How Collaborative Communication to Promote the Satisfaction and Loyalty of Franchisees: Exploring the Moderating Effect of Net Profit

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Abstract

For entrepreneurs, franchising has various advantages over starting one’s own store, including speedy product development, pre-packaged business format, and efficient marketing strategy; however, such arrangements also give rise to conflicts. The paper applies communication theory to explain franchisor-franchisee relationships and to determine how to enhance operation efficiency and reduce uncertainty. The study draws from Taiwan’s convenience stores empirically, the density of which is the highest in the world. In total, 486 usable responses were analyzed to examine the nature of the collaborative communication, non-coercive communication, formality of communication, and two-directional communication, and also the loyalty behaviors occurring between franchisors and franchisees. Non-coercive communication, formality of communication, and two-directional communication were found to have a positive and significant effect on economic and social satisfaction, except on the relationship between non-coercive communication and economic satisfaction, and further enhance franchisee intention to renew contracts and continue franchise to advocate others. The study also identifies the relevance of franchisee profit, based on the division of the franchisees into two categories-high-profit franchisees and low-profit franchisees and explores the different communication strategies used in the two groups. The results of the study urge franchisors to communicate with their franchisees more efficiently.

Keywords: Collaborative communication, economic satisfaction, social satisfaction, intention to renew contract, advocacy intention.

1. Introduction

An important source of entrepreneurial activity is franchising. Entrepreneurs enter into franchise arrangements to benefit from speedy product development, prepackaged business format, formal training, marketing strategies, lower costs, market expansion, and to gain competitive advantages in general (Berlo, 1960; Larson, 1991; Bond and Bond, 1992; Mohr and Spekman, 1994). However, such arrangements can also give rise to conflicts (Baucus, Baucus and Human, 1996).

Franchisees conflict with franchisors by ignoring franchisors’ goals for their own entrepreneurial interests, refusing to participate in innovative marketing strategies, deviating from the franchisor’s formula, or “buy[ing] franchise units expecting to get rich and not work

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(Galen and Touby, 1993).” On the other hand, franchisors provoke contention with franchisees by failing to disclose enough information, misrepresenting costs or revenues, failing to describe the advantage of certain specific market strategies, or waffling on promises for promised services (Galen and Touby, 1993; Tennenbaum, 1993).

If conflict is present between members, it may seriously harm the franchise relationship (Mohr and Nevin, 1990). Communication is the proverbial glue that holds together a channel relationship (Mohr, Fisher and Nevin, 1996; Koza and Dant, 2007), and this concept also holds true in a franchise system (Gassenheimer et al., 1996; Chiou et al., 2004). Several articles on franchising stress that communication is the road to achieve a solid franchise relationship (Allen, 1994; Mubleman, 1996; Laurie, 2000; Tikoo, 2002), which in turn can lead to franchisee satisfaction and the reduction of conflict (Chiou et al., 2004).

As the franchise systems have gradually matured, franchisors also have faced other tough questions regarding whether to allow franchisees to remain in the system. Due to this trend, communication has undoubtedly become an important and necessary bridge between franchisees and franchisors. Through sufficient and clear communications, franchisee satisfaction and loyalty can be attained. Yet, prior research has examined only the uni-dimension of communication and not acknowledged the potential for multi-dimensional aspects of communication. Using the communication theory proposed by Mohr and Nevin (1990), this research focuses on the various facets of collaborative communication, including non-coercive communication, formality of communication, and two-directional communication to identify the best means of achieving both franchisee satisfaction and loyalty behavior.

Since satisfaction incorporates both economic and social perspectives, Rodriguez et al. (2006) further indicate that there is a significant relationship between economic and social satisfaction. They suggest that future studies need to re-examine this relationship beyond the simple distributor-manufacturer relationship to generalize their results. This study re-examines economic satisfaction and social satisfaction relationships in the franchise system to have a clearer comprehension of their aspect.

This paper attempts to analyze and explore the process through which franchisees become loyal to a franchise system. First, the paper identifies the key constructs that play a critical role in the basic franchisor-franchisee relationship. Next, the theoretical foundation established in the first section is used to build a conceptual framework and propose specific hypotheses about the nature of the franchisor-franchisee relationship. The methodology used to examine this framework is described. Lastly, results of the research are presented and discussed. The paper closes with a discussion of the findings and its implications for the franchisor-franchisee relationship and the opportunities that remain for further research.

