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„Trust in Franchising – The Franchisee’s Perspective:
The Case of Demmers Teehaus“

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LIST OF ACRONYMS

ÖFV = Österreichischer Franchise – Verband (Austrian Franchising Association)

DFV = Deutscher Franchise – Verband (German Franchising Association)

EFF = European Franchise Federation

TCE = Transaction Cost Economics

CBT = Calculus-Based Trust

KBT = Knowledge-Based Trust

IBT = Identification-Based Trust

1. Introduction

The present thesis elaborates an extensive analysis of trust in franchisor-franchisee relationships. The analysis is realized through the lens of the franchisee and thoroughly explores the way trust takes shape and evolves in time. In this sense, three types of trust are assumed to evolve gradually in time: calculus-based trust, knowledge-based trust and identification-based trust. The practical part of the thesis includes three qualitative case studies that discuss the relationship of international franchisees with their franchisor, by focusing on trust. All franchisees are part of the Demmers Teehaus international franchise, a business in the industry of high quality tea with the headquarters in Austria. The thesis is structured as follows:

Chapter 2 represents the contextual frame of the analysis and describes the way a franchised business works and what it implies on both sides. Literature offers various classifications of franchising, however, the present thesis focuses on business format franchising. Advantages as well as disadvantages of this type of business are discussed, whereby the benefits and drawbacks for each party are presented in detail. The roles of the franchisor and the franchisee are thoroughly explained, from both an economic and a legal perspective. Further, the general contents of the franchising contract are discussed. The remainder of this chapter focuses on the relational forms of governance that should complement the formal contract. A very important form of relational governance is trust.

Chapter 3 offers on an extensive literature research on trust. It begins by defining the concept and by delimiting it from other similar constructs. Next, the reasons why trust is an important element in any kind of relationship are presented by discussing various viewpoints of scholars in this research field. However, they have all reached the conclusion that society cannot function without this component. Further, it is discussed that trust arises in a relationship only under certain conditions, where risk and interdependence are the most salient ones. The parties in a trusting relationship are the trustor and the trustee, whereby their roles and characteristics are discussed here in detail. The last section of the chapter presents the three main types of trust that can be formed between individuals. These are calculus-based trust, knowledge-based trust and identification-based trust. Following a complex mechanism, these types of trust gradually evolve from the first to the last type.

Chapter 4 represents the theoretical framework of the thesis. It basically combines the information extracted from the last two chapters and elaborates a model of how trust develops and evolves in a franchising relationship. For this purpose, 9 hypotheses were created. For each type of trust there are three hypotheses. Chapter 5 presents general information about the company Demmers Teehaus and about Demmers Teehaus as a franchisor. This chain is very attractive for potential franchisees as its brand is very powerful and as the business conditions it offers are very flexible.

The following chapter is strongly connected to the previous one and contains the methodology of the practical part. Three franchisees of Demmers Teehaus are analyzed, from three different countries. These are Austria, Romania and Poland. The reference person (i.e. the franchisor) stays constant in each case. Chapter 7 contains the actual case studies. The results are very insightful and provide valuable information about the dynamics of trust in franchising relationships. Chapter 8 discusses these results and the possible shortcomings of the proposed model. Chapter 9 concludes by offering valuable suggestions for improvement.

2. Franchising

The present thesis analyses the evolution of trust in professional relationships. Since franchising is an important alternative for companies to expand their (international) business rather than establishing fully-owned subsidiaries or engaging in other means of cooperation (e.g., joint ventures), an analysis of trust in franchise relationships is very useful and has many practical implications. The franchise relationship can be viewed as a dyadic relationship, i.e. franchisor – franchisee (Strutton, Pelton, and Lumpkin 1995), on which the model developed in the next chapters should apply very well. To be able to tailor the trust model for a franchising context, the next sections will further elucidate the notion of franchising and the way it works, explain the roles of the parties, describe the franchising contract and the importance of trust as a complementary governance tool.

2.1. Definition

Since very complex, the concept of franchising is not very easily defined. However, literature and official, legal sources offer some definitions that combined should eliminate ambiguity and cover all facets of the concept. For a better understanding of this term, “franchising” will be explained in the following sections from an organizational, a marketing and a legal perspective.

As it has properties of both markets and firms, from an organizational perspective, franchising can be considered a hybrid organization form (Garg 2005; Menard 2004; Norton 1988a; Welsh, Alon, and Falbe 2006), characterized by pooled resources, long-term contracts and a special relationship with (internal/external) competition (Menard 2004). This organization form offers great advantages, especially in changing business climates, as it combines the characteristics of markets, hierarchies and networks (Mitronen and Möller 2003). The market-like traits refer to the fact that the franchising relationship is a relationship based on trade. From a hierarchical perspective it is a quasi-vertically integrated relationship (Norton 1988b). Moreover, the partners operate in a vast (international) network.

Following a marketing perspective, according to Hollensen (2007, p.365), “franchising is a market-oriented method of selling a business service, often to small, independent investors

who have working capital but little or no prior business experience. However, it is something of an umbrella term that is used to mean anything from the right to use a name to the total business concept". For starters, this definition offers a general idea about what franchising may be and provides a simplified explanation of how this system works.

However, these explanations are rather ambiguous, as they do not clearly delimit franchising from other distribution channels, especially from a legal, international standpoint (Skaupy 1987). The roles of the parties are only vaguely specified and there are many unfilled legal gaps that need to be further elucidated. In this sense, Blair and Lafontaine (2005, p.3) view franchising as "a contractual arrangement between two legally independent firms in which one firm, the franchisee pays the other firm, the franchisor, for the right to sell the franchisor's product and/or the right to use its trademarks and business format in a given location for a specified period of time".

The Austrian Franchising Association (Österreichischer Franchise-Verband, retrieved March 18, 2014) defines franchising as a vertically, cooperatively organized distribution system of legally independent companies, based on a continuous contractual obligation. The market presence of this system is homogeneous and characterized by the specialized services of the system partners¹.

The German Franchising Association (Deutscher Franchise-Verband, retrieved March 18, 2014) offers a somewhat broader definition of franchising that is widely accepted in professional practice: franchising is a partner-based distribution system targeting sales promotion, through which a company (the franchisor) transfers the right to run business with its products or services under its name². The DFV further explains that the franchisor creates a business concept that is then transferred to franchisees (legally independent organisms), to be used on their site, in return for entrance fees and royalties (as a turnover percentage).

¹ Translated and adapted from German: „Franchising ist ein vertikal-kooperativ organisiertes Absatzsystem rechtlich selbstständiger Unternehmen auf der Basis eines vertraglichen Dauerschuldverhältnisses. Dieses System tritt einheitlich auf dem Markt auf und wird durch das arbeitsteilige Leistungsprogramm der Systempartner geprägt.“ (ÖFV, 2014)

² Translated and adapted from German: „Franchising ist ein auf Partnerschaft basierendes Vertriebssystem mit dem Ziel der Verkaufsförderung. Dabei räumt ein Unternehmen, das als so genannter Franchise-Geber auftritt, seinen Partnern (den Franchisenehmern) das Recht ein, mit seinen Produkten oder Dienstleistungen unter seinem Namen ein Geschäft zu betreiben.“ (DFV, 2014)

The official and legally accepted definition of franchising in Europe is provided by the European Franchise-Federation (retrieved March 18, 2014): “*Franchising* is a system of marketing goods and/or services and/or technology, which is based upon a close and ongoing collaboration between legally and financially separate and independent undertakings, the Franchisor and its individual Franchisees, whereby the Franchisor grants its individual Franchisee the right, and imposes the obligation, to conduct a business in accordance with the Franchisor’s concept. The right entitles and compels the individual Franchisee, in exchange for a direct or indirect financial consideration, to use the Franchisor’s trade name, and/or trade mark and /or service mark, know-how, business and technical methods, procedural system, and other industrial and /or intellectual property rights, supported by continuing provision of commercial and technical assistance, within the framework and for the term of a written franchise agreement, concluded between parties for this purpose”.

2.2. Types of Franchising

Literature distinguishes various forms of franchising and thereby offers more classifications. Some authors classify it simply into *traditional franchising (product or trade-name)* and *business-format franchising*, in accordance to the U.S. Department of Commerce (Aliouche and Schlentrich 2005; Blair and Lafontaine 2005; Garg 2005; Hollensen 2007; Lafontaine and Shaw 1998; Norton 2004).

- ❖ *Traditional franchising* implies that partners agree to buy, sell, resell or distribute specific product lines or trade names (Hollensen 2007; Norton 2004). This is considered the most basic form of franchising (Blair and Lafontaine 2005). Examples of such franchises are to be found in the soft drinks industry (e.g. Coca Cola), gasoline station industry (e.g. Shell) and in the automotive industry (e.g. Ford). This type has many similarities with other distribution channels, making it sometimes hard to differentiate them (Garg 2005; Norton 2004).
- ❖ *Business-format franchising* involves selling the whole business package to the franchisee. This package includes next to products and trade name, the actual business concept, that comprises copyrights, designs, patents, know-how,

geographic exclusivity, a marketing plan, quality control, supply sources, specific equipment and operating guidelines (Blair and Lafontaine 2005; Hollensen 2007; Kaufmann and Eroglu 1999). In this case, the products are manufactured by the franchisee (Lafontaine and Shaw 1998). Many examples of business-format franchising can be found in the fast-food industry (e.g. McDonald's, Subway, Burger King etc.)

Lafontaine and Shaw (1998) underline the fact that there has been much confusion in literature regarding the two types of franchising. They also note that traditional franchising is declining since the 80's, whereby business-format is flourishing nowadays. The economic difference between the two are few, as the agreements basically contain the same type of clauses for support and control, however, the distinction is still important for descriptive and statistic reasons (Lafontaine and Blair 2009).

As stated in the previous section, most definitions of franchising are rather ambiguous. For instance, the definition of the EEF is myopic, as it strictly refers to business-format franchising (Norton 2004). The concept explained by the official organism (EFF 2014, retrieved March 18, 2014) contains “trade name, and/or trade mark and /or service mark, know-how, business and technical methods, procedural system, and other industrial and /or intellectual property rights, supported by continuing provision of commercial and technical assistance”, which are only included in the second type of franchising.

In accordance with the ÖFV, other streams of literature, especially from the German speaking areas, classify franchising in three types, i.e. *product franchising*, *distribution franchising* and *service franchising* (Skaupy 1987). In principle they do not vary much from the former classification, they are just divided by activity fields now. Nevertheless, from a legal perspective this holds some relevance.

- ❖ *Product franchising* refers to the case where the franchisee is responsible for the production of goods on his site, based on the provided know-how and instructions from the franchisor.

- ❖ *Distribution franchising* is closely related to the traditional franchising form mentioned above, where the franchisee sells products or product lines of the franchisor.
- ❖ *Service franchising* strictly refers to services developed by the franchisor that are then performed by the franchisees in favour of the final customers. This form prevails mostly in the hotel industry (e.g. Marriott, Holiday Inn).

Even if vastly accepted, this classification is incomplete, as it only refers to business-format franchising (Lafontaine and Shaw 1998; Norton 2004). Although traditional franchising is declining, it has not yet disappeared completely and should still be mentioned by official entities. Therefore, an accurate classification could rather consider product franchising, distribution franchising and service franchising subtypes of business-format franchising.

A special type of franchising is *master franchising* which is used especially in international contexts (Skaupy 1987). Master franchisors are basically sub-franchisors, meaning that they are allowed to sub-sell the business package in a geographical zone designated to them by the headquarters (Rogers and Bennett 2004).

2.3. The Parties

A franchise system is primarily based on partnership and is characterized by a special organizational relationship that combines the qualities and strengths of both parties (Hollensen 2007). The franchise contract brings together one or more partners, which together seek to achieve certain goals that they cannot reach individually (Skaupy 1987). The parties are called *franchisor* and *franchisee* and they both have different, but complementary roles, rights and obligations, advantages and disadvantages.

2.3.1. The Franchisor

The *franchisor* is the party which sells the franchise concept. The EFF (retrieved March 18, 2014) considers the franchisor the “long-term guardian” of the relationship. He is the owner of the business concept, has the right to select his business partner and usually sets

the responsibilities and rules for both sides, including financial issues. Therefore, he may be considered the more powerful party in the relationship (Croonen and Brand 2013; Davies et al. 2011; Morrison 2000; Pizanti and Lerner 2003; Strutton et al. 1995).

Accordingly, Strutton, Pelton and Lumpkin (1995) show that the franchisor is responsible for creating a good psychological climate in the relationship, as he is the more influential party. The franchisor-franchisee relationship may be similar to a parent-child relationship (Brickley 1999; Watson and Johnson 2010), hence, the franchisor is somewhat accountable for the possible, negative intentions or undertakings of the franchisee. The franchising system offers advantages, as well as disadvantages for the franchisor. Literature mentions the following:

Advantages	Disadvantages
❖ a great <i>marketing tool</i>, since the sold products or services are homogeneous on all markets, due to the high standardization level and the strong image of the company (Skaupy 1987; Watson and Johnson 2010) ❖ <i>shared risk</i> (Popa and Ponorica 2012) ❖ fast and cheap national/ international <i>expansion</i> (Skaupy 1987) ❖ <i>customer proximity</i> ❖ benefits from franchisee's potential innovation ideas (Hollensen 2007; Watson and Johnson 2010) ❖ a very good <i>financing tool</i>, since franchisees pay an initial fee and periodical royalties (Grace et al. 2013; Skaupy 1987; Watson and Johnson 2010) ❖ a solution for the <i>personal selection</i> problem, as franchisees are cheaper to	❖ difficulty in <i>control</i>, given the franchisee's desire for autonomy (Skaupy 1987) ❖ difficulty in <i>franchisee selection</i>, as it is hard to screen the intentions of potential franchisees (Hollensen 2007; Skaupy 1987) ❖ underperformance of franchisees may damage <i>reputation</i> and brand image (Hollensen 2007) ❖ <i>future competition</i> may arise if franchisees chose to quit the relationship (Hollensen 2007) ❖ in case of misunderstandings, <i>contract termination</i> may prove as effortful (Skaupy 1987) ❖ the risk of <i>non-compliance</i> (Davies et al. 2011) ❖ franchisees may resist system changes (Morrison 2000)

afford than branch managers (Hollensen 2007; Skaupy 1987)	❖ the risk of <i>agency problems</i> (Lafontaine 1992; Mathewson and Winter 1985; Menard 2004)
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Table 1: Advantages and Disadvantages of the Franchisor

It is important to note that legal regulation plays a very important role in the franchisor-franchisee relationship. The franchisor has many contractual obligations. The most essential ones are stipulated in the European Code of Ethics for Franchising:

“The Franchisor shall:

- ❖ have operated a business concept with success, for a reasonable time and in at least one pilot unit before starting its franchise network,
- ❖ be the owner, or have legal rights to the use, of its network’s trade name, trade mark or other distinguishing identification,
- ❖ provide the Individual Franchisee with initial training and continuing commercial and /or technical assistance during the entire life of the agreement.” (European Franchise Federation, retrieved March 18, 2014).

2.3.2. The Franchisee

The *franchisee* is the party that pays for using the business concept. He needs to pay an initial entrance fee that can vary from brand to brand, in accordance with their notoriety, and an ongoing share of profits. Even though most bodies of literature treat the franchisee as the weaker side of the relationship (Croonen and Brand 2013; Skaupy 1987; Strutton et al. 1995), he still enjoys the protection of the whole franchise system and has many other advantages, as follows:

Advantages	Disadvantages
❖ benefits from the <i>proven business concept</i> and <i>brand name</i> of the franchisor (Mathewson and Winter 1985; Skaupy 1987; Watson and Johnson 2010)	❖ the franchisor may not always recognize the franchisee’s <i>autonomy</i> (Cochet et al. 2008; Skaupy 1987) ❖ often <i>not enough leeway</i> for own ideas, as some systems are very <i>standardized</i>

❖ benefits from <i>know-how</i>, <i>support services</i>, <i>marketing</i> and <i>advertising resources</i> of the franchisor (Cochet, Dormann, and Ehrmann 2008; Hollensen 2007) ❖ gain of <i>working experience</i> from within a professional system (Grace et al. 2013) ❖ the possibility of being an <i>independent</i> entrepreneur without the inherent risks (Skaupy 1987) ❖ benefits from <i>trainings</i> and continuous schooling (Skaupy 1987) ❖ <i>shared risk</i> (Popa and Ponorica 2012; Skaupy 1987)	(Dant and Gundlach 1999) ❖ the <i>percentage payments</i> from jointly achieved profits (Hollensen 2007) ❖ strong <i>control</i> and <i>monitoring</i> mechanisms (Hollensen 2007) ❖ <i>outlet repurchasing</i> possibilities (Skaupy 1987)
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Table 2: Advantages and Disadvantages of the Franchisee

Morrison (2000) argues that in time, with experience, these advantages lose importance and that franchisees would like to impose their own way in business, since they feel that they don't need the protection of the franchisor anymore. Even if literature considers the lack of autonomy a drawback for the franchisee, there are also some good sides of this issue: he has the protection of a well established system and shares the risk and responsibility with the franchisor.

Even if it can be said that the franchisee is well protected in this umbrella system (Hollensen 2007), the imposed obligations are quite restrictive. The EFF mentions the most important obligations of the franchisee, whereby more are to be found in each individual, formal contract:

“The Individual Franchisee shall:

- ❖ devote its best endeavours to the growth of the franchise business and to the maintenance of the common identity and reputation of the franchise network,
- ❖ supply the Franchisor with verifiable operating data to facilitate the determination of performance and the financial statements necessary for effective management

guidance, and allow the Franchisor, and /or its agents, to have access to the individual Franchisee's premises and records at the Franchisor's request and at reasonable times,

- ❖ not disclose to third parties the know-how provided by the Franchisor, neither during nor after termination of the agreement.” (European Franchise Federation, retrieved March 18, 2014).

At first glance it does not seem that the franchisee has very much leeway, since he needs approbation for every (important) decision. Moreover he appears to be very strictly monitored (Skaupy 1987). However, it is worthwhile mentioning the fact that within the same system, different franchisees may be more autonomous than others, according to the manner in which they are appreciated by their franchisees (Cochet et al. 2008).

2.4. The Contract

A franchising relationship is governed by specific contracts. In a broader sense, a contract may contain all types of agreements (physical as well as intangible) between two parties (Menard 2004). Its role is to regulate the way business is conducted and to safeguard exchanges against potential conflicts and exploitation by one or the other party. Menard (2004) considers these safeguards necessary, as contractual parties are facing risks arising from mutual dependency, measurement problems, uncertainty in time, badly formulated property rights and incomplete institutional systems. All these risks can be reduced by creating an adequate contract. Since a written contract cannot cover all possible future scenarios, a franchising relationship is also governed by informal mechanisms in addition to the formal documents (Croonen and Brand 2013; McKnight, Dickey, and George 2007).

2.4.1. The Formal Contract

As every professional relationship, the franchising relationship is based on a formal contract between the parties, that stipulates the terms and conditions under which business should be conducted (Lafontaine and Blair 2009). This contract is the main legal base the parties can eventually rely on in court or in front of other official organisms and third parties (Skaupy 1987). Moreover it sets the specific parameters in which the activity should unfold (Davies et al. 2011).

A formal contract is a written promise that the parties will undertake specific actions in the future. It includes rights and obligations, control procedures, sanctions for non-compliance, the terms of delivery of the desired goods or services, their quality, quantity and prices (Poppo and Zenger 2002). Elaborating a very complex contract can be very expensive, and parties will opt for such a complex contract only if they assess a contractual breach as very costly (Ermisch et al. 2009; Poppo and Zenger 2002). A franchising contract permits an independent entrepreneur to use the franchisor's brand and business format, for a determined period of time, in a certain location in exchange for an initial fee and ongoing royalties (Brickley 1999). Hence, the complexity degree of the contract varies across franchising chains, depending on how costly franchisors evaluate contractual non-compliances in these areas.

Legal streams of literature (Skaupy 1987) support the idea that within a franchising chain, the contract should be the same between a franchisor and all of its franchisees, so that no franchised unit has disadvantages over others. This contradicts the economic bodies of literature (Lafontaine and Blair 2009; Poppo and Zenger 2002) according to which it is important to create different, individual contracts (within the same chain) with each particular franchisee. This should allow exploiting all possible profits, given the different locations and market conditions of the various franchisees, especially in international situations. However, the franchisor holds the final decision whether a standard or a custom franchising contract should be used eventually. It is said that in practice the former form prevails (Blair and Lafontaine 2005). In this sense, Skaupy (1987) suggests some milestones each franchising contract should include:

- ❖ Balance between the rights and obligations of both parties
- ❖ A rigorous description of all the characteristics of the system
- ❖ The granting of the actual franchising right, i.e. (exclusive) territory, specific location of the franchised unit, the specification that the franchisee is an independent agent, the manner in which the franchisor must may/use the trade mark, a non-competition clause (if necessary), etc.
- ❖ The obligations of each party
- ❖ Financial terms: entrance and closing fees, royalty rates, fixed payments, advertising fees (if applicable)

- ❖ Duration of the contract, according to industry and franchise size; mostly long-term contracts between 5 to 10 years, sometimes includes a cancellation period
- ❖ The conditions of contract termination
- ❖ Other supplementary clauses

These are the key-issues a franchising contract includes, however, all contracts are inevitably incomplete (Williamson 2005). In an attempt to at least fill some of these gaps, some rigorous franchisors will chose to create extra contracts (e.g. delivery contracts, rental agreements, etc.) with their franchisees and with third parties (Skaupy 1987). However, conflict potential will always be inherent in such relationships, due to environmental uncertainty and sometimes diverging goals.

Although legal literature often ignores the social and moral aspects of any kind of professional relationships – including franchising relationships – they still play a crucial role in the way business is conducted, and can be viewed as the intangible parts of the contract. Hence, franchising partners also rely on complementary “non-legal contracts” that are socially-binding, in addition to the legal contracts (Jones, Hesterly, and Borgatti 1997; Norton 2004). The importance of these relational norms becomes greater in long-term, complex relationships such as in franchising (Kaufmann and Stern 1988).

2.4.2. Relational Forms of Governance

All unwritten rules of operating the business and all expectations of both parties' behaviour represent relational forms of governance (Cochet et al. 2008). Jones, Hesterley and Borgatti (1997) mention that conflicts of social nature within an organization could be avoided in the first place by a rigorous partner selection. Both parties should share the same values and principles and identify with the business they are running. If a party behaves in an unacceptable manner, it will be “punished” by the other one, e.g. it won't be granted the same level of trust anymore, the business climate will be more tense, etc. All these can be viewed as “intangible clauses” that cannot be covered by a formal contract. In this sense, business partners rely on relational norms as complements to the formal contract (Poppo and Zenger 2002).

The existence of relational contracts is of high importance in franchising, as they help avoiding opportunistic misinterpretations of ambiguously written terms (Davies et al. 2011; McKnight et al. 2007). In practice (especially in international practice) it happens very often that clauses of legal contracts are rather ill formulated and leave space for interpretation. Hence, it is important to have the good-will to recognize the sense in which they were meant initially. Following this idea, reciprocity is also very important and franchising partners should each undertake social investments to enhance the business relationship (Cochet et al. 2008; Kaufmann and Stern 1988). Therefore, all the relational norms in a system reflect the individual beliefs, values and principles of the partners (Noordewier, John, and Nevin 1990). Accordingly, Cochet, Dormann and Ehrmann (2008, p. 53) propose three components, or “norms” of relational governance:

Harmonization of Conflict

The first norm refers to the *harmonization of conflict* and describes the way in which franchising partners should resolve problems, in order to assure mutual satisfaction in the professional relationship. Conflict is a latent component in every relationship, and can be always triggered by various factors (Kaufmann and Stern 1988). Such factors arise, for instance, from the risks and disadvantages of the franchising system (see table 1 and 2). The most frequent causes why conflict arises in franchising are due to disagreements regarding pricing and fees, autonomy and decision making, compliance with system requirements and standards, and the provided/offered assistance (Frazer et al. 2012). However, partners may dampen the occurrence of disputes if they both try to view each other’s perspective and focus on finding a mutually viable solution that is long-term oriented (Kaufmann and Stern 1988).

