

## **The hospitality franchise purchase decision-making process**

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### Abstract

**Purpose** - This study explores the hospitality franchise purchase decision-making process undertaken by franchisees in Macau as an emerging tourism destination, and the role of national culture on purchasing a franchise brand and selecting a potential franchisor.

**Design/methodology/approach** - Semi-structured in-depth interviews with 18 franchisees in Macau, who purchased international and domestic hospitality franchise brands, were conducted to understand the feelings, attitudes and motivation of franchisees towards purchasing a hospitality franchise.

**Findings** – The study reveals that national culture can play an important role in franchisees' decision-making process. Personal networks of friends and family (guanxi) are very influential in introducing and steering aspiring entrepreneurs towards franchising as an option to realize their ambitions, although there may be some limitations to franchisees with this approach. Guanxi, was also found to be particularly relevant during negotiations and franchisees' post-purchase reviews.

**Practical implications** – International franchisors should understand the importance of guanxi at different stages of franchisees' decision-making process. Franchisees should realize how a reliance on guanxi might negatively impact on their efforts to undertake sufficient research to thoroughly evaluate the franchisor offer prior to contract signature.

**Originality/value** - A comprehensive hospitality franchisee decision-making purchase framework is developed which includes the cultural context and cultural values. Guanxi in particular, impacts upon the franchisee decision-making process.

**Key words:** hospitality franchising, purchase decision-making, Chinese culture, guanxi, task-related criteria, partner-related criteria

### Introduction

Emerging tourism destinations are among the fastest growing markets for hospitality franchising. The relatively unsaturated yet liberalized markets, free-trade zones, and business-friendly legislation within these transitioning economies makes them particularly attractive to franchisors. Additionally, rapid economic growth creates a growing customer market with the ability to buy branded hospitality services and products (Alon & Welsh, 2002) and capital availability for franchisees to purchase a branded franchised unit. The contractual agreement between the franchisor and franchisee yields potential benefits for both franchise partners. Hospitality franchisors gain access to franchisees' local market and cultural knowledge and in return, franchisees gain access to a well-established business system and proven brand concept (Brookes & Altinay, 2011). Despite these benefits, the cultural differences between the franchisor's home country and the host country of the franchisee can create challenges in the formation, development and sustainability of the partnership. The establishment of a franchise partnership therefore

involves a mutual and careful evaluation between franchisors and franchisees to assess their compatibility (Altinay et al., 2013).

Previous franchise studies have identified a wide range of partner-selection criteria used by franchisors and franchisees (Brookes & Altinay, 2011). Franchise researchers have drawn upon the strategic alliance literature to categorize selection criteria into task and partner-related categories (Brookes & Altinay, 2011; Altinay et al., 2013). This research also suggests that these criteria have different levels of importance at different stages of the partner-selection process. While previous studies thus highlight the importance of the franchise partner-selection process, the complexity of the process has yet to be fully explored, particularly from the franchisees' perspective. In emerging tourism destinations, franchisees are frequently small business owners (IPIM, 2009) where the decision-making process is governed by an individual cognitive process rather than a formal organization structure.

This paper therefore adopts a decision-making approach to explore the complexity of franchisees' partner-selection purchase process. As a high involvement purchase, the decision-making process comprises several stages and the input of each decision stage contributes to the outcome of the partnership post-purchase (Hing, 1995). Within international franchising, the cultural distance between home and host countries can complicate the decision-making process (Brookes, 2014; Eroglu, 1992). Understanding the role of culture in this process is arguably important to ensure the sustainability of franchise partnerships and the realization of the benefits of franchising.

This study therefore evaluates the influence of national culture on franchisees' decision-making process and the criteria used when purchasing a hospitality franchise. Given the predicted growth of franchising within emerging markets (Xiao et al., 2008), the study was conducted in Macau. Macau is considered an appropriate research context as it is categorized as an emerging tourism destination by three characteristics; namely the level of economic development, economic growth and market governance (Czinkota & Ronkainen, 1997). Macau's economy has grown rapidly with GDP increasing by 27% and 20.7% for the years 2010 and 2011 respectively, and GDP per-capita amounted to US\$ 66,311 in 2011 (MGTO, 2013). Its economy also reflects a significant increase in visitor arrivals and food service sales, due to its autonomous customs and low taxation system (WTO, 2013). The Macau government has attempted to speed up business development by organizing an annual franchise and chain exposition in order to develop a trading platform for international brand investment since 2009. As a result, there has been substantial growth in the number of hospitality franchise brands, particularly in the food and beverage sector as around 20% of visitors come to Macau mainly for the cuisine (ITRC, 2013).

