

International Society of Franchising ISOF Papers

2000 International Society of Franchising 14th Annual Conference
Franchising: Quo Vadimus

San Diego, California
February 19 - February 20, 2000

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1. International Franchising: Evidence from US and Canadian Franchisors in Mexico

Francine Lafontaine, University of Michigan Bus. School

Joanne Oxley, University of Michigan Bus. School

How franchisors set up their operations in foreign markets is a question that is of interest to practitioners and researchers alike. In this paper, we exploit data on the operations of more than 200 US and Canadian franchisors in Mexico to provide new evidence on international franchising practices. We briefly but systematically review internationalization theory and agency theory to derive testable implications regarding these franchisors' decision to operate units in Mexico, their propensity to use company-owned versus franchised units, and the contract terms they adopt. Our empirical results confirm some of the hypotheses derived from the theories, particularly with respect to the decision to operate in Mexico. But we also find some surprises – for example, the vast majority of US and Canadian franchisors employ exactly the same contract terms in Mexico as in their home market. This runs counter to predictions from a number of models, notably basic agency models. Implications for future research and practice are discussed.

2. Evaluating Foreign-Market Environments for International Franchising Expansion

Ilan Alon, State University of New York at Oneonta

The purpose of this study is to investigate the influence of environmental factors on international franchising, and to offer a normative model to evaluate the international franchising environment. Using correlation analysis, this study finds that environmental factors including economic, demographic, cultural and political factors are related to and may influence the decision of franchisors to expand their operations in a host country. The study suggests that franchising practitioners conduct an environmental analysis of the foreign market that, at minimum, will integrate the variables discussed in this article.

3. The Current State and Volume of Finnish Franchising: A Compilation of a National Database of Business Format Franchising

Mika Tuunanen, University of Jyväskylä, Finland

Antti Karjaluoto, University of Jyväskylä, Finland

The paper focuses on the creation of a statistical base for Finnish business format franchising. Since 1991 the Finnish Franchising Association (FFA) has collected data pertaining to the volume of franchising. These figures have been published annually in the FFA's yearbook, the only source of franchising statistics in Finland. In January 1999, the FFA and the Franchise Center of University of Jyväskylä agreed that a nationwide academic research project would be initiated aimed at developing statistical procedures for franchising.

The purpose of the study is twofold: to generate a valid and comprehensive framework for screening business format franchising and to compile franchising statistics by utilizing that model. To create a pattern for identifying business format franchises, the following methods were employed. Past literature was examined to review theories dealing with existence and growth of franchising. Practical and legal franchising definitions were also investigated. Moreover, six in-depth semi-structured interviews were performed. Three attorneys and three business consultants with long-term experience and specialization in franchising were interviewed. As a result of the analyses, a set of criteria to serve as a screening frame for business format franchises was developed.

The sample comprised three groups. Two of these were listed in the FFA's 1998 catalogue and membership records which consist of forty-one member franchises and forty-eight non-member franchises. The third group (N=82) was potential franchises. Information on these was obtained from press articles published between 1994-99. In total, 1,079 articles including the search word(s) *franchising* and/or *franchise* were analyzed with the assistance of a media intelligence company. Subsequently, the group of potential franchises and non-member franchises were screened to confirm those that met the business format franchising criteria. Finally, quantitative data from the final sample were gathered by mailed questionnaires and phone interviews. As an outcome, 1999 statistics of the Finnish franchising are presented.

4. Patterns of Women as Entrepreneurs and Franchisees

Rajiv P. Dant, Boston University

Patrick J. Kaufmann, Boston University

Candida G. Brush, Boston University

Even though extending equal opportunities in business for women as well as minorities remains a central goal of U.S. public policy, there is little documentation of the participation patterns of women and minorities in franchising. In this descriptive paper, we examine the issue of participation of women in franchising as part of the more general issue of female entrepreneurship. We explore and contrast the prevalence and success of male and female entrepreneurship and franchise ownership. We also explore the prevalence and success of minority women entrepreneurs and franchise owners. The Characteristics of Business Owners (CBO) database developed by the U. S. Census Bureau is utilized as the primary source of information for our paper. Our findings are focused on four key characteristics of business owners as provided by the CBO database: (1) their participation in different economic sectors, (2) their revenue streams, (3) number of individuals employed by them, and (4) the legal form of the organization of firm selected by them.

