

## Control or Let Loose: The Franchising Business in Davao City

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### Abstract

Franchise business contributes 10% of the world's gross domestic product (GDP) and 14% of the world's retail sales, thus, making it an influential form of retailing for the past years. Its growth is attributed to an increasing rate of satisfied franchisees. This study will investigate the level of control mechanisms of the franchisor and the level of satisfaction of the franchisee in Davao City. The paper used a descriptive survey method. Results of the study revealed a direct relationship between the overall level of franchisee satisfaction and the level of control mechanisms. It showed that the level of outcome control, behavior control and social control are very satisfied. The level of satisfaction of franchisee with regards to control mechanisms of their franchisors is also very satisfied. If the franchisor increases its control mechanisms to their franchisee, the franchisees satisfaction also increases. This study does not answer issues regarding an employee-manager satisfaction (employed by the franchisee to manage the endeavor). This study gives new knowledge to franchisee whether controlling or letting loose their franchisee would benefit the franchise endeavor.

**Keywords:** Franchise; Control mechanism; Level of satisfaction; Davao city

### Introduction

Globally, franchising is the most popular and the fastest growing business economic model [1] and has proven to be one of the most important methods of doing business. Franchise business in the Philippines is bright and promising [2]. They stated further that franchising is the answer to the current economic crisis, low employment status, and a decent source of livelihood. There are many low-payment franchises that usually come from kiosks and carts. These, however, do not guarantee success and are viewed to be risks that may stain the reputation of franchising in the Philippines. Satisfaction of franchisees must be seen as a factor towards growth and innovation.

Floyd [3] emphasized that positive levels of franchisee satisfaction gives a powerful signal to franchisors of an ongoing growth and progress of the franchise system. He pointed out that the sustainability of the franchise is based on the level of franchisee satisfaction. This means that satisfaction is relevant to franchise success. As stated by Fabian [4], when franchisors tend to decrease their control over franchisees to limit risk and involvement in the customer-franchisee relationship, franchisees gain confidence over the business and provide financial, managerial and informational resources to the franchisor. Thus, a franchisee satisfaction is an essential pillar of franchise success.

On the other hand, poor satisfaction levels are warning signs of a falling franchise system, destroying value for both franchisees and franchisors [3]. As cited by McDonnell [5], franchisee satisfaction plays a role in maintaining a long term relationship with the franchisor. He pointed out that satisfied franchisees will be loyal to the franchisor, leading to a stronger franchise network. Thus, franchisors are now becoming more careful in providing services, trade name, products, and expertise to franchisees [6].

In view of the above scenario, the researchers found it very relevant to conduct the study to help the franchisor control or let loose their franchisees for the betterment and survival of their business. The researchers were motivated to conduct this study because of the increasing number of franchise business in Davao City. Moreover, no other studies were conducted by other researchers with regards to the satisfaction of the franchisee in the Philippines. Recent study

conducted by Mellewigt, Ehrmann and Decker [7] in Germany, focused only on the satisfaction of both the franchisee and employer-manager contracted by the franchisor. Campoamor, and Mercado [2], focused solely on the traits and profitability of the franchise business. Thus, the researchers aimed to determine the relationship of the level of franchisor's control mechanism and the level of franchisee satisfaction. This study was related to the study of Mellewigt [7], and Dekker [8]. This study was supported by the following theories:

Mellewigt [7] emphasized that franchisee satisfaction greatly affects the overall performance of a franchise system. With regards to the statement, franchisor's control mechanisms directly affect franchisee satisfaction. Thus, satisfaction of franchisee is the key to the franchise success. He stated further that franchisor's discretion whether to control or lessen control is probably determined by its preferences. Franchisors that perform as entrepreneurs have preferences for innovation and the urge to take risks. Thus, the more innovation and risk that a franchisor is willing to take, the more its likelihood to affect satisfaction becomes.

Dekker [8] stated that control mechanisms directly affect satisfaction. He further stated that two types of control mechanisms can manage control problems which are: the management appropriation concerns and the coordination tasks. These problems are barriers to franchisee satisfaction as well as the overall performance of the system. He further stated that satisfaction of the franchisees will give more opportunities to the franchisor despite the fact that the franchise products and services are limited only to the preferences of the franchisor. More innovation and progress is shown as a proof that franchisees satisfaction with the franchise agreement is optimized.

