

Examination of Franchisee Relationship Management in the Retail Pharmacy Industry

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Abstract

In response to increasing market competition, the franchise business model has become a common operational strategy in the rapidly developing chain pharmacy industry. Franchising would enable pharmacy businesses to gain a competitive advantage as societal aging progresses. However, the relationship between franchise headquarters and franchisees must be developed to improve the relationship value of the operation management within the franchise chain and to promote higher relationship quality between franchisees and franchise headquarters. If the relationship between the two parties is strengthened, the franchisee will be able to enhance self-management; this will further strengthen the close cooperative relationship between the two. In this study, Taiwanese chain pharmacies were selected as the research targets. The results revealed that stable relationship management can strengthen the cooperative relationship between franchise headquarters and franchisees and maximize the value of the relationship.

JEL classification numbers: L10.

Keywords: Franchisee, Retail Pharmacy Industry, Relationship Governance, Relationship Quality, Relationship Value.

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1. Introduction

Taiwan is undergoing a process of societal aging. By 2026, the proportion of Taiwanese citizens over the age of 65 years will exceed 20%. Therefore, care for older adults has become a point of high governmental concern, and the means through which older adult care can be integrated into societal operations has become an essential direction for development of governmental older adult care policies. Pharmacy chains have accordingly become a key aspect of policy formulation. Furthermore, the demand for community pharmacies that offer localized services and meet local needs, such as local demands for prescription fulfillment for chronic diseases, health-care product consultation, and other services, has rapidly increased. In response, many pharmacy chains have sought to expand their service points and service channels through franchising. Therefore, channel relationship management for franchise chains has become increasingly essential; interactions between franchise headquarters and franchisees are at the core of the cooperative relationship between the two. To prevent the franchisees from acting out of self-interest and damaging the overall brand image of the franchise, franchise headquarters should establish mutually beneficial guidelines and resource allocation in their regular business practice. This will support long-term relationships with franchise channels. The relationship between franchise headquarters and franchisees is cross-organizational. Therefore, the characteristics and factors of the mechanism underlying cross-organizational relationship management must be explored to identify the variables present in relationship management and to accurately analyze the cross-organizational management relationship (Poppo and Zenger, 2002).

Although many chain businesses attempt to expand their business territories through franchising, franchisees often fail to join because they do not comply with standardized regulations or have a vision that is inconsistent with that of the franchise headquarters, which leads the businesses to eventually abandon franchise expansion. Therefore, franchise headquarters must establish a system for relationship management, establish a cooperative relationship with franchisees, and improve the value and quality of their relationships with franchisees. Furthermore, franchise headquarters must develop a system for relationship management to facilitate cooperation and interaction between headquarters and franchisees to thereby improve the performance of the franchise. To do so, the factors affecting franchise headquarters' relationship management must be identified. Therefore, relationship management within the franchise system, especially within the context of chain pharmacies, must be seriously considered; strengthening the relationship between the franchise headquarters and franchisees through an optimized system of relationship management that ensures greater added value is essential in improving the performance and competitiveness of franchise operations.

However, although relationship management is the most frequent form of managerial interaction experienced by both parties and is, therefore, a key factor in the success of chain businesses, research related to franchising rarely discusses the value of the relationship between franchise headquarters and franchisees from a

perspective of relationship management. Therefore, in this study, a research framework based on those of relevant studies on franchise headquarters' relationship management and on the quality of relationships between franchise headquarters and franchisees was developed from the perspective of franchisees of chain pharmacies. In addition, the relevant factors affecting the relationship management and relationship value of the chain pharmacies were analyzed. Finally, the management implications of the results of this study were discussed to establish a basis from which chain pharmacies can promote and formulate relationship management strategies.

2. Literature review

2.1 Cross-organizational relationships

Dyer and Singh (1998) proposed that a heterogeneous relationship of interorganizational cooperation can provide organizations with a competitive advantage; that is, establishing closer ties, embedded relationships, and mutual trust between organizations through alliances or network relationships can provide the involved organizations with a competitive advantage. Network members jointly invest in interorganizational relationship-specific assets, knowledge-sharing routines, complementary resources and capabilities, and effective governance to generate relational rent. Williamson (1975) proposed that cooperation is based on mutual interests and a relationship of agreement between organizations within the market and at different levels. Such a relational contract involves more than regular contractual agreements between parties; relational contracts contain an expectation that the two parties will engage in cross-organizational cooperation to merge their interests. Relational contracts emphasize interpersonal relationships and involve a wider social context (James, 2003). Heide (1994) argued that different strategies should be adopted when managing cross-organizational relationships; Heide (1994) indicates that features of management and control, such as establishment elements, structured transactions, monitoring, and execution, are also different in such relationships.

