

KYMENLAAKSON AMMATTIKORKEAKOULU
University of Applied Sciences
International Business/International Marketing

Wang Songtao

THE CREATION OF A POSITIVE FRANSHIOR-FRANCHISEE RELATIONSHIP
IN NINGBO SELOCK HAIRDRESSING CO., LTD.

Bachelor's Thesis 2012

ABSTRACT

KYMENLAAKSON AMMATTIKORKEAKOULU

University of Applied Sciences

International Business

Wang, Songtao

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Minna Söderqvist, Principal lecturer

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Franchising, as a Western business mode, has been widely manipulated in the Ningbo hairdressing industry. It's crucial to create a positive franchisor-franchisee relationship since the success of franchise business lies in the success of this relationship.

The main objective of this thesis was to detect how to create a positive franchisor-franchisee relationship in the commissioned company, in order to meet expansion and tense competition in Ningbo hairdressing industry.

The main research method employed in this thesis is case study, in which interviews for two franchisees, internal documents and archival records have been employed to inspect the franchisor-franchisee relationship inside the commissioned company.

The main conclusion indicates that the creation of a positive franchisor-franchisee relationship in Ningbo requires efforts all the way from both parties, which encompass franchisee's self evaluation and pre-purchasing research, signing of franchise agreement, franchisor's support services and guanxi network. Suggestions such as establishing website, setting impartial agreement, paying more attention to existing franchisees and dealing with external guanxi network are also provided for the long-term development of the commissioned company.

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1 INTRODUCTION

1.1 Background

In China, the transformation of governmental attitude partly contributes to the take-up of franchising. Namely, in the mid-1990s China had changed from a comparative incompatible position to later which supported the exhibition of international franchise. (Welch, Benito & Petersen 2007, p. 71.) Nowadays franchising is already one of the most prevailing business modes handled not only by foreign enterprises, but also tens of thousands of local companies in China. It almost stretches into every field without excluding hairdressing industry.

More recently, Chinese people are prone to put more emphasis on their appearances with the remarkable improvement of life quality in the last decade. Hairdressing tends to be one of those derived industries as a result of wealthy people. Liu (2005, p. 8) reports that the Chinese hairdressing industry took off in the mid-1980s, the large industry chain has been constituted basically within last 20 years' development.

Despite that, it is certainly that the maturity of hairdressing industry, which is dominated by the economic status, can be diverse in different territories. Ningbo is located in Zhejiang Province in which the scale of hairdressing industry is fairly large, the total number of hairdressing and beauty salons reached 6,000 units in 2010. As a well-developed region, Ningbo hairdressing industry provides a range of opportunities to the practitioners who have emphatic preference on hairdressing industry. However, many problems are critically threatening the hairdressing industry overtly or covertly, e.g. high margin, fraudulent pre-paid card, inferior product and unsatisfactory customer service. Under the circumstance, an increasing number of hairdressing business owners began to treat the creation of core competence as strategic decision of utmost significance. (Wang 2011.)

Regarding franchising, it is a popular selection for the majority of business owners

in the Ningbo hairdressing industry for either the purpose of expansion or being competitive. In comparison with other business modes, the decisive role of a franchisor-franchisee relationship is one of the most evident features for franchise business, that is to say the most successful franchisors are not dedicated for the contemporary profits as they understand the success of a franchise business is the success of the franchisor-franchisee relationship to a large extent. For the creation of a positive relationship between the commissioned company and its franchisees in Ningbo, it will be a significant assignments to accomplish which requires attentive considerations even in initial recognizing and agreement-signing stage, as well as continuous efforts in following supportive stage from both parties.

This thesis is commissioned by Selock Company that operates in the mode of franchising in Ningbo. After years of development, it consists of 32 units altogether operated under the brand of Selock. At the same time, emerging as a new force in urban area of Ningbo, the company is definitely embracing enormous challenges due to fierce competition and unfamiliar business environment. For this reason, a positive franchisor-franchisee relationship is expected for the sake of Selock Company and its franchisees. This thesis aims to study how to create a favourable franchisor-franchisee relationship for Selock Company specifically in Ningbo.

1.2 Research questions

The objective of this thesis is studying the creation of a positive franchisor-franchisee relationship in the Ningbo hairdressing industry. To be more accurate, this thesis looks into four events in relation to a franchisor-franchisee relationship, which are recognition of the franchise opportunities, franchise agreement, ongoing support services and guanxi respectively, to serve for the creation of a positive franchisor-franchisee relationship in Selock Hairdressing Company in a relative holistic perspective.

The main research question

- How to create a positive franchisor-franchisee relationship in Ningbo Selock Hairdressing Company?

Sub-questions

- What's the current situation of the hairdressing industry in Ningbo?
- Why the franchisor-franchisee relationship is important in franchise business?
- What may influence the creation of a positive franchisor-franchisee relationship?

1.3 Research methods

Yin (2003, p.1) suggests case study tends to be appropriate for “how” or “why” questions when a researcher can hardly manipulate existing phenomenon, or research content emphatically stress the present incidents. As the research topic of this thesis parallels to former description, case study will be utilized as the principal research method. Yin (2003, p.2) treats case study as a time-consuming process that covers designing case study, conducting case study, analyzing case study information and reporting case study, neither one of these steps could be neglected for composing a valid and scientific case study.

Research design refers to a logical connection between conclusion drawn and research question of a study. In addition, construction of theoretical framework facilitates whole research process both on operational and structural sides. (Yin 2003, p. 19.) Figure 1 displays the specific research design of this thesis.

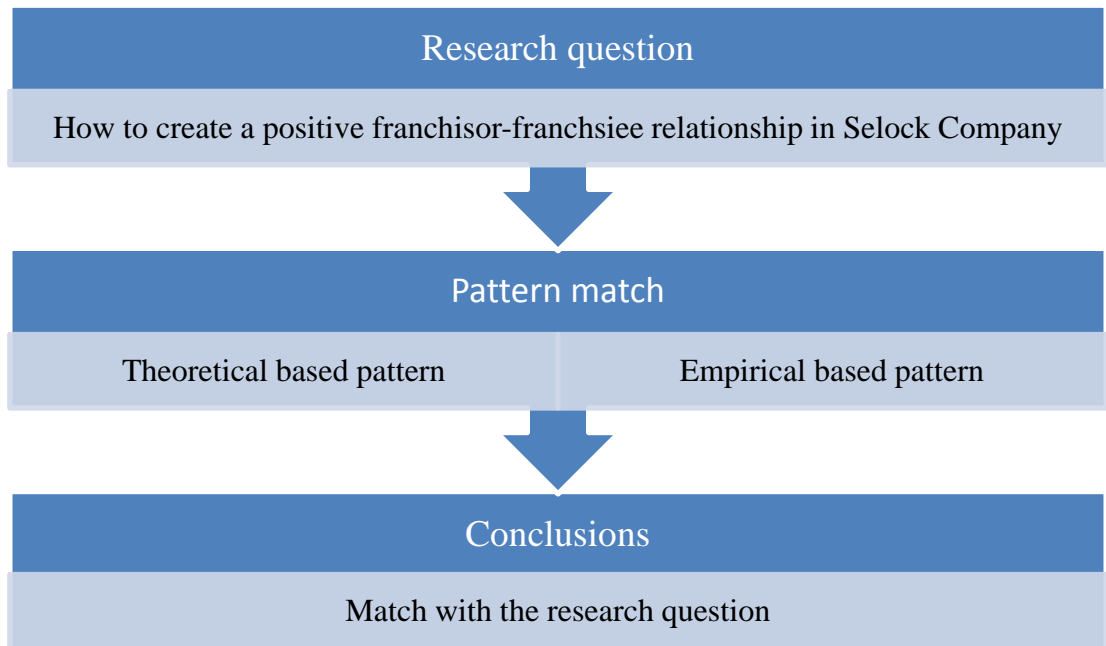


Figure 1 The research design of this thesis

Data for case study can be collected from various sources. Normally, six categories are summarized which include documentation, archival records, interviews, direct observations, participant-observation and physical artifacts. For the avoidance of controversy and subjectivity, investigators should remember to use (a) multiple sources in order to acquire relative holistic understanding toward one event, (b) a case study information pool that is different from final report, (c) certain connections between research question, data obtained, and conclusion drawn. (Yin 2003, p. 83.)

Case study is able to show many sights by acquiring analytical insights through looking into extensive information from various sources. In this thesis, I study the case of Selock Company in Ningbo, in which I focus on how to create a concrete relationship between the franchisor and its franchisees. Documentation, archival records and interviews are primarily employed in the thesis. Firstly, documentation is widely used in case study, which is being implemented in this thesis as well. Records of meetings, internal documents and newspaper articles are main forms to obtain relevant franchisor-franchisee relationship information during the research. In addition, it's notable that the content of documentation is often biased depending on

the standpoint of author. A researcher may naturally believe all forms of documents, which include propositions toward programmes and projects, are objective. Actually, every document is composed for some purposes and people. By identifying the specific purpose of a document can avoid misleading interpretation. Secondly the strengths and weaknesses archival records are basically similar with documentation. However, the archival records tend to be quantitative and precise, and difficult to access due to the privacy protection of company. (Yin 2003, pp. 85-89.)

Thirdly, interview is one of the most important tools to receive synthetic and variable information in a research. Through the whole process of interview, interviewer should obey the principle that design the sequence of questions and then being asked with an unprejudiced attitude. (Yin 2003, pp. 89-90.) The sequence of research questions was designed based on the theoretical framework, specifically a question relating to the current status of the franchisor-franchisee relationship in general is being proposed in the first place, and then follows questions targeting on recognition of the franchise opportunities, franchise agreement, ongoing support services and guanxi respectively. The merit of interview is that respondents may not only provide their knowledge, but also the other respondents and channels as sources of information.

Data analysis is continuously examination, categorization, formation, testing and combining acquired information in the means of qualitative and quantitative research. The priority of initiating data analysis is possessing a general analytic strategy, which will be collaborated with specific techniques for analysing case study. (Yin 2003, p. 109.) In this thesis, the general analytic strategy of case study will rely on the topic, which means the design of the case study is based on the creation of a franchisor-franchisee relationship. Since research results may not have been fully coincident with the beginning of the study, pattern matching is employed in order to conduct a logical comparison between the empirical based pattern and the theoretical based pattern.

Reporting case study represents the last step of process by putting forward its results and findings. Linear-analytic structure, which have been utilized in this thesis, is a standard method of formulating research report, which begins with a problem being discussed or a literature being reviewed, and then spreads to a research method and finally comes out conclusions and suggestions from collected data. (Yin 2003, pp.152-153.)

1.4 Structure of the thesis

The thesis contains 6 chapters in all. Theoretical part of thesis is mainly stated in chapter 2 and chapter 3, and empirical part of thesis is presented in chapter 4 and chapter 5. The general introduction of each chapter is concluded in the following:

As the beginning of this thesis, chapter 1 presents the basic information about background, case study company, objective of the thesis, research questions, research methods and structure of the thesis.

Chapter 2 composes the theoretical structure of the thesis in which the definition of franchising, the advantages and disadvantages of franchising, the developments of franchising and its differences with licensing are analysed correspondingly.

Chapter 3 discusses the franchisor-franchisee relationship, as well as four components in connection with recognition of franchise opportunities, franchise agreement, support services and guanxi are developed for the creation of a positive franchisor-franchisee relationship.

Chapter 4 belongs to the empirical part of the thesis. The content of this chapter mainly focuses on the business environment in Ningbo. In a strict sense, the introduction of Ningbo, the hairdressing industry and franchising business in Ningbo are investigated to serve the proposition of this thesis.

