International Society of Franchising

ISOF Papers

1991 International Society of Franchising
5th Annual Conference
Franchising: Embracing the Future

Miami Beach, Florida
February 9 - February 10, 1991

Program Chair and Proceeding Editor
John R. Nevin
University of Wisconsin-Madisonn

Publication:
Cheryl R. Babcock
International Institute for Franchise Education
Nova Southeastern University

1. Franchising, Self-Employment and the Enterprise Culture: A UK Perspective

Alan Felstead, Nuffield College-Oxford (UK)

The last decade has witnessed a significant growth in the numbers of people officially recorded as being self-employed in the UK (and elsewhere in Europe). Politically this has been seized on as evidence of an emerging 'enterprise culture', while economically it has been interpreted as signaling the emergence of the 'flexible firm'. Yet despite much of the hype, what it means to work under the self-employed 'label' remains relatively unexplored. This paper attempts to fill this gap in two ways. First, it traces the increasing emphasis labour courts have placed on marginal elements of autonomy which are often sufficient for work arrangements to be designated as self-employed. Secondly, it examines the conditions of work of those self-employed individuals who operate as franchisees. The paper analyses the contractual relationship between franchisor and franchisee, and devises an index of contractual control to identify the different levels of independence franchisees might enjoy. The paper concludes that the realities of being self-employed can often be a world away from the romantic notion of 'being one's own boss'. The claim that the rise in the number of people recorded as self-employed may therefore be a poor indicator of the 'enterprise culture' as it may signal a far less radical employment change than some would have us believe.

2. Managerial Attributes of Franchisees

Robert Anderson, College of Charleston
Clarence Condon, College of Charleston

When people decide to become self-employed, they have three options: start their own business, buy an existing business, or purchase a franchise. The first option has the highest risk and the greatest potential for reward. Buying a business is less risky, and buying a franchise is the safest option of all

(the US Department of Commerce estimates that 80 percent of all franchises are successful). The purpose of this study is to develop a managerial profile of franchisees and to compare that profile with for people who choose to own an independent business. Questionnaires were mailed to franchisees (61 usable ones were returned) and to small business owners (93 usable questionnaires were returned). The questionnaire used was Self-Description Inventory (SDI) developed by Ghiselli. The SDI is composed of 64 pairs of words. For 32 of the pairs, respondents select the word which best describes them, and for the remainder of the pairs, respondents select the word that least describes them. The following managerial attributes measured by the SDI were used in this study: supervisory ability, initiative, self-assurance, decisiveness, achievement motivation, self-actualization, need for power over others, need for high financial reward, and need for security. The results of this study tend to indicate that franchisees and independent small business owners are quite similar. More women seem to own independent businesses than franchises. This is probably because many women start their businesses in their homes and require very little startup capital. Or it may be that women who leave the corporate world want to be truly independent. More research into the relative ease of entry into franchising for men and women needs to be undertaken before reliable conclusions can be reached. More franchisees than business owners choose to own business in an industry in which they have no experience. Perhaps franchise buyers have more opportunities to choose from and believe that a proven business system compensates for a lack of experience. There is also ample evidence that people who leave companies to start their own believe they can operate a business better than their former employer. These people tend to duplicate the businesses they left. Finally, the one need that differentiates franchisees from business owners is the need for security. In some respects, the very concept of franchising plays to that particular need. People who want to have their own business but also want to avoid the risk of failure are prime candidates to become franchisees. Those people who can accept the risk of failing should be encouraged to create even their own business. If they are successful, they might choose to franchise their business.

3. Examining the Impact of Competitive Position of Small Businesses on Attitudes Toward Franchise Arrangement

Bruce K. Pilling, Georgia State University

The purpose of this study was to examine the attitudes held by owners of existing small businesses toward entering into potential franchise arrangements as franchisees. Specifically, how do owners of small businesses perceive various benefits associated with franchise arrangements? The perspective followed was to examine franchise arrangements based on their ability to enhance the competitive position of an existing business. From the franchisor's perspective, the challenge is to identify small businesses that could become successful franchisees. The basic premise of the research was that the strength of the current competitive position of the independent small business would be negatively correlated with the relative attractiveness, to that business, of entering into a franchise arrangement as a franchisee. A questionnaire was designed and administered to the 1500 members of the National Association of Independent Truck Stop Operators. The questionnaire measured several aspects of the competitive position of the participating firms, as well as their assessment of various potential benefits and drawbacks associated with franchise arrangements, and their attitude toward entering into a franchise arrangement. The basic hypothesis was supported. Existing small businesses, with a relatively weak competitive position, held more favorable attitudes toward potential franchise arrangements than businesses with a stronger competitive position. At the same time, attitudes toward franchise relationships appear to be quite complex. For example, it was not inconsistent for the owner of an independent truck stop to value potential advantages associated with a franchise relationship, but at the same time to hold an unfavorable attitude toward entering into a potential franchise relationship. The results of the study also suggest the need for franchisors who want to franchise existing businesses to clearly understand the specific types of franchisor support that a potential franchisee would value.