The study makes two contributions to the franchise literature. Firstly, it provides evidence that national culture can influence franchisees' decision-making when selecting a franchise partner. Secondly, it develops a comprehensive framework of franchisees' decision-making purchase process which depicts the stages where national culture, and *guanxi* in particular, have an impact. The paper begins by examining the decision-making process within a franchise context and the potential role of national culture on that process to frame the research questions the study seeks to address. It then explains the design of the study before presenting the findings and the franchise decision-making purchase model. The conclusion highlights the theoretical and practical implications and the directions for future research.

## Literature review

### *Franchisee partner selection and the decision making process*

Making decisions about purchases is a complex, multistage process of problem solving (Engel et al., 1995; Luce et al., 2001), particularly in high-involvement purchases. Involvement reflects a buyer's mind-set concerning an anticipated purchase decision and whether it is the right or wrong choice (Lin & Chen, 2006). An important purchase is generally considered to be a high-involvement purchase. It includes an extensive information search comprising the buyer's perceived brand differences, the deliberation and importance of the right brand selection, and the buyer's motivation to make the right choice (Mittal, 1989). The purchase of a franchise unit is arguably a high-involvement purchase given the upfront investment required for the franchise fee, the stipulation to pay future monthly royalties over the length of the contractual agreement, and the uncertainty about the return on this investment. As such, it involves "imporisk" — a combination of the importance and perceived risk of the purchase decision (Laurent & Kapferer, 1985).

The marketing literature identifies that purchase decisions comprise the different stages of need recognition, information search, alternative evaluation, purchase and post-purchase outcomes (e.g. Engel et al., 1995; Howard & Sheth, 1969). The distinction between stages depends on the degree of comprehension and sophistication of the purchase. The buying process begins with the buyer's awareness of a difference between the ideal and actual situation to a certain threshold value, perhaps to achieve a personal goal. Then, a substantial discrepancy between the two states triggers a further action of searching for information (Schiffman & Kanuk, 2009). The source of information can be internal by recalling past experience with a product or brand; or external from public sources or company websites. Searching for information and alternative evaluation often occur simultaneously (Assael, 1987). In these two stages, the buyer seeks and assesses the value of each available purchase alternative. Purchase decisions depend on the consideration of different criteria. Bagozzi & Dholakia (1999) argue that the process does not stop at the purchasing stage as the buyer would also compare the degree of goal – fulfillment with their original expectations. Post-purchase evaluation therefore reflects satisfaction with the purchase and the buyer's perception of its value.

When this model is applied to franchising, these stages suggest that franchisees recognize their goals to operate a business prior to identifying potential franchise partners. The discrepancy between the franchisees' ideal and actual situation might point the buyer in the direction of franchising before further information is sought on alternatives. Prospective franchisees would then use task-related criteria (brand name, franchisor support, product innovation) and partner-related criteria (trust and reliability of the franchisor) to inform their decision-making (Altinay et al., 2013; Tatoglu, 2000). Once the preferred alternative is chosen and the purchase complete, the franchisee would evaluate the purchase against their expectations.

By adopting the model proposed by Engel et al. (1995), Hing (1999) developed an empirical model on franchisee buying behavior in the Australian restaurant sector. She demonstrates the relevance of all the different stages and that the post-purchase evaluation results in either franchisee satisfaction and/or a positive intention to recommend the purchase to others, or dissatisfaction and a negative intention for recommendation. While Hing's (1999) model has proved valid in developed markets, it has not been tested within an emerging market environment. Furthermore, the influence of the franchisees' national culture has not been considered. The following section therefore examines culture and its potential influence on buyer behavior, and particularly the national culture where this study is set.

### *Chinese Culture*

Guanxi and negotiation are the two main components of Chinese culture. Chen & Chen (2004, p. 306) define guanxi as "an informal personal connection between two individuals who are bound by an implicit psychological contract". It characterizes a long-term relationship, mutual trust and an obligation through numerous interactions. Guanxi involves an exchange of feelings and resources that occur between families, colleagues and people from the same region (Hwang, 1987). In Chinese society, guanxi is regarded as an element in a uniquely Chinese normative social order, and as a practical means for advancing specific personal interests (Huang, 2000; Vogel, 1965). The Chinese value individual social capital within their group of relatives, classmates, friends and close associates. They also consider that all their guanxi partners are sincere in taking care of the other's wellbeing and are likely to provide the kind of help they need (Huang, 2000). A close relationship between two individuals creates positive behavior and mutual trust that easily wins the deal in a business context (Chen & Chen, 2004).

