Journal of Business and Management Studies
ISSN: 2709-0876
DOI: 10.32996/jbms
Journal Homepage: www.al-kindipublisher.com/index.php/jbms

JBMS

AL-KINDI CENTER FOR RESEARCH AND DEVELOPMENT

| RESEARCH ARTICLE

Franchisee-Franchisor Relationship in Saudi Arabia: Agency Theory Perspective

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| ABSTRACT

This study investigates the interactions between franchisees and franchisors in Saudi Arabia by applying agency theory, considering challenges, control issues, and factors such as trust, satisfaction, and conflict. Information from 105 franchisees across different industries was studied with IBM SPSS software, using frequency distribution and Chi-Square tests. The findings reveal important challenges related to how much control franchisees have, trust in their franchisors, and the openness of information. Despite these concerns, the study did not discover any strong statistical relationships between trust and satisfaction, control and conflict, or the alignment of goals and satisfaction. The results indicate that financial stability, strong operational support, and legal protections play a bigger role in franchisee experiences than the traditional factors of agency theory. The research advises franchisors to be more open, provide flexible financial terms, and grant franchisees more control over their marketing and daily operations. It also asks government officials to improve the rules for franchising and make dispute resolution fairer to help maintain fair franchise agreements. More qualitative research and studies in different industries are required to better understand the growth of franchises in Saudi Arabia.

| KEYWORDS

Franchisor-franchisee, conflict, relationship, agency theory, power

| ARTICLE INFORMATION

ACCEPTED: 01 April 2024 **PUBLISHED:** 03 May 2025 **DOI:** 10.32996/jbms.2025.7.3.1

1.Introduction

1.1 Background

The Saudi Arabian economy significantly depends on franchising operations because this system sustains the retail sector, food service businesses, healthcare facilities, and service industries. Saudi Vision 2030 entrepreneurship promotion and foreign investment drive have made franchising appealing for domestic and international companies. Saudi Arabia has experienced rapid growth in franchise operations because it possesses many consumers, rising incomes, and regulatory advancements. The franchising model enables McDonald's, Starbucks, Domino's, and regional brands to establish their presence in Saudi Arabia (Bashir & Ansari, 2024). The Saudi economy experiences expanding franchise activity because franchises create jobs and drive business innovations and knowledge exchange. Franchisee-franchisor relationships face complex challenges despite the recent expansion because of operational control issues and financial and contractual requirements.

A franchise's success relies heavily on how well the franchisor and franchisee collaborate through their relationship. A functioning relationship between the franchisee and franchisor creates beneficial conditions for profit growth while ensuring brand quality and operational effectiveness. Through support from franchisors, franchisees receive branding assistance and marketing solutions, supply chain management expertise, and Training programs (Ghantous & Christodoulides, 2020). At the same time, franchisors need franchisees to maintain brand standards and provide exceptional customer service. A trustworthy and cooperative connection between the franchisor and the franchisee enables each party to sustain long-term growth with competitive benefits. The relationship between franchisees and franchisors can lead to conflicts because franchisees struggle with restrictive policies set by franchisors, or franchisees appear to disobey regulations in the eyes of franchisors (Gillis et al., 2020). Investigating the relationships between franchisees and franchisors proves essential because tensions lead to disputes followed by legal challenges, which result in business failures.

Agency theory establishes an effective method to recognize the fundamental conflicts and issues that emerge within franchisee-franchisor partnerships. The theory explains how franchisors serve as principals who delegate work to franchisees acting as agents while principals and agents maintain different performance goals and incentives (Jang & Park, 2019). The franchisor requires franchisees to run their business operations for brand value growth and profitability, yet franchisees frequently pursue independent business control and flexible business frameworks. This principal-agent dynamic can lead to goal misalignment, information asymmetry, and agency costs. Franchisees sometimes operate outside of franchisor interests, resulting in operational violations, while franchisors implement monitoring systems that create operational challenges for franchisees (Abou Kamar & Alsetoohy, 2021). This research implements agency theory to examine the existing challenges and suggests methods for improving trust between franchise stakeholders.

Despite worldwide studies focusing on franchise relationships, the Saudi Arabian franchise market faces limited scholarly investigation. Most research about franchising models studies Western models without considering the unique cultural and economic elements and regulatory framework of Saudi business operations. The research conducted by Abou Kamar and Alsetoohy (2021) addresses franchising trends in general terms but does not focus on the conflicts between franchisees and their franchisor counterparts. The researcher needs to study Saudi franchisees' understanding of control and autonomy in their franchisor relationships and their trust levels with their franchisors while exploring agency theory principles in this regional sector. The research fills a significant knowledge gap, enabling better franchise management practices and policy frameworks in Saudi Arabia.

This research analyzes Saudi Arabian franchisees through agency theory by gathering quantitative data from 105 franchisees across various industries. The survey utilizes structured questions to measure agency problems, franchisee autonomy, trust conflict factors, and satisfaction levels. Based on the collected data, the researcher used frequency distributions, a Chi-square test, and correlations between franchisee satisfaction and trust. The research results will deliver crucial guidance to franchisors, franchisees, and Saudi Arabian policymakers about strengthening franchise governance while minimizing agency-related conflicts in the Saudi market.

1.2 Research Questions

1. What are the key agency problems in franchisee-franchisor relationships in Saudi Arabia?
2. How do franchisees perceive control and autonomy in franchising agreements?
3. What factors contribute to conflicts between franchisees and franchisors?
4. What strategies can enhance trust and reduce agency-related conflicts in franchising?

1.3 Research Objectives

1. To identify major agency problems in franchise agreements in Saudi Arabia.
2. To assess franchisee perceptions of control versus compliance in franchising agreements.
3. To analyze the sources of conflicts in franchisee-franchisor relationships.
4. To recommend strategies for improving trust and cooperation in franchise relationships.