5. Quest for Quality Franchisees: An Exploration of Franchise Practices

Colin McCosker, University of Southern Queensland, Australia

An awareness of franchisor concerns over the need for efficiency in appointing suitable franchisees led to the inclusion of a number of relevant questions in surveys of franchisors in Australia during 1998 & 1999. The behaviour and observations of franchisors are explored for indications of the success or otherwise of current selection processes.

Problems in attracting sufficient suitable applicants are considered prior to the methods being used to assess them. The level of ownership changes in franchisee outlets and the reasons for exits and disputes are discussed as indications of the efficiency of selection criteria. Some comparisons are made with a survey of franchisees on the influence of selection criteria on performance.

Support for some present practices was indicated from the franchisor responses but questions also were raised on other common selection criteria needing reconsideration.

6. How France's Potential Franchisees Reach Their Decisions: A Comparison with Franchiser's Perceptions

Veronique Guiloux, IAE de Poitiers, France

Nathalie Dubost, IAE d'Orleans, France

Claire Gauzente, University of Angers,

France Michel Kalika, University of Paris-Dauphine, France

This study examines how France's potential franchisees reach their decision and compares their processes to franchiser's perception. Data were gathered at the annual franchise show, the *Salon de la Franchise*, held in Paris. Questionnaires were administered to 315 potential franchisees and to 88 franchisers. Results revealed that applicants follow a hierarchy in choosing a franchiser: they choose first the sector, then the trade name, then the legal form. Gap theory can explain how differences from expectations between the service provider (the franchiser) and the customer (the potential franchisee) can affect the perceived quality of the franchise package. Managerial implications and future research needs are discussed.

7. The International Society of Franchising Proceedings: A Thirteen Year Review

Joyce A. Young, Indiana State University

Faye S. McIntyre, State University of West Georgia

Robert D. Green, Indiana State University

As the ISOF enters the twenty-first century, it seems appropriate to examine the contents of the thirteen previous Conference Proceedings to document the research activities of its members. A content analysis was completed that documents topic trends, methodologies, and paper citations. In brief, franchise management and internationally focused papers garnered a high level of research interest. Several other topics received consistent attention throughout the years. Relational issues, however, showed a decline in research interest during the late 1990s. Survey research was the most prevalent research method. Finally, the use of previous ISOF papers for citations was lower than expected.

8. Can a Franchise Chain Coordinate?

Steven C. Michael, University of Illinois

In today's business landscape, the familiar animal of the traditional corporation has been augmented by new species such as joint ventures, strategic alliances, and franchise chains. The properties of these new species, termed hybrid forms, are distinctly different from the traditional corporation. In this paper we examine whether one hybrid form, the franchise chain, can coordinate elements of the marketing mix (price, quality, and advertising) in the pattern suggested by theory and achieved by the traditional corporation. Results suggest they cannot. Therefore, franchise chains appear to be unable to coordinate the elements of the marketing mix. Implications for theory and practice are discussed.

9. The Franchisee Lifecycle Concept: A New Paradigm in Managing the Franchisee/Franchisor Relationship

Andre Schreuder, University of Pretoria & Consulta Research, South Africa

Lizanne Krige, Consulta Research, South Africa

Eric Parker, Deloitte & Touche Franchising Division, South Africa

This paper explores the relationship between franchisees and franchisors with the objective to model the franchisee life cycle. It is proposed that distinctive phases in the relationship between franchisees and franchisors exist and that there are significant differences in the commitment-trust dimensions representing the franchisee-franchisor relationship between each lifecycle phase.