Negotiation is also part of Chinese culture. The Chinese are more concerned with the process of negotiation; in other words with the means rather than the ends (Janosik, 1987). Young (1968) argues that the Chinese try every possible means to win over their business opponents at every possible point. Therefore the negotiation process is not brief, but requires patience, persistence, and honesty to win trust (Fang, 2006). The Chinese often rely on lengthy discussions or negotiation cycles to settle differences between the two parties, particularly in bargaining over prices (Graham & Lam, 2003).

As a Special Administrative Region (SAR) of China, the Macanese have this conservative Chinese culture which is built on "guanxi" which may have a significant impact on the purchase decision-making process for franchisees. Although previous franchise research has identified the importance of the purchase decision-making process and the criteria used, it has not examined the impact of national culture on this process. Given the growth of franchising within emergent markets (including China), this research seeks to build on our current understanding of franchisees' purchase decision-making by addressing the following research questions:

- What are the characteristics of each stage of the franchisee's decision-making process when purchasing a hospitality franchise?

- How does national culture affect the decision-making process and/or the criteria used when choosing a potential franchisor?

## **Research method**

A qualitative approach was adopted for the study in order to better understand the details and complexity of franchisees' decision-making process. The potential contribution of qualitative studies to franchise research has been noted (Doherty, 2009) as they enable researchers to better understand the actions of franchisees and the factors that influence them (Marshall & Rossman, 1999). Using a purposeful sampling method and a list from the Macau Franchise Exposition 2010, a potential sample of hospitality franchisees was identified. The final sample comprised 18 franchisees that purchased international and domestic hospitality brands, including different types of restaurants and cafés from six countries. The franchisees operated under single-unit, multi-unit and master franchise agreements, and had been operational from between a few months to 24 years. Contractual agreements ranged between 2 and 20 years duration. With one exception, all franchised outlets have less than 50 seats, typical of most restaurants in Macau. The sample size was considered acceptable and sufficient to generate a level of saturation of content for this group. According to Yeung (2010), at the time of the study, there were 52 franchise brands in Macau, 33 of which were from the food and beverage sector. The final sample therefore represents approximately one third of the population and is depicted in Table 1.

### **Insert Table 1**

Data was collected using semi-structured in-depth interviews. This method enabled a confidential and secure conversation between the interviewer and respondent so that insight was gained into the feelings, attitudes and motivation of franchisees towards the process of purchasing a franchise (Altinay, 2006). A semi-structured interview format was chosen to allow flexibility for exploratory and clarification purposes. The interview guide was designed to encompass three stages. The first stage included a short briefing about the aim of the research, the purpose of the interview, a statement of confidentiality and the request to audio tape the interview. The second stage involved asking broad open-ended questions developed from the existing literature (Doherty, 2009). Informants were asked why they wanted to be part of a franchise system, the stages of their decision-making process, their sources of information, the criteria used for evaluation and the factors that influenced their decision-making process. As advised by Altinay & Paraskevas (2008), the researchers noted the possible links between the interview questions and the literature in order to ensure internal consistency and validity and to facilitate data analysis. In the final stage, informants were asked to add anything else relevant to their hospitality franchise purchase decision-making process that had not been covered in the interview. The interview schedule was developed in English and then translated into Cantonese and back translated to ensure translational equivalence (Usinier, 2000). Each interview lasted around one hour and recordings were

transcribed, translated and checked by three persons separately and independently to ensure the accuracy of the record.

Analysis began with descriptive coding where each transcript was initially coded according to whether interviewees were discussing the stages of franchise purchase decision-making process, namely need recognition, information search, alternative evaluation, purchase and post-purchase review. The transcripts were read, analyzed and summarized into coding categories by the researchers individually. The codes were then compared and contrasted in order to ensure congruence of analysis (Miles & Huberman, 1994). The researchers then looked for recurring words and patterns that emerged from the data in order to best describe the research phenomenon (Patton, 2002) and interpret the meaning of the content. The patterns identified inevitably relied on the research experience, skills, insights, and capabilities of the researchers. The final stage of the research entailed comparing the findings to the extant marketing and international franchise literature in order to draw conclusions to the study.

## **Findings and discussion**

The findings are presented below according to the different stages of the decision-making process and the subsequent discussion evaluates the role of national culture within these stages.

