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The Performance of Franchisees from the Franchisor's and Franchisee's Intangible Assets

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Abstract

Purpose – This study seeks to find out the factors affecting the performance of franchisees from the franchisor's and franchise's intangible assets. In order to explain the process, this study explores the concept of LMX, Relational Capital, and Decision Rights Delegation.

Research design, data, and methodology – To verify the proposed hypotheses, a questionnaire survey was conducted for franchise store owners, and to test the hypotheses, structural equation modeling was established.

Results – First, franchisor's intangible assets affect the quality of LMX, but don't affect the relational capital. And the quality of LMX affects the relational capital. In addition, "the effect of delegation of decision rights on relational capital" and "the effect of relational capital on franchisee's performance" were significant. However, the effect of delegation of decision rights on franchisee's performance wasn't significant. Second, the intangible assets of the franchise have a positive effect on the quality of the LMX and the degree of delegation of decision rights, and the quality of the LMX has a positive effect on the delegation of decision rights.

Conclusions – This study would suggest operational implications for the formation of vertical and horizontal relationships and the cooperation between the main members of the franchise business.

Keywords: Franchise Industry, Franchisor, Franchisee, Intangible Asset, Leader-Member eXchange(LMX), Relational Capital, Decision Rights Delegation.

JEL Classifications: C12, D30, M31, Q18.

1. Introduction

Franchising is an agreement in which suppliers or franchisors approve the rights of selling their products in return for receiving a certain form of payment from dealers or franchisees. With changes in the international markets and the spread of the service economic blocs, franchising in the United States sharply grows, and according to the International Franchise Association, the franchise business shows sales of 8,810 dollars a year as of 2009 and is an industry that employs almost ten million people (Pride & Ferrell, 2013). In the Republic of Korea, too, according to the Korea Franchise Association, as of 2016, 1.4 million people are employed, and it is an industry with a large share in the national economy, which has a market scale of about 137 billion dollars.

And yet, recently, various issues of the franchise system have been mentioned in the press. Especially, various problems are mentioned, like various franchisor's power tripping controversy, and the number of the actual cases of disputes received between franchisor and franchisee reported in media agencies in Korea increased from 554 in 2013 to 593 in 2016. From January through May 2017, the number of dispute settlements related to the franchise was 280, an increase by 28% in comparison with that in the previous year.

The core of the problems between franchisor and franchisee is concerned with franchisee management results,

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which is related to the distribution of revenues and costs that incurred. Similarly, Yi (2017) suggest the composite incompatibility between the franchise and the franchisee into goal incongruity, domain dissensus, and perceptual differences. In other words, if the franchisee's performance is high, consequently, it is judged that the problem of conflicts can be solved. This study would seek the factors affecting franchise performance from this perspective from intangible assets in the franchise business based on the resources-based theory. According to the resources-based theory, enterprises' tangible and intangible assets can bring about sustainable competitive advantage to them (Barney, 1991). Here, resources are a broad concept, including abilities and capabilities as well as tangible and intangible resources, and the resources not held by enterprises may be included.

In addition, this study would apply the Leader-Member eXchange (LMX) theory and the concepts of relational capital and the delegation of decision rights to explain the process in which intangible assets of franchisor and franchisee affect franchise performance. Here, the LMX theory is a theory that explains the existing organization-individual exchange, focusing on the individual exchange between the leader and the members. relational capital is a concept that regards trade connections between enterprises as resources, which premises a cooperative relationship. Lastly, the delegation of decision rights is a feature caused by the characteristics of the franchise business.

The purposes of this study are summarized as follows: First, this study would discuss the factors affecting franchisee's performance in the franchise business. Especially, this study would explain them, focusing on tangible assets in franchisor and franchisee according to the resources-based theory. Second, this study proposes that the impact of intangible assets of franchisor and franchisee on franchise performance should be mediated by the quality of the LMX, the degree of the delegation of decision rights, and relational capital. Although there are a number of franchise studies conducted on the basis of resource-based theory or LMX theory, there are few studies that have examined these two theories at the same time, but also the relationship between delegation of decision rights and franchisee's performance.

Nowadays, when the problems of the franchise business are presented, and social discussions are mentioned, this study judges the relationship between franchisor and franchisee to be the relationship between the leader and the members and at the same time, a cooperative relationship. This study is differentiated from the existing studies in the field of the franchise business in that it applied the LMX theory and the concepts of relational capital and the delegation of decision rights in order to explain this mechanism.

It is judged that this study would suggest operational implications for the formation of vertical and horizontal relationships and the cooperation between the main members of the franchise business, franchisor and franchisee in addition to the theoretical contributions of the preceding studies that described the process of the formation of the result in the franchise business.

2. Theoretical Background

2.1. Characteristics of franchising and Franchise business assets

There are various definitions of the franchise business. Chiou and Droge (2015) defined it as an organization in which a franchisee has the right to use franchisor's brand based on a legal contract between the franchisor and the franchisee. Pride and Ferrell (2011) defined it as a contract in the form in which franchisor permits the right to sell products for a franchisee and the franchisee offers remuneration in a particular form.

According to Hunt and Nevin (1976), the franchise business has three characteristics as follows: First, one participant (franchisor) guarantees the rights to distribute or sell a particular product or service to the other participant (franchisee). Second, franchisees agree to operate the business according to the marketing plans provided by the franchisor. Third, franchisees operated the business under the trademark and trade name owned by the franchisor. Therefore, the franchise business may have a characteristic of the sustainable relationship between franchisor and franchisee (Hunt & Nevin, 1976), and franchisees can achieve the economy of scale and scope centering around franchisor (Bradach, 1997; Litz & Stewart, 1998; Chiou & Droge, 2015).

