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A STUDY ON THE OPERATIONAL EFFICENCIES OF GOVERNANCE PRACTICES IN FRANCHISEE

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Abstract

Governance encompasses the system by which an organization is controlled and operates, and the mechanisms by which it, and its people, are held to account. Ethics, risk management, compliance and administration are all elements of governance. Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. The objective of the study is to analyze the operational efficiency of governance practices in franchise. The sample of the study is 50. Descriptive research design and convenience sampling method is used. Questionnaire is used as a primary data. Percentage analysis, chi-square analysis and correlation statistical tools have been applied. It is found that the respondents said that strongly agree towards codes for the governance protects the interest of stakeholders. The study suggested that the ownership structure of the firm should have the characteristics for immediate decision making in the franchise business. There should not be any delay in the decision making process. It concluded that the management must develop and implements corporate strategy and must operate the company's business under the board's oversight, with the goal of producing sustainable long-term value creation. The board must be reframed if it is fail to be provide operational efficiency for the business.

.**Keywords:**

FRACHISEE ,GOVERNANCE ,OPERATIONAL EFFICENCY

I.INTRODUCTION

1.1 Introduction

A franchise is a business whereby the owner licenses its operations—along with its products, branding, and knowledge in exchange for a franchise fee.

A franchise is a type of license that grants a franchisee access to a franchisor's proprietary business knowledge, processes, and trademarks, thus allowing the franchisee to sell a product or service under the franchisor's business name. In exchange for acquiring a franchise, the franchisee usually pays the franchisor an initial start-up fee and annual licensing fees

The franchisor is the business that grants licenses to franchisees. The Franchise Rule requires franchisors to disclosure key operating information to prospective franchisees. When a business wants to increase its market share or geographical reach at a low cost, it may franchise its product and brand name. A franchise is a joint venture between a franchisor and a franchisee. The franchisor is the original business. It sells the right to use its name and idea. The franchisee buys this right to sell the franchisor's goods or services under an existing business model and trademark

Corporate governance is 'the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations'. It encompasses the mechanisms by which companies, and those in control, are held to account.

Statement of the problem

Good governance is conclusively the indicator of personal beliefs and values that configure the organizational beliefs, values and actions of its Board. The Board, which is a main functionary is primary responsible to ensure the value creation for its stakeholders. In the absence of clarity on designated role and powers of the Board and ownership structure, it weakens the operational efficiency that subsequently, threatens the achievement of organizational goals. Therefore, the key requirement of good governance is the clarity on part of board characteristics and ownership structure of the franchise business. In such cases, functions and role of every of the board members and ownership should be have standard operating procedures in the franchise business. The good governance practice in the company impacts on operational efficiency of the organisation. Good governance which includes efficient board characteristics and standard operating procedures in the company. Hence the study is undertaken to analyse the operational efficiency of governance practices in franchise.

Objective of the study

- To study the board characteristics and ownership structure in the franchise
- To know the standard operating procedures in the franchise
- To measure the impact of effective governance practices for the franchise

Research Methodology

Research methodology is a systematic way to solve research problem. It may be understood as a science of studying how research is done scientifically. Research refers to search for knowledge. The pattern in which a research is carried out to arrive at a conclusion or to find new relationship with a particular frame work is called 'research methodology'. Research Methodology also refers to the various sequences and steps to be adopted by a researcher to study a problem with certain objective in view.

1.4.1 Research Design

Research design is the plan, structure and strategy of investigation conceived so as to obtain answer to research question and to control variance. Researcher has taken "descriptive research design" to carry out the study. This research design would help the researcher to gather the primary and secondary data to analyse the various aspects of the study

1.4.2 Population and Sample Size of the Study

Here population is the entire management executive of the franchise business in Coimbatore. The sample size of the study was 100 respondents.

1.4.3 Sampling Technique

A convenience sample is a type of non-probability sampling method where the sample is taken from a group of people easy to contact or to reach.

1.4.4 Sources of Data Collection

Collection is an important aspect of any type of research study. Inaccurate data collection can impact the results of a study and ultimately lead to invalid results. Data collection methods for impact evaluation vary along a continuum. At the one end of this continuum are quantitative methods and at the other end of the continuum are Qualitative methods for data collection

1.4.4.1 Primary Data

The primary data are hose which are collected afresh and for the first time and thus happen to original in character. In the case of this research primary data is collected first hand from the responded by the following.