2. Research framework and hypotheses

From the perspective of franchisees, the hypothesized model combines the collaborative communication of non-coercive communication, the formality of communication, and the two-directional communication that franchisees perceive as coming from the franchisor. This collaborative communication should increase franchisee satisfaction (economic satisfaction and social satisfaction), loyalty behavior, intention to renew the contract, and advocacy intention. The study further explores the moderator effect under high profit franchisees and low profit franchisees. This research framework is presented in Figure 1.
2.1 Communication theory in franchising

The concept of message exchange is a most common way to conceptualize communication in organizational communication research (Taylor et al., 1996). The idea of “message sending” as the core of communication originates in communication theory (Shannon, 1948). Any situation of human communication, including franchisee and franchisor relationships, involves the process of sending and receiving messages. In this regard, the following observations about communication in franchising can be made: First, franchise partners develop relational norms through collaborative communication to augment format contracts (Dwyer et al., 1987; Gassenheimer et al., 1996) or informal personalized communication. Franchisors act as the central coordinator for franchisees. Secondly, franchising is defined and evaluated as “strategic”; the primary tenets for the franchisor and the franchisee are mutual responsibility, open lines of communication, and bilateral information exchange within the franchising system (Pappu and Strutton, 2001). Thirdly, transaction-based channel relationships have traditionally focused on one-way communication; however, a paradigm change has occurred to the extent that there is more interest in building franchisee-franchisor relationships. Such interest has led to an increased emphasis on two-directional communication. Under these conditions of two-directional communication, franchisee and franchisor function as sender and receiver, respectively. Therefore, collaborative communication in our model includes non-coercive, formality of communication, and two-directional communication, as demonstrated in past studies (Anderson and Weitz 1992; Mohr and Sohi 1995; Gassenheimer et al., 1996; Mohr et al., 1996; Chiu et al., 2004; Palmatier et al., 2006; Sahadev, 2008). These three dimensions of communication are responses to the communication process: Non-coercive communication comprises the message; formality of communication is the communication channel; and two-directional communication is the mode of feedback.

This study uses non-coercive communication to apply influence strategies that are based on information sharing, in which the other party does not mediate compliance (Mohr et al., 1996). Formality refers to the method used to transmit information that has been widely used in empirical and conceptual research (Mohr and Sohi 1995; Mohr et al., 1996; Kalla, 2005). In the franchise system, the formality of collaboration communication refers to the...
method/type/process of the communication i.e., whether the franchisor and franchisee use written means, formal meetings, or word-of-mouth contact to communicate (Gassenheimer et al., 1996; Bassuk, 2001). The last form of collaborative communication, two-directional communication, refers to upward and downward communication within the franchise system (Gassenheimer et al., 1996; Rodriguez et al., 2005). Franchisors give franchisees advice and suggestions according to franchisee performance, and franchisees give market intelligence back to the franchisor. In the present study, we focus on the communication that franchisees receive and send.

2.2 Franchisee satisfaction

Satisfaction has been widely regarded as an uni-dimensional variable in past literature, basically consisting of an affective component (Anderson and Narus, 1984, 1990; Scheer and Stern, 1992; Skinner, Gassenheimer and Kelley 1992; Ganesan, 1994; Gassenheimer et al., 1995; Andaleeb, 1996; Selnes, 1998; Jehn et al., 2006); however, some scholars have suggested that satisfaction is better encapsulated if subdivided into several specific components (e.g., financial, welfare, and social) (Ruekert and Churchill, 1984; Michie and Sibley, 1985). Gassenheimer and Ramsey (1994) consider that the satisfaction level between two members in a channel relationship predicts not only economic results, in terms of efficiency and efficacy, but also the actual social interactions between the partners (Mohr and Spekman, 1994). Rodriguez et al. (2006) have also suggested that satisfaction should capture both the economic and noneconomic psychosocial aspects of communication.

In order to achieve comprehensive insights into the development and maintenance of a long-term relationship, further analyses of franchisee economic satisfaction and social satisfaction are necessary. Economic satisfaction, therefore, is defined as the evaluation performed by a franchisee of the economic results derived from the franchisor, such as profit, product quality, and vendor support. Social satisfaction is defined as a franchisee’s evaluation of his or her own positive affective response to the psychosocial aspects of the existing relationship between the franchisor and franchisee, in that interactions with the franchisor are gratifying and also mutually respectful.

2.3 Franchisee loyalty

Loyalty should not be regarded as mere repurchase behavior, and that concept was argued by Dick and Basu (1994). This finding opens the door to a large number of variables that can be examined as consequences of evaluative constructs in studies of brand loyalty. The study, therefore, completes the loyalty construct by including customer retention and advocacy loyalty. Customer retention, frequently operationalized as the intention to renew a contract in a franchisor-franchisee relationship, is perhaps the most important variable in relationship marketing research (Morgan and Hunt, 1994; Chiou et al., 2004), especially in any mature and competitive franchising market. Advocacy intention has also been well studied in the literature of relationship marketing (Zeithaml et al., 1996; Kumar et al., 2003). Although advocacy intention (usually by “word of mouth”) has always been an effective and powerful strategy, it is hard to harness it for every firm (Lee et al., 2007; Levy, 2007). Hence, this study focuses on a complex mixture of evaluative and behavioral elements (Jacoby and Kyner, 1973; Oliver, 1999) to explore whether collaborative communication used by a franchisor actually works.
2.4 Hypotheses

2.4.1 Effects of communication on economic and social satisfaction

As collaborative communication, i.e., non-coercive communication, two-directional communication and formality of communication, is an important aspect of any partner relationship (Mohr and Nevin, 1990), several investigators have referred to organizational communications theory to point out that communication through the exchange of information does positively associate with increased level of satisfaction (Mohr and Nevin, 1990; Rodríguez et al., 2006).

