

Effects of Contractual Characteristics on Franchisees' Compliance and Opportunism in Franchise Relationships

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This study analyzes the impact of franchise contracts on franchisee behavior, through ex-ante control means used by the franchisor for monitoring, as well as ex-post governance mechanisms, based on agency theory. In addition, we verified if goal incongruity affects the monitoring of franchisee behavior.

This paper demonstrates that franchise contracts and additional incentives offered by franchisors impact their monitoring and enforcement efforts, and that ex-post governance mechanisms of franchises influence franchisee behavior. This study is notable as it integrates archival data of 634 brands provided by the Korea Fair Trade Committee alongside survey data from 1,108 franchisees in eight business sectors, including chicken, pizza, café, education, laundry services, auto repair services, beauty/barber salons, and convenience stores. The findings indicate that thorough franchise contracts decrease output monitoring, while one-sided franchise contracts increase behavior monitoring. The study reveals that output monitoring increases compliance actions and decreases opportunistic actions. This article bolsters the main discoveries on franchise relationships by Kashyap, Anita, and FRAZIER (2012) and Kashyap and Murtha (2017).

The results suggest that franchisees should receive adequate feedback with monitoring. Additionally, the franchisor must aim to eliminate or reduce any inconsistencies in goals between the franchisee and franchisor to facilitate proper monitoring. This means that decreasing one-sidedness and increasing completeness would lower any disputes between the franchisor and franchisee during the monitoring process.

Keywords: Franchise Contract, Completeness, One-Sidedness, Monitoring, Compliance, Agency Theory

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I. Introduction

In franchising, the franchisor and franchisee divide functions and work together in accordance with a franchise contract, which enables franchisors to achieve the same outcome as running the business themselves (Bradach, 1998). The success of a franchise business depends on the franchisor's

ability to maintain standardized merchandise and services in each store. Nevertheless, the franchisee is required to comply with the franchisor's policies. Due to being an independent business with potentially differing interests from the franchisor (Klein, 1995), the franchisee may capitalize on consumer expectations. The franchisor should document the terms of compliance and the consequences of

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violating them in the contract in advance and monitor the franchisee to prevent opportunistic behavior and ensure compliance. Franchisors must ensure compliance from the franchisee within appropriate costs. However, it is also crucial to find an efficient way of preparing the contract and monitoring the franchisee while minimizing expenses.

Kashyap et al. (2012) classified franchise contracts based on two characteristics: completeness and one-sidedness, and indexed those characteristics through empirical research. The researchers specified the monitoring content and distinguished between behavior monitoring and output monitoring (Kashyap et al., 2012). However, the researchers faced challenges in obtaining contracts, which led to a limitation in their study to the automobile sales industry. Kashyap and Murtha (2017) later demonstrated that more precise writing of the basis of monitoring in the franchise contract led to higher levels of compliance, including both compliance as a formality and complete compliance, from the franchisee.

This research aims to investigate the impact of completeness and one-sidedness of franchise contracts on the implementation of behavior monitoring and output monitoring. Additionally, this study assesses the effects of each monitoring approach on franchisees' opportunistic behavior and compliance, and explores the relationship between Goal Incongruity and monitoring and franchisee's behavior. This study investigates 58 brands across eight industries in the Republic of Korea, including Fried Chicken Restaurants, Pizza Restaurants, Coffee Shops, Education, Convenience Stores, Barbers/Beauty Parlors, Laundry, and Cars.

These industries were selected based on their high proportion of business and numerous conflicts.

II. Theoretical Background and Previous Research

1. The Franchisor's Control Mechanisms

1.1 Agency theory and franchising

Franchisors grant specific stores a license to use their intellectual property, such as the company's name. As a result, a principal-agent relationship is established. In this relationship, to ensure the franchisee's cooperation, the franchisor might oversee their behavior or offer incentives based on their operational performance (Eisenhardt, 1989).

In the franchise business, the franchisor generates earnings from the royalties or fees they receive from the franchise system. However, as the franchisee makes a profit from the franchise store (Shane, 1998), they are usually incentivized to free-ride and maximize profits for their individual store, potentially harming the entire franchise system (Brickley & Dark, 1987). Thus, incentives and/or monitoring are necessary to prevent free-riding.

1.2 Franchisor control mechanisms

According to the principal-agent theory, the franchisor employs two control mechanisms: the franchise contract, which is used before the fact, and monitoring, which is used after the fact

(Bergen et al., 1992; Jensen & Meckling, 1976).

However, in practice, uncertainty exists and it is not possible to precisely determine damages resulting from the franchisee's breach of contract or deviant behavior. As a consequence, it is not feasible to draft a comprehensive franchise agreement (Anderson & Dekker, 2005; Klein, 1980). Therefore, in addition to the franchise contract, the franchisor carries out monitoring to ensure that the franchise store realigns and fits within the objectives (Davies et al., 2011; Kashyap et al., 2012).

2. Characteristics of the Franchise Contract

2.1 Contract characteristics and monitoring

The franchisor plays a crucial role in reducing the franchisee's opportunistic behavior and increasing compliance by utilizing a suitable combination of two control mechanisms - the franchise contract and monitoring.

Existing research suggests that drafting a perfect franchise contract is costly and practically impossible (Klein, 1980). Additionally, monitoring can result in resistance or hostility from the franchisee. This can lead to a decrease in compliance or induce opportunistic behavior (Brehm, 1966). Moreover, franchisees often seek to preserve their autonomy through alternative means, especially when facing external pressures such as franchise contracts and monitoring. As a result, franchisors must identify the most effective approach to enhance compliance and reduce opportunistic behavior, taking into account the associated costs and potential consequences of each method. In this regard, preemptive control

systems have an impact on the need for and extent of subsequent monitoring (Antia & Frazier, 2001).

2.2 Characteristics of the control mechanism

Developing and implementing the details of the franchise contract requires significant effort and incurs substantial costs for the franchisor (Casson, 1991). Regarding monitoring, there are costs associated with constantly hiring and training employees, as well as conducting site inspections.

To address this issue, the franchisor must find avenues to increase compliance and reduce opportunistic behavior through the appropriate application of contracts and monitoring, without incurring excessive costs (Casson, 1991).

2.3 Characteristics of the franchise contract

When drafting the contract, it is crucial to include content that enables the franchisee to comply with the franchisor's policies and systems. The level of completeness and one-sidedness of the contract arises from these characteristics.

The completeness of the contract refers to the extent to which the relevant provisions are clearly stated (Gong et al., 2007). Contracts can take many different forms - from a simple document outlining the rights and obligations of the parties involved, to a comprehensive agreement that anticipates future emergency scenarios leading to a breach, and specifies the responsibilities that arise from such a breach (Wuyts & Geyskens, 2005). When there is a detailed contract that outlines the franchisee's obligations, role ambiguity is reduced,

and the chances of non-compliance or opportunistic behavior decrease (Argyres et al., 2007).

Contractual one-sidedness is defined as the extent to which some provisions favor the franchisor (Klein, 1980). In case the punishment for breaking or evading the contract results in more drawbacks than advantages, the franchisee is encouraged to avoid opportunistic behavior and conform to the agreement (Klein, 1980). Conversely, if the contract's one-sidedness is significant, the franchisee's opportunism and resistance may increase (Clee & Wicklund, 1980). Moreover, one-sidedness reveals the franchisee's mistrust, and the franchisee may question the franchisor's motives (Jap & Ganesan, 2000). Thus, in franchise agreements that require continuous transactional relationship and cooperation, one should be cautious of the negative impact of one-sidedness (Clee & Wicklund, 1980).