### ***Interest / Need Recognition***

The study identifies two factors that influence franchisees' interest or need recognition. Many franchisees reported their goals of being in 'business' for themselves or for pursuing an 'entrepreneurial activity'. One franchisee reported,

*“Actually, we've got the idea of doing business after graduating. We are quite interested in food (the food and beverage area) so we decided to develop this ourselves in both these areas together.”* – Franchisee 1

These franchisees also advised that franchising was considered as a way to help them to achieve their ambitions. As one explained,

*“Actually, I have the idea of starting a business, and I believe that choosing to join a franchise is somehow a shortcut. It helps me in terms of operating a business, like how the renovation should be done, how to apply for the necessary licenses, or how to do the promotion.”* – Franchisee 5

Likewise another franchisee advised,

*“[The franchisors] have developed very well and I think the beverage industry is very popular for some young people in Macau. This could be a very good opportunity to*

*develop in the future and therefore I have the idea of starting a business.” – Franchisee 18*

Nonetheless, these decisions were also shaped by friends and family who introduced franchisees to franchisor brands. Some franchisees learned of franchise opportunities “*after meeting an old school friend*” (Franchisee 12) or learning that “*a friend had been granted a franchise*” (Franchisee 18). Yet another reported, “*a brother of mine was talking with the Fung’s family about the possibility of introducing [a franchisor] from Hong Kong to Macau.*” – Franchisee 10

Similarly, another advised,

*“one day Dad told me ... he wants me to learn slowly how to operate a business ... it happened during breakfast on that day after chatting with his friend [the franchisor]” – Franchisee 15*

These findings are consistent with previous research that identifies franchisees’ experience and personal characteristics motivate them to pursue an entrepreneurial activity (Hing, 1995). However, they also suggest that networks of old friends and family are important in the first stage of the decision-making process and that personal contacts and guanxi help to steer franchisees towards a franchise business model. Once interested in franchising, franchisees reported their information search process as discussed below.

### ***Information Search***

The findings reveal that franchisees used a wide range of information sources to research franchisor brands, even when introduced by friends and family. The internet was the most common medium to gather data about the franchisor such as the history and growth, current locations, franchise fees and royalty rates. Some, but not all franchisees, also visited a franchise exposition so they could speak in more detail to franchisor’s agents. Other visited the franchisor’s head office to make sure the “franchisor actually existed” (Franchisee 8), and check that a “supply network” (Franchisee 1) was in place, particularly for international franchise brands. As one franchisee explained,

*“I went to Taiwan, visited other places and searched for related information during a travel stroll. ....we did seriously think if it would work.” - Franchisee 13*

Franchisees reported that they subsequently gathered additional data from other external sources. For example, some reported using government research reports and statistical data and/or undertaking their own market research. Some franchisees simply observed other units in the franchise network suggesting,



*“I noticed that this brand was developing in Hong Kong (renovating) and I was able to see the shop after decorating. So I can observe the first two shops opened in Hong Kong ....” Franchisee 5*

and that this type of observation enabled them to determine,

*“First, how many people have been passing by the shop. Second, the time intervals at which people go to work and school, and also the restrictions.” Franchisee 6*

This external data was then used to verify whether the information provided by the franchisor was accurate. This detailed information search appears to have had an impact on the length of this stage of the decision-making process. As one explained,

*“We started to gather information, talked it over with them and visited their workshop, etc.; all these took about half a year.” – Franchisee 1*

This study therefore confirms previous research which identified franchisees collect information from a range of sources (Hing, 1999) and that as a high involvement purchase, franchisee decision-making is relatively complex (Bloch, 1982; Kotler et al., 2009). However, these findings contrast those of other franchise researchers who found franchisees often made decisions to enter a franchise system quickly in different country contexts (Altinay et al., 2013). In this study, franchisees took their time to gather information so that alternatives could be evaluated carefully, as discussed in the following section.

### ***Evaluating Alternatives***

As in previous research (Assael, 1987), the findings reveal that the stages of information search and evaluation occurred simultaneously for the franchisees in this study. The information that franchisees gathered from franchisors and external sources was used to evaluate alternative franchise options using three main criteria.

The first and most important evaluation criterion identified by franchisees was the brand, and in particular the reputation and image of the brand. While other franchise researchers have also identified the importance of the brand in franchisee decision-making (Guilloy et al., 2004; Hing, 1996), in this study franchisees made educated guesses on the brand reputation based on three further criteria; the size of the network, the franchisor market share in the home country, and then the length of time the franchisor had been in operation. One franchisee explained that they were looking for, *“a known brand with many years of experience”* (Franchisee 8).