Generally, franchisees can start up a business at a relatively lower cost and accordingly can secure the selective distribution channels of a particular brand, so they concentrate on investing in production and advertising (Pride & Ferrell, 2011). Franchisor motivates individual franchisees to generate more sales (Pride & Ferrell, 2011), and have a characteristic that franchisor and franchisee diversify risks by sharing the risks of business operations.

In the meantime, the franchise business has the problems because of these characteristics as well. First, a problem raised most often is the conflicts between franchisor and franchisee (Hunt & Nevin, 1976; Lusch, 1976; Pride & Ferrell, 2011). The franchise business is the form in which each independent business is made up by a contract. Therefore, there cannot but be a continuous problem due to this, and these conflicts may cause conflicts between franchisees as well as those between franchisor and franchisee. For example, since a franchise business agreement is concluded according to each contract, the cost of the same service from franchisor may differ depending on the franchisee or the service provided by franchisor for the franchisee may differ even at the same cost (Pride & Ferrell, 2011).

According to Barney (1991), an enterprise's tangible and intangible assets may bring about sustainable competitive advantage to the enterprise, which is called the resources-based theory. The resources-based theory is a theory that explains the source of the creation of sustainable competitive advantage based on the enterprise's controllable resources. In addition, according to Barney (1991), the basic premise of the resources-based theory is resource heterogeneity, which assumes that the resources held by enterprises are different and that a cost incurs when one company imitates another company's resources. According to studies in this field, the resources that may bring about this sustainable competitive advantage can be divided into physical resources, human resources and organizational resources (Barney, 1991), and the resource here is a broad concept, which includes abilities and capabilities as well as tangible and intangible resources. The resources not held by the enterprise are also included.

Studies of franchising based on the resources-based theory are as follows (see <Table 1>). Barthélemy (2008) investigated franchising, agency theory, corporate resources-based perspective and performance. He found that the resources provided for franchisees and their financial results corresponded to their management structure. Madhok (2002) investigated management structure, inter-company cooperation, and business boundary. According to the resources-based theory, he noted that enterprises pursue the capitalization of their abilities and qualities by improving them.

<Table 1> Studies of Franchising based on the Resources-based Theory

Author (year)	Topic	Content
Barthélemy (2008)	· Franchising · Agency Theory · Corporate Resources-based Perspective · Performance	Resources provided for franchisees and their financial results corresponded to their management structure.
Madhok (2002)	· Management Structure · Inter-company Cooperation · Business Boundary	Enterprises pursue the capitalization of their abilities and qualities by improving them.

In addition, Schilling and Steensma (2002), Combs and Ketchen (1999), and Fladmoe-Lindquist (1996) investigated the franchise industry based on the resources-based theory.

2.2. LMX theory

Dansereau, Fred, Graen, and Haga (1975) suggested the LMX theory, which is a theory that the impact of the leader on members differs depending on the in-group members and the out-group members classified based on the existing Vertical-Dyad Linkage (VDL) (Graen & Uhl-Bien, 1995; Schriesheim, Castro, & Cogliser, 1999). Unlike the existing average leadership style (ALS) theory that assumes that the impact of the leader on the members is the same, it is a theory that the relationship between the leader and the members differ individually (Schriesheim, Neider, & Scandura, 1998). In other words, while the ordinary leadership theory presumes that all members of an organization respond to leadership in the same dimension, the leader-subordinate exchange theory is based on the assumption that detailed characteristics differ depending on the organization and that the leadership result differs depending on the individual leader-member relationship.

Graen and Uhl-Bien (1995) classified the development of the LMX theory into four stages (see <Table 2>). Stage 1 is the VDL stage in which the difference between the leader and the member is discovered. Stage 2 is a stage of revealing the characteristics of LMX, which is concerned with the implications for the organization, e.g., It deals with the studies of the results of the LMX theory. Stage 3 is a stage of explaining the construction of the leader-member partnership; and lastly, Stage 4 is the process in which the relationship between the two is integrated into the group and network levels.

<Table 2> Stages in Development of LMX Theory

Stage	Theory	Level of Analysis	Content
Stage 1	Vertical Dyad Linkage : VDL	Dyads with work Unit	Validation of Differentiation within work units
Stage 2	Leader-Member Exchange : LMX	Dyad	Validation of Differentiated Relationship for Organizational Outcomes
Stage 3	Leadership-Making	Dyad	Theory and Exploration of Dyadic Relationship Development
Stage 4	Team-Making Competence Network	Collectivities as Aggregation of Dyads	Investigation of Assembling Dyads into larger collectivities

Source: Graen and Uhl-Bien (1995)

In addition, the existing studies classify the leader-member relationship into elementary phase, intermediate phase and advanced phase according to the target of exchange in LMX. First, the elementary phase is a phase in which the performance of the expected roles is the action of exchange from a financial perspective. Next, the intermediate phase is the process of the formation of confidence between leader and members, in which emotional sympathy would be formed along with information. Lastly, the advanced phase is the process in which mutual trust is sufficiently formed, and the leader allows discretionary power for the members. These developmental stages mean that the quality of relationship improves through the process in which the individual resources of the leader and members are invested in their relationship (Bauer & Green, 1996).

The LMX theory is a theory that explains the existing organization-individual exchange, focusing on the individual leader-member exchange, so according to the relationship between the leader and the members, a group with high LMX can be classified into an in-group while a group with low LMX can be classified into an out-group. The group with lower LMX relationship than the group with higher LMX performs an official business relationship (Boies & Howell, 2006).