1.4 Research Significance

The global economy heavily relies on franchising, but Saudi Arabia lacks substantial research into franchisee-franchisor partnerships. This study contributes to the academic literature by applying agency theory to the franchise business model in the Saudi context, exploring issues related to principal-agent conflicts, goal misalignment, and monitoring mechanisms. Agency theory is a common analytical framework for Western market business relationships, yet researchers have given limited attention to its use in the Saudi Arabian franchising industry (Panda & Leepsa, 2017). The study contributes to theoretical research by filling a knowledge gap that explains how information asymmetry and financial structures affect franchise relationships through control mechanisms. The study's results will enable researchers to understand franchising governance better and expand agency theory usage across multiple economic and cultural environments.

This research provides practical benefits for franchise businesses operating in Saudi Arabia. The conflicts between franchisees and franchisors adversely affect business performance while decreasing profitability and increasing franchisee turnover rates. It has been found that franchisees suffer from operational limitations, financial problems, and unclear franchisor management practices. Once these factors are identified, franchisors can create an effective governance system and improved support and communication channels to build long-lasting and sustainable relationships with their franchisees (Ghantous & Christodoulides, 2020). This process gives franchisees valuable knowledge on handling contractual requirements and creating mutually favorable terms.

The research findings have important policy implications, given that Saudi authorities actively pursue business environment improvement and entrepreneurship stimulation efforts to advance Vision 2030 further. The regulatory framework for franchises in Saudi Arabia is changing because policymakers need data-based insights to create equitable legal systems that protect franchises (Alotaibi, 2019). The study results will alert the regulators to the need for legal reform through franchise contract transparency, improving the dispute resolution process, and balanced business relations between the franchisor and the franchisee. This research fills a gap for policymakers to provide the knowledge to formulate legal frameworks that are friendly to franchise operations and sustain economic growth. The research results are helpful to many stakeholders, such as franchisors, franchisees, policymakers, and academics. The analysis of agency conflicts and control systems and the methods of trust building in this research provide practical solutions to improve Saudi Arabian franchising relationships. Implementing transparent and balanced franchising practices will benefit existing businesses while attracting new franchise investments, which will drive growth in the competitive franchise industry in Saudi Arabia.

2. Literature Review

2.1 Franchisee-Franchisor Relationship

The franchising model depends on the successful partnership between franchisees and franchisors, who perform unique operational duties and contractual requirements. The franchisors handle brand protection, provide operational support, and maintain uniform standards in all outlets (Jang & Park, 2019), whereas franchisees take over daily operations and follow the rules. When enacting their operation, the franchisors and franchisees face several obstacles. Difficulties in expertise standardization make applying the traditional agency theory to highly knowledge-intensive sectors challenging. As argued by Tödtling and Trippl (2018), researchers need to shift their attention towards the business dynamics to understand these better. Experiences from the research show that franchising expansion into the advanced industries is contingent upon franchisors and franchisees dealing with the emerging difficulties to continue their partnership.

There are universal challenges faced by the global franchising sector, such as cultural diversity, divergent laws across countries, and divergent economic markets. Wang and Liu (2022) examine the franchise relationship in China using institutional and cultural differences between franchisers and franchisees, leading to misunderstandings and conflict. Perrigot et al. (2020) report that economic discrepancy and unstable market conditions lead to franchisees' performance variations that can cause tension among franchisees. The unique cultural and regulatory settings in Saudi Arabia create extra obstacles to effective franchisee-franchisor relationship management, which demands specialized strategies. Research shows that organizations must develop flexible cultural strategies and location-specific management models for effective franchise relationship management.

Since franchisees experience not having enough power, the relationship between franchisee and franchisor is often based on conflicts. According to López-Fernández and López-Bayón (2018), the selection of a franchisor control mechanism has a strong relationship with a franchisee's satisfaction level. Consequently, these excessive control levels decrease franchisee satisfaction. Sweeney et al. (2018) also mentioned that investment risk and perceived value in use are two primary elements influencing relational satisfaction. To build strong relationships with franchisees, franchisors must achieve optimal control and support levels. Trust is the fundamental foundation of the franchisee-franchisor connection; it is a strong one. Trust brings better performance results (Raza-Ullah & Kostis, 2020), but it also has negative potential, such as franchisee slacking and unethical behavior. According to Akrout and Nagy (2018), trust is more effective when combined with effective communication to improve relationship quality and performance. Trusted functions take on multiple roles in diverse views, highlighting why trustworthy management of trust is a prerequisite to avoid risks.

2.2 Agency Theory in Franchising

The franchisor-franchisee relationship is examined through agency theory, which considers conflict arising from misaligned incentives and information asymmetry. According to Rosado-Serrano and Paul (2018), the agency-theoretic explanations of risk sharing and moral hazard problems are empirically tested. Panda and Leepsa (2017) show that agency theory cannot explain the dynamics in highly knowledge-intensive business sectors. The research shows that agency theory is knowledge necessary, but it can also have a practical application depending on the situation. Due to information asymmetry, it is challenging to franchise because one party in the relationship has better or more detailed information than the other party. Jang and Park (2019) have stated that an information imbalance in franchise agreements results in adverse selection and moral hazard problems because franchisees sometimes seek interests contrary to those of the franchisors. Following Rosado-Serrano and Paul (2018), agency costs can result from goal misalignment between principals and agents. These insights are important because they help reconcile incentives and reduce information gaps in how these mechanisms work.