4. Quality Assurance, Brand Loyalty and the Pricing of Motel Services

Lawrence Wu, University of Chicago

Why should an entrepreneur choose to open a franchise when the alternatives are to find employment in a franchised firm or to operate an independent establishment? Understanding the incentives that determine this choice and quantifying the benefits of franchising to franchisees will be important to the success of franchising as an organizational form. In this paper, I examine the price differential between franchised firms and independent or non-franchised firms. Do franchises charge higher prices? If so, to what extent does the increase in price represent the price of quality assurance and to what extent does it represent a monopolistic markup due to brand loyalty? The motel industry is a particularly interesting application in that it is not clear a priori whether franchising is more or less profitable than not franchising. Both franchised and independent motels are able to survive in a competitive market. The coexistence of these two organizational forms calls into question the value of franchising to the entrepreneur. I focus on the benefits that accrue to a franchisee through affiliation with a recognized brand name. Why might affiliation with a brand name allow a franchisee to charge higher prices? First, use of a brand name involves the operation of a standardized production process. Standardization gives a franchise its reputation for a given level of quality. A strong brand name thus helps assure customers of a uniform product quality. Customers who expect a franchisor to standardize and control quality across its outlets may also be willing to pay a price for this service. This is particularly important in markets characterized by non-repeat business. Second, franchise contracts usually guarantee franchisees an exclusive territory by restricting the number of franchisees with the same brand name in a given area. Such territorial protection constitutes a "barrier to entry" by preventing other sellers from using that particular brand name in a given market area. If consumers benefit by staying loyal to a particular brand name or if they incur costs in switching brands, franchisees may be able to extract monopoly mark-ups despite competition from different franchises and independent enterprises. In sum, I attempt to explain the price differential between franchises and independent firms by analyzing whether franchisees are able to charge a higher price for their standardized quality and whether affiliation with a brand name allows them a monopolistic markup. The data show that franchises do indeed charge higher prices. Franchises dominate the higher price range while independent motels dominate the lower price range. Without controlling for quality, however, this price differential is difficult to interpret. In order to estimate the effect of quality assurance and brand loyalty on pricing, it is important to consider how quality affects prices. Adjusting for quality differences is important since franchised motels appear to provide more services and facilities. Hedonic regression techniques are especially useful in situations where quality change is important. The results are intriguing in that franchises appear to differ in their pricing strategies. Franchises with low brand name capital (and lower initial franchise fees) appear to be able to obtain price premiums for quality assurance, but not brand loyalty. The lack of brand loyalty may be due to the presence of a greater number of franchisees with the same brand name in the same geographic region. In effect, this amounts to lower territorial protection. Moreover, these motels may be catering to more price-elastic consumers, who are less brand loyal by definition. The high brand name capital franchises, on the other hand, are able to earn substantial monopolistic mark-ups on the basis of brand loyalty. Although the data suggests that high brand name capital franchises are not able to earn premiums for quality assurance, the results may simply indicate that consumers are not willing to pay for the degree of quality assurance that these higher priced franchises are offering. The results support the hypothesis that franchises are able to extract significant price premiums in addition to the price increase that comes with the provision of a higher level of quality. The premium appears to depend significantly on the level of a franchise's brand name capital. The data suggests that franchisees with high brand name capital are able to extract monopolistic price mark-ups due to brand loyalty, while franchisees with lower brand name capital appear to generate significant price premiums for quality assurance.

5. A Methodology to Predict the Success of a Franchise

Graham Mitenko, University of Nebraska-Omaha

In finance, research by Edward Altman was proven to predict bankruptcy with a high degree of success. Altman's research employed financial data (ratios) taken from audited balance and income statements as discriminant variables. The ratios were determine which ones were the principle components (5 out of 39 ratios tested met this primary challenge). A sampling of bankrupt and non-bankrupt companies was obtained. The five ratios which could be labelled principle components were then used to calculate a Z-score for both groups of companies (non-bankrupt and bankrupt). The Z-score was then used as the discriminator to determine the probability of a company encountering bankruptcy in the predictable future. This research somewhat parallels Altman's original work in the area of bankruptcy. This research, however, will use financial and non-financial data to predict the success of a franchise. The proposed variables which will be tested for use in building a discriminant model 1) The financial ratios that Altman had significant in predicting bankruptcy; 2) The number of years a company has been in business; 3) The number of years a company has been franchised; 4) A ratio of franchised units to total number of units; 5) Fees charged; 6) The source composition of the franchisors income; and 7) Growth in franchise units over the near period; 8) Start-up costs for a new franchisee; 9) The term of the franchise agreement; 10) failure rates of the existing franchise; The 11) The number of days of training the franchisor provides to the franchisee; Exclusivity; 13) Pending legal action; 14) Can the franchise be operated as a turn-key operation; 15) Did the franchisor (parent company) undertake a market study for this franchise or franchise area. In Altman's studies only quantitative variables were employed allowing multiple discriminant analysis to be used as the statistical basis. This study proposes the use of both qualitative and quantitative variables. In order to properly measure their impact logit analysis will be employed to build the model and analyze the aid investor data. When the model is completed it should in making prudent investment decisions regarding franchise involvement.