3. The Role of Monitoring

Two types of research investigated the impact of monitoring on opportunism. On one hand, studies have shown that monitoring can discourage franchisees' opportunistic behavior (Jensen & Meckling, 1976; Williamson, 1985). On the other hand, monitoring could lead to adverse effects, such as franchisee's resistance, and exacerbate opportunistic behavior (Barkema, 1995; Deci & John, 1984). The effects of two types of monitoring were explained by Heide et al. (2007). Heide et al. (2007) stated that behavior monitoring leads to increased opportunism, while output monitoring leads to decreased opportunism.

According to Heide et al. (2007), output monitoring only measures tangible results, while behavior monitoring evaluates the behavior and managerial processes of the franchisee and its employees. When it comes to output monitoring, franchisees can choose their own methods and processes to achieve goals, which minimizes the possibility of resistance from the franchisee. In contrast, since output monitoring provides strict guidelines for the activities that need to be accomplished and the ways to carry out the activities, there are more instances of irritation for the franchisee in comparison to behavior monitoring, even if other conditions are the same (Heide et al., 2007).

Monitoring is a form of control which can cause emotional agitation and resistance from the other party (Brehm, 1966). People prefer to proactively choose and act on their own decisions. However, control systems like monitoring are designed to control the partner's behavior, which may affect their commitment (Deci & Ryan, 1999).

4. Compliance and Opportunistic Behavior

4.1 Compliance

Compliance of the franchisee refers to the extent to which they adhere to the policy and procedures set out by the franchisor (Dalstrom & Nygaard, 1999). It is a crucial aspect of franchising as it requires consistency and standardization (Williamson, 1975).

The level of compliance exhibited by the franchisee has a positive correlation with the number of franchise stores owned by the

franchisor and consistency in the system. This correlation is established through research by Bradach (1998) and Davies et al. (2011). On the other hand, a franchisee's lack of resources or poor understanding of the required behavior was found to have a negative correlation with compliance (Dickey, 2003).

4.2 Definition of opportunistic behavior

Opportunistic behavior is characterized as actions that lack fairness and honesty, both of which should form an integral part of any transaction. This refers to behavior that appears to follow the contract from an external perspective, but in reality, it contradicts the contract or conceals crucial information. Additionally, opportunistic behavior is characterized by instances when parties refrain from undertaking mutually beneficial work within a transaction (Williamson, 1975). This phenomenon occurs due to incomplete contracts and arises when franchisees use factors that could not have been predicted or were not specifically described in the contract. Opportunistic behavior contributes to transactional costs (Williamson, 1975) and reduces the effectiveness of the franchise system (Shane, 1996).

To maintain the uniformity of the franchise system and achieve high performance, the franchisor should effectively control opportunistic behavior by franchisees (Dwyer et al., 1987).

4.3 The necessity for simultaneous consideration of compliance and opportunistic behavior

Compliance and opportunism are not mutually

exclusive behaviors, and they can coexist. However, despite following the policy or procedures of the franchisor, a franchisee may avoid responsibility for certain aspects that are not explicitly outlined (Bergen et al., 1992). In addition to opportunistic behavior, several reasons such as lack of resources, peculiarities of a certain location, and lack of understanding on required behavior contribute to why a franchisee may not follow the franchisor's policy (Williamson, 1975). Thus, it would not be appropriate to infer that an increase in compliance will always lead to a decrease in opportunism, or that a decrease in compliance will always lead to an increase in opportunism.

In order for franchise operations to succeed, franchisees must comply with the policy (Williamson, 1975). Given that opportunism can undermine the effectiveness of the franchise system (Shane, 1996), franchisors need to regulate both compliance and opportunistic behavior. Thus, understanding how the franchisor's regulation mechanism affects the franchisee's behavior requires considering both compliance and opportunistic behavior, not just one or the other (Kashyap et al., 2012).

5. Definition of Goal Incongruity

Goal Incongruity refers to fundamental differences in goals or the absence of mutual goals (Song et al., 2000). Franchisors seek consistent management through standardized policies, which can result in Goal Incongruity. Franchisees, on the other hand, seek autonomy (Davis et al., 2011). Additionally, Goal Incongruity rises in cases of changes to the headquarters policy or management methods (Halinen

& Tähtinen, 2002). Moreover, franchisees have a tendency to maximize personal profits, while also avoiding franchisor behaviors that demand additional time, effort, or resources (Bergen et al., 1992).

When a significant Goal Incongruity exists, mutual cooperation decreases, and it can lead to conflicts (Dyer & Song, 1997; Fey & Beamish, 1999; Lucas & Gresham, 1985).

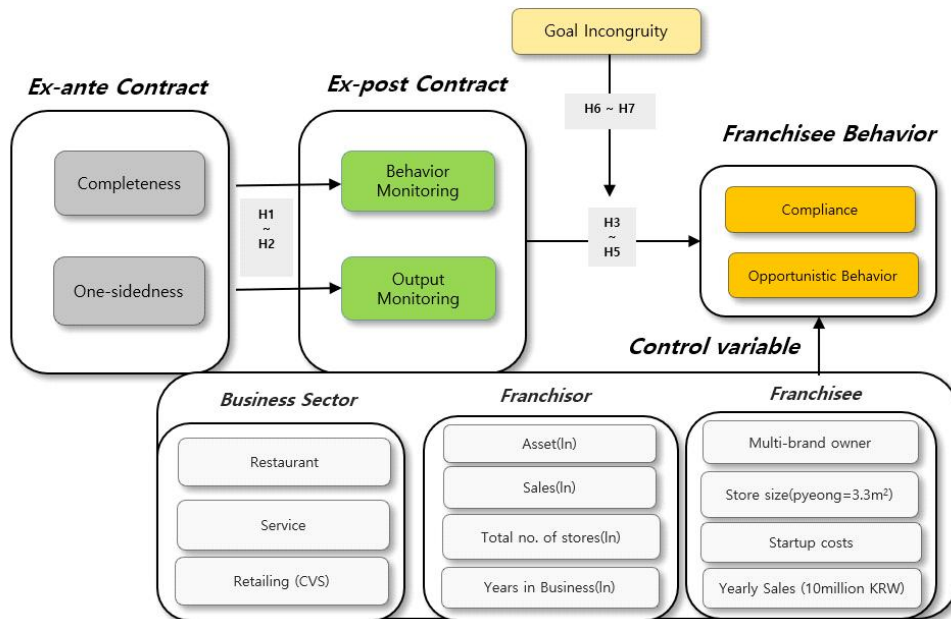
As a result, when the level of Goal Incongruity is high, franchisees are more likely to resist franchisor managerial activity and engage in opportunistic behavior. Conversely, when the level of Goal Incongruity is low, franchisees are more likely to behave in a way that conforms to the franchisor's ideals, irrespective of the motivational factors outlined in the contract (Eisenhardt, 1985, 1989).

III. Research Model and Hypothesis

1. Research Model

The present study examines how the completeness and one-sidedness of franchise contracts affect compliance and opportunistic behavior in franchise stores.

The first part of the study examines how the completeness and one-sidedness of franchise contracts affect the perception of behavior and output monitoring by franchise stores. The second part of the study investigates how the perception of behavior and output monitoring affects compliance and opportunistic behavior. The final part of the study investigates how monitoring affects compliance and opportunistic behavior, taking into consideration the moderating effect of goal incongruity. The research model is presented in Figure 1.



<Figure 1> Research framework

2. Hypothesis Generation

2.1 The relationship between the completeness of contracts and monitoring

The franchisor aims to regulate in advance to minimize or eliminate costs that may arise after contract closure (Bergen et al., 1992). As franchise contracts are incomplete, franchisors strive to achieve and calibrate objectives by supplementing monitoring after contract closure. Yet, as external pressures on the franchisor's regulatory system augment, franchisees attempt to realign to increase their autonomy (Clee & Wicklund 1980). Thus, infinitely increasing monitoring is not a solution. Consequently, when monitoring operations within the necessary parameters, the franchisor must consider, as stated earlier, the franchise contract's particularities. In this sense, the franchise contract has an influence on dictating the necessity of monitoring after the contract has been closed (Antia & Frazier, 2001). If the contract is incomplete, the franchisee may exploit any loopholes or unforeseen circumstances at the contract's time to maximize profits and avoid complying with franchise contracts (Klein, 1980). Therefore, the franchisor should increase monitoring to address the aforementioned behaviors of franchisees.