Computer Aided Telephonic Interviews were conducted with 652 randomly chosen franchisees from 27 different franchise systems. The measurement instrument consisted amongst other scales from the Disenchantment Curve of Nathan (1993) and the Commitment-Trust theory of Morgan & Hunt (1994). Highly satisfactory reliability and validity results were obtained using the Cronbach Alpha-coefficient and principal component factor analysis. Correspondence analysis revealed that a four stage lifecycle concept provided a better fit with the duration of the relationship than proposed in the six stage lifecycle originally suggested by Nathan (1994). Further analysis was done on the four-stage lifecycle solution, which lead to the creation of the Franchisee Lifecycle Concept (FLC). Directions for further research, limitations to the research and managerial implications are also provided.

10. The End of Franchising as We Know It?

Robert M. Kok, Johnson & Wales University

This paper reviews Partner/Manager Compensation Plans (PMPs) and compares their effectiveness to the company ownership and franchising forms of organization for a multiple unit chain. Although 40 years old, Partner/Manager Compensation Plans have not been considered as an alternative organizational form to company ownership or franchising. Both of these well-established forms are recognized as having certain weaknesses as mechanisms for controlling management behaviors. Partner/ Manager Compensation Plans may overcome these weaknesses by more closely aligning the interests of managers and owners than either the franchise system or company ownership. Under PMPs both principal and agent are focused on net profits. Opportunistic behaviors are reduced, as are costs of monitoring. This is especially true when PMPs are designed with multiple participants.

While useful, PMPs probably will not replace franchising in all cases. There are too many other reasons to franchise a business besides reducing the costs of monitoring managers' behaviors. On the other hand, the use of the typical company ownership form may be reduced by replacing it with a partner/manager arrangement. Significant benefits may accrue to companies that implement PMPs.

11. Mandatory Codes of Conduct as a New Regulatory Paradigm: The Australian Experience

Frank Zumbo, University of New South Wales

The paper is concerned with reviewing the role and use of a mandatory Code of Conduct in providing a stable regulatory framework for franchising arrangements. In doing so, the previous failure of a self-regulatory code, together with the potential rigidity of franchising legislation, are seen as having set the scene for the recent Australian adoption of a mandatory Franchising Code of Conduct. The limitations of self-regulation and legislation as regulatory frameworks are noted and attention is focused on mandatory codes as a new regulatory paradigm.

12. The Franchisee Systems Audit

Eric Parker, Deloitte & Touche Franchising Division, South Africa

Nic Louw, Franchise Association of South Africa

Annie Baptiste, Deloitte & Touche Franchising Division, South Africa

Allan Brown, Deloitte & Touche Franchising Division, South Africa

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The Franchise Systems Audit is a measurement tool developed by Deloitte & Touche Franchising that allows existing franchise systems to evaluate their performances against industry standards and best practice benchmarks. Franchisor performances are measured on six Key Performance Indicators (KPI's), identified by Deloitte & Touche as critical to franchise success. Each of the KPI's is measured on a quantitative and qualitative basis. This involves management interviews as well as a franchise questionnaire conducted with franchisees. A gap analysis profile is developed based on the results of the measurements describe above. The tool was developed to assist franchisors in measuring the performance of the business system from an operational point of view, as opposed to a purely financial measurement of performance.

13. The Encroachment Handbook: Developing a Successful Solution

William S. Vincent, Kennesaw State University

One of the hottest issues 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 and maintain its competitiveness. 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. A franchisee, as a business owner, recognizes that it will face negative impacts in the form of competition from other systems. However, what has a franchisee up in arms is when its business, is negatively impacted through the expansion of its own franchisor at its expense. A franchisee feels that it shouldn't have to compete with itself. This paper explores the issue of encroachment covering what has occurred in the courts and on the legislative and regulatory fronts with how franchisors are addressing the issue. Also this paper provides a blueprint on how an encroachment policy can be developed and implemented which will be fair to both the franchise company and its franchisees.

