

On a trip to Beijing several years ago, I expected to be immersed in Eastern culture far away from the influence of the West. I was shocked to find a Starbucks within the walls of China's most sacred site--- the Forbidden City. The picture to the right is the photograph I took near Starbuck's former outpost in the Forbidden City (the location was subsequently closed amidst great controversy).

Franchise Conflicts on the Rise

My experience serves to showcase the ubiquitous nature of the franchising concept in China. While not a new trend, the growth of franchising in China has created a set of imbalances exacerbated by the global economic downturn. These new imbalances may strain relations between franchisors and franchisees:

This new imbalance may cause a franchisee to gradually deviate from the franchisor's control, the unified management standards, and quality requirements. The faster a franchisor expands his franchising businesses, the bigger a franchising territory is, the harder for the franchisor to control franchisees. Any deviation from the spirit of franchising will ultimately damage the franchised brand, and result in losing its market completely.

As Ms. Lou explained, there are a host of issues that may arise in a franchise enterprise. These differences may flare up to full-fledged disputes if measures are not taken early in the relationship to define operational and managerial parameters.

Ways to Avoid Franchise Disputes

One way to define these parameters is to develop a comprehensive policy manual that sets forth the tasks and roles of the key players. This is perhaps the most critical stage of any franchisor-franchisee business relationship. Without a comprehensive framework for defining roles, any disputes that may arise will burden the enterprise with unnecessary distractions and jeopardize the success of the venture.

Another way to offset or minimize the potential for disputes to get out of control is to draft an effective and well thought out dispute resolution provision in the franchise agreement. Doing so will place both the franchisor and franchisee on equal footing, which will temper any dispute that may arise during the course of the relationship.

Trend to Watch: Look for disputes between franchisors and franchisees in China to increase as foreign investment continues to pour into the region