In contrast, when the contract is highly comprehensive, franchisees understand the content and limitations of the projected actions, resulting in increased compliance (Casson, 1991). This, in turn, reduces the possibility of opportunistic behavior. As a result, incurred costs and monitoring requirements for franchisors decrease. Hence, if

the franchise contract is more complete, the franchisor is expected to conduct less monitoring.

H1. Higher the degree of completeness in franchise contracts, (1a) the behavior monitoring and (1b) output monitoring on franchisees decrease (-).

2.2 The relationship between one-sidedness of contracts and monitoring

The one-sidedness of contracts is an attempt by the franchisor to increase franchisee compliance and reduce opportunistic behavior by specifying in the contract that breach or avoidance of the contract will be more detrimental than beneficial. Therefore, unilateral clauses are chosen to minimize transaction costs and are inherently unfair (Klein, 1980).

Consequently, there is a possibility that the franchisee may have a negative reaction to the clauses or there may be an increase in the franchisee's opportunistic behavior. And it will be necessary for the franchisor to increase monitoring. Moreover, if it is a clause with high one-sidedness, it is more likely to be a clause that is essential for the unity of the franchise system (Huang & Sarigöllü, 2012; Yoo et al., 2000). It is probably essential for the franchisor to confirm and guide the franchisee whether the franchisee is properly following certain clauses in order to maintain the unity and awareness of the franchise brand. Therefore, if there is a high level of contractual one-sidedness, we expect a high level of monitoring.

H2. Higher the one-sidedness of franchise contract, there is an increase (+) in (2a) behavior monitoring, and (2b) output monitoring.

2.3 The relationship between behavior monitoring and franchisees' behavior

On the one hand, monitoring provides important feedback and useful guidance to the franchisee (Heide et al., 2014). On the other hand, it is a double-edged sword in that it signals distrust to the franchisee or a violation of the franchisee's autonomy, thus increasing the franchisee's psychological resistance (Brehm, 1966; Heide et al., 2007). Furthermore, monitoring changes depending on the situation in which it occurs (Frey, 1993; Heide et al., 2014). If monitoring is perceived as a guidance function from the franchisee's perspective, compliance may increase. On the other hand, if monitoring is perceived as a sign of distrust, compliance may decrease (Brehm, 1966; Heide et al., 2014).

However, according to existing research, behavioral monitoring increases opportunism (Heide et al., 2007), because when behavioral monitoring occurs, franchisees believe that their autonomy is being violated, which creates resistance and animosity toward the franchisor, which ultimately leads to opportunistic tendencies. Therefore, behavioral monitoring evaluates the behavior and management procedures of the franchisee and its employees. In this process, monitoring provides strict guidelines for what is considered to be within the franchisee's autonomy, such as how work is performed. As a result, franchisees feel that their autonomy is being violated (Brehm, 1966; Heide et al., 2007).

Consequently, when behavioral monitoring is increased, the franchisee becomes resistant to the franchisor's intrusion, and accordingly, it becomes more likely that the monitoring will be accepted

as a violation of autonomy or a sign of mistrust rather than as a positive aspect (a function of providing guidelines). Thus, the stronger the behavioral monitoring, the more resistant the franchisee becomes to the monitoring. As a result, it is expected that the likelihood of compliance will decrease and the likelihood of opportunistic behavior will increase.

- H3. The stronger the behavior monitoring by the franchisor, franchisee's (3a) compliance decreases (-) and (3b) opportunistic behavior increases (+).

2.4 The relationship between output monitoring and franchisees' behavior

In the case of output monitoring, compared to behavioral monitoring, it is more likely to be accepted as a guideline that provides perspective for the following reasons.

First, output monitoring allows franchisees to perceive what goals to focus on in order to be successful (Kashyap et al., 2012). Second, output monitoring measures the results of franchise store management rather than the behaviors and procedures of franchisees and employees, allowing franchisees to proactively choose how to achieve results (Anderson & Oliver, 1987). As a result, there is almost no likelihood of intervention or interference that violates autonomy or the right to self-control, so there is little likelihood of franchisee resistance (Heide et al., 2007). And there is no reason for the franchisee to feel uncomfortable with output monitoring (Kashyap et al., 2012).

Consequently, in the case of output monitoring, the franchisee believes that one can receive the

guidelines from the franchisor and operate the franchise business based on one's discretion. The franchisee follows the franchisor's policies or procedures. The possibility of opportunistic behavior is reduced (Heide et al., 2007).

- H4. The stronger the behavior monitoring by the franchisor, the franchisee's (4a) compliance increases (+) and (4b) opportunistic behavior decreases (-).

2.5 The relationship between the franchisees' behavior and the concurrent use of output monitoring and behavior monitoring

Because each method has its own strengths and weaknesses, and because the two methods can complement each other, the two methods are used in parallel. First, output monitoring has the positive aspect of providing guidelines. However, in cases where it is not used concurrently with behavioral monitoring, it may give the franchisee the impression that the franchisor is not concerned with the franchisee. Because behavior monitoring is conducted face-to-face, there is a greater chance of interaction with the franchisee. There is the benefit of learning practical information, such as the operating conditions of the store. For this reason, franchisors use the two methods simultaneously to take advantage of the different control mechanisms of each method (Brown et al., 2000; Kashyap et al., 2012). Furthermore, when there is no meaningful metric for the results obtained through output monitoring, it is necessary to supplement output monitoring with behavior monitoring (Eisenhardt, 1985).

When behavior monitoring and output monitoring

are conducted simultaneously, the franchisor can measure the franchisee's behavior and its outcome at the same time, and a consistent control system is possible (Anderson & Oliver, 1987). Therefore, if there is a high level of output and behavior monitoring carried out simultaneously, the franchisee believes that the franchisor removes uncertainty and instability factors and shows a proper behavioral direction to achieve appropriate goals (Anderson & Oliver, 1987), and it is expected that the negative perception that it is a violation of autonomy would be relatively weakened.

In addition, because there would be more detailed acquisition of the franchisee's management practices, the information asymmetry problem would be alleviated and the possibility of opportunistic behavior would be reduced.

Therefore, in cases where behavioral and output monitoring occur simultaneously, it is expected that compliance would increase and opportunistic behavior would decrease (Kashyap et al., 2012).

- H5. The higher the degree in which behavior and output monitoring are concurrently run (5a) the franchise store's compliance increases (+) and (5b) opportunistic behavior decreases (-).

2.6 The moderating effects of the goal incongruity on the relationship between monitoring and franchisee behavior

In the case where the objective between franchisee and franchisor are in discord with each other, the franchisee tries to behave according to his interest (Bergen et al., 1992), and as a result, the franchisee tries to benefit through opportunistic behavior by abusing on details that are not

explicitly written in the contract (Klein et al., 1990). Therefore, the franchisor increases monitoring to prevent or reduce opportunism. However, the franchisee's response to increased monitoring may differ depending on the purpose and nature of the monitoring.

For example, from the franchisee's perspective, if the franchisee desperately needs guidance from the franchisor, the focus will be more on providing information and compliance will increase. On the other hand, if the franchisee does not need guidance from the franchisor, he will most likely perceive the franchisor's monitoring as a signal of mistrust or a violation of his autonomy.

