International Journal of Hospitality Management 53 (2016) 49–58

Contents lists available at ScienceDirect

International Journal of Hospitality Management

journal homepage: www.elsevier.com/locate/ijhosman

Why does franchisor social responsibility really matter?

Yong-Ki Lee[a], YongSook Nor[b], Juwon Choi[c,*], Sally Kim[d], Sangho Han[e], Jae-Han Lee[f]

[a] College of Business Administration, Sejong University, 209, Neungdong-ro, Gwangjin-gu , Seoul 143-747, South Korea
[b] Association Board of Korean Education Evaluation, 33, Songpa-daero 34-gil, Songpa-gu, Seoul 138-854, South Korea
[c] Department of Economic Development, Tourism, and Sport Management, The University of Southern Mississippi, Hattiesburg, MS 39406, USA
[d] Harry F. Byrd Jr., School of Business, Shenandoah University, 1460 University Dr., Winchester, VA 22601, USA
[e] Department of Hotel & Restaurant Management, Cheju Halla University, 38 Halladaehak-ro,Jeju-si, Jeju Special Self-Governing Province 690-708, South Korea
[f] Department of Food Franchise, Shinheung College, 117 Howon-dong, Uijeongbu-shi, Gyeonggi-do 480-701, South Korea

ARTICLE INFO

Article history:
Received 18 March 2015
Received in revised form 24 August 2015
Accepted 26 October 2015
Available online 19 December 2015

Keywords:
Franchisor social responsibility
Franchisor image
Trust
Satisfaction
Long-term orientation

ABSTRACT

This study examines the impact of franchisor social responsibility (FSR) and franchisor image on franchisees. Based on prior research, the study hypothesizes that FSR and franchisor image influence qualities of the relationship with the franchisees (e.g., franchisee trust, franchisee satisfaction). The model was tested on the data collected from food service franchisees in South Korea. The study finds that FSR and franchisor image are critical for building franchisees' trust in the franchisor, which affects franchisees' satisfaction and their long-term orientation. We offer several implications related to the findings.

Published by Elsevier Ltd.

1. Introduction

Through an economic crisis in South Korea, many corporations in the country have downsized, creating a mass of unwanted early retirees. Many of these retirees lacked specific job skills or experiences to venture into a new industry (Park, 2005). Therefore, opening up a franchise business that is based on a proven concept of business has been considered a viable option for them to start a new career. As a result, franchising has gained a rapid growth in terms of the number of establishments and the type of services (Bordonaba-Juste and Polo-Redondo, 2008). According to a franchise business report in Souh Korea (KB Financial Group, 2012), foodservice franchise has become one of the early retirees' sought-after entrepreneurial pursuits and statistics show that foodservice franchises expanded at a 13.4% annual growth rate during the period of 2002–2010. There are approximately 488,000 franchise establishments in South Korea and foodservice operations account for 63% of the total establishments as of 2013 (KB Financial Group, 2012). The foodservice industry is known to create more jobs (2.9 per store) than other retail businesses (1.7 per store) (Korea Small Business Institute, 2011). Despite considerable contribution of the foodservice franchises to the overall economy, very little is known about what drives success in the foodservice franchising business. In order for franchises to be successful, a franchisor must develop and maintain a strong relationship with the franchisees. Relational conflicts and litigations often occur in the franchising industry due to the interests misaligned between franchisors and franchisses (Davis et al., 2011). In South Korea, the average length of time franchisees stay with a franchisor is 3.9 years (Korea Small Business Institute, 2011), and this short-term relation costs franchisors tremendous money as they have to constantly recruit and train new franchisees in order to fill the leaky bucket instead of using the resources for other strategic growth opportunities.

Grewal et al. (1999) state that establishing trust in the franchisor–franchisee relationship is very important because trustful relationships help with conflict resolution and problem-solving. In addition, franchisors and franchisees depend on each other for business success. For example, a franchisor's revenue is largely driven by the fees that franchisees pay as a prespecified percentage of their income. Likewise, franchisees rely on the franchisor for its expertise, know-hows, experiences and marketing programs. Prior research has identified some important drivers of successful strategic business relationships (e.g., justice, clear communication) (Hillenbrand et al., 2013). Corporate social responsibility (CSR) initiatives have gained a significant amount of attention and popularity over the past two decades as a tool for building

* Corresponding author.
E-mail addresses: yongki2@sejong.ac.kr (Y.-K. Lee), w8100@hanmail.net (Y. Nor), juwon.choi@usm.edu (J. Choi), ykim2@su.edu (S. Kim), shan@chu.ac.kr (S. Han), moobongli@semr.co.kr (J.-H. Lee).

http://dx.doi.org/10.1016/j.ijhm.2015.10.006
0278-4319/Published by Elsevier Ltd.

positive corporate image and managing relationships with various stakeholders. This study examines whether franchisors' engagement in social responsibility activities has any impact on the franchisees. More specifically, the study investigates the role of franchisor social responsibility (FSR) in influencing franchisees' perceptions of the franchisor and their relational responses (trust, satisfaction, and long-term orientation). Although some previous studies examined the effect of CSR on various stakeholders (e.g., employees, customers, community members) (Cruz et al., 2014), previous literature shows that very little is known about its effect in the context of franchisor–franchisee relationships. Therefore, one of the unique contributions of this study is that it examines whether and how CSR activities influence franchisees' perceptions of the franchisor. This paper is organized as follows: literature review, hypotheses development, methodology, data analysis and results, discussion, and limitations and future research.