Chapter 5 also belongs to the empirical part of the thesis, which puts theories presented in chapter 3 into practices to find out underlying patterns and principles related to the creation of a positive franchisor-franchisee relationship in Selock Hairdressing Company. To be more specific, interviews for the two franchisees concentrating on recognition of franchise opportunities, franchise agreement, supports services and guanxi are conducted simultaneously in order to gain insights of the current relationship between the franchisor and its franchisees inside Selock Company, and thus provide further suggestions for the company.

The last chapter is the conclusion which stems from the previous chapters. Based on the result of the thesis, several further suggestions, recommendations and evaluations will be given for the sake of a positive franchisor-franchisee relationship inside Selock Company.

2 FRANCHISING

2.1 Definition of franchising

Defined by Kostecka & U.S. Department of Commerce (1987, p.2), franchising is based on the idea that a franchisor utilizes a particular franchise format which covers offering, selling, or distributing products or services, to help franchisees start the business, in return he receives royalties from them, meanwhile the franchisor grants franchisees the permissions of using his brand name, trade mark and advertising tools. The former explanation may not be adequate only by concentrating on simplistic transaction, since this thesis is going to discuss about the creation of a positive franchisor-franchisee relationship. Thus another perspective of describing franchising as a continuing relationship should be addressed instead. As it shows in Figure 2, franchising can be described as an ongoing relationship in which a franchisor commercially assigns an individual the right of using his intellectual property in a business within a certain period of time. This continuing relationship involves not only products, services and trademarks, but also thorough business concepts, operation standards, business formats, ongoing support services and

mutual communications. (International Trade Administration, cited in Welch, Benito & Petersen 2007, p. 52.)

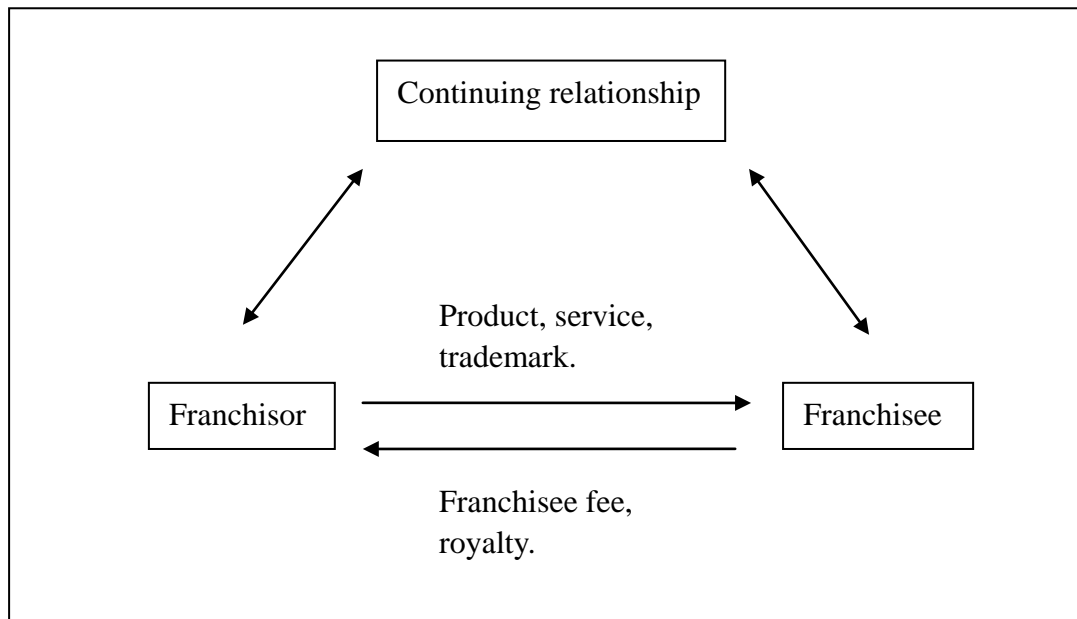


Figure 2 Franchising as an ongoing relationship (International Trade Administration, cited in Welch, Benito & Petersen 2007, p. 52)

2.2 Advantages and Disadvantages of franchising

From the standpoint of either franchisor or franchisee, franchising is an attractive approach apparently. On behalf of the franchisor, growth is achievable through this efficient expanding system. Likewise, for an individual who expects to be a business owner, franchising provides the accession of market knowledge, strategy, experience for the convenience of starting a business. (Justis & Judd 2002, p. 1.3.)

On the other hand, franchising is a type of relational transaction in which franchisees are independent from each other and co-create values with a franchisor on the basis of long-term cooperation and development. Conflicts will probably occur due to the divergence among distribution members toward barriers. (Bradford, Stringfellow & Weiz 2003, p. 182.) Thus conflicts can happen between franchisor and franchisee as well. Contractual enforcement is likely to happen when there are critical violations

over the operational standards, training quality, or level of autonomy by either party (Antia and Frazier 2001, p. 77.)

2.3 Developments of franchising

The popularity of franchising originates from wide exploitation in three industries in the beginning of the 20th century in America, which were motor vehicle dealerships, the retailing side of the oil business and soft drink bottling respectively. Franchising in that age was partly similar to an independent sales relationship between supplier and dealer in which the dealer obtains part of the identity of the supplier. Its extensive apply in these industries is usually called the first generation of franchising. During the last 40 years, this mode of business generally moved into format franchising from its earlier use of product and trade name franchising. It indicates that franchisor provides business system and other possible supports to facilitate franchisees in return for royalties and franchise fees. With the most typical and successful example of McDonald's, it represents the disclosure of the second generation franchising. (Welch, Benito & Petersen 2007, p. 51-52.)

Horizontally, the function of this traditional US model business is being highlighted in emerging countries. Franchising made its first debut in China in the late 1980s, and then it went through a period of chaos due to the poor legal environment. Namely, on the one hand, some franchisors operated unqualified business or even collected funds of franchisees by fraud. On the other hand, franchisees defaulted royalties to franchisors, or used copyrights and patents inappropriately. (International Franchise Organization 2004.)

Under such circumstance, the Ministry of Internal Trade of China (1997) established "the Regulation on Commercial Franchise Business". As the first franchising law, it involves such matters as copyrights, trademarks, intellectual property protections. Several revisions had been passed through the following years. The latest version of "the Regulation on Commercial Franchise Business" was adopted on April 6th, 2007,

which defines each term more clearly and restricts the rights of franchisors in further step (The Ministry of Commerce of the People's Republic of China 2007). International Franchise Organization (2004) indicates that franchising mode tends to be suitable for China by which people can enter an established business with limited funds, especially after the continuing issues of legal regulations for the purpose of creating an increasingly disciplined market.

2.4 Differences with licensing

Welch, Benito & Petersen (2007, p. 97) define licensing as a sale of right to use certain intellectual property in a defined way. In contrast with licensing, franchising can also be regarded in the category of licensing in which the specific contractual terms are often much more complicated to define the entitlements and responsibilities of both franchisor and franchisee, the contract seems to confirm closely to franchise, the party who grants the franchise is franchisor and the counterpart who applies franchise is franchisee (Peretiako et al. 2009, p. 22).

The privileges of licensor are often constrained on the supervision of appropriate use of license and gathering of royalties. Whereas franchisor brings more significant manipulation on the franchisee's operations since he intends to improve the reputation of trademark or trade name through standard management (Sherman 2003, p. 348). Therefore, it appears that the fundamental difference between franchising and licensing lies in the degree of control. Namely, franchisee belongs to a part of whole system, the autonomy of his business operation is highly limited when it comes to the arrangement of marketing strategy and public communication. However, licensing usually occurs in an existing business in which licensee can largely control the use of license. (Welch, Benito & Petersen 2007, p. 53.)

In some occasions, it's difficult to draw a line between franchising and licensing. Then again licensing package is becoming increasingly comprehensive which contains integrated marketing ingredients as well, licensing is thus approaching

franchising in modern business (Welch, Benito & Petersen 2007, p. 53).

3 Franchisor-franchisee relationship

As defined by Yau et al. (2000, p. 1111), relationship marketing is formalizing social interaction which is long realized and developed. Generally ten categories of relationships can be concluded from marketplace (see Figure 3). For the reason of relationship marketing, Hunt, Arnett & Madhavaram (2006, p. 83) claim one party assumes the benefits gained from the relational exchange exceed produced expenses. When it comes to development of a relationship, O'Malley and Tynan (2000, p. 807) imply the involvement depends on interaction and interpersonal action, which facilitate the formation of social relationship and emotional connection in the means of trust, compromise and communication.

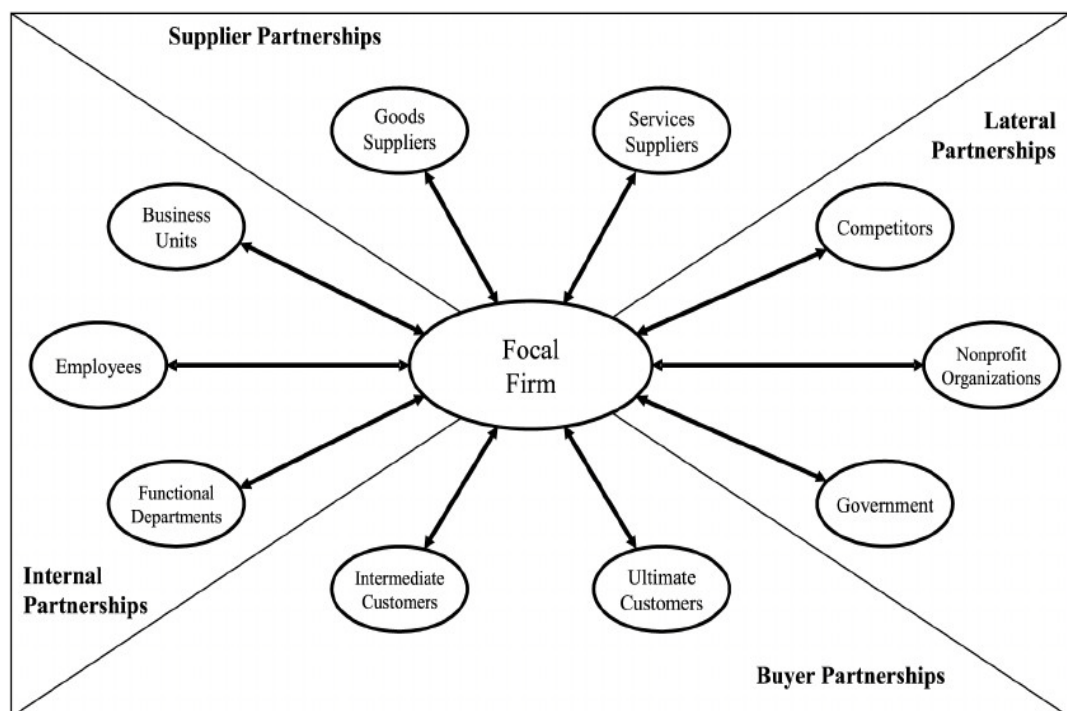


Figure 3 Ten forms of partnership (Morgan & Hunt 1994, p. 21)

Mendelsohn (2005, p. 152) suggests that a franchisor-franchisee relationship is similar to a parent-child relationship. In the outset of a franchise relationship, a

franchisee is regarded as a young child who is absolutely relying on a franchisor for his know-how and understanding of how to exercise knowledge obtained. As the franchisee gains applicable experience he gradually becomes less dependent, sometimes he is positively independent from the franchisor's assistance. Eventually the franchisee grows up and repays the franchisor with royalties and certain degree of obedience. Whereas, the franchisor-franchisee relationship belongs to a type of internal relationship in which two parties share a same objective, and focus on a same business they have both invested (Doherty & Alexander 2004, p. 1219). In comparison with parent-child metaphor, Justis and Judd (2002, pp. 19.1-19.2) advocate that franchisor and franchisee are similar to steering power and pedal power of a bike, they are equally important and absolutely necessary to each other, thus both the direction of a franchisor and the energy of a franchisee are required to make a franchise system move forward.