But monitoring is done to realign the franchisee's goals with the franchisor's goals (Jensen & Meckling, 1976), and in cases where Goal Incongruity is high, the franchisee and the franchisor have fundamentally different goals (Song et al., 2000) and there is little motivation or enticement to cooperate with each other (Dyer & Song, 1997), so monitoring becomes an unnecessary and disruptive behavior to achieve the franchisor's goals, not the franchisee's own goals. Therefore, in cases where goal incongruence is high, it is expected that the decrease in franchisee compliance due to franchisor monitoring will be higher.

H6. Based on the level of goal incongruity, the relationship between franchisor and franchisee compliance will change.

H6a. In cases where the Goal Incongruity between the franchisor and the franchisee is great, the negative (-) effect of franchisor behavior monitoring increases (+).

H6b. In cases where the Goal Incongruity between the franchisor and the franchisee is great, the positive (+) effect of franchisor output

monitoring decreases (-).

Next, we consider the moderating effects of goal incongruence on monitoring and opportunistic behavior.

The reason for franchisees to avoid franchise contract obligations is that the benefits of avoiding obligations are greater than the benefits of fulfilling obligations (Klein, 1980), and fulfilling obligations requires additional expenditures of time, effort, and other resources (Bergen et al., 1992).

Therefore, in cases where goal incongruence is high, the franchisor's goals are not beneficial to the franchisee and become a matter that only requires additional effort on the franchisee's part, thus reinforcing the franchisee's impulse to act for his or her own benefit and avoid achieving the goals set by the franchisor. Thus, the franchisee has a negative reaction to the monitoring conducted to achieve the franchisor's goals, and opportunistic behavior to avoid the monitoring is strengthened.

H7. Based on the level of Goal Incongruity, the relationship between franchisor' monitoring and franchisee's opportunistic behavior will change.

H7a. In cases where the Goal Incongruity between the franchisor and the franchisee is great, the positive (+) effect of franchisor behavior monitoring on opportunistic behavior increases (+).

H7b. In cases where the Goal Incongruity between the franchisor and the franchisee is great, the negative (-) effect of franchisor output monitoring on opportunistic behavior decreases (-).

IV. Research Methods

1. Measurements

The metrics for this research were selected from items that have been shown to be effective in previous literature reviews and modified accordingly for this research.

1.1 Completeness of contracts

To measure the completeness of the contracts, we followed the method presented in the study of Ghosh and John (2005) and Kashyap et al. (2012). At this point, in order to account for the different characteristics of each industry, we collected the clauses for contract binding, contract maintenance, contract termination, and post-termination obligations in each contract from each industry, and we created the superset list for each industry. Then, two people evaluated the existence of each clause in each contract and counted the number of clauses and found the total sum, and we calculated the ratio of the superset list of each industry to the number of clauses in each brand.

1.2 One-sidedness of contracts

The one-sidedness of the contracts went through the same procedures as the completeness. At this point, in order to take into account the different characteristics of each industry, we collected the clauses that were one-sided in favor of the franchisor and the clauses that imposed costs beyond the usual standards in the contracts, and

we prepared the superset list. Then, two people evaluated the presence of each clause in each contract and counted the number of clauses and found the total sum, and we calculated the ratio of the superset list of each industry to the number of clauses in each brand.

1.3 Behavior monitoring

This category was based on Niehoff and Moorman's (1993) research. We considered the metrics of "checking to see if the franchise business is being run efficiently," "meeting to discuss the actions that need to be taken to achieve the goals of the franchise business," and "meeting to discuss the customer base of the franchise business" to be included in a total of three questions and measured on a seven-point Likert scale.

1.4 Output monitoring

This category was based on the research of Niehoff and Moorman (1993), but adapted for the purpose of this research. The metrics were conceived as the franchisor monitoring the franchisee for "consumer response to new merchandise," "expansion of customer base," and "sales performance," and were incorporated into a total of three questions and measured on a seven-point Likert scale.

1.5 Compliance

The compliance metrics were based on Tyler

and Blader's (2000) research, but adapted for this study. The metrics were based on the franchisee's perception of whether the franchisee "follows the procedures and applicable rules of the franchise business," "follows the policies of the franchisor," "tries his or her best to follow the instructions of the franchisor," and "follows the rules of the franchisor in detail," incorporated into a total of four questions and measured on a seven-point Likert scale.

1.6 Opportunistic behavior

In this study, we built on the research of Brown et al. (2000) to determine the metrics of franchisee responses in situations where franchisees perceive the franchisor's orders to be unfair. The metrics were defined in three categories - whether the franchisee "ignores the franchisor's policies to achieve his goals," "violates the franchise agreement to further his interests," and "makes outward promises but does not behave as promised". And in cases where franchisor support was poor, the metrics were defined into four categories - the franchisee "exaggerated their difficulties to get more support," "distorted the truth," and "inevitably lied to further their interests". The total of seven categories were measured on a seven-point Likert scale.

1.7 Goal incongruity

In this research, we followed the research of Xie et al. (2003), we defined goal incongruity as differences in goals between franchisor and

franchisee, standards of decision making, urgency of issue, and process of decision making. The metrics were defined in four categories - among different franchise stores, "the long and short term goals are different," "the standards of decision making for franchise store operations are different," "the priority for urgency of issues," and "the operational decision-making process is different". These four categories were measured using a seven-point Likert scale.

1.8 Control variable

From the franchisee's perspective, the initial start-up costs and the franchisor's proprietary assets prevent attrition and become a factor that makes the franchisee more dependent on the franchisor. At this point, brand equity increases as the store size increases. Therefore, the initial start-up costs and the size of the store will function as a conversion barrier that continues the preexisting relationship (Dant, 1996), and because of this, the franchisee becomes more dependent on the franchisor. We can predict that compliance increases for franchisors and opportunistic behavior decreases.

Furthermore, for franchisees with high sales, they may have a positive attitude toward the franchisor's policy, and there's a high likelihood of following the policy. And because the importance of the franchise outlet (or the dependence on the franchise outlet) increases, we can predict that the compliance for the franchisor increases and the opportunism decreases (Dant & Gregory, 1998). For this reason, in the franchise store

aspect, the cost of starting the business, the size of the store, and the number of sales were included in the control variables.

Also, in the case of franchisees who also operate a store of another franchise brand, the share of the surveyed brand in their total asset portfolio will be much lower than that of a franchisee with only one brand, so we expect the dependence on a particular brand to be much lower. Therefore, we included the number of other brand stores owned in the control variables.

On the other hand, assets, sales, total number of stores, and age of the company are measures of the size of the franchisor. As shown below, it may influence the compliance and opportunistic behavior of franchisees.

As the franchisor becomes larger, the amount of resources that can be disposed of increases, and based on the economy of scale, the ability to control the franchise outlet per unit increases, compliance will increase, and it will influence to decrease opportunism (Brickley et al., 1991). On the other hand, the size of the franchisor signifies the value of the franchise brand, and based on several previous researches, as the size of the business becomes more significant and the age of the firm increases, the franchisor charges a higher royalty (Lafontaine, 1992). However, in the case of the franchise industry in the Republic of Korea, the franchisor's main source of income is not the royalty, but he profits from the item margins of essential items that the franchisor supplies to the franchisee. Therefore, just as the royalty ratio increases when the reputation capital increases due to the increase in brand scale, we can expect that

the ratio of the item margins of essential items will be higher when the reputation capital increases. However, based on the reality that many conflicts stem from the disagreement between franchisor and franchisee on essential items, the increase in item margins due to the increase in franchisor scale may not necessarily have only positive effects on franchisee behavior, but also negative effects. In addition, according to resource dependence theory, as the size of the franchisor increases and the age of the firm increases beyond a certain point, there is a tendency to reduce the proportion of franchised stores and become more dependent on company-owned stores (Dant et al., 1996). The large franchisor is likely to reduce the level of resources invested in existing franchised outlets. For these reasons, we judged that the size of the franchisor is likely to affect the compliance and opportunistic behavior of the franchisee, and we conducted an analysis of capital, sales, total number of stores, and firm age based on the size of the franchisor.

