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1. Changes in the Mix of Company-Owned and Franchised Outlets: Ownership Redirection Revised

Rajiv P. Dant, Boston University and MIT

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Robert A. Robicheaux, University of Alabama

Oxenfeldt and Kelly's (1969) provocative ownership redirection thesis postulates that, over time, the more powerful franchisors will reacquire the best performing franchised outlets in opportunistic self-interest, and relegate only the marginal units to their relatively weaker franchisees. Essentially a resource constraints perspective nested within the organizational lifecycle theory, their thesis has inspired over a quarter century of conceptual and empirical literature across a variety of disciplines. In addition, ownership redirection continues to be a contentious public policy issue at the federal as well as the state levels. However, surprisingly the basic assumptions and antecedents of ownership redirection have not yet been directly investigated. We attempt this empirical task after developing a set of hypotheses drawn from Oxenfeldt and Kelly's thesis, agency theory, and the argument of stable plural distribution. Results vindicate the basic tenets of the ownership redirection thesis. However, the intentions behind such reacquisitions, previously presumed to be coercive and sinister, were found to be more strategy-driven than opportunistic.

2. Externalities and the Choice of Ownership Mode in Business-Format Franchising

Janet Bercovitz, Duke University

The rapid growth of business format franchising over the past twenty years has spurred extensive study of this phenomenon by academic researchers. One simple question – "Why franchise?" – has, in itself, served as the impetus for numerous investigations. For the most part, theorists have hypothesized that franchising is adopted as a means to reduce one or more of the following three types of organizational costs: (1) capital costs; (2) managerial adjustment costs; and/or (3) agency/governance costs. To test these hypotheses, most researchers have capitalized on the unique dual distribution features of franchising to explore the effects of key factors on the proportion of outlets franchised within a system.

With few exceptions, however, these studies have stopped short of providing the means to predict whether a specific outlet will be organized as a franchise or a company-owned operation. This paper fills this gap. Focusing on agency/governance issues, this study expands on prior frameworks by detailing both system-level and outlet-specific attributes that create free-riding and shirking hazards. These hazard variables are then operationalized using a unique set of data drawn directly from a sample of uniform franchise offering circulars (UFOCs). Empirical analysis provides strong support for the hypothesis that ownership mode of individual outlets (franchised vs company-owned) turns on the relative levels of these two hazards.

3. The Case of the Outdoor Sign: Perceptual Differences Between Franchisee Owner-Operators and Employees-Managers

Audhesh Paswan,University of South Dakota

Joyce A. Young, Indiana State University

This study examines perceptual differences between employee-managers and owner-operators of franchised units when evaluating outdoor signage. From a nationwide study involving gasoline station and convenience store industries, the findings indicate owner-operators exhibit greater awareness of their exterior signs and are more conservative in their expectations for outdoor signage in comparison to the typical employee-manager. In terms of satisfaction, employee-managers tend to be more satisfied then owner-operators with their outdoor signs across six attributes: material, appearance, integrity, repair, design, and installation. Agency theory is used as a basis to predict the perceptual differences found in the study.

4. Incentive Conflicts and Contracting: Evidence from Franchising

James A. Brickley, University of Rochester

This study uses agency theory to develop testable implications about three provisions commonly observed in franchise contracts: (1) restrictions on passive ownership, (2) area development plans, and (3) mandatory advertising expenditures. The primary hypothesis is that these provisions are most likely when there are significant externalities among the units within the franchise system. The evidence, based on a large sample of franchise contracts, supports this hypothesis. The evidence also suggests that these incentive instruments are complements. While the study focuses on franchising, the results provide insights into related provisions in other contracts.