14. Franchise Failure: New Research and Perspectives

Stevan R. Holmberg, American University

Kathryn Boe Morgan, Brigham Young University and IFA Educational Foundation

Past franchisee failure literature includes numerous divergent accounts and statistical franchise failure estimates based largely on franchisor surveys and, in addition, contains both definitional problems and data problems. Since we now have three years of more reliable data from UFOC's registered with states, research questions surrounding longitudinal data and analysis can be examined.

Franchisee turnover rates have increased materially over the three-year period. Overall median franchisee turnover rates without transfers increased from 4.7 in year one to 5.2 in year two and 6.3 in year three which is slightly higher than many prior studies. The median turnover rates with transfers increased from 8.9 in year one, to 9.8 in year two, to 10.8 in year three. Franchisee median turnover rates also vary in absolute terms and in trends over time by: industry, number of franchisee units, number of company-owned units, percent growth in franchised units, number of years in franchising, and the non-real estate initial investment. The increased validity of UFOC data and the insights gained from franchisee turnover data trends represent new and important information. Franchisee turnover and franchisee failure are important areas which merit further study and analysis.

15. Unraveling the Evidence on Franchise System Survivability

John Stanworth, University of Westminster, UK

David Purdy, University of Westminster, UK

Wilke English, University of Mary Hardin-Baylor, Texas, USA

Jo Willems, University of Texas at El Paso, USA

The underlying hypothesis behind the evidence presented here - some of it drawn from earlier literature and some of it previously unpublished - is that franchise system survival patterns largely mirror those of conventional small businesses, with high attrition rates in the formative years, rather than being a sure-fire recipe for success with low system failure rates. After all, the majority of new franchise systems are in fact themselves small businesses (Stanworth & Purdy, 1994), obliged to construct a front-end infrastructure of managerial support some years ahead of achieving full financial break-even point. In effect, given the demands placed upon an infant franchise system to finance and manage the processes of franchisee recruitment and all that entails, plus induction and field support for franchisees, the new franchise company is, in effect, developing the management and administrative structure normally associated with a medium-sized business, without the income levels normally associated with this scale of business. For a small business intent on developing into a credible franchise operation, the strains normally associated with small business growth are, in fact, likely to be magnified and concentrated, rather than reduced.

16. Franchise Terminations: A Study of the Australian Experience

Andrew Terry, University of New South Wales, Australia

Lorelle Frazer, Griffith University, Australia

Termination of franchise agreements, and the consequences of termination, raise significant commercial and legal issues. Termination issues – in particular, opportunistic termination by a franchisor – have assumed a high profile in an ongoing regulatory debate which has taken place without access to meaningful quantitative data. This paper aims to provide descriptive information about franchise terminations in Australia in relation to which the appropriateness of regulatory responses can be measured.

Data were collected from a mail survey of Australian franchisors in 1998 and a follow-up telephone survey in 1999 to explore the nature, reasons and outcomes of franchise agreement terminations. A model predicting the likelihood of terminations was developed, based on franchise system maturity, support structures provided, and level of conflict experienced. The results indicate that mature franchises were more likely than younger systems to experience franchise terminations. No consistent link was found between the amount of system support or the level of conflict and the incidence of franchise terminations.

The survey data reflects the wide diversity of participants and practices within the Australian franchising sector and the circumstances surrounding termination and its consequences in individual cases. The data lends support to judicial or legislative responses to termination issues which accommodate the relational aspect of franchise relationships and addresses termination issues in the context of the underlying relationship and the legitimate business expectations of the parties.

17. Year 10 of the El Paso Restaurant Attrition Study, "News Flash: Tenure Does

Correlate with Investment!"

Wilke English, University of Mary Hardin-Baylor Jo Willems, University of Texas at El Paso John Stanworth, University of Westminster, UK David Purdy, University of Westminster, UK

For the last ten years, a longitudinal analysis of restaurant attrition has been made using the Yellow Pages from the El Paso, Texas, phone directory.