6. Franchise vs. Non-Franchise Restaurant Attrition: Beginning a Longitudinal Analysis Using the Yellow Page Listings

Wilke English, University of Texas-El Paso
Jo Willems, University of Texas-El Paso

Proponents of franchising like to cite the higher rates of franchise outlet success as compared with independent establishments. Furthermore, proponents of franchising generally credit the standardized business format as the reason for that greater success. It is the contention of this article, however, that other, possibly more important, factors may be at work. Perhaps the most important factor is the greater financial fire-power utilized by the typical franchise. This article reports upon the initial stages of what must be a continuing longitudinal analysis. The primary purpose of this analysis was to establish contact with all of the establishments that were appearing in the Yellow Pages for the first time. Another important objective was to collect information regarding the initial investment of these outlets. As hypothesized, the independents had markedly lower expenditures on both initial investment and promotion. It is intention of this research effort to continue to monitor these restaurants to objectively establish the relationship between success and financial power. In addition, it is also desired that contact be maintained with the various restaurants over time. Should an establishment cease operations, an assessment can then be made as to the reason for that cessation. Not all terminations of operation are due to financial failure, as conventional failure rates usually imply.

7. Financial Performance and Strategic Options in Franchise Systems: A Study of the Hospitality Industry

H. G. Parsa, Virginia Polytechnic and State University
Francis A. Kwansa, Virginia Polytechnic and State University

Franchisors are often interested in maximizing revenues of the franchise system while franchisees are concerned about increasing net profits. As a result, the actions that are required on each party's part to achieve its goal differ and sometimes may even conflict. Financial performance of hospitality firms in the past decade have not been stellar due to the increased competition in the industry. This high level of competition has resulted in a surge in merger and acquisition activity as well increased business failures. Due to the nature of franchise relationship when franchisor experiences an event such as consolidation or business failure it invariably affects future of the franchisee. Therefore, there is a need for franchisees to monitor the financial performance of its franchisor and subsequently make strategic choices that will insulate the franchisee and insure its survival should the franchisor fail considering that the hospitality industry is highly susceptible to the socio-political and economic cycles, the current recessionary times demand closer monitoring of the financial performance of the franchisors. There is an increasing need for developing new strategies for franchise systems that are

appropriate for the slow growth economic conditions. Increasing provisions in many franchise agreements provide powerful evidence that they are one-sided contracts of adhesion rather than balanced, negotiated agreements" (emphasis added). Similarly, Stern and El-Ansary (1988) note that: "The bulk of evidence seems to support the contention that agreements favor the franchisor. Franchise contracts involve termination clauses, provisions on operating-manual changes at the prerogative of the franchisor, and 'covenants not to compete' clauses that prohibit a practicing his trade for a specified period within a specific geographic area after franchise termination."

Unfortunately, the marketing literature on franchise agreements has largely (and inexplicably) neglected to consider (other than tangentially) the potential efficiency purposes served by contractual asymmetry. In this paper, we contend that in focusing attention on franchising's behavioral (i.e., social/political) aspects, particularly issues related to power and conflict, marketers have paid inadequate attention to the efficiency (economic) features of contracts. If, in fact, compelling efficiency reasons exist for writing contracts so as to include asymmetric terms, then it would seem appropriate for marketers to broaden their discussion of franchising to include examination of both economic and behavioral factors as they affect contract design, interorganizational interactions, and performance outcomes. The purpose of this paper is to organize and introduce to the marketing literature ideas developed by Rubin (1978), Klein (1980), Williamson (1985), Goldberg and Erickson (1987), Muris (1981), and others exploring the incentive franchisors and franchisees have to organize (or structure) franchise contracts in such a way as to promote efficiency, i.e., serve economic purposes.

8. Franchise Contracts: The Economics of Asymmetric Terms

Thomas G. Noordewier, University of Vermont

Franchise contracts are frequently criticized as one-sided, favoring the prerogatives of franchisors. In contrast to conventional marketing treatments of franchise contracts, with their focus on the locus of "power" in franchisor-franchisee relationships, and the (potential) exercise of such power, this paper examines arguments exploring the incentive franchisors and franchisees have to organize (or structure) franchise contracts so as to promote efficiency. The role of "asymmetric" terms in franchise contracts is of particular interest. It is observed that contracts contain "asymmetric" terms largely because both franchisors and franchisees seek to economize on the costs of governing their relationships. Specifically, both parties recognize the need to prevent the other from behaving opportunistically, and stringent (often asymmetric) contract terms are viewed as a cost-efficient means of deterring opportunism. From the franchisor's perspective, trademarks and trade secrets require protection from opportunistic franchisees. Franchisees, in the absence of appropriate contractual safeguards, might free-ride off the efforts of both the franchisor and other noncheating franchisees in the system. Such behaviors impose a cost upon noncheating members of the system and depreciate the value of the franchisor's trademark. Initial franchise fees, termination clauses, lease requirements, and other "asymmetric" contract provisions represent efficient property-protecting mechanisms. Franchisees also have investments which require protection, both from other franchisees as well as franchisors. It turns out that stringent, "asymmetric" contractual provisions serve protect noncheating franchisees from opportunistic ones, and in the long run noncheating franchisees benefit when a poorly performing or opportunistic franchisee is terminated or not renewed. Protection from franchisor opportunism is a more complex matter. The paper discusses the need for greater franchisee attention to the details of contractual performance specification and contract renewal provisions.