A more subtle factor that leads to conflict is the (possibly) unmet ex-ante expectation of both the franchisors and franchisees regarding the achieved system performance (Frazer et al. 2012). Partners engage in a franchising relationship with certain expectations about the franchising system in mind, which are continuously updated by everyday results and business practice. If these expectations are not met, conflict is very likely to arise, due to disappointment in the system as a whole (Grace et al. 2013). Grace et al. (2013) found that such disputes may be avoided mainly through the franchisor’s good and ongoing support and through communication openness on the side of both parties (i.e. the quality of both

formal and informal interactions). In sum, conflict may be avoided, or at least dampened, through communication and the goodwill of both parties.

The Intensity of Cooperation

The second norm of relational governance is related to cooperation and to the fact that franchisors and franchisees are able to reach much higher, long-term objectives together, than the ones achievable through the pursuit of self-interest and guile (Cochet et al. 2008; Lambe, Spekman, and Hunt 2000). A better communication and better interactions are the main results of cooperation, leading to the formation of a positive, fruitful relationship and a comfortable business climate (Squire, Cousins, and Brown 2009).

Cooperation means working together towards the same goals, but it is unclear under which conditions partners collaborate. They may also collaborate due to lack of available alternatives and fear of punishment (Fulmer and Gelfand 2012; Mayer, Davis, and Schoorman 1995; Rousseau et al. 1998). Therefore, it is necessary that all norms apply simultaneously and to include the key ingredient of goodwill. It is important to mention that in spite of the possible divergences that may arise in franchising relationships, there are many incentives for genuine cooperation, as the goals of the partners are intertwined by definition. Especially long-term relationships must highly rely on cooperation and joint-planning if they seek to achieve superior performance results. This is required by the nature and the structure of the franchising relationship, as it is characterized by complex transactions and a strong exposure to uncertainty and environmental changes, unlike one-time or short-term interactions (Lambe et al. 2000).

Cho and Lee (2011) view cooperation as a behavioural outcome of a satisfying relationship, based on information sharing and teamwork. This means that if the partners perceive the relationship as beneficial, they will engage in further cooperation, thereby strengthening the relationship even more. In short, cooperation leads to future cooperation. Moreover, it reduces the “cognitive distance” between the parties, by combining the abilities and qualities of both, thereby also facilitating knowledge transfer (Nooteboom 2000; Squire et al. 2009). Nooteboom (2000) mentions that partners may have different but yet complementary views of a problem. These views can be combined by the so called “bridging” process, through which innovative solutions may be found.

The Prevalence of Trust

The third norm of relational governance proposed by Choquet, Dormann and Ehrmann (2008) refers to trust and its importance in franchising relationships; they view trust as tool against opportunistic behaviour. In long-term professional relationships the prevalence of trust and other relational norms are of utmost importance (Lambe et al. 2000), as they complement the formal contract in an optimal manner, leading to a smoother and a more comfortable way of managing business. Trust may be viewed as the most important component of relational governance (Davies et al. 2011; Gorovaia and Windsperger 2013; Mumdziev and Windsperger 2013).

The notion of trust is extensively discussed in the next chapter. The way trust fits in franchising and how it evolves in time is discussed in detail in chapter 4. The present section was only designed to introduce this complex concept in conjunction with franchise relationships and to show the way in which it extends the formal contract.

3. Trust

3.1. Definitions

What is trust? At first glance the concept of trust appears to be quite straightforward. Even though it can be considered the key ingredient in social interactions between individuals, defining this notion is not that simple as it appears. The Oxford English Dictionary (retrieved February 18, 2014) provides a very vague definition for trust as a “firm belief in the reliability, truth, or ability of someone or something”. This general definition only sets some parameters, inviting for further investigation.

The very notion of trust was first analyzed by scholars in the social research field, dealing with personal intra-individual issues, such as those in social groups, between friends or lovers (Deutsch 1958; Rotter 1971). Unlike other concepts, scholars have suggested a very large spectrum of definitions for trust, overlapping them with other similar constructs. For instance, some use it interchangeably with trustworthiness (Barney and Hansen 1994; Gambetta 1988; McKnight, Cummings, and Chervany 1998; Tedeschi, Hiester, and Gahagan 1969), confidence (Deutsch 1960) or risk (Williamson 1993). As research evolved, recent literature (Barney and Hansen 1994; Colquitt, Scott, and LePine 2007; Mayer et al. 1995; Rousseau et al. 1998) attempts to delimit trust from other constructs. Given the very complex nature of trust it would be myopic to narrow the concept down to one single definition and consider the rest as false. One of the key issues here is the consideration of context (e.g. social, professional) and form. Trust may be viewed as a behavioural form, a behavioural disposition or a subjective expectation (Nooteboom 2002). The next sections argue the reason why these forms cannot be delimited very easily from one another.

Mayer, Davis and Schoorman propose in 1995 (p. 712) a definition for trust, considered by most recent authors (Bstieler 2006; Croonen and Brand 2013; Fulmer and Gelfand 2012; Kabadayi and Ryu 2007; McKnight et al. 1998; Mumdziev and Windsperger 2013) one of the most complex and suitable, especially in the context of business relationships. They define this concept as “the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party.”

According to Zaheer, McEvily and Perrone (1998, p.143) trust is an expectation that the partner is reliable, predictable, and fair in the fulfilment of a specific task. Rousseau et al. (1998, p. 395) define trust as “[...] a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behaviour of another”.

Based on early work in the trust literature, Mishra (1996) concludes that trust arises when one party chooses to be vulnerable to the actions of the other party, based on the positive expectation of that other party's competence, openness, concern and reliability. Creed and Miles (1996, p.20) argue that trust within organizations is a function of the corporate philosophy, perceived characteristic similarity/non-similarity of the partners and reciprocity.

Bhattacharya et al. (1998, p. 462) propose a mathematical definition of trust as “an expectancy of positive (or nonnegative) outcomes that one can receive based on the expected action of another party in an interaction characterized by uncertainty”. The authors attempted to offer a complete definition by combining the following elements: uncertainty, predictability, importance, strength, mutuality and the fact that trust is a desirable behaviour.

Cummings's and Bromiley's (1996) definition includes the expectation of one party that another one will act with good will, honesty and won't behave opportunistically. Bromiley and Harris (2002, p. 125) define “trust as one's non-calculative belief in another's honesty in negotiations, good-faith efforts to keep commitments, and forbearance from opportunism”. Williamson (1993, p 463) states that trust between economic agents exists “when the expected gain from placing oneself at risk to another is positive”.

Nooteboom (2002, p.36) defines trust as “an expectation that things or people will not fail us, or neglect the lack of awareness of the possibility of failure, even if there are perceived opportunities and incentives for it”. This view allows for developing different types of trust according to the context in which it is needed.

These definitions are clearly very different from one another, each focusing on different key aspects. However, the most prevailing aspects appear to be “vulnerability”,

“expectation” and “risk”. Being vulnerable is not actual risk taking but implies risk taking (Mayer et al. 1995). Trust cannot arise if there is nothing to lose. Moreover, most authors underline the idea that trusting parties expect the other ones to act in a beneficial manner. Therefore, a trusting party relies on the good will of another individual (Das and Teng 2004). In contrast to this aspect, Williamson (1993) simply provides a formula for trust between commercial partners and suggests that agents have no incentive to act beneficially, in favour of the opposite party, in the absence of rewards or benefits. He states that trust arises when one’s exposure to risk has a positive expected value.

This idea stems from Transaction Cost Economics (TCE) which assumes that an economical agent will act rationally and opportunistically and that partners will settle everything in a contract. In spite of these extreme views, more recent literature argues that trust is fully compatible with Transaction Cost Theory in an extending way (Barney and Hansen 1994; Becerra and Gupta 1999; Bromiley and Harris 2006; Chiles and McMackin 1996; Claro and Claro 2008; Nooteboom 2002).

Mayer’s, Davis’s and Schoorman’s (1995) version seems to be the most complex definition, since it includes all the above mentioned key aspects. Moreover, it also specifies the fact that trust arises only when the trusting party (further called trustor) is not monitoring or controlling the trusted party (further to be referred as the trustee), nor has the desire to do so. This is very important, as it reveals that the trustor believes in the true, positive intentions of the trustee (Dasgupta 1988). Therefore, this definition will be further used in this thesis.

Additionally, in their Integrative Model of Organizational Trust the same authors delimit the notion of trust very clearly from other concepts such as cooperation (which can also appear under other circumstances, in the absence of trust), confidence (where risk is not perceived), predictability (where one may act in a detrimental, predictable manner and where predictability may be influenced by third parties through coercive control mechanisms) and trustworthiness (which is a characteristic of the trusted party).

3.2. The Need for Trust

The benefits of trust between individuals are incontestable. Having a long-term efficient relationship is not possible without the parties trusting each other. However, starting from the above listed definitions of trust it becomes disputable whether it is or not a necessary ingredient in economic relationships. Under the inflexible assumptions of TCE and Agency Theory there is no need for trust in such relationships. Actors suppose from the very beginning that their partners will act opportunistically and that “contractual safeguards” will be used to secure agreements (Williamson 1993). Therefore, trust is but an ill substitute of a rigorous contract and should be only reserved for private, personal, social interactions.

However, this idea was heavily criticized by many authors (Barney and Hansen 1994; Bhattacharya, Devinney, and Pillutla 1998; Bromiley and Harris 2006), that argued that business and interpersonal relationships are intertwined. Since some individuals are more prone to trust than others (Schoorman, Mayer, and Davis 2007) they also carry this trait in business affairs. Further, they also argued that under the assumptions of TCE an individual is assuming one’s trustworthiness as constant and that he trusts everyone to the same degree in every possible situation. This again underlines the stiffness of TCE.

In the book *The limits of Organization*, Arrow (1974, pg.23) states that “trust is an important lubricant of a social system. It is extremely efficient; it saves a lot of trouble to have a fair degree of reliance on other people’s word”. This positive opinion is also shared by many recent authors (Claro and Claro 2008; Dasgupta 1988; Ermisch et al. 2009; Katsikeas, Skarmas, and Bello 2008; Kramer, Brewer, and Hanna 1996; McAllister 1995; Reed et al. 2003). Furthermore, it also increases overall satisfaction in organizations (Driscoll 1978; Kramer et al. 1996).

Dirks and Ferrin (2001) reviewed 73 empirical studies, most of which showed that trust positively influences communication, organizational citizenship behaviour, negotiation processes, conflict settlement, individual performance, unit performance, satisfaction, perceived accuracy of information, acceptance of decision/goal and other variables. Other studies have also positively linked trust to performance, information exchange, reduced opportunistic behaviour, lower bargaining and transaction costs, cooperation, competitive

advantage, knowledge transfer and knowledge creation. These points referring to the way they enhance a business relationship will be further discussed below.

Although literature offers mixed results regarding the linkage between trust and *performance* (Dirks and Ferrin 2001; Katsikeas et al. 2008) there are many scholars that found a such a positive relationship in one form or another (Claro and Claro 2008; Cullen, Johnson, and Sakano 2000; Davis et al. 2000; Dirks and Ferrin 2001; Hassan and Semerciöz 2010; Katsikeas et al. 2008; Mayer et al. 1995; Zaheer, McEvily, and Perrone 1998). Zaheer, McEvily and Perrone (1998) found that high levels of trust within an organization decrease negotiation costs and conflict, hereby encouraging *information sharing*. This was then positively linked to performance. Within the setting of a firm, Davis et al. (2000) found a positive relationship between employee trust in the general manager and firm performance in terms of turnover, sales and profits.

Literature also points out that trust *reduces opportunistic behaviour* amongst partners (Barney and Hansen 1994; Davis et al. 2000; Katsikeas et al. 2008; Mumdzhev and Windsperger 2013; Panteli and Sockalingam 2005). If both parties prove their good will, this will then be reciprocated, leading to a smoother way of doing business (Reed et al. 2003). However, this view may lie on the other extreme, because relying fully on the assumption that the partner will act in a beneficial manner may be naive. This is especially the case in one time transactions, where long-term interests hold no importance (Lewicki and Bunker 1996; Panteli and Sockalingam 2005). Another argument why trust is needed in professional relationships follows naturally from the previous one, namely the fact that it *reduces transaction and negotiation costs* (Bromiley and Harris 2006; Bstieler 2006; Ermisch et al. 2009; Kramer 1999; Nooteboom 2002; Rousseau et al. 1998). In Williamson's (1993) scenario partners use "contractual safeguards" to secure a deal. Even if hypothetically, starting from a model with a finite number of possibilities (Eichberger & Harper 1997, p.92), where one would be able to reveal all possible states of the world that could arise in the future, it would be impossible to comprise every aspect of it in a contract (Nooteboom 2002).

Even creating a very complex contract, close to the perfect one would be very costly and time consuming (for instance by hiring professional analysts, consultants and lawyers, considering legal fees etc.). Hence, trust guarantees the positive intentions of an individual,

making such rigorous contracts unnecessary, thereby reducing the associated costs (Davis et al. 2000; Ermisch et al. 2009). In contrast, hypothetically, in extreme cases, a physical contract may not even be necessary at all (Dasgupta 1988). Transaction costs can also be lowered indirectly through information sharing, as partners are more open in providing relevant and efficient data to each other (Chiles and McMackin 1996).

Trust further eases commercial relationships by *facilitating cooperation* (Dasgupta 1988; Earle 2010; Fulmer and Gelfand 2012; Gambetta 1988; Mayer et al. 1995). This frames a win-win attitude, by which parties pursue joint-goals (Pruitt 1983). Intuitively, if the partners are perceived as trustworthy and their intentions are assessed as positive, the business climate will also be more relaxed and comfortable, further stimulating cooperation and good-will.

Sources of literature (Barney and Hansen 1994; Davis et al. 2000) mention that trust also offers a form of *competitive advantage*. Even if their notion of trust is somewhat vague, as they use it interchangeably with trustworthiness, Barney and Hansen (1994) found that under proper conditions, trust is a source of competitive advantage. Other vital elements for a healthy business relationship, namely *knowledge transfer and knowledge creation* are also eased in relationships characterized by trust (Bstieler 2006; Cullen et al. 2000; Panteli and Sockalingam 2005), since it encourages team work, learning, openness, a more efficient communication and conflict ease (Dodgson 1993; Panteli and Sockalingam 2005; Wathne, Roos, and von Krogh 1996).

Arrow (1974, pg.23) further mentions that trust and other related values “are goods, they are commodities; they have real, practical economic value, they increase the efficiency of the system, enable you to produce more goods or more of whatever values you hold in high esteem”. Therefore, trust has a smoothening function (Cullen et al. 2000; Reed et al. 2003). Even if trust may be considered a “commodity”, the value of it cannot be determined nor traded (Arrow 1974).

As it follows from above, business relationships fare far better if based on trust. The difficulty in dealing with trust lies in the fact that it cannot be easily measured nor assessed (Adams et al. 2010; Croonen and Brand 2013). Nonetheless, especially in a time of change

and speed with increasingly limited resources, business partners cannot afford to forego the benefits a relationship based on trust provides.

3.3. The Conditions for Trust to Arise

Naturally following from section 3.1., it becomes clear that most authors agree that trust can only arise under specific conditions. If boiled down to the most important ones, it seems that the risk component and the interdependence component (Rousseau et al. 1998) are the most significant ones.

3.3.1. Risk

Across disciplines it is observable that *risk* is trust's evil twin brother. Most of the times trust is viewed as good and risk is tagged as bad. As they are very similar constructs, they are yet different. Risk is as hard to define as trust, since it is rather a perception. According to the The Oxford English Dictionary (retrieved February 18), a risk is "a situation involving exposure to danger" or more suitable for the business field "the possibility of financial loss".

Organizational literature defines risk shortly as "the possibility of loss" (Chiles and McMackin 1996, p.80), in contrast to some other fields of literature (i.e. finance, economics etc.) that view it as the volatility or the variance of a probability distribution (Markowitz 1999). Further, both streams of literature agree that the perceptions of risk are variable, some individuals being more risk averse than others (Chiles and McMackin 1996; Earle 2010; Johnson and Tversky 1983). Only few authors in organizational literature distinguish between the risk of losing in general and the risk of being betrayed by someone (Bohnet and Zeckhauser 2004; Ermisch et al. 2009). Both papers have found that individuals are more risk averse when the risk depends on another person than on pure chance (i.e. flipping a coin). This may mean that people perceive other people as unfair or opportunistic.

Recalling Mayer's et al. (1995) view of trust and combining it with the above mentioned definitions of risk, as stressed earlier in the thesis, real trust cannot arise if there is nothing to lose; therefore, in the absence of risk, there is no trust (Rousseau et al. 1998). Since trust

is one's willingness to become vulnerable, in this stage, the trustor is not yet assuming any risk. Accordingly, risk provides only an opportunity to trust (Rousseau et al. 1998). Risk arises due to information asymmetry (Fulmer and Gelfand 2012) and uncertainty (Baranoff and Brockett 2012).

Intuitively, *information asymmetry* arises in business relationships due to physical and psychic distance, cultural differences, frictions in communication and many other factors. In spite of these rather normal causes, partners may intentionally hide some information in order to protect themselves or to achieve certain benefits (Chu and Song 2010).

Uncertainty is tightly related to information asymmetry and they are positively linked to each other (Daft and Lengel 1986). There are two types of uncertainty: *behavioural* uncertainty and *environmental* uncertainty (Krishnan, Martin, and Noorderhaven 2006; Mumdziev and Windsperger 2013; Nooteboom 2002). The former refers to uncertainty regarding the future actions of a partner which are never fully predictable, and the latter reflects the external uncertainty, caused by exogenous conditions, that are outside the control of the partners (Krishnan et al. 2006; Nooteboom 2002).

In business relationships the most important cause of uncertainty is the true intention of the opposite party (Rousseau et al. 1998); therefore, information production through proper communication is crucial, as behavioural uncertainty is the only type of uncertainty that can be influenced by the partners (Chiles and McMackin 1996; Daft and Lengel 1986; Krishnan et al. 2006).

3.3.2. Interdependence

The second condition for trust to arise is *interdependence*, when one individual must rely on another one in order to achieve certain (joint) goals (Bohnet and Zeckhauser 2004; Rousseau et al. 1998) and when the actions of one party affects the outcomes of the other (Thompson and Hrebec 1996). Real trust only exists when one party depends on another party to perform a certain action.

This becomes very important, since the individual goals achieved together are usually much greater than the ones reached alone, these synergy effects leading to increased

performance (Panteli and Sockalingam 2005). In their empirical study of 126 strategic alliances Krishnan et al. (2006) argue that organizations can be characterized by higher or lower forms of interdependence. A higher form of interdependence arises when both partners share the same resources and have joint responsibility.

High interdependent partnerships are strongly affected by changes and the impact of a mistake on one side will be strongly felt by the other side as well. Since they are highly dependent on mutual knowledge sharing, they are more prone to conflict, because individual contributions cannot be tracked very easily (Krishnan et al. 2006).

Partnerships characterized by a *lower form of interdependence* have a very clear labour division and the inter-organizational processes have a high degree of standardization. Further, they can afford to pursue private interests to some extent at the costs of collaboration. Typically, this is the case in competing partners (Krishnan et al. 2006).

Literature also suggests that interdependence changes with different levels of trust (Lewicki and Bunker 1996; Rousseau et al. 1998). The more one party trusts another, the more important tasks he will entrust the latter one with. According to some models this should happen in a progressive way, from a weak form of trust at the beginning of the relationship, to a stronger form in more mature phases (Barney and Hansen 1994; Lewicki and Bunker 1996; Panteli and Sockalingam 2005; Rousseau et al. 1998). The forms of trust and how they evolve will be further elucidated in chapter 3.5.

3.4. Antecedents of Trust

Most scholars in the past decades agree that the parties involved in a relationship based on trust have a set of certain prerequisites (Colquitt et al. 2007; Mayer et al. 1995; McKnight et al. 1998; Schoorman et al. 2007). These models mostly assume a dyadic relationship, consisting out of a trustor and a trustee. Both of them play different roles and have certain characteristics.

3.4.1. The Trustor

The *trustor* is the party that trusts. Accordingly, some individuals are more willing, are more prone to trust than others are (Mayer et al. 1995; McKnight et al. 1998). This rather refers to a personality trait that varies across individuals (Colquitt et al. 2007; Das and Teng 2004; Kramer 1999) and is reflected in the extent to which a party expects positive intentions from the other one. Is trust default behaviour or not? Some individuals engage from the very beginning in a trusting behaviour until the contrary has been proven, while others are born-sceptics (Nooteboom 2002). Literature used more concepts to explain this phenomenon, i.e. disposition to trust (McKnight et al. 1998; Natarajan 2009), predisposition to trust (Cosner 2010; Kramer 1999) and *propensity to trust* (Mayer et al. 1995). The latter concept will be used further in this thesis, as most recent scientific work is based on Mayer's et al. model.

Without having any prior information about the trustee, trustors with a higher trust propensity are more likely to trust than trustors with a lower trust propensity (Mayer et al. 1995). Therefore, trust propensity can be viewed as a "filter" through which the trustee will be further assessed (Croonen and Brand 2013, p. 149). This point is a very delicate one. As it represents a personality trait, it cannot be measured or influenced easily. Individuals may have a higher or a lower disposition to trust, however, literature proposes some attempts of creating patterns, profiles and finding some similarities between people who are more willing to trust than others.

Ermisch's et al. (2007) experiment in the UK found that trust propensity was positively related to age, mental health and by homeownership. Also, it was negatively related to financial condition, poorer people being more prone to trust. Overall, around 40% of the participants answered that they would trust a complete stranger. This again points out, that people perceive fellow people rather as unfair and opportunistic.

Colquitt et al. (2007) showed empirically that trust propensity as an antecedent of trust has an important influence on the trust outcome itself. Moreover, they argued how affect has a mediating effect on the willingness to trust others, i.e. individuals are more likely to trust others when they are in a good state of mind. Earlier experiments (Johnson and Tversky 1983) have also shown how an individual's mood can affect the perception of risk, the

assessment of a higher risk lowering the predisposition to trust and vice-versa (Bohnet and Zeckhauser 2004).

Some authors discussed how this disposition to trust varies much across cultures (Mizrachi, Drori, and Anspach 2007; Schoorman et al. 2007). Schoorman, Davis and Mayer (2007) argue that task-oriented cultures are more prone to trust. By using Hofstede's cultural dimension of uncertainty avoidance, they suggested that cultures that scored high in this dimension should have a lower trust propensity. It is worthwhile noting that having a high trust propensity does not necessarily lead to a trusting behaviour (Das and Teng 2004). People with high trust propensity only attribute a high probability to the alternative that their partner will rather act with good will than exploit them (Bohnet and Zeckhauser 2004).

From the points discussed above, the question if trust propensity varies not only *among* individuals, but also *within* individuals, may arise. Only few authors suggest that trustors actively adjust their trusting behaviour according to different contexts (Mizrachi et al. 2007). This may indicate that an individual's trust propensity, and therefore the outcomes of a problem may be influenced by framing a problem in different manners, in accordance to Prospect Theory (Kahneman and Tversky 1979).