2. Data Collection

2.1 The composition of the survey

For the variables in this research that ask about the level of perception, which are behavior monitoring, output monitoring, compliance, opportunistic behavior, and goal incongruity, we considered previous research. We constructed the questions so that franchisees would not feel alienated when answering the questions. To do this, we conducted

intensive interviews with franchisees in eight different industries who were actual respondents for one month starting June 1, 2019, to validate and strengthen the survey content and structure. If there were any questions that were requested to be changed during the intensive interview, we reflected on the requests and refined the questions in the survey form.

2.2 Data collection

In this research, in order to improve the representativeness of the research sample and the efficiency of the survey, we tried to select eight industries from the 43 industries that the Korean Fair Trade Commission considers as Level II specifications.

Accordingly, we selected eight industries (education, laundry services, automobiles, hair salons/beauty salons, fried chicken restaurants, pizza restaurants, coffee shops, convenience stores) that currently have many existing conflicts or have a high proportion of franchise stores within the entire industries. According to the Korean Fair Trade Commission's Level I specification of industries in 2017, the number of stores per industry is as follows: the restaurant sector is 118,780, the service sector is 71,971, and the wholesale and retail sector is 57,339. Among them, the proportion and the number of stores held by the eight industries within this Level-I specification are as follows.

Within the restaurant sector, fried chicken restaurants were 20.9% (24,803 stores), coffee shops 12.6% (14,924 stores), pizza restaurants

5.6% (6,699 stores). Within the service sector, education is 54.9% (39,537 stores), automotive 11.0%(7,899 stores), hair salon/beauty salon 6.3% (4,542 stores), laundry 6.1% (4,372 stores). Finally, we selected only the convenience store business for the wholesale and retail sector, and the numbers were 57.1% (57,339 stores).

2.3 The general characteristics of the sample

In this research, a total of 892 surveys were used, and considering that the sample is divided into two dimensions, franchisor and franchisee, we distinguished each sample by dimension and showed the general characteristics by franchisee and franchise brands.

First, in the case of the franchisee sample used in this research, the industry with the most samples was convenience stores with 198 people (22.2%), followed by coffee shops with 142 people (15.9%), education with 138 people (15.5%), and chicken restaurants with 121 people (13.6%).

In terms of the size of the franchise store, it was counted that the less than 10 pyeong was 96 people (10.8%), larger than 10 pyeong but smaller than 20 pyeong was 400 people (44.8%), larger than 20 pyeong but smaller than 50 pyeong was 298 people (33.4%), larger than 50 pyeong was 98 people (11.0%), so we found that we had equitable distribution of the sample of small to medium-sized stores and medium to large stores.

In addition, the length of operation, the total cost to start the business, the work before starting the business, the size of annual sales, and the

success or failure to achieve the target profit shown in <Table 1>. number of the current affiliated brand are as On the other hand, the annual sales of the

<Table 1> Summary statistics

Item	Content	N	%
Business sectors (Level-II classification)	Chicken	121	13.6
	Pizza	92	10.3
	Café	142	15.9
	Education	138	15.5
	Laundry services	63	7.1
	Barber / beauty salons	78	8.7
	Auto repair services	60	6.7
	Convenience store	198	22.2
Size of the franchise store	Less than 10 pyeong	96	10.8
	More than 10 pyeong-Less than 20 pyeong	400	44.8
	More than 20 pyeong-Less than 50 pyeong	298	33.4
	More than 50 pyeong	98	11.0
Store The duration of operation	Less than 5 years	534	59.9
	More than 5 years-Less than 10 years	208	23.3
	More than 10 years-Less than 15 years	94	10.5
	More than 15 years	52	5.8
Total Cost to Start Business:	Less than KRW 50 million	205	23.0
	KRW 50 million-100 million	309	34.6
	KRW 100 million-200 million	249	27.9
	KRW 200 million-500 million	90	10.1
	More than KRW 500 million	29	3.0
Prior work	Office worker/professional	445	49.9
	Self-employed (other franchises included)	290	32.5
	Student	12	1.3
	Housewife	104	11.7
	Etc.	34	3.8
Yearly sales (10,000,000):	Less than KRW 50 million	96	10.8
	More than KRW 50 million-Less than 100 million	168	18.8
	More than KRW 100 million-Less than 200 million	282	31.6
	More than 200 million-Less than 300 million	111	12.4
	More than KRW 300 million	227	25.4
The meeting or failure of achieving prescribed profit target.	Meeting the target	262	29.4
	Failure to meet the target	311	34.9
	Failure to meet the target after initially meeting the target	291	32.6
Total		892	100

franchise stores, the initial franchise amount, the number of stores, the age of the company, and the sample brands of the franchisor's industry that were examined in the disclosure document information are shown in <Table 2>.

As seen above, this research attempted to contribute to the generalization of research by selecting industries that held more than the majority of the particular level-II specification or

were representative of the particular level-II industry.

The collection of franchise contracts can distinguish the data collection of this research to measure contractual completeness and one-sidedness, the collection of disclosure documents and surveys to extract control variables, and the collection of surveys to derive perception variables.

First, we obtained the franchise contract

<Table 2> Summary statistics

Item	Content	N	%
Business sector (Level-II classification)	Chicken	10	17.2
	Pizza	4	6.9
	Coffee	14	24.1
	Education	10	17.2
	Laundry services	3	5.2
	Barber / beauty salons	5	8.6
	Auto repair services	5	8.6
	Convenience store	7	12.1
Firm age	Less than 10 years	19	32.8
	More than 10 years-Less than 20 years	26	44.8
	More than 20 years-Less than 30 years	8	13.8
	More than 30 years	4	6.9
Number of stores	Less than 200	11	19.0
	More than 300-Less than 500	20	34.5
	More than 500-Less than 1,000	12	20.7
	More than 1,000-Less than 2,000	6	10.3
	More than 2,000	8	13.8
Initiation fee for the franchise (franchise fee, interior renovation fee education fee, other expenses)	Less than KRW 50 million	15	25.9
	More than KRW 50 million-Less than 100 million	26	44.8
	More than KRW 100 million-Less than 200 million	9	15.5
	More than 200 million-Less than 300 million	4	6.9
	More than KRW 300 million	3	5.2
Yearly average earnings of the franchise store	Less than KRW 50 million	6	10.3
	More than KRW 50 million-Less than 100 million	6	10.3
	More than KRW 100 million-Less than 200 million	13	22.4
	More than KRW 200 million	24	41.4
Total		58	100

materials and disclosure documents with the help of the Korea Fair Trade Commission. As for the franchise contracts, we were able to obtain a total of 634 franchise contracts that were registered between 2018 and 2019. And we were able to obtain disclosure documents for 6,053 brands that were registered in 2018.

On the other hand, the survey collection was obtained for 75 days from July 1, 2019, taking into account the industry share and the share of medium and large brands. The survey was conducted in 1,004 franchise stores across the Republic of Korea. Additional surveys were conducted for industries that did not meet the proportional allocation, and a total of 1,108 surveys were collected. After thoroughly explaining the research contents and objectives to the respondents, we conducted the surveys through a professional research company. The survey methods were conducted through personal visits and telephone surveys, and the survey agents conducted the survey by checking whether the respondent understood the content of the survey when

answering the survey.

The final sample selection of this survey was conducted with a population parameter of 110 sample brands collected from the survey. First, from the survey samples of the 110 brands, we selected 58 brands as the final research object, which coincided with the franchise contracts of the 634 brands provided by the Korean Fair Trade Commission. We then coded the variable corresponding to the control variable within the same brand sample from the disclosure document data. Accordingly, we were able to obtain 892 samples with intact data for the affiliated brand's franchise contract and disclosure document among the survey sample of 1,108 franchisees. The control variables were extracted in the standards shown in <Table 3>, except for industries, which were dummy variables.