3.1 Life cycle of a franchisor-franchisee relationship

It is generally accepted that one specific product or service is predictable to experience a process from its debut to decline, a franchisor-franchisee relationship goes through its own life cycle without exception (Justis and Judd 2002, p. 19.2). Figure 4 displays four stages which are introduction, growth, maturity and decline correspondingly.

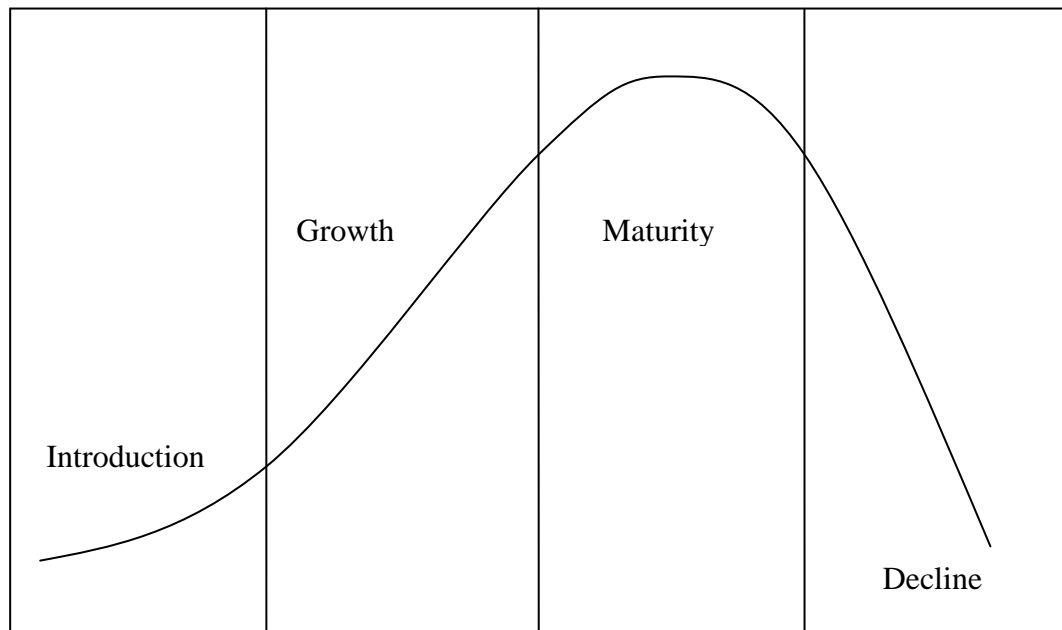


Figure 4 Four stages of a franchisor-franchisee relationship (Justis and Judd 2002, p. 19.2)

Grayson & Ambler (1999, p. 139) believe trust in initial stage plays a critical role on evolvement of a long-term relationship. However, Dickey, McKnight and George (2007, p. 253) contend trust should be regarded as a tool of achieving mutual benefits, instead of an end in itself, the consequence of blind trust is as serious as the lack of trust in a franchisor-franchisee relationship. Under this condition, two events are primarily mentioned in an initial introduction stage in order to guarantee sustainable development of a franchisor-franchisee relationship, which are recognition of franchise opportunities and signing of the franchise agreement respectively.

Growth stage asks for positive franchisor-franchisee cooperation and communication. From the point that agreement being signed, franchisor is responsible for providing assistances to grand opening, layout, initial advertisings and ongoing support services. (Justis & Judd 2002, p. 19.3.) On the part of the franchisee, he is demanded to be available in each training and meeting, as well as accept franchisor's approved methods (Justis & Judd 2002, p. 20.2).

Maturity stage means a stable stage that franchisor-franchisee partnership is mutually beneficial. In this stage, a franchisee is dependent on qualified support services, advertisements and marketing consultants provided by a franchisor. Reciprocally, the franchisor can share the benefits of considerable sales volumes, tidy store and quality services created by the franchisee. (Justis & Judd 2002, pp. 19.3-19.4.)

The reasons for decline are multiple. It can happen when franchisor delivers inferior support services resulted from emphasises on selling more franchises, and when an arrogant franchisee feels he can totally be independent from franchisor's assistance. It is likely that contract enforcement will trigger if there are no resolutions for looming franchisor-franchisee problems. (Justis & Judd 2002, pp. 19.4-19.5.)

3.2 Creation of a positive franchisor-franchisee relationship

3.2.1 Recognition of franchise opportunities

Even though recognition of franchise opportunities doesn't involve any specific part of a relationship, it exerts considerable influence on future development. The beginning point of searching right franchise contains no special technique, it starts with one's interests, background, education and experience, which many would-be franchisees may overlook (Meaney 2004, p. 15). For many prospective franchisees, Norman (2006, p. 84) proposes purchasing a franchise is a crucial decision relevant to routine of daily life, which deserves to be taken seriously. Self-evaluation and pre-purchase research is thus required for the sake of future cooperation.

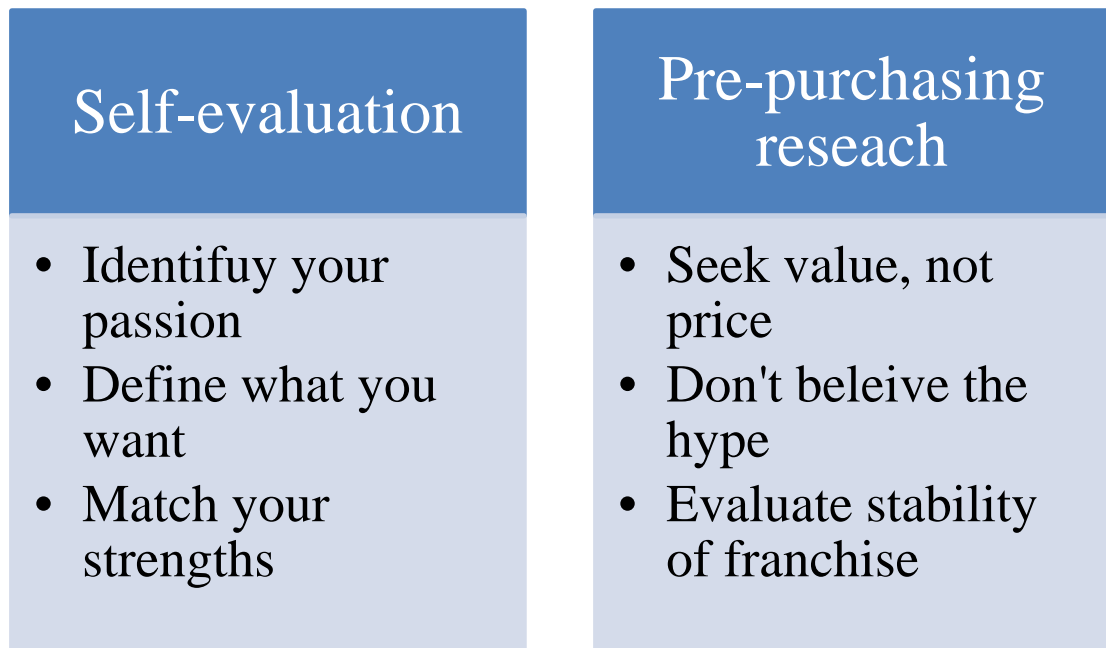


Figure 5 Self-evaluation and pre-purchase research for a prospective franchisee (Norman 2006, pp. 48-58)

Since franchising is not suitable for everyone, it is necessary to evaluate oneself in connection with his motivations and energies, career goals and demands, characteristics and interests, leadership types and management skills (Norman 2006, p.159). In the first place, before purchasing a franchise, identify passion through estimating interests, skills, and experiences, to figure out what type of business will be suitable for oneself. Secondly, would-be franchisee should define what he wants most in the perception of long-term satisfaction, to seek for a franchise matched with his demands and requirements. At last, prospective franchisee could also take considerations on the transferable strengths and skills, instead of focusing on the relevant industry he worked before. (Norman 2006, pp. 85-91.)

Pre-purchase research limits the risk of investment and increase the probability of return-on-investment to a large extent. In line with self-evaluation, attentions need to be drawn on three principle ideas when doing pre-purchase research. First, treat value as priority instead of price. Franchisee should put more emphasis on operation processes, know-how, delivering of products and services, brand reputations and

customer satisfactions. (Norman 2006, pp. 91-92.) Next, make decision upon reality. It is notable that franchisor usually shows his glorious side as a method of attracting prospective franchisees. The consequence of the hype is that a franchisee will produce blind faith and high expectation. A far-sighted franchisee obtains and examines information through various sources, for instance, field inspection, Internet, trade fair, popular press and other franchisees (Meaney 2004, pp. 20-24). Finally, each aspect of franchise system, such as support services, profitability, staff, requires to be investigated beforehand. As a result, all the investigations amount to risk reduction to some degree. (Norman 2006, pp. 91-95.)

On the part of franchisor, conducting a thorough qualification measurement is considerably significant and will stimulate prosperity of a franchisor-franchisee relationship during the span of franchise agreement. What needs to be noticed is not only would-be franchisee's financial capability, but also common interests or desires, and availability should be emphasized. (Justis & Judd 2002, p. 6.16.)

3.2.2 Franchise agreement

According to Geringer and Herbert (1989, p. 236-237), inter-organizational agreement control is a process that one party puts influence on the other party's behaviour in the means of employing power, a wide scope of bureaucrat, social and internal mechanisms. Franchise agreement is a legally-binding contract which grants rights, as well as reciprocal obligations, to both parties. It comprises of many conditions concerning to the development of a franchisor-franchisee relationship in the future. Thus a franchise agreement must keep in a subtle balance, which means not only the franchisor can grasp enough control over the conformity and coherence of the system, but also be flexible to meet unexpected changes in order to satisfy specific local situation. (Sherman 2003, p. 105.)

As formal declaration of a relationship, Sherman (2003, p. 106-111) discusses that franchise agreement should contain explicit guidelines and detailed rules of doing a

business, the provisions listed below transmit the general content of franchise agreement:

- Recitals formulates the section of contractual discussion;
- Grant, length of franchise period, renewal and termination;
- Legal condition of franchisee, franchisor support services;
- The granted rights, geographic area and site selection;
- Franchise fees, royalties and relevant fees to the franchisor;
- Record keeping and other relevant obligations of the franchisee;
- Protection of intellectual property and covenants against competition;
- Franchisee earn claiming, quality control and miscellaneous provisions.

Franchise agreement is a result of long-term endeavour of company, which results from a great deal of market decision, planning, research and development (Sherman 2003, p. 105). However, franchise agreement is generally constructed by a lawyer employed by franchisor, hence franchise agreement usually legally puts the franchisor in a dominant position. (Justis & Judd 2002, p. 18.4.) What's more, a franchisor can easily turn down a franchisee's requirement of modification in the name of consistency and uniformity (Meaney 2004, p. 94). Although change is hard to be realized, a franchisee could still seek negotiations on terms listed in Figure 6. For this reason, a would-be franchisee is advised to have a thorough understanding of franchise agreement and seek advisory suggestion from lawyer when confronting fairly unreasonable terms (Meaney 2004, pp. 93-97). After all, the theme of a franchisor-franchisee relationship remains with rapport and trust principally, agreement controls are only employed when one party breaches contract seriously (Connell 1997, p. 219).