3.4.2. The Trustee

The *trustee* is the party to be trusted, the party on whom the trustor relies on to perform a certain task. Some individuals are considered more reliable than others. Therefore, some trustors will grant different trustees a higher or a lower level of trust according to certain characteristics. The trustor judges the trustee in terms of his perceived *trustworthiness* (Mayer et al. 1995). An individual is trustworthy when he is expected not to betray or exploit his partner (Barney and Hansen 1994). This is a multidimensional concept and in fact a bundle of more, interrelated, inseparable attributes which all influence the level of trust in a multiplicative way (Mishra 1996).

Mayer et al. provided a very accurate literature review on this issue and found that between 1953 and 1993 authors decomposed the notion of trustworthiness in more parts, e.g. competence, openness, loyalty, motivation, ability, intention, altruism, fairness, honesty,

benevolence, integrity, previous experience, good will etc. If boiled down to the most frequently mentioned attributes of a trustee, they found *ability, benevolence and integrity* as the most prevailing ones. Colquitt and colleagues (2007) agree with this view and found empirically that they are indeed positively related to trust.

In accordance, Dirks and Ferrin (2001, p.452) define trustworthiness as the “belief about another’s ability, benevolence and integrity which leads to a willingness to risk, which leads to risk taking in a relationship, as manifested in a variety of behaviours”. Therefore, trustworthiness leads to trust and by applying social exchange theory, if the trustee is assessed as trustworthy then the trustor will reciprocate the intentions expected from the first one (Koeszegi 2004; Lester and Brower 2003).

Ability

Ability refers to a certain set of skills that the trustee must possess in order to accomplish a specific task (Mayer et al. 1995). In short, a positive assessment of this characteristic assures that the trustor is capable of performing something important for the trustor (Colquitt et al. 2007). In this case, trust is domain related (Schoorman et al. 2007), because it is important to solve something very specific for which other than task-related competences are of no use. If the trustee possesses skills in a certain sector, then he is trustworthy to perform a task (only) in that specific sector (Hassan and Semerciöz 2010).

Benevolence

Benevolence refers to the fact that a trustor intends to help the trustor, unconditionally. Benevolence reflects the good, altruist human nature (Davis et al. 2000; Mayer et al. 1995). Therefore, a trustee will not act opportunistically and will not take advantage of the trustor. Moreover, he will show that he is concerned about the other party’s outcome as well (Davis et al. 2000; Koeszegi 2004; Mishra 1996; Nooteboom 2002). Further, this component reveals the motives of the trustee he engages in a certain interaction with the trustor (Mayer et al. 1995). While the ability dimension predicts that a trustee can, i.e. is able to do something, the benevolence dimension predicts that he is also willing to undertake this particular action in favour of the trustor (Colquitt et al. 2007).

Integrity

Integrity assures that the trustee sticks to some moral principles (Colquitt et al. 2007) that are similar to the ones of trustor (Mayer et al. 1995) and that he will behave honestly (Koeszegi 2004). Integrity is closely related to benevolence, some authors even considering them redundant, however, it is accepted that integrity, in contrast to the latter one is a rational choice (Colquitt et al. 2007). This dimension is based on the past actions of the trustee and on the assessment of third parties (Mayer et al. 1995). In this sense, reputation has a strong impact on one's trustworthiness (Davis et al. 2000; Koeszegi 2004; Kramer 1999; McKnight et al. 1998; Nielsen 2004; Rousseau et al. 1998; Williamson 1993). The trustee is assessed based on previous actions, which makes him predictable (Colquitt et al. 2007). The trustee is expected to behave accordingly because he has a sense of reliability, fairness and consistency (Das and Teng 1998; Mishra 1996).

Clearly, an individual is assessed as trustworthy only if all three components are considered positive. Only good intent and a good reputation do not suffice, in the absence of perceived expertise. Conversely, someone very skilled may not have the intention to perform a certain action in favour of another one, regardless of personal benefits (Mishra 1996). Therefore, the level of general trustworthiness will depend on the positive assessment of its components. It is worthwhile noting that trusting others could also enhance the perception of one's own trustworthiness (Koeszegi 2004).

3.5. Types of Trust

Literature proposes various models of trust. Early work treats trust as static, completely ignoring the time dimension (Tedeschi et al. 1969). Some recent authors agree that trust comes in different forms, according to different relationship types or phases (Barney and Hansen 1994; Rousseau et al. 1998; Williamson 1993), but very few view trust as a dynamic construct that changes and evolves over time (Lewicki and Bunker 1996; Panteli and Sockalingam 2005). Since this thesis seeks to analyze how trust is formed and how it develops, Lewicki and Bunker's (1996) approach will be followed.

Lewicki and Bunker (1996) created a dynamic model which includes three types of trust that develop over time in professional relationships. It comprises *calculus-based trust*,

where partners will trust each other only if the benefits from trusting exceed the benefits of opportunistic behaviour, *knowledge based trust* where the partners trust each other based to prior experiences and *identification-based trust* where the partners fully identify with the desires of each other and can substitute one another. In the following sections, these types will be further analyzed.

3.5.1. Calculus-Based Trust

At the beginning of any kind of relationship partners do not know much about each other. They rely on third party information (may also be a certificate or diploma) and build specific expectations based on this information (Dasgupta 1988; Fulmer and Gelfand 2012; McAllister 1995; Rousseau et al. 1998). The level of these expectations will in turn depend on the trust propensity of the trustor and on the assessment of the trustee (in terms of ability, benevolence and integrity). According to these factors trust will be built slower or faster.

In its most basic form, it is called *deterrence-based trust* and relies on the fact that there exists a real, credible threat of punishment (Dasgupta 1988) and individuals will act consistently only out of fear. People are considered trustworthy only because of this reason (Lewicki and Bunker 1996). This is the type of trust that fits perfectly in the TCE framework, where contracts substitute trust (Nielsen 2004; Rousseau et al. 1998; Williamson 1993). Hagen and Choe (1998) emphasize that punishment doesn't create trust, but simulates it, hereby enabling cooperation.

Rousseau et al. (1998) argue that deterrence-based trust is in fact no trust at all. In contrast with Hagen and Choe's argument, they suggest that sanctions only promote cooperation, which can be achieved even if there is no trust at all. Cooperation may arise in the presence of tight control mechanisms and in the absence of viable alternatives (Mayer et al. 1995). Since deterrence-based trust excludes the positive intention of an individual from the beginning, this concept is not even compatible with the very definition of trust (Rousseau et al. 1998).

Lewicki and Bunker's (1996) model developed this concept into *calculus-based trust* (CBT). Here, trust is simply viewed as a mathematical formula where the benefits of

trusting must exceed the benefits of cheating. At this level trust is viewed as the outcome of a cost-benefit analysis (Cullen et al. 2000; Fulmer and Gelfand 2012; Kramer et al. 1996; Nielsen 2004; Suh and Kwon 2006). This concept is different from the first one, since it comprises the reward component in addition to the sanction component (Lewicki and Bunker 1996). Accordingly, a trustor may be able to calculate (backwards) the reward necessary to avoid cheating (Claro and Claro 2008; Dasgupta 1988).

It is important to note that in this stage trust is very fragile; it takes much longer to create it than to breach it (Lewicki and Bunker 1996). Moreover, it enables information and knowledge sharing only on a limited, formal level, with the sole purpose of positively fulfilling the partner's expectations and performing business transactions (Panteli and Sockalingam 2005; Rousseau et al. 1998).

Another issue here is that people comply with trust in order to build and/or maintain a good *reputation* (Barney and Hansen 1994; Kramer et al. 1996; Lewicki and Bunker 1996). Reputation for honesty is gradually earned over time (Dasgupta 1988; Williamson 1993) and violating one's trust will damage it (Lewicki and Bunker 1996; Olekalns, Kulik, and Chew 2013). Therefore, reputation is a commodity that can also be lost (Dasgupta 1988). An individual will act consistently if the "costs" of this commodity exceeds the short-term benefits of opportunistic behaviour.

Reputation is a two edged sword. As stated above, when engaging in a relationship for the first time with a new partner, he is assessed in terms of his reputation. This reputation is normally achieved individually, but in some cases simply belonging to a group with good reputation, makes each member trustworthy (Dasgupta 1988; Williamson 1993). McAllister (1995) provided a review of empirical studies showing how trust is greater among members of a group, only based on cultural, ethnic or racial similarities (basically nothing task- or business-related). Therefore, a random member can have a good reputation even if he hasn't done anything to earn it. In this sense, reputation is "noisy" as a partner may have a good reputation, but may cheat if given the right incentives (Barney and Hansen 1994).

Through the lens of TCE, Williamson (1993) argues that in professional relationships CBT is the only type of trust that is possible and necessary. Both parties know the probabilities of all possible results and engage in a relationship only if they expect certain benefits from

it. Moreover, if available alternatives, the partner that guarantees the highest gains will be selected over others. Following the same idea, Dasgupta (2000, p.51) states that “you do not trust a person (or an agency) to do something merely because he says he will do it”. This trust must have a backup; it must be based on something concrete and in the absence of such, only “blind trust” can arise. Moreover, this sort of “blind trust” based on nothing, is very unadvisable in business and can be easily confused with naivety (Kramer et al. 1996; Nooteboom 2002). Therefore, a party needs some a form of proof that the other one will act consistently and the inherent risks are constantly controlled (Rousseau et al. 1998). This point underlines the fact that in this stage the benevolence characteristic of the trustee is of less importance, whereby the trustor considers ability and integrity more vital for the future development of the relationship.

From another perspective, Barney and Hansen (1996, p.177) developed the closely related (but not similar!) concept of *weak-form trust* and explained that such trust arises when there are “limited opportunities of opportunism”, meaning that the transactions are very transparent and easy to evaluate in a highly competitive setting, i.e. the trustor has many alternatives to chose from. In this sense, the trustor has only little vulnerability that can be exploited. While real trust can only emerge if there is something at stake, just like argued in the previous chapters, their notion of *semi-strong trust* reflects in a much better way CBT, where just like in Williamson (1993), parties rely on contractual terms and conditions in transactions. Nooteboom (2002) also suggests that in the early stages of a relationship it is wise to consider the possibility of opportunistic behaviour.

3.5.2. Knowledge-Based Trust

As the professional relationship between the partners evolves in time, the form of trust slowly shifts from CBT to *knowledge-base trust (KBT)*. The term “knowledge” refers to the *information* about each other, the parties have gathered by themselves. In this stage third party information loses importance, as parties have already built their own opinions (Kramer 1999; Rousseau et al. 1998). KBT arises with interaction and is based on the history of experiences the parties have had in time together (Lewicki and Bunker 1996). By interacting, the trustor learns about the competences and the attitudes of the trustee in task-solving (Cosner 2010). By repeated interactions and positive fulfilment of

expectations, the parties will be more willing to work together and commit more resources to the relationship (Li 2008; Rousseau et al. 1998).

It is worthwhile noting that the sole passing of time does not foster this type of trust. If partners had only few exchanges during a long time span, this stage may not yet be reached. Therefore, some may form KBT faster than others. Additionally, these interactions must be positive in order for trust to flourish or for future collaborations to be possible (Cosner 2010). Kramer (1999) names this type of trust *history-based*, and underlines the fact that interactions help reassessing one's trustworthiness, based on ex-ante expectations, that may have been validated or infirmed. Therefore, interactions have an updating function.

A key component of this type of trust is *predictability* (Lewicki and Bunker 1996). Predictability has the crucial function of uncertainty reduction and enables creating expectations about future behaviour (Bstieler 2006; Mayer et al. 1995). Even if a predictable behaviour does not equate a desired or favourable behaviour, it still fosters trust by reducing (behavioural) uncertainty (Bstieler 2006), as one can learn the situations in which somebody can be trusted or not (Lewicki and Bunker 1996). Moreover, if the partner is expected to behave favourably, future trust and cooperation will be enhanced (Mayer et al. 1995).

Another dimension of KBT is *communication* (Lewicki and Bunker 1996). In this stage the primary way of gathering information is by communicating regularly. Moreover, this facilitates mutual understanding and reveals the values, motives and expectations of the partners (Cosner 2010; Panteli and Sockalingam 2005). Communication stimulates information production, which in turn reduces informational asymmetries (Daft and Lengel 1986). Being open by communicating also leads to knowledge sharing (Panteli and Sockalingam 2005), efficient and creative problem solving, solutions which would not be achievable only through formal mechanisms (Zaheer et al. 1998). Cosner (2010) further suggests that trustworthy communication should be face-to-face and should also take place in informal settings.

Lewicki and Bunker (1996) further point out that in the KBT stage the partners observe how each other acts and reacts in different situations. These situations may be good or

difficult; therefore, this is a “testing” period for both parties. Personal traits are revealed, as well as other non-business-related attributes. In this phase partners may share private information about family, hobbies or personal interests.

In an organizational setting however, accumulation of private information becomes difficult, as this requires interacting with more people and depending on different partners (Kramer 1999). In such cases contact is usually held only by representatives of units or departments and relationships may remain on a formal level. Corporate culture and philosophy may be of aid in stimulating trust building among members of an organization (Creed and Miles 1996).

In KBT trust is not that easily violated like in CBT. If a partner does not comply once in a situation, the other partner will be more tolerant than in CBT, and will assume that he may have credible reasons for his inconsistent behaviour, being open to explanations (Lewicki and Bunker 1996). In this sense, Nooteboom (2002) argues that in the second stage partners develop certain tolerance limits, allowing for CBT-type control when these limits are crossed.

In this stage the benevolence component becomes of greater importance, as attitudes in different situations are visible only through regular interactions. Since it is harder to measure than ability and integrity (that were demonstrated in CBT) benevolence can be assessed accurately only by learning about each other. In KBT ability and integrity are only updated.

3.5.3. Identification-Based Trust

After the “testing” phase in KBT has been passed successfully, trust may reach another stage, on a higher level. This type of trust is called *identification-based trust (IBT)*. Since the parties are now able to substitute one another, they are fully aware of the needs, expectations and desires of each other (Lewicki and Bunker 1996). Identification refers to *shared values*, principles, desires and goals in a professional relationship based on mutual understanding and respect.

Barney and Hansen (1994, p.179) developed a similar concept called *strong-form trust* or *principled trust*, where in spite of a high degree of vulnerability, the trustor relies on shared moral values and principles, in the absence of monitoring possibilities in economic exchanges. Further, they emphasize that – unlike in CBT – partners engage in trusting behaviour as they want to avoid “internally imposed costs”, i.e. guilt or the fear disappointing someone.

IBT includes next to all already embedded dimensions of KBT (predictability, information sharing, communication) the *shared identity* component, e.g. a logo or a brand (Lewicki and Bunker 1996) that underlines the joint strengths and that allows for synergy effects. A relationship that operates on the KBT level is characterized by high interdependence (Rousseau et al. 1998), where responsibilities are shared on all levels and individual actions are not attributed to every single actor, as they become the joint actions of a group (Krishnan et al. 2006).

Another way of strengthening this type of trust and fully enjoying its benefits is *collocation* (Lewicki and Bunker 1996). This refers to physical proximity and in its strongest sense means operating together in the same building. However, today’s technology relaxes this condition, since face-to-face interactions are nowadays also possible under different circumstances, e.g. videoconferences, shared/remote computer access or fast transport means.

IBT facilitates the development of *joint products and objectives* under this shared identity (Lewicki and Bunker 1996), as the potential for knowledge-sharing, especially confidential and tacit knowledge, is highest in this stage (Panteli and Sockalingam 2005). The desire to

create joint objectives reflects the fact that partners now have positive expectations from one another and that they are concerned for each other's welfare, recognising the synergy potential they may generate together (Adams et al. 2010; Lewicki and Bunker 1996; McAllister 1995; Rousseau et al. 1998).

This is the broadest form of trust (Rousseau et al. 1998), it includes the affective component, since the relationship is also characterized by emotional investments (Adams et al. 2010; McAllister 1995). Because one party *feels* that the other one is trustworthy, he will consider monitoring and control unnecessary, knowing that his intentions are benevolent and empathic (Lewicki and Bunker 1996; Nooteboom 2002). The tolerance levels of trust are widened, based on the diminished cognitive distance, thereby allowing for more risk-taking, the development of empathy for the other party's interests and weaknesses, and an increased level of understanding where a party understands the way the other one frames a certain problem (Nooteboom 2000, 2002).

In this phase trust is very resilient and not violated easily at all (Rousseau et al. 1998). When a party identifies with the other one, he tends to associate unfavourable behaviours with exogenous factors, in contrast to individuals with whom he does not identify, where he tends to associate this behaviour to internal factors (Kramer et al. 1996).

In this sense, an IBT-relationship is characterized by altruism, good will and reciprocity (Li 2008; McAllister 1995; Nooteboom 2002) where the parties intentionally learn and make efforts to understand how they can maintain and enhance each other's trust (Kramer et al. 1996; Lewicki and Bunker 1996). They both recognize the importance of trust and further perceive a *moral obligation* in fulfilling their expectations (Adams et al. 2010; Kramer and Tyler 1996). In addition to this, Kramer et al. (1996) underline the hedonic effects that trust generates, namely positive emotions, this leading to more efficient levels of cooperation. Nooteboom (2002) further suggests that trusting is a sign of self-respect.

It is worthwhile noting that not all professional relationships reach this phase. Some scholars argue that it may not even be necessary, for transactions to run smoothly (Williamson 1993) or that such trust is a sign of naivety (Dasgupta 1988), while others underline the importance of culture, since some cultures attribute more importance to the ability and competence components of trustworthiness (Fulmer and Gelfand 2012).

Moreover, this also depends on each other's trust propensity; some individuals just don't consider emotional investment necessary in professional relationships.

Recalling Mayer's et al. definition from chapter 2.1.: "the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party" it becomes clear that IBT is the final stage of trust, as it includes complete reliability on the partner, the absence of control and the belief that the partner will act with good will.

4. The Dynamics of Trust in Franchising

4.1. Revised Definition

Following section 2.1 where Mayer's et al. (1995, p.712) definition of trust has been proposed as the most suitable for professional relationships, in the specific franchising context trust can be defined as in Croonen and Brand (2013, p.146): "the willingness of a franchisee to be vulnerable to the actions of its franchisor based on the expectation that the franchisor will perform particular actions important to the franchisee, irrespective of the franchisee's ability to monitor or control the franchisor". In the context of this thesis the trustor is the franchisee and the trustee is the franchisor.

From the previous chapters the nature of the trustor and the trustee has rather remained unclear. Since discussing trust in general dyads, it can be understood that the concept was mostly analyzed on a personal level, i.e. individual to individual; therefore, further explanation will be necessary in order to be able to correctly analyze the concept in a franchising context. Trustees can be individuals, organizations, even institutions or socio-economical systems (Bachmann 2001; Nooteboom 2002). Moreover, trust in each of these "objects of trust" is interrelated, e.g. trust in the legal system affects trust in organizations (Dahlstrom and Nygaard 1995). Closer, in franchising it can be distinguished between personal trust or organizational trust (Croonen and Brand 2013; Croonen 2010).

Personal trust refers to situations in which people trust people on an individual level (Croonen and Brand 2013). The simplest dyad in this sense can be decomposed in just two people who engage in trusting behaviour, however, in real professional situations this is rarely the case. Nevertheless, personal trust is the starting point for more complex situations (Bachmann 2001). In franchising, personal trust can arise between individual franchisees and the franchisor or the representatives of the franchise system, i.e. store managers, sale managers etc. (Croonen 2010).

Organizational trust refers to trust between organizations. As Croonen and Brand (2013) point out, it is wrong to say that organizations trust other organizations, but rather that individuals trust a specific organization. In this sense, organizations do not have intentions, but only interests (Nooteboom 2002). Specific employees or members of the organizations

do have intentions, but when saying that one trusts an organization, one does not refer to those particular intentions. Nooteboom (2002) points out the fact that people trust the image of a company, the corporate identity of it, and the reputation it has. This is particularly important in franchising, since franchises are highly characterized by a strong, homogeneous image. Therefore, it can be said that organizational trust in the franchising context is when a franchisee trusts his specific franchising system.

The two notions are strongly intertwined. While trusting organizations, one must verify if the goals of the people in a specific organization are congruent with the ones of the whole system. Nooteboom (2002) further explains how trust in organizations is somewhat noisy. In the end, organizations are formed of individuals, and therefore trusting an organization means trusting the individuals that form it. Therefore, organizational trust can be viewed as a higher-order personal trust, however, noisy, since specific actions or intentions may be attributed to the wrong actors. The same author explains this phenomenon with the aid of a simple example where the trust in a branch manager cannot be backed up by his employees.

In franchising, however, personal trust seems to be the most important form, i.e. trust in the franchisor or the franchise representatives (Croonen 2010). Moreover the author underlines the importance of both forms, since certain representatives may leave the system. If franchisees rely very heavily on their franchisors, then organizational trust must also be present to some extent; franchisees must believe in the fair functioning of the system.

A series of scholars (Bachmann 2001; Croonen and Brand 2013; Croonen 2010; Nooteboom 2002) have researched the mechanisms of personal, respectively organizational trust, however, the ones in the field of franchising completely ignored the time dimension and the stages of entering a franchise system. It is obvious that for a prospective franchisee looking for a franchise system, organizational trust will be a decisive factor, whereas personal trust will be quasi inexistent. A prospective franchisee chooses to buy a franchise, according to the image and reputation of that specific chain. In sum, before entering a franchise chain, organizational trust plays the most important role for the franchisee.

After a franchisee has assessed the system as trustworthy and has entered it, there will be room for personal trust to develop. Since personal trust can only develop through interaction, the trustee needs to be part of the system, to allow for such interactions. Once the expectations of the franchisee with regard to the system have been met (or not) and once he has a clear opinion about the organization, personal trust will gain importance. In this sense, the present thesis mainly analyzes the evolution of personal trust in franchise systems. As the franchisor remains the same, organizational trust may be assumed as constant.

4.2. Benefits of Trust in Franchising

Franchising is a field in which trust is particularly important, as it eases the way of doing business very much. The very nature of the system requires trust as an inherent mechanism of governance, since both sides have high incentives to free ride (McKnight et al. 2007), and since the relationship is based on high mutual interdependence and asymmetric control (Davies et al. 2011). Literature has focused on trust whether as a moderator (Bordonaba-Juste and Polo-Redondo 2008; Mumdzhev and Windsperger 2013) or as a consequence (Davies et al. 2011; McKnight et al. 2007).

Some of the concrete benefits of the presence of trust in franchising analyzed and discussed by literature in different international and cultural contexts are: reduced transaction costs, reduced opportunistic behaviour, reduced conflict potential, increased relationship satisfaction, increased performance, increased commitment, eased knowledge sharing and a better acceptance of, and adaptation to change processes and many more. However, most studies focus on satisfaction and quality of the relationship, which further lead to increased performance.

In their empirical study from the US franchising sector, McKnight et al. (2007) found that trust increases the perceived satisfaction and quality of the franchising relationship, hereby positively affecting the system's performance, in terms of *reduced opportunistic behaviour*. Their model represents the franchisee's view and includes two components, namely trust in the franchisor's competence and in his honesty (a narrower form of integrity). In a similar way, Davies et al. (2011) empirically analysed US franchisees of a large automobile repair service company and found that higher levels of trust *increase the*

satisfaction of the relationship and that is *reduces conflict potential*. Moreover, trust in the franchisor's integrity strongly affects the franchisee's *compliance* with the formal and informal contract.

