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1. The Relative Importance of Certain Advantages in Becoming A Franchisee: An Empirical Study

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Many articles, oriented to the audiences of both industry and academia, discuss the advantages of becoming a franchisee as a vehicle for owning a business. Although those articles list the advantages of owning a franchise, there have been relatively few studies that have attempted to determine the comparative importance of the advantages from the perspective of franchisees. The purpose of this paper is to present the results of a research study of franchise owners (i.e., franchisees) on the relative importance of reasons for choosing the franchise route as a means of owning a business. This study is based on a questionnaire submitted to a sample of franchise owners that are members of one franchise system. The questionnaire utilizes measurements that are not employed in other empirical studies on the subject (of which we are aware); these measurements are: (a) Likert Scales to measure the sample members' level of agreement with the importance of reasons for choosing franchising and (b) the forced ranking of those reasons. The results of the data analysis indicate that the reasons given the greatest importance for choosing franchising as the route for owning a business are: (a) the training provided by a franchisor, (b) a sense of independence as compared to being an employee of a firm and (c) the value of a recognized trade name. These three attributes were also ranked higher than the other reasons included on the questionnaire and were in close proximity with one another in the sample respondents' rankings. Reasons of lesser importance and lower rankings by the respondents franchise is a better investment than owning a business and (e) the development costs of establishing a franchise are less than those for an independent business. We believe that the results will be a contribution to the body of knowledge that has been developed in the area of franchising. We also hope that the results can be utilized in the development of strategies for firms within the franchise industry, for attracting potential franchise owners.

2. Urban and Non-Urban Differences in Franchisee Perceptions and Behavior

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The purpose of the present study is to examine the influence of an establishment's location on the perceptions and behavior of the franchisee. The study is exploratory in nature. The effect of urban location on tolerance for diversity (Abrahamson and Carter, 1986) and the creation of new ventures (Pennings, 1982) to the extent that location differences in franchising do exist, it is important to understand their implications for the franchisor-franchisee relationship.

A potential franchisee may be drawn to a specific industry, out of interest or training. He or she may be drawn to one company in particular, liking its product or having worked as an employee in another franchise.

By the same token, he or she is also likely to have locational preferences, the preference to live in one region of the country. The potential franchise owner may likewise choose one city, perhaps his or her current residence or a city offering economic development support for the desired location. The preference for region or city may be so strong that the investor will consider a different franchisor rather than locate in a place that does not provide a lifestyle to which the owner is accustomed or seeks.

On a more specific level, this same owner may have a preference for the local environment that surrounds the franchise. He or she may prefer an urban location or may prefer to be away from a central city and its immediate suburbs, in a more rural environment. Such a choice is best seen in the "Wall Street executives" who invest in country inns in rural New England; obviously a choice controlled by desired surroundings.

This paper addresses this latter issue, that is, it looks for variation in demographics, perception or behavior that differentiate between owners of franchises that are located in the city and those that are located in small towns or rural areas. An important aspect of behavior that may be affected by location is entrepreneurial behavior. Given the lack of agreement regarding a common definition of entrepreneurship (Gartner, 1987; LOW and MacMillan, 1988; Vesper, 1983), entrepreneurial behavior is defined in this study as putting new ideas from the field to work in business. Entrepreneurial behavior by franchisees may be viewed as a contradiction. Franchisors often prefer to select an administrative manager rather than an entrepreneur as a franchisee in order to safeguard the integrity of their business system (O'Donnell, 1984). In a similar vein, franchisees often purchase a franchise rather than start their own business because they prefer the security that a proven system provides. These points argue against entrepreneurial behavior by franchisees.