2.2 Relationship value

Zeithaml (1988) reported that value is established based on evaluations of the total effectiveness of a product or service in relation to what was paid or sacrificed to receive it. Customer "payments" and "sacrifices" can be both monetary and nonmonetary (e.g., time, energy, or effort). The things customers may receive in return include internal and external characteristics of a product and its perceived quality. For relationship value, creation of value can enable trading partners to develop communication and trust and can thereby improve trading partners' competitiveness. Generally, the parties involved also hope to obtain additional benefits from the relationship and achieve mutual profit (Wilson, 1995; Gwinner et al., 1998); partners expect to receive special discounts, concessions, or faster or prioritized service. Gwinner et al. (1998) found that, if customers are willing to

maintain long-term relationships with a company, they generally expect to receive monetary rewards. Walter et al. (2001) reported that the benefits generated through partnerships can be employed as a basis for judging relationship value, and relationship function can serve as an indicator to measure such value. This measure can be divided into direct and indirect function. Direct function indicates that the expected benefits of the partnership will immediately influence the existing relationship; indirect function indicates that the expected benefits will influence the development of future relationships or other relevant information. Gwinner et al. (1998) proposed that relationship benefits can include confidence benefits, social benefits, and special treatment benefits. Among them, the factor that most affects relationships is confidence benefits; when customers view receiving a service positively, their confidence in the service is affected. Wilson (1995) suggested that businesses should be aware of customers' perceived relationship value; value can be highly influential for both buyers and sellers in franchise chains. Transactional relationships are difficult to maintain without relationship value. Therefore, in chain pharmacy franchise relationships, the franchise headquarters has the role of providing a service; they should, therefore, provide excellent and appropriate services, cultivate amicable relationships with franchisees, and meet franchisees' needs. In addition, to establish a long-term cooperative relationship between the franchise headquarters and the franchisees, the franchise headquarters must ensure they regularly interact and develop a mutual understanding with franchisees. This will support franchisees by enabling franchise headquarters to better understand how they might support the operations of franchisees and the difficulties franchisees encounter in operations.

2.3 Relationship management

Relationship management is a type of hybrid management mechanism that falls between those of the market and of cooperate hierarchy. Based on whether the contracts are involved, this hybrid mechanism can be categorized as unilateral or bilateral management. In the study, we prefer to indicate relationship management fall into the category of bilateral management (Sheng et al., 2006). In bilateral relationships, efficiency is generally the short-term focus, which may lead to cooperation problems in the long term. Dyer and Singh (1998) reported that an effective management mechanism is essential because it generates relational rent, with the assumption that one plus one is greater than two. This "rent" in economics refers to businesses' effective allocation, exchange, and use of resources, and such rent is not easily obtained through simple transactions. Rather, rent is obtained through resource exchange and complementarity. Cooperative relationships easily form comprehensive effects, which then causes economic rent to rise. In this respect, it is necessary to think beyond efficiency, although it can reduce transaction costs and provide incentives for value creation, such as investment in exclusive relationship assets and knowledge sharing. Sheng et al. (2006) defined relationship management as an interorganizational transaction mechanism in which acceptable