Another summed up the situation as follows,

*“Firstly, the reputation; secondly, the brand image. That is, the brand promotion and package. At that time, there were around eighty branches, and the brand was established in 2002. There are around 150 shops now.” – Franchisee 4*

The second main evaluation criterion used by franchisees, was the actual product produced by the franchisor. Franchisees identified four factors that underpinned the importance of this criterion. The first relates to the degree of competition in the market and whether or not they perceived there to be a market gap in Macau. Franchisees advised, *“we realized that there is, currently, no such product in Macau”* (Franchisee 16) or that *“Macau also lacks this kind of industry”* – Franchisee 5

The second factor deemed important was the quality of the franchisor’s product as judged by their own personal taste. As one franchisee explained, *“We found this product very attractive, tasty, and wanted to have one of our own so that we can taste it every day.”* – Franchisee 16. Another reported,

*“It is because they have a good reputation, they have a brand and also a guarantee on the food. We have tried the pork chop bun of many shops, and also other food, but at last we still think that the pork chop bun of this store is the best.”* – Franchisee 15

Seasonality was the third consideration about the franchisor product. If the seasonality of the product was perceived to be too short, the franchisee would question the viability of joining this franchisor’s brand. One franchisee summed up the situation accordingly,

*“The franchisor has a larger variety of products. In Macau, the desserts are mainly composed of fruits like sweet mango soup, fruit mixture, etc. However fruits are quite seasonal, so I choose to find a brand where the food is non-seasonal.”* – Franchisee 9

The fourth and final product factor considered by franchisees was the product line and more specifically the extent of the line and the level of innovation. If the product line on the franchisor’s menu was deemed too small, franchisees did not perceive it to be viable. However, if it was too large, it created complexity and franchisees worried that they would be unable to recruit sufficient staff, or sufficiently trained staff to offer an extensive menu. The staffing issue is of particular importance within Macau, where there is a recognized labor shortage and controls placed on labor imports. Careful consideration was therefore given to the size of the product line as well as the level of innovation. Franchisees investigated how often they introduced a new product or menu item and new promotions. It was important to balance the length of the product line with capturing new customers and keeping existing ones interested. One franchisee commented:

*“For the franchisor’s operating experience, we have had many innovations; so many creative ideas are first developed by the franchisor and followed by other brands later.”* – Franchisee 10

The third and final main evaluation criterion identified by franchisees was the cost the franchise. Almost one third of the franchisees in this study considered cost to be a key criterion in choosing the actual brand, a finding consistent with Xiao et al.'s (2008) Chinese franchise study. However, in this study franchisees were concerned with the cost of purchasing a franchise as well as the cost of operating the franchise. Franchisees were very much aware of the labor shortage in Macau, and put this issue into the equation during the evaluation stage. Franchisees advised they would rather screen out those brands that relied on a large labor force or a higher level of skill because of the increased operational cost. A franchisee commented on his evaluation accordingly,

*“the cost of running this brand is comparatively low; you need not invest millions of dollars or several hundred thousand dollars.....[the franchisor] requires me to open during weekends and Sundays, with no holidays throughout the year, but you have to give triple salary on mandatory holidays. In my case, it is just a small business, I can handle it myself.”* – Franchisee 6

These findings reveal that the main criteria used by franchisees to evaluate alternative franchisor offers are therefore task-related criteria or criteria which reflect the ability of the franchisee to realize their ambitions. Previous franchise studies in different country contexts also identify the use of task-related criteria by franchisees (see for example Altinay et al., 2013; Brookes & Altinay, 2011).

### ***Negotiations and Purchase***

Following alternative evaluation, franchisees then reported taking up to one year further for negotiations with the franchisor, findings consistent with the extant literature on Chinese negotiations (Graham & Lam, 2003). As one franchisee explained,

*“Sometimes we handle things in different ways, and this involves long negotiation.”* – Franchisee 6

Franchisees reported negotiating with franchisors on two main topics, the franchise fees and supply chain management. Even though franchisees fees were clearly dictated by the franchisor and were non-negotiable by the franchisor, franchisees reported they became the subject of negotiation in relation to the services provided for those fees. One franchisee summarized the situation accordingly, *“As an investor, what concerns us the most is the initial franchise fee, the required royalty, and the degree of support to be offered.”* – Franchisee 8. Others reported,

*“You can negotiate for other fees and support. I required them to send someone to our shop to have a look before the opening, and then I send people to their training.”* – Franchisee 7

and,

*“The franchise fee and also the supply of facilities – equipment, and also the promotion fee upon opening. I have to bear it. That’s why I have to negotiate with them.” – Franchisee 5*

Negotiations about support also concerned the franchisor’s supply chain management and the provision of raw materials to operate the franchise. Given that these were food and beverage franchisees the responsibility for importing raw materials into Macau, the delivery schedules and the quantities required were important to franchisee to produce quality products. One franchisee reported,

*“There are still many minor issues under discussion now. For example, delivery, the timing of the logistics, and there are many practical issues like which bank to use for payment. We have discussed this for some time, because the charges for banks from different regions, so we have to discuss. And currency is another problem - should we settle in USD or RMB?” – Franchisee 6*