Uhl-Bien and Maslyn (2003) argues that the conceptual basis of the LMX theory is on social exchange and mutual reciprocity. Thus, if the members are satisfied with the leader's treatment, the members come to have the will to perform a role more than their tasks, and accordingly, the result, too, improves (Bauer & Green, 1996).

2.3. Relational capital

The concept of relational capital was developed from the social capital theory, and according to the social capital theory, it is known that organization structure and relationship characteristic affect organizational outcomes. Social capital is defined differently by the scholar. To summarize definitions by Bourdieu (1986), Coleman (2000), Nahapiet and Ghoshal (1998), it can be defined as the accumulated resources of the relationship networks between individuals. In other words, social capital is formed by the credibility and cooperation in a group or between individuals, not by individuals.

The concept that applied the existing social capital to marketing transactions is the relational capital. Kale, Singh, and Perlmutter (2000) define this relational capital as "mutual trust, respect and friendship between partners in the personal level." This relational capital is a concept that makes trade connections between enterprises as resources, which assumes a cooperative relationship. According to Kale et al. (2000), enterprises would solve a problem through contract or governance structure to reduce high transaction costs due to the opportunistic behavior of their partners. However, concerning this problem, the existing approach from the perspective of transaction costs ignored the role of the credibility between enterprises and the development between partners (Gulati, 1995). Thus, Kale et al. (2000) noted that this problem could be solved based on the concept of relational capital. Also, relational capital presumes long-term transactions while the existing transactions were one-off (Kale et al., 2000).

3. Hypothesis Setting

The franchise business is a single business in which franchisor and franchise business are operated based on a contract. Especially, in the franchise business in the food service industry, intangible assets are very important in competition. Thus, in addition to intangible assets including franchisor's brand, individual franchisee's intangible assets are important factors, too. Accordingly, franchisor motivates individual franchisees for the improvement of sales (Pride & Ferrell, 2011) and control the services provided, so that they can be standardized by the individual franchisee.

And yet, since the goal of individual franchisees in the franchise business differs between businesses, and the characteristics of each franchisee differ, the relationship with the franchisor, too, would differ depending on the franchisee like the relationship between the leader and the members. Thus, as Pride and Ferrell (2011) pointed out, even if the same costs are paid to franchisor by each franchisee, the service provided by the franchisor may differ.

This relationship can be explained through the LMX theory. According to this theory, finally, franchisor serves as a leader in an organization, and franchisees become the members of the organization. The quality of relationship is determined according to the exchange between the leader and the members. In other words, even franchisees in the same franchise business may have different relationships with the franchisor. At this time, depending on the intangible assets of the franchisor and the franchisee, the quality of this exchange would differ. The quality of the LMX relationship improves in the process the individual resources of the leader and members are put into the relationship (Bauer & Green, 1996), which further improves, developing by stages, from basic role performance through information exchange to confidence formation. Thus, in both franchisor and franchisee, the higher the capability of exchange, the more improved the quality of relationship would become.

Based on the discussion, <Hypothesis 1> and <Hypothesis 2> are established.

<Hypothesis 1> The higher the franchisor's intangible assets, the higher the quality of the LMX would become.

<Hypothesis 2> The higher the franchisee's intangible assets, the higher the quality of the LMX would become.

Generally, of the motives of the selection of the franchise business, brand awareness is an important factor (Hoffman & Preble, 1991), and if a franchisee is satisfied with the franchisor, accordingly, the franchisee concludes the contract again to maintain its relationship with the franchisor (Lewis & Lambert, 1991). In other words, provided that relational capital is the support for a brand and the maintenance of the relationship between enterprises, beyond the customers' objective and subjective assessments of intangible assets like the reliability of a brand or enterprise, intangible assets are important to both franchisor and franchisee. In the meantime, concerning relational assets, Rust, Zeithaml, and Lemon (2000) noted that if an enterprise accumulated relation assets with customers in depth, the customers' loyalty, intimacy, community perception, preferential treatment perception would improve. In addition, the relational assets refer to the customers' strong belief in a particular brand and the increased loyalty, separately from value assets (Oliver, 1999). Thus, it is expected that the higher the franchisor's intangible assets, the more active the franchisee's cooperation with the franchisor would become, and accordingly, the more the relational assets would become. Moreover, Kwon, Mun, and Kwon (2014) suggest that managerial characteristics of franchisor have a positive effect on trust Based on this discussion, <Hypothesis 3> is set up as follows.

<Hypothesis 3> The higher the franchisor's intangible assets, the higher the relational capital would become.

In addition, if the LMX theory is applied to the franchise business, it is expected that individual franchisee's relationships with franchisor would differ depending on the franchisee. According to Bauer and Green (1996), according to the leader's treatment of the members, their will to perform the role changes, and the quality of relationship would increase. In addition, Graen and Uhl-Bien (1995) noted that the higher the quality of relationship, the more developed their partnership would become. Moreover, according to Yang and Kwon (2015), LMX have a positive impact on trust. In this context, in the franchise business, the higher the quality of the relationship between franchisor and franchisee, the more accumulated the relationship network through cooperation would become. Consequently, it is expected that the relational capital would increase.

Based on this discussion, <Hypothesis 4> is set up as follows.

<Hypothesis 4> The higher the quality of LMX, the more the relational capital would become.

According to Welbourne and Pardo-del-Val (2009), organizational outcomes improve as the composition of relational capital is adapted to changes in demands for resources. This, in other words, means that as the resources required in the process of an enterprise's growth change, relational capital is reconstructed, which improves organizational outcomes. In addition, Raza (2012) divided relational capital into business relational capital and social relational capital and noted these relational capitals affected the enterprise's performance. Similarly, Abdulai, Kwon, and Moon (2012), too, noted that one of the factors constituting intellectual capital, relational capital reinforces external core capabilities and can improve the enterprise's performance. According to Carmeli and Azeroual (2009), relational capital is divided into internal capital and external capital, and this relational capital increases knowledge-integration capabilities, which contributes the improvement of results in the individual organization unit.