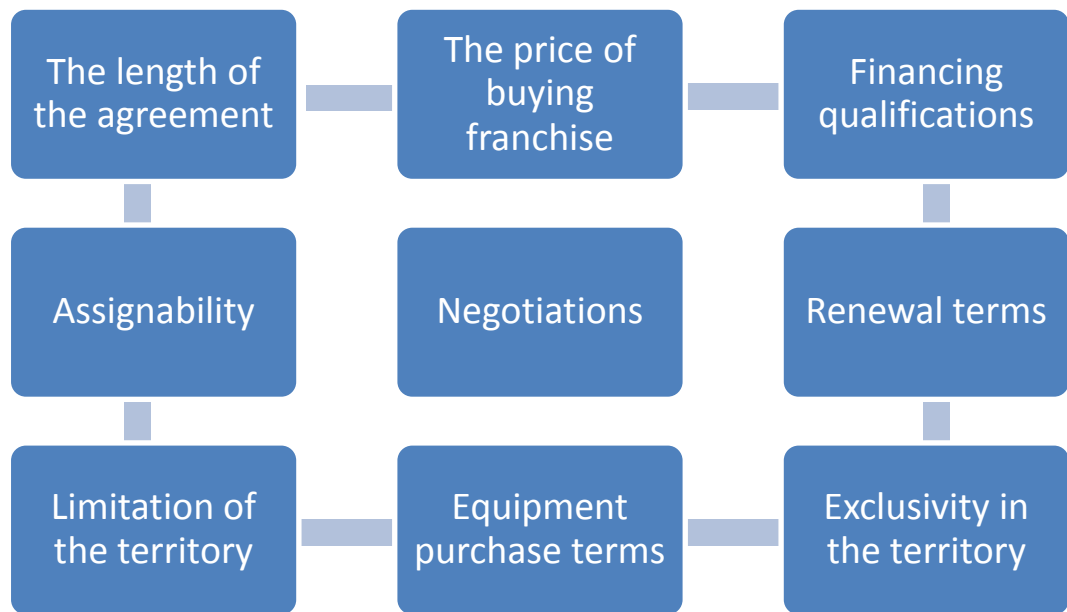


Figure 6 The negotiable terms in normal condition (Meaney 2004, pp. 97-98)

3.3.3 Support services

The creation of a positive franchisor-franchisee relationship greatly depends on the implementation of support services in compliance with franchise agreement. Part of franchisees may fail as a reason of poor management by himself, but a certain number of franchisees may end up businesses due to poor support services received from franchisors. Support services, in connection with franchisee's franchise fee, royalties and other fees, can be generally concluded in the form of diverse communications and trainings. (Justis & Judd 2002, pp. 20.8-20.18.)

Norman (2006, p. 49) believes any positive relationship depends on strong and continual communications. An ongoing relationship can be maintained and developed either through telephones, E-mail, letters web-sites and visits, or in the vehicle of meetings and field representatives.

Meetings can be divided into corporate meetings and franchisee meetings. The former are organized by a franchisor, which discuss about company performance, new products/services launches, marketing skills and convergences of marketing

strategies. Whereas a franchisee meeting is another chance of learning and sharing. A bulk of franchisees safeguard against recommendations from a franchisor, but positively consider suggestions from other franchisees. They are able to contribute personal ideas as well as receive constructive prospects from each other during the meeting. (Justis & Judd 2002, p. 20.12.)

Field representative is one of the most effective ways of franchisor-franchisee communication, whose main responsibility is to support franchisee's business. This middleman visits to a franchisee's unit in the means of inspections, unexpected visits and telephone calls, in order to provide immediate field supports to the franchisee and scrutiny of quality control. (Sherman 2003, p. 44.) Justis & Judd (2002, pp. 20.12-20.13) claim that a small franchise business is usually lack of field representative in its system, the franchisor-franchisee relationship is primarily guaranteed and maintained by documental contracts, which will probably develops into an over contract-dependent relationship in the long term. On the basis of Sherman (2003, pp. 44-45), there are five primary functions performed by field representative:

- Establish goals to be met by the next visit;
- Creating motivated ambiance in the field;
- Follow-up on goal setting and guidelines of company;
- Identify franchisee's success and weakness, needs, wants and concerns, offering professional and useful advices;
- Training toward specific traits of the unit, or a newly introduced product, service and operation.



Figure 7 The main responsibilities of field representative (Sherman 2003, pp. 44-45)

Training is widely agreed as a key element of growth in all kinds of support services. Admittedly, there is a certain amount of franchisees who are lack of professional knowledge and management skill when they initiate franchise businesses, hence training becomes an indispensable part of ongoing support services. There are generally three types of trainings involved in ongoing services, which are pre-opening training, grand opening training and continuing training. (Justis & Judd 2002, pp. 20.13-20.17.)

The period of pre-opening training varies from different franchise systems to different industries. In this stage, a franchisor provides help to franchisees to prepare issues for the time of opening. The content of training encompasses planning, recruiting, purchasing, merchandising, advertising, operation methods, finance maintenances and inventory controls in order to promote successful running of a new business. The following grand opening training is not as indispensable as pre-opening training, which may be absent in a small-scaled franchise business. The main function of this training, in the form of franchisor's trainer, is promoting the smooth running of a new unit by providing in-depth field experience. (Justis & Judd 2002, pp. 20.15-20.16.)

Practice of ongoing training programs is the fulfilment of commitment by a franchisor that he will support franchisee's operations all the way. Training in the beginning of business is usually well performed by a franchisor, however, the franchisor may neglect the ongoing training as a translation of focusing on existing franchisees. Continuing training is a primary solution for the testament of new products and services, as well as operational updating and management. A franchisor is not only responsible for improvement and innovation of products/services, but also keeping franchise system effective and advanced, thus ongoing training is a bridge built between franchisor and franchisee for the distribution of know-how and long-term strategy. (Justis & Judd 2002, p. 20.17.)

Matching with franchisor's support services, franchisee should provide his supports reciprocally. For a successful franchisee, he usually expresses the willingness of cooperation and the high motivation of participating activities organized by the franchisor. He is also prone to cling to franchisor's long-term strategy since franchisor's method has been proven time to time. (Justis & Judd 2002, p. 20.2.)

3.3.4 Guanxi

Guanxi means an interpersonal relationship, is not exclusive in Chinese society, nevertheless its key role on the real-life context in China makes this relationship distinctive. In the simplest meaning, guanxi implies gaining of mutual benefits by building a long-term relationship. (Luo 2007, p.2.) In the perspective of Bell (2000, p. 133), he defines guanxi as a mechanism by which a person is capable of acquiring individual or group objectives with appropriately connection to others. Overall, a consolidated definition of guanxi is hard to realize, whereas considering current business environment of China, two most obvious features can be witnessed about Chinese guanxi.

On the one hand, bribery pops out when it comes to guanxi for a great number of people. It is notable that many international companies have created image of

operating mannered business in developed countries, paradoxically they weaken the idea of safeguarding environment and legal rights of employees when they start businesses in China. This phenomenon stems from the influence of guanxi to foreign companies, which is troublesome but is common in fact, depending on the conflicted dilemma that the construction of efficient interpersonal network established on the flaw of legitimacy. (Liu 2006.)

On the other hand, in comparison with Western countries that people separate business cooperation and personal relationship clearly, or in other words, personal relationship only grows with evolvement of a business relationship beforehand (Lee & Dawes 2005, p.33). Nevertheless Chinese prefer to cultivate a personal relationship before talking about business (Zolkiewski & Feng 2012, p. 17). It's notable that gift giving is a ubiquitous phenomenon for the building and developing of guanxi in China, which is largely distinguished from bribery. The former stress the importance of long-term emotional bonding, while the latter is limited on mechanical deal. (Leung & Wong 2001, p. 56.)

4 HAIRDRESSING INDUSTRY IN NINGBO

4.1 The profile of Ningbo

Ningbo is located in the eastern of Zhejiang Province, south wing of Yangtze River Delta. It's one of 14 open coastal cities approved by Chinese government in 1984 and one of three best developed economic centres in Zhejiang Province nowadays. Ningbo is also famous for the largest port in China depending on the capacity of handling cargo, as well as its close relationship with Shanghai after construction of the cross-sea bridge. (General Office of People's Government of Ningbo 2011.)



Figure 8 The location of Ningbo (Education Department of Ningbo 2008)

According to General Office of People's Government of Ningbo (2011), there are six districts, three county-level cities and two counties contained in Ningbo, which make up the total area of nearly 9365 square kilometres. The six districts are Haishu, Jiangdong, Jiangbei, Yinzhou, Zhenhai, Beilun. Among these, Haishu, Jiangdong and Jiangbei is known as the urban area of Ningbo. The three county level cities are Cixi, Yuyao, Fenghua, and the additional two counties are Ninghai and Xiangshan. Figure 9 illustrates the specific location of these places mentioned before.



Figure 9 Ningbo Municipality

Ningbo Population and Family Planning Committee (2011) offers information that the overall population in Ningbo is 5.74 million, amongst there are 2.2 million people who live in the urban area. According to General Office of People's Government of Ningbo (2011), the income of citizens consistently increased during the last five years, and the gap between the urban citizens and the rural citizens were narrowing down in terms of proportion. The following table shows the average income of Ningbo Citizen since 2005.

Table 1 The average income of Ningbo Citizen since 2005 (General Office of People's Government of Ningbo 2011)

Year	2005	2006	2007	2008	2009	2010
Average income of urban citizen	17408	19764	22307	25304	27368	30166
Average income of rural citizen	7810	8847	10051	11450	12641	14261

Ningbo Population and Family Planning Committee (2011) separates population into three groups in connection with the age structure in Ningbo. First of all, children who are younger than 15 account for 11.69 per cent of total population, which have decreased by 4.49 per cent comparing the data acquired from the last population census. The second group, whose age varies from 15 to 60 occupies 75.06 per cent, is a main force in the population. The dominant reason for the affluent of this group partly results from immigration of people of inlands. Lastly, the number of aging people tends to increase, which means a longer life longevity with the improvement of life and health care system on the one hand. On the other hand, the per cent reached 13.26 for the citizens who are older than 60, which seems to be a signal for the looming of ageing problems. Figure 10 presents the per cent of each group on the account of whole population :