As might be expected, Independent restaurants tended to have shorter tenure than did the Franchise or Company owned outlets.

The study also collected financial data relating to the start-up investments and promotional expenditures of 185 of these restaurants.

The data set confirms that there is a strong, positive relationship between size of investment and length of tenure, as well as a strong relationship between tenure and size of promotional expenditures.

Prediction of individual restaurant tenure is somewhat difficult due to the tremendous variability at the individual restaurant level ($r = .27$).

However, prediction of tenure by investment class is quite reliable ($r = .83$). When viewed as investment classes, there is a very strong relationship between tenure and size of investment.

Franchises are indeed more successful, but perhaps much of that success is attributable to the more substantial investment that characterizes franchising.

18. Is the Know-how Transmission from Franchise Real and Assemble?

Rene Freyburger, L.I.O. University of Mulhouse, France

Phillippe Kuter, L.I.O. University of Mulhouse, France

The value of franchisor's know-how is difficult to prove, that leads to many law conflicts. The purpose of every business enterprise is to make a profit with customers, so it seems worthwhile to compare their satisfaction level as he goes to a franchisee or to another kind of business.

Our survey proposes a method assigned to characterize and to measure the know-how reality. Carried out in a specific sector (car maintenance in France), the analysis shows significant judging differences, attributable rather to customer-oriented procedures than to technical ones which looks relatively unvarying. In addition to that, we observed through the results not only differences between franchisees and non-franchisees, but also between two types of franchising networks.

19. Franchising Knowledge Repository: A Structure for Learning Organizations

Y.S. Chen, Louisiana State University

Robert T. Justis, Louisiana State University

P. Pete Chong, Gonzaga University

Most franchisors lack the necessary information or knowledge important in this information age. This article describes our experience in the design and creation of a Franchising Knowledge Repository prototype. This knowledge repository, created on the World Wide Web, will be an electronic distribution center of accumulated knowledge to enhance learning of franchising-related materials. Based on a framework of knowledge management, this repository consists of a series of modules that are organized into two important dimensions: (1) levels of knowledge and (2) levels of user skills. This new form of knowledge dissemination increases the integration of theory and practice. The repository's knowledge modules adhere to a consistent format to provide franchisees, and future students, with the requisite knowledge in applying the modules and finding additional information. To illustrate the operation of the repository, we describe a knowledge module for Location and Site Selection.

20. Strategic and Contextual Influences on Firm Growth: An Empirical Study of Franchisors

Gary J. Castrogiovanni, University of Tulsa

Robert T. Justis, Louisiana State University

This study examined five-year growth patterns among a sample of 246 franchise networks in order to identify factors associated with network growth. Two strategic factors and two contextual factors were significantly related to growth. Among those four significant factors, however, two of the relationships were in directions opposite of those hypothesized. The most likely explanations of these findings, taken together, suggest that both strategy and context exert influences on growth, though strategic influences may be greater than contextual ones.

21. Plural Forms in Store and Service Chains: An Exploratory Study in France

Gerard Cliquet, Universite de Rennes, France

Abstract: Many research works have exposed the antagonism between franchising and ownership in studying store and service chains. Bradach exposes the concept of plural forms combining franchise and company-owned systems in five American fast food companies. We develop this concept in three industries in France: hotels, bakeries, and cosmetics stores. An exploratory research has been led to describe advantages and disadvantages of this combination. Each industry has its specificity in many areas such as basic profession, initial investment importance or human resource availability. The Bradach's model exhibits four challenges a chain should meet to be successful: adding new units, maintaining concept uniformity, responding locally to competition, adapting the global system. The plural form organization seems to be the most desirable arrangement. The hotel industry shows a very close situation to the fast-food restaurants and the Bradach's model can be applied. But, as far as the bakery and the retail cosmetics industries are concerned, some differences should be made.