1.4.4.2 Secondary Data

Secondary data are those which have already been collected by other people and which have already been passed through a statistical process. Here the secondary data collection was made from website, Books, Magazines, People.

Statistical tools used

- Simple Percentage analysis
- Chi –square Test
- Correlation analysis

1.5 Scope of the study

The study is confined to operational efficiency of governance practices. It is analysis with franchise business. The size of the sample is 50. The study throws the lights on impact of effective governance practices for the franchise. It is useful to understand the board characteristics and ownership structure in the franchise. The survey is undertaken with management executive of the franchise concern.

1.6 Limitations of the study

- The sample size was limited.

- Time has played a biggest constraint that the research could not be carried out comprehensively as the duration of the study was only for a short period of time.

- The respondents may be biased.

- Study is done only with the management executive of the franchise.

- The sample size of the study is 100.

CHAPTER II

REVIEW OF LITERATURE

Kathryn Shaw (2005), Franchisors simultaneously operate outlets under two distinct incentive schemes: franchising and company ownership. Using an extensive panel dataset, we show that experienced franchisors maintain a stable level of corporate ownership over time. However, the targeted rate of company ownership varies considerably across firms. We show that franchisors with high brand name value, measured by major media expenditures and other proxies, have high rates of company ownership. We argue that franchisors with valuable brands have high rates of company ownership so they have incentives to exert more control and they can better protect their brands from franchisee free-riding.

Kathryn Shaw (2005), "Targeting Managerial Control: Evidence from Franchising",RAND Journal of Economics, The RAND Corporation, vol. 36(1), pages 131-150.

Jérôme Barthélemy (2008), An important feature of most franchise chains is that they simultaneously use franchised and company-owned outlets. In this study, I show that the relationship between the resources provided to outlet managers and the financial performance of franchise chains is contingent on their governance structure. Specifically, opportunism and knowledge considerations seem to prevent chains with a large proportion of franchised outlets from fully leveraging resources such as a valuable brand name and tacit business practices. On the other hand, brand name value and business practices tacitness are not directly related to the proportion of franchised outlets in chains. Copyright © 2008 John Wiley & Sons, Ltd.

Jérôme Barthélemy (2008), "Opportunism, knowledge, and the performance of

franchise chains",Strategic Management Journal,Volume29, Issue13 December 2008, Pages 1451-1463.

Chia-Yen Lee (2008), The fields of engineering and management associate efficiency with how well a relevant action is performed, i.e. ‘‘doing things right’’, and effectiveness with selecting the best action, i.e. ‘‘doing the right thing’’. Thus, a firm is effective if identifies appropriate strategic goals, and efficient if it achieves them with minimal resources. This chapter focuses on operational efficiency, or the ability to deliver products and services cost effectively without sacrificing quality. In this chapter we investigate a firm’s operational efficiency with both queueing models and productivity and efficiency analysis methods that identify maximum productivity and measure efficiency as a ratio of observed productivity to maximum productivity. The maximum productivity levels serves as a benchmark for desired perform. The methods for analysis will vary depending on the level of analysis. For example, at the micro-level, we measure operational efficiency at points (machine, workstation, laborer) on the shop floor, whereas the macrolevel might be at the firm, industry, or nation level. We begin by evaluating performance at the operational level, and then apply productivity and efficiency analysis to aggregate performance at higher levels.

Chia-Yen Lee (2008), "Operational Efficiency",National Cheng Kung University journal, Pg. 1 – 30.

Roland E. Kidwell (2010), Drawing on various theoretical streams, including organizational deviance, we propose that a franchisor cannot assess and control opportunism without comparative information from plural form contractual arrangements provided by both franchisee relationships and operating its own units. Moving beyond dyadic perspectives, our strategic deviance model suggests why franchisors accept deviant behavior that results from vertical and horizontal agency problems. The plural form provides benchmark information to the franchisor that curbs even greater levels of costly shirking and free riding behaviors. Thus, company manager and franchisee opportunism is managed through self enforcing social control, tournaments in internal quasi-markets and social comparison mechanisms.