Franchisors commonly use monitoring systems as devices to alleviate agency problems. Gill et al. (2025) demonstrate through their research that franchisee satisfaction decreases as monitoring increases until it reaches a point of being unreasonably high. Foroudi (2019) states that standardized procedures are created. It is shown that monitoring must be kept proportionate, not to damage the relationship between the two parties. Alignment is another tool in an incentive structure to align franchisor and franchisee goals. Abou Kamar and Alsetoohy (2021) deal with profit-sharing arrangements to solve agency problems by creating a type of alignment. According to Park et al. (2022), an ill-conceived incentive system could make franchisees adopt opportunistic actions or reduce their work effort. Franchisors should carefully handle designing incentive systems because they affect franchisees' behaviors. Essential contracts define the franchisor-franchisee relationship. Gillis et al. (2020) show how proper contractual clarity resolves unclear aspects that lead to a clear understanding of conflict reduction. Park et al. (2022) argue that too rigid contracts can prevent franchisees from innovating and performing market-responsive capabilities. Both perspectives agree that contracts must spell out unambiguous instructions and flexible terms for franchisees.

2.3 Key Franchise Conflicts

An essential source of conflict between franchising partners is managing operational control. Franchisors tend to impose strict brand consistency guidelines that restrict franchisees' autonomy over operations. López-Fernández and López-Bayón (2018) argue that franchisees see these controls as limiting their ability to adapt to local market conditions, as well as to develop innovative business practices. Between franchisor control standards and franchisee operational flexibility, the conflict results in franchisees' dissatisfaction and may lead to franchisees' failure to comply with the franchisor's commands. Abou Kamar and Alsetoohy (2021) show that those franchisees who fail to satisfy brand expectations cause a decrease in brand perception, demonstrating the necessity of precise guidelines and assistance systems. The findings suggest that strong communication and support are the basis of good franchisor-franchisee relationships.

Existing conflicts between franchising entities have worsened because of the problems of transparency and communication between them. Alignment of expectations, support, and concern requires effective communication. Missed expectations and trust issues (Korkoryi, 2024) result from communication breakdowns. Franchisees often feel ignored and unimportant if the franchisor does not convey policy modifications or ask the franchisees for their input. When communication breakdowns occur, the franchise system develops problems of decreased motivation, reduced compliance, and increased conflict. Coldwell et al. (2021) maintain that good communication is essential for developing strong participative relationships between the franchisor and the franchisee that encourage mutual understanding and joint teamwork. Korkoryi (2024) claims that transparent, fair, and open communication in a franchise system should be made to prevent and resolve any possible problems. The research suggests that franchise partnerships rely upon open communication and trust to last.

Territorial disputes arising from establishing new franchise units close to existing ones cause franchise conflicts. Franchisors can set up new franchises that are not far from the currently existing ones, which causes market oversupply and thus decreases the established franchisees' sales. The practices of such a business are unfair and a betrayal of the franchisers, making the network fall apart. According to Perrigot et al. (2020), business conflicts related to territorial disputes can be avoided through communication and transparency in business practices, which can be resolved through regular meetings and open dialogue. As Ghantous and Christodoulides (2020) demonstrated, franchisors and franchisees should agree on territorial agreements to foster a healthy relationship that will prevent potential disagreements. The research shows that resolving territorial disputes is impossible without active dialogue and equitable territorial management systems.

Conflicts often arise between the two parties, including the franchisor and franchisee, concerning performance expectations between the two parties. Sometimes, franchisors set performance targets that franchisees cannot meet due to their local market situation. Since unsuccessful target accomplishment will trigger penalty enforcement or termination, these disputes will conclude in legal battles (López-Fernández & López-Bayón, 2018). To handle performance concerns, franchisors must create reasonable performance measures, be open, and communicate with franchisees to come to an understanding. Alotaibi (2019) states that effective communication is needed between stakeholders to develop a franchise because strong initial bonds will help to achieve the mutual goal. Zhang and Chen (2024) hold that transparency, fairness, and open communication are the basis for resolving challenges of the franchise system and establishing a successful one. Trust is necessary and built through open communication for franchise relationships to continue for a long time.

2.4 Strategies for Conflict Resolution

Franchising conflict resolution relies on established contracts backed by effective intercompany communication methods. Roles, responsibilities, and expectations between franchisors and franchisees must be explicitly defined in contracts to avoid future conflicts, as per Raza-Ullah and Kostis (2020). Regular communication between franchisors and franchisees creates transparent relationships that produce solutions to future problems through mutual collaboration. Open communication connects organizations so they can promptly address concerns, thus preventing conflicts from escalating. Raza-Ullah and Kostis (2020) present practical communication standards that create fundamental foundations for franchise expansion through the joint pursuit of common business goals. According to Sweeney et al. (2018), transparent and fair management and open communication networks support franchise systems to achieve success through problem prevention and network prosperity. Active partnerships in franchising continue until both partners maintain honest dialogues that build trust.

Performance tracking combined with incentive systems works as an approach for minimizing conflicts. Implementing performance metrics with benefit incentives helps franchisors ensure franchisee actions support system-wide business objectives. The approach enables better performance while reducing disagreements about unmet expectations, according to Wang and Liu (2022). The implementation of monitoring needs to find equilibrium with trust, since excessive oversight leads to franchisee resentment that decreases their drive. Gillis et al. (2020) demonstrate that franchise expansion needs strong communication practices between franchisor and franchisee to create bonds that drive mutual goal attainment. According to Wang and Liu (2022), franchise systems achieve success by implementing transparency combined with fairness and open communication channels to stop potential issues from occurring. Trust between franchise partners forms in extended relationships only through continuous, open, honest dialogue across both organizations.

A system of dispute settlement needs to be in place for managing conflicts. Franchise agreements that include mediation and arbitration clauses create official dispute management systems that remain active until litigation starts. Through dispute-resolution procedures, both business relationships continue to thrive while obtaining better cooperative outcomes. Sweeney et al. (2018) stress that disputes can be avoided by executing transparent business practices and effective communication, allowing both parties to discuss their concerns as issues develop. Jang and Park (2019) argue that franchisors and franchisees require dedicated dispute resolution systems to reduce conflicts and create a better understanding between the parties. According to research findings, open communication with clear, equitable policies forms the basis for preventing disputes during and after conflicts arise.