Trust also increases *commitment* in franchising relationships. Wright and Grace (1994) found that the commitment-trust framework of Morgan and Hunt (1994) also applies in franchising, by testing it in the Australian and the New Zealand sector. Hence, trust and commitment are key factors in the franchisor-franchisee relationship, hereby leading to a more efficient and satisfactory collaboration (Morgan and Hunt 1994). Trust also *reduces transaction costs* in franchising (Eser 2012). Moreover, by analyzing Turkish franchisees, Eser (2012) has also found that trust is positively linked to performance in the franchising relationship, in terms of satisfaction and cooperation. In this sense, trust is a conditional factor for performance, idea also supported by Altinay et al. (2013).

Since these studies focus on the satisfaction and quality of the franchising relation, leading to increased performance, it is worthwhile mentioning Elango's and Fried's (1997) review that shows what this satisfaction actually consists of: positive interactions with the franchisor, the quality of assistance offered by the franchisor, the reward scheme, the granted level of autonomy and fairness. Hence, satisfaction may be viewed as a positive emotional state that appears when the economical and non-economical expectations of the franchising relationship have been met, and proves that the partner's goals are congruent (Eser 2012).

Watson's and Johnson's (2010) case analysis of two companies operating in the same field considers both the franchisor's and the franchisee's perspective. They show that a *successful franchising relationship* is characterized by trust and commitment, where communication and the provided assistance of the franchisor are key ingredients for this kind of a relationship. Following the same format, in their study on Spanish franchising chains, Bordonaba-Juste and Polo-Redondo (2004) show from both the franchisor's and the franchisee's perspective, that trust and commitment are crucial elements in assuring a *successful, long-term relationship and an overall, better performance* of the system. Croonen (2010) analyzed four qualitative cases of Dutch drugstore franchise chains, from the franchisee's perspective, and demonstrated the importance of trust in change processes

and how it affects the perception of fairness. Moreover, the study shows that lack of trust can lead to resistance and negative responses in change processes.

By using data from the German franchising sector, Mumdziev and Windsperger (2013) develop an extended transaction cost model by integrating trust, and found that trust *diminishes the negative effects of external uncertainty* in operational decisions and that it *eases the delegation of decision rights*. Dahlstrom and Nygaard (1995) studied the consequences of interpersonal trust in franchised systems in the retail petroleum sector, from Poland, Germany and Norway. They found that in Poland and Norway interpersonal trust is positively linked to *performance*. This study represents a good piece of contribution to literature, as it is a cross-cultural analysis, while all others focus on just one country.

Using data from the Austrian Franchising sector, Gorovaia and Windsperger (2013) show that trust stimulates *knowledge sharing* by facilitating a more intense and efficient communication. Moreover, trust can replace the formal knowledge transfer mechanisms and reduce the perception of the associated risks. The same idea is also supported by Squire, Cousins and Brown (2009) who analyzed buyer-seller relationships (which are similar to franchising relationships) and found that trust eases knowledge transfer.

4.3. Conditions for Trust to Arise

As in chapter 3.3, following Rousseau's et al. (1998) idea, real trust arises only under specific conditions. The present chapter checks the extent to which these conditions are met in the franchising context. These conditions are the presence of risk and interdependence.

4.3.1. Risk

Undoubtedly risk is an inherent component in franchising relationships, especially in the international context. It is important to note that the perceptions of risk are variable, in terms of risk aversion (Chiles and McMackin 1996; Earle 2010; Johnson and Tversky 1983). In this sense, some franchisors/franchisees will be more cautious when crafting contracts and will leave less space for relational mechanisms. Since trust is a franchisor/franchisee's willingness to become vulnerable to the action of his partner, the

more complex the formal contract, the less trust will be “needed” in the relationship. Combined with the above mentioned arguments, it must be emphasized once again that trust lowers the costs associated with complex contracts only if one is willing to accept a certain measure of risk.

Literature distinguishes between the risk of losing in general and the risk of being betrayed by someone, whereas individuals are more risk averse in the latter case (Bohnet and Zeckhauser 2004; Ermisch et al. 2009). Obviously, in franchise relationships the risk of being betrayed by the partner is of greater interest, since the former cannot be diversified away.

Risk arises due to *information asymmetry* (Fulmer and Gelfand 2012) and *uncertainty* (Baranoff and Brockett 2012), both elements very present in franchising (Dant and Nasr 1998; Davies et al. 2011; Harmon and Griffiths 2008). Information asymmetry affects both the franchisor and the franchisee. The franchisee has the advantage of local market knowledge and the franchisor must rely on the information provided by the former (Dant and Nasr 1998). In turn, the franchisor possesses system-specific skills, on which the franchisee heavily depends on (Windsperger 2004). Hence, both the franchisor and the franchisee may intentionally hide or distort some information in order to protect themselves or to exploit each other (Chu and Song 2010). These incentives could be very tempting, especially as none of them can verify the authenticity of the communicated data (Watson and Johnson 2010).

As already noted in previous chapters, uncertainty can be of two types: *behavioural* uncertainty and *environmental* uncertainty (Krishnan et al. 2006; Mumdziev and Windsperger 2013; Nooteboom 2002). In franchising relationships the only type of uncertainty that can be reduced is the first one, as it refers to the actual behaviour of the partners. Mumdziev and Windsperger (2013) point out that behavioural uncertainty arises due to the possibility of cheating or dishonest behaviour, and also remind of Williamson’s argument that this may be a strategic way of acting. However, for long-term relationships, this strategy is not very fruitful (Bordonaba-Juste and Polo-Redondo 2008).

Both the franchisor and the franchisee run a certain set of risks when engaging in a business relationship. With decreasing relationship satisfaction, the probability that these

risks occur, becomes higher (Davies et al. 2011). The franchisor may not offer the promised support, he may use discriminatory product pricing tactics, he may encroach on franchisee territory, or given the asymmetric power-balance, he may pressure the franchisee to accept unfavourable contractual terms. However, the franchisee may perform sub-optimally and free-ride the franchisor by offering lower product/service quality or by selling competing products, this in turn damaging the franchisor's reputation and brand. The most important of them are discussed in detail below.

Risks Franchisees Face

Franchisees run the risk of *territorial encroachment*, meaning that, in an attempt to maximize total system sales, the franchisors may establish additional franchised units in already covered zones (Brickley 1999; Frazer et al. 2012; Watson and Johnson 2010). Brickley (1999) notes that this happens very often in practice, and is thereby a frequent motive for lawsuits. Territorial encroachment is detrimental to the franchisee, since he can lose many customers from his specific area. This happens due to the very uniform business format of franchising, where every store looks the same and the products/services are the same. In this sense, customers may get the same thing from different units, believing that they are loyal customers.

Another risk a franchisee runs is the fact that he may not get the promised support and assistance the franchisor promised. In some cases the franchisor may not be very preoccupied with the welfare of a franchised unit, especially in mature systems that also have company owned units (Dant and Gundlach 1999). Therefore, a failure of one unit is not a tragedy for the franchisor, as he may have the *right of repurchasing and restructuring the unit* (Dant, Grünhagen, and Windsperger 2011).

The franchisee faces the *risk of vertical free-riding* (by the franchisor), meaning that in time, the franchisor may lower the quality of their products/services, thereby reducing the franchisee's revenues (Watson and Johnson 2010). In this case, there is nothing much the franchisee may do, as he depends on the franchisor's inputs. The effects of lowering quality may not be visible in the short run if the chain has a strong brand name. However, repairing the damaged brand can prove to be very costly.

Since the franchisor is the more powerful party in the relationship (Croonen and Brand 2013; Davies et al. 2011; Morrison 2000; Strutton et al. 1995), he may use this power to exploit the franchisee. In this sense he may try to extract unfair concessions from the franchisee or solicit unfair contract termination (Popa and Ponorica 2012).

Risks Franchisors Face

The same customers may shop from different units and will choose the closest one given their specific location at a specific time point (when he is at home, work, holiday, etc.). Again, the franchisor runs the risk that the provided quality varies across units. If the expectations of the clients are not met, the franchisor may be facing *customer churn problems*, since the quality provided by one unit may influence the demand of another unit (Brickley 1999). This type of *horizontal free-riding* (by the franchisee) problem may arise due to cost cutting and underinvestment of the franchisee (Watson and Johnson 2010) and can damage the reputation of the franchise chain (Hollensen 2007).

The franchisor also faces the risk that in time, as the franchisee gains experience, he begins to question the conduit of business imposed by the franchisor and believe that performance is due to his personal set of skills (Davies et al. 2011). This, in turn, can lead to *non-compliance* with the franchisor's code of conduct, and therefore threatening the uniformity of the system. This problem stems from the fact that the franchising contract is sold with the motto "be your own boss", whereby the franchisees enter such an agreement believing that they are independent entrepreneurs (Dant and Gundlach 1999, p. 35).

4.3.2. Interdependence

Next to risk, *interdependence* is the second condition for trust to arise. Interdependent relationships arise when individuals must rely on one another for achieving certain (joint) goals (Bohnet and Zeckhauser 2004; Rousseau et al. 1998) and when the actions of one party affects the outcomes of another (Thompson and Hrebec 1996). Real trust only exists when one party depends on another party to perform a certain action. In franchise relationships this second condition is clearly fulfilled. By the very nature of the business relationship, both the franchisor and the franchisee rely on each other for their business to survive. However, usually the franchisor is the more powerful party and the franchisee is

the more dependant party (Croonen and Brand 2013; Davies et al. 2011; Morrison 2000; Pizanti and Lerner 2003; Strutton et al. 1995).

The franchising relationship includes more domains and, hence, it is normal that each party is more dependent on the other one in some of these domains, while they are more autonomous in others (Dant and Gundlach 1999). However, interdependence in franchising relationships is somewhat asymmetrical, since the franchisee depends on the franchisor in more fields than vice-versa. The failure of a franchised unit weights more heavily on the individual franchisee, which loses his entire business, whereas the franchisor “only” loses an outlet which he can buy back and restructure – given appropriate conditions (Dant et al. 2011).

Krishnan et al. (2006) divide professional relationships into high interdependent and low interdependent relationships. High interdependent partnerships are strongly affected by changes, and the impact of a mistake on one side will be strongly felt by the other side as well. Partnerships characterized by a lower form of interdependence have a very clear labour division and the inter-organizational processes have a high degree of standardization. In practice, a strict delimitation of such types of relationships is never achievable, yet some relationships possess more attributes of one type than the other. Franchising relationships possess more attributes of the first type, namely of *high interdependent relationships*. Even though the processes of the system are standardized and each party has specific tasks, the overall success of the chain cannot be tracked back to an individual partner.

It remains unclear whether the overall success is achieved due to the franchisee’s efforts or due to the franchisor’s business format. Moreover, if the franchisee does not comply with the franchisor, or if he changes the quality and characteristics of the offered products/services, the franchisor will be highly influenced by these actions. These changes will be felt strongly on the other side (and in the whole chain) as well. The same argument is also applicable from the opposite point of view. Changes on the franchisor’s side may heavily affect the results or the performance of the franchisee. Therefore, franchising relationships are rather high interdependent relationships.

According to Hollensen (2007) the franchisor depends on the franchisee in the following specific areas:

- ❖ Fast growth: franchising is one of the best and fastest ways for company expansion, since it doesn't require as much initial capital as other forms of expansion, like establishing company-owned units.
- ❖ Capital and income: franchising allows for a considerable capital infusion through the fees paid for using the business concept, through advertising fees, and through the continuous revenue stream that flows from different locations.
- ❖ Community goodwill: the franchisor depends on the franchisee for preserving a good business climate in the system, where both parties optimally play their roles.

The franchisee depends on the franchisor in the following domains (Hollensen 2007):

- ❖ Trademarks and brands: the main reason why an entrepreneur chooses to become a franchisee is the possibility of profiting from a well established and proven product/service name. Through franchising he can immediately sell popular products, thereby skipping the initial phases of introducing a new product on the market.
- ❖ Support and assistance: technical support and professional trainings are vital elements that the franchisee relies on for conducting a successful business. This is very convenient for the franchisee, as his responsibilities are narrowed down and as has the possibility to gain business-related knowledge.
- ❖ Marketing resources: the franchising contract includes the fact that franchisees are able to use the franchisors marketing tools. Given the standardized nature of the franchising system, franchisors usually have high brand equity, and therefore the franchisees profit from very strong marketing resources. Moreover, as advertising tools are very uniform in the chain, the franchisee is able to reach a larger number of customers.

4.4. Types of Trust in Franchising

This section describes the way in which the above mentioned types of trust from Lewicki's and Bunker's (1996) model develop in franchising relationships. The three stages of calculus-based trust (CBT), knowledge-based trust (KBT) and identification-based trust (IBT) and the way they are formed and evolve are further analyzed.

4.4.1. Calculus-Based Trust

As an entrepreneur seeks to become a franchisor, he will rely on third party information and build specific expectations about the system he is about to enter, based on this information (Dasgupta 1988; Fulmer and Gelfand 2012; McAllister 1995; Rousseau et al. 1998). At first he does not have much knowledge about the way business works inside the chain and the most he can do is acquire and rely on outside information. Once he has entered the chain, the trust relationship begins to take shape. CBT is the first form of trust that can arise at the beginning of a relationship. Therefore,

H1: CBT will be negatively related to time.

At this stage the franchisee trusts the franchisor and vice versa, in a way knowing that they both have common goals, which they cannot reach separately. Trust is viewed as the outcome of a cost-benefit analysis, and is therefore called *calculus-based trust* (CBT) (Cullen et al. 2000; Fulmer and Gelfand 2012; Kramer et al. 1996; Nielsen 2004; Suh and Kwon 2006). In this sense, even if the two parties have no prior knowledge about each other, they will trust that they will not get cheated on, as the benefits of not cheating outweigh the ones of misbehaving.

The *reward* component plays a crucial role. This means, for example, that the franchisee trusts the franchisor to provide him the promised support, assistance and trainings, since the fruits of these actions will be reflected in the unit's performance in terms of revenues and more. From the other point of view, the franchisor will trust the franchisee for complying with the imposed business standards and rules, as the franchisee is willing to create a customer base and to acquire business experience. Control mechanisms will be perceived in this stage more as a form of assistance than as a form of monitoring.

CBT-type trust is very fragile (Lewicki and Bunker 1996). Once a partner has not fulfilled his responsibilities, the other one will question his intentions or efforts. Both the franchisor and the franchisee are very cautious and are prepared for misbehaviour to some extent (Nooteboom 2002). This means that if they find out that the partner is behaving opportunistically, they will not consider it very surprising, and therefore will employ much stronger control mechanisms in the future, or depending on the problem's severity, will terminate the contract. According to the individual partner's trust propensity, the partners' expectations about opportunistic behaviour will be higher or lower.

This is the worst-case scenario, however. It does not make much economical sense to engage in a long-term relationship just to sacrifice it afterwards for short-term benefits. Both the franchisor and the franchisee will rather want to show themselves from their best side in order to create or to maintain a *reputation* at the beginning of the relationship, as reputation for honesty is a desirable characteristic of a business man (Barney and Hansen 1994; Kramer et al. 1996; Lewicki and Bunker 1996). Moreover, it is more likely that partners will chose to engage in further business interactions with business-men with good reputation (Windsperger, Griessmair, and Hussain 2013). Reputation for honesty is important, since nobody wishes to do business with someone who is known to misuse his partners. The franchisor will most likely want to preserve a good reputation, while the franchisee will want to create one.

Usually reputation for honesty is gradually earned (Dasgupta 1988; Williamson 1993) and violating one's trust will damage it (Lewicki and Bunker 1996; Olekalns et al. 2013). Since CBT is fragile, trust violation in this stage can strongly damage one's reputation. In franchising relationships this is particularly important, as it takes place on more levels. The franchisor's reputation is important on one hand with regard to the customers, as they won't like to buy from the company of a dishonest supplier, and on the other one, with regard to the potential and existing franchisees, which won't like to engage in business relationships with someone who is known for exploiting his partners. The franchisee's reputation is important with regard to his customers. If he doesn't provide the expected quality, he risks diminishing his revenues or even running out of business. His reputation is also important with regard to the franchisor, as a franchisee with a stained reputation may not even enter the chain.

H2: The franchisor's reputation should be the most salient attribute of CBT-type trust.

Proving ability and integrity plays a crucial role at the beginning of every professional relationship such as in franchising. However, this phase is characterized by *strong controls*, since a party needs some form of proof that the other one will act consistently (Rousseau et al. 1998). The intensity of these control mechanisms will become weaker over time, under certain conditions (Pizanti and Lerner 2003). Authors (Dasgupta 1988; Williamson 1993) warn that in this consolidation phase of trust it is not advisable to trust one blindly.

Control and monitoring is an inherent element in franchising. Following Birkeland (1995), Pizanti and Lerner (2003) and suggest four areas in which the franchisor exerts control over the franchisee:

- ❖ The brand name: reminds the franchisee that he is strongly dependent on the franchisor and that he has limited leeway for decisions.
- ❖ The royalty fees: remind the franchisee that his autonomy as an interdependent entrepreneur is limited.
- ❖ The contract: from a power perspective, is shaped in an asymmetrical manner. The franchisee must comply with the imposed terms and conditions.
- ❖ Cooperation with other franchisees is limited and operating additional outlets is prohibited. This limits the possibility that franchisees may sell competing products under the name of the franchisor.

In this stage control is of great importance, since the franchisor still needs to verify the actions of the franchisee. Control mechanisms will be designed more aggressively or will be more relaxed according to each franchisor's trust propensity. Given a low trust propensity, he will choose to employ additional control mechanisms to the above mentioned ones (which are inherent to some extent). These can happen on an operational level, for instance, the franchisor may unexpectedly visit the franchisees, ask for regular reports or request audit reports from specialized audit companies (Dant and Nasr 1998).

Reciprocity becomes of great importance in this matter. As the franchisee feels that he is strictly monitored and controlled, he may believe that the franchisor does not trust him.

Hence, he may adopt a similar stance as a response and wish to be able to verify the undertakings of the franchisor as well. For instance, he could ask for formal confirmations and documents for every operation in order to rebalance the power distribution. Therefore,

H3: Relationships in the CBT stage will consider formal means of control more reliable than informal ones.

These all represent some form of protection against potential, opportunistic behaviour of the partner. It is important to note that exerting too much control over the franchisee may be counterproductive, as it can be an incentive for non-compliance (Dant and Nasr 1998). However, if the franchisee has proven himself as trustworthy, these control mechanisms will be relaxed, and slowly replaced by trust. Following the same idea, if the franchisee feels that the franchisor is trustworthy, he won't consider control as mistrust in his abilities to run the business.

In sum, CBT in franchising relationships is the first kind of trust that is formed in the early stages of collaboration and is characterized by mostly formal interaction and by the desire to preserve or to create a good reputation. Franchisors and franchisees will both trust one another to the extent that they are both aware of the fact that long-term benefits are greater than short term benefits. However, control mechanisms play a very important role, since they are used as safeguards against potential cheating or exploitation.

4.4.2. Knowledge-Based Trust

After a period of experiences and exchanges between the franchisor and the franchisee, the form of trust slowly develops from CBT to KBT. As the term "knowledge" refers to the *information* about each other, the parties have gathered by themselves, third party information loses importance (Kramer 1999; Rousseau et al. 1998). Moreover, it is worthwhile noting that KBT can evolve only based on CBT (McAllister 1995). KBT arises with *interaction* and is based on the history of experiences the parties have had in time together (Lewicki and Bunker 1996). Positive interactions will generate a halo of credibility and fairness, thereby increasing the levels of trust between the franchisor and the franchisee, which will be looking forward to cooperate efficiently in the future (Windsperger et al. 2013).

Interaction in franchising happens on more levels. Firstly, it happens through personal trainings, coaching, formal meetings and unit visits (Windsperger 2003). These are the strongest forms of interactions, since they take place face-to-face and permit building closer relationships. Secondly, partners can interact through telephone calls or other electronic means, e.g. videoconferences, emails (Morrison 2000). These forms of communication are not as powerful as the first ones, however, they still allow for personal exchanges, to some extent. Thirdly, interactions happen through very formal report mechanisms (e.g. accounting systems, registration systems, financial reports, sales reports, purchase orders etc.). These types of interactions don't imply any personal component and strictly refer to business processes.

All in all, in the KBT stage, all forms of *communication* are vital, as they help discovering the values, motives and expectations of the partners (Cosner 2010; Panteli and Sockalingam 2005). Communication balances out the information asymmetries between the franchisor and the franchisee and facilitates knowledge sharing, especially tacit knowledge sharing (Daft and Lengel 1986). Hence, the franchisee is able to share his local market knowledge, and the franchisor is able to share his system specific knowledge (Windsperger 2004).

If the interactions are perceived as positive altogether, the franchising partners will commit more resources (including affective) to the relationship (Li 2008; Rousseau et al. 1998), allowing for trust to develop on a deeper level. This, in turn, will lower monitoring mechanisms like surprise visits or requests of financial audits (Dant and Nasr 1998; Diaz-Bernardo 2013). Moreover, franchisors may stop expanding the system in order to consolidate the already existing relationships with the franchisees (Morrison 2000). Morrison (2000) argues that the franchisor may also relax some conditions that were once very strict. These include, amongst others, negotiable royalty rates, more flexible advertising contributions, more flexible business planning, making it easier to leave the system, etc. Therefore,

H4: KBT will be positively related to the frequency of perceived positive interactions of all forms.

One base pillar of KBT is *predictability* (Lewicki and Bunker 1996). Based on previous experiences, partners learn how they will behave under certain conditions. The franchisor trusts the franchisee that he will not free-ride or shirk, based on the fact that he did not do so in the past. The franchisee trusts that the franchisor won't take any decisions that are detrimental to him, since he did not act this way hitherto. Predictability works in two directions (Bstieler 2006). If there have been unpleasant interactions in the past between the franchisor and the franchisee, trust will decrease, and therefore stronger control mechanisms will be reemployed. In this sense, KBT requires some time to take shape, however, not all relationships reach this stage of trust in the same time frame as others. Therefore, the next hypotheses is the following:

H5: KBT will be positively related to time.

It is important to state that in the KBT stage the partners get acquainted with each other and may also share private information about themselves, to some extent (for instance about family, hobbies or personal interests). These types of information are usually shared in face-to-face interactions or in informal meetings.

When partners operate on a KBT level, they develop certain tolerance limits (Nooteboom 2002). This means that breaking one's trust does not happen as easily as in CBT, due to the predictability component. In case of inconsistent behaviour, history represents some sort of guarantee and the negative behaviour is actually attributed to external factors. Such factors may be considered mistakes of suppliers and other third parties, difficult customers, system errors and so on.

In franchising, reaching this stage may suffice in order to conduct business in a pleasant and comfortable business environment. The costs of control are reduced and both parties trust each other that they will behave just as they did hitherto (Diaz-Bernardo 2013; Lewicki and Bunker 1996). Both parties have proven their trustworthiness in terms of ability, integrity and benevolence. This means that they have the necessary expertise to run their part of the business, they behave in a consistent manner and they have good intentions. Moreover, they have positive expectations about future interactions and have the right motivations and incentives to continue the business in a fair manner. Trust may stagnate in the KBT phase if the parties aren't able to meet face-to-face very often due to

great geographical distance. This is especially the case in international franchised units, where travelling expenses can be considerably high and time consuming.

4.4.3. Identification-Based Trust

If the partners have successfully consolidated a good relationship in the KBT phase, due to positive experiences and interaction, trust may evolve to its most complex form, namely to IBT. This means that partners fully identify with the values, principles, desires and goals of each other and have a relationship based on mutual understanding (Lewicki and Bunker 1996).