Non-coercive communication relative to coercive communication refers to the use of influence strategies that are based on requests and information-sharing in the franchisor-franchisee relationship (Fraizier and Summer 1986; Tikoo, 2005; Sahadev, 2008) instead of strategies related to force power, compelled, and conflict. Channel members may perceive that some benefits are incurred because of rewards made by their partner (Lai, 2007). Therefore, when a partner uses non-coercive collaborative communication, available rewards and mutual respect will be generated. The greater the rewards and respect flowing to a franchisee, as a result of its relationship with its franchisor, the higher will be the economic outcome (Geyskens and Steenkamp, 2000; Mohr et al., 1999, Lai, 2007) and social satisfaction (Lusch, 1977; Frazier and Summer, 1986, Geyskens and Steenkamp, 2000; Lai, 2007) of that relationship. Hence,

- **H1**: Non-coercive communication positively relates to economic satisfaction.
- **H2**: Non-coercive communication positively relates to social satisfaction.

Formal communications are those modes connected to the organization in a structured, routinized manner. Informal communications are more personalized modes, such as word-of-mouth contacts. When franchisors and franchisees only use formal modes to communicate, their communication may feel more structured and be more time-consuming and less elastic. On the other hand, when franchise members use less formal communication, there is an exchange of more adequate and timely information, but less systematically. Thus, if franchisor and franchisee communicate by using both formal and informal modes simultaneously, they may share information more efficiently (Bassuk, 2001), thus contributing to better performance and facilitating the quality of the relationship (Gassenheimer et al., 1996). In this way, when/as franchisees perceive that the franchisor communicates with formal and informal communication together, enhanced economic (Sahadev, 2008) and social satisfaction may result.

- **H3**: The formality used for communication is positively related to economic satisfaction.
- **H4**: The formality used for communication is positively related to social satisfaction.

Two-directional communication allows for franchisees to receive franchisor information and provide feedback. A franchisee can ask questions, seek explications of assumptions, and in the process, perceive that those communications are accurate, conceivable, and exhaustive. Such increased two-directional communication with a franchisee can enhance the economic outcomes (Chiou et al., 2004), economic satisfaction, relationship quality (Rodriguez et al., 2005), and social satisfaction of the franchisee. Using this reasoning as a basis, we hypothesize the following:

- **H5**: Two-directional communication positively relates to economic satisfaction.
- **H6**: Two-directional communication positively relates to social satisfaction.
2.4.2 Effects of economic satisfaction on social satisfaction

The relationship between economic and social satisfaction has received little attention in the marketing literature (Rodríguez et al., 2006). Economic satisfaction is being content with the general effectiveness and productivity of the relationship with a partner, as well as the resulting financial outcome (Geyskens et al., 1998). Initially, commercial relationships are purely economic, and the satisfaction derived from them has a positive impact upon any evaluation of the interchange that takes place between the parties involved in the relationship (Rodríguez et al., 2006). The franchisor-franchisee relationship is also an economic relationship wherein the members depend upon economic results to survive and grow. When there is a high level of economic satisfaction, franchisees will be willing to respond to a doubtful situation, repress criticism, and behave positively and constructively (Rodríguez et al., 2005). Therefore, using that reasoning as a basis, we propose the following hypothesis:

\[ H_7: \text{Economic satisfaction positively relates to social satisfaction.} \]

2.4.3 Effects of satisfaction on intention to renew contracts and advocacy intention

Both satisfaction and performance are essential to the eventual outcomes of a franchise system. Unlike performance, however, satisfaction refers to the attitude of channel members; performance refers to the behavior of members. Many previous studies have demonstrated that channel performance varies with the degree of economic and social satisfaction (Geyskens et al., 1998; Geyskens and Steenkamp, 2000; Ramaseshan et al., 2006; Lai, 2007). An economically satisfied franchisee will receive an economic reward that is greater than expected or greater than could have been obtained from the next-best alternative partner. Such a franchisee will be more willing to recommend the franchise system to others (Rodríguez et al., 2005). That franchisee will be motivated to renew its contract and exhibit advocacy intentions. In other words, we can arrive at the following hypotheses:

\[ H_8: \text{Economic satisfaction positively relates to the intention to renew a contract.} \]

\[ H_9: \text{Economic satisfaction positively relates to advocacy intention.} \]

The other aspect of satisfaction, social satisfaction, refers to a franchisee’s evaluation of the psychosocial aspects of the relationship with during interactions with the franchisor, namely, how gratifying and simple they are (Hing, 1995). A franchisee who is satisfied socially will be more likely to maintain the relationship (Morrison, 1997; Chiou et al., 2004) and will engage in extra role behaviors, including advocacy (Hing, 1995). Therefore, it is reasonable to predict that franchisees who have a sense of social satisfaction with the franchise system may also exhibit a greater level of intention to renew their contracts and advocate on behalf of the entire franchise system. Hence, the following hypotheses are offered:

\[ H_{10}: \text{Social satisfaction positively relates to the intention to renew a contract.} \]

\[ H_{11}: \text{Social satisfaction positively relates to advocacy intention.} \]