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## Methodology

### Research design

A quantitative approach of research was followed to determine the impact of control mechanisms to franchisee's level of satisfaction in Davao City. A descriptive survey was employed because it provides an accurate portrayal or account of the characteristics, for example behavior, opinions, abilities, beliefs, and knowledge of a particular individual, situation or group.

### Research respondents

The respondents of the study were the franchisees of Davao City for the year 2013, specifically from June to August 2013. A convenient place was chosen by the researchers to save time, and expense. A sample of fifty (50) franchisees was selected.

### Research instrument

A questionnaire was constructed as a data collection instrument being validated by experts. The questionnaire was formulated to acquire raw data regarding the profile, the level of satisfaction of the franchisee and the level of control mechanism of the franchisor. Profile consists of the annual revenue, franchise package, and the determination of the control mechanisms of the franchise. These are used to profile the franchise business.

The survey questionnaire also contains twenty-four (24) questions that are based from the objective of the study. The survey questionnaire, to determine the level of satisfaction and the level of control mechanism, is also based on a Five-Point Likers scale which ranges from 5 to 1 where 5 is described as highly satisfied.

### Research procedures

The researchers prepared fifty (50) item survey questionnaires. The survey questionnaire was then distributed to qualified franchisees. A qualified franchisee must have at least one year in operation. The answers of each question in the questionnaire were tallied in the worksheet with respect to the degree of satisfaction given by the franchisee. Each point from 5 to 1 was totaled to get the average degree of satisfaction. Then, the researchers computed the mean of each point, and used Pearson R to describe the level of control mechanism and level of franchisee's satisfaction. The P-values were determined to test whether the results and findings accept the null hypothesis or otherwise. The statistician used the Minitab Software to determine the values for each statistical data. The results helped the researchers to draw a reliable conclusion and recommendation.

## Results and Discussion

Fifty-eight percent (58%) of the overall respondents said that they provide incentives and rewards to their franchisor. This may be in the form of continuing franchise agreements with the franchisor (Table 1). Another 58 percent of the total franchisees said that they give sales commission to the franchisor if the sales quota imposed by the franchisor is achieved. This indicates that there is a strong directive action from the franchisor for the improvement of both the franchisor and the franchisees' business endeavor. Seventy-eight percent said that they have specific directions coming from their franchisor. And only 44 percent said that they have congruent goals. However, outcome control mechanisms disproved how a specific task might be satisfied but on what performance objectives are to be recognized [9].

Outcome Control	Frequency Counts	Percentage
Rewards and Incentives to the Franchisor	29	58%
Sales Commission if the Quota is achieved	29	58%
Specific Directions	39	78%
Goal Congruence	22	44%

Table 1: Outcome Control present in the Franchise Agreement.

Behavior Control	Frequency Counts	Percentage
Operating manuals	44	88%
Standard Operating Procedures	46	92%
Contingency Measure	33	66%
Franchise Policies	42	84%

Table 2: Behavior Control present in the Franchise Agreement.

Social Control	Frequency Counts	Percentage
Maintaining Good Reputation	49	98%
Maintaining Integrity	49	98%
Maintaining Confidentiality	48	96%
Cooperation and Teamwork	45	90%

Table 3: Social Control present in the Franchise Agreement.

Outcome Control	Mean	Level
How satisfied are you with the achievement of your franchisor?	4.68	VS
How satisfied are you with the performance of your franchise in Davao City with the help of your franchisor?	4.36	VS
How satisfied are your employees with their incentives and rewards with the help of your franchisor?	4.26	VS
How satisfied are you with the Sales Revenue of your franchise with the help of your franchisor?	4.34	VS
Overall Mean	4.41	VS

Table 4: Level of Outcome Control.

Eighty-eight percent of the total respondents said that they received operating manuals coming from their franchisor (Table 2). This indicates that not all but most of the franchisors were able to provide manuals to franchisees in which they are able to operate accordingly. Ninety-two percent of the total franchisees said that they received standard operating procedures from their franchisor. However, only 66 percent said that they have contingency measure. This means that in case there is employee collusion or any fraud from the franchise, there is legal action to their employees. In terms of any loss from fortuitous events, there is, however, an action to that part that came from their franchisor. Only 84 percent said that they have franchise policies. This explains that not all are able to operate strictly in a franchise. Furthermore, franchisors should provide the appropriate behavior control to the franchisee in order for the latter to operate the franchise properly and to learn from challenging existing procedure and explore new procedures [10].