Based on this discussion, <Hypothesis 5> is set up as follows.

<Hypothesis 5> The more the relational capital, the more the franchise performance would become.

The degree of the delegation of decision rights between franchisor and franchisee is determined by tangible and intangible knowledge assets according to the property rights approaches (Herz, Hutzinger, Seferagic, & Windsperger, 2016). According to Rubin (1978) and Windsperger (2001), if the franchisor has strong systematized assets, subscription fees and royalty increase, while if the franchisees have competitiveness in the local market, subscription fees and royalty relatively decrease. From this perspective, Herz et al. (2016) note that if the knowledge about the local market is tacitness or residual decision, it cannot be systematized, so the rights should be transferred from the franchisor to the franchisee. Thus, they expected that if the franchisee's intangible assets in the local market are very important, the degree of the delegation of decision rights would increase. In this sense, this study expects that if there are a lot of intangible assets in franchisees as well as the local market, accordingly, the degree of the delegation of decision rights from franchisor would increase.

Based on this discussion, <Hypothesis 6> is set up as follows.

<Hypothesis 6> The more the franchisee's intangible assets, the more the delegation of decision rights would become.

According to the LMX theory, members are divided into in-group and out-group according to the level of the quality of exchange (Boies & Howell, 2006), and the group leader maintains the relationship with some members intimately in achieving the group's goal because of the limitation of resources. Scandura and Graen (1984) called the quality of exchange the negotiating latitude, which means the degree to which the leader allows the rights of their influence for the members. Similarly, Dienesch and Liden (1986), too, noted that the higher the quality of exchange, more discretionary power the leader provides for the member would become. To examine this for the franchise business, it is expected that the franchisor would delegate the rights of decision-making to franchisee with a high quality of exchange and grant discretionary power to it.

Based on this discussion, <Hypothesis 7> is set up as follows.

<Hypothesis 7> The higher the quality of the leader-member relationship, the more the delegation of decision rights would become.

According to Sagie and Koslowsky (2000), the delegation of rights to the member grants intrinsic motivation, and Herz et al. (2016) argued that in the franchise business, the delegation of decision rights from franchisor to franchisee could lead to a higher result. relational capital is based on mutual trust, respect, and friendship between partners (Kale et al., 2000) and is a relationship that continuously develops (Gulati, 1995). Thus, through the delegation of rights, the credibility between the leader and the member is formed, and based on this, it is expected that as mutual cooperation continues, relational capital would increase.

Based on this discussion, <Hypothesis 8> and <Hypothesis 9> are set up as follows.

<Hypothesis 8> The more the delegation of decision rights, the more the relational capital would become.

<Hypothesis 9> The more the delegation of decision rights, the more the franchisee's performance would become.

4. Hypothesis Testing

4.1. Methods

To verify the proposed hypotheses, this study collected data, using the survey method from the shop owners who were operating a coffee franchise business. In conducting the survey, the subjects were asked to respond frankly to the questionnaires, concerning what they felt, operating their present franchise coffee shop.

The questionnaires are composed of the following: First, to check the operated shop and its present status, this study asked questions about their present franchise coffee shop, the total period of employment in the present type of business, the location of the presently operated shop, the geographical location of the shop, and distribution population on a 5-point semantic differential scale (1: Very little - 5: Very much).

After asking about the situations of the shop, questions were asked about the focal variables of this study, in other words, the franchisor's intangible assets, the franchisee's intangible assets, the quality of LMX, relational capital, the degree of the delegation of decision rights, and franchise performance.

The measuring items used in this study are as follows: First, to check franchisor's intangible assets, they were measured on four 7-point Likert scales (1: Very unlikely - 7: Very likely), using the questions used in Herz et al. (2016). The quality of the LMX was measured on a 5-point semantic differential scale (1 point – 5 points), using LMX-7 in Graen and Uhl-Bien (1995). This scale consists of the questions about the degree of the leader's satisfaction, understanding and credibility in subordinates' role performance, and commitment to relationships. The reason for utilizing these questions is that according to Gerstner and Day (1997), this scale is the most suitable for psychology measurement of the tools to measure the quality of the LMX. Franchisee's intangible assets were measurements on five 7-point Likert scales (1: Very unlikely - 7: Very likely), using the questions used in Herz et al. (2016), concerning innovation, knowledge about the target local market, quality management, management capability, and human resources management.

Relational capital was measured on four 7-point Likert scales (1: Very unlikely - 7: Very likely), using the questions utilized in Thuy and Quang (2005), while the degree of the delegation of decision rights was measured on eight 7-point Likert scales (1: Very unlikely - 7: Very likely), using the questions utilized in Herz et al. (2016). Lastly, to measure the franchisee's shop operation results, measurements were made on five 7-point Likert scales (1: Very unlikely - 7: Very likely), using the questions utilized in Park and Deitz (2006).

Data were collected from a total of 94 franchisees. To examine the characteristics of franchisees, 32 respondents (34.0%) were men, and 62 (66.0%), women. As for age distribution, persons in their 20s were 9 (9.6%); those in their 30s, 24 (25.5%); those in their 40s, 38 (40.4%); those in their 50s, 18 (19.1%); and those in their 60s, 5 (5.3%) (The lowest value of age was 32 years old, the highest value, 64; and the average, 44.23).