2.4.4 Effects of intention to renew a contract on advocacy intention

As researchers pay more attention to customer advocacy and regard it as an important variable in relationship marketing (Anderson, 1998; Fullerton and Taylor, 2002; Harrison-Walker, 2001), loyal customers who are willing to give favorable recommendations to other customers become a very important benefit of the cooperative experience (Moore, 2002; Reicheld, 2003). While advocacy is frequently regarded as a soft form of loyalty because it is not easy to implement, consumers will recommend others when they really identify with it. Consumers that create strong connections, satisfaction, and repurchase intention with stores, stores will further be rewarded with strong positive word of mouth and advocacy loyalty (Berry, 2000). For the franchisor-franchisee relationship, the franchisee who wants to renew a
contract will likely recommend the system to others to demonstrate a soft form of loyalty. Thus, we would expect that franchisees will tend to exhibit advocacy intentions when they are willing to renew their contracts. Hence, we suggest the following hypothesis:

\[ H12: \text{Intention to renew a contract positively relates to advocacy intentions.} \]

3. Methodology

This study selected the franchise system of convenience stores as the setting for this research. We then designed the scale items to measure the perceptions of practicing franchisees. Subsequently, the study utilized a combination of SPSS 13 and LISREL 8.52 software applications to carry out the analysis.

3.1 Study subjects and samples

Three franchise systems were surveyed to collect the data for the study. To qualify as a good candidate, these franchise systems had to attain a specific scale and establish a stable level of franchising quality. The market share of the three franchise systems chosen represented as much as 80% of convenience store sales (note that Taiwan has the world’s highest density of convenience stores) (ACNielsen, 2006). Thus, these franchise systems were used to examine collaborative communication and loyalty behaviors from a franchisee perspective and thereby did meet the objectives of this research.

The study contacted the franchisors and requested a selected list of franchisees who were willing to complete the questionnaire. The franchisee was selected by the franchisors based on their willingness to fulfill the questionnaires instead of selecting the franchisee who had good quality of interaction with the franchisor. In other words, if a franchisee has a high profit and good interaction quality, but he/she was not willing to participate, we excluded that sample. The study, therefore, requested that franchisor judgment becomes a list subjectively by the degree and level that franchisor’s experience in getting along with franchisees. Although the franchisors select franchisees subjectively, several benefits followed: First, to keep franchisees from completing the questionnaire unpleasantly further causing bias; second, to recover the questionnaires most efficiency under a circumstance of limited resources; third, the study trades the franchise judgment that if franchisees’ willingness to participate subjectively for the quantity of questionnaire that is proper to final analysis.

The survey questionnaire was mailed to 1,500 franchisees in the convenience store system. To avoid demand effects, considerable lengths were taken to make sure that the participants did not know the researcher personally. In total, 511 responses were returned for a 34.07% response rate. This rate compares favorably with the return rate in previous franchise studies. Among the responses, there were 17 refusals and 8 unusable responses, producing 486 usable responses (a 32.24% usable response rate). The sampling method was also successful in soliciting respondents with varied personal and firm characteristics.

Table 1 summarizes the sample profile. More than half of the franchisees who responded had a college degree (52.6%), most were less than 35 years of age (52.9%). Those who had a net profit of more than N.T. $60,000 totaled 36% and those who had a net profit of NTS50,000 were nearly 60% (income given in New Taiwan dollars [N.T.$]. The exchange rate as of April 10, 2009 was: US$1 = N.T. $33.97.

ANOVA was used to compare early and late respondents regarding the constructs in the hypotheses to check for any non-response bias. Comparing first and follow-up respondents enabled a check of non-response bias; subjects who responded less readily, i.e., late respondents, were more like non-respondents (Armstrong and Overton, 1977). The work used multivariate F-ratio for the ANOVA test to compare the response groups of early and late respondents with insignificant differences in terms of age, net profit per month, and education.
with a p-value between 0.49 and 0.75. Therefore, a combined statistical analysis was satisfactory.

Demographic variables are always regarded as segment variables in marketing research. To capture the effect of combining demographic variables and constructs, one-way ANOVA testing was used to examine the relationship between the means of seven constructs and the demographic variables of age, net profit, and education. The results shown in Table 1 indicate the significant difference in non-coercive communication, formality of communication, two-directional communication, economic satisfaction, social satisfaction, intention to renew contract and advocacy loyalty with a p-value between 0.00 and 0.06.

Demographic variables have always been regarded as a segment variable in marketing research. The study, therefore, divided net profit into high profit and low profit according to Turkey’s test. These two divisions of high and low profit showed a significant difference in all constructs (see Table 1).

Table 1. Demographic variables and constructs ANOVA results.

