Management Policy in Franchising Operations: A Preliminary Study

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ABSTRACT

During the past few decades franchising has emerged as one of the fastest growing methods of doing business in the world. This article investigates the concept of climate in franchising stores and how that relates to the stores' performance. Work context, participation and workgroup were identified as important climate factors influencing store performance. Proper management of the work climate should enhance franchise store performance.

INTRODUCTION

For years, the relationship between organizational climate and human behavior has been one of the focal areas of management research because human behavior has a strong effect on organizational performance. Glick indicated that the study of organizational climate and its impact on motivation and leadership would influence the development of management theory in the future (4). Obviously, organizational climate is a useful managerial tool to diagnose employees' perceptions of the work environment and its relationship with other organizational variables. However, past research on climate has mainly taken place in large business or public organizations. The concept of climate has rarely been applied in small-scaled business operations.

The major objective of this paper is to explore the concept of climate and its relationship with performance in small-scaled franchising stores. Also, the implications of this relationship for management policy are discussed.

BACKGROUND

The importance of perception of the work environment to organizational behavior and performance has been emphasized in past decades. Generally, the perception of the work environment is referred to as the climate of the work setting. Organizational climate is a global concept. It embraces almost all organizational variables and characteristics of both physical and non-physical nature. Litwin and Stringer defined organizational climate as a set of measurable properties of the work environment, perceived directly or indirectly by the people who work in this environment (10). The perceived situation is considered of greater effect than what is objectively the case (1).

Climate is significantly related to many organizational variables, including motivation (10), communication (11), job satisfaction (7; 9; 14), client satisfaction (13), and performance (6; 7; 14). Also, Dastmalchian suggested that the design of appropriate climate and structure in response to environmental pressures may be considered as complementary strategies in management (2). There are three different levels identified in the measurement of organizational climate. They are based on different units of analysis, namely, individual, group or subunit, and organization. However, it is clear that the construct of climate measurement is intrinsically psychological, i.e., on an individual level (6). Other levels of analysis are merely aggregations of individual scores. Subunit climate is the aggregate result of individuals' climate perceptions within the subunit. Similarly, organizational climate is deemed as the aggregate results of individuals' climate perceptions within the organization. Subunit climate allows researchers to look into the management issues at subunit level while organizational climate is investigated if organizational attributes are of interest (3). That means, the level of aggregation depends on the nature of research.

Aggregate climate is more appropriate than organizational climate in organizational research because multiple climates exist in an organization (3, 15). In other words, people working in different divisions of an organization may experience different climates. This would be due to different settings and/or different perceptions. Therefore, the more divisions an organization has, the more diverse subunit climates may be.

HYPOTHESES

The subjects of this study were outlets of a franchising chain. In general, franchising operations are characterized by a large number of outlets which are operated by different franchisees or store managers. There are, however, centralized policies, standardized training and consistent product quality control. Because there is no past research addressing climate measured at store level, we suggest a proposition:

> Multiple climates exist at the store level, i.e., individual stores are not of the same climate.

From the previous discussion on climate, if multiple store climates exist, we hypothesize:

> There is a significant relationship between store climates and performance.

Usually, franchisors emphasize franchisee-employee and employee-customer relationships because such relationships are crucial to the success of the business. Justis and Judd highlighted that employees' attitudes are very important to customer satisfaction and the perceived quality of the business (8). Also, they indicated that "from the employee's perspective, the franchisee-employee relationship revolves around sufficient training, pay, and incentives." This encourages us to formulate our second and last hypothesis:

> The climate factor concerning rewards and organizational characteristics has more impact on store performance than other climate factors.

METHOD

Sample

Data for this study were collected within outlets or stores of a national fast-food franchising chain. The corporate headquarters classified sales performance of stores into three categories—high, medium and low. Twenty stores of each performance category, i.e., a total of sixty stores, were selected. For each store, ten employees were invited to participate in the

study. Only stores from which more than 4 valid responses were received were included in the analysis. Therefore, the final sample was made up of 270 respondents from 52 stores of which 19 were rated high, 16 medium, and 17 low in performance, respectively.

Measurement of Climate

Major instruments used in past research on organizational climate were reviewed. Litwin and Stringer proposed nine a priori climate scales, namely, structure, responsibiility, reward, risk, warmth, support, standard, conflict and identity (10). Jones and James developed a psychological climate questionnaire consisting of thirty-five a priori composites which could be grouped into four categories, namely, job and role characteristics, characteristics of leadership, workgroup characteristics, and subsystem and organizational characteristics (6). Joyce and Slocum found that there were six climate dimensions by factor analysis (7). These dimensions were rewards, autonomy, motivation to achieve, management insensitivity, closeness of supervision, and peer relations.

After reviewing the aforementioned measures and considering the sample for this study, which was made up of employees in the fast-food industry with limited work space and spare time, a simplified climate questionnaire was designed. There were 16 items, describing the following work environment related variables: structure, rewards, peer relations, decision making, commitment, responsibility, expression of opinion, grievance handling, support, delegation, participation, innovation, work environment, standard, rules and communication hindrance. The detail of each item is shown in Appendix 1. Responses were measured by 7-point Likert scales. Factor analysis with varimax rotation was used and four factors were derived. The explained variance was 52.2%. The score of each climate factor was then calculated by taking the mean of the scores of items comprising the factor. The internal consistency reliability of each factor was estimated by coefficient alpha. The factor structure and the reliabilities of respective factors are shown in Table 1.

The four derived factors are: (1) Work context (5 items): the way in which respondents perceive the structure, the reward system, the work environment, and the expected standard of performance of the organization; (2) Workgroup (4 items): the way in which respondents perceive the attitudes of coworkers; (3) Participation (4 items): the way in which respondents perceive the attitudes of the organization toward their opinion; and (4) Autonomy (3 items): the way in which respondents perceive the opportunity to work independently and the possible problems encountered when working independently.