3. Analysis Method

For this research, we used SPSS 24.0, Process macro, Stata 14.0 to conduct analysis through

<Table 3> Control variable extraction standards

Category	Variables	Content	Data
Franchise headquarters	Asset	The log value of the accumulated assets in 2017	Disclosure documents
	Sales	The log value of the sales recorded for 2017	
	Total number of stores	The log value of the total stores recorded for 2017	
	Firm age	The log value of the firm age recorded for 2017	
Franchise stores	Other brands store ownership	The number of stores in operation of other brands	Surveys
	Store size	The exclusive area size in pyeong of the current franchise store	
	Cost to start business:	The cost to start the current franchise store (including rental costs, installation costs)	
	Yearly sales	Current sales numbers for the current franchise store (in ten millions)	

statistical processing on the finally refined 892 samples. First, we used SPSS statistical program to extract the general characteristics of the sample through frequency analysis, and for the perceived variables collected through surveys, we checked the survey categories through reliability analysis. Then, using Stata 14.0, we conducted Confirmatory Factor Analysis (CFA) on the applicable categories, and to confirm the hypothesis, we conducted CMP (Conditional Mixed Process) regression analysis. In addition, we used the Process macro program to test the changing relationship between goal incongruence resulting from the different types of monitoring and franchisees' behavior.

The procedures and methods of the research are as follows.

First, in order to verify that the samples collected were representative of the actual industry, we used the SPSS 24.0 program to examine the sampled brand and franchisee through a demographic analysis and general characteristics.

Second, to determine the reliability and validity of the franchisee perception variables, which are behavior and output monitoring, compliance, goal incongruence, and opportunism, we conducted a reliability analysis. We identified the categories with low reliability coefficient. In addition, we used CFA to confirm and verify the relationship between construct and observed variables.

Third, in this research, we used Stata 14.0 program to conduct the CMP regression analysis of Roodman (2009), so that we can certify the hypotheses one to five in this research. This analysis method was a method used in previous research by Kashyap et al. (2012), and it provides

an appropriate method for this analysis.

In this research, we followed the methods done by Kashyap et al. (2012) and conducted the CMP analysis by considering many different variable combinations. And we used the Seemingly Unrelated Regression (SUR) analysis designed by Roodman (2009) in the Stata program, and used the maximum likelihood's direct inference algorithm for the analysis. Furthermore, similar to the analysis done by Kashyap et al. (2012), we applied the following equations once to analyze the relationship that extends from the specifics of the contract to the behavior of the franchisee.

According to the above discussion, algebras (1) to (4) are algebras corresponding to hypotheses 1 to 5, which can be expressed as follows.

$$(1) \text{BM}_{ij} = \beta_{10} + \beta_{11}\text{CC}_i + \beta_{12}\text{COS}_i + \omega_{1ij},$$

$$(2) \text{OM}_{ij} = \beta_{20} + \beta_{21}\text{CC}_i + \beta_{22}\text{COS}_i + \omega_{2ij},$$

$$(3) \text{COM}_{ij} = \beta_{30} + \beta_{31}\text{BM}_{ij} + \beta_{32}\text{OM}_{ij} + \beta_{33}\text{BM}_{ij}\text{OM}_{ij} + \omega_{3ij},$$

$$(4) \text{OPP}_{ij} = \beta_{40} + \beta_{41}\text{BM}_{ij} + \beta_{42}\text{OM}_{ij} + \beta_{43}\text{BM}_{ij}\text{OM}_{ij} + \omega_{4ij},$$

CC_i = Contractual Completeness of the franchisor i

COS_i = contractual one-sidedness of franchisor i

BM_{ij} = behavior monitoring of franchise store j by the franchisor i

OM_{ij} = output monitoring of franchise store j by the franchisor i

COM_{ij} = the compliance of franchise store j for franchisor i

OPP_{ij} = the opportunism of franchise store j for the franchisor i

Finally, we used the Process macro program to

confirm the control effects of goal incongruence on franchisor monitoring and the relationship between opportunism and compliances.

V. Results

1. Reliability and Validity Certification

1.1 Validity analysis

For this reason, more than two coders coded and derived the franchise contract variables (one-sidedness, completeness), disclosure document variables used as control variables, and variables that included the franchisee's perceived responses. Of these, the variables related to the franchise contract or disclosure documents are secondary sources, but the variables measuring the franchisee's perception require reliability and validity certification.

In this research, we used five constructs of behavior monitoring, output monitoring, franchisee compliance, opportunistic behavior, and goal incongruence. To test the internal consistency of these concepts, we used the SPSS 24.0 reliability certification program.

In the initial reliability analysis, we administered all the observed variables that correspond to the

constructs and we limited the administration of variables until we had a Cronbach's α value that was greater than 0.7 and we secured a coefficient greater than .859 for all the constructs. The results are presented in <Table 4>. The reliability coefficient was shown to be between .859 and .910, so we can say that we have a reasonable reliability for each variable.

1.2 Validity analysis result

In order to analyze the validity of the constructs, we conducted analyses of Convergent validity and Discriminant validity through confirmatory factor analysis. The results are presented in <Table 5>.

The CR and AVE values were used to confirm the convergent validity of the variables used in this research. Normally, if the AVE is greater than 0.5, if the CR values is greater than 0.7, it is considered as acceptable levels (Fornell & Larcker, 1981).

According to the analysis, the load level of each factor was more than 0.5, and the AVE value, which corresponds to opportunism, meant the minimum value of 0.525, so we can say that all variables followed the AVE value. In addition, the CR value must be greater than 0.7. But in the

<Table 4> Reliability result

Constructs	Number of items	Number of administration	Cronbach's α
Behavior monitoring	3	2	.910
Output monitoring	3	2	.859
Franchisee compliance	4	3	.890
Opportunism behavior	7	4	.908
Goal discrepancy	4	3	.902

<Table 5> Result of confirmatory factor analysis

Category		Non-standardization coefficient	Standardization coefficient (load degree)	SE	t value	AVE	CR
Behavior monitoring	Behavior2	.610	.898	.054	11.22	.606	.755
	Behavior3	.465	.924	.054	8.67		
Output monitoring	Output1	.523	.893	.024	10.52	.532	.695
	Output2	.807	.848	.050	14.01		
Compliance	Compliance1	.656	.754	.036	18.24	.658	.851
	Compliance2	.190	.924	.024	7.95		
	Compliance3	.289	.876	.024	12.29		
Opportunism	Opportunity 3	1.348	.656	.067	20.16	.525	.812
	Opportunity 5	.537	.884	.033	16.12		
	Opportunity 6	.234	.950	.025	9.17		
	Opportunity 7	.511	.891	.033	15.60		
Goal discrepancy	Discrepancy1	.869	.807	.050	17.39	.563	.794
	Discrepancy2	.397	.920	.041	9.75		
	Discrepancy4	.510	.892	.050	12.45		

$$\chi^2=213.819, p=.000, df=67, RMSEA=.050, CFI=.984, TLI=.975, RFI=.964.$$

case of output monitoring, it had a level of 0.695, which does not meet the CR value standard, but we confirmed that they meet the standards for the other variables.

Next, judgment validity is defined as the analysis of the differences between different constructs, if each independent variable has a low correlation with different variables, then we can say that there is high judgment validity. At the same time, we confirmed the judgment validity by comparing the square root of the highest value and the lowest value of the correlation between variables. According to <Table 5>, the variables with the highest square root values of correlation were behavior and output monitoring with values of 0.576. On the other hand, the lowest AVE was 0.525, and it was close to the value of 0.576, so we could accept the judgment validity to some extent.

2. Hypotheses Testing

2.1 Verification of hypothesis

The results of regression analysis, using the CMP (conditional mixed process) Roodman (2009) designed within the Stata 14.0 statistical software are presented in the <Table 6>.