<table>
<thead>
<tr>
<th>Demographic profile</th>
<th>Demographic variables</th>
<th>Frequency</th>
<th>(%)</th>
</tr>
</thead>
</table>
| Age                 | 20-25                 | 16        | (3.3)
|                     | 26-30                 | 85        | (17.5)
|                     | 31-35                 | 156       | (32.1)
|                     | 36-40                 | 138       | (28.4)
|                     | ≧ 41                  | 91        | (18.7)
| Education           | high school diploma   | 6         | (1.2)
|                     | senior high school    | 224       | (46.1)
|                     | university            | 249       | (51.2)
|                     | graduate school       | 7         | (1.4)
|                     | ≦ 30,000              | 74        | (15.2)
| Net profit          | 30,001-60,000         | 237       | (48.8)
|                     | 60,001-90,000         | 132       | (27.2)
|                     | ≧ 90,000              | 43        | (8.8)

<table>
<thead>
<tr>
<th>Constructs</th>
<th>Non-coercive communication</th>
<th>Formality of communication</th>
<th>Two-directional communication</th>
<th>Economic satisfaction</th>
<th>Social satisfaction</th>
<th>Intention to renew contract</th>
<th>Advocacy loyalty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>1.88</td>
<td>1.92</td>
<td>1.89</td>
<td>2.16*</td>
<td>1.20</td>
<td>2.58**</td>
<td>3.41**</td>
</tr>
<tr>
<td></td>
<td>(0.11)</td>
<td>(0.11)</td>
<td>(0.11)</td>
<td>(0.07)</td>
<td>(0.31)</td>
<td>(0.04)</td>
<td>(0.01)</td>
</tr>
<tr>
<td>Education</td>
<td>2.71**</td>
<td>4.26***</td>
<td>2.97**</td>
<td>1.31</td>
<td>1.04</td>
<td>0.88</td>
<td>1.96</td>
</tr>
<tr>
<td></td>
<td>(0.05)</td>
<td>(0.01)</td>
<td>(0.03)</td>
<td>(0.27)</td>
<td>(0.37)</td>
<td>(0.45)</td>
<td>(0.12)</td>
</tr>
<tr>
<td>Net profit</td>
<td>2.54*</td>
<td>6.03***</td>
<td>3.43**</td>
<td>11.92***</td>
<td>4.07**</td>
<td>7.01***</td>
<td>6.43***</td>
</tr>
<tr>
<td></td>
<td>(0.06)</td>
<td>(0.00)</td>
<td>(0.02)</td>
<td>(0.00)</td>
<td>(0.01)</td>
<td>(0.00)</td>
<td>(0.00)</td>
</tr>
</tbody>
</table>

| High profit         | 3.14*                       | 13.84***                    | 6.71**                        | 32.34***              | 6.50**              | 15.35***                   | 17.48***       |
|                     | (0.08)                      | (0.00)                      | (0.01)                        | (0.00)                | (0.01)              | (0.00)                     | (0.00)         |

| Vs. Low profit      | 3.14*                       | 13.84***                    | 6.71**                        | 32.34***              | 6.50**              | 15.35***                   | 17.48***       |
|                     | (0.08)                      | (0.00)                      | (0.01)                        | (0.00)                | (0.01)              | (0.00)                     | (0.00)         |

Note: ***p < 0.01, **p < 0.05, *p < 0.1; value in parentheses are p-value.
3.1 Questionnaire

Questionnaires incorporating a five-point scale were used to measure responses to the seven constructs (i.e., non-coercive communication, formality of communication, two-directional communication, economic satisfaction, social satisfaction, intention to renew contract and advocacy intention). The constructs of non-coercive communication, formality of communication, and two-directional communication were measured using nine gradations from “strongly agree” to “strongly disagree” drawn from Mohr et al. (1996). After translating the items from past studies, we requested two professors to check the feasibility and appropriate of Taiwanese items to avoid missing any meaning from the original items.

We further examined coefficient alphas and used exploratory factor analysis to purify the scales. We then discarded three items (2 from non-coercive and 1 from formality) because both item-to-total correlations and factor loadings between factors were less than the cutoff value of 0.3. Either the economic or the social satisfaction measurement was adapted from five items developed by Geyskens and Steenkamp (2000). We discarded four items (Economic satisfaction: 2 items and Social satisfaction: 2 items) of economic and social satisfaction, respectively, because factor loadings between factors were less than 0.3. Intention to renew contract and advocacy intention were measured individually, using two items adapted by Zeithaml et al. (1996) (see appendix).

4. Results

Data analysis proceeded according to the two-step approach recommended by Gerbing and Anderson (1988). First, the measurement model (CFA) was estimated. Then, using the LISREL Version 8.52, a structural model was analyzed, and path coefficients were estimated.

4.1 Measurement model

The correlations in Table 2 provide an initial test of the twelve hypotheses with sixteen items. The mean of seven constructs ranged from 3.35 to 3.89, and their standard deviations were from 0.56 to 0.97. We evaluated the measurement model fit (CFA), using a series of indices recommended by Gerbing and Anderson (1992) and Hu and Bentler (1999). Overall fit statistics for the measurement model were: Goodness-of-fit index and Adjusted goodness-of-fit index were 0.95 and 0.92, respectively. 0.98, 0.99 and 0.99 for the Normed Fit Index, Non-Normed Fit Index, Comparative Fit Index, and Incremental Fix Index, respectively; the Root Mean Square Error of Approximation was 0.053; and the Standardized Root Mean Square Residual was 0.029. These results indicate an optimum level of fit for the model.