9. The Use of Initial Fees and Royalties in Business Format Franchising

Kabir C. Sen, Washington University

Since its use in the early 1900's, franchising has steadily grown in importance in the U.S. economy. Latest estimates indicate that over half a million outlets, representing more than 3000 franchisors, generate sales of over $640 billion. Over 70% of franchising's total output comes from three industries - automobile dealerships, gasoline service stations and soft drink bottlers. These industries

are generally termed as product trade name franchises. However, the main growth in franchising has come from other sectors, such as restaurants, hotels, retail outlets, business aids, educational services and laundry and dry cleaning. These industries are classified as business format franchising. Compared to product trade name franchising, the business format genre involves not only the use of the franchisor's trademark, but a strong adherence to his specified operating norms by the franchisee. This organizational form has been used by large, publicly traded firms as well as small, privately held companies. Business format franchising differs from other distribution systems on two dimensions. In other marketing channels, most manufacturing activities are completed upstream, while the downstream channel member is responsible for the final distribution. In contrast, considerable manufacturing operations in business format franchising take place downstream. The franchisee carries out these manufacturing activities following the norms set by the franchisor. The second difference with other distribution systems derives from the combination of properties from two diverse types of economic organizations - markets and firms. The fact that the franchisor and franchisee are two legally separate entities gives franchising a market like quality. However, after the contract is signed, the franchisee is expected to follow the franchisor's instructions in almost every operational detail. The franchisor's power to terminate the contract makes the relationship similar to that of an employer and employee within a firm. These differences have important implications for the channel. Business format franchising is generally regarded as a contractual channel. The contract specifies the responsibilities of each channel member. These include the scheduled payment by the franchisee. In most cases, this consists of an initial fee and a monthly royalty specified as a percentage of sales. There is considerable variation in the magnitude of both types of fees, which are estimated to make up over 50% of the franchisor's total revenue. Previous researchers have explained the variation in the fee structure from different theoretical standpoints. Among these has been the design of the appropriate inducements for both channel members, in order to ensure channel control. Past predictions and new modifications are incorporated in a predictive framework, which includes constructs such as brand name strength, downstream managerial discretion and operational feedback about the franchisee's performance. These predictions are then tested on a data set, compiled from a published survey, containing information on approximately 1000 franchisors. The results help identify the underlying reasons behind the use of the payment design in franchising, and have important normative managerial implications for the distribution channel.

10. Franchising as a Global Marketing Strategy

Faye S. McIntyre, University of Mississippi
Sandra M. Huszagh, University of Georgia
Fredrick W. Huszagh, University of Georgia

During the late 1980s financial futures markets developed on a global basis. They also became tightly integrated with international capital markets through a comprehensive network of investment strategies. In response, enterprises reliant on these markets implemented business strategies that simultaneously maximized these markets' perceptions of the enterprise's present and future values. These strategies included international market expansion to capture the portfolio benefits of operating in diverse macroeconomic environments. Thus, capital flows were accelerated to world locations where macroeconomic conditions were best matched to investor and lender preferences. This paper reports the results of an extensive survey of franchisors' international expansion strategies to a broad range of national environments during this era when businesses were under unique pressures to maximize simultaneously their present and future values. Since the reported results that disclose strong reliance on standardized expansion strategies conflict with earlier empirical research about optimal international marketing strategies, the authors suggest why foreign market conditions might encourage suboptimal expansion and market development strategies. These explanations include: 1) minimal competition in the markets targeted, and 2) reduced emphasis on market share in contrast to goals of geographic dispersion, brand awareness and low cost market entry. While these explanations may account for some of the inconsistencies in past and current research findings, they do not fit well with the uniformity of results found in the current study. Therefore, the authors outline a rationale for a standardized expansion strategy for all markets, domestic and foreign, which implies concurrent objectives to optimize present time profitability and future time asset value. They encourage empirical testing of this latter hypothesis, since it fits well with financial market developments prevailing at the time survey results were collected, and it implies that franchisor-franchisee relationships are inherently unstable regards "premium" franchise

properties in foreign markets.