First, it showed that the higher the contractual completeness, the lower the level of franchisor's output monitoring perceived by the franchise store, but for behavior monitoring it does not have statistically significant result. Therefore, Hypothesis 1(b) was supported, but Hypothesis 1(a) was rejected. This is different from Kashyap et al. (2012), who found that the completeness of franchise contracts decreases behavior monitoring and has no significant effect on output monitoring.

<Table 6> Regression analysis results of CMP

		Dependent variable							
		Behavior monitoring		Output monitoring		Compliance		Opportunism	
		Coeff	z	Coeff	z	Coeff	z	Coeff	z
Contract completeness		-.262	-1.11	-.543	-2.52*				
Contract one-sidedness		1.376	2.87**	.756	1.74				
Behavior						-.437	-1.07	-.104	-.13
Output						.360	.68	-.448	-.47
Behavior × output						.044	3.11**	-.075	-3.96**
Franchise stores	Yearly sales					-.000	-.30	-.000	-.46
	Size of the store					.003	1.63	-.001	-.41
	Cost to start business:					-.084	-2.35*	.004	.09
	Ownership of stores by other brands					.037	.48	.056	.55
Franchisor	Asset					.093	1.25	-.010	-.11
	Yearly sales					-.021	-0.31	.050	.54
	Total number of stores					-.026	-.50	-.173	-2.51*
	Firm age					-.244	-2.42*	.030	0.23
Industry dummy	Food service industry					-.018	-.12	-.242	-1.16
	Service industry					.087	.57	-.064	-.31
	Wholesale and retail					.063	.29	7.726	2.43*

Log likelihood=-5,502.929, LR chi²=81.26, p=0.000.

*p<0.05, **p<0.01.

This result may be due to the fact that in Korea, the franchisor's main source of income is the distribution margin rather than royalties, and behavior monitoring was considered to be more than just managing the franchisees, but also including guidance and support for the franchisees. Suppose the franchisee purchases essential products through channels other than the franchisor. In this case, the franchisor's profit is reduced, so even though it involves additional expenses for the

franchisor, it is considered more beneficial for the franchisor to prevent the purchase of essential products through other channels, so in this sense, the franchisor could conduct behavior monitoring. In the case of Republic of Korea, the franchisors who have the margin of providing goods and raw materials as their main source of income is 80.6%, and the tendency to do so increases with the size of the franchisor, so we can understand this phenomenon in this context (Ministry of

Trade Industry and Energy, Korea Chamber of Commerce and Industry, Korea Franchise Association, 2018). In addition, the monitoring of franchise stores has the aspect of control and the aspect of supporting the franchise store. Therefore, in order to function properly as a franchisor, they cannot reduce the monitoring just based on the cost.

Second, when the contractual one-sidedness was high, the franchisee perceived the franchisor's behavior monitoring to be high. However, there was no statistically significant effect on output monitoring. Therefore, Hypothesis 2(a) was supported, but Hypothesis 2(b) was rejected. This is consistent with the research of Kashyap et al. (2012), which states that one-sidedness of contracts increases behavioral monitoring. The franchisor defines certain content in a one-sided way because the said content is important, and it is more important to prevent the outcome than to punish the outcome. Thus, by writing into the contract the prohibition of certain behaviors and the guidelines for punishment when the behavior is performed, and by conducting behavioral monitoring of contract compliance at the appropriate time, the franchisor can prevent the behavioral outcomes from occurring.

Third, when behavioral and output monitoring were conducted separately, we found that they did not have a meaningful impact on franchisee behavior, thus rejecting all of Hypotheses 3 and 4. These results are consistent with the findings of Kashyap et al. (2012).

Finally, when both outputs and behaviors were high, compliance increased and opportunistic behavior decreased. Thus, hypotheses 5(a) and

5(b) were both supported. These results are consistent with Kashyap et al. (2012).

The results of hypotheses 3 to 5, as shown above, indicate that the context of monitoring is important, and in the reality of Republic of Korea, monitoring should be more active. The fact that franchisee compliance did not increase or opportunism did not decrease due to output monitoring, and the fact that franchisee compliance did not decrease or opportunism did not increase due to behavioral monitoring does not show that franchisee had a negative reaction to behavioral monitoring. Rather, it shows that the franchisee wants a more active type of monitoring beyond that seen in output monitoring. Thus, output monitoring alone is not enough for the franchisee. It can be assumed that the franchisee wants the franchisor to pay more attention to the franchised stores through behavioral monitoring. We can confirm this point by the fact that the franchisee does not have a negative reaction to the behavior monitoring, but is not satisfied with the output monitoring. When both monitoring is done simultaneously, compliance increases and opportunism decreases.

2.2 Verification of control effects

In the case of high goal incongruence, compared to low goal incongruence, franchisee compliance with franchisor behavior monitoring was shown to decrease more drastically, and the increase in compliance due to output monitoring was shown to be drastically attenuated. Hypotheses 6(a)(b) were both supported (<Table 7>).

When goal incongruence is high, compared to

<Table 7> The relationship between monitoring and compliance due to goal incongruity

	Category	Dependent variable Compliance of a franchisee store		
		Coeff	<i>t</i>	<i>p</i>
H6 (a)	Constant	3.796	11.735	.000
	Behavior monitoring	-.005	-.153	.878
	Goal incongruity	.020	.799	.424
	Behavior × goal incongruity	-.061	-4.342	.000
	<i>R</i> =.449, <i>R</i> -sq=.202, <i>F</i> =17.753, <i>p</i> =.000.			
H6 (b)	Constant	5.658	17.958	.000
	Output monitoring	.361	9.432	.000
	Goal incongruity	.020	.770	-.030
	Output × goal incongruity	-.061	-3.929	.000
	<i>R</i> =.446, <i>R</i> -sq=.199, <i>F</i> =17.405, <i>p</i> =.000.			

*During the analysis the control variables of franchisor (4) and franchise stores (4) were input as Covariates.

when it is low, opportunistic behavior was drastically increased by franchisor behavior monitoring, and the decrease in opportunistic behavior due to output monitoring is rastically attenuated. Hypotheses 7(a)(b) were both supported (<Table 8>).

2.3 Overall results

The overall results of hypothesis testing are summarized in <Table 9>.

VI. Conclusion and Implications

1. Summary of Research Results

According to our research, the higher the contractual one-sidedness, the higher the behavioral monitoring, and the higher the contract completeness,

the lower the output monitoring. This shows that rather than increasing contractual one-sidedness, it is more helpful to increase completeness in order to fine-tune incentives before the contract is signed and to reduce or eliminate monitoring costs after the contract is signed.

Furthermore, in cases where only either behavioral or output monitoring was conducted, it was found that it did not have a significant impact on the behavior of the franchisee. On the other hand, when both behavioral and output monitoring were conducted, opportunistic behavior decreased and compliance increased. This is because the informational aspect of output monitoring and the communication opportunity aspect of behavior should have a synergistic effect when combined. And in the case where both behavior and results were measured at the same time, it is possible to interpret that the franchisor was able

<Table 8> According to the goal incongruity

	Category	Dependent variable opportunistic behavior		
		Coeff	t	p
H7 (a)	Constant	2.372	5.769	.000
	Behavior monitoring	.009	.201	.840
	Goal incongruity	.288	8.764	.000
	Behavior × goal incongruity	.122	6.787	.000
	R=.380, R-sq=.145, F=11.878, p=.000.			
	Category	Dependent variable opportunistic behavior		
		Coeff	t	p
H7 (b)	Constant	2.230	5.543	.000
	Output monitoring	.008	.159	.873
	Goal incongruity	.290	8.762	.000
	Output × goal incongruitys	.116	5.801	.000
	R=.364, R-sq=.132, F=10.732, p=.000.			

*During the analysis the control variables of franchisor (4) and franchise stores (4) were input as Covariates.