5. Comparing National Advertising Expenditures with Franchise System Advertising Funds

Robert Stassen, University of Arkansas

Robert A. Mittelstaedt, University of Nebraska- Lincoln

Jeanne Olson, University of Arkansas

Franchise advertising is critical to the functioning of franchising as an institution and forms a significant part of all advertising done today. The paper presents conceptual discussion concerning the importance of the advertising fund, how the management of the fund can create conflict in the system, and how the advertising strategy may change over the life of the franchise. Following this, the study examines the expenditures from franchise system advertising funds, comparing reported expenditures in AD $ Summary to estimates of the advertising funds for 64 of the largest restaurant franchise systems in the U.S. The study forms groups of franchise systems based on advertising strategy and the proportion of franchisee ownership. The structure and performance characteristics of these groups are examined, showing below average performance for systems with low reported levels of broadcast advertising.

6. Fee Structures of Australian Franchisors

Lorelle Frazer, University of Southern Queensland (Australia)

Chad Perry, University of Southern Queensland (Australia)

This paper investigates the factors that affect the amount and structure of franchise fees in Australia. United States' literature is compared with the findings of an exploratory survey of Australian franchisors. Based on the extant literature and the exploratory survey findings, a model predicting franchise fees is developed and tested in a survey of the population of Australian franchisors. The data are analysed by SPSS and Amos, using structural equation modelling and regression techniques.

The findings of the research are that: the level of risk associated with starting a franchised outlet and the collection of lump-sum whole costs, rather than continuous specific costs, are associated with the amount of franchise fees charged; the *initial franchise fee* is related to the amount of capital required to start up a franchised outlet, and to the amount of ongoing support provided by the franchisor; the *marketing levy* is related to registration with the Franchise Code Council and to the amount of monitoring of franchisee activities by the franchisor; the *renewal fee* is related to the amount of the initial franchise fee and the amount of the transfer fee; the *transfer fee* is related to the amount of start-up support and initial training provided by the franchisor, and to the amount of the renewal fee; and the *continuing franchise fee* is not related to any of the variables predicted by theory.

The findings indicate that the initial theory does not adequately explain the use of franchise fees in the Australian setting, possibly due to the more advanced statistical techniques used in the data analysis, and to the developmental phase of the sector in Australia. Nine new propositions explaining franchise fees are developed.

7. Organizational Incentives and Organizational Mortality

Scott Shane, MIT

Despite a long tradition of research on organizational mortality, organizational theorists have not examined the effect of incentive contracting on firm survival. This paper fills this gap by examining the effect of incentive contracting on the survival of U.S. business format franchise systems over the period 1984-1996. The paper finds empirical support for several hypotheses derived from agency theory: Franchisors that adopt policies which minimize franchisor and franchisee adverse selection and moral hazard are more likely to survive than franchisors which do not adopt these policies. The paper finds greater support for the predictions of agency theory than for the predictions of two other explanations for firm survival -- transaction cost economics and resource constraint theory.

8. Factors in Franchise Failure: Lessons from the Cut Price Deli Litigation

Andrew Terry, University of New South Wales (Australia)

Des Giungi, University of New South Wales (Australia)

In the short history of business form franchising in Australia the rise and fall of *Cut Price Deli* is a significant chapter. Its development dates back to the mid 1970s shortly after business format franchising was introduced to Australia by the giant US fast-food systems and global franchising colonisers — McDonalds, KFC, and Pizza Hut — and its growth matched the growth of business format franchising in Australia. At its peak in the late 80s and early 90s, it was reputably the world's largest franchised delicatessen chain with over 150 franchised and company owned stores in Australia and New Zealand. In franchising trade magazines and the media generally it was invariably described as one of the outstanding success stories in Australian franchising. It was one of the first Australian-developed franchise systems and, in the words of the directors, "showed the world that Australia could make franchising work".

The franchisor's highly public demise against a background of massive debt, legal action by a small number of franchisees and a media feeding frenzy is a matter of public record. The high profile of the *Cut Price Deli* system in itself would be sufficient to mark its demise as a significant story: the collapse of the franchisor in the mid 1990's is believed to be the biggest franchise demise in Australia. However, the rich vein of documentation which lies behind the legal actions provides valuable material to analyse the factors which were influential in the system's problems.