IBT includes next to all already embedded dimensions of KBT (predictability, information sharing, communication) the *shared identity* component, e.g. a logo or a brand (Lewicki and Bunker 1996) that underlines the joint strengths and that allows for synergy effects. In franchising this is an inherent component. The nature of the business is based on the fact that partners operate under the same identity (Hollensen 2007). Many final customers do not distinguish between company owned units and franchised units, considering them a singular entity.

This aspect is particularly important in IBT. The natural question arises whether a franchisee chooses to become a member of a specific chain because he wants to use the name of the franchisor for profit purposes only, or if he truly identifies with the franchise concept. Hence, in franchising, reaching an IBT stage includes the fact that the franchisee completely identifies with the franchisor. In decision making he will consider what consequences his actions will have on the whole system.

It has been noted above that trust implies a personal component and an organizational component, where it has been argued that the organizational part takes shape from the very beginning of the relationship and stays constant, whereby personal trust develops in time between the individual representatives. IBT refers especially to personal trust. Naturally, in bigger franchise systems this becomes complicated as the franchisor cannot build close relationships with all of their franchisees. In this sense,

H6: The less employees a franchised unit has, the more likely IBT develops.

Since the franchisee usually enters the franchising system with the idea of starting his own business and being an individual and autonomous entrepreneur, he may have the tendency to consider himself a separate entity, apart from the whole system (Dant and Gundlach 1999; Davies et al. 2011). If IBT arises, he will automatically view himself as part of a broader system. This does not influence his desire or need for autonomy, since in the IBT stage the franchisor should have granted him an optimal leeway for decision making in the sectors he can control better. Moreover, the franchisee should recognize the area where he is better off accepting the interventions of the franchisor, as he trusts that all of the latter's actions are not detrimental to his own interests. The franchisee will believe that he is part of the system and recognize that both parties are stronger together as they would have been separately.

In this stage partners could *substitute* each other in decision making, knowing that the outcome would be the same. This becomes of great importance, especially if the franchisor allows for master franchising, where a franchisee is allowed to coordinate a specific territory. This means that he trusts that the master franchisee will perform every delegated task just like the franchisor would have. Master franchisees also enjoy a greater measure of autonomy than regular franchisees. Master franchising requires much trust, since the risks of damaging the system's image increases considerably. Trust must be mutual, especially in the IBT stage.

Since the master franchisee is responsible for a certain territory (and for more franchisors), it is vital for him to know that he can fully rely on the head franchisor to take effective and favourable decisions, so that the master franchisee can, in turn, meet his obligation towards his franchisees. Especially master franchisees should have a closer relationship with the headquarters (Le Sante 2011). In this sense, mutual understanding is crucial especially in difficult situations (like change situations) where the master franchisee relies on the head franchisor to take the same actions as the former would. Master franchisees should have the same interest as the headquarters, as they need to manage other franchisees, and are therefore responsible for the reputation of the brand. It can be said that the master franchisor is rather more similar to the main franchisor as he is to the regular franchisees, since they also need to manage a network of franchisees. They have more than their own shop and are responsible for the welfare of other units. Moreover, franchisors should

engage in more face-to-face interactions with master franchisors, as with normal franchisees, therefore:

H7: Master franchisees should be more likely to develop IBT-type trust than regular franchisees.

Another way of strengthening this type of trust and fully enjoying its benefits is *collocation* (Lewicki and Bunker 1996), however, in franchising this can only refer to physical proximity. As franchising means expanding, i.e. establishing units far away from the franchisor, this issue may raise a series of problems. Physical proximity must be understood in its broad sense and, as stated above, can indicate that IBT may arise slower (if at all) between international partners. The effects of this disadvantage may be reduced through regular team buildings and informal visits; nevertheless, they must be face-to-face interactions. Therefore,

H8: IBT will be positively related to the frequency of face-to-face interactions.

Following the same argument that IBT can develop harder in an international context, another key issue here is the *psychic distance*. Since IBT includes shared values and principles, international franchisors and franchisees may perceive each other as incompatible on a personal level, since they do not share some of these values and principles. Therefore, they will be able to operate only on a KBT level.

IBT eases the creation of *joint products and objectives* under this shared identity (Lewicki and Bunker 1996), since the potential for knowledge-sharing, especially confidential and tacit knowledge, is highest in this stage (Panteli and Sockalingam 2005). In franchising this means that the franchisee's innovative ideas are taken into account. Franchisors may take advice from their local franchisees, recognizing the value of the local market knowledge they possess. In this way they can reach the best combination of standardization-adaptation, targeting a higher number of customers. Together they can develop new products, specific to certain markets, where the franchisor fully trusts the decisions of the franchisee.

It is important to clarify the apparently arising contradiction. On one hand, it has been argued above that IBT can arise in an international context only very hard, yet on the other hand IBT facilitates adaptation in foreign markets by fully trusting the franchisees suggestions for improvement. These two arguments do not contradict themselves; they just point out what importance this type of trust holds. It is not easy to reach this stage, but can prove to be highly rewarding. In this sense,

H9: The greater the geographical distance between the franchisor and the franchisee, the more likely trust stagnates at the KBT level.

IBT is the broadest form of trust (Rousseau et al. 1998), it includes the affective component, since the relationship is also characterized by emotional investments (Adams et al. 2010; McAllister 1995). At this level the partners know each other personally, and given the circumstances, may engage in personal activities as well. They may have become friends. Moreover, they make efforts to understand each other and the feeling of being considered as trustworthy has hedonic effects (Kramer et al. 1996; Nooteboom 2002).

5. Demmers Teehaus

5.1. General Information

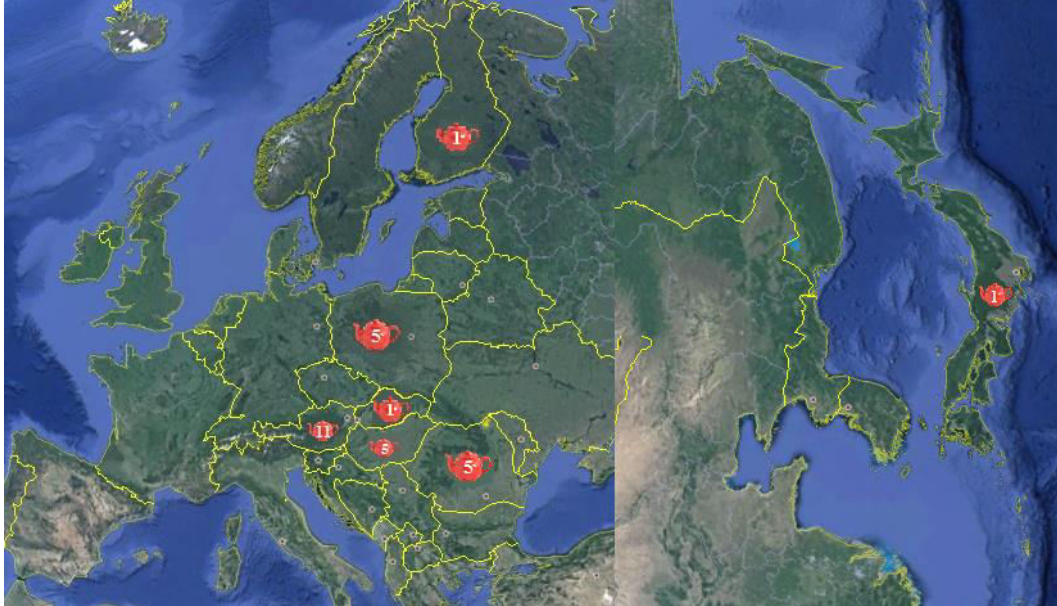


Figure 1: Locations of Demmers Teehaus Franchisees

The company Demmers Teehaus was established in 1981 in the centre of Vienna, by the owner Mr. Andrew Demmer, a very passionate tea-drinker and connoisseur. The company mainly focuses on the trade of high quality loose tea and tea accessories. Over the last 20 years Demmers Teehaus developed into an internationally recognized brand amongst tea lovers and connoisseurs (Demmers Teehaus a, 2011). The Viennese brand is present in seven countries, as depicted in figure 1, whereby the most stores are located in Europe, namely in Austria, Romania, Poland and Hungary. In Finland, Slovakia and Japan there is only one shop in each country, however, the fact that an Austrian tea company exists in Japan – one of the biggest tea producers worldwide – is a notable achievement.

As the company not only distributes tea, but also produces some sorts, the *product range* is very generous and consists out of more than 300 types of tea, many sorts of sweets and all types of tea accessories. The mainly offered categories of tea include black tea, green tea, white tea, oolong tea, Pu Erh tea, fruit and herbal infusions, which are imported from various corners of the world, as India, Nepal, Vietnam, China, Sri Lanka, Indonesia, Japan, and Kenya. Tea accessories refer mainly to tea pots, mugs, kettles and filters. Other offered products include coffee, sugar, honey and syrup. Occasionally, Demmers also organises

workshops on various topics about tea, tea preparation and tea culture, for private tea-passionate clients.

Additionally, Demmers Teehaus is a member of the Austrian Coffee and Tea Association, and of the Austrian Tea Institute (Demmers Teehaus, b, 2011). This indicates vast experience in the specific tea industry, whereas the B2B sector is very developed. Moreover, the company also offers supply and tea-related services, such as counselling and advisory for industrial clients. Such clients are for instance restaurants, hotels and coffee shops.

The products are sold at a *premium price*. In Austria, Demmers charges relatively high prices compared to its direct competitors³. It is worthwhile noting that the competition on the Austrian quality tea market is not that sharp as in other sectors, e.g. the food sector. The following table offers an overview of representative price categories between Demmers and its main competitors. As easily observable, there are rather high differences in the prices charged by the different companies for the most popular black, green and white teas, which are usually used as benchmarks for the price categories in the tea industry.

Tea Category	Haas & Haas Price (100g)	Jäger Tee Price (100g)	Heissenberger Price (100g)	Schönbichler Price (100g)	Demmers Teehaus Price (100g)
Black Tea Assam	5,80 €	7,20 €	5,30 €	4,95 €	4,8 €
Green Tea Bio Sencha	12,00 €	8,80 €	8,90 €	8,50 €	9,20 €
White Tea Pai Mu Tan	8,80 €	6,30 €	11,20 €	7, 40 €	10,90 €

Table 3: Tea Price Comparison

From a *promotional perspective*, Demmers doesn't show a great market presence, their marketing material being rather discrete. However, the brand is very well defined and can be easily recognised by the customer, in every country. Even though the company uses

³ Refers to competitors on the high-quality tea market only, which differ from supermarket tea brands, e.g. Twinings, Lipton, Teekanne, Dallmayr, etc.

many flyers, brochures and other promotional materials, they are available only in stores and are not sent, nor pushed, if unsolicited. Usually they are offered together with a purchase or by request. The website is very user-friendly and inviting, in the specific red and white colours of the brand, whereas the online shop offers all products that are available in stores. All stores have more or less the same design, dimension and equipment.

All in all, the brand is rather *standardized*, keeping the same features equal in all countries where they operate in. The product pallet is also rather standardized and not adapted from country to country. The same idea is also available for the pricing. The products have the same prices in each country, indifferent of the economic condition of each one, or available net income per capita. This way of doing business works well as this specific industry permits. High-quality tea is rather part of the category of semi-luxury goods, such as drinks, tobacco and coffee, than of the category of foods, and is oriented towards tea-connoisseurs, for which quality matters in the first place and the price plays only a secondary role.

5.2. Demmers Teehaus as a Franchisor

The company uses four main *distribution channels*. These consist of company owned outlets, wholesale, the internet shop and franchised units. The first category only refers to two shops that were initially opened in Austria when the business was started. The second one includes catering for offices and private practices. Franchising represents, however, the biggest distribution channel, through which the most part of the products are sold, both in Austria and abroad. Franchising is the default international expanding form of Demmers Teehaus. This channel is oriented towards private customers.

Mr. Demmers stated in an interview that finding the right franchisees is a difficult task (Putschögl, 2009). Some of them are recruited by the headquarters and some of them contact Mr. Demmer directly in order to buy the franchise. The head office in Vienna makes efforts that every franchisee feels “a part of a big family” (Demmers Teehaus, c, retrieved June 10, 2014) and builds for close relationships with the partners, where mutual trust plays a central role (Wilhelm, 2013; Demmer GmbH, 2014). The company sells its franchising concept as a business “with rights and obligations on both sides”, where the

potential franchisee “is prepared to accept compromises to make the partnership work” (Demmer GmbH, retrieved June 10, 2014).

According to the Austrian Gewinn magazine (2013), the Demmers Teehaus franchise has a good cost-benefit ratio, with very good market chances, compared to other franchises. In order to become a franchisee of the company initial investments between 35.000 to 50.000 Euros are required (e.g. for equipping a store, shipments, etc.). Further, the entry fees are up to 7.500 Euros. However, there are no ongoing franchise fees, nor advertising fees. This fee structure is very attractive for potential franchisees, especially because usually the contract duration is not limited, which allows for greater flexibility on both sides. Moreover, the company supports further development and continuous training for all employees and franchisees, as the specific expertise in the tea sector guarantees a good and homogenous quality of the products, which is a very important aspect, especially in international franchising (Demmers Teehaus, c, 2011).

According to the same magazine (Wilhelm 2013), Demmers uses mostly standard franchising contracts, however, sometimes they are negotiable in key aspects, as well. In addition, the franchisees benefit from manuals with system specific know-how, marketing tools (i.e. free tea tastings, written advertising material, loyalty cards, etc.), continuous counselling, assistance in financial matters and planning, initial and ongoing trainings for employees and franchisees, and pilot testings. As a drawback, however, the franchisor does not offer a controlling or a benchmark system that should allow for comparison between the units, as Christian Wachschütz (2013) pointed out for Gewinn magazine.

6. Hypotheses and Methodology

The research question of this thesis is “how does trust develop and evolve over time in franchising relationships?”. In order to be able to fully explore this question, a combined method consisting of a structured interview and a questionnaire will be employed (attached in the appendix). Since the issue of trust is a very complex one, only structured questionnaires do not suffice. Individual franchisees of the tee retail products company Demmers Teehaus from Austria, Romania and Poland will be analyzed.

The central idea of the present thesis is to analyse how trust develops and evolves within the same chain, i.e. the relationship of different franchisees ($f_1, f_2 \dots f_n$) with the same franchisor (F). Most bodies of literature (Altinay et al. 2013; Croonen 2010; Wright and Grace 2011) analyze franchising relationships in different chains. This means that there are more reference persons (i.e. different trustees); therefore, the results are rather confusing. There are only few papers (Davies et al. 2011) that deal with trust in the very same franchising system, which inspired the model used in this thesis.

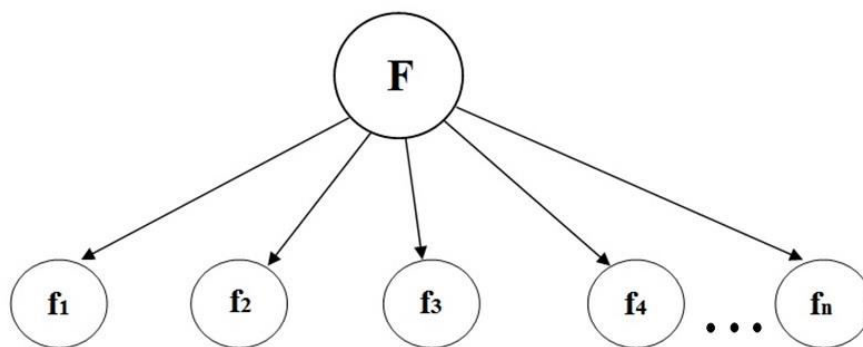


Figure 2: Different Franchisees in Relationship with the same Franchisor

For a better overview the explored hypotheses and a clearer understanding of the structure of the model, they are listed once again below:

H1: CBT will be negatively related to time.

H2: The franchisor's reputation should be the most salient attribute of CBT-type trust.

H3: Relationships in the CBT stage will consider formal means of control more reliable than informal ones.

H4: KBT will be positively related to the frequency of perceived positive interactions of all forms.

H5: KBT will be positively related to time.

H6: The fewer employees a franchised unit has, the more likely IBT develops.

H7: Master franchisees should be more likely to develop IBT-type trust than regular franchisees.

H8: IBT will be positively related to the frequency of face-to-face interactions.

H9: The greater the geographical distance between the franchisor and the franchisee, the more likely trust stagnates at the KBT level.

There are three hypotheses for each type of trust. H1, H2 and H3 control for CBT; H4, H5 and H9 deal with KBT and H6, H7 and H8 measure IBT. These hypotheses represent the skeleton of the model depicted in figure 2. The model attempts to predict a manner in which trusts develops in franchising relationships in time, from the perspective of the franchisee. It shows that in the initial phases of the relationship, the franchisee will trust the franchisor in terms of CBT, where the outside observed reputation for honesty will guarantee the fact that business will run smoothly. He will not engage in business with an individual having a stained reputation. Moreover, he will also trust the franchisor to fulfil his obligations, because he has additional safeguards against exploitation, in terms of formal arrangements. With time, after some exchanges and interactions took place, the franchisee builds his own opinions about the franchisor. This is when KBT begins to take shape (J1).

Based on recurrent manners of behaviour, he has whether reached the conclusion that the franchisor is a reliable partner, or not. If his expectations about the collaboration are not met, he will choose to rely more on contracts and other formal agreements, and trust will drop back to the CBT level. However, if the franchisor has many positive experiences with the franchisor, he will invest more trust in him and would want to get to know him on a personal level as well.

If the franchised system is smaller, and a franchised unit does not require many employees, the partners will be able to develop more complex relationships and even become friends. If KBT was effectively consolidated, this should be the point where IBT starts to develop (J2). In this sense, it is easier to consolidate the relationship if they are in close physical proximity, as they are able to meet face-to-face more often and, hence, to engage in more informal interactions. When they have become friends and they have created a relationship based on mutual respect and understanding, the formal control forms lose importance, since the partners share common goals and operate on an IBT level.

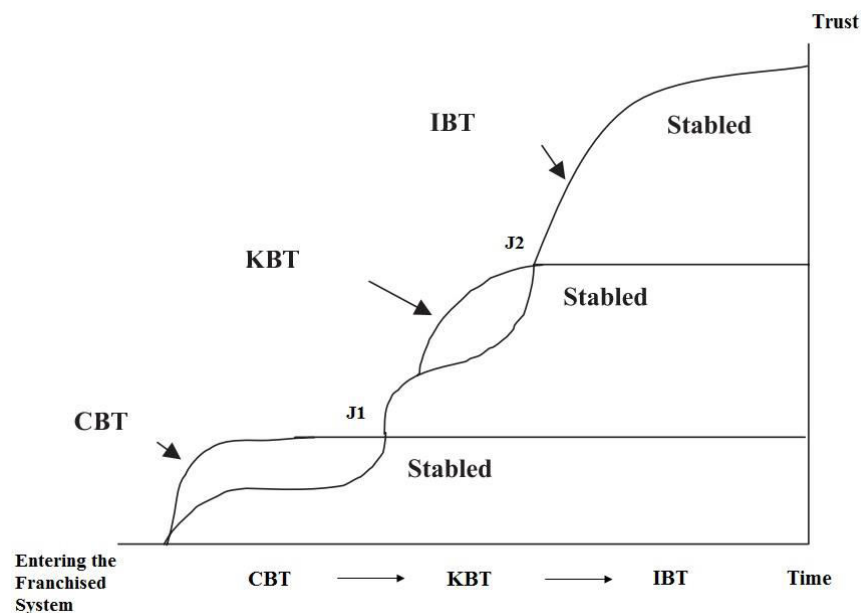


Figure 3: The Evolution of Trust (adapted from Lewicki and Bunker, 1996; Panteli and Sockalingam, 2005, p.602)

7. Case Studies

The present thesis analyses 3 case studies, from 3 different countries. Inquiries were sent directly to the franchisees, i.e. the company owners. All franchised units listed on the official Demmers Teehaus website were contacted, although only one franchisee from Austria, one from Romania and one from Poland accepted to participate to this study. The interviews were conducted directly, face-to-face in each teahouse and over the internet (in case of ambiguous answers). Each interview lasted around one hour. The used questionnaire is a structured one, consisting mainly of 5 point Likert scales and closed end questions. There are three versions of the questionnaire – in English, German and in Romanian, according to the nationality of each franchisee. The results of the interviews and the questionnaires for each case are presented in the following sections.

7.1. Case Study 1 – Austria

The first case study analyses the only franchisee of Demmers Teehaus in Austria that accepted to participate to this study. The shop owner, an elder lady, was asked to fill out the questionnaire, and right after that, an interview was conducted at her store. Both the questionnaire and the interview were conducted in German, for accuracy purposes, as she is not very familiar with English. The interview lasted around one hour and provided very insightful information about how this franchisee runs her business, and about her professional relationship with her franchisor.

General Information

This franchisee owns a small shop in the center of Vienna. She sells sweets and tee, whereby as a Demmers franchisee she only sells Demmers tea. However, she is also allowed to sell other types of products like sweets and candy from chain-external providers. Her shop had a turnover of 100.000 € in 2013 and she is the only employee. The business was founded long before the owner became a Demmers Teehaus franchisee, namely in 1998 when her candy shop was opened. Although she collaborates with Mr. Andrew Demmer personally for 10 years, she became a franchisee of the Demmers chain only in year 2011.

When asked about the reason why she decided to become a franchisee of Demmers Teehaus, the interviewee answered that besides the fact that she is a passionate tea drinker, her main reason was of more practical nature. She had to decide how to continue the distribution of Demmers tea, whereby she had to choose between two possibilities: wholesale or franchising, thus she chose the second form. The franchisee said that she identifies better with this way of doing business, and that this distribution form offers more professional benefits from her perspective (i.e. periodical trainings, assistance and support). However, she said, this decision was rather of practical and legal nature, than out of the personal desire of becoming an official member of the franchised chain.

The shop owner mentioned that although she eventually became a franchise partner of Demmers, she views herself as an independent businesswoman, and said in a very categorical manner “[...] this is my business and my shop, I founded it and it just happened that I have joint objectives with Demmers”. Hence, she does not actually consider her shop part of a “bigger family”. Moreover, she pointed out the fact that she designed the store by herself, and only follows certain pieces of the provided suggestions and advertising materials. However, from an outside perspective, her store looks as most Demmer stores do, whereby customers wouldn’t recognize the fact that these similarities are mainly due to coincidence.

Further, the franchisee was asked to describe in a deeper manner her franchisor-franchisee relationship with Mr. Andrew Demmer. She is very satisfied about how business fares and mentioned that their professional relationship is based on mutual trust and respect. Moreover, she is very glad that the franchisor respects her need for independence and doesn’t insist in implementing certain decisions that would contradict her own objectives or jeopardize her independence. Also, the interviewee noted that she can directly contact Mr. Demmer anytime with regard to business-related matters. However, she only chooses to do so in imperative situations, whereby she discusses smaller concerns directly with the corresponding representatives from the headquarters. They have a “ [...] productive and flexible business symbiosis [...]”.

Findings

H1: *CBT will be negatively related to time.*

H1 could *not be supported* in this particular case. Theoretically, the interviewee became a franchisee in 2011, which makes her the youngest franchisee among the analyzed cases. Following this perspective, the hypothesis is not supported, as her relationship with the franchisor does not show many CBT characteristics. This result is, however, myopic, as the lady actually collaborates with Mr. Demmer for more than 10 years now. Therefore, it is very likely that she passed the stage of CBT by now. In order to clarify this issue, she was asked to provide more details concerning this matter. According the answers provided by the franchisee, at the beginning of their professional relationship she did behave according to some of the characteristics of CBT, however, she claims that “a certain amount of trust is still needed when engaging in any kind of business”.