Roland E. Kidwell (2010), **"The Dual-Agency Problem Reconsidered: A Strategic Deviance Perspective on the Franchise Form of Organizing",Centre for Corporate Governance Research journal, Pg. 1 – 34.**

Jacques Boulay (2010), The purpose of this paper is to consider how different governance mechanisms affect the level of franchisees' compliance with their franchisor's directives. The research objectives are threefold: to investigate how franchisors can use explicit contracts and develop relational norms as governance mechanisms to prevent their franchisees from deviating from the franchise system directives; to show how information systems allow to control franchisees at a distance; and to throw light on the ways in which these three control mechanisms can play alternatively or simultaneously in the management of franchise relationships.

The paper takes the form of a multiple regression analysis with interaction effects of survey data collected from franchisees of various French franchise systems.

Overall, the results support an emphasis on contract and information systems in the management of the risks of “free riding” behaviour in franchise systems. The results indicate that formal control mechanisms are more efficient in the management of franchise systems whereas relational norms are less so. The results do not reveal that all combinations of control mechanisms are more efficient in disciplining agents. Recommendations will be used by franchisors to implement an effective control strategy.

Future research should focus on replicating the findings using a contingency perspective. Cross-cultural studies should also be carried out.

This paper applies to the governance of franchise relationships a research framework that validates the role of explicit contracts and information systems in the management of franchise systems.

Jacques Boulay (2010), “The role of contract, information systems and norms in the governance of franchise systems”,International Journal of Retail & Distribution Management,Vol. 38 No. 9, pp. 662-676.

Maria Jell-Ojobor (2014), This paper examines the evolution of the international franchise research with special focus on the governance modes of the international franchise firm and develops a new model for the franchisor's choice of the international governance modes. International governance modes in franchising refer to wholly-owned subsidiaries, joint venture franchising, area development franchising and master franchising. Although many studies on the governance modes of the international franchise firm have been published in the last two decades, no prior study develops an integrative framework that investigates the determinants of the international governance modes by combining organizational economics and strategic management perspectives. Specifically, this study explains the governance modes of the international franchise firm by applying transaction cost theory, agency theory, resource-based and organizational capabilities theory and property rights theory.

Maria Jell-Ojobor (2014), “The Choice of Governance Modes of International Franchise Firms — Development of an Integrative Model”,Journal of International Management 20 (2014) 153–187.

Jell-Ojobor, Maria (2014), This paper examines the evolution of the international franchise research with special focus on the governance modes of the international franchise firm and develops a new model for the franchisor's choice of the international governance modes. International governance modes in franchising refer to wholly-owned subsidiaries, joint venture franchising, area development franchising and master franchising. Although many studies on the governance modes of the international franchise firm have been published in the last two decades, no prior study develops an integrative framework that investigates the determinants of the international governance modes by combining organizational economics and strategic management perspectives. Specifically, this study explains the governance modes of the international franchise firm by applying transaction cost theory, agency theory, resource-based and organizational capabilities theory and property rights theory.

Jell-Ojobor, Maria (2014), “"The Choice of Governance Modes of International Franchise Firms — Development of an Integrative Model”, Journal of International Management, Elsevier, vol. 20(2), pages 153-187.

Jenny Buchan (2014), This article canvasses practice and research in international franchising law. The franchisor law's key concepts are introduced. I then identify aspects of franchising practice that are poorly accommodated by the law. These aspects offer opportunities for productive research. I identify these aspects as follows: franchising law's reliance on contracts to regulate the relationship through all its phases, the risk that a “franchisee” is an employee, good faith, governance, and insolvency. I continue with suggestions as to why these challenges exist. The article concludes with emerging themes in franchise practice and research: e-commerce, natural disasters, sustainability, micro-franchising, and social franchising.

Jenny Buchan (2014), “Deconstructing the Franchise as a Legal Entity: Practice and

Research in International Franchise Law",Journal of Marketing Channels, 21:143–158, 2014.

Amarjit Gill (2014), This study investigated the relationship between changes in operational efficiency and changes in future performance of Indian manufacturing firms applying a correlational research design. A sample of 244 firms was selected from the top 500 companies listed on the Bombay Stock Exchange (BSE) for a period of five years (from 2008–2012). The findings of this study indicate that changes in operational efficiency play a role in the future performance of Indian manufacturing firms. This study contributes to the literature on the factors that cause changes in firms' future performance. The findings may be useful for financial managers, operations managers, investors, financial management consultants, and other stakeholders.