All factors are of acceptable reliability except the last one. The coefficient alpha of autonomy was only .21. It is too low even for an explored factor (12).

Table 1. Factor Structure of Climate

(Only factor loadings above .40 are shown below)

	Factor 1	Factor 2	Factor 3	Factor 4
Structure		.75		
Rewards	.78			
Peer relations		.59		
Decision making	.46			
Commitment		.81		
Responsibility		.73		
Expression of opinion			.49	
Grievance handling			.78	
Support		.68		
Delegation				.42
Participation	.42		.44	
Innovation			.59	
Work environment	.57	.44		
Standard	.64			
Rules				.57
Communication hindrance				.70
Eigenvalue	4.75	1.28	1.20	1.12
Variance (%)	29.7	8.0	7.5	7.0
Coeff. alpha	.70	.75	.59	.21

RESULTS

Formation of Store Climates

Store climate factors were determined using multivariate and univariate analyses of variance. These analyses help assess the power of differentiation of climates between stores. Only factors of significant differences among stores will be considered for further analysis. These results are shown in Table 2.

Table 2. Verification of Store Climate Factors

Climate Factor	d.f.	F	p
Multivariate:	204,1234	1.747	.000
Univariate:	51,313		
Work context		2.670	.000
Workgroup		2.705	.000
Participation		1.579	.011
Autonomy		1.399	.046

According to the levels of significance found in the analyses of variance, all factors are acceptable for cross-store analysis. This supports our proposition that multiple climates exist at store level. In other words, stores are operated under different climates. However, the factor "autonomy" was dropped from further analysis because of the low reliability (.21).

Pearson correlation and multiple regression were used to test the hypotheses in the study. The Pearson correlations between store performance and climate factors are shown in Table 3.

Table 3. Pearson Correlations Between Store Performance and Climate Factors

	1	2	3
1. Work context			
2. Workgroup	.68**		
3. Participation	.58**	.45**	
4. Store performance	.30*	.13	.24*

* $p < .05$; ** $p < .01$

There was no evidence to reject the first hypothesis that there is a significant relationship between store climates and performance. Two climate factors were found to be significantly correlated with performance. These two factors are work context and participation. There was no significant correlation between performance and workgroup. This indicates that store performance is associated with how the corporation designs the organization and how management deals with employees' opinions. On the other hand, the attitudes of coworkers do not affect store performance.

In the multiple regression analysis, store performance was taken as the dependent variable and three climate factors as independent variables. The result of the analysis is shown in Table 4.

The result shows that only work context is significant in the regression model. The other two factors, which seem to be more human oriented, were not found significant here. Work context concerns the structure and the reward system of the organization. It is obvious that the second hypothesis cannot be rejected. Climate factor concerning rewards and organizational characteristics, i.e., work context in this study, have more impact on store performance than other climate factors.

Table 4. Multiple Regression of Climate Factors on Store Performance

	Beta
Dependent variable:	
Store performance	
Independent variable:	
Work context	.303 ($p < .05$)
Workgroup	-.138 (n.s.)
Participation	.098 (n.s.)
R-square = .092	
F = 5.06 ($p < .05$)	

DISCUSSION

This study shows that the concept of climate can be applied to the store level, i.e. the frontier business line, of the franchising operations. Three reliable climate factors were identified. These factors are work context, workgroup and participation. Work context and participation were found correlated with store performance. Moreover, work context was considered to have greater impact on store performance than the other climate factors.

It is understandable that workgroup was not correlated to store performance because franchising operations rely more on process and product quality control than labor. Therefore, peer relations and committed workforce have less impact than structure and system on store performance in this study.

It is suggested that the management of franchising operations establish a clear structure and a fair reward system in the franchise system. But more important is giving employees in the stores a clear explanation of the management practices in the system because employees' perceptions and reactions are very crucial to the success of the business. Franchisees or managers of stores should assume their roles as information conveyors. Failure to convey the information from the system to employees biases employees' perceptions of their work environment. The result can be disastrous. Therefore, franchisees or store managers are not only required to be good quality controllers, but also good coworkers who share information with employees promptly and correctly, and who are willing to accept employees' participation in store management.

The simplified instrument used in this study restricted the involvement of other organizational or psychological variables in the analysis. In future study, consideration of other variables in climate-performance relationship would generate more insights into store management. Also, replication of the present study in other franchising operations for generalization of results is encouraged.

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APPENDIX 1
DESCRIPTION OF CLIMATE ITEMS

1. Structure: The organizational structure is clear and the job is well defined.
2. Rewards: My organization emphasizes capability and performance, and has a fair reward and promotion system.
3. Peer relations: Relationship between people inside my organization is good and the working atmosphere is harmonious.
4. Decision making: My organization prefers making decisions smoothly and quickly to having too many different opinions.
5. Commitment: Employees are loyal to the company, have a sense of belonging and are willing to strive for the organization's objectives.
6. Responsibility: People working inside my organization have a sense of responsibility at their work.
7. Expression of opinion: My organization emphasizes personal feelings and encourages expression of opinion.
8. Grievance handling: Grievances are handled in an unbiased manner by the management.
9. Support: Employees are well developed in their jobs and receive trust and support in their work.
10. Delegation: My organization has a clear delegation and encourages employees to work independently.

11. Participation: Employees are given an opportunity to participate in decisions that affect them.

12. Innovation: My organization is aggressive and willing to take a risk with new ideas.

13. Work environment: The working environment is good and comfortable.

14. Standard: My organization demands a high standard of performance.

15. Rules: There are many regulations and rules, even red-tape, in carrying out a task.

16. Communication hindrance: Communication between superior and subordinates is not encouraged.