To examine regional characteristics, 17 (18.1%) were living in Seoul; 26 (27.7%) in Gyeonggi; 18 (19.1%) in Chungcheong; 16 (17.0%) in Gyeongsang; 6 (6.4%) in Jeolla; 9 (9.6%) in Gangwon; and 2 (2.1%) in Jeju. As for the location of the shop, 88 persons had a shop in a corporate body like a university or hospital, which took up 93.6% (3 (3.2%) in a commercial area; and 3 (3.2%) in a residential area).

As for the monthly sales of the operated shop, the distribution was 200,000 won up to 35 million won, and the average was 11.4223 million won (Standard deviation =794.63). Also, as for the shop size, the distribution was 2 pyeong up to 120 pyeong, and the average was 26.90 pyeong (Standard deviation=24.75). Lastly, the question, "What is the transient population around the shop?" was asked on a 5-point scale (1: Very little, 3: Average, and 5: Very much). The average of the values of the responses was 2.74, and the standard deviation was 1.14.

4.2. Hypothesis testing

To test the hypotheses of the proposed research model, Structural Equation Modeling (Hereafter, “SEM”) was set up, and in particular, Partial Least Squares-Structural Equation Modeling (PLS-SEM) approach was used. The reason for the application of PLS in this study is that this study aims to check the causal relations between the proposed variables. Regarding this, Howell and Higgins (1990) noted that it would be appropriate to apply PLS when a researcher aims at causal and predictive analysis among variables instead of the measurement of the model’s suitability at the earlier stage of theory development, while Chin (1988) argued that PLS could maximize the predictive power of path coefficient since it uses a method of minimizing the prediction errors between latent variables and measurement errors. The characteristic of the model and data in this study is that they focus on the relationship among the various factors related to the franchisor and the franchisee that can affect the franchisee’s performance, which has a relatively complex form. In addition, it has a relatively smaller size of samples, so it is judged that the PLS-SEM analysis method is appropriate.

The analysis of this study was conducted according to the procedures proposed by Hair, Hult, Ringle, and Sarstedt (2014). In this process, it turned out that two items of franchise performance disturbed the validity, so the relevant items were removed. The result of a subsequent analysis is as follows: First, this study checked the internal consistency reliability of each variable used in this study. As a result of an analysis, for Cronbach’s alpha, the degree of the delegation of decision rights=0.945, franchisor’s intangible assets=0.916, franchisee’s intangible assets=0.851, the quality of the LMX=0.902, relational capital=0.830, and franchise performance=0.659. For rho_A, the degree of the delegation of decision rights=0.948, franchisor’s intangible assets=0.923, franchisee’s intangible assets=0.864, the quality of the LMX=0.906, relational capital=0.855, and franchise performance=0.699. Lastly, for composite reliability, the degree of the delegation of decision rights=0.954, franchisor’s intangible assets=0.937, franchisee’s intangible assets=0.899, the quality of the LMX=0.923, relational capital=0.888 and franchise performance=0.589. Overall, internal consistency has been confirmed in all variables.

Next, this study checked the validity. First, for convergent validity, a result of an analysis of Average Variance Extracted (Hereafter, AVE), the degree of the delegation of decision rights=0.723, franchisor’s intangible assets=0.749, franchisee’s intangible assets=0.689, the quality of the LMX=0.632, relational capital=0.668, and franchise performance=0.589. It was more than 0.5 in all variables. Thus, the convergent validity has been confirmed.

Next, this study checked the discriminant validity. To check the discriminant validity, first, cross loading was checked. According to the checking of cross loading, the loadage of a measuring item related to a variable must be larger than that related to other variables (Hair et al., 2014). As a result of checking the cross loading, the loadage of the measuring item of the relevant variable was larger than that of other variables. To check the discriminant validity, different methods were applied. First, the method proposed by Fornell and Larcker (1981) was applied. They argued that there is discriminant validity between two potential factors if all AVE values are larger than the squared value of the correlation coefficient. As a result of checking it, the smallest value of the root AVE was .767, while the biggest correlation value was .740. Thus, it is noted that the discriminant validity has been confirmed (See <Table 3>). As another index to check the discriminant validity, there is the Heterotrait-Monotrait Ratio. According to this criterion, it is judged to have discriminant validity if the analyzed value is smaller than 0.85. As a result of an analysis of the Heterotrait-Monotrait Ratio, all values were smaller than 0.85, and based on this result, it is noted that there is discriminant validity.

<Table 3> Descriptive Statistics

	A	B	C	D	E	F
A: delegation of decision rights	.850					
B: franchisor’s intangible assets	.450	.866				
C: franchisee’s intangible assets	.491	.447	.830			
D: the quality of the LMX	.540	.442	.663	.795		
E: relational capital	.619	.585	.568	.740	.817	
F: franchisee’s performance	.229	.453	.103	.257	.396	.767

* The diagonal values are root AVE.