2.5 Research Gap

Research about the franchisee-franchisor relationship in Saudi Arabian franchising remains scarce despite franchising being a global business model. Gillis et al. (2020) recognized three main obstacles that prevent domestic franchisors from growing in Saudi Arabia: insufficient legal support, limited government financial backing, and deficient franchise system management fundamentals. Research about franchisor challenges exists, but it fails to investigate the unique agency problems that franchisees experience when interacting with franchisors. The Saudi Franchise Law introduced regulations to support franchising activities, yet studies remain scarce about its effects on franchisee control and dispute resolution methods (Daudpota, 2019). The research by Coldwell et al. (2021) examines the franchise sector but fails to explore franchisee-franchisor interpersonal relationships and the agency problems that emerge between these parties. The literature lacks sufficient attention to the practical effects that new regulations have on franchise partnerships.

This research uses a quantitative methodology to study agency problems between Saudi Arabian franchisees and franchisors to fill the gap. The study examines how franchisees perceive their control authority and how their need for compliance impacts conflict situations by proposing strategies to establish trust in Saudi Arabian franchising relationships (López-Fernández & López-Bayón, 2018). This research enhances academic discussions and practical applications that produce improved franchising practices and policies across the region.

3. Methodology

3.1 Research Design

Quantitative survey methods are used in the research to study agency problems in Saudi Arabian franchisee-franchisor relationships. Quantitative research enables us to determine whether it is effective when it measures variables and analyzes statistical patterns between variables in a standardized fashion regarding data collection and analysis (Roshandel et al., 2018). The research can collect the data from a large sample size using the survey method; thus, the results can be generalized to broader applications in the franchisee population of the region. Surveys use a standardized data collection approach, meaning researchers can compare and analyze data for multiple subjects. There are many benefits to doing surveys for research, which survey people's perceptions, attitudes, and self-reported behaviors since surveys allow the quick collection of large amounts of data (Wang & Liu, 2022). This research study measures franchisees’ control perceptions, levels of autonomy, conflict origins, and trust enhancement strategies in their franchise agreements. The quantitative approach allows researchers to use statistical methods to test hypotheses and assist in variable relationship analysis in a structured analytical framework. A rigid methodology is a prerequisite for valid conclusions and evidence-based recommendations (Jang & Park, 2019). The researcher can carry out quantitative data analysis with the help of a structured survey, mainly consisting of closed-ended questions; this leads to the objectivity and reliability of the study results.

3.2 Sampling

Simple random sampling was used in the study, and 105 Saudi franchisees from various industries were selected. In this sampling method, everyone has an equal chance of being selected. Covering the full range of Saudi Arabian franchising businesses improves research validity. Online surveys use simple random sampling for research (Etikan & Bala, 2017). Online surveys are suitable for this research because they cover a large geographical area and are affordable. Online survey biases exclude internet users and those who avoid doing research online. The study uses simple random sampling to reduce biases and improve sample quality by ensuring industry sector proportions.

The study implements other methods to ensure participant participation and reduce potential biases based on online surveys (Etikan & Bala, 2017). The three techniques used by the researcher are customized requests, data protection promises, and reminder follow-ups to increase response numbers and achieve representative population coverage (Etikan & Bala, 2017). By applying simple random sampling techniques in combination with engagement strategies, the study can collect extensive data that represents the franchisees' experiences in various industries in Saudi Arabia.

3. 3 Data Collection

The research data collection process uses a carefully designed survey questionnaire with mostly closed-ended Likert scale questions. Likert scales effectively measure attitude and perception because they allow survey participants to agree or disagree with statements (Tanujaya et al., 2022). The method lets the researcher turn personal opinions into quantitative data for statistical analysis of patterns and associations. Precision in survey question design ensures unambiguous meanings, reducing response ambiguity and improving data reliability. The study follows Likert scale development procedures using consistent scale points and labels to help participants understand questions and respond accurately.

The design of the survey instrument is carefully built to help meet research objectives, including an entire section that explores areas such as perceived control and autonomy, friction sources, and trust-enhancing strategies in franchisee-franchisor relationships. The sections consist of several items measuring various aspects of the studied constructs to get a complete picture of the operational dynamics. The questionnaire is validated and reliable by pre-testing with franchisees. According to Sweeney et al. (2018), the pilot testing phase is critical to detect and correct survey question issues in the main study instrument for researchers. After collecting pre-test participant feedback, the data accuracy and reliability collection processes are analyzed thoroughly, and the question refinement is done to improve the data accuracy. The survey is implemented on professional online survey platforms seeking participants across various regions of Saudi Arabia. The electronic distribution methods provide three key benefits: quick data collection, affordable costs, and the ability to reach numerous distant participants. The system enables real-time response rate tracking and automatic software data entry, speeding up the entire collection process.

3.4 Ethical Considerations

The research study maintained ethical standards throughout to protect participant rights by treating them fairly while respecting their confidentiality. The franchisees received disclosure about research goals alongside their rights and freedom to participate voluntarily. Participants gave their informed consent, which gave them an understanding of data usage and the freedom to stop the study without adverse effects (Korkoryi, 2024). All responses received total confidentiality protection because the researcher kept all participant data anonymous without collecting personal identification details. The study prevented data integrity and accuracy issues by avoiding manipulation of findings or misrepresentation. Structured survey questions with neutral wording were utilized to minimize bias because they prevented respondents from being influenced toward specific answers. The study maintained ethical approval and compliance with research standards to guarantee the credibility and reliability of findings that will benefit the field of franchise management responsibly.