22. Single-Unit vs. Multi-Unit Franchising: History, Typology and the Franchisee Perspective

Marko Gruhagen, Clemson University

Robert A. Mittelstaedt, University of Nebraska- Lincoln

The focus of this paper is on multi-unit franchising from the franchisee perspective. After a historical summary of the development of franchising from a marketing viewpoint, a typology of different franchisee types is provided. The paper provides a discussion of potential reasons why individuals might be enticed to become multi-unit franchisees, and concludes with an encouragement for future research towards that end.

23. Growth and Change in the Franchise Restaurant Sector, 1972 - 1992

Wesley S. Roehl, University of Nevada

Skip Swerdlow, University of Nevada

In recent papers Lafontaine and Shaw (1997) and Cross (1998) note the gap between the perceived state of franchising and what can actually be documented. In both papers the authors note that the high growth rates and low failure rates claimed for franchised businesses often cannot be substantiated empirically. One implication of their findings is that we need to reevaluate what we do know, and what we don't know, about franchise system development.

In response to their call for a reappraisal of franchise system development this paper will examine geographic variation among franchised restaurants in the United States. Franchising is a particularly important strategy in the US restaurant industry. However, few studies seem to have recognized the potential for geographic variation in the success of, and growth rates displayed by, franchised restaurants. This is surprising given the extensive literature documenting regional variation in food preference by Americans (Belasco, 1989; Roark, 1985; Shortridge & Shortridge, 1998; Zelinsky, 1987). This exploratory study will examine whether these regional differences are reflected in franchised restaurant market share and growth and suggest strategic implications for franchisees and franchisors.

24. Franchisee Satisfaction: A Measurement Approach

Frank H. Wadsworth, Indiana University Southeast

Douglas C. Haines, Indiana University Southeast

This paper takes a measurement approach to investigating the underlying dimensions of a model of franchisee satisfaction. Past and current satisfaction models are integrated into a multi-dimensional model of franchisee satisfaction. Exploratory factor analysis is used to purify and evaluate a franchisee satisfaction measure. Results identify a franchisee satisfaction model consisting of seven factors.

25. Limitations of Existing Theories: A Need for a General Theory of Franchise Relationships

Sanjay S. Mehta, Sam Houston University

Lou E. Pelton, University of North Texas

The proliferation of mergers and acquisitions, co-marketing alliances and other strategic partnering agreements between franchise systems has precipitated fundamental changes in the U.S. franchising industry. These market fluctuations suggest that franchising – once a market-entry frontier for entrepreneurship – is increasingly characterized by large corporate ownership. Theories to date are largely grounded in this entrepreneurial tradition. Accordingly, this article critically evaluates several theoretical perspectives that attempt to describe the franchisor-franchisee governance relationship. For example, theories of entrepreneurship and leadership can help explain individuals' motivations and behaviors, however its extrapolation into the franchising arena is suspect. Though attribution theory may help explain performance expectancies for both members of the dyad, its applicability as a general theory to understand the norms that govern inter-organizational franchising relationships is limited. Interdependency theory may be a valuable avenue for addressing the increasing complexity (and inter-connectedness) of franchise relationships. In this article, we advocate a theoretical approach that embraces the shift from transactional to relational aspects of the franchisor-franchisee exchange. We further suggest that Macneil's theory of relational exchange can be applied to the contractual interdependency that characterizes the exchange relationship. Relational exchange theory offers directional insights that may foster a general theory of franchising relationships.

26. New Trends in Slovenian Franchising

Igor Pavlin, International Center for Promotion of Enterprise, Slovenia

This paper is an analysis of current conditions, features and trends in Slovenian franchising. Slovenia is a small but a vital part of Central Europe, one of the countries to be accessed to the European Union in the first round of its enlargement. The existing franchise set up is presented in the transitional context of a group of Central European countries, based on the recently updated findings on franchising in Slovenia of 1997. Opportunities and impediments to the development of franchising are discussed and related to the current motivation of franchisors to start franchising. The attributes of different forms of the domestic and foreign franchise firms are subjected to franchising as an approach towards entrepreneurship development, which is the author's key interest.