<Table 9> Overall results of hypothesis testing

	Hypothesis	Result
H1	(a) Higher the degree of completeness in franchise contracts, the behavior monitoring on franchisees decrease (-).	×
	(b) Higher the degree of completeness in franchise contracts, output monitoring on franchisees decrease (-).	○
H2	(a) Higher the one-sidedness of franchise contract, there is an increase (+) in behavior monitoring.	○
	(b) Higher the one-sidedness of franchise contract, there is an increase (+) in output monitoring.	×
H3	(a) The stronger the behavior monitoring by the franchisor, franchisee's compliance decreases (-).	×
	(b) The stronger the behavior monitoring by the franchisor, franchisee's opportunistic behavior increases (+).	×
H4	(a) The stronger the behavior monitoring by the franchisor, the franchisee's compliance increases (+).	×
	(b) The stronger the behavior monitoring by the franchisor, the franchisee's opportunistic behavior decreases (-).	×
H5	(a) The higher the degree in which behavior and output monitoring are concurrently run, the franchise store's compliance increases (+).	○
	(b) The higher the degree in which behavior and output monitoring are concurrently run, the franchise store's opportunistic behavior decreases (-).	○
H6	(a) In cases where the Goal Incongruity between the franchisor and the franchisee is great, the negative (-) effect of franchisor behavior monitoring increases (+).	○
	(b) In cases where the Goal Incongruity between the franchisor and the franchisee is great, the positive (+) effect of franchisor output monitoring decreases (-).	○
H7	(a) In cases where the Goal Incongruity between the franchisor and the franchisee is great, the positive (+) effect of franchisor behavior monitoring on opportunistic behavior increases (+).	○
	(b) In cases where the Goal Incongruity between the franchisor and the franchisee is great, the negative (-) effect of franchisor output monitoring on opportunistic behavior decreases (-).	○

○: supported, ×: rejected.

to consistently control and positively influence the behavior of the franchisee. Consequently, for the franchisor, by simultaneously monitoring behavior and performance and providing feedback to the franchisee, we judge that the franchisor will be able to extract positive behavior from the franchisee and increase the uniformity and performance of the franchise system.

On the other hand, when the level of goal incongruence is high, the compliance of behavior monitoring and the influence of opportunistic behavior increase, and the compliance of output monitoring and opportunistic behavior decrease. Therefore, when goal incongruity is high, there is little motivation or incentive for mutual cooperation. There is a high probability that the franchisee will avoid the actions to achieve the franchisor's goals.

2. Contributions

2.1 Theoretical implications

Regarding the characteristics of franchise contracts (completeness, one-sidedness), this research coded each clause of the franchise contract into numbers. Based on the contracts of 58 brands from eight industries, two coders analyzed and quantified the characteristics of the contract. Methodological implications were provided.

In addition, by studying eight industries with many conflict issues and a high number of franchisors and franchisees, including restaurants, services, wholesale and retail, and automobile sales, it increased the universality of the research. And given that goal incongruence increases the

likelihood of conflict, we analyzed the influence of goal incongruence on the relationship between monitoring and franchisee behavior.

2.2 Managerial implications

Through the following research, we were able to identify the following realistic implications.

First, there is a need to reduce monitoring by increasing the finality of contracts. Since behavior monitoring is a face-to-face control method with the franchisee, there is a possibility of conflict with the franchisee. The franchisor will incur more costs based on the number of face-to-face interactions. But the one-sidedness of contracts leads to an increase in behavioral monitoring, while high completeness can reduce monitoring. Thus, by reducing contractual one-sidedness and increasing completeness, a franchisor can reduce the potential for conflict and cost.

Second, working with the merchant screen is important. The franchisor must create mechanisms that reduce goal incongruence between the franchisee and the franchisor. In recruiting for franchisees, the franchisor must have a policy mechanism that could discern people with attitudes compliant with the headquarters policy of franchise business uniformity and quality assurance.

Third, we need to change the way we do monitoring. According to our research results, in cases where both behavior monitoring and output monitoring were conducted, it showed that it has a positive influence on the franchisee's behavior. Therefore, the franchisor can conduct output monitoring by introducing non-face-to-face methods

(order quantity, inventory check through POS records, etc.) where the franchisee is not aware of the monitoring. In this way, the franchisor can reduce the cost of monitoring and share the monitoring results with the franchisee to show that the franchisor is diligently practicing output monitoring. In addition, if behavioral monitoring is strengthened with information provision and consultation function, we expect that the impact of monitoring can be maximized.

3. Limitations and Future Research

The points to improve this research and further research tasks that should be refined are as follows.

There are various franchise industries, but there are limitations to generalization by selecting only eight of these industries and selecting only selected brands to analyze and collect data on the contracts. If other industries that were not included in this research were the subject of research, we believe there would be a more generalizable result.

Second, in measuring the frequency of the control mechanism, we measured the frequency of the franchisee's tardiness and found that it was not consistent with the number of actual monitoring conducted by the franchisor. However, even the franchisor cannot accurately determine the number of inspections it conducts. Each franchisee behaves in response to his or her perceived monitoring. Therefore, we concluded that the frequency of monitoring perceived by franchisees would be more appropriate for this study.

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가맹계약의 계약적 특성이 가맹점사업자의 순응 및 기회주의 행동에 미치는 영향

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ABSTRACT

Purpose: 본 연구는 대리인 이론에 근거하여 가맹본부의 사전적 통제수단인 계약서 특성이 사후적 통제수단인 모니터링에 어떠한 영향을 미치는지 여부와 사후적 통제수단인 모니터링이 가맹점사업자의 행동에 어떠한 영향을 미치는지 여부를 연구하였다. 또한 모니터링이 가맹점사업자의 행동에 미치는 영향에 대하여 목표불일치성이 조절효과를 가지는지 여부도 검증하였다.

Research design, data, and methodology: 국내에서 활동하고 있는 8개 업종의 브랜드 중 58개 브랜드를 대상으로 한 계약서 분석결과, 가맹점사업자 설문조사, 정보공개서 관련 자료를 통합분석하여 다음과 같은 결론에 도달하였다.

Results: 가맹계약의 완결성이 높은 경우에는 결과모니터링이 감소되고, 가맹계약의 일방성이 높은 경우에는 행동모니터링이 증가하였다. 결과모니터링과 행동모니터링은 개별적으로는 가맹점사업자의 순응과 기회주의 행동에 유의한 영향을 미치지 못하였으나, 행동모니터링과 결과모니터링을 병행하는 경우에는 순응이 증가하고 기회주의 행동이 감소하였다. 한편 목표불일치성은 가맹본부의 모니터링이 가맹점사업자의 순응과 기회주의 행동에 미치는 영향에 대하여 유의한 조절효과를 가지는 것으로 확인되었다.

Conclusions: 모니터링이 정보제공적 측면에서 접근하여야 하며 가맹점사업자에게 충분한 피드백이 제공되어야 할 필요성이 있다는 것을 보여준다. 가맹본부로서는 모니터링을 충분하게 실시하는 것 못지 않게 가맹점사업자와 가맹본부와의 목표불일치성을 제거하거나 낮추는 작업을 병행해야 할 필요성이 있는 것이다. 이에 더하여 가맹계약서를 작성함에 있어서 일방성을 낮추고 완결성을 높인다면 모니터링으로부터 촉발되는 가맹본부와 가맹점사업자 간의 분쟁을 줄일 수 있을 것이다. 본 연구결과는 가맹본부로 하여금 가맹본부 모니터링에 따른 분쟁의 소지를 줄이면서도 효과적인 통제시스템을 구축하고 가맹점사업자의 자발적인 협조를 얻어 가맹시스템의 품질을 높이는데 필요한 시사점을 제공할 수 있을 것이다.

주제어: 대리인이론, 모니터링, 가맹계약, 순응, 기회주의, 일방성

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