11. The Internationalization of U.S. Franchisees: Organizational and Environmental Determinants

Sevgin Eroglu, Georgia State University

By all estimates, the international franchising operations of firms of the developed nations are expected to grow at fast pace in the 1990s. The U.S. franchise systems, traditionally the leaders in this form of business, are bound to face increasing competition from their Japanese and European counterparts in their home markets as well as those abroad. Thinking globally is no longer an option but a necessity. However, despite these facts, a vast majority of U.S. franchisers are still confined to the domestic market. Why? What are the forces that promote and/or prevent the internationalization of U.S. franchising? And, for those franchisers who are already globally committed, what are the factors that affect the extent of their international efforts? This paper is an exploratory attempt to answer these questions by delineating the likely determinants of the onset and extent of internationalization process of U.S. franchise systems. To this end, a series of hypotheses were developed based on previous empirical and theoretical literature in the area of international business. Specifically, two groups of factors were proposed to affect the likelihood and extent of internationalization of U.S. franchise systems. The first set concerned a series of organizational variables which included firm size, extent of product/service uniqueness, type of franchise ownership, extent of top management experience and expertise in international markets, top management's expectations regarding riskiness, profitability and costliness of internationalization, extent of top management's international orientation/disposition, extent of managerial tolerance for risk. The second group of factors were environmental variables and consisted of perceived domestic market saturation, perceived rate of new and existing market openings, and perceived extent of government assistance and incentives. Finally, some implications of the discussions advanced in the paper were presented. For example, it was concluded that neither aggregate measures at the government level, nor those taken at the individual firm level can by themselves initiate and sustain successful international operations of the U.S. franchise systems. Both of these orientations are needed in tandem. Government action is necessary to induce domestic firms to explore foreign opportunities, to reduce legal and bureaucratic hurdles, to provide incentives and to design programs to re-shape existing perceptions and expectations of management regarding the benefits to be gained from internationalization. At the firm level, there is a need for managers with long-term, market share-oriented and global outlook. They also need to be flexible in terms of their recruiting and training methods for foreign operations as they expand into international markets. The importance of franchisee training programs and support cannot be overemphasized. Similarly, the issue of quality control and uniformity of offerings as well as challenges in product development and adaptation all take on new dimensions for franchisers who commit to operations in the international arena.

12. Retail Franchising: A European Perspective

Nitin Sanghavi, Manchester Business School

The structure of the retail sector has altered dramatically during the last decade, as high fixed cost structures and static minimal growth situations have intensified competition in virtually all retail markets. Retailers have become aware of the need to identify with specific market segments, reduce competition and achieve competitive advantage. Franchising has developed as a viable alternative to traditional' forms of retail organisation. This paper examines the development of retail franchising in Europe and its market penetration, and the potential for franchising as an operational strategy to achieve profitable business growth within both the single European market, scheduled to be achieved by the end of 1992. and the international business arena. The paper outlines the legislative framework imposed by the European Commission, within which franchise operators must work, and the self regulatory "European Code of Ethics for Franchising" developed by members of the franchising industry in the major European markets. The current extent and relative development of franchising activity in the main markets of the European Community is highlighted.

13. Opportunities and Challenges for Franchisors in the U.S.S.R.:

Preliminary Results of a Survey of Soviet University Students

Dianne H.B. Welsh, Eastern Washington University
Skip Swerdlow, University of Nevada, Las Vegas

From September through November, 1991, Supreme Soviet has continued its debate on the ambitious 500-day economic plan to convert the Soviet economy from being state controlled to some form of regulated market economy. While the actual form that this reform will take is still being debated, the marketplace has been open for some time for opportunities in a wide variety of businesses, from consumer goods to capital equipment, and from information technology to service industries. Companies looking to this part of the world for opportunity will find that to penetrate these markets with some hope of success will require building a team with other businesses in an international joint venture (IJV). In the case of the U.S.S.R. The cost of exporting business and its infrastructure to the Soviet Union will preclude all but those companies that have sufficient funds, qualified personnel, and technology to invest in such a project. One form of business that is likely to take hold and succeed in this process is franchising. A franchise arrangement offers systems of doing business that limit the amount of groundwork normally necessary to create an international business opportunity. Because the cost of exporting a franchise business and its support systems is high, and the problems encountered are likely to be unique compared to other international investment, franchisors need knowledge of important operational issues, including the level of training and understanding of local managers, the types of businesses that may be successful, and the attitudes of local individuals toward the intrusion of Western business enterprise. The purpose of this paper, therefore, is to report the preliminary results of a survey of Soviet university students concerning their attitudes toward Western business and the implications that these attitudes could have for franchisors. To help to achieve this purpose, from March to the end of May, 1990, Professor Dianne Welsh traveled to the Soviet Union to conduct the first ever survey of opinions of 441 Soviet university students. The rationale for this population was to get sense of the relative knowledge that they had toward Western business methods, their general attitudes toward the intrusion of Western companies into their economy, and problems and potential that they perceive that companies will encounter. The preliminary conclusions were: 1. A potential workforce consisting of primarily college educated females, and regardless of sex, little or no work experience. 2. An expectation of a continuing strong government role in the establishment and growth of small business, cooperatives, and IJVs. 3. A belief that franchising as a form of business will be successful in the years to come. 4. strong orientation toward service oriented categories of business seem to be preferable, but not exclusive of other industries.

14. Dependence, Asset Specificity and Expected Relationship Duration in Alternate Forms of Quasi-Hierarchies

Robert A. Robicheaux, University of Alabama-Tuscaloosa
James T. Simpson, University of Alabama-Huntsville

