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Omnichannel strategies and franchisee-franchisor relationship quality

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This paper investigates the impact of omnichannel strategies in franchised networks on the franchisee-franchisor relationship quality. It proposes hypotheses regarding the impact on relationship satisfaction of three sets of antecedents, related to franchisee perceived omnichannel value, omnichannel integration quality, and how the relational aspects of franchisee empowerment, franchisor support and intra-brand competition are modified in an omnichannel context. Quantitative data from 400 French franchisees are used to test the hypotheses with PLS-SEM. The results indicate that omnichannel strategies seem to have ambivalent effects on relationship satisfaction, where franchisees search for both support and autonomy, and appreciate omnichannel consistency while dreading the external transparency and internal competition it brings. We find no significant differences in the paths to satisfaction between retail and service franchisees. However, we report significant differences between franchisees with vs. without territorial exclusivity clauses in their contract. Under territorial exclusivity, omnichannel perceived value enhances franchisee satisfaction with the franchisor. Conversely, in the absence of territorial exclusivity, omnichannel strategies seem to deteriorate the franchise relationship, as franchisees not only find intra-brand competition more damaging, but also perceive the empowerment and the value they receive from omnichannel strategies negatively to the extent that it hinders their satisfaction with the franchisor.

Keywords: franchising, omnichannel, franchise relationship, relationship quality

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INTRODUCTION

While omnichannel strategies have become increasingly ubiquitous in franchising, there is a dearth of academic research on how franchisees perceive omnichannel retailing and how the latter impacts the franchise relationship. Yet, the rise of omnichannel strategies could modify the relationship between the franchisor and the franchisees in different ways. For instance, the diversity of channels could reduce the ability of franchisors to monitor their franchisees and could empower the latter (Lee et al., 2019). Some channels, mainly the brand's website, could introduce new forms of intra-brand competition between the franchisor and franchisees' units (Bridges, 2017; Cliquet and Voropanova, 2016). The present research seeks to address this gap in knowledge by focusing on the following research question: *what impact does the implementation of an omnichannel strategy in franchised networks have on the franchisee-franchisor relationship quality?*

CONCEPTUAL BACKGROUND

To address our research question, we propose a conceptual model with three sets of antecedents of relationship satisfaction related to the deployment of omnichannel strategies in franchising. The first antecedent, rooted in the exchange view of franchising (Grace and Weaven (2011; Harmon and Griffiths 2008), focuses on franchisees' perceived omnichannel value. Whereas value has received considerable attention in both B2C and B2B marketing and is considered as a core tenet of the latter (Grönroos, 2011; Holbrook, 1994), little research has investigated its role in franchise relationships. In this regard, Grace and Weaven (2011) posit that when franchisees do not perceive sufficient value in the franchise, this could lead to misalignment between them and the franchisor, and potentially to conflict and deterioration in the relationship quality. We propose that the same would apply to omnichannel strategies in franchising and hence the following hypothesis:

H1: Higher franchisees' perceived omnichannel value will lead to higher levels of relationship satisfaction with the franchisor

The second set of antecedents refers to the quality of the omnichannel strategy. In general, quality is an important antecedent of both perceived value and satisfaction (Grace and Weaven, 2011). Recent research on quality in an omnichannel setting has focused on channel integration quality, given that a major difference between multi- and omnichannel retailing resides in the company's ability to offer a seamless, integrated experience across channels (Gao et Huang, 2021; Hossain et al., 2020; Lee et al., 2019; Shen et al., 2018). While this recent body of research does not fully converge on the dimensions of integration quality, there is broad consensus that the latter should at least cover the ability to offer a) a *broad* set of channels, b) which are made *transparent* for the final consumer and c) *consistent* in terms of their content and process. We propose the following hypothesis:

H2: Stronger omnichannel integration quality will lead to higher levels of a) franchisees' perceived omnichannel value and b) relationship satisfaction with the franchisor

The third set of antecedents refers to how omnichannel strategies modify three key aspects of the franchise relationship. The first one is the power balance within the relationship and more specifically relating to franchisee autonomy. As omnichannel strategies require a high level of integration, it could lead franchisors to place more constraints on franchisees' autonomy to reduce frictions in customers' journey. Conversely, the increase in number of channels could

render control more difficult by franchisors, hence giving franchisees more autonomy. Empowerment has been shown to play a key role in omnichannel settings for end consumers (Le and Nguyen-Le, 2020; Mishra et al., 2021) but has not been investigated in franchising. The second aspect refers to franchisor support, which has been shown to play a key role in relationship quality (Grace et al., 2013; Nyadzayo et al. 2015), and which importance could grow in an omnichannel context as franchisees have to deal with an increasing number of complex channels. The third aspect refers to internal competition within the franchise network. Specifically, digital channels could increase intra-brand competition through a phenomenon of e-encroachment (Bridges, 2017; Cliquet and Voropanova, 2016), hence decreasing franchisee satisfaction. Thus, we propose the following hypotheses

H3: Franchisee empowerment through omnichannel strategies will lead to higher levels of a) franchisees' perceived omnichannel value and b) relationship satisfaction with the franchisor

H4: Franchisor support to franchisees in omnichannel strategies will lead to higher levels of a) franchisees' perceived omnichannel value and b) relationship satisfaction with the franchisor

H5: Intra-brand competition resulting from omnichannel strategies will lead to lower levels of a) franchisees' perceived omnichannel value and b) relationship satisfaction with the franchisor

METHODOLOGY

We collected 400 useable questionnaires from French franchisees through a phone survey (61.5% of retail vs. 38.5% of service franchisees). The dataset includes franchisees representing 251 different brands from various sectors. 43.3% are first-time franchisees and 57.8% have a territorial exclusivity clause in their franchising contract. 71.8% of the franchisees operate a single unit, against 18% of multi-unit single-brand franchisees and 10.2% of multi-unit multi-brand franchisees. Franchisees operating more than one franchise brand were asked to focus in their answers on the brand of which they have been a franchisee for the longest period.