The *Cut Price Deli* litigation accentuated widespread dissatisfaction with the regulatory environment for franchising in Australia and, in particular, the limitations of the voluntary Franchising Code of Practice the introduction of which coincided with the well publicised problems within the *Cut Price Deli* System. The *Cut Price Deli* litigation and the practices it exposed were undoubtedly influential in a series of Government reports which has led ultimately to proposals for a strengthened regulatory regime for franchising in Australia via a mandatory code of practice and protection for franchisees from unconscionable conduct announced by the Federal Government in September 1997. This may prove to be its greatest legacy.

9. Improving the Relevance of Franchise Failure Studies

James Cross, University of Nevada, Las Vegas

This paper reviews some of the controversies associated with franchise failure. A review of classic and modern failure literature is presented, along with criticisms. Definitional and measurement issues are discussed as are categorization schemes for organizing the literature. Finally, public policy concerns and suggestions for further research are discussed.

10. Franchise Tying Suits in the Aftermath of Kodak

Roger D. Blair, University of Florida

Jill Boylston Herndon, Hamline University

The Supreme Court decision in *Eastman Kodak Company v. Image Technical Services* breathed new life into franchise tying suits. Recently, there has been one explicit tying case and several *de facto* tying cases. The latter involve refusals to approve alternate sources of supply. In each case, the franchisee alleges that it was a locked in, captive customer for the inputs that it did not want. In this paper, we evaluate the economic logic of the franchisees and find their claims unpersuasive. Franchisees are not, in fact, locked in by the franchise contract because they can sell their franchise. In particular, the *de facto* tying cases are really breach of contract cases that invoke the antitrust laws primarily because of the treble damage provisions of the antitrust laws.

11. Deception Condoned: Pre-Contract Misrepresentations and the Parol Evidence Rule

Stuart R. Cohn, University of Florida

Prospective franchisees invariably seek reliable information regarding the financial results of existing franchise units. Most franchisors do not provide Earnings Disclosure statements in their FTC Disclosure Statements. In the absence of hard information, prospects often rely upon oral statements by sales agents assuring them of favorable income results from existing units. Unfortunately, these statements are not always accurate and may be deliberately false. This paper explores the difficulties franchisees face when they attempt to rescind their contract or seek damages based upon these allegedly fraudulent statements. Most franchise agreements contain disclaimers and merger clauses that purport to deny reliance on any pre-contract representations. A common, although not universal, legal effect of these boilerplate clauses is to invoke the parol evidence rule, which precludes franchisees from introducing evidence of pre-contract misstatements. This paper suggests that the parol evidence rule is often applied too rigidly to franchisees, and that the nature of the franchise relationship indicates that courts should give greater weight to concepts of trust and good faith, thus permitting franchisees to introduce evidence to show justifiable reliance on pre-contract representations.

12. Encroachment: Franchising's Nightmare

William Slater Vincent, Kennesaw State University

The major issue today in franchising is that of encroachment. On the one hand the franchisor must continually expand its system in order to increase its market share, maintain its competitiveness, and to keep suitable locations out of the hands of the competition. On the other hand a franchisee, who has a large sunk investment in its franchise, wants to enhance its financial stability and minimize negative impacts. The franchisee, as a business owner, recognizes that it will face negative impacts in the form of competition from other systems, but is angered when their franchisor either, through the location of another franchise, or through the alternative distribution of its goods or services, in their area, negatively impacts their sales and hence, profits. Most franchisees feel that they shouldn't have to compete with their franchisor. This paper explores the issue of encroachment, summarizing the major court decisions, legislative and regulatory activity, with discussion of possible solutions.