What is a franchise relationship? Beyond the legal and definitional issues, how is a franchise relationship unique from other forms of ongoing (or continuous) interdependent business relationships? For many years, marketing academicians and business practitioners have characterized trading partner relationships in terms of the channel arrangement typology suggested by Bert McCammon (1970) . Bert asserted that channel arrangements could be either "conventional" or "vertical marketing systems." Among the latter category are administered, contractual (e.g, franchised) and corporate systems. Recently, scholars have turned to the institutional economics works of Oliver Williamson (1975) and Ian Macneil (1980) in their search for more insight into the nature of exchange channel relationships. Williamson's work cites the antecedents or determinants of channel governance structure. Macneil's work cites the characteristics of ongoing interorganizational relationships. In their seminal text, Stern and El Ansary suggest an ordering of the McCammon typology from the least restrictive conventional to the most restrictive corporate systems. Administered systems are posited to be "one step removed" from conventional systems and contractual systems are "more tightly knit" than administered systems. The purpose of this study is to test the Stern and El Ansary proposition by comparing and contrasting specific aspects of the relationships between ongoing administered and contractual (franchised) dealers in the automobile tire industry. The analyses are based upon the responses of 86 "franchised" and 207 "administered" tire dealers. The administered dealers sell different brands of tires but their identity and loyalty are tied primarily to one supplier. The analyses revealed that the franchised dealers are: 1. more dependent upon their suppliers than are the administered dealers; 2. more heavily invested in assets that are directly tied to their tire supplier than are the administered dealers; and, 3. higher expectations that the relationship that they have with their supplier will be long lasting than do the administered dealers.

15. Exploring the Rationale of Dual Distribution in Franchised Channels

Rajiv P. Dant, University of Mississippi
Patrick J. Kaufmann, Harvard University
Audhesh K. Paswan, University of Mississippi

The presence of dual distribution within the franchising industry has prompted an ongoing debate regarding the desirability and even the long term theoretical viability of such organizational structuring, Since the more powerful franchisor, if practicing dual distribution, must simultaneously be a competitor and a supplier to its franchisees, allegations of opportunism and antitrust violations leveled at the franchisors are not uncommon. The issue of dual distribution within franchising, then, contains public policy overtones doubt a significant factor contributing to the debate's relevancy. Herein, we critically review the arguments of two broad schools of thought on this issue. Based on the theoretical premises of agency theory, transactional cost economics, organizational lifecycle theory, and the more recent literature on organizational forms and governance structures, these perspectives offer substantially different predictions and prescriptions about the dual distribution phenomenon. In the hope that this will initiate a dialogue between these two groups, the review concludes with a speculative research agenda based on both viewpoints.

16. Managing the Franchise Relationship: Insights from the Relational Contracting Model

Mark T. Spriggs, University of Oregon

Since the success of a franchise relationship is often a function of the effort put in by the participants, managerial action should encourage those efforts that lead to a successful exchange relationship. In order to know which efforts to encourage, we first have to understand the nature of the exchange relationship itself. Ian Macneil's relational contracting model proposes a set of twelve contractual elements which capture the different aspects or characteristics of an exchange relationship. Based on these elements, the exchange relationship is classified as being either a discrete or relational exchange relationship. Discrete exchange is highly specific exchange; a relationship based on a contract which is quite specific and complete. Conversely, relational exchange is much more complex, but at the same time, much less specific. Relational exchange refers to exchange based on the relations or connections between the parties; psychological, economic, and legal. Franchise relationships possess characteristics of both discrete and relational exchange because they include both specific contractual requirements and implicit understandings between franchisor and franchisee. Based on the nature of the exchange relationship, the relational contracting model proposes a set of factors, called contract norms, that prescribe behavior for the parties involved. Successful exchange is based on the strength of the norms, i.e. the degree to which they are operating. The more discrete aspects of franchising encourage exchange partners to specify the terms of exchange as much as possible in order to separate the exchange from all other relational forces (Macneil calls this the norm of discreteness) and to bring the future to the present (presentation norm) as much as possible. The more relational aspects of the franchise relationship suggest that three other norms are critical factors for a successful franchise relationship. A franchisor cannot write a contract to cover all possible contingencies so implicit role performance expectations (role integrity norm) replace specific contract clauses. (The franchisee has expectations for the franchisor as well.) But exchange partners don't always believe that the other partner is adequately

doing their job or role. When problems develop, more successful relationships are able to work out solutions to these problems (harmonization of relational conflict norm). The last norm focuses on why the exchange partners seek to resolve conflict and maintain roles. The expectation of future benefits (preservation of the relation norm) from the franchise encourages both parties to maintain a good working relationship. If the expectation of future benefits does not exist, the relationship will fall apart because there is no longer an incentive to 'do your job' or to resolve conflicts. Propositions for testing are suggested based on the above norms. If supported, efforts to manage the franchisor-franchise relationship should focus on these five norms as the key factors which determine the success or failure of the franchise relationship.

17. Franchising Disclosure: A Review

Robert T. Justis, Louisiana State University
Peng Chan, California State University-Fullerton
Janice B. Haynes, Louisiana State University

Because of the many frauds and failures of franchisors during the 1950's and 60's, a series of franchise laws were established during the 1970's to insure full disclosure on the part of the franchisor to all prospective franchisees. The franchise disclosure rule, established in 1979, requires franchisors to disclose their operations to prospective franchisees. This article reviews 101 companies and their disclosure documents, to ascertain how they operate their businesses and comply with the disclosure regulations. It is evident that the disclosure rules provide increased knowledge for the perspective franchisees, although not all franchisors adhere to the spirit and letter of the law. The franchise disclosure requirements have been designed to help the franchisor explain the operations to a prospective franchisee. There is a great deal of information which a franchisee may glean from the franchise documents. There is sufficient information provided about the administrative, financial, and contractual obligations of the franchisor and franchise that a prospective franchisee should have a good knowledge of the operations in which they will engage. The franchisee should read carefully all disclosure documents and review them for their accuracy and content. The franchise disclosure documents have been prepared to help improve the franchisor/franchisee relationship. These documents provide a wealth of information for the franchisee, and when properly utilized, should help provide a better answer to franchise or not to franchise.