We measured relationship satisfaction with four items from Davies et al. (2011) and Grace et al. (2013). We adapted four items from Grace and Weaven (2011) to measure omnichannel perceived value. For omnichannel integration quality, we adapted 13 items from Lee et al. (2019) to measure channels' breadth, transparency, and consistency. We adapted three items from Blut et al. (2011) and Merrilees and Frazer (2013) to measure franchisee empowerment, and four items from Grace et al. (2013) and Nyadzayo et al. (2015) to measure franchisor perceived support. Perceived intra-brand competition was measured with three items resulting from separate qualitative interviews with franchisees. In addition to the existence of a territorial exclusivity clause, we controlled for franchisee relationship length with the franchisor, as well as for overall performance with three items adapted from Meiseberg and Perrigot (2020).

Data were analyzed with Partial Least Square Structural Equation Modeling (PLS-SEM) using XLSTAT version 2022.3.1. The measurement model analysis complies with the standard model quality criteria for PLS-SEM (Hair et al., 2013: all item loadings > 0.77; composite reliability > 0.84; average variance extracted values > 0.66; AVE systematically larger than the squared correlations between each latent variable and the other variables which supports discriminant validity; variance inflation factors < 2.1 indicating that multicollinearity is not a problem).

The structural model was tested in two stages. First, using data from the overall sample, we tested path significance based on a bootstrap procedure (n=5000 resamples). We assessed the results' robustness with a blindfolding procedure and a cross-validated redundancies metric (Stone-Geisser's Q^2). Second, we compared the model between retail and service franchisees, then between franchisees with and without territorial exclusivity, assessing the significance of path differences between each pair of groups with a permutation procedure (Hair et al., 2018).

FINDINGS AND DISCUSSION

In the overall sample, the model displays both predictive accuracy and relevance, with $R^2 = 0.48$ and $Q^2 = 0.31$ for perceived omnichannel value and $R^2 = 0.36$ and $Q^2 = 0.22$ for relationship satisfaction. All three dimensions of omnichannel integration quality have a significant, positive impact on omnichannel value. The impact is particularly strong for channel transparency ($b = 0.56$), and much more moderate for the other two dimensions ($b = 0.16$ for channel consistency and $b = 0.09$ for channel breadth). In terms of relational variables, franchisor support has the strongest impact on perceived value ($b = 0.15$), followed by franchisee empowerment ($b = 0.09$), whereas the impact of intra-brand competition is not significant.

Regarding the antecedents of relationship satisfaction, perceived omnichannel value surprisingly has no significant impact. Only two dimensions of integration quality have a significant impact on relationship satisfaction. Specifically, whereas channel consistency enhances relationship satisfaction ($b = 0.23$), channel transparency hinders it ($b = -0.23$). It is interesting to contrast those results with the strong, positive impact of transparency on value. One possible explanation is that, while franchisees appreciate being part of a network that manages to offer consistent channels and they understand the importance of informed consumers in driving omnichannel value, higher levels of transparency could empower the consumers and drive them away from the franchisees' units and towards other channels, hence reducing franchisee satisfaction. Such interpretation is consistent with the negative impact found for intra-brand competition on relationship satisfaction ($b = -0.13$). Regarding the other relational variables, and as in the case of omnichannel value, both franchisor empowerment ($b = 0.17$) and franchisor support ($b = 0.27$) have a significant impact on relationship satisfaction. *In sum, omnichannel strategies seem to have ambivalent effects, where franchisees search for both support and autonomy, and appreciate omnichannel consistency while dreading the external transparency and internal competition it brings.*

The comparison between retail and service franchisees does not reveal any significant differences in the model's paths. Conversely, the comparison between franchisees with vs. without a territorial exclusivity clause in the franchise contract yields significant and interesting differences (table 1). We focus here on the differences in the paths to relationship satisfaction. Whereas in both subsamples channel transparency remains a concern that hinders relationship satisfaction in a similar way ($b = -0.22$ vs -0.19 , non-significant difference between subsamples), channel consistency only plays a positive role that balances transparency's negative one in the case of franchisees with territorial exclusivity ($b = 0.33$). Moreover, while perceived omnichannel value has a positive impact on satisfaction ($b = 0.15$) when there is territorial exclusivity, its impact is significantly negative ($b = -0.16$) when there is no exclusivity. In the latter case, intra-brand competition has a strongly negative impact on satisfaction ($b = -0.42$), which becomes insignificant under territorial exclusivity. Finally, franchisees' satisfaction under territorial exclusivity is enhanced by the empowerment offered by omnichannel strategies ($b = 0.22$), whereas franchisor support has no significant impact. In the absence of territorial exclusivity, empowerment has a negative impact on satisfaction ($b = -0.11$), whereas franchisor support becomes crucial for satisfaction ($b = 0.54$).

In sum, in the absence of territorial exclusivity, omnichannel strategies seem to deteriorate the franchise relationship, as franchisees not only find intra-brand competition more damaging, but also view the empowerment and the value they receive from omnichannel strategies negatively to the extent that it hinders their satisfaction with the franchisor.

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