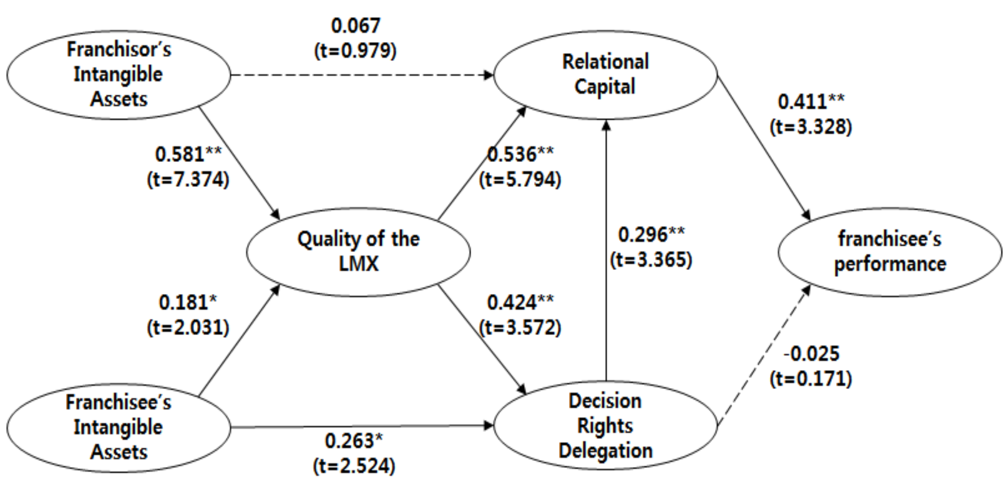
Lastly, this study checked the nomological validity. Generally, in a structural equation, it can be evaluated by the correlation matrix between variables. The correlation value in <Table 1>, too, appears in a positive (+) direction. Based on this, it is confirmed that the nomological validity has been secured.

Based on the result of checking the validity, the proposed research model was checked. Before checking the significance of the hypotheses, the collinearity was checked. To evaluate the level of the collinearity, tolerance or variance inflation factor (Hereafter, “VIF”) is calculated for checking, and when PLS-SEM is used, there is a latent collinearity problem if the tolerance value is less than 0.2, and VIF value is more than 5 (Hair, Ringle, & Sarstedt, 2011). As a result of an analysis, the VIF of the variables affecting the quality of the LMX, the intangible assets of the franchisor and the franchisee was 1.250, and the VIF of the variables affecting the degree of the delegation of decision rights, the franchisor's intangible assets and the quality of the LMX was 1.242. The VIF of the variables affecting relational capital, the degree of the delegation of decision rights, the franchisee's intangible assets, and the quality of the LMX was 1.477, 1.866, and 1.999, respectively. Lastly, the variables affecting franchise performance, the degree of the delegation of decision rights and relational capital was 1.620. Since all values were smaller than 5, it is judged that there is no problem of collinearity.

Based on the above analysis, the proposed model and hypotheses were tested through PLS-SEM bootstrapping. As a result of an analysis is like <Figure 1>.

First, <Hypotheses 1> and <Hypotheses 2> are hypotheses to investigate the impacts of intangible assets of franchisor and franchisee on the quality of the LMX. Accordingly, <Hypotheses 1> "The higher the franchisor's intangible assets, the higher the quality of the LMX would become" is a hypothesis to investigate the impact of franchisor's intangible assets on the quality of the LMX. As a result of an analysis, the coefficient value was .581, which was significant (t=7.374, p<.01). Next, <Hypotheses 2> "The higher the franchisee's intangible assets, the higher the quality of the LMX would become" is a hypothesis to investigate the impact of franchisee's intangible assets on the quality of the LMX. As a result of an analysis, the coefficient value was .181, which was significant (t=2.031, p<.05). Next, <Hypotheses 3> "The higher the franchisor's intangible assets, the higher the relational capital would become" is a hypothesis to investigate the impact of franchisor's intangible assets on relational capital. As a result of an analysis, the coefficient value was .067 (t=.979, p>.01), which was not supported. Next, <Hypothesis 4> "The higher the quality of LMX, the more the relational capital would become" is a hypothesis to investigate the impact of the quality of the LMX on relational capital. As a result of an analysis, the coefficient value was .536, which was significant (t=.536, p<.01). <Hypotheses 5> "The more the relational capital, the more the franchisee's performance would become" is a hypothesis to investigate the impact of relational capital on franchise performance. The coefficient was .411, which was statistically significant (t=3.328, p<.01).

<Hypothesis 6> "The more the franchisee's intangible assets, the more the delegation of decision rights would become" is a hypothesis to investigate the impact of franchisee's intangible assets on the delegation of decision rights. The coefficient value was .263, which was significant (t=2.524, p<.05). In addition, <Hypothesis 7> "The higher the quality of the leader-member relationship, the more the delegation of decision rights would become" is a hypothesis to investigate the impact of the quality of the leader-member relationship on the delegation of decision rights. The coefficient value was .424, which was significant (t=3.572, p<.01). <Hypothesis 8> "The more the delegation of decision rights, the more the relational capital would become" and <Hypothesis 9> "The more the delegation of decision rights, the more the franchisee's performance would become" are hypotheses to investigate the impacts of the delegation of decision rights on relational capital and franchise performance. First, as a result of an analysis of <Hypothesis 8>, the coefficient value was .296, which was significant (t=3.365, p<.01), while the coefficient value of <Hypothesis 9> was -.025, which was not significant (t=.171, p>.01). <Table 4> summarizes the analysis results.



**: p<.01, *: p<.05.

<Figure 1> Hypothesis Testing

<Table 4> Results of Hypothesis

	Path	β	t-value	Supported or not
H1	Franchisor's Intangible Asset → LMX	.581	7.374**	Supported
H2	Franchisee's Intangible Asset → LMX	.181	2.031*	Supported
H3	Franchisor's Intangible Asset → Relational Capital	.067	.979	n. s.
H4	LMX → Relational Capital	.536	5.794**	Supported
H5	Relational Capital → Franchisee's Performance	.411	3.328**	Supported
H6	Franchisee's Intangible Asset → Delegation of Decision Rights	.263	2.524*	Supported
H7	LMX → Delegation of Decision Rights	.424	3.572**	Supported
H8	Delegation of Decision Rights → Relational Capital	.296	3.365**	Supported
H9	Delegation of Decision Rights → Franchisee's Performance	-.025	.171	n. s.