18. Corporate Social Responsibility and the Franchisor

F. Bruce Simmons III, The University of Akron
Kenneth E. Aupperle, The University of Akron

The focus of this study is to ascertain whether there exists an association between franchiser performance and executive social responsibility orientation (CSR). Questionnaire based responses were obtained from 113 CEOs of the 1050 firms listed in the Tenth Annual Entrepreneur Franchise 500. We hypothesize that there exists no significant relationship between franchiser social responsibility and franchiser performance. By submitting a recognized, empirically valid questionnaire, we investigated whether ethics or a social orientation enhances performance. Scholars do not acknowledge that any one measure properly captures success. We employed Entrepreneur's proprietary measures. CSR was defined to possess four unique and independent components: economic, legal, ethical, and philanthropic. A relative weighting was implicitly suggested to be 4:3:2:1, respectively. The economic component was considered dominant, but to be relatively less than the other three combined. This collective score was representative of CSR. Each component was found to be clearly differentiated from the economic component and statistically independent from each other. Although our hypothesis was supported, we did anticipate that a closer relationship between economic orientation and performance would occur. The press informs us that more and more corporate employees are following their entrepreneurial dreams and opening their own businesses. Franchisers assist them by providing a complete business system. As such, they regularly play a vital entrepreneurial role. We expected that this kind of entrepreneurial decision maker would be more economically oriented. To better understand, we requested additional information. Many franchisers expect the prospective franchisee to bring their own capital or credit

into the relationship. As a means to create a national presence, the franchiser offers a complete business system but no financing. According to the franchisers the predominant reason for a slowdown in the growth rate of franchising is the general economic condition. Access to credit may be important. Franchisee quality and competition provided from other franchisers also contribute to the slowdown. Contrary to real estate sales claims, location was one of the least important reasons. Franchisee quality is an important inhibitor to the growth of franchising. For what qualities were franchisers searching? They search for individuals who express a strong desire to succeed. A willingness to conquer the difficult is also a desirable. Leadership and business experience are not as important. Since the franchiser sells access to business systems, willingness to assume risk is deemed not to be important. Evidence of collegiate education is least important. The franchiser trains the franchisee. To more fully comprehend the contractual nature of the franchisee-franchiser relationship, we examined what methods are available to control the inevitable conflict occasioned by the interdependent closeness. If the franchiser does not provide continuing value to the franchisee, or should the franchisee not desire to continue paying for the franchiser's services, what mechanism is available to control the breakaway franchisee? Most franchisers insert a covenant not to compete into the franchise agreement. Other mechanisms employed are: liquidated damages or termination payments provisions. Evidence was provided to indicate that our sample results are representative of the franchiser.

19. Some Recommendations for Improving Data-Collection Efforts in Franchising Research

Bruce J. Walker, University of Missouri-Columbia

At the same time that there is growing interest in academic research pertaining to franchising, there is increasing concern about the difficulty of obtaining original data about franchising-related topics. Thus, this paper has two purposes: * to illustrate the problem of obtaining sufficient data for academic research in the area of franchising; and * to discuss possible ways of ameliorating or circumventing, if not totally solving, this problem. The problem of gaining cooperation from sample members was illustrated by examining response rates for the 15 original mail surveys reported in the four Society of Franchising conference proceedings. Considering that the average response rate was 34.2 percent, it is evident that motivating franchise executives and franchisees to complete and return mail questionnaires is a major challenge. Thus, this paper discusses two ways by which academic researchers can circumvent this problem: devising and using techniques that will stimulate higher levels of cooperation in mail surveys and employing other data-collection methods. The following methods for gaining the cooperation of sample members in franchising-related research are discussed: * Add-ons to the Franchising in the Economy survey, * A multi-topic collaborative survey, * A letter of endorsement, * Use of the Total Design Method in mail surveys, * Data collection at a major event, * Telephone interviews with prenotification, and * Use of the case method. While focusing primarily on collecting original franchising-related data, the paper briefly considers the situation with respect to secondary data. Relying heavily on secondary data in franchising research is also difficult because there are an insufficient quantity and inadequate availability of such data. Because original data is necessary in many, probably most, franchising-related research projects, the techniques discussed in this paper warrant serious consideration by researchers. While individual researchers can implement some of the techniques covered in this paper, others require either collaborative efforts among researchers or between one or more researchers and another organization. Some joint efforts might be facilitated by the Society of Franchising and/or International Franchise Association. For example, a committee of Society members might be formed to lobby or work with the IFA regarding add-ons to the Franchising in the Economy survey and/or provision of endorsement letters to selected researchers. This paper should provide academicians with insights into the problem of collecting original franchising-related data and how this challenge can be met. Also, franchisors and IFA officials may better understand the importance of original data in franchising-related academic research and the challenge of collecting such data and, as a result, may be more likely to facilitate research endeavors of academicians.