The negotiation process was much quicker and the contract signed more quickly if franchisees understood the rationale for the fees charged and the reasons for the logistics of the supply chain arrangements from the franchisor’s perspective. Upfront and open communication between the franchisor and the franchisee was therefore very important in the negotiation process. Franchisees reported that this communication helped them to determine the extent to which they would receive the support of franchisors after contract signature. The conversations between franchisors and franchisees also helped to establish connections between the individuals involved and the start of a franchisor and franchisee relationship. However, the study also identifies that when there was an established guanxi relationship between the franchisor and the franchisee directly, the decision-making process was conducted much more quickly as exemplified by a franchisee of a domestic brand who identified,

*“I have been consuming the food of this restaurant for many years, but I have never thought of joining the franchise before my Dad came up with this plan after chatting with his friend. After he mentioned the plan, we have also done some calculation, and thorough consideration. It takes altogether two weeks for studying the feasibility of opening the restaurant.” – Franchisee 15*

### ***Post-Purchase Review***

While task-related criteria were used during the alternative evaluation stage, franchisees relied on partner-related criteria in their post-purchase review. These criteria reflect the honesty and reliability of partners in delivering what has been promised. In this study, franchisees were particularly concerned with the support they received from the franchisor. Franchisees identified the importance of the training they received prior to opening their franchise unit, and the ongoing support provided to answer queries, solve problems and to assist with pricing and promotional strategies. One franchisee explained how important it was to,

*“consider if the support is sufficient or not. This is because there are some franchisors who will not provide any further support after you have had your shop opened, then you will be quite weak in the market.” – Franchisee 5*

Franchisees advised therefore to *“discuss the contract in detail to prevent these problems from happening”* (Franchisee 18) and to ensure contract terms are *“much clearer”* and *“to separate the rights and obligations”* (Franchisee 4).

Franchisees also reflected on how open and honest the franchisors had been in relation to this support during the negotiation stage and whether they were able to run their franchised unit with the training provided. One franchisee advised,

*“The counterpart must be honest and explain how [the cooperation] would develop, and explain this truthfully. It is very unfair for a franchisee like us, because we have to analyze his honesty. This is very important, as we have to communicate how to make a good business in the future to allow those people with the intention of joining to consider when it is suitable, because for simply making [an] investment, you do not really have to join a franchise. Since there is a risk for joining a franchise, everyone wants the cooperation to develop well and not become unworkable later.” – Franchisee 18*

The communication that occurred between the franchisor and the franchisee after opening, and in particular, the speed and openness in which franchisors responded to franchisees enquiries was also important. A franchisee explained,

*“You have to make sure that the franchisor is willing to communicate with you, they are there to help you, not only look at your royalty. We are the one paying their salary, so they should be there to support us. We are not taking advantage of their brand to make money so they can just sit there for the royalty! We should respect each other.” – Franchisee 2*

These findings indicate the importance of partner-related criteria to the franchisees' decision-making process at this stage. Altinay et al. (2013) also identified the relevance of partner-related criteria in franchisee partner selection and that these criteria might be important at different stages of the selection process. In this study however, franchisor support and the reliability of the franchisor to provide what was promised, is important to *“the cooperating relationship”* (Franchisee 18), or the guanxi building between the franchisor and the franchisee. Furthermore it is an indicator of the likelihood of a long-term cooperative relationship as March and Wu (2007) suggest. Franchisees not only reflected on the support they had received to date, but also what they would receive in the future to maintain a cooperative relationship with the franchisor. Franchisees reported, *‘you have to consider whether the brand wants to have a long-term development or not’* (Franchisee 5) and learn the franchisor's *‘motive for continuous development, because it's useless if there is no motive for continuation’* (Franchisee 4). However, franchisees also reported they hoped their future relationship would be such that they would have more input into decision-making. As one franchisee explained,

*“I hope they can give you a higher degree of flexibility, to make decisions by ourselves. Although I am joining their brand, I still hope to have some changes.”* – Franchisee 13

It is not surprising therefore that franchisees were also concerned with verbal promises that had been made by franchisors or their representatives. A number of franchisees were offered incentives by the franchisors agents related to franchisees’ expansion and future purchase or royalty fees. However franchisees were not very comfortable with this approach advising,

*“everything should be in black and white, because most of the communication will be on the phone, but this can be a problem - sometimes one may happen to forget what has been discussed, or there may be miscommunication due to language or culture.”* – Franchisee 6

Marketing researchers argue that buyers evaluate their purchase by comparing costs against benefits and how well products meet their expectations (Bagozzi & Dholakia, 1999). This process then results in either satisfaction or dissatisfaction with the purchase (Oliver, 2010). In this study however, franchisees were concerned with their ongoing relationship with the franchisor and the potential to grow their relationship through the purchase of additional franchised units. The continued support from the franchisor is therefore a means to guanxi-building for the franchisees in this study, a finding supported by March & Wu (2007). Franchisees’ post-purchase review was therefore focused on ongoing business support as depicted in marketing research (Roh & Yoon, 2009). As a result, rather than reporting their satisfaction or dissatisfaction with the purchase, franchisees viewed their purchase and their experiences as a learning process. Indeed they recognized things that they should have done differently throughout the decision-making process.