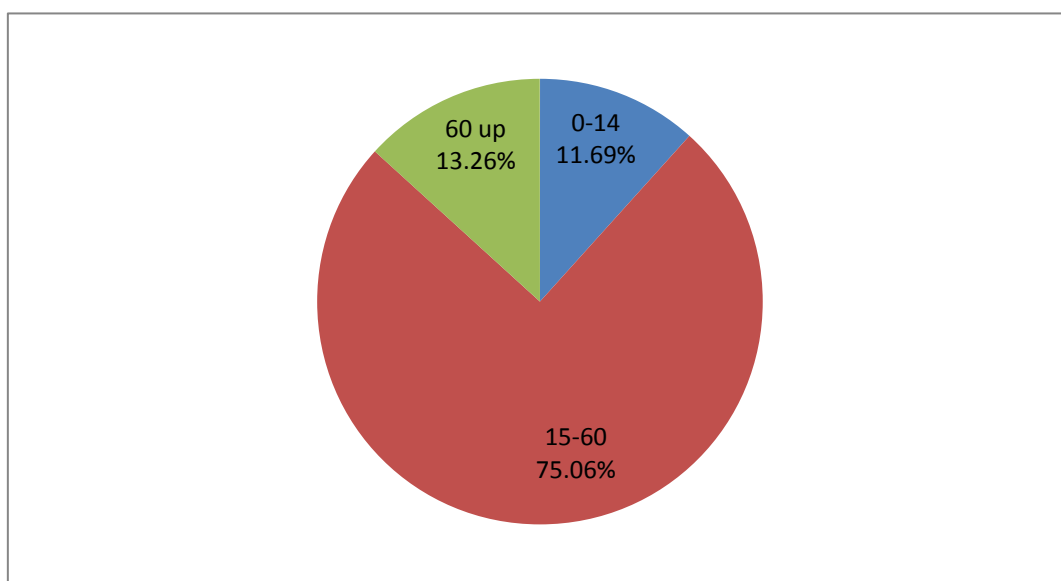


Figure 10 The age structure in Ningbo municipal in 2011 (Ningbo Population and Family Planning Committee 2011)

As benefits of the economic reform, Ningbo economy developed in a comparative rapid speed and appears to seize a stable growth in the following years. Zhou (2011) declares the GDP total is 512.58 billion Yuan in the year of 2010, it achieves the increasing value of 12.4 per cent comparing to the last year. To be more accurate, the amount of added value of Primary Industry, Secondary Industry and Tertiary Industry are 21.84 billion Yuan, 284.82 billion Yuan, 205.92 billion Yuan correspondingly, as shown in the following figure:

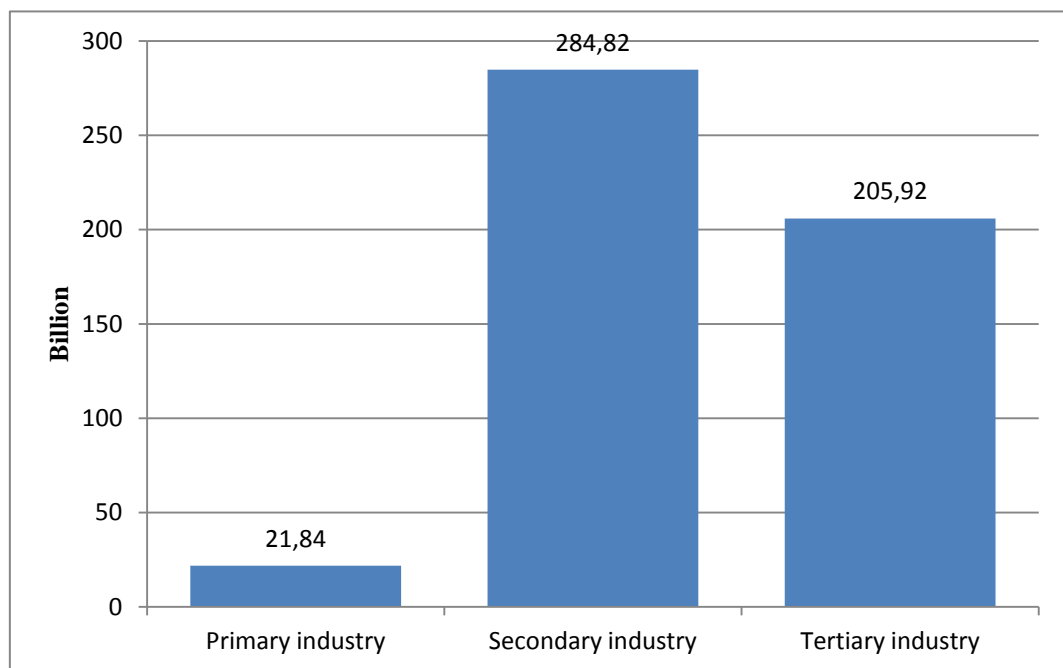


Figure 11 The distribution of GDP of each industry (Zhou 2011)

Apparently Ningbo is a vigorous economy entity among domestic cities regarding its GDP total, GDP potential and sufficient labour force. Nevertheless problems are obvious as well, e.g. the certain income gap between the rural and urban citizens, low degree of the urbanization, the low birth rate and ageing, which need to be realized by investors.

4.2 Analysis of hairdressing industry in Ningbo

In 2010, approximately six thousand units concerning to the hairdressing and beauty industry can be found in Ningbo. The services are various, such as sauna, cupping

glass, regimen, manicure and yoga apart from traditional patterns. Furthermore, the scale and life-cycle of a unit varies greatly as well. Some units are heavily invested in which parallels to large business area, professional hairdresser and complete business format, while some are operating as a family business with simple decoration and limited services. Although these small-scaled salons are neither stable nor competitive, the number is overwhelming the other types of salons. This phenomenon could date back to the year of 2003, when the hairdressing industry is attractive for its high-profit and low investment. (Wang 2011.)

In fact, it's not easy to survive and grow for both small salons and chain stores since the intensified competition. Wang (2011) reports that nearly 2000 salons closed in the year of 2009. Coping with the adventures of being eliminated, many large hairdressing salons offer high salary in order to recruit skillful hairdressers on the one hand, on the other hand the business entrepreneurs travel around the world for the purpose of learning the latest hairdressing skills and management methods. Conversely, competition leaves a cripple condition for small-scaled salons, who are crumbling by the lack of capital and resource. They then alternatively discover a fresh mode to continue their operations, which is promoting prepaid card with an attractive discount. Some of them close salons immediately after collecting a considerable deal of cash. (Zhang 2010).

Reported by Wu (2011), the number of complaint toward the hairdressing industry amounts to 1220 in the first half year of 2011, which had boosted to 184 per cent in comparison of the same period in 2010. As its fastest increasing speed among all the service industries, complaints can be broken down to two main dimensions. The first one is dispute caused between customers and businesses as a result of high amount of prepaid card, the second point is unsatisfied services. Concerning to this harmful situation, the relevant governmental department begins to take actions by which establishing the rules of releasing prepaid card to regulate indiscipline hairdressing market in Ningbo. (Xu 2011.)

Under such circumstance, people in Ningbo become less sensitive with price, instead, they are prone to stress the quality of services and brand reputations. Therefore it's not strange to witness the rise of high-end salons and chain stores. Table 2 lists a group of famous hairdressing salons, which have a stable operating state and a certain degree of popularity in urban area of Ningbo.

Table 2 The general information of famous hairdressing salons in urban Ningbo (Zhong 2011, pers. Comm. 15 September)

Name	Traits	Number	Date of found	Place of origin
<i>Royalty</i>	High market share	33	2000	Ningbo
<i>Wanmei</i>	High-end services	2	2009	Ningbo
<i>Qianshou Life</i>	High-end old brand	3	1999	Ningbo
<i>Toni & Guy</i>	Professional	1	1963	England
<i>Fayuandi</i>	After-sale services	1	1998	Wuhan
<i>Yongqi</i>	Promotions	9	1999	Shanghai
<i>Juxing</i>	Dyeing, wave skills	13	2007	Taiwan
<i>TG</i>	Hairdressing skill	2	2007	Ningbo
<i>Jiangren</i>	Friendly staff	2	2005	Ningbo
<i>Piaoliangbabe</i>	Overall services	7	1999	Ningbo
<i>Babaiban</i>	Mouth-of-word	3	2004	Ningbo
<i>Zaoxing</i>	Recreation services	3	2006	Ningbo

4.3 Inspection of franchising in the Ningbo hairdressing industry

4.3.1 Opportunities for franchise salons

Regarding the opportunities in the marketplace of Ningbo, the potential of hairdressing industry appears to be considerably substantial as the booming of

prosperous middle class, accession of fashion, convenient transportation and modification of citizen's conception. At first, currently 23 per cent of population belongs to the middle class, they emphasize life quality and treat brand as a critical factor when it comes to consumption. According to estimation, the number of middle class is going to climb to 800 million in 2020, whose annual income will be more than 80,000 Yuan. Depending on their consuming ability and dominant proportion, a bundle of businesses tend to concentrate on servicing this group. (Deng 2010.)

Second, there are plenty of fashion events held in Shanghai, e.g. Shanghai Fashion Show, China (Shanghai) Beauty Show, Hairdressing & Cosmetics Expo and Shanghai International Hairdressing Festival. As Ningbo has geographical proximity to Shanghai, it will be convenient for the dissemination of latest fashion trends. (Zhong 2011, pers. Comm. 15 September.) Altogether, this convenient channel would bring effects on both hairdressing industry and customers in Ningbo. Subsequently, subway system is under construction in Ningbo at present, and the first line will be finished in the year of 2014 (Ningbo Transportation Bureau 2011). After completion of this project, the stimulation to businesses will be tremendous undoubtedly. Finally, hairdressing is not single means of hair cutting any more, it represents more about divers services and fashion-pursuits due to the surge of people's consuming ability. People increasingly care about their hair styles and are willing to spend a great deal of money on hairdressing.

Nevertheless, the ethical problems frequently occurred in the Ningbo hairdressing industry definitely make customers feel unsafe and become more cautious on choosing hairdressing salon. Regardless of the gap of price, they would like to spend more money on large brands rather than taking risks by testing unknown salons. Hence franchise salons certainly share some benefits as they possess several units at least and unified standard in connection with its services and operations. As a result, although the hairdressing industry is in the chaos, to some extent it will be a positive chance to draw the attention of insecure customers.

4.3.2 Threats for franchise salons

Franchising industry is a growing innovative industry in Ningbo, and problems inevitably occur in the progress of development. In the first point, it is widely known that one of most evident traits of franchise business is uniformity, which seems to eliminate hairdresser's creativity altogether. In the long run, people will cultivate an impression that franchise salons are usually lack of extraordinary hairdressers and offer plain skills. In the second point, some franchisors treat present benefits as primary and thus neglect significance of a long-term relationship with franchisees during an accelerating expansion. In some conditions the development of management skills and support services hardly catch up with the speed of enlargement, a quick closing will follows then, as an announcement for the collapse of a franchise system eventually. As for the last point, the government will probably enact regulations and laws on release of prepaid card in the hairdressing industry in Ningbo. Since prepaid card is an ordinary marketing tool employed by the majority of salons in Ningbo, the specific terms may also influence franchise businesses to some degree.

5 CASE STUDY: NINGBO SELCOK HAIRDRESSING COMPANY

5.1 Company overview

Selock Salon is founded in 2004 in Fenghua, which is a county-level city belongs to Ningbo. To now, 32 salons operate under the brand of Selock and the total number of employees is over 300. Among these salons, six of them are company-owned and the others are operating by franchisees. Figure 12 shows the exterior decoration of No.19 Selock Hairdressing Salon. The target group of Selock Salon is middle class, who owns a heavy consuming ability and fashionable consciousness. The average consumption per person is 200-300 Yuan. (Zhong 2011, pers. Comm. 15 September.)



Figure 12 The exterior decoration of No.19 Selock Hairdressing Salon (Zhong 2011, pers. Comm. 15 September)

Selock Hairdressing Salon emerged in the mind of Fenghua citizens when there were no decent hair salons. Since it consistently offers high-quality services to customers all the years, people exert trusts to this brand gradually. It can be demonstrated that a bundle of famous hairdressing brands initiated operations in Fenghua, whereas they usually ended up with closing or a gloomy operating condition. Without doubt that Selock Hairdressing Salon is already the most influential and dominant one in Fenghua. Nevertheless, its founder was not satisfied with these achievements, he aimed to an ambitious expanding programme and decided to operate in the mode of franchising. Thus he established a management company in 2008 in order to seek for a considerable market share in the urban Ningbo. Moreover, the company realized the success of a business relies not only efficient management, but also professional skills and ethics of staff. In such condition, a professional hairdressing institution was founded as a support part of franchise system in June, 2009. Table 3 introduces the general information of Selock

Company in 2010.