20. The Role of Lead Generation in Business Services-Franchise Marketing

Gordon Storholm, St. John's University

This paper investigates the importance of various techniques used in prospecting for franchisees by various franchising organizations. The major forms namely media advertising, direct mail, telemarketing, business opportunity shows, use of outside agencies, and franchisee referral programs are discussed in light of their benefits and shortcomings for franchise organizations. A taxonomy of lead generation techniques is included. Most of the information used to classify these techniques was obtained from the author's experience in direct marketing and from discussions with franchise organizations' marketing personnel. Three hypotheses were stated 1. That franchise marketing managers perceived dramatic changes in the lead techniques during the 1980s. 2. That these executives perceived lead generation costs as rising dramatically during this period. 3. That future dramatic changes were expected.

21. Successful Marketing Strategies in the Marketing of Franchises

Helen LaVan, DePaul University
Patrick Boroian, Francorp
Michael Baum, Francorp
Joseph Latona, University of Akron
Amy Bellinger, Francorp

22. A Successive Monopolies Examination of Conflict in Franchise Channels

Robert Stassen, University of Arkansas
Robert Mittelstaedt, University of Nebraska-Lincoln

A particular type of conflict can occur in franchise channel systems when the franchisor is the supplier of a product tied to the franchise trademark and extracts an operating profit from those sales. A microeconomic model is presented which shows that this results in a higher price in the consumer market, a lower quantity of product sold, and lower total profits to the channel, and ultimately, conflict between franchisee and franchisor. Examples of current channel conflict are assessed within this framework, and the implications for improving franchise agreements and relationships are discussed.

23. Control in Various Organizational Forms: An Empirical Study of Company Owned and Franchisee Owned Units' Health Inspections

Roy L. Beheler, Washington University

The study of the individual operating characteristics of franchised and company owned outlets is not widespread. Given the incentive aspects, specific firm policies, and locational characteristics of units we might expect to see differences between the operations of the various units by ownership form. This paper examines the effects of ownership, firm name, and location on the health department inspection scores for approximately 100 units across fourteen nationally recognized fast food chains in the St. Louis metropolitan area. The study is ongoing. The hypotheses that are developed center around the differing incentives that managers of company owned and franchisee owned units have in monitoring and controlling employees whose actions may be measured by the health department inspection score. It is predicted that franchisee ownership will create higher incentives for managers to effectively monitor and control employees resulting in a higher inspection score. Alternatively, the effect of chain name is hypothesized not to be a significant determinant given that the chains compete in the same market segment and firm-wide controls will therefore be competitively influenced and constrained. Finally, it is hypothesized that units located in areas that may draw significant numbers of transient customers will show lower scores than units obtaining relatively large numbers of non-transient customers. The methodology employed to estimate the above three

influences was through a least squares regression analysis. The results of the above estimation process clearly demonstrated that ownership matters. Company owned units showed a significantly lower score than franchisee owned units. Firm specific effects were partially supported with two firms demonstrating a strongly significant effect, and 5 firms demonstrating a somewhat lesser impact. Finally, location acted in exactly the predicated direction. Units located closer to highway interchanges had significantly lower scores with the effect diminishing as the units moved further away from the interchange. The specific mechanisms for firm specific control remain to be studied and are part of this continuing project.

24. Franchisor-Black Franchisee Channel Relationships: Extension and Application of the Political Economy Paradigm

Thaddeus Spratlen, University of Washington
Herbert Conley, Howard University

This paper focuses on the conflicting claims and controversies surrounding channel relationships between franchisors and Black franchisees. The issues are conceptualized and discussed using a political economy paradigm. The main objectives of the paper are to (1) identify areas of conflict between franchisors and Black franchisees which have received public attention and (2) consider what can be learned from the available public information on the issues and conflicts in their relationships. With respect to the first objective we apply and extend the political economy paradigm. From a managerial standpoint, the second objective leads to the idea that improved communication and cooperation between franchisors and Black franchisees would serve the interests of both groups. However, we state the conclusions as lessons. At this stage of our research we are proposing an approach to finding a solution rather than to claim that we can prescribe a solution to the problems of relationship management between franchisors and Black franchisees. Key issues that are unique to franchisor-Black franchisee relationships emphasize claims and controversies which take on racial/ethnic and inner-city dimensions along with the usual ones regarding differences in power, perceived interests or goals and disagreements over expectations and performance. The racial/ethnic and inner-city issues are especially contentious, since they parallel issues of discrimination that are commonplace in other areas of business and economic life. Our conclusions are that several lessons can be learned from examining public franchisor-Black claims and disputes regarding franchisee potential for relationships. First, the poor performance associated with the public disputes should be recognized. After all, Black franchisees offer visible, vocal and localized representation in high potential, loyal markets. Secondly, it is in the interest of both franchisors and Black franchisees to minimize their public disputes. Litigation and political reactions to the public disputes could damage long-term community relations in important segments of the markets served by franchisors. Finally, even the internal aspects of relationship management by franchisors and Black franchisees can be improved if public disputes are minimized and positive steps are taken to improve communication and increase cooperation. We infer this from the expectation that such efforts would result in more harmonious relationships and ultimately lead to improved performance of the franchise system.