Amarjit Gill (2014), "The Impact of Operational Efficiency on the Future Performance of Indian Manufacturing Firms",International Journal of Economics and Finance; Vol. 6, No. 10; 2014, Pg.259 – 269.

Isabelle Piot-Lepetit (2014), Purpose – The purpose of this paper is to develop a new model allowing the implementation of a benchmarking process that jointly measure the efficiency of franchise chains and determine their optimal organizational form. Design/methodology/approach – The methodology is based on a non-econometric technique developed by management scientists on economic concepts for evaluating the performance of decision-making units and implementing a benchmarking process. An extended model is developed in the paper for evaluating the efficiency and determining the optimal percentage of company-owned outlets (PCO) of each franchise chain. Findings – First, results showed that the PCO has a positive impact on franchise chain efficiency; even if other chain characteristics have a larger impact. Second, the optimization of the PCO allows for additional improvements in efficiency. Research limitations/implications – Even though this study has some limitations (e.g. sample and variable selection), it contributes to the literature on franchising by providing an approach allowing us to answer to the question of Shane (1998) on the optimal proportion of franchised units given other firm characteristics. Practical implications – By developing a model that allows for the joint evaluation of franchise chain efficiency and optimal PCO, this study offers to franchisors a new benchmarking process allowing for both a competitive and functional benchmarking. Originality/value – The originality of this research can be found in the new model developed for allowing a benchmarking of franchise chains that allows an evaluation of efficiency jointly with a determination of their optimal organizational form.

Isabelle Piot-Lepetit (2014), "Organizational form and efficiency of Franchise chains", International Journal of Retail & Distribution Management 42(7):671-684.

Rajiv P. Dant (2014), The purpose of this article is to examine the present state of international franchising research. We consider the origins and evolution of franchising as an enterprise form and summarize relevant research in this area. We advance and substantiate the premise that franchising research in the global arena has largely followed the geographic expansion trajectory of the franchise industry. And, based on these themes, we conclude by identifying a series of significant research topics in the international franchising domain.

Rajiv P. Dant (2014), "International Franchising Research: Some Thoughts on the What, Where, When, and How",Journal of Marketing Channels, Volume 21, 2014 - Issue 3: International Franchising Research and Practice: Past, Present, and Future,Pages 124-132.

A.K.D.N. Dilshani (2019), Even though, the topic operational efficiency has gained more attention and interest, it is still under researched and the related knowledge also limited. Most organizations often suffer due to operational inefficiency and high wastage which arise mainly in operations. Particular manufacturing plant where the researchers have given the consideration facing continuous efficiency drop downs during recent past. Therefore, this study was done to identify the factors affecting on operational efficiency. Theoretically, it was revealed that human, organizational and technological variables significantly affect operational efficiency, and they were integrated into the research model. The views were collected through a structured questionnaire & the views of the respondents were evaluated individually to find out proper outcome. To analyze data, Explanatory Factor Analysis (EFA) was used. Research revealed that operational efficiency is significantly determined by human factor, organizational factor and technological factor.

A.K.D.N. Dilshani (2019), "Factors Affecting On Operational Efficiency",Proceedings of the Vavuniya Campus International Research Symposium, Pg.45 – 50.

5.1 FINDINGS

- 73.0% of the respondents are male.
- 48.0% of the respondents are in the age group of 25-35.
- 30.0% of the respondents have completed PG.
- 52.0% of the respondents have below Rs.1,00,000 as their income level.
- 39.0% of the respondents said that neither agree nor disagree towards balance of competencies, experience, company knowledge and independent in the board composition.
- 39.0% of the respondents said that neither agree nor disagree towards directors able to dedicate time to their responsibilities.
- 32.0% of the respondents said that agree towards regular evaluation of board performance.
- 53.0% of the respondents said that strongly agree towards frequency of meeting in the board.
- 29.0% of the respondents said that agree towards excellent committee structure and competent staff.
- 46.0% of the respondents said that strongly agree towards owners can control and influence management of the firm.
- 29.0% of the respondents said that strongly agree towards ownership concentration fully on performance.
- 44.0% of the respondents said that agree towards ownership structure increases the firm value.
- 36.0% of the respondents said that disagree towards appropriate and clear definition in the risk sharing in ownership structure.
- 27.0% of the respondents said that strongly agree towards ownership structure has immediate decision making.
- 52.0% of the respondents said that neither agree nor disagree towards set of policies for the franchise in the organization.
- 40.0% of the respondents said that strongly agree towards strong internal bylaws to follow in franchise business.
- 32.0% of the respondents said that neither agree nor disagree towards transparent guidelines to perform the tasks in standard for every function in the organization.
- 34.0% of the respondents said that neither agree nor disagree towards standard operating instruction reduces the errors in business.