Table 3 The profile of Selock Company in 2010 (Zhong 2011, pers. Comm. 15 September)

Founded month/year	02/2004
Chain stores	32
Employees	Over 300
Target group	Middle class
Average consumption per person	200-300 Yuan
Turnover	13.8 million Yuan

Nowadays Selock Company begins to put more emphasis on the urban area of Ningbo in which the company meets a tense competition. The company certainly shares a deal of advantages, e.g. management company, professional hairdressing institution and positive reputation in Fenghua. However, along with company's exposure to the adventures and uncertainties in Ningbo, internal coordination is seen as vital to maximize these existing advantages and derive more competitive advantages.

5.2 The franchisor-franchisee relationship

Two franchisees of Selock Company had been interviewed for the purpose of acquiring their attitudes toward the particular franchisor-franchisee relationship they are positioned. Figure 13 below displays the comparison between Mr. Mao's unit and Mr. Shen's, and the general information of two units are stated in Table 4.



Figure 13 The comparison of Mr. Mao and Mr. Shen's Units

Table 4 The general information of two units owned by Mr. Mao and Mr. Shen respectively

Franchisee	Mr. Mao	Mr. Shen
Self-employed	Yes	No
Date of participation	07/2008	10/2010
Location	The urban area of Fenghua	The urban are of Ningbo
Area	120m ²	150m ²
Number of employees	18	20

Several factors can contribute to the selection of these two franchisees. First of all, Mr. Mao and Mr. Shen are relatively young and familiar with Internet, thus it will be convenient to communicate with them on the Internet. Second, the scale of their units is similar in regards to the area and employee, by which provide the possibility of comparing. At last, Mr. Mao and Mr. Shen share differences in aspect of

participating time, self employment status, which can offer opinions of creating a positive franchisor-franchisee relationship in different perspectives.

Question 1: How is the relationship between Selock Company and you in general?

Mr. Mao describes that he purchased the franchise in 2008, currently the unit is running in a stable and profitable condition with insistent supports from the franchisor. After several years of cooperation, he believes a fairly positive relationship has been cultivated between Selock Company and him. Recently he intends to open another salon under the Selock Chain. In contrast, acting as a newly participated franchisee in 2010, Mr. Shen evaluates the relationship between Selock Company and him as acceptable. He expresses the idea that although he receives a large deal of assistance from the company, and he also contributed abundant energy to operate the salon, currently his unit is not earning ample profits as he expected.

Relationship shares a specific life cycle as well. Based on Mr. Mao and Mr. Shen's responses, it is obvious to witness the discrepancy. The quality of life cycle of a franchise relationship depends on both franchisor and franchisee actually. Since Mr. Mao is a senior franchisee, he has already formed a mature relationship with the franchisor. He contributes royalties to the Selock Company and creates a positive reputation for the company, correspondingly the franchisor consistently updates management methods and professional skills to promote successful operations of the unit continuously. But then it proves that the relationship between Selock Company and Mr. Shen is more or less in the stage of introduction, it means they still require extra adaptations and understandings from each other for the evolvement of next stage. Figure 14 estimates the different stages that two franchisees are positioned basically.

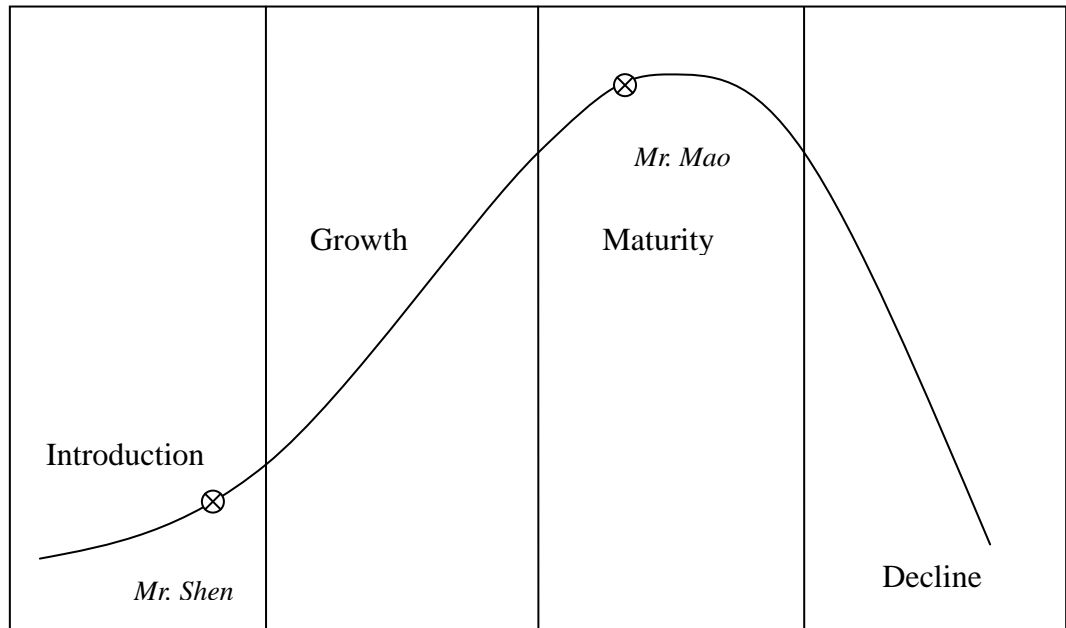


Figure 14 The developmental stage of each franchisee

5.3 Creation of a positive franchisor-franchisee relationship

Normally trust and rapport will be stressed for a positive relationship, whereas this thesis emphasizes the whole process of a relationship via four variables, which are recognition of franchise opportunities, franchise agreement, support services and guanxi. In this part, the responses from two franchisees are clearly recorded and will be regarded as the main source of information.

5.3.1 Recognition of franchise opportunities

From the moment of generation of franchise idea, behaviours of prospective franchisees begin to deliberately affect the franchisor-franchisee relationship. Radom choice and blind trust are destructive for future development of a franchisor-franchisee relationship, hence self-evaluation and company inspection are demanded before entering into an agreement.

Question 2: Have you evaluated yourself before participating in Selock Company?

Mr. Mao says, firstly he had obtained plentiful experiences from former career of operating business. Secondly he is financially capable of Selcok Company's requirements, it means not only he can bear the up-front franchise fees and royalties, but also other fees produced from daily operations and maintenance. Thirdly, he possesses emphatic preference to hairdressing industry, which can lead to a high motivation and passion. Conversely, Mr. Shen responses that he is seeking for profitable opportunities for investment preceding the participation of Selock Company. Besides, he shared this thought with his family in which he received positive supports.

Question 3: How did you investigate Selock Company before buying the franchise?

Regarding pre-purchasing research, Mr. Mao confirmed the mind of participating Selock Company by looking through the growing of Selock Salon within the past years: the first salon was opened near Yuelin Square in 2004 when formal and decent salons can barely be found in Fenghua. The brand obtained a positive reputation and opened chain stores continually via providing satisfied high-end services. As a loyal customer of Selock brand himself, Mr. Mao conducted field-observations in Selock Salons in different locations and then it appears that Selock Salons had a reliable service standard in general. Consequently, chiefly two elements, which are word of mouth and result of field observations contribute to the buying behaviour of Mr. Mao.

Instead, Mr. Shen's information in connection with Selock Company and franchise details mainly sources from one of his friends, who is also a franchisee of Selock Company. Since he has a full-time job, it tends to be difficult to spend a large amount of time on this business. In such condition, he made a consultant with the franchisor who indicated the possibility of assigning a professional manager for daily operations. Thus he became a franchisee of Selock in the later time.

5.3.2 Franchise agreement

Franchise agreement legally represents the shape of partnership between franchisor and franchisee. It sets rules on the implementation of obligations and rights on both parties.

Question 4: Did you read and understand the content of the franchise agreement?

Certainly Mr. Mao and Mr. Shen both do not deny the importance of reading and understanding franchise agreement. Mr. Mao explains the basic content of agreement contains franchise fees, advertising fees, royalties, franchise duration, quality controls, region restrictions, site selections, decorations, contract renewal, products and services, which had been informed and negotiated before signing the franchise agreement. He carefully reviewed the content of agreement for confirmation. Mr. Shen indicates that he read the terms thoroughly in order to avoid the neglect of unreasonable terms. He also send the agreement to his lawyer friend in order to confirm its legitimation and validation. However he emphasizes it's not encouraged to invite a lawyer on purpose.

Question 5: Did you negotiate the terms of agreement with Selock Company?

When being asked about opinions of negotiating the contract, Mr. Mao remarks that not only him but most of the franchisees in the company skipped the negotiation procedure, due to the awareness of asking for advisory assistances is relatively unpopular to small business owners under the current circumstances in Ningbo. Considering on the uniformity and consistency of franchise business, Mr. Mao claims he will be doubtful with a franchise system if the agreement is differentiated. Likewise, Mr. Mao and Mr. Shen express that they prefer to maintain a friendly and favourable relationship with the franchisor instead of declaring benefits via agreement. Especially in the starting point of the business, they tend to treat politeness and harmony as the priority. Mr. Shen reveals that many franchisees

would like to spend money on more realistic matters, for instance enhancement of a personal relationship, a franchise agreement is merely the ultimate tool to guarantee rights after all.

5.3.3 Support services

Support services can be generally divided into initial support services and ongoing support services. The former usually includes site selection, purchasing, advertisements and grand-opening trainings. In this stage, franchisor usually tends to be considerably responsible and provide strong support services to brand-new franchisees, so this thesis is not going to discuss the initial support services.

Nevertheless, it becomes much more difficult to provide ongoing support services persistently in the standpoint of a franchisor. It's common to witness that a franchisor slacks the frequency and quality of ongoing support services with shift of time. Whereas the creation of a positive franchisor-franchisee relationship depends on the long-term support services to a large extent.

Question 6: What kind of trainings do you receive from Selock Company?

Mr. Mao states that trainings are priority among all these ongoing support services. Trainings for franchisees of Selock Company are designed to deliver the latest management methods, hairdressing trends, services standards, professional ethics, also to discuss the adjustments of long-term or short-term strategies, operational guidance, new promotional campaigns, advertisements and the other matters relevant to the business. This type of training is held every quarter for the sake of developing and improving franchise system, as well as increasing internal communication.

Mr. Shen adds that the trainings targeting to employees are as important as the trainings to franchisees. As the total number of employees is more than 300 people, Selock Company organizes the training by separating the total staff into several

groups, and finally make sure every single employee has been trained at least once a year. The main content of training focuses on the improvement of professional skills, services consciousness and professional skills. Trainer are also responsible for disseminating the common goals and company culture. Figure 15 shows the scene of training for the employees.



Figure 15 The training for the employees (Zhong 2011, pers. Comm. 15 September)

Question 7: What kind of communications do you have with Selock Company?

The communication between franchisor and franchisee is another concerning topic for the creation and maintenance of the relationship, the responses from Mr. Mao and Mr. Shen are concluded in the following. The chief methods of communications include meetings, activities, telephone and field visit in Selock Company.