In the first instance, franchisees identified they should have undertaken more research despite reporting an extensive information search during their decision-making. Some franchisees felt that they did not fully understand the market commenting,

*“market research has to be done to understand the market situation, and look into the development of the industry”*– Franchisee 18

Another commented,

*“First, they [franchisees] have to do more research. If they really want to start a business, they have to think carefully as the investment involves a few hundred thousand dollars. Please don’t start it if they are not confident enough.”* – Franchisee 2

Along with confidence, franchisees advised that they should have given more consideration to their own interests and abilities during the decision-making process suggesting, *“interest is of the utmost important. You should not do it just for profit; you should have enthusiasm with the product”* (Franchisee 1) and *“the first is still the interest, whether it suits the franchisee, this is the most important”* (Franchisee 6). Others explained that you *“have to know whether you are capable of maintaining the brand”* (Franchisee 11), because,

*“before you decide to operate a brand, you should first find out do you have the interest and ability. If there is no interest, the risk is actually very high, because you have to operate by heart and cannot give up easily when there are problems. You need to invest time and effort to learn, try your best to figure out a solution for the problem.” – Franchisee 17*

These findings reveal that franchisees go through all the five different stages of decision-making when purchasing a franchise brand, a finding consistent with that of Hing (1999). They also highlight the complexity of the decision-making process, as might be expected in a high-involvement purchase. However, this study builds on previous research by providing empirical evidence of the influence of national culture on the decision-making process, and in particular the role of guanxi at different stages of that process. Figure 1 depicts these different stages and their key characteristics, as well as the relevance of guanxi at certain stages.

**Insert Figure 1.**

## **Conclusions and implications**

Given the growth of hospitality franchising in emerging tourism markets, this study set out to explore the influence of national culture on the decision-making purchase process of franchisees. The study offers both theoretical and practical implications. It also provides recommendations for further research as outlined below.

### ***Theoretical Implications***

This study is one of the few studies that examines the interface between culture and franchisee decision-making. The study reveals that national culture can play an important role in the franchise decision-making process, at least in the Chinese cultural context. In particular, the study explored the importance of Guanxi in purchasing a franchise brand and selecting a potential franchisor. Guanxi appears to be extremely important at the first stage of interest and need recognition. The study reveals that personal networks of friends and family are very influential in introducing the concept of franchising and in steering aspiring entrepreneurs towards franchising as an option to realize their ambitions. Franchisees in this study also undertook a more extensive information search process than franchisees in other country contexts, collecting information provided by the franchisor and gathering information through independent research. This information was used to thoroughly evaluate alternative franchise options using three task-related criteria; the brand reputation and image, the product and the cost.

This thorough evaluation placed franchisees in a strong position to begin an extensive negotiation process, typical in Chinese culture, with the franchisor which focused on fees relative to the franchisor support provided and logistical considerations related to supply chain management. The study reveals as well, that when prospective franchisees' guanxi relationship is with the franchisor, the extent of negotiation and the length of the process are considerably reduced. Guanxi also has great relevance in the post-purchase review stage where franchisees use partner-related criteria to reflect on their current and future relationship with the franchisor. Rather than considering their satisfaction or dissatisfaction directly, franchisees considered their learning from

the whole experience, recognizing the shortcomings in their own actions during the decision-making process. Franchisees identified the need for more market research in the information search stage and the need to consider their own interests and capabilities more carefully. The study suggests therefore that there may be some limitations when guanxi relationships are used for franchise introductions if perspective franchisees overlook this important consideration.

This study also makes a distinct contribution to knowledge through the development of a franchisee decision-making purchase model. It builds on previous research and models through the identification of the different characteristics at each stage. More importantly, it identifies the different stages where guanxi is relevant and how it influences the decision-making process. Furthermore it contributes to the franchise literature by identifying the use of task- and partner-related criteria in the different decision-making purchase stages. Altinay et al. (2013) advise that both task and partner-related criteria are important before signing a contractual agreement. However, this study suggests that task-related criteria, including the franchisor's brand, products and costs are used to evaluate potential franchise purchases prior to the negotiation stage and partner-related criteria, such as the franchisor's honesty and trustworthiness to deliver the support promised are used at the post-purchase stage. As such, the study reveals that task related criteria act as precursor of partner related criteria in franchisee decision-making process.