First of all, the reputation for honesty was one of the most important factors she considered when she first engaged in business with Mr. Demmer. However, she did not rely on outside information at all, but only on information provided directly by the headquarters. She did not actively search for information in other sources to verify whether what she’s been told was true or not. The interviewee concluded that Mr. Demmer has a clean reputation, as she had no proof of thinking otherwise. Nevertheless, she did not actively look for information that may prove her wrong. This behavior is not very compatible with CBT, as in this stage, one starts by verifying and doubting the potential partner.

The only safeguard the franchisee considered was the fact that Mr. Demmer had no reason to take advantage of her, as his reputation and profits would suffer if doing so. When signing the contract, according to her sayings, she paid attention to the terms and conditions, but did not analyze every facet in depth, as she followed the premise that they both have the same objectives. However, she thinks that her partner would use ambiguous information in his own advantage. Hence, she chooses to share information with her franchisor only to a limited extent.

Further, at the beginning of their business relationship the small shop owner did not consider it necessary to check whether her partner meets or not his obligations, or to

actively track his activities. The same thing also holds in the case of change situations, where, from a theoretical perspective, an individual operating on a CBT level would like to have this possibility. In this sense, she trusted that Mr. Demmer would act in a fair manner.

H2: *The franchisor's reputation should be the most salient attribute of CBT-type trust.*

H2 is *supported* in this particular case. As one of the elements of CBT, reputation was the only element of CBT important to the franchisee when choosing to engage in business with her partner. According to this franchisee's answers, reputation was the most important aspect about Mr. Demmer at the beginning of their collaboration. Additionally she stated "I wouldn't have engaged in any kind of business if I had heard negative things about Mr. Demmer", from where it can be deduced that she did not actually verify whether the franchisor had had problems with other partners in the past, or not. However, individuals tend to be more receptive to good information, than to bad information, or to prefer no information at all, with regard to a particular matter (Fantino and Silberberg 2010).

The franchisee further mentioned that she would guarantee the reputation for honesty of her franchisor and that she considers this element especially important in international franchising where franchisees can't afford to engage in business with someone known to take advantage of their partners, and where they don't have the means to verify the intentions of their franchisor. In this sense, it can be said that the franchisor earned his reputation with respect to this franchisee, as he never engaged in opportunistic types of behavior, in the period of their collaboration.

H3: Relationships in the CBT stage will consider formal means of control more reliable than informal ones.

H3 is *not supported*. In this particular case there was no need for strong forms of control, except the ones imposed by the law and by business practice. To most important one is the franchising contract that is required to run business legally and that allows functioning as a commercial entity. However, the contract between this franchisee and Demmers lies rather on a symbolic level. This corroborates other findings in this field (Doherty and Alexander 2006). The interviewee emphasized the

fact that the franchising contract didn't bring too much change in her business after she became a franchisee. The only additional "contractual constraint" would be the fact that she is only allowed to sell Demmers tea. However, she doesn't have only Demmers products in her store, and although Demmers also sells candy and sweets, the franchisee is allowed to have other suppliers for these product categories.

One further argument why this hypothesis is rejected is the fact that young franchising relationships should be characterized by mutual control mechanisms or at least by the desire to engage in such. This was obviously not the case, for both sides. The franchisee said that she has no desire to have the possibility to verify whether the franchisor meets his contractual obligations, or to question the headquarters' decisions. Moreover, they both "have common goals and are on the same side" and are both on the same power level (i.e. she does not consider that the power balance is shifted towards the franchisor).

The headquarters also didn't impose strong control mechanisms on this franchisee. Because their franchisor-franchisee relationship is characterized by trust, the interviewee is not required to report regularly, or to justify her actions. However, she expects unannounced visits 2-3 times a year. The franchisee does not feel uncomfortable with this fact, and does not consider them forms of monitoring, but rather necessary visits in order to solve particular, urgent business matters. As she is the only one working at the shop, an appointment shouldn't be necessary, since she can be found there with certainty during the working hours. Compared to other franchises, Demmers Teehaus offers over all very flexible business conditions from a control and monitoring perspective.

H4: KBT will be positively related to the frequency of perceived positive interactions of all forms.

H4 is *partly supported*. The hypothesis is only partly supported, since the franchisee mentioned that the interactions with the headquarters are indeed positive, however, personal interactions are not very frequent. She is not very interested in sharing other than business related information and keeps a rather neutral stance with regard to face-to-face meetings. She attends them only because she is required to do so, and not because she feels

that she has more in common with the franchisor than business. Although the lady collaborates with Mr. Demmer for 10 years they don't exchange information about hobbies, family or private interests at all. Moreover, she prefers not to meet personally too often.

All in all, the professional relationship is very satisfying and, according to the franchisee's answers, all interactions on this level were very positive, whereas her expectations about the franchising business have been clearly met. Based on the history of experiences she had with Demmers, she trusts that things will run smoothly in the future as well, and would gladly recommend him as a very reliable and fair business partner. In this sense, it can be said that the partners operate on a KBT level, as future expectations are formulated based on how exchanges took place hitherto.

A crucial aspect of KBT is communication (Cosner 2010; Panteli and Sockalingam 2005). However, the franchising relationship between this franchisee and Mr. Demmer is not really characterized by this element, as communication is eased and enhanced by face-to-face interactions. The only face-to-face meetings that take place between them are the training days, 1-2 times a year, and the official franchise meeting, 1 time a year. The franchisee mentioned that the most frequent way of communication she employs is through formal emails that contain strictly business-related information. Other means of more personal communication, such as telephone calls or videoconferences, are used seldom, if at all.

H5: KBT will be positively related to time.

H5 is *not supported*. The only reason why the hypothesis could not be supported from a scientific standpoint is the fact that the interviewee is officially a very young franchisee. However, she had a 10 years history of experience with Mr. Demmer before she became an official franchisee, which allowed her to reach the KBT stage. If the reference date for this hypothesis is 2011 then H5 is infirmed, as the elaborated model and hypothesis in this thesis strictly refer to official franchising partners. However, this result is rather distorted, because the 10 years of collaboration they gathered cannot be neglected, even if they weren't covered by a franchising contract.

KBT is based on information, whereas this information is usually gathered in time. In order to speed up the formation of KBT, partners would be required to engage in many activities together, especially in face-to-face activities. In this sense, not the time, but rather the accumulation of experiences and the quality of interactions are the catalysts of KBT formation. Given the way the franchisee interacts with the headquarters, it would be rather unlikely that KBT could build up in only 3 years.

However, all results indicate that the relationship between the franchisee and Mr. Demmer takes place on a KBT level, given the long time they actually worked together. These results are emphasized by the fact that the franchising contract that was signed in 2011 didn't change much in the way the partners conduct their business. The choice of becoming a franchisee was a merely symbolic act, and, from the perspective of the franchisee, could have happened sooner or later.

If it would be allowed to make abstraction of this timing issue, then the proposed hypothesis could be supported. The business of the interviewee would not have changed even if she would have signed the franchising contract earlier. The partners already know what to expect from one another, and if one of them would not behave consistently once, this behavior would be attributed to external factors. Their professional relationship is characterized by a slow accumulation of positive information that leads to satisfying results – exactly the way KBT explains.

H6: The fewer employees a franchised unit has, the more likely IBT develops.

H6 is *not supported*. This particular franchised unit consists out of only one person, namely the interviewee. This particular franchisor-franchisee relationship shows some latent IBT features, but not very important ones. Theory states it is easier to develop IBT if the unit does not have many employees, as information flows better. However, in order for this to happen the partners must have the desire to do so. If only little and strictly formal information is shared, IBT cannot develop, even if the franchised unit has few employees.

The franchisee answered that she has the same values, principles and the same goals as the franchisor, and moreover, that she identifies with him, to a great extent. These statements suggest that IBT could be developed if the partners would allow. This professional

relationship lies, however, on a KBT level. This points out to a limitation of the theoretical model, namely the fact that it builds on the premise that operating on an IBT level in franchising is something desired and striven for. Clearly, this franchisee does not have the desire to operate on an IBT level. Possible explanations may be found by further analyzing the personal characteristics and preferences of the trustor. However, this analysis would go beyond the purpose of the present thesis.

Regarding the shared identity component (Lewicki and Bunker 1996), most conditions that would allow for IBT are checked. The franchisee identifies with the franchisor and acknowledges that the brand is very important for the success of their business. Moreover, she mentioned that the headquarters considers her suggestion for improvement and that she is implicated in the development of new products. These facts point out that they could operate on IBT, however, the lady is not interested in developing the relationship on a personal level (e.g. to discuss other than professional matters, or to attend informal meetings). Moreover, even if they have common goals, she further stated that the decisions of each partner take into account the interests of the other one only to some extent. She motivated this answer by pointing out that in the end it is her own business, and that she does not see herself as a part of the “Demmers Teehaus family”. This is proof that this franchising relationship did not reach IBT.

All in all, there would be great potential for this franchising relationship to further develop the IBT stage. However, it seems that the franchisee in Case 1 has no desire to do so, as she feels comfortable with the trust level that they operate on now. Their relationship, however, shows some incipient IBT features that could be cultivated. This stagnation is, however, controlled on purpose.

H7: Master franchisees should be more likely to develop IBT-type trust than regular franchisees.

H7 cannot be tested in this form, as the interviewee in this case is not a master franchisee. However, if formulated differently – *Regular franchisees are less likely to develop IBT than master franchisees* – then H7 could be supported. This hypothesis will be further discussed in the next chapter, after all case studies were analysed separately, as it requires comparison with the case of a master franchisee (the following case). A master franchisee

is responsible for the welfare of a greater geographical area and should consider himself part of the Demmers system, representing the interests of the headquarters. Moreover, he should engage in more face-to-face interactions than regular franchisees, as the nature of the problems is of greater complexity. The franchisee is not interested in becoming a master franchisee. Further, she would not be interested in expanding her business at all, as she enjoys running the shop by herself.

H8: IBT will be positively related to the frequency of face-to-face interactions.

H8 is *supported* in Case 1 if reformulated into: *The fewer the face-to-face interactions, the less likely IBT develops.* As discussed previously in the section of H5, the franchisee does not engage in face-to-face interactions unless absolutely necessary. These are 1-2 training days a year, 1 official meeting and 1 chain meeting a year. Moreover, there are 2-3 unannounced visits pro year the franchisee is not really excited about. This is very little for a relationship that could operate on an IBT level. Hence, this hypothesis is supported. The relationship of this franchisee with Mr. Demmer could evolve to the IBT stage. The impediments are the facts that they aren't friends. They don't meet face-to-face unless absolutely necessary and they do not exchange informal information. However, it is a relationship based on mutual respect and understanding. The franchisee stated that she trusts Mr. Demmer and that she cannot imagine their collaboration otherwise.

An IBT relationship is also characterized by emotional investments (Adams et al. 2010; McAllister 1995), however, the discussed case does not seem to include an affective component. Communication, as another key aspect of high level trust, is also rather weak between the two parties. They communicate almost exclusively through email, which is a very impersonal and distant form of communication – as discussed in chapter 4.4.3.

H9: The greater the geographical distance between the franchisor and the franchisee, the more likely trust stagnates at the KBT level.

H9 is in close relation to H8 and is *not supported*. As discussed above, the case of this franchisee is clearly a case of KBT. The shop is located in Vienna, the same location where the headquarters lies. Hence, the geographic distance is zero. In this sense, the hypothesis is infirmed, as a relationship between partners that are in close geographic proximity

should operate on an IBT level, which, as it has been argued above, it does not. A close geographic proximity should ease face-to-face interactions and informal meetings, however, the franchisee is not interested in such.

Moreover, H9 is infirmed, as it also refers to the psychic distance that should exist between partners that don't enjoy physical proximity. The franchisee is an Austrian citizen, as is Mr. Demmer. There shouldn't be any additional barriers. They speak the same language, operate in the same business environment, use the same currency and are characterized by the same culture. All these similarities should allow for deeper levels of trust. H8 actually goes hand-in-hand with H9 as they both refer to face-to-face interactions that take place between the partners. The theoretical framework, however, does not take into account the personal characteristics of the trustor. The franchisee shows a limited trust propensity and is most likely an introverted person. She would rather handle things on her own than in collaboration with other partners.

7.2. Case Study 2 – Romania

The second case study is the first international one. Demmers Teehaus has a large network of franchisees in Romania, hence, analysing the way trust develops between an Austrian and a Romanian partner would be of great relevance for the present thesis. For this purpose the first Romanian Demmers franchisee, was invited to participate to an interview and to fill out the same questionnaire, the first one was asked to. Both the interview and the questionnaire were realized in Romanian, however, this does not distort the results. As the Demmers business in Romania is very transparent, additional information for this case study was further extracted from the official website and from other interviews with the Romanian franchisee in specialized magazines.

General Information

This businessman is the only master franchisee in Romania and is responsible for the whole network of Demmers Teehaus franchisees in the country. The headquarters in Romania controls 5 units in more cities. There are 2 units in Cluj (located in the center of the country), 2 units in Constanta (a city on the Black Sea shore), 1 unit in Bucharest (the capital of the country) and 1 unit in Slatina (a small southern city). The businessman didn't

start as a master franchisee, but as a regular wholesaler, whereas tea was not even the main sold product. The whole business started in Cluj, and then rapidly expanded in the other cities as well.

At first the interviewee was asked about the factors that influenced his decision in becoming a Demmers franchisee, and he stated that it was “pure coincidence” and that he “[...] just wanted to sell better tee than the ones available in the natural remedies and herbal drugstores”. Accordingly, it may be concluded that before starting the business he did not analyze and compare other franchisors in the tea industry carefully, but just picked the one that had the best reputation at that time. According to his sayings, at first he did “not know anything about Demmers”, except the fact that he distributes high quality tea, and that there were no bad rumors about the company.

Perhaps the most important aspect of the relationship between this franchisee and Mr. Demmer is the fact that they had a very good collaboration from the very beginning. It was based on deep levels of trust and understanding, whereby they worked together only on the basis of a “gentleman agreement”. There were absolutely no contractual safeguards, nor doubts that, even if the interviewee had a weaker power position at that moment, he might have been exploited. The franchisee was asked to characterize his relationship with Mr. Demmer, and gladly answered that he views him “as a grandfather” and feels that he is “part of the family”. No need to add that he considers the relationship a very satisfying one, not only on a professional level. This franchisee said that they became fiends after a short period of collaboration.

The franchisee signed the master franchising contract in 2006. However, they collaborated 10 years before in other forms. Initially he did not necessarily wish to open a franchised unit, but it just happened that this was to most suitable form of doing this type of business. Mr. Demmer gladly entrusted his concept to him on the Romanian territory. Moreover, the franchisee views himself as “an integrated part of an international system”, however, from a legal perspective the headquarters in Cluj is “a separate entity”. He added that he contacts Mr. Demmer directly with regard to business concerns, and only contacts his representatives when he is not available.

The Romanian headquarters has 23 employees, with a turnover of 800.000 euro in 2013. It is still a rather small business. The franchisee pointed out the fact that they offer niche products, and that the targeted customers are very few. Even if the public is not very receptive to high quality tea, the business grew with 5-10% every year. The Romanian customers are used to view tea rather as an herbal remedy against certain afflictions than as a semi-luxury product. However, he is optimistic regarding the future growth potential.

Findings

H1: CBT will be negatively related to time.

H1 is *supported*. This hypothesis states that the longer the partners collaborate together, as time goes by, the fewer CBT characteristics their relationship will have. Considering the fact that this franchisee signed the franchising contract 8 years ago, and that their relationship does not show any CBT features, the hypothesis is supported. Again, this result is somewhat myopic, as it implies that at the beginning, their relationship was indeed based on CBT. From the rich and insightful discussion with the present franchisee it turns out that they never operated on a CBT level, not even at the very beginning. Their business was on a “handshake”, just the contrary of what theory proposes (Williamson 1993). No “contractual safeguards” were used, nor was it assumed that Mr. Demmer might behave opportunistically (e.g. delay shipments or not send them at all, manipulate prices, extract unfair concessions or profit from asymmetrical information, etc.).

At the beginning of their franchising relationship, the interviewee notes that the reputation of his partner was more or less the only thing he considered before engaging in further business with him. He had no reason to doubt him, nor has he heard any negative information about possible exploitation cases. The franchisee only relied on information provided by the franchisor, and was not interested in outside information, or by data provided by other franchisees from the same chain. He further pointed out that he only paid close attention to the negotiation of the contract. Nevertheless, there were no misunderstandings or competing objectives. This case is similar to the previous franchisee’s case, as this businessman also did not actively check whether or not the franchisor was implicated in any problematic partnerships. He was very enthusiastic about the way business was going and had optimistic expectations about the future.

Other CBT components were absent in this particular case. According to the interviewee, the partners both had the same goals and interests right from the beginning. He points out the fact that if one of them would have behaved opportunistically and exploit the partner, probably their collaboration wouldn't have continued this way, if at all. In this sense both would have lost money and valuable long term growth potential. Moreover "Mr.Demmer is not the kind of man that thinks only about his own wellbeing".

H2: The franchisor's reputation should be the most salient attribute of CBT-type trust.

H2 could be *supported* in this particular case. Continuing the same arguments as above, it can be stressed out again, that the only thing that mattered at the beginning for this franchisee was the reputation for honesty of Mr. Demmer. As the importance of reputation is a CBT characteristic, H2 is supported. Just as in the previous analyzed case, it is unclear whether Mr. Demmer's reputation was earned, or just assumed to be clean. The personal characteristics of the trustor, namely of the franchisee, are of great influence in the perception of the reputation. He follows the premise that people are fundamentally good, and as soon as there were no obvious scandals about the franchised chain, he didn't consider a deeper analysis of this matter.

This franchisee shows a great trust propensity. He specifies in every interview (Capital, 2014; Franchising.info.ro, 2013) that the main ingredient for a successful collaboration in business is mutual trust. This, in turn, helps building up a good reputation in the specific industry, and represents a valuable asset for potential partners. Altogether, he states, that having a good reputation eases cooperation with third parties very much.

H3: Relationships in the CBT stage will consider formal means of control more reliable than informal ones.

H3 could neither be supported, nor rejected in this particular case, as it has been determined that the analyzed relationship did never really show CBT characteristics, except of the importance of reputation. However, if transformed in *relationships in the initial stages of their business will consider formal means of control more*

reliable than informal ones, then H3 is *rejected*. As the franchisee first engaged in business with Mr. Demmer based only by “a gentleman’s agreement”, it becomes obvious that formal means of control were completely absent.

Moreover, according to the interviewee’s answers, he does not have the desire to monitor or verify the activities of his partner. He never had. In this sense, he never thought about having the possibility to monitor change in situations or to track his activities. The franchisee considers them “misspent energy”. When further asked if he thinks that the franchisor does not take advantage of him as if else, his profits or reputation would get to suffer, he answered positively, but only to a smaller extent. However, not taking advantage of one’s partner automatically leads to a good reputation. Even if one does not directly think about his reputation or profits, being an honest businessman implies preserving them, by default.

Although, the master franchisee is subordinated to the main headquarters (Alon 2000), the present franchisee feels that there are operating on the same level, and that the power balance is equilibrated in an healthy manner. He further noted that once in a while conflicts do arise, but they are always negotiated fairly. Moreover, he was never obliged to accept certain compromises.

H4: KBT will be positively related to the frequency of perceived positive interactions of all forms.

H4 is *supported*. It must be reminded that the theoretical model implies that the last stage of trust, namely IBT, includes all components of KBT (Lewicki and Bunker 1996). In this sense, this hypothesis is supported. Clearly, the relationship between the franchisee and Mr. Demmer reached the KBT stage, as it verifies all components that characterize this type of trust.

According to the interviewee the information exchange between the partners is very healthy and pleasant. Both share many pieces of information with each other. Moreover, they also engage in many other types of interactions. Before the franchisee signed the master franchising contract, he was trained for 45 days. After he became an official member of Demmers Teehaus he was trained for another 2 weeks. Additionally, he attends

2-3 official meetings a year and 1 time a year the official chain meeting. Informal meetings also happen every once in a while, whereby Mr. Demmer visits the headquarters in Romania 1-2 times a year. Formal emails, however, remain the most important means of communication, whereby the telephone is not used that frequently. Videoconferences, informal emails and phone calls happen rather rarely.

As Mr. Demmer is “like a grandfather” to the analyzed franchisee, the interactions they engage in are very positive. He enjoys the conversations and the meetings with the franchisor very much. Their relationship is a very satisfying one, not only on a personal level, but on a professional level as well. The expectations of the franchisee regarding the franchised business were met to a great extent, whereby he is very optimistic about future collaboration. Moreover, he stated that he was not disappointed in Mr. Demmer hitherto, although misunderstandings do arise once in a while. These matters are, nevertheless, discussed and solved together. Communication does not seem to be a problem, even if the two partners are located in different countries.

H5: KBT will be positively related to time.

H5 is *supported*. As KBT refers to experiences gathered in time, this hypothesis is supported. The franchisee has a great record of experiences with his franchisor, that consists of many different interactions. As he became a master franchisee in 2006, the passing of 8 years permitted him to create a specific image about Mr. Demmer as a franchisor. As the franchisor acts in a predictable, positive manner the interviewee is convinced that the future looks optimistic. It is important to notice, however, that the required time for KBT to take shape cannot be specified, as the history of experiences can be accumulated sooner or later. Intuitively, the experiences that defined the relationship between this franchisee and Mr. Demmer were gathered in the early years of their collaboration. However, in time, KBT was consolidated deeper and deeper.

If something undesired would happen, it would be attributed to external factors for sure, as things are expected to happen the way they did hitherto. Hence, the relationship is pretty solid and is not expected to breach very easily. The franchisee does not doubt his partner. This is of great importance, especially in international franchising, where it is assumed that extra barriers, including cultural and language barriers exist, which can further be sources

of conflict. However, the psychic distance between Austria and Romania is not very large. Overcoming the potential issues and getting used to these differences is possible only in time and only if both partners are willing to work in this direction, which in the present case they did.

H6: The fewer employees a franchised unit has, the more likely IBT develops.

H6 is *infirm*. The headquarters in Cluj has 23 employees, rather many compared to other units and to the previous case. Case 2 is definitely a case of IBT. All statements in the questionnaire, except two, that were measuring IBT on a Likert scale from 1(=strongly disagree) to 5 (= strongly agree) were evaluated with a 5, and the other two with a 4. Moreover, the franchisee's answers from the interview confirm this fact. All characteristic of IBT except the *collocation* element are present. However, this element is rather a catalyst of interactions between the parties. A very important insight here is the fact that the company in Romania grew gradually. It is very likely that IBT was formed before Demmers Romania had 23 employees. Initially this franchisee started business only together with another partner, but it cannot be verified when exactly IBT first started to take shape. All in all, the current situation of this franchisee is the one of IBT. It would also be worthwhile noting, that the interviewee's personality (as discussed above, he has a high trust propensity) also eased the formation of this deep level of trust.

The Romanian franchisee further stated that he identifies with his franchisor and that they have the same goals and moral values and principles. Moreover, they became friends over the time of their professional collaboration and also discussed private interests. Additionally it may be suggested that the sole fact of being partners in the tea industry represents to some extent identification, as all franchisees have in common the passion for tea and tea culture. One cannot (or it would be very tiring and hard to) start a successful business with tea, if this is not a personal hobby as well. Therefore, this common interest should ease a measure of closeness between the parties.

IBT is also characterized by the affective component (Adams et al. 2010; McAllister 1995). As Mr. Demmer represents the figure of a grandfather to this franchisee, the affective component is very present. The affective component could also be observed

during the interview as the master franchisor talked in a very enthusiastic manner about his business and about Mr. Demmer.