At first, Selock Company organizes annual meeting for the purpose of reviewing achievements, looking forward future, rewarding the best-performance employees

and units, creating a harmonious atmosphere inside the company. Moreover, both outdoor activities and indoor activities are organized by the company, which aim to release the employees' pressures from the daily work and enhance the personal relationship among all the staff. Mr. Shen said "the First Selock Hairdressing Talent Show" was held in this year to reinforce the communication. On the side of advertising, the company promotes itself by sponsoring specific events and programs, for instance, 2006 Shanghai International Fashion Model Competition, Nanyuan Miss Universe 2007 Chinese Mainland Final. Mr. Mao manifests that five per cent of turnover is drawn by the franchisor to invest on the advertisings and it's an ordinary percentage for a franchise business in the hairdressing industry in Ningbo.

In addition, consultant services are available through phone. it tackles the specific problems the franchisees meet in daily operations. Mr. Shen explains that general manager of Selock Company will also conduct field visits with his crew. They inspect the operation conditions and then seize the potential problems in the field. Not only constructive suggestions are provided during the visit, but also motivations of employees are inspired. Table 5 is a summary of trainings and communications mentioned in the former two questions.

Table 5 The basic ongoing support services of Selock Company (Zhong 2011, pers. Comm. 15 September)

Ongoing support services	Frequency
Trainings for franchisees	Every quarter
Trainings for employees	Unfixed
Meetings	Every year
Products and equipment purchase	As necessary
Advertising	Unfixed
Activities	Unfixed

Consultant	As necessary
Field visit	Unfixed

Question 8: What may influence the implementations of these ongoing support services?

Toward this question, Mr. Mao mentions that both the schedule of annual meeting and seasonal training is considerably fixed, the other events will depend specifically. For example, the frequency of field visits will be largely decreased when the general manager is travelling outside for acquirement of advanced conceptions and techniques. However, Mr. Shen worries about the quick expansion of Selock company. He is afraid of the discordant development between rapid phase of the progression and absence of the core competence, which could possibly lead to a fatal result. As all the franchisees share one brand, even a single mistake from random franchisees will exert certain damages to the whole brand image. He feels Selock company put much more emphasis on selling the franchises, instead of satisfying needs and wants of existing franchisees. The quality of support services for existing franchisees will not be guaranteed under this circumstances.

Question 9: What kind of other ongoing support services do you expect from Selock Company?

Mr. Mao assumes that the service is similar to the field representative will be valuable for the operations in the initial few months. Although he had been trained for a long duration before opening, another problem was occurring in the field operations before he was capable of solving the first problem. Furthermore, simplistic field visits conducted by general manager are inadequate, a complete system towards field representative is desired for the smooth operation of new units.

In the perspective of Mr. Shen, he suggests the reinforcement of the relationship

among franchisees can be regarded as support services as well. For the current situation, he mentioned the linkages among franchisees of Selock Company are considerably weak, they even treat each other as a competitor in some occasions. Apart from setting a restricted number of units to a certain area, it's necessary for Selock Company to strengthen the connections and bonds among its franchisees. By this kind of linkage, franchisees can share the precious experiences, as well as absorb useful experiences from each others. Beyond that, Mr. Shen adds that magazines loaded with fashion trends, compositions of hairdresser and development of company, are also conducive to constitute tense communication among staff, franchisees, franchisor and franchisees.

Question 10: How do you support Selock Company's services?

Regarding this question, Mr. Mao and Mr. Shen advocate a couple of norms that a qualified franchisee should obey. First, a franchisee should not only be present at meetings, trainings, activities as frequent as possible, but also participate into the discussions and themes actively. Subsequently, franchisee should tackle the problems triggered during the daily operations immediately as any delay will possibly cause the damage of Selock image. Finally, a franchisee should have a sense of community and realize the operations of one unit will exert considerable influence to the whole business system again.

5.3.4 Guanxi

Guanxi is visible along the whole process from recognition of franchise opportunities to support services. Notwithstanding the communications with the franchisor make no difference between Mr. Mao and Mr. Shen, they have dissimilar experiences in managing a franchisor-franchisee relationship.

Question 11: How do you evaluate the importance of guanxi in the business?

Mr. Mao shares some precious experiences about managing the relationship through active participation of activities and trainings, effective problem-solving, team awareness and personal relationship. Among those, he mentions personal friendship with general manager of Selcok Company plays an important role on the success of his business. He admits one can gain more benefits, such as avoidance of complicated procedure, access to the latest campaign and shortcut to the problem-solving, through a established guanxi. Furthermore, additional convenience can be acquired if one also created a favourable relationship with all the relevant staff inside the Company, which is called guanxi network to some extent. In the perception of Mr. Shen, he understands guanxi is critical for doing business in China. Instead of desperate for guanxi inside the company, he argues the franchisor should endeavour to deal with outside guanxi. It will be more cost-effective due to the franchisor's representativeness of the whole company. He also believes that most of the franchisees are willing to bear the costs caused during the construction of guanxi network. It is notable that both Mr. Mao and Mr. Shen agree that they should evaluate the return on investment and risk of violating law in the progress of establishing a guanxi network.

5.4 Summary of the interviews

According to the information principally gained from the interviews of two franchisees of Selock Company, combined with the real market environment in Ningbo and the specific company profile, summaries concentrating on four variables, which are recognition of franchise opportunities, franchise agreement, ongoing support service and guanxi, have been displayed in the following.

For recognition of the franchise opportunities, both two franchisees had conducted a certain amount of evaluation and observation. However, the self-evaluation is not systematic and comprehensive, as well as the channels of recognizing franchise opportunities, which are limited regarding the reality in Ningbo. Figure 16 contains the general methods of recognizing franchise opportunities in Ningbo. Accompany

with the advancement of hairdressing industry in Ningbo, it's predictable that self-evaluation and before-purchasing research will become increasingly objective and justifiable.

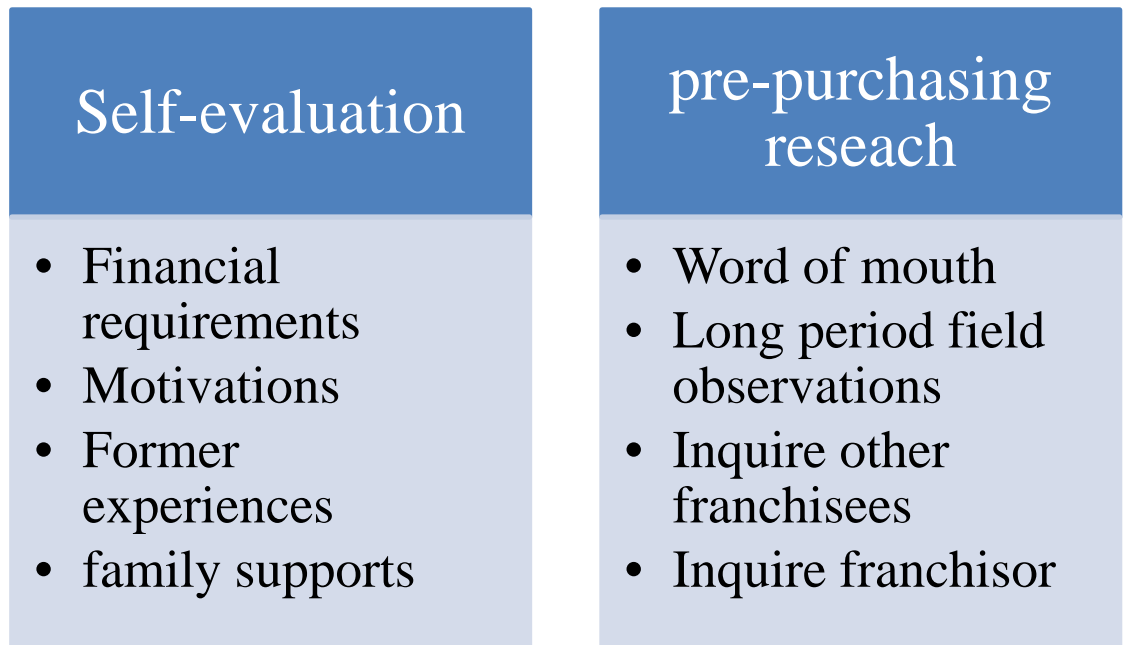


Figure 16 Main self-evaluations and pre-purchase researches

Regarding the franchise agreement, it basically obeys the rule of harmony in Selock Company. The franchisees will judge the reasonability of the franchise agreement, and they are also familiar with the important terms such as franchise fees and royalties, but negotiation rarely happens depending on the mixture of factors such as uniformity of a franchise business, awareness of law protection, maintenance of a relationship and additional costs.

In aspect of the ongoing support services, the main trainings and communications are presented in the forms of trainings for franchisees, trainings for employees, meetings, products and equipments purchase, advertisings, activities, consultancies and field visits in Selock Company. In the perception of two franchisees, quick expansion, which may be the largest obstacle for the smooth development of a

relationship between franchisor and franchisees. Although aggressive expansion is possible to motivate its franchisees in the short-term, nevertheless the contradiction is inevitable if the franchisor keeps on disregarding support services to the existing franchisees. Figure 17 illustrates Selock Company intends to be ambitious on the progress of expansion, whereas the company is suggested to fixate on the benefits of existing franchisees before concentrating on selling franchises to prospective franchisees.

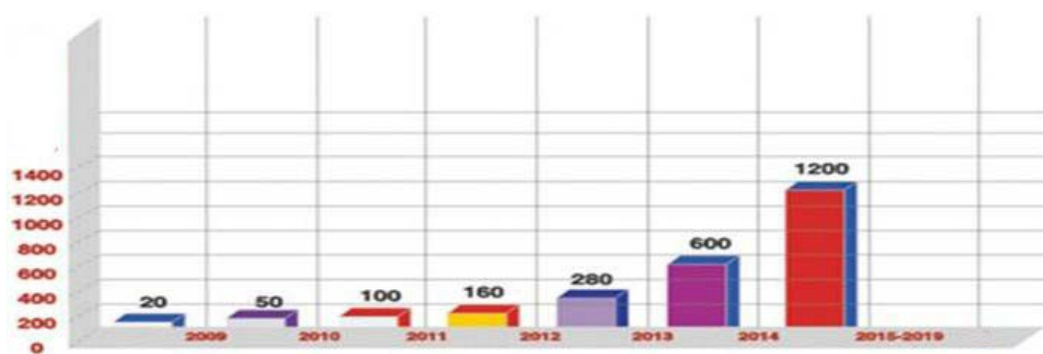


Figure 17 The number of franchisees planned by Selock Company (Zhong 2011, pers. Comm. 15 September)

For the other support services the franchisees expect to receive from Selock Company, three considerable points can be concluded from the interviews. First, the franchisees should treat each other as complementary rather than competing. Currently there is hardly communication among more than 20 franchisees in Selock Company, instead some franchisees even regard the other franchisees as competitors. Thus it's advisable for the franchisor to create a bonding among the franchisees for the purpose of sharing precious operating experiences with each other, as well as building up a sense of community. The second point is build of complete field representative for the time of new opening and following maintenance. However, depending on the current scale of Selock Company and complexity of field representative system, this suggestion should be put on the schedule of further development. For the last point, magazine for the purpose of enlarging interactions

in the Selock Company is not as valuable as establishment of website. With the spread of Internet, website will be a instructive tool for the advertisement of Company to the external environment, as well as raise of communication inside the company. By contrast, as receivers of the ongoing support services, the franchisees of Selock Company are advised to provide full cooperation and personal motivation reciprocally.

Guanxi can be frequently tackled inside or outside the company, in the agreement-signing stage or the ongoing support services part. Dealing with the suggestion of external guanxi development from one franchisee, the formation of positive relationship with government, media and other companies will definitely facilitate operations of Selock Company from aspects of advertisings, promotions, brand recognitions and word of mouth. Nevertheless, the franchisees should also realize that handling outside guanxi doesn't necessarily decrease the weight of importance of guanxi inside the company.