behaviors are managed among trading partners through a set of norms. Anderson and Narus (1990) indicated that establishing a close cooperative partnership requires mutual agreement. All companies at least partially rely on other companies and are, therefore, willing to invest in unilateral or bilateral relationships. Zaheer and Venkatraman (1995) discussed relationship management from the perspective of a transaction cost economy and social transactions; they indicated that the antecedents of relationship management are asset investment, uncertainty, mutual investment, and trust. Zaheer and Venkatraman (1995) also emphasized that appropriate interorganizational cooperation strategies can create an interorganizational competitive advantage. Powell (1990) categorized organizational management structures as being based on the market, corporate hierarchies, and networks. In business, a network emerges when businesses have complementary interests; it often leads to interdependence, with interdependence being based on trust, loyalty, and mutual benefit, which enables cooperative activities to be developed and maintained. Cooperation must improve efficiency, achievement, and sustainability (Jarillo and Stevenson, 1991). Cooperation can take the form of strategic alliances or partnerships (Lowndes and Skelcher, 1998), with participants cooperating in a wide range of activities. However, participants must express a willingness for exchange and a willingness to advance each other's interests and trust each other (Macneil, 1982). Sheng et al. (2006) reported that cooperation requires a balance of trust, loyalty, and common values, with trust being formed through an interdependence among partners that ensures mutually beneficial behavior and nonspeculative behavior in partners; loyalty being formed through a desire to maintain relationships with other partners with an expectation of continuity; and common values being formed when trading partners recognize that they have similar business-related norms and values.

Because franchisees voluntarily join the franchise, they are likely to remain loyal to the franchise headquarters (Lowndes and Skelcher, 1998). However, management of the relationship with franchisees is affected by the amount of resources available to the franchise. When a business has more resources than those of a partner, the business holds greater authority, and hierarchical management can be adopted. If the resources available to the business and its partner are equal, the relationship can be maintained through contracts and transactions, and the market model can be adopted for management. If the business and its partner have the same goal, the relationship can be maintained through flexible coordination, cooperation, and trust. Yu et al. (2006) reported that a complete relationship management mechanism can encourage the other party to invest in target assets; the main purpose of a cooperative relationship is for both parties to identify a means of creating value and reducing costs (Lambe et al., 2000). Through such relationships, businesses might exchange relevant knowledge and combine complementary resources. Therefore, relationship management can increase the number of beneficial relationships (Mohr and Spekman, 1994) and improve partners' business performance (Ferguson et al., 2005). Relationship management is an extension of value and consent in social relationships (Macneil, 1982), and it has lower transactional costs than formal

contracts do (Dyer and Singh, 1998). Ganesan (1994) reported that maintaining a long-term relationship between two parties can reduce the behavior uncertainty of both parties through formal regulation; a governance structure or safeguard can be selected to minimize the transaction cost to strengthen the governance efficiency (Williamson, 1996). If the franchise headquarters establish an effective management mechanism, the franchisees would have a higher willingness to engage in value creation.

Based on this inference, the following hypothesis was formed:

H₁: Franchisees' perceived relationship value increases with the degree to which the franchise headquarters adopts a relationship management model.

2.4 Relationship quality

Crosby et al. (1990) proposed that relationship quality is the overall evaluation of the strength of the relationship between two parties; it includes trust and satisfaction, and it meets the needs and expectations of both parties. Relationship quality involves partners' trust in each other, satisfaction with the relationship, and commitment to maintaining a long-term relationship (Kumar et al., 1995). Relationship quality varies with the individual organizations involved, the type of relationship, and the environment (Parsons, 2002). Hennig-Thurau et al. (2002) reported that relationship quality can reflect the overall nature of the relationship between a company and its customers. Hennig-Thurau and Klee (1997) demonstrated that overall relationship quality includes the cognitive satisfaction, trust, and commitment of both partners, with a higher level of relationship quality indicating higher satisfaction in the relationship; higher relationship quality indicates to customers that the company is trustworthy, which furthers the relationship between the two parties. Kim (2001) reported that trust and commitment in cooperation in chain businesses can reduce perceived risk of speculative behavior in both sellers, lead both parties to believe that short-term inequalities will be resolved in the long term, and reduce transaction costs in transactional relationships to improve performance. Therefore, cooperation leads to benefits beyond those one can create, with partners feeling a sense of commitment and being more willing to make capital investments, strike a balance between short-term profits and long-term goals, and limit speculation.