Ninety-eight percent of the 50 respondents said that they maintain the good reputation and the integrity of the business franchise (Table 3). Ninety-six percent of the total respondents maintain the confidentiality of their franchise agreement. However, only 90% out of the total respondents said that they have cooperation and teamwork with the franchisor. It means that most of the franchises are able to maintain their reputation, and their integrity. Moreover, they are able to create trust among the stakeholders of the entity [11].

### Level of control mechanism

As a whole, the franchisees are satisfied with the outcome control besotted by the franchisor. Franchisees achieved their desired benefits based on the undertaking performance and objective satisfaction [8] (Table 4).

The franchisees are Very Satisfied with regards to the first, second, third and fourth questions. This means that the franchisor establishes public trust with the franchisee. They both maintain and monitor their public trust to build a good reputation [11] (Table 5).

As a whole, the franchisees are satisfied with the outcome control besotted by the franchisor. Franchisees achieved their desired benefits based on the undertaking performance and objective satisfaction [8].

As a whole, the franchisees in Davao City are very satisfied with the behavior control that is provided by the franchisor (Table 6). Thus, the franchisees were solely compensated by the franchisors with regards to the signal behavior the franchisor explicitly monitors.

The Table 7 shows the level of satisfaction of each franchisee to their franchisor in terms of sales revenue. According to the results, the franchisees of Davao City are all Very Satisfied with the four questions given to them. This means that franchisors are able to assist the franchisees in attaining good sales revenue. In line with this, the franchisees are able to obtain their objectives with regards to the overall inflow of economic benefits during the period of the business

Social Control	Mean	Level
How satisfied is your contract confidentiality with your franchisor?	4.70	VS
How satisfied are you with the integrity of your franchisor's management?	4.66	VS
How satisfied are you with the objectivity of franchisor?	4.38	VS
How satisfied are you with the maintenance of public trust of the overall business franchisor?	4.64	VS
Overall Mean	4.60	

Table 5: Level of Social Control.

Behavior Control	Mean	Level
How satisfied are you with the standards imposed by franchisor?	4.34	VS
How satisfied are you with the implementation of the standards imposed by your franchisor?	4.10	S
How satisfied are you with the improved internal control when following the standards imposed by your franchisor?	4.08	S
How satisfied is your freedom with the standards, rules and regulation imposed by your franchisor?	4.32	VS
Overall Mean	4.21	VS

Table 6: Level of Behavior Control.

Behavior Control	Mean	Level
How are you satisfied with sales per units of yours product per week?	4.48	VS
How are you satisfied with the Quota of your sales per week?	4.42	VS
How satisfied are you with sales retained by your franchise to meet the cost of labor?	4.22	VS
How satisfied are you with the results of your operation through following the goals and objectives of the franchise?	4.36	VS
Overall Mean	4.37	VS

Table 7: Level of Satisfaction in terms of Sales Revenue.

Standard Operating Procedures	Mean	Level
How are you satisfied with the operating manuals given by the franchisor?	4.40	VS
How are you satisfied with the implemented procedures governed by the franchisor?	4.16	S
How are you satisfied with the implemented rules in improving the internal control?	4.38	VS
How satisfied are you with your choice of implementing the rules and procedures provided by the franchisor for improvement of internal control and operations of your franchise?	4.20	VS
Overall Mean	4.29	VS

Table 8: Level of Satisfaction in terms of Standard Operating Procedures.

Public Trust	Mean	Level
How satisfied are you with the level of disclosure of your franchise agreement?	4.62	VS
How satisfied are you with the reputation of your franchisor?	4.60	VS
How satisfied are you with the attitude of your franchisor towards the unbiased decision made by the franchisor towards your franchise and with other franchise?	4.34	VS
How satisfied are you with the credibility of the franchise name in sustaining the franchise business?	4.58	VS
Overall Mean	4.54	VS

Table 9: Level of Satisfaction in terms of Public Trust.

Profile	Level of Satisfaction			
	Sales Revenue	Standard Operating Procedures	Public Trust	Overall Level of Satisfaction
Annual Revenue	r=0.192; P-value=0.182	r=0.514; P-value=0.000	r=0.290; P-value=0.041	r=0.414; P-value=0.003
Franchise Package	r=0.300; P-value=0.003	r=0.275; P-value=0.053	r=0.307; P-value=0.030	r=0.365; P-value=0.009
Overall Profile	r=0.304; P-value=0.032	r=0.407; P-value=0.014	r=0.346; P-value=0.014	r=0.438; P-value=0.001

Table 10: Relationship between the Profile and the Level of Satisfaction.