2. Literature review

2.1. Franchisor social responsibility (FSR)

Corporate social responsibility (CSR) is a term based on the conception that corporations should make direct or indirect contributions to society by engaging in activities that advance some social good or welfare (Lee et al., 2012). While earlier scholars and practitioners (Wallich and McGowan, 1970) focused on economic interests and activities that helped advance social good (e.g., producing good products for the consumers while being profitable for the shareholders), some divergent views have emerged over the past two decades (Coles et al., 2013; Lee, 2008). Some scholars have examined the effect of CSR on different stakeholders including customers, communities, and employees in addition to the effect on economic or financial outcomes associated with CSR (Brown and Dacin, 1997; Lee, 2008; Luo and Bhattacharya, 2006; Sen and Bhattacharya, 2001). Others on the other hand, have focused on certain sectors or industries to understand how CSR can be effectively planned and implemented in that particular sector or industry (e.g., family-owned firms, tourism industry, etc., Coles et al., 2013; Cruz et al., 2014). For example, Cruz et al. (2014) show that family firms and non-family firms are driven by different standards or factors in implementing their CSR initiatives. These scholars support that CSR initiatives are of importance to the stakeholders as they influence stakeholders' perceptions of the corporation and offer the corporation competitive advantages (Cruz et al., 2014). Although there are some mixed findings about the link between CSR activities and a corporation's financial performance (Kang et al., 2010; Menz, 2010), many studies support that CSR activities are an important element of public relations and a critical part of corporate image management (Cruz et al., 2014; Lee, 2008). For example, Lee et al. (2012) who examined the effect of CSR on employees show that CSR activities have a direct impact on job satisfaction and trust, which in turn reduce job turnover. CSR activities are found to have a similar effect on customers, increasing customer satisfaction (Luo and Bhattacharya, 2006). While research on CSR has evolved to consider many different stakeholders, some scholars viewed CSR from a different perspective, treating CSR as multi-dimensional.

Carroll (1979, 1991) views that CSR involves economic, legal, ethical, and philanthropic responsibilities, and introduced the CSR pyramid model comprising four domains with the economic domain at the lowest level and the philanthropic domain at the highest level. He suggests that economic responsibilities are the most basic form of CSR activities and corporations may pursue higher levels of CSR initiatives by going beyond fulfilling the economic responsibilities. Economic responsibilities are related with the corporation's commitment to maximize earnings per share for the shareholders (Garriga and Melé, 2004). The economic domain is especially salient to the franchisor–franchisee relationship as one party's financial success is barely achieved without the other party's success. The domain of legal responsibilities involves fair rules or codified ethics which "embody moral standards, norms or expectations that reflect a concern for what stockholders view as fair or just" (Carroll, 1991, p. 41). This domain is concerned with such principles as justice and utilitarianism (Carroll, 1991). The ethical domain is at a higher level than the legal domain and involves social morality. A franchisor that allows franchisees to open up stores in very close proximity (e.g., 400 yards) may violate ethical standards, albeit legal. In fact, the Korea Fair Trade Commission recently established antitrust guidelines for foodservice franchise firms (Korea JoongAng Daily, 2012) by keeping bakery and coffee franchisors from granting additional store openings within a radius of 500 m (Korea Fair Trade Commission, 2012). The highest level of CSR involves philanthropic activities that are voluntary and they represent good corporate citizen responsibilities. For example, 'Bon Love' a corporate body that owns a very well regarded rice porridge brand 'Bon Juk' in South Korea has been involved with diverse philanthropic activities, such as serving free meals to the single elderly, the disabled, and the poor. The corporation also built health centers and supplied drinking water to people in Congo, Africa (http://www.bonlove.or.kr).

Our study is based on the well-respected viewpoint that CSR is a multifaceted construct and involves multiple dimensions. Because the purpose of this study is to understand how franchisor social responsibility (FSR) influences franchisees' perceptions of the franchisor, the study precludes the effect of FSR on other stakeholders (e.g., employees, customers). Rather, the study aims at the relationship between franchisors and franchisees while considering different dimensions of CSR activities (economic, legal, ethical, and philanthropic). Adopting Carroll's (1991) multi-dimensional approach is beneficial because it helps us capture different levels and dimensions of CSR activities, offering a comprehensive view to the understanding of CSR.

2.2. Franchisor image

Although there is no universally accepted definition, corporate image is a profile of expectations that stakeholders have built in their minds (Topalian, 1984) or an expression of the corporate personality (Bernstein, 1984). Unlike brand image which is confined to a certain product, corporate image is built based on many different stakeholders (e.g., employees, investors, leaders) let alone product-related attributes (e.g., price, product). Based on one study (Kim, 2011), both US and Korean consumers consider image of the brand more important than the price in forming attitude toward the brand. The study suggests that image often plays a more important role in decision-making than attributes associated with the object under evaluation. Prior research (e.g., Gray, 1986) suggests that management of corporate image is important and necessary for building public trust. In an effort to build positive corporate image, many corporations have participated in various CSR activities. The management literature shows a positive effect of CSR activities on employees. When employees embrace the fact that the company takes part in philanthropic activities, they tend to have a higher level of job satsfiaction and trust in the company (Valentine and Fleischman, 2008). In other words, CSR programs fulfill psychological needs of the employees (Bhattacharya et al., 2008), raising employees' satisfaction with and trust in the company. In the same vein, we view that franchisees will feel a sense of fulfillment when they perceive the franchisor as socially responsible.