This deep level of trust is observable on the professional front as well. The franchisor takes into account the interviewee's suggestions for improvement and vice-versa. Moreover, the franchisee is also implicated in the development of new products. However, there are no Romanian products on the menu (the Romanian customers are rather drawn to herbal tea than to actual tea, hence, it would have been a good strategy to offer some special mixes). The product pallet is rather standardized, whereby all available teas are offered in every country. The Romanian franchisor admits the fact that the brand is very important for the success of the business and would rather be pro standardization than adaptation. Offering country-specific products would deter the company's image, as the shop is marketed as a "Viennese teahouse".

H7: Master franchisees should be more likely to develop IBT-type trust than regular franchisees.

H7 is *supported*. This is the case of a master franchisor that enjoys a relationship based on IBT with his main franchisor. This hypothesis is supported as the relationship shows all IBT characteristics. There are many face-to-face interactions between the partners and the relationship is based high levels of communication. It would be relevant to discuss if IBT was already formed when the businessman became a master franchisee and if this good professional and personal relationship was one of the determinants that encouraged Mr. Demmer to fully entrust his concept and brand in the hands of the Romanian franchisee. This might be important, as the franchisor is also facing some risks when he permits a franchisee to sub-sell his concept further.

Alon (2000) notes that if the franchisor chooses a wrong master the brand could be damaged, the market not covered efficiently or, expensive lawsuits could arise due to disputes. As trust on IBT levels guarantees that these risks are covered, it would make sense to offer a master franchising contract to a partner with whom such levels of trust already have been consolidated.

The franchisee mentioned several times that he has the same goals and objectives as his franchisor. He would find it inefficient not to keep the quality standards or to sell other products, as this would be bad for business. Moreover, as the target customers for quality tea in Romania are very few, they are also mostly connoisseurs. Accordingly, they should be very sensitive to changes in quality and should notice immediately if something else would change. In turn, it would affect the chain image and the master franchisor's image. This is precisely what he does not wish to happen, especially as he is responsible for all 5 units in Romania.

As a master franchisee responsible for a rather vast geographic territory and having the right to sell sub-franchises, the franchisee does not hesitate to contact Mr. Demmer personally with regard to any kind of concern. Therefore, as a master franchisor, he engages in many interactions of all kind with Mr. Demmer. However, as the interviewee stated, he thinks that in his place Mr. Demmer would take mostly the same decisions. This fact underlines once more the idea that this relationship operates on a solid IBT base.

H8: IBT will be positively related to the frequency of face-to-face interactions.

H8 is definitely *supported* in this case. As the discussion about H6 concluded, this franchisee engages in more face-to-face interactions than the previous one. Moreover, these are on a personal level as well, and are very enjoyed on both parts. The master franchisee noted that every time Mr. Demmer visits the headquarters in Romania, they also organize other programs together, besides for business, just for fun. Hence, Mr. Demmer spends more time with the franchisee and his team than he would normally spend if he would strictly attend business matters and then directly return to Vienna. As the theoretical model suggests in the previous chapters, personal interactions ease the discovery of other personal interests and the possibility of becoming friends.

H9: The greater the geographical distance between the franchisor and the franchisee, the more likely trust stagnates at the KBT level.

H9 is definitely *infirm*. This hypothesis follows naturally from the previous one, as it assumes that it is harder to meet personally and interact in non-business activities if the geographical distances between the franchisor and the franchisees are vast. In this

particular case, the geographical distance between the partners is 660 km, which makes this businessman the most distant franchisee among the analysed ones.

Geographical distance also implies psychic distance, to some extent. Additionally, this should also create some problems, as it can distort communication and perceptions about good business practice. It can also place additional barriers in the implementation of business concepts, as political, legal and economic systems could differ from the ones in the home country (Katsikeas et al. 2008). In terms of these factors, the psychic distance between Austria and Romania is rather small (e.g. compared to Asian countries), however, the above mentioned systems differ to some extent. First of all Romania has a different currency as it is not a member of the Euro-zone. Even if from a theoretic perspective, the Romanian legal system does not differ much from the Austrian one, other frictions may appear (e.g. corruption, bureaucracy etc.). The language should be another impediment in the formation of IBT in this particular case, as the franchisee does not speak German at all, and speaks English rather poorly.

Clearly, Case 2 contradicts all of these arguments, as this franchisee and Mr. Demmer enjoy a relationship based on IBT. In this sense, business should run more smoothly and considerable costs should be saved. Theory suggests that monitoring should be more intensive in distant markets (Alon 2000), and therefore such a relationship should be more expensive. In this case, monitoring measures are unnecessary, as IBT replaces them. Moreover, transaction costs become lower (e.g. no need for legal consultants or specialized analysts).

7.3. Case Study 3 – Poland

The third case of this thesis analyzes a Demmers Teehaus franchisee in Poland. As the company also has five franchised units in Poland (as in Romania), a discussion about the relationship between an Austrian and a Polish partner would enhance the results of this thesis. Moreover, Poland is traditionally a heavy tea-drinker country, and it was the first country Demmers expanded internationally in, as Mr. Demmer mentioned in an interview (Putschögl, 2009). Therefore, business in the tea industry should be more intense than in other countries.

The owner of two Demmers tea shops in Krakow, the second largest city in Poland, accepted to participate to this study. She was invited to an interview that lasted around 45 minutes and asked to fill out the same questionnaire the other franchisees were required to. Both were conducted in German, as this franchisee spent a long part of her life in Austria, and does not speak English.

General Information

As already stated above, the franchisee runs two shops in the old town of Krakow. She is a regular franchisee, and, unlike in the previous two cases, franchising was the only form of collaboration from the very beginning. This franchisee is a passionate tea drinker, and as such, she decided to open her own tea shop. The franchised unit was founded 1999 and has just four employees, i.e. the interviewee, her son and two sales employees. This makes it rather a smaller business. The two shops, even if not very big, also offer the possibility to serve a cup of tea on spot.

The franchisee was asked about her reasons to choose Demmers Teehaus as a franchisor, and answered that she knew the brand a long while ago when she lived in Austria and thought that she would have a market advantage by offering “a part of Viennese culture in Poland”, especially as the Polish market for tea is very developed. She didn’t really search too much for a franchise partner. Actually, she became a franchise partner, as she found out that this was the default expansion mode of the Demmers, as compared to wholesale, franchising includes additional advantages, such as trainings, assistance and support.

Moreover, she was not necessarily interested in selling other tea brands and was glad that Demmers provides a broad product pallet.

As all franchisees she was asked about her professional relationship to Mr. Demmer, as well. This franchisee is satisfied with regard to how business fares, and mentioned that trust is an important factor in a franchised business. She said that she trusts her franchisor in business matters and that their relationship is based by mutual understanding and respect. She further explained that they have a very good collaboration since 1999, and this wouldn't have been possible without trust. Moreover, she rather views her business part of a bigger system, and not that much as a separate entity.

The interviewee got to know Mr. Demmer personally only after she became a franchisee of the chain. She further mentioned that she does not necessarily contact directly Mr. Demmer regarding specific concerns, but only when it is absolutely necessary. She prefers to keep contact with his designated representatives, however, she feels that she also could talk to Mr. Demmer directly if problems would require to.

Findings

H1: CBT will be negatively related to time.

H1 is *infirm*. Strangely, even though the shop owner is a Demmers franchisee for about 15 years, her answers revealed some rather strong forms of CBT. First of all, the reputation of the franchisor was an important factor she considered when she chose to start business with him. Just like in the other cases, this franchisee did not actively check if Mr. Demmer had problems with other partners before. She just didn't hear anything bad about him. Additionally, she stated that she relied on outside information to the same extent as she relied on information provided by the franchisor himself. Nevertheless, she focused on information about how to start the business and about what exactly she needed to do in order to open her shops, and not so much on the soft aspects of the relationship.

Second, she thinks that her franchisor may behave opportunistically and take advantage of her if given the opportunity. However, he does not do so, as his reputation and profits depend on her business' welfare. Moreover, she feels that the power balance is rather

inclined in the direction of the franchisor, and that he could impose certain conditions, even if unfavourable for her, if he wanted to. The franchisee was further asked how she planned the negotiation of her franchising contract and she said that she definitely paid attention to the general terms and conditions, however, did not consider the possibility of negotiating specific issues, as she believed that the contract is standard.

Third, the control-related component was rather prominent as well. From the Polish franchisee's answers it follows that she would like to have the opportunity to check whether the franchisor meets his contractual obligations towards the units. She would also like to have the possibility to monitor changes in situations, as she thinks that the franchisor may take advantage of such. These facts are rather unexpected from such an old relationship, and contradict the theory.

H2: The franchisor's reputation should be the most salient attribute of CBT-type trust.

H2 is also *infirm*. Although Mr. Demmer's reputation was important for this franchisee when she engaged in business with him, this was not the most salient component of CBT in this relationship. Case 3 is the first case in which this result occurs. Here, the need for monitoring and control plays a more important role than the one of reputation. The argument that reputation is not the most prominent characteristic of CBT may also be supported by the fact that she was not interested in Mr. Demmer's professional relationship with other franchisees of the same chain. If she would have been, she would have probably formed other expectations about her franchised business.

Additionally, it may be concluded that this franchisee gained information about the chain in a rather passive manner. This means that she only consulted the most accessible information that was available and that she rather focused on the practical part of the business than on the relational one. Having a professional relationship based on trust is desirable, however, "[...] business is still business and one must be aware of this". The interviewee added further that her business relationship works well and that she does not doubt her franchisor.

H3: Relationships in the CBT stage will consider formal means of control more reliable than informal ones.

H3 is *confirmed*. Not only is this hypothesis confirmed in this particular case, but moreover, the control component is the most salient one of CBT. Even if this is an old franchising relationship, it seems so far that it still operates on a CBT level. Even if the possibility of monitoring specific actions of the franchisor is very attractive, this franchisee did not plan every aspect of the formal contract when she entered the chain. However, as stated above, this happened as she thought that franchising contracts do not leave much room for negotiations. It must also be noted, that the franchisee associates formal control with transparency (i.e. if the franchisor has nothing to hide and if he acts in the interest of the franchisee as well, then he will make all his actions visible).

The results indicate that this franchisee feels that the franchisor enjoys more power in their professional relationship. She agrees that franchising is “a be your own boss business” only to some extent, since as a franchisee there are certain constraints to respect. Nevertheless, the franchisee is not bothered by these constraints. Moreover she thinks that business runs smoother if she follows certain guidelines that were proven to be efficient.

H4: KBT will be positively related to the frequency of perceived positive interactions of all forms.

H4 is *weakly supported*. The relationship is still in a CBT stage. The franchisee views her interactions with Mr. Demmer as rather “mixed” than as “positive” or “negative”. The answers of the franchisee reveal the fact that she is not very excited about interacting with her franchisor, she does “ [...] not necessarily enjoy talking or meeting” with him. This should not mean that she dislikes interacting with Mr. Demmer, but rather that she associates these interactions with business, where problems need to be solved and decisions need to be made. She preferred to keep a rather neutral stance with regard to the way professional and personal interactions with her franchisor take place.

These partners had positive and negative interactions as well, during the time of their collaboration. During the interview she rather kept a neutral, elegant stance with regard to this matter, nevertheless, she further noted that this should not imply the fact that she is not content overall with her franchised business, “[...] it is impossible not to have misunderstandings in almost 15 years of working together with the same partner”. This further denotes the fact that she views her relationship with Mr. Demmers strictly from a professional standpoint.

It is worthwhile noting that this franchisee does not interact very much with Mr. Demmer. She meets him 1 time a year at the official meeting, 1 time a year at the chain meeting and 1 time a year at an informal meeting. Sometimes her son attends these meetings instead of her. There are very few announced visits and no unexpected visits at all from Mr. Demmer. During the rest of the year they communicate mostly via email and sometimes over the telephone. However, it turns out that the emails contain both formal and informal content. The franchisor however, shares more information with her than she does with him.

H5: KBT will be positively related to time.

H5 is rather *infirm*. The professional relationship between this franchisee and her franchisor does not show too many KBT characteristics. As theory states, if the quality of perceived interactions is not very high, the trust level will drop to CBT. This is exactly what happened in this case. The trust level rather stagnates on a CBT level, even if they worked together for such a long while. This is emphasized by the fact that this particular relationship shows more CBT than KBT characteristics. However, it can be said that this franchisee is rather a prudent and realistic person and is not easily distracted from hard facts. She would rather not mix personal matters with business affairs, and from her sayings it can be deduced that she considers CBT the appropriate measure of trust that should be kept in business.

The only KBT element that can be observed in this particular case is the one of predictability. She admits that she can rely on Mr. Demmer and that she was not disappointed hitherto. This can be translated the following way: she does not doubt her franchisor as business ran smoothly and there were no cases of exploitation hitherto, however, this does not guarantee what will happen in the future. This franchisee also

admits that indeed her franchisor respected his terms in the past, and that being able to verify his actions would not have changed anything.

The interviewee's expectations about the franchised business were rather met; however, there could have been some place for improvement. When asked about how she sees future collaboration with her franchisor she mentioned that she does not know what to expect and that anything can happen in the future, even if business has fared well in the past. For her, the history of experiences with her franchisor does not necessarily indicate the way things are headed.

H6: The fewer employees a franchised unit has, the more likely IBT develops.

H6 is *not supported*. This franchisee has 4 employees, which is very little compared to other cases (the previous) and her relationship with Mr. Demmer has not reached the IBT stage. This hypothesis stems from the fact that communication and interaction are eased between fewer individuals. The main drawback of this assumption is the fact that it neglects the personal traits and desires of the parties. This franchisee is rather cautious.

According to the shop owner, she does not identify with her franchisor. Moreover, the two parties do not necessarily have the same objectives. Additionally, the franchisee and the franchisor in this case have the same values and principles only to a limited extent. This leads to the conclusion that there is not even a trace of IBT in this relationship and that there wouldn't even be potential for developing this stage.

The roles of each partner are well defined (i.e. the franchisee is subordinated to the franchisor). The interviewee mentioned that she wished for her own tea shop and Demmers was the right supplier. Although she considers herself part of the system, she does not identify with the company. This franchisee noted that even if she sometimes shares informal information with her franchisor, they are not friends as they don't really have many things in common except the love for tea.

This franchisee further admitted that the success of the chain is due to the brand and the system knowledge of Demmers to a great extent, and these elements have eased the welfare of her business. Her shops have probably more success under the brand and image

of Demmers than they would have had under an unpopular brand or if they would have been regular tea shops with products from different suppliers. She also stated that by collaborating with Demmers she earned much knowledge in this specific industry, which she would have earned harder if she were not part of the chain.

In this particular case, the franchisor does not always take into account the suggestions for improvement of the franchisee. Moreover, they don't really develop new products together. This result is rather curious, as Poland is a heavy tea drinker country and as such, valuable ideas with regard to new products may be harvested. In this sense, the franchisee does not share much market knowledge with the headquarters in Vienna.

H7: Master franchisees should be more likely to develop IBT-type trust than regular franchisees.

H7 is *supported* only if reformulated this way: *Regular franchisees are less likely to develop IBT than master franchisees.* As a regular franchisee, compared to the previous case, this franchisee does not enjoy IBT; hence, the present hypothesis is supported. The conditions under which this franchisee operates her franchised business would make it rather hard for her to become a master franchisee. Although she runs two shops, she does not hold any interest in becoming a master.

Mr. Demmer stated in a magazine article that it is very hard to find the right franchisees and even harder to find the right master franchisees (Putschögl, 2009). Master franchising does not necessarily require IBT; however, the master should have the same goals and objectives as the franchisor. This franchisee further noted that her decisions take into account the interests of the headquarters only to some extent and that the franchisor acts in the same manner. Clearly, the current franchisee would not be able to represent the interests of the headquarters, as some of her goals differ from those of her franchisor.

H8: IBT will be positively related to the frequency of face-to-face interactions.

If reformulated into: *The fewer the face-to-face interactions, the less likely IBT develops,* H8 is *supported*, as there are very few face-to-face interactions between this franchisee and Mr. Demmer. Therefore, a reason why IBT did not take shape in this case is the reduced frequency of such forms of interaction. Face-to-face interactions should ease information

exchange, communication and should allow the parties to get acquainted on a personal level as well. According to the interviewee's sayings she personally meets Mr. Demmer only rarely.

Surprisingly, even if at first glance it seems that these two parties communicate more than the ones in the previous analysed cases, there still seem to be some barriers. This franchisee stated that she does not hold very much information about her franchisor. Moreover, she feels that she shares less data with Mr. Demmer as he does with her. A plausible explanation for this result may be the fact that the franchisee feels that she is subordinated to the headquarters and that she would rather not disclose too much market knowledge, as she would lose some advantage if doing so.

H9: The greater the geographical distance between the franchisor and the franchisee, the more likely trust stagnates at the KBT level.

This hypothesis could be *neither confirmed nor infirmed*, however, it can be discussed. H9 cannot be tested because the present relationship never reached a KBT level. Nevertheless, the distance between the franchisor and the franchisee is about 460 km. As seen in the previous case, developing the final stage of trust is possible even with greater distance between the parties and rather depends on the personal characteristics of the individuals.

As mentioned in the previous cases, geographic distance also includes psychic distance to some extent. Poland and Austria are rather different countries, considering more facts. Poland uses a different currency (the zloty) as it is not in the Euro-zone, whereby the Polish legal and economic systems also present some different characteristics from the Austrian ones. The language barriers should not place any additional problems, as this franchisee speaks the same language as the franchisor, since she lived in Austria. Nevertheless, there are still communication barriers. Possibly they are due to cultural factors, as the Polish culture differs from the Austrian very much. This argument is also debatable, as this franchisee spent a long period of her life in Austria and should be acquainted with the Austrian culture. As already stated, all these factors may be overcome, if both parties work in this direction and if they have a higher trust propensity to begin with.

If the presently analysed relationship would have shown more KBT characteristics, then this hypothesis could have been confirmed. However, the only KBT element in Case 3 is the one of predictability. As discussed earlier, for the franchisee this element is of little value as one cannot predict the way business will run in the future, based on the accumulated history of experiences. For this franchisee trust is still an important element of a healthy professional relationship, however, also is prudence, cautiousness and rationality.

8. Discussion and Limitations

This section compares and discusses the findings of the three analyzed cases from chapter 7. The cases consist out of one Austrian franchisee, one Romanian master franchisor and one Polish franchisee. The results will be summed up, in order to check the validity of the proposed hypotheses. Moreover, the robustness of the elaborated model about the development and evolution of trust will be verified. Accordingly, figure 4 depicts how each case fits into the model.

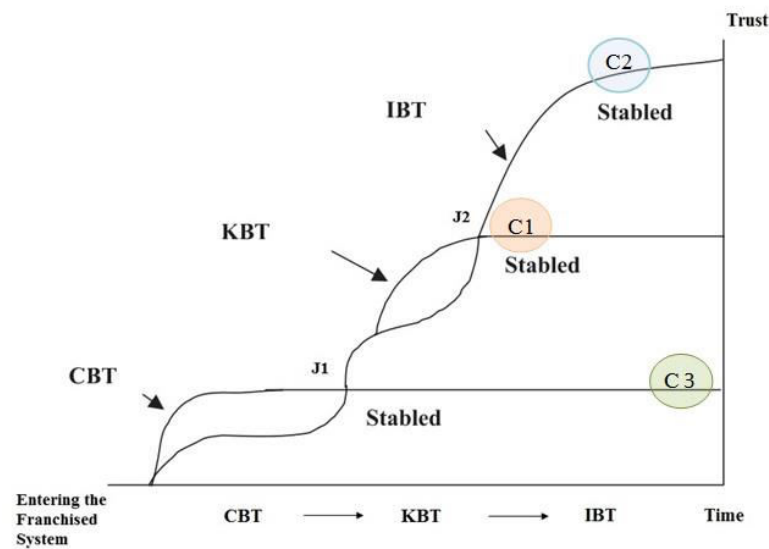


Figure 4: Levels of trust by cases

8.1. Discussion and Comparison

8.1.1. Comparing the cases

All cases are in relationship with the franchisor, namely Mr. Demmer and from the perspective of the franchisee. The Austrian franchisee is C1, the Romanian franchisee is C2 and the Polish franchisee is C3. Figure 4 maps the obtained results on the depiction of the theoretical framework.

The analysis of the first franchisor-franchisee relationship revealed that it predominates in KBT characteristics. C1 is located on the KBT curve. The franchisee in C1 and Mr. Demmer enjoy a KBT based professional relationship. It is worthwhile noting that they are above the point J2 where IBT starts to take shape. As it was argued above, the relationship

has much potential to develop IBT; nevertheless, the franchisee has no desire to reach this level. Therefore, her case is positioned on the stabled KBT curve and is expected to remain there in the future as well. This relationship is strongly characterized by the predictability component and by the positive expectations about future collaboration based on the fulfilling record of past experiences. These are all KBT features.

Additionally, it further must be discussed how this trust level has been reached in this relationship. The model suggests that it should have started on a CBT ground and reach the KBT stage in time. This is the youngest franchising relationship of the analyzed ones. Ignoring this fact, it can also be noted that it operated on a very mild form of CBT to begin with (even before becoming an official franchisee). The franchisee's answers in Case 1 reveal that even in the beginning of her collaboration with Mr. Demmer she did not show any CBT characteristics except the importance of reputation. Literature (McKnight et al. 1998) offers some explanation with regard to this phenomenon. The authors support the idea that parties show higher levels of trust at the beginning of their relationship, as they are willing to show themselves from their best side and wish to engage in a fruitful relationship. This is known as the initial trust paradox. Moreover they underline the importance of the trust propensity of the trustor. As the results of the case study point out, the first analyzed franchisee has a moderate trust propensity.

C2, namely the one of the Romanian franchisee is situated on the stabled IBT curve, as expected. Undoubtedly, he and Mr. Demmer enjoy the benefits of an IBT based relationship. Not only are they very good business partners, but they are also friends. The most salient components of the trust they share are identification, sharing the same values and principles, having the same goals and acting in the interest of the other party. These are all IBT characteristics. An important aspect of their relationship is also the fact that the second franchisee has a very high trust propensity compared to the other ones. Further, the above discussed high initial trust paradox is also verified in this case. As the two parties started their relationship based on a "gentleman's agreement" it is observable that there was much willingness to trust from both sides from the very beginning and that neither of them showed many CBT characteristics. The only CBT characteristic considered at the beginning was the reputation for honesty of Mr. Demmer that was very important for the franchisee. Unlike the other two cases, this one is located at a far greater physical distance

from Mr. Demmer. This again points out the fact that time and distance are not catalysts for the formation of higher levels of trust.

C3, namely the one of the Polish franchisee is a case of stabled CBT trust, even if this franchising relationship is the oldest of the analyzed ones. This case is positioned far to the right on the CBT curve, indicating the age of the relationship. Even if this franchisee and Mr. Demmer share a CBT based relationship, they still have a very good collaboration. Operating on a CBT level is not a negative thing. The most predominant characteristics are the importance of reputation, the desire for formal control and the existence of partially incongruent objectives. The interview with her revealed the fact that she has a rather low trust propensity and that she would feel comfortable if the actions of the franchisor were more transparent. In this sense, she would like to have the possibility to monitor the undertakings of the franchisor. This desire does not necessarily stem from the suspicion that she might be exploited. Nevertheless, she does not rely on the positive history of experiences in order to predict the way she will collaborate with Mr. Demmer in the future.

8.1.2. Trust formation

As seen in the previous section, the analyzed case studies reveal that all three types of trust CBT, KBT and IBT, proposed in the theoretical model may exist in a relationship between a franchisor and a franchisee. The next table summarizes the results.