**: p<.01, *: p<.05.

One of the scales used to evaluate the proposed structural model is the coefficient of determinant (R^2). The coefficients of determinant proposed as a result of an analysis are as follows: The degree of the delegation of decision rights=0.347; the quality of the LMX=0.465; relational capital=0.618; and franchise performance=0.157. In the meantime, in addition to the calculation of R^2 in all endogenous variables, when a particular exogenous variable was removed from the model, R^2 value can be used to evaluate if the removed variable has a practical effect on endogenous variables. This scale is called the f^2 effect size (Hair et al., 2014). The criteria to check f^2 are 0.02, 0.15, and 0.35, which show small, medium, and big effects of the relevant exogenous latent variables, respectively.

As a result of an analysis, first, the f^2 effect sizes of the variables affecting the quality of the LMX, the intangible assets of the franchisor and the franchisee were 0.049 and 0.506, respectively. This means that the effect size of franchisor's intangible assets on the quality of the LMX is small, while that of franchisee's intangible assets is big. The f^2 effect sizes of the variables affecting the degree of the delegation of decision rights, franchisor's intangible assets and the quality of the LMX were 0.085 and 0.221, respectively. This means the effect size of franchisor's intangible assets on the degree of the delegation of decision rights is small, while that of the quality of the LMX is medium or bigger.

The f^2 effect sizes of the variables affecting relational capital, including the degree of the delegation of decision rights, franchisee's intangible assets, and the quality of the LMX were 0.156, 0.006, and 0.376, respectively. This means that the effect size of the degree of the delegation of decision rights on relational capital is medium; that of franchisee's intangible assets is small; and that of the quality of the LMX is big. Lastly, the f^2 effect sizes of the degree of the delegation of decision rights and relational capital on franchise performance were 0.000 and 0.124, respectively, and this means that the effect of the degree of the delegation of decision rights is very weak, while that of relational capital is medium.

As for the base of the accuracy of prediction, in addition to the evaluation of the extent of R^2 value, Geisser (1974) and Stone (1974) propose that it is necessary to check Stone-Geisser's Q^2 value. This scale is the item of the measurement of the predictive relevance of a model. More concretely, when PLS-SEM accurately predicts the item of measurement in the reflective measurement model of endogenous variables and endogenous single-item variables when there is predictive relevance. In a structural model, a Q^2 value in particular reflective endogenous latent variables bigger than "0" means the predictive relevance of the path model in the relevant variables, while a value of "0" or smaller means that there is a problem with predictive relevance (Hair et al., 2014). As a result of an analysis, Stone-Geisser's Q^2 was 0.226 for the degree of the delegation of decision rights; 0.262 for the quality of the LMX; 0.374 for relational capital; 0.072 for franchise performance. All have values bigger than "0." Therefore, the variables applied in this study have predictive relevance.

Additionally, the significance of indirect effects and total effects was found. As a result of a boost-rapping analysis of all possible indirect effects, the following paths were statistically significant: "franchisee's intangible assets → the quality of the LMX → the degree of the delegation of decision rights", "franchisor's intangible assets → the quality of the LMX → the degree of the delegation of decision rights", "franchisee's intangible assets → the degree of the delegation of decision rights → relational capital", "franchisor's intangible assets → the quality of the LMX → the degree of the delegation of decision rights → relational capital", "franchisee's intangible assets → the quality of the LMX → relational capital", "franchisor's intangible assets → the quality of the LMX → relational capital", "franchisor's intangible assets → the quality of the LMX → the degree of the delegation of decision rights → relational capital → franchise performance", and "franchisor's intangible assets → the quality of the LMX → relational capital → franchise performance" In contrast, the following paths were not statistically significant: "franchisee's intangible assets → the quality of the LMX → the degree of the delegation of decision rights → relational capital", "franchisee's intangible assets → the degree of the delegation of decision rights → franchise performance", "franchisee's intangible assets → the quality of the LMX → the degree of the delegation of decision rights → franchise performance", "franchisor's intangible assets → the quality of the LMX → the degree of the delegation of decision rights → franchise performance", "franchisee's intangible assets → the degree of the delegation of decision rights → relational capital → franchise performance", "franchisee's intangible assets → the quality of the LMX → the degree of the delegation of decision rights → relational capital → franchise performance", and "franchisor's intangible assets → relational capital → franchise performance."

Also, the significance of the total effect was found. Only the total effect of "the degree of the delegation of decision rights → franchise performance", and "franchisee's intangible assets → franchise performance" was statistically insignificant, and all other total effects were statistically significant.

In addition to the result of the verification of the hypotheses, the following conclusion can be drawn, summing up the significance of effect size, predictive relevance, indirect effect and total effect.

First, most causal relations proposed in this study were supported, but the effect of franchisor's intangible assets on relational capital and the effect of the degree of the delegation of decision rights on franchise performance were insignificant.

Second, in the impact of franchisee's intangible assets on franchise performance, there are mediating roles of the quality of the LMX, the degree of the delegation of decision rights, and relational capital.

Lastly, concerning franchisee's intangible assets, the total effect of this variable on relational capital is significant, but the paths of the effect can generally be divided into two paths. One is the path of effect on relational capital through the mediation of the quality of the LMX, and the other is the path that increases relational capital through the degree of the delegation of decision rights. In addition, it was found that franchisee's high intangible assets did not necessarily guarantee high franchise performance.

The overall results of the analysis are discussed more in detail in the conclusion.