3.5 Data Analysis

IBM SPSS Statistics software served as the data analysis platform for this study because it represents a popular choice for business and social science statistical analysis. The researcher used two important statistical methods: frequency distribution and Chi-Square tests. Frequency distribution presented summarized perceptions about satisfaction and trust as well as operational control and sources of conflict across key variables, according to Raza-Ullah and Kostis (2020). Meanwhile, Chi-Square tests of independence were performed to determine whether significant associations existed between key categorical variables, such as trust and satisfaction, control and conflict, and goal alignment with satisfaction. The chosen methods detect patterns and associations between variables effectively because predictive modeling methods demonstrated poor explanatory power in previous tests.

Multiple essential findings emerged from the frequency distribution analysis. Many franchisees indicated minimal influence over business management functions since they could not determine prices and marketing strategies, and make independent local choices. The data showed franchisees held a mixed opinion about their trust in franchisors because many franchisees either distrusted their franchisor or viewed their relationship neutrally. The satisfaction levels among franchisees showed mixed results because a significant percentage placed themselves in the somewhat dissatisfied and very dissatisfied categories, according to Perrigot et al. (2020). An essential concern for franchisees is information transparency since franchisors failed to deliver adequate financial and operational data for effective decision-making. The research demonstrates that franchisees encounter substantial operational hurdles and relationship issues that impact their future business outcomes.

The chi-squared test helped determine the presence of statistical relationships between the critical variables studied. Statistical analysis demonstrated that trust in the franchisor fails to change overall satisfaction levels ($p = 0.431$). The results from the control vs. conflict test ($p = 0.994$) demonstrated that operational control held by franchisees fails to create substantial changes in their conflict levels with the franchisor. The goal alignment vs. satisfaction test ($p = 0.597$) also yielded no significant relationship, implying that aligning goals with the franchisor does not guarantee higher satisfaction. The information transparency vs. trust test revealed no correlation ($p = 0.231$) between financial and operational data transparency and trust development between franchisees and franchisors. The analysis demonstrates that satisfaction and conflict patterns run independently from trust control and transparency factors, possibly because other elements like financial results, regulatory frameworks, and sector market dynamics play a more significant role.

4. Findings

4.1 Frequency Distribution

Table 1.

Industry Distribution

industry

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Automotive Services	22	21.0	21.0	21.0
	Education & Training	20	19.0	19.0	40.0
	Food & Beverage	14	13.3	13.3	53.3
	Healthcare	30	28.6	28.6	81.9
	Retail	19	18.1	18.1	100.0
	Total	105	100.0	100.0	

The industry variable consists of distinct franchise sectors included in the study. Respondents primarily work in the Healthcare sector (28.6%), although Automotive Services (21%), education and Training (19%), Retail (18.1%), and Food and beverage (13.3%) follow as the second most common industries as seen in Table 1 above. The research demonstrates that franchising operates substantially in numerous Saudi Arabian sectors, while healthcare and automotive services lead the way.

Table 2.

Years of Operation

years_op

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-3 years	18	17.1	17.1	17.1
	4-6 years	22	21.0	21.0	38.1
	7-10 years	22	21.0	21.0	59.0
	Less than 1 year	26	24.8	24.8	83.8
	More than 10 years	17	16.2	16.2	100.0
	Total	105	100.0	100.0	

The years of operation variable measures the duration since franchisees started their business operations. New franchise businesses account for most of the total franchisees (24.8%) who have been in operation for under a year, as seen in Table 2 above. The data shows that 21% of franchises are between 4 and 6 years old and 7 and 10 years old, indicating earlystage and established businesses. Long-term franchisees form a relatively small percentage of 16.2% since they have maintained their operations for ten years.

Table 3.

Franchise Type

franchise_type

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Area developer	30	28.6	28.6	28.6
	Master franchise	28	26.7	26.7	55.2
	Multi-unit franchise	22	21.0	21.0	76.2
	Single-unit franchise	25	23.8	23.8	100.0
	Total	105	100.0	100.0	

The franchise type variable demonstrates how franchise agreements are dispersed among franchisees. The franchise agreements show Area Developers as the largest group with 28.6%, Master Franchises follow with 26.7%, and Single-Unit Franchises and Multi-Unit Franchises have 23.8% and 21%, respectively, as outlined in Table 3 above. Most franchisees belong to regional development agreements instead of maintaining traditional single-unit ownership.

Table Table 4.

Annual Revenue

annual_revenue

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than SAR 500,000	31	29.5	29.5	29.5
	More than SAR 5 million	18	17.1	17.1	46.7
	SAR 1 million - SAR 5 million	32	30.5	30.5	77.1
	SAR 500,000 - SAR 1 million	24	22.9	22.9	100.0
	Total	105	100.0	100.0	

The annual revenue variable demonstrates how extensively franchises operate financially. SAR 1 million – SAR 5 million revenue bracket leads the statistics with 30.5%, while Less than SAR 500,000 (29.5%) and SAR 500,000 – SAR 1 million (22.9%) take second and third position, respectively. According to the findings, most franchise businesses operate in small to medium revenue brackets (17.1%), as seen in Table 4 above.

Table 5.

Trust in Franchisor

trust_fran

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	21	20.0	20.0	20.0
	Disagree	23	21.9	21.9	41.9
	Neutral	19	18.1	18.1	60.0
	Strongly Agree	15	14.3	14.3	74.3
	Strongly Disagree	27	25.7	25.7	100.0
	Total	105	100.0	100.0	

The trust_fran variable evaluates franchisees' trust in their franchisor. A substantial number of respondents (25.7%) strongly disagree with trusting their franchisor, but they are joined by 21.9% who disagree and 18.1% who remain neutral. Trust in the franchisor remains divided because 20% of franchisees agree with the statement, and 14.3% strongly agree with this trust, as seen in Table 5 above. Results show that franchisees hold conflicting views about trust, as many show distrust or remain neutral.

Table 6.