Table 2. Descriptive statistics, correlation matrix and average variance extracted.

<table>
<thead>
<tr>
<th>Construct</th>
<th>Mean</th>
<th>Standard deviation</th>
<th>CD</th>
<th>CM</th>
<th>CC</th>
<th>ES</th>
<th>SS</th>
<th>RL</th>
<th>AL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-coercive communication</td>
<td>3.35</td>
<td>0.97</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Formality of communication</td>
<td>3.89</td>
<td>0.56</td>
<td>0.40**</td>
<td>0.78</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Two-directional communication</td>
<td>3.69</td>
<td>0.76</td>
<td>0.42**</td>
<td>0.63**</td>
<td>0.78</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic satisfaction</td>
<td>3.83</td>
<td>0.68</td>
<td>0.32**</td>
<td>0.56**</td>
<td>0.46**</td>
<td>0.82</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social satisfaction</td>
<td>3.73</td>
<td>0.64</td>
<td>0.44**</td>
<td>0.64**</td>
<td>0.58**</td>
<td>0.67**</td>
<td>0.81</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intention to renew contract</td>
<td>3.67</td>
<td>0.83</td>
<td>0.30**</td>
<td>0.49**</td>
<td>0.47**</td>
<td>0.55**</td>
<td>0.57**</td>
<td>0.87</td>
<td></td>
</tr>
<tr>
<td>Advocacy intention</td>
<td>3.58</td>
<td>0.73</td>
<td>0.38**</td>
<td>0.54**</td>
<td>0.57**</td>
<td>0.62**</td>
<td>0.59**</td>
<td>0.71**</td>
<td>0.85</td>
</tr>
</tbody>
</table>

Note: **p < 0.01; $\sqrt{AVE}$ values are show in diagonal.
In addition, as illustrated in Table 3, the reliability of the seven constructs was considered acceptable, as the composite reliability coefficients offer values that, in all cases, are appreciably higher than the recommended value of 0.7 (Bagozzi and Yi, 1998) (see Table 3). To assess construct validity, the analysis first determined discriminant validity (see Table 2), which ensures that the square root of each construct’s average variance extracted (AVE) is larger than its correlations with other constructs (Fornell and Larcker, 1981). In addition, convergent validity analysis involves the examination of sign, size, and significance of the estimated factor loadings. After computing the composite reliability index and AVE to assess how well each construct was measured by its indicators, it was determined that each standardized factor loading had the correct sign and was highly significant (p < .01). All factor loadings were larger than 0.5. The composite reliabilities of all constructs lay above 0.7, while the AVE for each construct was larger than 0.5. Based on these results, these constructs were deemed reliable and uni-dimensional (Bagozzi and Yi, 1988; Gerbing and Anderson, 1988).

Table 3. Measurement items and CFA results.

<table>
<thead>
<tr>
<th>Items</th>
<th>Standard Loading</th>
<th>t-value</th>
<th>S.E.</th>
<th>Cronbach’s α</th>
<th>Average Variance Extracted</th>
<th>Composite Reliability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-coercive communication</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NC2</td>
<td>1</td>
<td>31.14</td>
<td>0.00</td>
<td>--</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Formality of Communication</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FC1</td>
<td>0.67</td>
<td>15.72</td>
<td>0.55</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FC2</td>
<td>0.82</td>
<td>20.91</td>
<td>0.32</td>
<td>0.77</td>
<td>0.61</td>
<td>0.82</td>
</tr>
<tr>
<td>FC3</td>
<td>0.84</td>
<td>21.71</td>
<td>0.29</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Two-directional communication</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TC1</td>
<td>0.71</td>
<td>16.65</td>
<td>0.71</td>
<td>0.75</td>
<td>0.61</td>
<td>0.76</td>
</tr>
<tr>
<td>TC2</td>
<td>0.85</td>
<td>20.40</td>
<td>0.85</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic satisfaction</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ES3</td>
<td>0.78</td>
<td>19.74</td>
<td>0.78</td>
<td></td>
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<tr>
<td>ES4</td>
<td>0.85</td>
<td>22.32</td>
<td>0.85</td>
<td>0.87</td>
<td>0.68</td>
<td>0.87</td>
</tr>
<tr>
<td>ES5</td>
<td>0.85</td>
<td>22.14</td>
<td>0.85</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social satisfaction</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SS3</td>
<td>0.77</td>
<td>19.38</td>
<td>0.77</td>
<td></td>
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<tr>
<td>SS4</td>
<td>0.83</td>
<td>21.60</td>
<td>0.83</td>
<td>0.83</td>
<td>0.65</td>
<td>0.85</td>
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<tr>
<td>SS5</td>
<td>0.81</td>
<td>20.87</td>
<td>0.81</td>
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<td></td>
</tr>
<tr>
<td>Intention to renew contract</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RL1</td>
<td>0.88</td>
<td>22.96</td>
<td>0.88</td>
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<tr>
<td>RL2</td>
<td>0.86</td>
<td>22.28</td>
<td>0.86</td>
<td>0.86</td>
<td>0.76</td>
<td>0.86</td>
</tr>
<tr>
<td>Advocacy intention</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AL1</td>
<td>0.85</td>
<td>22.27</td>
<td>0.85</td>
<td>0.85</td>
<td>0.73</td>
<td>0.84</td>
</tr>
<tr>
<td>AL2</td>
<td>0.86</td>
<td>22.76</td>
<td>0.86</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Fit index of CFA: $\chi^2(84) = 196.97$, $p = 0.000$, GFI = 0.95, AGFI = 0.92, CFI = 0.99, NFI = 0.98, RMSEA = 0.053.