6 CONCLUSION

6.1 Main results of the study

Based on the overall analysis of Ningbo's location, transportation, demography and economy development level, Ningbo seems to be a prosperous market with a vast potential. In aspect of the hairdressing industry, it's also growing and thriving as a result of optimistic trend of economy. Since the inviting and appealing attractiveness of this market, the number of salon is enormous correspondingly, which represents an inevitable tense competition to some degree. What's more, some unethical businessmen take advantages of incomplete legal system to defraud customers in the means of prepaid card. This behaviour definitely exerts harmful influences to security and benefit of customers and thus formulates a notorious reputation on the whole industry in the long term.

Under such circumstance, it could probably be utilized as an opportunity for middle

and large scale franchise salons as they are comparatively trustworthy in the mind of Ningbo citizens. The commissioned company is Selock Hairdressing Company that operates in the mode of franchising in Ningbo. For franchise business, it is notable that the success of franchisor lies in the success of franchisees, hence handling the franchisor-franchisee relationship becomes one of the priorities for the sake of long-term development of Selock Company, who plays as a relatively new force in the urban area of Ningbo.

Typically, communication and trust will be discussed and stressed when it comes to the creation of a positive franchisor-franchisee relationship. Whereas this thesis conducts the research in a developmental perception, which regards recognition of franchise opportunities, franchise agreement, ongoing support services and guanxi as influential to positive relationship maintenance and effective franchisee performance.

According to the interviews, the company portfolio and the specific business environment of Ningbo, several essential issues both in the perspective of franchisor and franchisee are concluded for the creation of a positive franchisor-franchisee relationship. Since the interviews are designed for the franchisees, the opinions of Selock Company are not involved straightforward in the stages of recognizing franchise opportunities and signing franchise agreement when the relationship is not formally formulated. While regarding the ongoing support services provided by Selock Company, the quality and frequency are required to be maintained before conducting a large scale of expansion. Speedy expansion without offering consistent support services to existing franchisees will probably leads to a fatal consequence. Regard to guanxi, as a necessary knowledge for operating business in China, should draw the attention of Selock Company as well. Apart from concentrating on the establishment of guanxi inside the Company, developing a positive public relationship tends to be equally valuable for the entire business.

Remarkably, a benign and long-lasting relationship will need endeavours from both

parties. Doubtlessly, franchisee is also an indispensable part for the creation of a positive franchisor-franchisee relationship. First, depending on the indiscipline of the hairdressing market currently, evaluations and observations before entering into a business relationship are unquestionably necessary for the selection of an appropriate franchise business and avoidance of entering into a fraudulent franchise system. Whereas the channels to acquire various information of the franchisor are constrained for the franchisees of Selock Company, the most applicable solutions will be word of mouth, field observations, franchisor and existing franchisees. Likewise, self-evaluation before entering the specific business is neither systematic nor comprehensive. Nevertheless, self-evaluation and pre-purchase research tend to be increasingly significant with maturity of the Ningbo hairdressing industry, which will contribute to the creation of a positive franchisor-franchisee relationship from outset.

Subsequently, it is worth mentioning that in the precondition of legitimation and reasonability, negotiation of franchise agreement by consulting lawyer is not common in Ningbo due to the priority of guanxi. Despite that, a fair franchise agreement is still desired by prospective franchisees, and they usually carefully review important terms in a franchise agreement. Thirdly the forms of ongoing support services are plentiful and valuable in Selock Company, which encompass trainings for franchisees, trainings for staff, meetings, activities, advertisings, consultants and field visits. On the other hand, the franchisee's implementation is as important as franchisor's ongoing support service itself. Apart from ensuring the quality of ongoing support services by Selock Company, its franchisees should provide personal enthusiasm and understanding reciprocally, as well as cultivate a sense of collaboration instead of competition.

In the end, the critical role of guanxi can be witnessed in many occasions in the study. For the establishment of guanxi. Franchisees of Selock Company are certainly possessing the awareness of significance of guanxi for doing business in Ningbo. At the same time, they assess costs and returns of guanxi construction, and also be

aware of crossing line against laws.

6.2 Evaluation of the thesis

Four criteria include internal validity, external validity, reliability and objectivity are widely employed to evaluate the quality of research work (Yin 2003, p. 33-34). These components are explained correspondingly in the following paragraphs.

In connection with the internal validity, the main results of this thesis are requirement of designated endeavours both from franchisor and franchisees, in which they offer adaptations and understandings to each other in order to create a favourable relationship, e.g. importance of the franchisee's self-evaluation and the pre-purchase research to further development, the franchisor's impartial agreement maps the franchisee's emphasis on guanxi, the decisive role of the franchisor's high-quality support services as well as the franchisee's full cooperation. Moreover, this thesis divides the creation of a positive franchisor-franchisee relationship into recognition of franchise opportunities, franchise agreement, support services and guanxi establishment in order to create a positive franchisor-franchisee relationship with a relative holistic perspective. All these findings converge on the research question of this thesis, which is how to create a positive franchisor-franchisee relationship in Ningbo Selock Hairdressing Company in a relative holistic perception.

The empirical part of this thesis is occurred in Ningbo Selock Hairdressing Company, nevertheless it doesn't slash the external validity of the research. As mentioned beforehand, some results, e.g. the limited use of various sources in the recognizing stage, rare negotiations in the signing franchise agreement stage and guanxi establishment, are not the unique phenomenon in Selock Company. Instead, it is a common situation in the hairdressing industry in Ningbo. For the majority of chain salons in Ningbo, support services make no great differences among them as a result of competing and learning from each other. Thus it is possible to generalize

the main findings of this thesis to other similar settings.

The construction of the theoretical framework is based on the frequent researches of the franchisor-franchisee relationship in the recent time, and my personal innovations in a relative holistic perception by creating a positive franchisor-franchisee relationship through recognition of franchise opportunities, sign of franchise agreement, support services and guanxi. It is not deniable these factors are indispensable for the creation of a positive franchisor-franchisee relationship, and again, they are either logically associated or connected in a time line. Referred to empirical part, first it is closely linked with the theoretical framework in order to conduct pattern match. Then two interviewees share the rich experiences and insights about the hairdressing industry in Ningbo, my research is largely dependent on the problems they discovered, as well as suggestions they offered. Last, preceding case study, the business environment of Ningbo is investigated for the purpose of serving the main topic. Therefore, this thesis shares a certain degree of reliability, which can be replicated or reproduced by others.

During the whole process of the study, I always kept objectivity in my mind. In aspect of utilizing references, since authentic articles about franchising and the hairdressing industry are far away from plentiful in China, therefore I obey the rule of employing governmental and principal websites as the main sources of my information pool. Concerning to the interpretation of data collected from two respondents, I attempted not to mix personal attitudes into translations and categorized information in coincidence with the research design, which are clearly recorded in the context of this thesis.

6.3 Recommendations for the case company

Based on the results of this study, case company should treat the creation of a positive franchisor-franchisee relationship as a process. Therefore four recommendations are given depending on the business environment of Ningbo, the

particular company profile and the interviews for two franchisees. In the first place, in the recognizing stage, the franchisor should state more realistic information via more channels due to would-be franchisees' difficult conditions to acquire various information. Since the website of Selock Company is still absent as a valuable source, constructing the website will be a considerable suggestion not only for the convenience of prospective franchisees, but also an efficient communication tool with mass potential customers.

Subsequently, when it comes to the agreement signing, it is advisable and forward-looking for Selock Company to constitute an impartial franchise agreement, which will be instrumental for the development of a franchisor-franchisee relationship in the later time. Although the governmental department continuously established and renewed regulations to restrict the excessive rights of franchisor, franchisor is still in the dominant position within a relationship. What's more, many franchisees seldom negotiate terms of a franchise agreement for the sake of guanxi cultivation, thus it is challengeable for Selock Company to avoid the temptation of ad hoc benefits. Whereas it is certainly that the precondition of setting a fair contract is that the company is able to possess a certain degree of control over the franchisees' implementation of strategy and coherence to his business format.

Thirdly, on the part of the ongoing support services, Selock Company should put more emphasis on the wellbeing of its existing franchisees. It can be reflected from the interviews that the progress of expansion definitely caused certain problems. Namely the efficiency of trainings, communications and campaigns are not capable of catching up with the speed of expansion, which will eventually influence the end-customers and brand image. Thus slow down the speed of expansion is a crucial step for the creation of a positive relationship between Selock Company and its franchisees.

Last of all, Selock Company is suggested to develop a guanxi network outside the company. Formulating a favourable relationship with governmental institutions,

public media and other companies will always be necessary for doing a business in Ningbo. Depending on this level of relationship, company is able to share a lot of benefits, e.g. earning opportunities of sponsoring, winning awards as an advertisements for company.

6.4 Recommendations for further studies

The main research problem of this thesis is how to create a franchisor-franchisee relationship in Ningbo Selock Hairdressing Company in which gains a deal of insightful opinions. Nevertheless, the system of managing the franchisor-franchisee relationship is still far away from scientific and reasonable in Selock Company. In other words, it still requires noticeable improvements in relevant to the management of the franchisor-franchisee relationship for the Selock Company. Therefore, three suggestions are offered for further studies. Firstly, one can develop this thesis's idea by maintaining and improving the franchisor-franchisee relationship in the Ningbo hairdressing industry. By comparing one local salon in Ningbo to the other one in western countries, one can obtain innovated and improved methods which can be employed in the Ningbo hairdressing industry. Secondly, people who are interested in guanxi can develop further insights about the role of guanxi in the Ningbo business activities. Thirdly, since the franchisor-franchisee relationship is being studied frequently, it leaves a blank area for the study of a franchisee-franchisee relationship. Thus it will be interesting to dig out insights about how this relationship functions in a specific franchise system.

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Interviews:

Name	Title	Company	Time
Mr. Mao Zhaodong	Franchisee	Selock Hairdressing Company	29/11
Mr. Shen Keqi	Franchisee	Selock Hairdressing Company	29/11

APPENDICES

Appendix 1 Question list of the interview

1. How is the relationship between Selock Company and you in general?
2. Have you evaluated yourself participating in a franchise business?
3. How did you investigate Selock Company before buying the franchise?
4. Did you read and understand the content of the franchise agreement?
5. Did you negotiate the terms of agreement with Selock Company?
6. What kind of trainings do you receive from Selock Company?
7. What kind of communications do you have with Selock Company?
8. What may influence the implementations of these ongoing support services?
9. What kind of other ongoing support services do you expect from Selock Company?
10. How do you support Selock Company's services?
11. How do you evaluate the importance of guanxi in the business?

Appendix 2 Question list of the interview in Chinese

1. 总体上你如何评价你和特许公司之间的关系？
2. 在决定从事加盟生意之前，您是否对自己做过评估？
3. 在加盟锁色公司之前，您具体以什么方法调查过该公司？
4. 您是否细读和掌握特许加盟合同的内容？
5. 在签订合同时，您是否提出过对合同的内容进行协商？
6. 您从锁色公司获得了什么样的培训？
7. 您与锁色公司之间存在着哪儿些主要的沟通交流？
8. 有哪儿些因素可能会影响这些后续的支持服务？
9. 除了上述的支持服务之外，您觉得还有什么其他的服务对您的经营有帮助？
10. 作为加盟商，您是怎么回应锁色公司的后续支持服务的？
11. 你如何评价关系在生意场中的重要性？