In addition, Gundlach et al. (1995) reported that the commitment of both parties to a transaction indicates an expectation of high relationship quality, which builds trust in the relationship and influences the development of shared social norms in future transaction management. Therefore, "commitment" is a key measure of relationship quality (Hennig-Thurau et al., 2002). In addition, Hewett and Bearden (2001) indicated that, when the degree of trust is higher, a party is more likely to comply with the requests of the other party or to complement or coordinate with the other party's marketing to achieve common results. Therefore, establishing and maintaining trust creates a tacit contract between organizations and stabilizes

cooperative business relationships. Relationship quality can also be an evaluation of general buying and selling relationships. This evaluation is based on the past successes or failures of both parties and reflects whether the relationship meets the needs and expectations of both parties (Crosby et al., 1990). Zeithaml et al. (1996) indicated that maintaining high relationship quality enhances customers' positive behavior intentions (such as loyalty and willingness to pay higher prices) and reduces their negative behavior intentions (such as leaving and giving negative reviews). Therefore, if the members of a relationship have high relationship quality, they can achieve more favorable cooperation benefits. The quantitative connotations of satisfaction and commitment discussed in the literature have focused on buyers and sellers' emotional maintenance and such emotional maintenance's dependence on salespeople, with satisfaction referring to the customers' willingness to maintain the relationship and commitment referring to customers' dependence on the company (Morgan & Hunt, 1994). Relationship quality describes the strength of the relationship between two parties, which indicates that it can affect the long-term maintenance of the relationship between franchise headquarters and franchisees and that opportunities for regular interactions between the parties are determined by the franchisees' perceived relationship quality.

Based on this, the following hypotheses were developed:

H₂: Franchisees' perceived relationship quality increases with the degree of relationship management adopted by the franchise headquarters.

H₃: Franchisees' perceived relationship value increases with the quality of their relationship with the franchise headquarters.

3. Methods

3.1 Subjects and design

The research subjects of this study were franchisees of chain pharmacies. To commercially operate these chains, franchisees must prepare the funds and manpower required to open a chain pharmacy. The franchisee can obtain authorization to open the pharmacy after signing a contract with the franchise headquarters. The franchise headquarters assists franchisees with store planning, technical guidance, advertising, and promotion. The franchisees are contractually allowed to use the trademark and service and operation methods of the chain business. The franchisee has ownership and management of the franchise on the condition that they agree to centralized and unified management by the headquarters. The research design mainly focuses on the relationship between franchisees and franchisee headquarters. When franchise headquarters operate through relationship management mechanisms, they can achieve a higher relationship value with franchise partners through positive interactions. A total of 200 questionnaires were distributed to franchisees. The sales specialist of the franchise headquarters of this study delivered the questionnaires to the franchisees in person, and the

questionnaires were recovered by the researchers in person. Additionally, in order to increase the questionnaire recovery rate, we also notice the potential participants by telephone or email while those don't respond after one week. However, 28 potential participants did not respond. Therefore, 176 questionnaires were recovered, with a recovery rate of 88%. Inspection revealed that 30 questionnaires were invalid due to incomplete answers, leaving 146 valid questionnaires.

3.2 Measurement variables

3.2.1 Relationship value

Relationship value was measured by the Cockburn (2001) and Gwinner et al. (1998), this study proposed that a perceived degree of tangible and intangible sacrifice must be paid to obtain tangible and intangible benefits from a trade relationship, with both parties expecting to obtain additional benefits from the relationship and achieve mutual profit; for example, "positive interaction with franchise headquarters increases available solutions" was included as an item.

3.2.2 Relationship quality

This study proposed that relationship quality is a composite factor and that the key elements of a successful partnership are mutual trust, commitment, and satisfaction. The relationship quality of this study is the overall relationship quality proposed by Hennig-Thurau and Klee (1997) and, thus, comprises cognitive satisfaction, trust, and commitment in both partners; for example: "I think the franchise headquarters will fully support business practices to fulfill their commitment to consumers" was included as an item.

3.2.3 Relationship management

Based on Zaheer and Venkatraman (1995), this study proposed that relationship management requires interactive functions and practices beyond the norms of formal contracts when interorganizational transactions are being managed. For example, interorganizational transactions require specific relationship asset investment and interorganizational trust. For example, "the interactions support the mechanism itself when values are established" was included as an item.