4.2 The structural model

Once the scales for each of the latent factors were validated, the estimation of the structural model was determined. Goodness-of-fit statistics of the total sample and the division sample, indicating the overall acceptability of the structural model analyzed, were acceptable (see Table 4).
Table 4. Structural model fit estimates.

<table>
<thead>
<tr>
<th></th>
<th>Total sample</th>
<th>High profit</th>
<th>Low profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>486</td>
<td>175</td>
<td>311</td>
</tr>
<tr>
<td>$\chi^2$</td>
<td>239.40</td>
<td>122.04</td>
<td>174.47</td>
</tr>
<tr>
<td>df</td>
<td>90</td>
<td>90</td>
<td>90</td>
</tr>
<tr>
<td>$\chi^2$/df</td>
<td>2.66</td>
<td>1.36</td>
<td>1.94</td>
</tr>
<tr>
<td>p-value</td>
<td>0.000</td>
<td>0.014</td>
<td>0.000</td>
</tr>
<tr>
<td>GFI</td>
<td>0.94</td>
<td>0.92</td>
<td>0.93</td>
</tr>
<tr>
<td>AGFI</td>
<td>0.91</td>
<td>0.88</td>
<td>0.90</td>
</tr>
<tr>
<td>RMSEA</td>
<td>0.059</td>
<td>0.045</td>
<td>0.055</td>
</tr>
<tr>
<td>NFI</td>
<td>0.98</td>
<td>0.97</td>
<td>0.97</td>
</tr>
<tr>
<td>CFI</td>
<td>0.99</td>
<td>0.99</td>
<td>0.99</td>
</tr>
<tr>
<td>SRMR</td>
<td>0.037</td>
<td>0.038</td>
<td>0.041</td>
</tr>
</tbody>
</table>

The results of the total sample were outlined in Figure 2, and the results for the high-profit sample and low-profit sample were outlined in Figure 3 and Figure 4, respectively.

5. Conclusions and implications

Following Ducan and Moriarty’s (1998) argument that communication is a critical element in solving member conflicts, even though relationship marketing literature often fails to include the factor in relationship building, this study demonstrates that collaborative
communication is very important in reinforcing franchisee satisfaction as well as loyalty to the franchise system.

First, the total sample reveals that non-coercive, formality, and two-directional communications are statistically significant in franchisee summary judgments regarding the quality of franchise communication. The findings of the research support the linkage between collaborative communication and satisfaction (i.e., economic and social satisfaction), with the exception of the relationship between non-coercive communication and economic satisfaction. Thus, the franchisor should communicate non-coercively through two-directional information-sharing, formal meetings, or informal spoken contacts with the franchisee, and these methods are very important in helping the franchisee gain profits.

Based upon the results from the total sample, franchisors should understand that communication is the foundation upon which sound relationships are built within a franchise system. Although the rights and obligations of franchisees are explained fully in the contracts, franchisees still want franchisors to communicate sufficiently with them. In a competitive market, the franchise system always prompts new market programs in order to respond to variety of consumer demands with innovative solutions. Examples are the launching of new products, the adjustment of merchandise structures, and the development of private-label brand products. Communication, therefore, plays a vital role in the implementation process of any marketing activities. The findings of this study also demonstrate that franchisees expect franchisors to discuss and explain issues and changes in detail; if that communication is accomplished, franchisees will respond with satisfaction and loyalty to the franchisor.

Second, there are several likely reasons for the insignificant result of our non-coercive communication and economic satisfaction findings. First, Keith, Jackson, and Crosby (1990) demonstrate that a distributor’s satisfaction is greater when manufacturers use non-coercive communication; yet, the affective components of satisfaction that are identified can exclude the economic perspective. Thus, discrimination between economic and social satisfaction helps us understand the relationship between franchisor and franchisees to content-collaborative communication as well as the effect on performance. Second, this study found that non-coercive collaborative communication impacts social satisfaction, but not economic satisfaction; therefore, although a franchisor’s requests about operating in certain ways may make franchisees follow trustfully, such instruction cannot make franchisees trust the marketing policy or feel supported by their franchisor in terms of sales. Thus, coercive forms of communication, such as a firm straightforward recommendation and reasonable requests, may be one way to lead franchisees to trust the marketing activities of the franchisor to a greater degree.