- 36.0% of the respondents said that neither agree nor disagree towards provides consistency in all the operation.
- 40.0% of the respondents said that neither agree nor disagree towards standard principles and rules for managing franchise organization.
- 45.0% of the respondents said that strongly agree towards set of norms for all functional activities in the concern.
- 40.0% of the respondents said that strongly agree towards set of codes are standard to international laws.
- 49.0% of the respondents said that agree towards codes for the governance are framed as per international guidelines.
- 40.0% of the respondents said that strongly agree towards codes for the governance protects the interest of stakeholders.
- 32.0% of the respondents said that neither agree nor disagree towards codes for the governance protects the interest of stakeholders.
- 27.0% of the respondents said that strongly agree towards governance practices impacts on development and exploration of the concern.
- 47.0% of the respondents said that agree towards governance practices leads to effective managerial efficiency.
- 40.0% of the respondents said that strongly agree towards governance practices ensure to raise capital for the franchise.
- 51.0% of the respondents said that strongly disagree towards increased company's financial performance due to effective governance practices in organization.
- There is significant difference between gender of the respondents and excellent committee structure and competent staff.
- There is negative relationship between age of the respondents and impact of effective governance practices.

5.2 SUGGESTIONS

- There must be balance of competencies, experience, company knowledge and independence in the board composition in order to have the operational efficiency for the concern.

- The directors of the concerns must dedicate sufficient time to their responsibilities and they must be involved in the organisation.

- There must be regular evaluation of board performance by the board members and must be lead by the chair person to be effective.

- The board meeting must be frequently conducted and must discuss the business operations.

- There must be excellent committee structure in the board. Each committee should consists of competent staff members in order to have operational efficiency and for decision making in different dimensions.

- Owners should control and influence the management of the firm to protect their interests. They must be watchdog of the board performance and business operation.

- There must be effective ownership formation to increase the firm value in future.

- The ownership structure of the firm should have the characteristics for immediate decision making in the franchise business. There should not be any delay in the decision making process.

- There must be set of policies for the franchise in the organisation. It must be practical and simple to understand by the board members and executives.

- There have to be strong internal bylaws to follow in the franchise business to prevent legal issues in future.

- There should be transparent guidelines to perform the tasks in standard for every function in the organisation.

- The standard operating instruction must have the nature to reduce the errors in the franchise business.

- The set of codes must be standard to the international laws to enhance the business operation in global level.

- The governance practices must ensure to allow the franchise to create value for the concern in future.
- The governance practice must ensure to raise capital for the franchise in various ways.
- There must be increased company’s financial performance due to effective governance practices in the organisation or otherwise it must be reframed to be effective.

5.3 CONCLUSION

Corporate governance is basically a set of rules, practices, and procedures that guides company oversight and control by its Board of Director and independent committees. It involves balancing the interests of a company’s stakeholders including management, employees, suppliers, customers, and the community with the need to deliver value to its shareholders/owners. Having a strong, active, governance program is absolutely critical to the ongoing financial health, growth, and success of an enterprise over time.

There are numerous benefits to good corporate governance, including improved company culture, increased accountability, ability to spot potential issues before they occur.

But, more than that, it shows investors that the business is organised and well placed to work in their best interests. So, it is crucial that organisations understand how to ensure good corporate governance. Effective corporate governance requires a clear understanding of the respective roles of the board, management and shareholders; their relationships with each other; and their relationships with other corporate stakeholders. The **board of directors** has the vital role of overseeing the company's management and business strategies to achieve long-term value creation. It is concluded that management must develop and implements corporate strategy and must operate the company's business under the board's oversight, with the goal of producing sustainable long-term value creation. The board must be reframed if it is fail to be provide operational efficiency for the business.

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