### ***Practical Implications***

Given the growth of hospitality franchising in emerging tourism markets, this study also has practical implications for both franchisors and franchisees. Franchisors seeking to expand in China should understand how guanxi relationships can be used to attract prospective franchisees. In addition, they also should understand the importance of task-related criteria when evaluating alternatives and ensure that the information that franchisees seek on the brand, the products and the cost is not only readily available but accurate. Hospitality franchisors need to be aware of the feasibility of their franchise model in markets where labor restrictions could severely impact on the viability of franchised units with extensive menus. Franchisors also should understand the importance of negotiation within a Chinese context. While franchise fees are likely to remain non-negotiable, the importance of taking time to discuss the rationale for the fees in relation to the support provided should be recognized. The importance of supply chain management in hospitality franchises should be understood by all franchisor representatives. This negotiation process provides the foundation for a guanxi relationship with franchisees and the information exchanged during negotiations is used during the post-purchase review. The importance of partner-related criteria during this review should also be recognized.

Franchisees should be made aware of the potential limitations of relying on guanxi relationships in the first stage of the decision-making purchase process. The study identifies the potential for franchisees to be swayed into a franchise business opportunity without considering their own interests in the hospitality business or their capability of running a franchised unit. It also suggests the potential danger of a quick negotiation process without a thorough evaluation of task-related criteria informed by research. Franchisees should also be encouraged to undertake independent research to substantiate franchisor claims, or the reliability or honesty of these claims prior to entering into any contractual agreement. As Guanxi plays an important role in decision-making process, franchisees should be wary of an over-reliance on trust at the expense of diligent research



to undertake an informed and objective decision-making process. However, they should also recognise the importance of using partner-related criteria to assess the franchisor's honesty and trustworthiness in the post-purchase evaluation stage, particularly if they seek a long-term relationship with the franchisor. In addition, franchisees should recognise the importance of communication with the franchisor during the negotiation to help them make informed purchase decisions.

### ***Limitations and Future Research***

Despite the contributions of this research, it is not without its limitations. While the qualitative approach adopted facilitated a deeper understanding of the franchisees' decision-making process in emerging tourism destinations, the small sample size drawn solely from the food and beverage sector restricts the generalizability of the study. A larger study across different hospitality sectors and other industry sectors is therefore warranted. While this study highlights the influence of national culture on franchisee purchase decision-making, the study was also set within one specific location in one country. Further research is advised across more locations in China to test and validate the importance of guanxi in franchisees' purchase decision-making. Franchise studies in other country contexts are also warranted to further develop our understanding of the role of national culture on the purchase decision-making process. Given the importance of the negotiation stage to the post-purchase review, future research should also consider the influence of negotiation styles on franchisee perceptions of franchisors' honesty and trustworthiness.

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**Table 1. Characteristics of Research Samples**

	<b>Company Position</b>	<b>Types of Restaurant</b>	<b>Country of origin</b>	<b>Length of time in Operating</b>
Franchisee 1	Business Owner	Dinner House	Taiwan	4 months
Franchisee 2	Business Owner	Dessert House	Taiwan	1 ½ years
Franchisee 3	Managing Director	Dinner House	Taiwan	2 years
Franchisee 4	General Manager	Dessert House	Taiwan	4 years
Franchisee 5	Business Owner	Dessert House	Taiwan	1 year
Franchisee 6	Business Owner	Seafood Restaurant	Japan	Ready to open
Franchisee 7	Executive Director	Hot Pot Restaurant	Mongolia, China	3 ½ years
Franchisee 8	Operations Director	Café	Hong Kong	3 years
Franchisee 9	Business Owner	Steak House	Taiwan	1 ½ years
Franchisee 10	President	Quick Service Restaurant	USA	24 years
Franchisee 11	Business Owner	Dessert House	Taiwan	3 years
Franchisee 12	Chairman	Ice Cream Café	USA	1 year
Franchisee 13	Business Owner	Dessert House	Taiwan	1 year
Franchisee 14	Business Owner	Dessert Take Away	Hong Kong	6 months
Franchisee 15	Business Owner	Mid-priced Restaurant	Macau	6 months
Franchisee 16	Business Owner	Dinner House	Taiwan	4 months
Franchisee 17	Business Owner	Dinner House	Taiwan	2 years
Franchisee 18	Business Owner	Dessert House	Taiwan	3 years