Franchisee Satisfaction

satisfaction

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neither satisfied nor dissatisfied	20	19.0	19.0	19.0
	Somewhat dissatisfied	26	24.8	24.8	43.8
	Somewhat satisfied	20	19.0	19.0	62.9
	Very dissatisfied	16	15.2	15.2	78.1
	Very satisfied	23	21.9	21.9	100.0
	Total	105	100.0	100.0	

Franchisees' general contentment is measured through the satisfaction variable. Many franchisees (24.8%) are dissatisfied, while 19% are satisfied with their experience. A large portion of 21.9% reported being very satisfied, while 15.2% indicated dissatisfaction was at the opposite end, as outlined in Table 6 above. The research data suggests that franchisees have varied satisfaction levels because many show dissatisfaction.

Table 1.

Business Disagreement with Franchisor

biz_disagree

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	14	13.3	13.3	13.3
	Disagree	17	16.2	16.2	29.5
	Neutral	23	21.9	21.9	51.4
	Strongly Agree	24	22.9	22.9	74.3
	Strongly Disagree	27	25.7	25.7	100.0
	Total	105	100.0	100.0	

The biz_disagree variable assesses conflict levels between franchisees and franchisors. A large proportion (25.7%) of respondents strongly disagree, while another group (22.9%) strongly agrees, as outlined in Table 7 above. The results indicate that franchisee-franchisor disagreement is a primary concern because many respondents either experience high conflict or remain neutral.

Table 8.

Control Over Services

ctrl_services

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Full Control	17	16.2	16.2	16.2
	Little Control	26	24.8	24.8	41.0
	No Control	20	19.0	19.0	60.0
	Significant Control	18	17.1	17.1	77.1
	Some Control	24	22.9	22.9	100.0
	Total	105	100.0	100.0	

The ctrl_services variable captures how much control franchisees have over services. The survey results show that franchisees experience the least control with little control (24.8%), while some control (22.9%) and no control (19%) come next, as seen in Table 8 above. A significant portion of respondents (17.1%) maintains substantial service control, but both little control (24.8%) and no control (19%) receive higher responses than complete control (16.2%). Most franchisees report they have restricted power to control services, which could limit their autonomy in decision-making processes.

Table 9.

Control Over Operations

ctrl_ops

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Full Control	16	15.2	15.2	15.2
	Little Control	23	21.9	21.9	37.1
	No Control	27	25.7	25.7	62.9
	Significant Control	15	14.3	14.3	77.1
	Some Control	24	22.9	22.9	100.0
	Total	105	100.0	100.0	

The ctrl_ops variable measures franchisee control over business operations. The survey results show that most franchisees (25.7%) indicate no control, while others (21.9%) maintain little power, and a third group (22.9%) experiences some control, as outlined in Table 9 above. According to franchisee reports, only 15.2% have full decision-making authority in business operations.

Table 10.

Goal Alignment

goal_align

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	24	22.9	22.9	22.9
	Disagree	24	22.9	22.9	45.7
	Neutral	13	12.4	12.4	58.1
	Strongly Agree	22	21.0	21.0	79.0
	Strongly Disagree	22	21.0	21.0	100.0
	Total	105	100.0	100.0	

The goal align variable evaluates whether franchisees and franchisors have aligned business objectives. The data shows balanced agreement and disagreement, with 22.9% of respondents in each group and 21% of participants in each extreme category, as seen in Table 10 above. The results show a split perception, where some franchisees feel aligned with their franchisor's goals while others do not.

Table 11.

Information Transparency

info_transparency

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	20	19.0	19.0	19.0
	Disagree	24	22.9	22.9	41.9
	Neutral	20	19.0	19.0	61.0
	Strongly Agree	20	19.0	19.0	80.0
	Strongly Disagree	21	20.0	20.0	100.0
	Total	105	100.0	100.0	

The info transparency variable assesses whether franchisors provide sufficient business information. 22.9% disagree, while 19% strongly disagree, indicating that many franchisees feel that information sharing is lacking. 19% of franchisees agree that their franchisor maintains transparency, and another 19% strongly agree, as outlined in Table 11 above. Information asymmetry is a significant problem in franchisor-franchisee relations.

Table 12.

Trust vs. Satisfaction

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	16.316[a]	16	.431
Likelihood Ratio	17.591	16	.348
N of Valid Cases	105		

a. 18 cells (72.0%) have expected count less than 5. The minimum expected count is 2.29.

Results from the Chi-Square test for trust and satisfaction demonstrated a Pearson Chi-Square value of 16.316 and a p-value of 0.431, as outlined in Table 12 above. The p-value exceeding 0.05 indicates that franchisee trust in the franchisor does not affect their satisfaction levels. The research shows that franchisee satisfaction does not rely on trust in their franchisor (Ghantous & Christodoulides, 2020). A strong franchisee-trust relationship with the franchisor does not necessarily determine their overall satisfaction. Financial performance, operational autonomy, and franchisor support can be more influential in shaping this outcome.

Table 13.
Control vs. Conflict

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	5.367[a]	16	.994
Likelihood Ratio	5.565	16	.992
N of Valid Cases	105		

a. 18 cells (72.0%) have expected count less than 5. The minimum expected count is 2.27.

The Chi-Square analysis for control and conflict yielded a Pearson Chi-Square value of 5.367 and a p-value of 0.994, as seen in Table 13 above. The p-value of 0.994 indicates that the level of franchisee control does not have a statistically significant relationship with franchisor conflict. The outcome demonstrates that control disputes between franchisees and franchisors are not the primary cause of their conflicts. Franchisees who experience either high or low control levels might still develop conflicts because of different factors, such as financial challenges and operational limitations (Gillis et al., 2020). Franchisees need more than autonomy in decision-making to reduce conflict because they require improved communication channels, transparent agreements, and effective conflict resolution procedures.

