

# **The Impact of Relationship Trust on SME Franchisees Performance: The case of franchising in Egypt**

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## **Key Words**

Franchising, SMEs, trust, trusting belief, performance

## **Abstract**

Franchising can be defined as an arrangement in which the owner of a product, process or service (the franchisor) licenses someone else (the franchisee) to use it in exchange for some sort of payment (Watson et al., 2005). Due to the complex nature of this relational it is fundamental to analyze an important variable that affects it, which is trust. The franchise model is important in developing SMEs performance and the economy at large (Sanghavi, 1998).

## **1- Introduction**

SMEs are considered the engine of the economy, Globally SMEs account for up to 99 per cent of all businesses and franchising has shown importance in enhancing SMEs (Hoffman et al., 2004). For this reason, it was found that franchise is not only supported by individuals but also supported by governments. The research purpose was to find what would be important to be considered in the franchisee and the franchisor relationship, one important variable was taken in consideration which was trust, furthermore the antecedent and consequences of trust were analyzed through this research.

## **2- Franchising and SME's**

The SMEs is the future of every country and the economy depend mainly on this type of companies as it is the driver of the economy. SMEs are often defined by what they

lack, namely, resources (capital or human), a many layered management structure, access to international or complex markets (Gilmore et al., 2011), also SMEs definition mostly the quantitative indicators are used, the size criterion of number of employees, economic criterion of annual turnover and the summation of economic results in the financial statements. SMEs in Egypt is for the companies with paid capital 5 million to 15 million for Industrial Establishments and from 3 million to 5 million to non-Industrial Establishment, also with employees <200 count (CAPMAS). It is widely accepted that franchising plays an important role in furthering the Development of the SMEs sector (Sanghavi, 1998).

### **2.1. Trust**

Trust is very important in the partner's relationship even in the presence of contract as the contracts will never cover all the issues related to mutual relationship a firm needs to have an adequate level of confidence in its partner cooperative behavior (McKnight et al., 2002).

Trust have several different effects on different constructs also it has different antecedents and consequences. Trust antecedents are: conflict, length of time, perceived mutual commitment, cooperation & communication (Thomas, 1992, Davies et al. 2011, Das & Teng, 1998, Dickey et al., 2008, Cook & Wall, 1980, Morgan et al., 1994, Anderson & Narus, 1990, Zineldin & Jonsson, 2000, Ioanna & Maria, 2013 and Davis, 2004) while trust consequences include: compliance, satisfaction, organizational identification & relationship quality (Geyskens et al., 1999, Gauzente, 2003, Ashforth & Mael, 1989, Morgan & Hunt, 1994 & Dickey et al., 2008).

### **3- Model & Hypothesis**

Based on the literature review the research model in Annex-1 was proposed and empirically tested. It included the relationship between the Franchisor and Franchisee

relationship trust antecedents and consequences that are mediated by the trusting belief (TB) in franchisor competence and honesty (Dickey et al., 2008).

### **3.1 Hypothesis**

- H1 trust antecedent have direct effect on the trusting belief of the franchisee in the franchisor competence.
- H2 trust antecedents have direct effect on the franchisee trusting belief in franchisor honesty.
- H3 the trusting belief of the franchisee in the franchisor competence has positive effect on the trust consequences.
- H4 the trusting belief of the franchisee in the franchisor honesty has positive effect on the trust consequences.
- H5 the trust consequences have positive direct effect on the overall financial performance of the franchise.

### **3.2. Methodology**

This research is conducted by two ways one of them is qualitative analysis which is done by conducting in-depth interviews face to face with different experts in the field 9 interviews in total. The second part was the quantitative analysis where the questionnaire of 35 questions was induced to a sample of 180 franchisees through emails, the number of complete questionnaires used for model testing was 158, with a return rate of 87.8% & the results were analyzed by SPSS.

## **4- Analysis & Findings**

In the qualitative part of the study, all the interviewees validated the model & the variables together with their interrelation, also the trust antecedents have direct effect on the trusting belief of the franchisee in the franchisor honesty & competence and

they will have direct effect on trust consequences finally trust consequences will have direct effect on the overall performance.

From the quantitative analysis it was found that the length of time of the franchise has no correlation with the trusting belief in the franchisor honesty and competence so through conducting Kruskal-Wallis Test it was found that it is better to use the length of time of the franchise variable as a moderator.

The correlation matrix of internal consistency of the survey constructs and their component items showed strong internal consistency at 0.05 significant levels especially for the duration of experience from 2 to 5 years except for the relation between the trusting belief in the franchisor honesty and the compliance of the franchisee to the franchisor directives nor the organizational identification.

Regression analysis was used to test the model and predict the factors affecting the dependent variables. Results showed that there is a significant effect from the trust antecedent on both the franchisee trusting belief in the franchisor honesty  $R^2$  (0.275) and competence  $R^2$  (0.657), also there is a significant effect from the trusting belief of the franchisee in the franchisor honesty  $R^2$  (0.233) & competence  $R^2$  (0.755) on the trust consequences, finally there is a significant effect from the trust consequences on the financial performance of the franchise  $R^2$  (0.372), also results showed that there is a significant effect from the conflict  $R^2$  (0.4, 0.142), perceived mutual commitment  $R^2$  (0.56, 0.127), communication  $R^2$  (0.33, 0.461) & cooperation  $R^2$  (0.813, 0.493) on the trusting belief in the franchisor competence & honesty respectively showing that the cooperation has the strongest effect. Also trusting belief in the franchisor competence showed direct effect on relationship quality  $R^2$  (0.717), satisfaction  $R^2$  (0.777), compliance with the franchisor directives  $R^2$  (0.245) & organizational

identification R<sup>2</sup> (0.389). While trusting belief in the franchisor honesty showed direct effect only on satisfaction R<sup>2</sup> (0.219) & relationship quality R<sup>2</sup> (0.223). Finally, the relationship quality R<sup>2</sup> (0.768), satisfaction R<sup>2</sup> (0.827), compliance R<sup>2</sup> (0.121) & organizational identification showed direct effect on financial performance of the organization R<sup>2</sup> (0.19).

## **5- Conclusion**

This research was proposed to answer simple question which is do trust is important for the franchise and to check trust consequences and antecedents. A model was proposed and tested through qualitative & quantitative analysis the results added value to the franchising literature through showing that the length of time of the franchise is a moderator not an independent variable, the trust antecedents showed direct positive effect with the trusting belief in the franchisor honesty & competence with the cooperation being the strongest variable while conflict showed negative relationship. Also trusting belief in the franchisor compliance showed significant relation with the trust consequences while trusting belief in the franchisor honesty showed significant relation with only the relationship quality and both showed significant two-way relation with the satisfaction with the franchisor. Finally trust consequences showed significant relation with the financial performance.

## **6- Future Work**

Recommendations for future research were developed based on the findings of this study. It is suggested that other variables affecting trust should be taken in consideration such as relationship bonds and relationship termination cost should be considered. Also, the moderating effect of more demographic variables such as the size of the organization, country-of-origin of the franchisor or the franchising business

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