Based on the findings from the sample, which was divided into high profit and low profit, there were certain implications for the franchisor. First, in a competitive and depressed environment, both franchisors and franchisees will face challenges. To be a franchisor involves confronting and solving these problems. The study found that formality of communication was an important antecedent of satisfaction for franchisees, no matter whether the franchisee accrued low or high profits. Therefore, when the franchisor communicated with franchisees by writing down details or explicitly verbalizing and discussing them, the franchisees were satisfied and confident in the marketing activities planned by the franchisor. High-profit franchisees, furthermore, perceived social satisfaction due to such factors as mutual respect, which developed through listening to the franchisor’s operations advice and sharing market conditions with the franchisor. Although franchisees will behave loyally after feeling such satisfaction, different effects will occur in different divisions (i.e., high- and low-profit franchises).

Secondly, high-profit franchisees will renew contracts only when they perceive social satisfaction, while low-profit franchisees will renew contracts due to both perceived
economic and social satisfaction. Also, the positive effect of combining economic satisfaction and social satisfaction was proven to be true in both high- and low-profit franchisees. Therefore, for high-profit franchisees, efficient selling support and marketing plans constitute insufficient motivation for renewing a contract. Instead, trust and respect between franchisees and franchisors are the key to maintain the franchise relationship. For the franchisor, this result is both interesting and meaningful.

Several directions for future research have grown out of this study. First, the relationship between multi-satisfaction and multi-loyalty was less discussed relatively. To provide stronger inferences, models that are developed and tested in future studies could benefit from being tested in other contexts. Second, this study limited its scope to the effect of collaborative communication on franchisee satisfaction and loyalty in Taiwan’s convenience store franchising system. Caution should be exercised in generalizing these results across countries and to other retail formats. Therefore, future research should replicate and extend the model to other countries and industries. Thirdly, collaborative communication is not implemented only on one end of the franchisor-franchisee dyad. The questionnaire in this study was administered only to franchisees, not to franchisors. Collaborative communication in channel relationships could be studied in greater depth if the questionnaire was bilateral. Such a change would also solve the CMV (Common Method Variance) problem caused by the franchisees’ self-reporting data.

Fourthly, non-coercive communication was measured with a single item, the reliability of which cannot be assessed. Although this single item does not indicate that the scale was unreliable (Bohrnstedt, 1970), future studies could use multiple items to provide a measure of greater reliability. Finally, although the study included three types of collaborative communication to explore the franchisee and franchisor relationships, other types of collaborative communication or other resources can be incorporated and examined in future research to include horizontal communication, coercive communication and communication frequency. If franchising knowledge is to be shared effectively between franchisees, that knowledge must benefit franchisees and also improve knowledge of the entire franchise system.
References

ACNielsen (2006) Pacific, Hong Kong and Singapore the most developed in modern grocery trade Fragmentation, cross-channel shopping continues in Japan, Korea and China. Trends & Insights, September.


Appendix: Measures of Constructs

Non-coercive Communication (anchors: 1 = totally disagree; 5 = totally agree)
NC1 Franchisor makes a recommendation that, by following that suggestion, I would profit. (a)
NC2 Franchisor requests that I follow their wishes on an issue.
NC3 Franchisor merely discusses the overall strategy of an operation without making specific statements about what he or she would like me to do. (a)

Formality of communication
FC1 In coordinating our activities with this franchisor, formal communication channels are followed (i.e. informal, word-of-mouth modes). (a)
FC2 The terms of our relationship have been written down in detail.
FC3 The franchisor’s expectations of us are communicated in detail.
FC4 The terms of our relationship have been explicitly verbalized and discussed.

Two-directional Communication
TC1 Franchisor will tell me when I have performed well.
TC2 I will describe the market conditions to this franchisor.

Economic Satisfaction
ES1 My relationship with this franchisor has provided me with a dominant and profitable market position. (a)
ES2 My relationship with this franchisor is very attractive in terms of respect and discounts. (a)
ES3 I am very pleased with my decision to distribute the franchisor’s product since their high quality increases my customer traffic.
ES4 The marketing policy of this franchisor helps me to get my work done effectively.
ES5 This franchisor provides me with marketing and selling support that is high quality.

Social Satisfaction
SS1 The working relationship of my firm with this franchisor is characterized by feelings of friendliness. (a)
SS2 The franchisor expresses criticism tactfully. (a)
SS3 Interactions between me and my franchisor are characterized by mutual respect.
SS4 This franchisor leaves me in the dark about things I ought to know.
SS5 This franchisor refuses to explain the reasons for its policies.

Intention to Renew Contract
RL1 I am willing to renew my contract with this franchise system.
RL2 I am willing to join multiple unit franchising stores, if I qualify.

Advocacy Intention
AL1 I will say positive things about the franchise system to other people.
AL2 I won’t recommend the franchise system to someone who seeks my advice. (r)

Note:
(a) Item was dropped during scale refinement.
(r) = reverse scored.