Journal of Retailing and Consumer Services 40 (2018) 19–30

Contents lists available at ScienceDirect

Journal of Retailing and Consumer Services

journal homepage: www.elsevier.com/locate/jretconser

Governance capabilities and relationship performance in international franchising

Nabil Ghantous[a,*], Shobha S. Das[a], Fabienne Chameroy[b]

[a] Department of Management & Marketing, College of Business and Economics, Qatar University, P.O Box: 2713, Doha, Qatar
[b] CERGAM, Faculté d'Economie et de Gestion, Aix Marseille Université, 15-19 Allée Claude Forbin, 13627 Aix en Provence cedex 1, France

ARTICLE INFO

Keywords:
International franchising
Governance
Capabilities
Communication
Adaptation
Relationship performance

ABSTRACT

This paper investigates governance capabilities driving relationship performance of international franchisors. We collected data from internationalized French franchisors with a mixed-methods design. Interviews from Study 1 (N = 28) complemented previous literature and led to the proposed integrative model of governance capabilities. Questionnaire data from Study 2 (N = 94) was used to test the model with PLS-SEM. We find that two international communication capabilities, intercultural communication and communication adaptation, enhance performance directly, and indirectly through their impact on knowhow transfer, monitoring, and contract adaptation capabilities. The number of countries where the franchisor is present is negatively related to contract and communication adaptation.

1. Introduction

International franchising is a widespread phenomenon that has grown rapidly due to the lowering of national barriers, saturation of domestic markets and growing awareness of global brands (Elango, 2007; Thompson and Merrilees, 2001). A stream of research has focused over the last twenty years on the international franchise relationship, including research on foreign partner selection and recruitment (e.g. Altinay and Miles, 2006; Doherty, 2009), the nature of the relationship in terms of autonomy and control (e.g. Paik and Choi, 2007; Pizanti and Lerner, 2003), or specific mechanisms and competences to manage the relationship such as support to (e.g. Quinn, 1999) and monitoring of foreign franchisees (e.g. Choo, 2005), knowhow transfer (e.g. Szulanski and Jensen, 2006), and contract design and adaptation (e.g. Lafontaine and Oxley, 2004). However, there is a lack of research on how franchisors' governance of their international franchise relationships affects their performance.

In this research, we examine the governance-performance link by focusing on a specific form of international performance, namely relationship performance. The latter refers, at the broadest level, to the establishment of successful relationships with the channel partners (Beugelsdijk et al., 2009; Emden et al., 2005), here the foreign franchisees. Relationship Marketing literature offers various interpretations of relationship performance (Beugelsdijk et al., 2009). Performance can be interpreted for instance as the assessment, by either or both parties a) of the relationship itself, through concepts including relationship quality or relationship satisfaction, or b) of the relationships' outcomes, through concepts including partner loyalty or financial returns (Palmatier et al., 2006). In this research, we focus on relationship performance from the point of view of the franchisor and approach it through the construct of relationship satisfaction. Previous research shows that relationship satisfaction is directly driven by relationship investments and governance capabilities on the seller side (Palmatier et al., 2006), here the franchisor. Furthermore, relationship satisfaction was found to have a significant positive impact on economic performance both in national (Palmatier et al., 2006) and international channels.

We consider the governance-performance link from the perspective of the dynamic capabilities theory, which views the company's ability to "integrate, build, and reconfigure internal and external competencies to address rapidly changing environments" (Teece et al., 1997, p.516) as vital to achieving and sustaining performance. Within the framework of marketing channels, governance capabilities refer to a firm's ability to organize, coordinate and manage its relationship with a channel partner (Gilliland and Bello, 2001; Heide, 1994). Such competencies are essential dynamic capabilities that allow the company to optimize the use of its other knowledge resources (Teece, 2007) by orchestrating relationships, both inside and outside the organization (Dosi et al., 2008; Pitelis and Teece, 2010), for competitive advantage. Conversely, the lack of governance capabilities can lead the company to inappropriately deploy its resources (Kor and Mahoney, 2005) and prevent it from taking full advantage of its other resources and capabilities

* Corresponding author.
E-mail addresses: nabil.ghantous@qu.edu.qa (N. Ghantous), shobha.das@qu.edu.qa (S.S. Das), fabienne.chameroy@univ-amu.fr (F. Chameroy).

http://dx.doi.org/10.1016/j.jretconser.2017.08.022
Received 5 April 2017; Received in revised form 30 July 2017; Accepted 24 August 2017
Available online 13 September 2017
0969-6989/

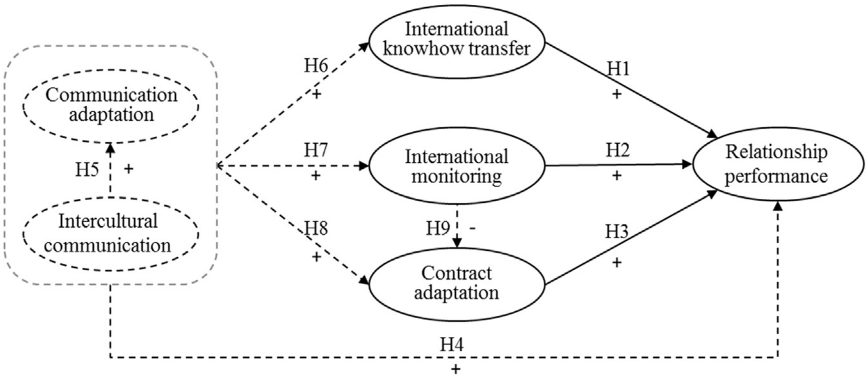

Fig. 1. The Conceptual Model, * The constructs and links portrayed in red result from Study 1.