Control Mechanism	Sales Revenue	Standard Operating Procedures	Public Trust	Overall Level of Satisfaction
Outcome Control	r=0.343; P-value=0.015	r=0.570; P-value=0.025	r=0.317; P-value=0.025	r=0.513; P-value=0.000
Behavior Control	r=0.234; P-value=0.101	r= .545; P-value=0.000	r=0.28; P-value=0.049	r=0.442; P-value=0.001
Social Control	r=0.373; P-value=0.008	r=0.554; P-value=0.000	r=0.64; P-value=0.00	r=0.643; P-value=0.000
Overall Level of Control of Mechanism	r=0.37; P-value=0.008	r=0.654; P-value=0.000	r=0.472; P-value=0.001	r=0.62; P-value=0.000

Table 11: Relationship of the Level of Control Mechanism to the Level of Satisfaction.

that increases the capital and the other relating contributions of the franchisee.

The franchisees in Davao City are all very satisfied with the first, third and fourth questions (Table 8). On the other hand, they are only satisfied with regards to the second question. But, in general, the franchisees are very satisfied to the Standard Operating Procedures of the franchisor. In which, according to Food Safety Project [12], Standard Operating Procedures will be effective if it was communicated properly to who will perform the task, what are the necessary materials, where the task takes place, when it will be performed, and how it will be

executed. This means that the specific description to the implementation of the policy was executed accordingly.

The franchisees in Davao City are very satisfied with the four questions given to them related to Public Trust (Table 9). This clearly depicts that most of the franchise businesses existing in Davao City are highly credible and profitable. Thus, the franchisees with the help of the franchisors are able to attain the critical ingredient for social collaboration and market efficiency [13].

The Table 10 shows no significant relationship between the Sales Revenue and Annual Revenue. However, there is a significant relationship between Annual Revenue and the Standard Operating Procedures. Furthermore, the Annual Revenue is independent with Public Trust. In general, there is a significant relationship between the Overall Level of Satisfaction and Annual Revenue.

The Franchise Package of the franchise business has a direct relationship with Sales Revenue and Standard Operating Procedures. However, it does not have a significant relationship with Public Trust. In general, it has a significant relationship with the overall satisfaction. The Overall Profile has a direct relationship with the Standard Operating Procedures, Sales Revenue and Public Trust. In general, it has a significant relationship with the overall satisfaction of the franchisees in Davao City. Thus, the franchisees achieve their expectations, perceived performance, and disconfirmation [14].

The Table 11 shows that Sales Revenue and Control mechanism have a direct relationship with each other. Sales Revenue and Social Control up to the Overall Level of Control Mechanism also have a direct relationship with each other. However, there is an inverse relationship between Sales Revenue and Control. On one hand, there is a direct relationship between Standard Operating Procedures and the Outcome Control up to the Overall Level of Control Mechanism. Furthermore, Public Trust and the Outcome Control up to Overall Level of Control Mechanism have a direct relationship with each other. The Overall Level of Satisfaction and the Outcome Control up to the Overall Level of Control Mechanism have a direct relationship with each other.

If the relationship is direct, this means that if the franchisor would increase the control mechanism, the franchisees satisfaction would also increase. If the relationship is invers, this means that if the franchisor increases the control mechanism, the level of the satisfaction would decrease. Thus, this satisfaction of the franchisee is necessary for the overall system performance of the franchise [10].

## Conclusion

The researcher concluded that there is a direct relationship between the overall level of franchisee satisfaction and the level of control mechanisms. If the franchisor increases its control mechanisms to their franchisee, the franchisees satisfaction also increases. This study does not answer issues regarding an employee-manager satisfaction (employed by the franchisee to manage the endeavor). This study gives new knowledge to franchisee whether controlling or letting looses their

franchisee would b benefit the franchise endeavor. Furthermore, this study adds new literature to the growing demands of the society with regards to franchising. Thus, this study should add more emphasis on future research regarding the franchisor-franchisee relationship, more data should be collected and further analysis may be better achieved with ample sample and information.

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