Table 14.
Goal Alignment vs. Satisfaction

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	14.029[a]	16	.597
Likelihood Ratio	14.371	16	.571
N of Valid Cases	105		

a. 19 cells (76.0%) have expected count less than 5. The minimum expected count is 1.98.

The Chi-Square test for goal alignment and satisfaction resulted in a Pearson Chi-Square value of 14.029 with a p-value of 0.597, as outlined in Table 14 above. This means that no statistically significant relationship exists between the extent to which franchisees feel their goals align with those of the franchisor and their overall satisfaction. This suggests that franchisee satisfaction is not necessarily dependent on whether they perceive their goals to align with the franchisor's. The perception that business objectives align with franchisor goals does not necessarily lead to higher satisfaction for franchisees since other key elements, such as profitability, support systems, and brand policies, might prove more influential (Abou Kamar & Alsetoohy, 2021). This finding highlights the importance of focusing on operational and financial support rather than just strategic goal alignment.

Table 15.
Information Transparency vs. Trust

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	15.191[a]	12	.231
Likelihood Ratio	15.956	12	.193
N of Valid Cases	105		

a. 9 cells (45.0%) have expected count less than 5. The minimum expected count is 3.14.

The Pearson Chi-Square value from the information transparency and trust analysis was 15.191, while the p-value reached 0.231, as outlined in Table 15 above. The study demonstrates that perceived transparency does not affect franchisees' trust in their franchisor. Research findings showed the opposite pattern from what was anticipated, since transparency levels did not correspond with increased trust levels. Franchisees continue to demonstrate distrust because of their previous encounters with franchisors and their perceptions of unfair agreements and broader brand policy concerns (Coldwell et al., 2021). Trust building requires franchisors to provide information sharing with franchisee involvement in decision processes and equitable treatment in operational controls and financial management.

5. Discussion

Research findings reveal vital information about franchisee-franchisor relationships in Saudi Arabia based on agency theory principles. This research investigated agency problems in addition to franchisee autonomy and trust, conflict factors, and satisfaction to identify major franchisee obstacles. Frequency distribution and Chi-Square tests reveal several essential issues stemming from poor operational control, inconsistent satisfaction levels, trust-related concerns, and transparency issues. Chi-Square tests showed no significant relationships existed between trust and satisfaction, power and conflict, and information transparency and trust. The research indicates agency problems exist but do not entirely drive franchisee satisfaction or business performance (Panda & Leepsa, 2017). Multiple elements, including economic sustainability, regulatory structures, and market environment variables, have more potent effects than transparency measures.

The research discovered that franchisee satisfaction levels remained unchanged regardless of their franchisor's trust levels. According to the agency theory, trust is expected to reduce agency conflicts by aligning the interests of both parties (Rosado-Serrano & Paul, 2018). The study outcomes demonstrate that franchisees value financial success, operational flexibility, and business performance more than trust in the franchisor. Research by Raza-Ullah and Kostis (2020) established trust as a primary factor that reduces conflicts and enhances satisfaction, but the current study produces conflicting evidence. Franchisees value financial incentives, marketing support, and brand reputation more strongly than other success factors for their business. Franchisers maintaining operational support and profitability levels might keep franchisees content, even with trust concerns. This aligns with Akrout and Nagy (2018), who found that franchisees are more concerned with financial stability than relational trust when evaluating their franchisor relationships.

Operation and service control exercised by franchisees showed no substantial impact on conflict development. Research indicated that higher franchisor control would result in more conflicts since franchisees often encounter decision-making limitations (Sweeney et al., 2018). The study showed that franchisees with minimal control did not demonstrate increased conflict during operations. The structured framework of franchise agreements is a factor that explains why franchisees accept operating within defined parameters when they enter the business. Most franchisees understand that franchisor control limitations exist in their business model; thus, they do not consider it a significant cause of conflict. The primary sources of disagreement between franchisees and franchisors are financial disputes, royalty fee issues, and contractual conflicts, even though franchisees have limited operational control. According to Gillis et al. (2020), investment risk and perceived fairness in financial arrangements demonstrate stronger predictive power for franchisee satisfaction than operational autonomy.

The study also found no significant relationship between goal alignment and satisfaction, meaning franchisees who aligned their business objectives with the franchisor's goals were not necessarily more satisfied. According to the agency theory, franchisees and franchisors who align their objectives experience decreased conflicts and higher satisfaction levels (Jang & Park, 2019). However, this study's findings indicate that goal alignment does not guarantee satisfaction because other business realities, such as profitability, competitive advantage, and support structures, are more influential. Franchisee satisfaction remains unstable even with a business vision agreement because financial performance, operational costs, and marketing support play a significant role. This supports the findings of Jang and Park (2019), who argue that franchise relationships require more than goal alignment – they need fair revenue-sharing models, ongoing support, and flexibility in decision-making.

Trust levels remained unaffected by the level of information transparency revealed by franchisors. Research findings indicated that transparency levels from the franchisor failed to establish any meaningful connection with trust levels among franchisees. Franchisors' sharing of operational and financial data fails to eliminate franchisees' beliefs regarding unfair business choices. Franchisees tend to develop distrust toward their franchisor when they feel the business model disadvantages them, even when information sharing occurs, according to Zhang and Chen (2024). Under the Saudi Franchise Law, the regulations continue to evolve, causing Saudi franchisees to adjust their understanding of legal protections and contract enforcement mechanisms (Daudpota, 2019). Trust in franchising depends on a larger business environment and legal conditions beyond the information disclosure level.

5.1 Limitations

The research faces limitations from small sample data and difficulties in generalizing the findings. The study collected data from 105 Saudi Arabian franchisees from different industries to understand franchisee-franchisor relationships. The collected data from 105 franchisees across multiple sectors does not entirely reflect the total franchisee community in Saudi Arabia. The franchise challenges that different sectors face may be specific to their industries, while specific control methods and financial structures differ between sectors, as well as satisfaction levels. The findings would become more applicable to the broader franchise industry when research includes more franchisees representing different business sectors throughout Saudi Arabia (Etikan & Bala, 2017). Future studies need to increase their sample size to include stakeholders from various backgrounds, increasing the reliability of statistical results.