13. Panel Discussion: The Implications of "Khan" for Franchising

Moderator: Francine Lafontaine, University of Michigan

Panelists: Roger Blair, University of Florida

Robert Stassen, University of Arkansas

14. International Master Franchising: Strategic Flexibility or Global Strategy?

Claude Negre: Universite de Haute Alsace-IUP (France)

15. The Spread of Franchising: A Multinational Comparison Based on the Notions of Innovation Diffusion?

Matti Koiranen, University of Jyvaskyla (Finland)

16. Franchising in Slovenia: Support to the Development of Franchise Systems in Central Europe.

Igor Pavlin, International Center for Promotion of Enterprises (Slovenia)

Slovenian franchising is entering into the stage of its consolidation. Reasons for starting franchising are extending the retailing network and proper representation of products(1), substituting the existing costly distribution channels(2) and using investment of franchisees in the growth of the company(3). Local systems, which could act as promoters of local innovativness and change are confronted with serious problems related to the lack of understanding of franchising. Franchising can be used as a tool for entrepreneurship and management development of local small and medium size enterprises (SMEs). It can also help large enterprises to learn new business approaches and acquire new markets by adopting the role of franchisees of international franchise systems. It is proposed that a franchise resource development centre be established to support development of local systems and assist those foreign systems that may contribute to the development of SMEs.

17. Panel Discussion:Europe Without Frontiers? Franchise Effectiveness in Changing Markets

Moderators: Dianne H.B. Welsh, Eastern Washington University

David Purdy, International Franchise Research Center-University of Westminster

Panelists: Peter Stern, Senior Franchise Manager-National Westminster Bank PLC (UK)

Andrea Maria Wessels, Partner- Heuking Kuehn Luer Heussen Wojtek (Germany)

Alberto Echarri, Founding Partner- Echarri and Brindl (Spain)

18. Direct and Indirect Effects of Training and Organizational Commitment Among Hospitality Employees: Implications for Lodging Franchisors

Skip Swerdlow, University of Nevada, Las Vegas

Wesley Roehl, University of Nevada, Las Vegas

Surveys of managers indicate they recognize training as one of their most important duties. Despite this importance, evidence suggests that relatively little is spent on training in lodging and other industries. The statistics on lodging would suggest that franchises might not be providing adequate training to meet the needs of guests and employees, though training is a major area of control for franchisors. The purpose of this research, therefore, was to examine the attitudes that U.S. hotel employees have about the training that they have received, and to test for a relationship between training and their commitment to the organization. Other variables that addressed employee satisfaction, such as *awareness of rules*, *morale*, and *perceived quality of management*, were examined to assess if indirect effects occurred between training and organizational commitment.

These results demonstrated that persuasive evidence speaks loudly to the necessity of implementing high quality training programs. Training is consequential to the success of franchise lodging organizations because it not only has a direct positive relationship with morale, perception of supervisor quality, and awareness of rules, but also a significant indirect effect on organizational commitment.

19. Co-Branding: A Franchise Growth Strategy

Robert T. Justin, Louisiana State University

Gary J. Castrogiovanni, University of Houston

Charles Valluzzo, McDonald's Franchisee

Most American franchise companies face intense competition, have to increase or maintain profits, and battle a need to improve brand and store image. In response, they have tried new products, trimmed their working force, and expanded their businesses overseas. A new phenomenon has emerged helping many franchise organizations to expand and develop even at a faster rate: co-branding.

Researchers have embraced two different reasons for the growth and development of franchising. First, franchisees provide the necessary capital for the growth of the business. Second, franchisees provide a greater effort and are able to better manage the outlets than if they were owned and operated by company employees.

The practice of co-branding has emerged as a strong alternative for growth and development. The advantages and disadvantages of co-branding are developed and discussed. Five different major methods of co-branding are advanced including: 1. franchisor contract, 2. franchisee contract, 3. single franchisee, 4. dual franchisees, and 5. portfolio management.

20. Obtaining the Benefits of Franchising Without Officially Registering as a Franchise: Results from a Survey of Franchise Attorneys

Wilke D. English, University of Mary-Hardin

Baylor Tony Martinez, Louisiana State University

Three elements define a business opportunity as a franchise: a license element, a payments element, and a control-assistance element.

Is it possible to set up a business opportunity so that it retains the advantages of franchising (uniformity through licensing and control, franchisee investment, and franchisee motivation) while avoiding the official definition of a franchise, and hence the expense of registering as a franchise?