(Barney et al., 2001).

We build on data from French franchisors to investigate a) the dynamic capabilities developed and deployed by franchisors to govern their international franchise relationships, and b) how those dynamic capabilities affect franchisor relationship performance. We collected data in a mixed-methods, sequential exploratory design (Creswell et al., 2003), consisting of two distinct phases. Study 1 uses qualitative data from interviews with senior managers from 28 French franchisors with international operations. The interviews corroborate the role of three governance capabilities, derived from previous literature, that are related to knowhow transfer, monitoring, and contract adaptation. They also reveal two additional capabilities related to franchisors' international communication, as well as a web of interrelationships among the different capabilities leading us to formulate the research model in Fig. 1. The model is based on our literature review and Study 1. Study 2 tests the research model by analyzing quantitative data from a survey of 94 international French franchisors with PLS structural equation modeling (PLS-SEM).

Our main contribution is to propose and test an integrative model of governance of international franchise relationships derived from both previous literature and franchisor practices. The model explains a substantial part of the variance in relationship performance ($R^2 = 0.51$) that is larger than what previous studies could predict by focusing on a single or a limited subset of capabilities. By including the interrelationships among the capabilities, the model gives a more accurate idea about the effect of each of the capabilities on relationship performance, by accounting for both their direct and indirect impact. For instance, Study 2 reveals an indirect effect of intercultural communication capability on performance through the mediation of the other governance capabilities, which is even stronger than its direct effect. While there have been recent attempts to investigate the interrelationships among governance capabilities in other forms of channels (e.g. Wang et al., 2014), this is the first attempt, to our knowledge, to do so within international franchising relationships.

Our findings also have managerial implications. They indicate that international franchisors should develop their communication capabilities beyond the exchange of information that occurs through knowhow transfer and monitoring. Specifically, franchisors should focus in addition on their ability to communicate effectively with partners from different national environments by developing intercultural communication and communication adaptation capabilities. Moreover, international franchisors can also learn how they can use the two international communication capabilities not only to enhance performance but also to reconfigure and enhance their ability to transfer knowhow, monitor foreign franchisees and draft contracts.

The rest of the paper is organized as follows. After providing the conceptual background, we develop a first set of hypotheses from the literature review on governance capabilities in international franchising, and then refine and complete the final set of hypotheses based on our qualitative study. Next, we discuss our research method and present the findings of the quantitative study. The paper concludes with a discussion of the main contributions, implications and future research avenues.

2. Conceptual background

Dynamic capabilities are a theoretical evolution of the resource-based view (RBV) of the firm. RBV contends that firms can achieve lasting competitive advantage and sustain performance by leveraging resources that are valuable, rare, imperfectly imitable and non-substitutable (Barney, 1991). The dynamic capabilities approach goes beyond this static vision and contends that the mere possession of such resources is not enough to create and sustain competitive advantage. To do so, companies should also develop a set of capabilities and processes that operate on these resources and leverage them in the most competitive way through means of enhancement, reconfiguration, combination and protection (Eisenhardt and Martin, 2000; Teece, 2007).

Governance capabilities refer to a firm's competencies to initiate, maintain, and terminate its relationship with another firm (Heide, 1994). Such capabilities are particularly important in networks (Teece, 2007) like franchising. Franchising creates a long-term agency relationship between the franchisor and the franchisee. This relationship can be characterized by a blend of dependency and autonomy, and can go through cooperation and conflict (Cochet et al., 2008; Combs et al., 2004), which increases the need for sound governance. Moreover, franchise success stems not only from differentiated and valuable brands and operating routines, but also from franchisors' ability to optimize the use of the brands and routines by orchestrating franchise relationships to facilitate, leverage and protect knowledge flows between the franchisor and the franchisees for their mutual benefit (El Akremi et al., 2015; Gillis et al., 2014).

Internationalization adds to the complexity of governing franchise relationships. By adding geographic, legal and cultural distance, internationalization complicates the communication between the franchisor and the franchisee, and increases franchisor uncertainty regarding foreign market conditions, information asymmetry between the two parties, the risk of franchisee opportunism and hence the risk of conflict (Choo, 2005; Fladmoe-Lindquist, 1996; Shane, 1996). Governance capabilities are hence essential internationalization dynamic capabilities to "control divergent partner behaviors, manage spatially distant internal relationships, and ensure ongoing and appropriate levels of knowledge transmission" (Fletcher et al., 2013, p.50) to achieve international performance.

3. Governance capabilities in international franchising

International franchising literature highlights three major forms of franchise governance capabilities.[1]

[1] Other international governance capabilities, related to the initiation stage of the