5. Conclusion

5.1. Results and implications

This study is concerned with franchise performance in the franchise industry, which is a big part of the Korean industries. Especially, now, when various problems like franchisor's power tripping controversy are mentioned through the press, this study proposes the intangible assets of the subjects of the franchise business, in other words, the franchisor and the franchisee as the factors affecting franchise performance. In addition, to explain the process of the impact of each of the intangible assets of these subjects of the franchise business on franchise performance, this study applies the LMX theory (LMX) and the concepts of relational capital, and the delegation of decision rights. For this purpose, this study collected data from the shop owners who were operating a franchise, set up SEM and tested hypotheses, using Smart PLS 3.0. In concrete, the results of this study are as follows:

First, the higher the judged levels of the intangible assets of the franchisor and the franchisee, the higher the quality of the LMX became.

Second, franchisor's intangible assets did not affect relational capital. And yet, it turned out that the higher the quality of the LMX, the more the relational capital became.

Third, the more the franchisee's intangible assets, the more the delegation of decision rights became. Also, the higher the quality of the LMX relationship, the more the delegation of decision rights became. In addition, the more the delegation of decision rights, the more the relational capital became.

Lastly, the more the relational capital, the more the franchise performance became, but the degree of the delegation of decision rights did not affect franchisees.

To sum up these relationships, it is noted that the effects of intangible assets of franchisor and franchisee on relational capital and the degree of the delegation of decision rights are mediated by the quality of the LMX. However, while franchisor's intangible assets did not have a direct impact on relational capital, franchisee's intangible assets had an impact on the degree of the delegation of decision rights. This result means that for franchisor to increase the number of franchisees and relational capital, franchisor's intangible assets are not enough, and the quality of exchange with franchisees should be high. Along with this, it turned out that the degree of the delegation of decision rights increased relational capital while it did not have a direct impact on franchise performance. On the other hand, it turns out that relational capital affects franchise performance, so it is necessary to increase the degree of the delegation of decision rights in order to increase relational capital. Also, since the increased relational capital accordingly affects franchise performance, it turned out that relational capital would play an important role to increase franchise performance.

Based on the results of this study, the following theoretical/operational implications can be proposed.

First, franchisor's intangible assets affect the quality of LMX (<H1>), but do not affect the relational capital (<H3>). And the quality of LMX affects the relational capital (<H4>). The reason for this is most of all, the significance of an indirect effect of parameters. First of all, as for the effect of franchisee's intangible assets on relational capital, according to what was proposed by the model in this study, it is interpreted that the paths are mediated by the quality of the LMX.

In addition, "the effect of delegation of decision rights on relational capital (<H8>)" and "the effect of relational capital on franchisee's performance (<H5>)" were significant. However, the effect of delegation of decision rights on franchisee's performance (<H9>) was not significant. This implies that the effect of the degree of the delegation of decision rights on franchise performance are mediated by relational capital.

Second, the intangible assets of the franchise have a positive effect on the quality of the LMX (<H2>) and the degree of delegation of decision rights (<H6>), and the quality of the LMX has a positive effect on the delegation of decision rights (<H7>). And, as mentioned earlier, the quality of LMX affects the performance of franchisees through delegation of decision rights and relational capital. In an analysis of the overall paths, it is noted that franchisee's intangible assets affect franchise performance. However, to examine the result of an analysis of the indirect effect and total effect, it is noted that franchisee's intangible assets do not affect franchise performance.

On the other hand, in the effect of franchisor's intangible assets on franchise performance, there are mediating roles of the quality of the LMX, the degree of the delegation of decision rights, and relational capital. This result shows the characteristics of intangible assets of the franchisor as a factor increasing franchise performance, which proposes that franchisor's strengths in the brand, franchise system, and awareness are related to the franchisee's performance. In contrast, it turned out that there was no influence of the franchisee's intangible assets, expected to be important on franchise performance. In other words, this reflects the Korean franchise industry' characteristics that people with less experience in the related industries join the industry and run shops, and the franchisee's performance differs depending on the franchisor's abilities.

Third, concerning franchisee's intangible assets, the total effect of this variable on relational capital is significant, but the paths of the effect are generally divided into two paths. One is the path of effect on relational capital through the mediation of the quality of the LMX, and the other is the path that increases relational capital through the degree of the delegation of decision rights.

Lastly, on the overall paths, the mediating roles of the quality of the LMX, the degree of the delegation of decision rights, and relational capital have been discovered, and this result shows the following: Not simply franchisor's or franchisee's intangible assets affect franchise performance. There is a good exchange between a franchisee and franchisor in the process. Rights can be delegated for the necessary area by understanding the opponent's capability well. The franchisee's positive performance is produced when a close relationship and credibility between the two.

5.2. Limitations and future directions

This study has the following limitations and the future research directions are proposed based on them.

First, this study did not collect data from franchisees that joined various franchise businesses in the process of data collection but collected data from shop owners in a particular franchise industry, that is, the coffee food service industry. Thus, there may be different characteristics in the other franchise industries, and there may be industries in which franchisee's capabilities can exhibit a bigger part. There is a possibility that the result may be different from that of this study in the food service industry in which processing is more important than raw materials (e.g., Specialty restaurant) or the bigger industry in which shop owners' personal capabilities is more important (e.g., Computer repair shop).

Second, this study collected data from the franchisees working in a franchise business. And yet, a different result may be drawn from the perspective of the operators of the franchisor or the employees working for the franchisor. Thus, future studies should check the proposed research model from the franchisor's perspective as well as franchisee's perspective.

Third, as analyzed in the conclusion, concerning franchisee's intangible assets, the total effect of these variables on relational capital is significant; however, the paths of the effect can be generally divided into two. One is the path of effect on relational capital through the mediation of the quality of the LMX, and the other is the path that increases relational capital through the degree of the delegation of decision rights. This result may be interpreted that it is suggested that there is the possibility of a moderating variable that divides the two paths. Future studies should discover a variable that can classify these paths.

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