Based on Likert-scale responses, the survey methodology effectively measures attitudes but provides limited scope to capture comprehensive franchisee experiences. Likert scale respondents must choose the nearest option when rating experiences between the provided categories. Individual biases affect franchisees' perception of trust, satisfaction, and control, leading to inconsistent survey responses. For instance, two franchisees who face similar business conditions tend to evaluate their autonomy differently because they bring their expectations and past business experiences to the situation (Sweeney et al., 2018). The measurement technique lacks precision, failing to capture subtle differences in the emotional states of franchisees. Future research on franchisee satisfaction needs to include qualitative methods, including interviews and open-ended survey questions, to uncover franchisee motivations alongside their frustrations and expectations.

The Chi-Square tests used in the study create limitations in methodological research because they cannot establish causality or measure relationship strength. Chi-square analysis helps identify correlations between different variables, but cannot determine whether these variables have a cause-and-effect relationship. The study results show no significant relationship between trust and satisfaction, but this information does not confirm that trust affects satisfaction levels. Chi-Square analysis cannot provide direct tests to evaluate the effect of financial success, brand strength, and operational support on this relationship. Similarly, while no significant relationship was found between goal alignment and satisfaction, external factors such as economic conditions or individual business performance might influence satisfaction more strongly than perceived alignment (Korkoryi, 2024). The analysis of how multiple factors affect franchisee satisfaction needs regression analysis or longitudinal research to show which variables demonstrate the strongest predictive strength.

The self-reported survey approach includes a built-in limitation from response bias. The survey questions triggered responses from franchisees who probably allowed their prejudices, earlier encounters, and anticipated outcomes to influence their responses. A few respondents possibly exaggerated their negative feelings toward their franchisor because of previous disagreements, yet some participants minimized disputes to prevent appearing critical toward their franchisor. The survey process might have been influenced by franchisees who strongly felt one way or the other, as these individuals showed a higher tendency to join (Sweeney et al., 2018). Such factors will introduce subjective elements that might affect the research outcomes. Future studies should tackle response bias by using anonymous in-depth interviews or mixed-method approaches, which yield balanced and accurate findings regarding franchisee-franchisor dynamics.

6. Recommendations

Franchisors must actively improve their transparency practices, combined with better communication and operational flexibility, to boost satisfaction levels among franchisees and minimize conflicts. The main challenge identified by franchisees in this research involved financial transparency since they lacked clarity about revenue-sharing models and critical business information access. Franchisors must establish detailed financial reporting systems that enable franchisees to comprehend their financial commitments, expenses, and profit potential. Franchisors should increase operational freedom for their franchisees by giving them control over local marketing and pricing structures and service adjustments to solve market conditions (Wang & Liu, 2022). Franchisee confidence and conflict reduction can be achieved through improved support systems, incorporating enhanced Training and open communication methods. Through their supportive business model, franchisors establish stronger connections with franchisees, leading to extended relationships and improved brand success.

Franchisees must proactively safeguard their business interests after establishing crucial connections with their franchise partners. Franchisees must extensively research their agreements before signing, and they should analyze control provisions, funding requirements, and dispute resolution methods. Franchisees must negotiate more transparent contract conditions and consult legal experts to interpret fair contractual clauses correctly. In case of disputes, franchisees should turn to mediation services and legal counsel instead of letting disagreements intensify because they need to resolve problems through established franchise laws (López-Fernández & López-Bayón, 2018). Franchisees who network and join associations with fellow business owners gain consolidated purchasing power and mutual industry intelligence, enabling them to overcome obstacles better.

Saudi regulatory authorities must keep enhancing franchisee legal protection, which helps build balanced relationships between franchisers and franchisees. The Saudi Franchise Law established sector regulation that needs improvements for clear franchise transparency, fair contracts, and dispute resolution systems (Daudpota, 2019). Lawmakers must implement mandatory disclosure protocols that force franchisors to show their financial data and contractual terms at the beginning of business agreements to stop conflicts. Establishing independent bodies for franchise mediation would enable more effective conflict resolution, decrease judicial workloads, and build better relations between franchisees and franchisors (Jang & Park, 2019). The regulatory agencies must conduct periodic reviews of franchise laws to keep pace with market changes and maintain fair, transparent business relationships for franchise owners and franchisors.

7. Conclusion

The research analyzed Saudi Arabian franchisee-franchisor relationships using agency theory to evaluate agency problems, franchisee autonomy, trust, conflict factors, and satisfaction levels. Frequency distribution and Chi-Square tests showed that franchisees have minimal operational control, and their perceptions of franchisor trust differ when they doubt information transparency. However, contrary to expectations, key variables such as trust, power, goal alignment, and transparency did not show significant relationships with satisfaction or conflict levels. The study results indicate that agency problems through traditional theory fail to explain the main factors affecting franchisee experiences. Financial stability, regulatory protections, and operational support influence franchisee satisfaction and trust more than conventional agency problems. The research findings expand our understanding of franchise governance structures by demonstrating how franchise relationships experience complex dynamics that require comprehensive management methods.

According to the research, franchisors must provide financial and operational assistance instead of relying solely on trust and transparency to improve franchisee satisfaction. Saudi Arabia's policymakers and regulators must build stronger franchisee protection laws, including fair agreements, transparent revenue-sharing terms, and easy dispute-resolution processes. Research should move forward using qualitative methods and studying distinct industries while following franchise relationships across multiple periods. Research on financial performance indicators, marketing effectiveness, and franchisor support systems will generate a complete understanding of successful franchisee factors.

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