4. Study results and analysis

4.1 Descriptive statistics

For the descriptive statistics, the length of cooperation between the franchisee and the franchise headquarters of the chain pharmacy were less than 1 year (26.1%), 1–3 years (50%), 3–6 years (21.1%), and 6–9 years (2.9%). The contact frequencies between franchisees and franchisee headquarters were every day (4.2%), every 2–3 days (26.8%), every 4–5 days (19.7%), and more than every 6 days (49.3%). The ordering methods of the franchisee and franchisee headquarters were telephone or fax (7.7%), e-mail (1.4%), intelligent Point of Sale systems (1.4%), and network systems (89.4%). The descriptive statistical information (the mean, standard deviation, correlation coefficient, and reliability of variables) is listed in Table 1. Based on the correlation coefficients, significant and positive correlations are observed in the relationship management, relationship quality, and relationship value between the franchise headquarters and franchisees of chain pharmacies. The correlation analysis results preliminarily support H_1 .

Table 1: Variables' mean, standard deviation, and Pearson correlation coefficient (N = 146)

	Mean	Standard deviation	1	2	3	4	5	6
RV	4.908	1.1910						
RQ	4.891	1.3717	0.741**					
RM	5.062	1.3681	0.731**	0.840**				
CL	2.014	0.789	-0.210	-0.057	-0.152			
CF	3.140	0.957	-.0130	-0.101	-0.149	0.129		
OM	2.845	0.562	0.169*	0.029	0.062	0.069	-0.091	1

*Relationship Value (RV), Relationship Quality (RQ), Relationship Management (RM), Cooperation length (CL), Contact Frequency (CF), Ordering Method (OM)

* $p < .05$, ** $p < .01$, *** $p < .001$

4.2 Factor analysis and reliability analysis

After the fitness was found to be appropriate, an eigenvalue greater than 1 was established as the extraction criterion, and the maximum variation method was employed to perform factor rotations, with each factor configuration achieving a commonality greater than 0.5. In addition, the values from Bartlett's sphericity test reached a significant level, indicating suitability for factor analysis, as presented in Table 2. In addition, for Cronbach's α , the questionnaire achieved a range of 0.90 to 0.92, which indicates favorable reliability.

Table 2: Factor analysis and reliability analysis

Factor	Questionnaire Content	Factor loading	Eigenvalue	Explained variance (%)	Cronbach's α
RV	Adding available solutions	0.690	1.993	64.446	0.918
	Adding additional services	0.780			
RQ	Headquarters is professionally competent	0.800	5.346	76.364	0.914
	Cooperation with headquarters is effective	0.731			
	Headquarters improves efficiency in procuring goods and services	0.798			
	Headquarters strives to cooperate with a high degree of connection	0.783			
	Headquarters fully supports business practices	0.668			
	Headquarters maintains long-term interests	0.821			
	Headquarters continues to invest in the relationship between itself and franchisees	0.745			
RM	Headquarters integrates with partners	0.641	3.913	78.260	0.902
	Decisions are mutually agreed upon between headquarters and franchisees	0.768			
	The common goal can be achieved through coordination with both parties	0.842			
	Headquarters has clear attitudes with respect to the reward system	0.801			
	Headquarters establishes common values	0.861			

*Relationship Value (RV), Relationship Quality (RQ), Relationship Management (RM)

4.3 Regression analysis

The factor scores for each variable that were generated through factor analysis were used to perform various empirical regression analyses, and regression analysis was performed to test H₂ and H₃.

1. Effects of relationship management and quality on relationship value

For the analysis of the effects of relationship management and quality on relationship value, when the revisit intention was used as the dependent variable, the adj-R² = 0.583, f = 99.558, p=0.000 < 0.1 of the regression models was significant, indicating that the regression model was acceptable and statistically significant. As indicated in Table 3, the VIF value of each variable was less than 10, which indicates no collinearity problem for the individual variables. The D-W value was 1.931, indicating that the error term was independent and no self-correlation problem was present. For the “relationship management” variable, t = 4.284, p = 0.000 < 0.1, and the standardized coefficient was 0.429. For the “relationship quality” variable, t = 3.703, p=0.000 < 0.1, and the standardized coefficient was 0.371, indicating that “relationship management” and “relationship quality” have positive and significant effects on “relationship value.” This indicates that higher relationship quality and relationship management by the franchise headquarters leads to higher perceived relationship value by franchisees. Therefore, H₂ is supported.

