business models at an ever-increasing rate. Given that only 61% of franchisees in this study agreed their expectations have been met, franchisors need to do a better job here.

Optimism has consistently been shown through our research, and other psychological studies, to be a major predictor of success and satisfaction in business. The data in Study 1 highlights the importance of optimism as a driver of the ACE Mindset. Yet only 67% of franchisees felt optimistic about their future in the franchise. Previous research by FRI has shown the main reason why franchisees do not feel optimistic about the future, is a growing sense of pressure on their profit margins, (although a perception their franchisor is being self-serving also puts a dampener on their optimism).

The finding that only 61% of franchisees believe their business is on track to be a financial success, indicates franchisors need to work harder to protect the profit margins of their franchisees. Also, the fact that self-serving behaviour is the most mentioned reason for a breach of trust in the franchise relationship, means franchisors should carefully consider how their financial decisions are perceived.

This brings us to the importance of franchisor care. The fact that only 65% of franchisees believe their franchisor team genuinely cares about their success, raises the question of how franchisors can better look after the interests of their franchisees. While lawyers may cringe at this suggestion, as burdening franchisors with an inappropriate fiduciary duty to their franchisees, the high correlation of perceptions of care with the ACE Mindset, suggest a big payoff for those franchisors who embrace this idea.

Is the franchising sector in need of a shake up over unfair practices? The data from this study indicates that 79% of franchisees believe they are treated fairly by their franchisor, and only 3% of the comments relating to the untrustworthy practices were attributable to franchisors acting unfairly.

The meaning of fairness, however, goes beyond consistency and implies not acting in an opportunistic manner. The low level of perceived care from franchisors in Study 1 and the high number of comments around self-serving behaviour in Study 2 suggest more discussion and education on the meaning and practice of fairness is required. We would also argue that this is not just an issue for franchisors, as franchisees are just as vulnerable to opportunistic and unethical conduct. Over the years we have seen many franchisor teams subjected to bullying and intimidation from franchisees looking to destabilise a franchise network for their own commercial or personal reasons.

In conclusion, we have used empirical data to demonstrate the specific factors that contribute most significantly to franchisee satisfaction. We have also shared data that reflects the current health of the franchise relationship on these factors, and used qualitative data to highlight the specific factors that undermine trust in the franchise relationship.

We suggest there needs to be a better standard of educating franchisor executives on the drivers of franchisee satisfaction, and how they need to behave if they are to enjoy the commercial benefits of having a network of franchisees with high ACE Mindset satisfaction scores. Interventions to positively modify franchisor executive behaviour would also benefit from including the principles of behavioural economics and emerging insights from the field of social neuroscience to influence a better standard of care from franchisors, and high levels of constructive participation from franchisees.

Our hope is that interventions by policy makers and sector stakeholders that seek to modify franchisor and franchisee behaviour, embrace the franchise relationship as having a legal, commercial *and* psychosocial component.