Eight scenarios were created in which an erstwhile entrepreneur has tried to create a business opportunity which will avoid the official definition of a franchise.

This paper is a continuation of a similar paper which was presented last year. Last year, the scenarios were sent to a rather informal sample of members of the Society of Franchising.

This year, the scenarios were sent to a sample of 297 practicing franchise attorneys which produced 42 usable returns.

In summary, most of the attorneys were quite pessimistic regarding almost all of the scenarios. In their opinion, it is very difficult to get the benefits of financial investment, as well as as uniformity of name and uniformity of presentation, without the three determining elements of franchising being present.

It would appear that the best hope for those wishing to avoid the legalities associated with franchising would be to set up the investor as an 'authorized distributor' or 'authorized dealer'. In this scenario, the investor must retain some true 'independence' in name (ie 'Ralph's Lawn Shop, Authorized Toro dealer', as opposed to 'Toro Lawn Shop') and in operation (freedom to set hours, store layout, etc.). In addition, it will 'look better' if the parent firm makes its money selling product to the dealer which will be resold, as opposed to collecting royalties on sales.

21. Franchising as a Small Business Development Strategy: A Qualitative Study of Problems Faced by Franchisors

David A. Kirby, Middlesex University (England)

Anna Watson, Middlesex University (England)

Julie Waites, Tha Franchise Company (England)

Many studies have tried to quantify franchise failure, especially relative to small business failure. However, the reasons for franchise failure have received comparatively scant attention. Hence, this exploratory study examines the experiences of small businesses in translating their business into a franchise format through an in-depth, qualitative examination of 17 operational and 5 'failed' franchises in the UK. It considers the extent to which their experiences reflect the theoretical benefits attributed to franchising, and whether franchise-specific problems are encountered.

The findings suggest that although franchising may assist small business growth by reducing some of the difficulties experienced, it should not be viewed as a panacea to the problems of small business. The businesses surveyed still believed that inadequate finance threatened their survival, and had experienced difficulties managing the franchisee/franchisor relationship. It is argued that further research is needed in order to compare the difficulties experienced by franchisors, with those experienced by small businesses adopting alternative strategies for growth.

22. Franchising and the Creation of a Small Family Business

Patrick J. Kaufmann, Georgia State University

This paper reports the findings of a study of the decision to purchase a franchise within the broader context of the decision to start a small business. The sample is taken from individuals who had indicated an interest in self-employment and franchising three years prior to the current study. In the interim, some had purchased franchises, some had opened independent businesses and some had remained employed by others. Some of the differences among these groups are examined. Two variables are found to be linked to the decision to purchase a franchise; financial return is positively related to that decision, and previous business ownership is negatively related to it. Work family conflict is also examined. No differences are found between self-employed individuals and those employed by others on the level of their current work family conflict. However, those who had recently become self-employed had experienced a decrease in work family conflict. Moreover, previous work family conflict is found to be related to the decision to become self-employed.

23. Colas, Burgers, Shakes and "Shirkers": Towards a Sociological Model of Franchising in the Market Economy

John Stanworth, University of Westminster (UK)

James Curran, Kingston University (UK)

A growing volume of literature continues to inform debates surrounding franchising as a business form. However, a great deal of the research and theorizing here continues to focus around narrowly defined issues. Perhaps the dominant reason for this restricted focus is that franchising does not fit comfortably within any single academic discipline. Rather, it extends into such fields as law, marketing, economics, entrepreneurship, human resource management, psychology, sociology and organizational theory.

It is the authors' contention that a more encompassing theoretical model is now needed and that a sociological approach has most to offer, given that the discipline arguably stands alone in its conceptual suppleness and ability to link organizational characteristics to the behaviour patterns of individual actors, on the one hand, and the wider economy and society, on the other.

The model offered here takes the form of 15 general propositions spanning 3 levels: the societal/economic, the organizational and, finally, the individual. The aim is a general model equally suited to quantitative or qualitative research.