H	Indicators	Predicted direction	Case 1	Case 2	Case 3	Overall Results
H1	CBT – time	-	Not supported	Supported	Not supported	Not supported
H2	CBT – reputation	+	Supported	Supported	Not supported	Supported
H3	CBT – formal control	+	Not supported	Not supported	Supported	Not Supported
H4	KBT – positive interactions	+	Partly supported	Supported	Partly supported	Partly Supported
H5	KBT – time	+	Not	Supported	Not	Not

			supported		supported	Supported
H6	IBT – nr. of employees	-	Not supported	Not supported	Not supported	Not Supported
H7	IBT – master franchisor	+	Supported	Supported	Supported	Supported
H8	IBT – face-to-face interactions	+	Supported	Supported	Supported	Supported
H9	KBT – geographic distance	-	Not supported	Not supported	N/A	Not Supported

Table 4: Overall Results of the Case Studies

The first hypothesis is not supported, as it implies that at the beginning of a relationship the partners will behave according to CBT characteristics. It turns out that this does not happen in the predicted manner. Moreover, two of the analyzed dyads did not even start on a CBT ground, and showed only few CBT characteristics at the beginning of their relationship. This results point out the fact that the personal traits and the trust propensity of each individual influences to a greater extent his trusting behaviour (Colquitt et al. 2007; Das and Teng 2004; Kramer 1999; Mayer et al. 1995; Nooteboom 2002) than does rationality, as proposed by Williamson (1993) and his followers.

The second hypothesis is supported. The most important CBT factor all dyads considered in the initial stages of business was the reputation of the franchisor. In some cases it was the only one. This result confirms the predictions of theory that the actions of the franchisor with past partners are very important for future potential franchisees. Moreover, they show that engaging in opportunistic behaviour leads only to short term benefits, considerably damaging future potential, not only with regard to the exploited party, but to future partners as well. Nevertheless, the idea that in the incipient phases of a relationship partners have a relationship mostly characterized by CBT elements does not stand. As the reputation effect is viewed as a CBT component, it can be said that this type of trust is present only in terms of this element. In the case of Demmers Teehaus it can be stated that

Mr. Demmer has a very clean reputation and never took advantage of his franchisees. This makes him a very attractive partner for potential franchisees.

H3 suggests that the parties would rather have concrete safeguards against potential opportunistic behaviour in franchising. This idea, however, is not supported. H1 is infirmed and so is H3 as they go hand in hand. The franchisees do not hold the desire to monitor, verify or question the actions of their franchisor and trust his decisions to a large extent. Moreover, it is important to note that this is mutual. The Demmers franchise does not impose strong control mechanisms on their franchisees. The interviews reveal that the franchisor trusts his franchisees very much. This way of running a franchise showed to work very well, whereas by doing so, considerable costs are being saved.

The next hypothesis is partly supported. According to H4, dyads that had positive interactions in the past should operate on a KBT level. Past actions should predict the future behaviour of the franchising partners. H4 is only partly supported as the term “interactions” refers to all types of experiences, i.e. business transactions, face-to-face meetings, telephone calls, e-mails, informal meetings, etc. However, most dyads showed only weak forms of interactions, whereas surprisingly, personal interactions are very rare, even between the parties that are in close physical proximity. Personal meetings occur only when strictly necessary and business matters are settled almost exclusively via email. Nevertheless, the results suggest that if the franchising partners had a good collaboration in the past, the franchisees also expect this in the future.

The fifth hypothesis implies that KBT will be formed in time and is not supported. Time alone is a weak indicator for the development of this type of trust. As mentioned before, KBT is linked to the record of experiences that the parties have accumulated together. However, experiences can be accumulated in a longer or shorter period of time. The presented cases all show very few forms of interactions. Therefore, the results rather plead for the quality and for the impact of each form of interaction, than for their frequency. This further indicates that in the Demmers Teehaus chain there are almost no communication barriers.

H6 links the number of employees a franchised unit has to the development of IBT. Surprisingly, the results showed no support for this hypothesis, neither. The only case of

IBT is the franchisee with the most employees. It should be expected that in bigger units, the division of labour is very well settled and that communication rather happens by formal means. Moreover, the complexity of the problems in such a unit should be greater and each matter should be discussed with the designated representative from each department. Therefore, the franchisor and the franchisee would get to engage in fewer interactions directly. Units with fewer employees (1 or 2) should allow the franchisee to contact the franchisor directly, as he is responsible for the most part of problems. Moreover, this should allow them to get acquainted on a personal level as well. As the results point out, this premise was wrong, since there was too little weight attributed to the individual character traits of each franchisee.

The next hypothesis is supported. As the case studies show, master franchisors actually rather enjoy an IBT based relationship than regular franchisees do. This is also in close relationship with the fact that the analyzed master fully identifies with Demmers and with its objectives. Therefore, he is also very capable to represent the interests of the chain. Moreover, the partners are very close friends and collaborate for a long while now. The master is very glad with the ways business fares and has very positive expectations about the future. The regular franchisees are not friends with Mr. Demmer and do not identify with him to such a great extent as does the master. Additionally, they do not enjoy personal interactions and discussions as much as the master does, whereas they make efforts to keep their relationship only on a professional level.

The eighth hypothesis is also supported. Franchisees that engage in more face-to-face interactions with their franchisor should operate on an IBT level. The results suggest that this is indeed the case. The franchisee that has the most personal meetings with Mr. Demmers is the only one that shows IBT characteristics. Moreover, these are enjoyable meetings and misunderstandings are solved directly with the franchisor. The other franchisees do not operate on an IBT level and engage in personal interaction with Mr. Demmer only when it is absolutely imperative. Even if they keep a distance, their relationship with the franchisor is still very good regardless what level of trust they've reached. It has also been discovered that some franchisees don't hold the desire to develop deeper levels of trust and are pleased with the ones they presently enjoy.

The last hypothesis refers to KBT and is infirmed. The maximum level of trust distant partners should be able to reach is KBT. It follows the idea that it is harder to meet face-to-face if the partners are located at great distance from one another. The results suggest a different idea, namely the fact that geographical distance plays no role in the formation of higher levels of trust, nor does psychic distance. The only case of IBT is the one of the Romanian franchisee, which is the most distant one from the analysed ones. The case from Vienna chooses to keep the relationship on a KBT level. Again, the importance of the personal traits of each franchisee has been stresses out. Indeed, franchisees with a low trust propensity are not able to develop IBT.

8.2. Limitations

The proposed model suggests that trust builds up and evolves gradually according to how the franchising partners manage their relationship, whereas satisfying experiences allow for deeper forms of trust to take shape. The results challenged this model and it turns out that some adjustments are necessary.

First of all, the *antecedents of trust* are of greater importance than initially expected. The tightly connected high initial trust paradox (McKnight et al. 1998) is a phenomenon that must be considered when analysing any trust relationship. The personality of each individual influences the measure of trust he is able to offer. Te results suggest that franchisees with a lower trust propensity will most likely keep the relationship with their franchisor on the first levels of trust (CBT and KBT), whereas individuals with a higher trust propensity will be more likely to develop IBT. Trust in the latter cases does not always begin with CBT, or at least not with the lowest forms of CBT.

Second, some partners may have the potential to develop deeper levels of trust. However, they could *not consider it necessary*, or could not have any desire to do so. This is in close relationship with the previous arguments, as it also depends on the personal traits of each individual. A franchising relationship may function very well on CBT or KBT levels, and it does not mean that such a relationship is not satisfying or is not characterized by mutual respect and understanding. It is worthwhile noting that only extreme cases of CBT could cause extra costs (with monitoring, formal documents etc.), however, extreme cases of CBT are forms of distrust (Rousseau et al. 1998).

Third, it has been shown that *time is not the best catalyst of trust*. A long franchising relationship does not necessarily imply a relationship characterized by deep forms of trust. Franchising is a way of doing business where identification with the franchisor plays a greater role than in any other (international) expansion type. Therefore, franchisees which identify with their franchisor to a greater extent are able to develop IBT faster. The present model is not able to determine when exactly one form of trust shifts to the next and how much time it is required for one type of trust to develop.

9. Conclusions

All in all, the present thesis provides valuable insights on how trust develops and evolves in a franchising relationship. A complex, theoretical framework is elaborated and extensively discussed on the concrete case of Demmers Teehaus, an international franchise chain in the industry for quality tea. The study is realized from the perspective of the franchisee, whereas for this purpose franchisees from three different countries were analyzed. The reference person, however, is the same in all cases, namely the franchise owner, Mr. Demmer.

The results reveal that it is very difficult to model the way trust develops in professional relationships, including in franchising, as this variable depends on many endogenous and exogenous factors. Some of these factors may be unpredictable and may exert a great influence on the trusting parties. The proposed types of trust were proven to arise in franchising relationships. However, they evolve somewhat differently than initially expected. Moreover, their development depends to a great extent on each individual's personal traits, which are very hard to measure or to quantify.

It turns out that when a relationship starts to take shape, the trustor does not necessarily seek for information about the future franchisor, actively. If the trustee has a clean reputation, no additional safeguards are required. The trustee frames the whole business as positive, as he seeks a positive relationship with his partner. In this sense, as suggested by Fantino and Silberberg (2010) he is more receptive to positive information and does not look for negative information. This fact is also confirmed as the analyzed franchisees relied almost exclusively, without scepticism on information given by the franchisor himself, whereas external information (provided by third parties) was of no interest.

As Lewicki and Bunker (1996, p.118) quote Boon and Holmes (1992), the incipient stages of any kind of relationship represent a “honey moon” where the parties try to show themselves from their best sides. This also includes adopting a trusting behaviour, by neglecting the possible shortcomings of the trustee (McKnight et al. 1998). However, this kind of trust is still fragile. It is rather based on respect and on the idea that both parties have common goals and will gain more if they work together. The results of this thesis show that this behaviour is rewarded and permits the relationship to further run smoothly.

As it includes the reward component, this is linked to CBT, however, it differs much from the CBT form proposed by literature (Bromiley and Harris 2006; Claro and Claro 2008; Earle 2010; Lewicki and Bunker 1996; Rousseau et al. 1998; Williamson 1993). This form of CBT is still very rational, as it starts from the premise that the franchisor knows that the long term benefits overweight the short term benefits, and not from the idea that if caught off-guard the franchisor will exploit the franchisee. The difference lies in the fact that individuals believe that the trustee is benevolent.

If the franchisee is not disappointed by his relationship with his franchisor, KBT starts to take shape. The discussed cases mostly have a very positive record of experiences, even if communication was kept on modest levels. KBT refers to an accommodation stage, in which the relationship is consolidated. The outcomes of this stage decide the direction in which trust will further evolve. It can drop back to CBT, it can remain constant, or it can evolve to IBT. Considering the personality of the trustor, even if all runs well, trust may stagnate at this level. A franchising relationship may function very smoothly even if only based on KBT.

If the partners feel that they have more in common than business, IBT may be developed. This implies an affective component as well, and the idea of being “part of a family”. From the company’s description about how a franchised business will fare (Demmers Teehaus, c, 2011), it can be noticed that Demmers Teehaus targets this kind of familiarity with their franchisees. Master franchisees rather tend to develop this kind of closeness. The geographical and the psychic distance do not influence the ease of achieving this level of trust. The only factors that seem to matter – as previously stressed out – are the personal characteristics of the trustor. Nevertheless, a satisfying and fulfilling franchising relationship with great future perspectives does not necessarily require such high levels of trust.

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Appendix

A. QUESTIONNAIRE

(Partly based on Bomiley's and Cummings's Organizational Trust Inventory (OTI), 1996; Windsperger and Gorovaia, 2013)

Part A: General Information about the Firm

- (1) Please specify the founding year of the unit: _____
- (2) Please specify the average annual revenue: _____
- (3) Please specify the number of employees: _____

Part B: Trust

- (1) How important do you consider the **trust** factor in a business relationship?

1 (unimportant)	2	3 (neither important nor unimportant)	4	5 (very important)
☐	☐	☐	☐	☐

Comments:

- (2) Do you trust your franchisor?
- a.) Yes
- b.) No

Comments:

Part B1: CBT (Calculative-Based Trust)

Please rate the following statements according to the scale shown below:

1	2	3	4	5
strongly disagree	disagree	neither agree nor disagree	agree	strongly agree

Statement	1	2	3	4	5
1. Reputation was an important determinant in choosing our franchising partner.					
2. Our franchisor had a good reputation when I decided to enter business with him.					
3. Our franchisor is an honest businessman.					
4. Other franchisees from the same chain guaranteed the honesty of the franchisor before we entered the chain.					
5. Before entering the chain, we relied on outside information about our franchisor (from specialized websites, magazines, public data bases etc.).					
6. We planned all aspects of the contract negotiation when we entered the chain.					
7. Before entering the chain we relied on information delivered by the franchisor himself.					
8. Our franchisor has no reasons to take advantage of us.					
9. Our franchisor has no reasons to take advantage of us, as his profit depends on ours.					
10. Our franchisor has no reasons to take advantage of us, as his reputation depends on ours.					
11. We would like to monitor our franchisor's compliance with our agreement .					
12. We would like to monitor changes in situations , because our franchisor will take advantage of these changes.					
13. We would like to have the possibility to verify whether our franchisor meets his obligations to our unit.					
14. We think that our franchisor interprets ambiguous information in his own favour.					
15. We question the undertakings of our franchisor.					

Comments:

Part B2: KBT (Knowledge-Based Trust)

(1) How often do the following **interactions** take place between you and your franchisor (per year)?

Training days (before opening)			
Annual training days (after opening)			
Formal meetings			
Chain meetings (with all or more franchisees)			
Informal meetings			
Announced unit visits			
Unannounced unit visits			
Formal phone calls	rarely ☐	moderate ☐	often ☐
Informal phone calls	rarely ☐	moderate ☐	often ☐
Videoconferences	rarely ☐	moderate ☐	often ☐
Formal emails	rarely ☐	moderate ☐	often ☐
Informal emails	rarely ☐	moderate ☐	often ☐

(2) Please rate the following statements according to the scale shown below:

1	2	3	4	5
strongly disagree	disagree	neither agree nor disagree	agree	strongly agree

Statement	1	2	3	4	5
1. We share a lot of formal information with our franchisor.					
2. Our franchisor shares a lot of formal information with us.					
3. We share informal information with our franchisor (about hobbies, family, free time).					
4. Our franchisor shares a lot of informal information with us (about hobbies, family, free time).					
5. We possess a lot of information about our franchisor.					
6. We enjoy talking to our franchisor.					

7. We enjoy having face-to-face meetings with our franchisor.					
8. We have no reasons to doubt our franchisor.					
9. We were not disappointed by our franchisor hitherto.					
10. Our franchisor has proven his reliability.					
11. Based on previous experiences, our franchisor has not taken advantage of us.					
12. We don't need to verify our franchisor's compliance with the unit.					
13. In case of misunderstandings, we solve them together with our franchisor.					
14. Our expectations regarding the franchised business have been met.					
15. We have positive expectations about future collaboration with our franchisor.					

Comments:

Part B3: IBT (Identity-Based Trust)

(1) Please rate the following statements according to the scale shown below:

1	2	3	4	5
strongly disagree	disagree	neither agree nor disagree	agree	strongly agree

Statement	1	2	3	4	5
1. We share the same values and moral principles with our franchisor.					
2. We have the same goals as our franchisor.					
3. We are friends with our franchisor.					
4. We identify ourselves with our franchisor.					
5. We have many face-to-face interactions with our franchisor.					
6. Our franchisor takes into account our suggestions for improvement .					
7. We develop new products together with our franchisor.					
8. The trademark of our franchisor is very important for the system performance.					
9. The system knowledge of our franchisor is very important for the system performance.					
10. Our franchisor takes into account our interests during decision making.					
11. We take into account the interests of our franchisor during decision making.					
12. Our franchisor is fair.					

Comments:

B. Abstract (English)

The analysis of trust in franchising has become a very important research topic in the past years; however, much still remains unclear. It seems to be rather difficult to connect the theoretical aspects to the way things actually happen in practice. Hence, the present thesis attempts to elaborate a model of trust that should explain this phenomenon. As most models proposed by literature are static, the one suggested in the present thesis follows a dynamic approach and seeks to explain how trust is formed and how it evolves in a franchising relationship. The research question is:

RQ: “How does trust develop and evolve in franchising?”

Franchising is a very complex form of doing business where a party entrusts his whole concept to another party. Such a relationship is characterized by strong interdependencies between the parties and by a great measure of risk taken by both sides. The franchising concept is sold as a “be your own boss business”, however, is this always true? The answer of this question depends to a great extent on the concept of trust. The aim of the present thesis is to explain the evolution of trust, from the perspective of the franchisee. For this purpose, franchisees of the international chain Demmers Teehaus, an Austrian quality tea producer and retailer, are analyzed. The research method includes three qualitative case studies that attempt to find a pattern in the dynamics of trust. The case studies reveal, among other things, that reputation for honesty plays a very important role in the selection of a franchisor and that a positive record of experiences between the parties eases the formation of deeper levels of trust. Moreover, master franchisors are more likely to develop identification based trust than regular franchisees, whereas the geographical distance has no influence in the formation of this kind of trust. Nevertheless, a healthy franchising relationship may function very smoothly even in the absence of the final stage of trust.

C. Abstract (German)

Die Analyse des Vertrauens in Franchising-Beziehungen ist in den letzten Jahren ein sehr wichtiges Forschungsthema geworden, allerdings bestehen immer noch sehr viele Unklarheiten. Die theoretischen Aspekte können mit der Praxis nur schwierig verknüpft werden, demzufolge versucht die vorliegende Arbeit ein Modell zu erstellen, um diese Lücke zu schließen. Da die Fachliteratur meistens statische Modelle vorschlägt, wird hier ein dynamischer Ansatz verfolgt, der versucht die Entstehung und die Entwicklung des Vertrauens zwischen Franchise-Partner zu beschreiben. Die Forschungsfrage lautet:

FF: „Wie entsteht und wie entwickelt sich Vertrauen in Franchising?“

Franchising ist eine sehr komplexe Geschäftsform, indem eine Partei ein ganzes Businesskonzept einer anderen anvertraut. Eine derartige Beziehung basiert auf eine sehr starke gegenseitige Abhängigkeit zwischen den Partnern, wobei beide erheblichen Risiken ausgesetzt sind. Das Franchising-Konzept ist als ein „be your own boss“ Geschäft verkauft, ist das jedoch immer der Fall? Eine gute Herangehensweise um diese Frage zu beantworten liegt in der Analyse des Begriffs „Vertrauen“. Die vorliegende Arbeit versucht die Entwicklung des Vertrauens, aus Sicht des Franchisenehmers, zu beschreiben. In diesem Sinne werden Franchisenehmer des Österreichischen Teeproduzenten und – Vertreibers Demmers Teehaus, analysiert. Das theoretische Modell wird anhand von drei qualitativen Fallstudien geprüft. Die Ergebnisse zeigen, unter andere, dass in der Wahl des Franchisegebers, sein Ruf eine sehr wichtige Rolle spielt, und dass die gesammelten positiven Erfahrungen, die Entstehung tieferer Vertrauensebenen ermöglicht. Zusätzlich ist die Wahrscheinlichkeit größer, dass Identifizierungs-basiertes Vertrauen eher in Master Franchising entsteht, als in normales Franchising, wobei der geographische Abstand zwischen den Partner, in diesem Sinne keinen Einfluss ausübt. Allerdings, sind für eine gesunde und erfolgreiche Franchising-Beziehung, sehr tiefe Vertrauensebenen nicht unbedingt erforderlich.

D. Curriculum Vitae

ADA HARITINA PALCAU

DATE OF BIRTH 05.09.1988

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Austria

NATIONALITY Romanian



EDUCATION

**01.03.2011 –
dato**
Vienna,
Austria

UNIVERSITY OF VIENNA

Master in International Business Administration

- ✓ Specializations: „International Management“ and „Financial Markets“
- ✓ Additional interest areas: Corporate Finance, Asset Management, Performance Analysis

**01.10.2007 –
01.07.2012**
Bucharest,
Romania

ACADEMY FOR ECONOMICS BUCHAREST

Master and Bachelor in Business Administration (in German)

- ✓ Specializations: Intercultural Management, Entrepreneurship, International Marketing
- ✓ Master thesis „Der Einfluss des Konsumentenverhaltens auf die Marketingstrategie des Versicherungsunternehmens Astra SA“
- ✓ Bachelor thesis „Kundenanalyse am Fallbeispiel des Versicherungsunternehmens SC Astra Arad SA“

**01.09.1995 –
01.06.2007**
Arad,
Romania

GERMAN THEORETICAL SCHOOL „ADAM MÜLLER GUTTENBRUNN“ ARAD

- ✓ All courses were held in German
- ✓ Specializations: Mathematics and Informatics

WORK EXPERIENCE & INTERNSHIPS

01.03.2009- dato Bucharest, Romania (remote work)	TRANSLATOR SC Casadetraduceri SRL / Translations <u>Language combinations:</u> German, English, Romanian <u>Domains:</u> industrial property rights, trademark law, copyright law
01.07.2012 – 30.09.2012 Arad, Romania	INTERN FINANCIAL MANAGEMENT SC IFB Finwest SA / Finance <u>Main activities:</u> ✓ Technical and fundamental market analyses ✓ Company analyses ✓ Evaluation of derivatives, bonds, stocks and indexes ✓ Financial consultancy
01.03.2012 – 01.05.2012 Arad, Romania	INTERN ACCOUNT MANAGEMENT & SALES SC Astra Asigurari SA / Insurance <u>Main activities:</u> ✓ Customer advisory ✓ Sales of insurance products ✓ Client data base administration
01.03.2009 – 01.07.2009 Bucharest, Romania	INTERN ACCOUNT MANAGEMENT & SALES SC Casadetraduceri SRL / Translations <u>Main activities:</u> ✓ Customer advisory ✓ Front Desk activities
01.02.2006 – 01.03.2006 Kirchberg, Germany	INTERN SECRETARY International Hahn Business / Marketing <u>Main activities:</u> administrative activities

EXTRACURRICULAR ACTIVITIES

01.10.2006 – dato	LIONS CLUBS INTERNATIONAL Member Leo Club District 124 Romania <u>Main activities:</u> ✓ Charity projects ✓ Ecological projects ✓ Fundraising-projects ✓ National and international voluntary projects <u>Board member „Leo Sunshine“ Bucharest:</u> ✓ Vice-president (2011) ✓ PR-Manager (2010) ✓ Treasurer (2009)
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**02.11. 2010 –
30.11.2010**
Bucharest,
Romania

WORKSHOP „LEADERSHIP EDUCATION“

- ✓ The principles of leadership
- ✓ Time management
- ✓ Emotional intelligence
- ✓ Conflict management

DIPLOMAS AND CERTIFICATES

- ✓ Translator's and Interpreter's Licence (The Romanian Justice Ministry)
- ✓ German Language Diploma (DSD II - The German Standing Conference of Ministers of Education and Cultural Affairs)
- ✓ Austrian Language Diploma (ÖSD Mittelstufe Deutsch)
- ✓ Professional Certificate in Informatics (The Romanian Ministry for Education, Research and Youth)

LANGUAGE SKILLS

- ✓ **Romanian:** native language
- ✓ **German:** fluent
- ✓ **English:** fluent
- ✓ **French:** good

COMPUTER SKILLS

- ✓ MS. Office Package
- ✓ Statistic software packages: SPSS, R
- ✓ Stock market charting software: Incredible Charts Pro

MISCELLANEOUS

Driving license:

B category

Personal interests:

Tea ceremony, Astronomy

Vienna, August the 1th 2014