Table 3: Analysis of the effects of relationship management and quality on relationship value

Independent variable	Relationship value	
	Relationship management	Relationship quality
Standardized coefficient	0.429	0.371
t value	4.284	3.703
Coefficient p value	0.000***	0.000***
VIF value	3.392	3.392
Adj-R ²	0.583	
F value	99.558***	
D-W value	1.931	

*p < .05, **p < .01, ***p < .001

4.4 Effects of relationship management on relationship quality

In the analysis of the effects of relationship management on relationship quality, when the revisit intention was used as the dependent variable, the Adj-R² = 0.703, f = 334.869, p = 0.000 < 0.1 of the regression model was significant, indicating that the regression model was acceptable and statistically significant and the model matching was adequate. As indicated in Table 4.4, the VIF value of each variable

was less than 10, which indicates no collinearity problem between the variables. The D-W value was 1.731, indicating that the error term was independent and no self-correlation problem was present. For the “relationship management” variable, $t = 18.299$, $p = 0.0001 < 0.1$, and the standardized coefficient was 0.840. This indicates that “relationship management” has a positive and significant effect on “relationship quality.” That is, more favorable relationship management leads to higher quality in the relationship between franchisees and franchise headquarters. Therefore, H_3 is supported.

Table 4: Analysis of the effects of relationship management on relationship quality

	Relationship quality
Independent variable	Relationship management
Standardized coefficient	0.840
<i>t</i> value	18.299
Coefficient <i>p</i> value	0.000***
VIF value	1.000
Adj-R ²	0.703
<i>F</i> value	334.869***
D-W value	1.731

* $p < .05$, ** $p < .01$, *** $p < .001$

5. Conclusions and recommendations

This study identifies that, for relationship quality and value, franchisees’ perceived relationship value increases with the quality of the relationship between the franchise headquarters and the franchisees, and the relationship between the variables was significant and positive (Zeithaml et al., 1996). Relationship quality affects relationship value, which decreases the importance of the product and price. The main advantage of cooperation is the ability to maximize the value of trust between the two parties of the franchise relationship. For relationship management and value, interactions in which franchise headquarters use relationship management have positive and significant effects on promoting relationship value. Interactions between the parties can affect relationship management and franchise performance. Therefore, to improve the competitiveness of franchises, franchise headquarters should establish management mechanisms in new cooperative relationships, expect future benefits from cooperation, cooperate in the relationships, increase the durability of the cooperative relationships, and merge the long-term goals of the relationships to support each other’s interests. For relationship management and quality, franchisees’ perceived relationship management and quality have positive and significant effects on their relationships with franchise headquarters. From a perspective of contracts and relationships, through understanding and equanimity from both parties, a mutual relationship and common

trust can be cultivated. Trust is the management mechanism underlying franchise cooperative relationships. Positive interactions between franchise headquarters and franchisees help build mutual trust, which supports the perspective of Hennig-Thurau and Klee (1997). Through this, a high degree of cooperation and consensus between the two parties involved in the operations of chain pharmacies can be formed. That is, the key to the relationship value of chain pharmacies lies in the manner through which franchise headquarters manage their relationships with the franchisees to ensure both parties maintain adequate relationship quality.

For relationship management and value, interactions in which franchise headquarters employ relationship management can positively and significantly improve the franchisees' perceived relationship value. These interactions can positively affect relationship management and related business performances (Paulin et al., 1999; Coletta et al., 2021) and thereby improve the competitiveness of the chain pharmacy and the partnership with the franchisee. The management mechanism established through this cooperative relationship can enable the chain pharmacies to expand cooperation in the future. If both parties benefit, they will be more willing to continue cooperative transactions and consolidate the continual value of the relationship.

By expanding the franchise territory, chain businesses can leverage market funds and lead franchisees to invest in joint ventures and can integrate internal and external resources to develop a larger channel scale. This study found that franchise headquarters can increase the benefits received from external performance through stable relationship management, improve the relationship between franchisees and the franchise headquarters, mutually achieve greater added value, share goals and risks, jointly work toward mutual goals, and maximize the relationship value. This can affect the value and image of the chain pharmacy's brand, improve the competitiveness of the chain pharmacy, and improve consumers' impressions of the brand. Franchise headquarters of chain pharmacies should provide more services and technologies to franchisees and gradually increase their resource investment in franchisees. This will improve the franchisees' perceptions of the value of the relationship, harmonize and stabilize the cooperative relationship between the two sides, and further improve the franchisees' loyalty to the franchise headquarters.

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