3. Costs and Benefits of Standardized Franchise Formats

Patrick J. Kaufmann, Harvard University

Business format franchising implies a standardized concept. To maintain that standardized concept the franchisor incurs significant monitoring costs. But what are the reasons for franchisee deviation from the prescribed formula and what are the hidden costs of standardization? In this essay the author examines some of the incentives facing the franchisee and how they impact the execution of the franchisor's concept. When a franchisor provides the franchisee with a set of rules to guide the operation of the business, it is transferring its own experience so that the franchisee will not bear the risk of groping for a successful format. The general standards, however, may not be perfectly suited to the franchisee's environment. Because it is formulated to appeal to a wide variety of markets, the format may represent a second-best solution to meeting local market demand. As the franchisee's own experience grows, the divergence between the franchisor's satisfactory solution and a more optimal local solution becomes more apparent. There are strong incentives for the franchisee to deviate from the franchisor's format and adapt to local conditions. Therefore, although some deviation from standards is due to lack of effort or conflicting objectives, it can also reflect an attempt by the franchisee to align the concept more precisely with local market demand. When such an alignment takes place, sales in the local market can increase, benefitting both franchisee and franchisor. However, any local gain from customization must be balanced against the loss of system wide operational and marketing efficiency. Because the franchisee generally will undervalue those efficiencies when compared to the more direct benefits of local market adaptation, the franchisor must recognize the diverging incentives and proactively manage the system so as to ensure satisfactory compliance with the elements of the core concept. The franchisor must also recognize the dynamic nature of image development, and the role that the consumer's personal experience with each franchisee has in solidifying or weakening that image. The franchisor must carefully define the core concept and distinguish it from the peripheral elements of the business format so that local adjustments can be made on those elements which do not affect significantly the image of the system in the consumer's mind. By specifically identifying those aspects of the format which are designed to help the franchisee over the threshold of starting-up a business, and distinguishing them from those elements which differentiate the concept from its competitors, the franchisor can benefit from local market adaptation while maintaining the strength of its trademark.

4. Franchising and Other Operating Arrangements in the Lodging Industry: A Strategic Comparison

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The objective of this paper was to compare, along three strategic dimensions, franchising with other types of operating arrangements in the lodging industry. The operating arrangements studied were, in addition to franchising, corporate chains, and independent units. The three strategic dimensions included: (1) the variability or volatility of the task environment facing a hotel unit or property; (2) the business strategy chosen by a hotel's general manager; and (3) the level of sales revenue and profit performance achieved by a hotel. The strategic management literature argues that an organization can only achieve superior performance when the characteristics of its task environment, its business strategy, and its decision structure (i.e., operating method or extent of vertical integration) are coaligned. Thus, comparing franchising with the two other operating arrangements along these dimensions seems to be a first step in determining franchising's role in successful strategic coalignments. Hypotheses, linking the different operating arrangements with task environment variability, business strategy, and performance were developed. A mail survey of hotel unit general managers, designed to test those hypotheses, was then described.

Chain hotel units were found to be more prevalent in stable and moderately stable environments than they were in volatile ones. A similar result was found for the independent units. Franchised units, however, were more prevalent in moderate and volatile environments.

Both chain and franchised hotel units predominantly followed a prospector business strategy while the independents were more closely associated with the defender strategy. A plausible reason for this is the importance chains and franchises place on developing new markets and new products to achieve economies of scale. Evidently, in the lodging industry, the prospector strategy is best suited for achieving this.

Finally, no significant differences in the room revenue and profitability performance dimensions were found across the three hotel operating arrangements.

In terms of franchising in the hotel industry, the results indicated that franchised units: (1) were more prevalent in volatile and moderately volatile task environments, (2) more frequently pursued a prospector business strategy, and (3) did not earn room revenue or net profits significantly different from either independent or chain units.

5. Franchise Evolution: A New Look at the Debate

K. H. Padmanabhan, University of Michigan-Dearborn

Franchising has evolved into one of America's most common and effective business systems, predicted to distribute half the nation's retail goods by 1990. Yet the implications of the evolution of franchising are far from clear. This paper presents new empirical evidence to suggest that the evolution of the franchise industry does not inevitably lead to 100 percent company ownership, as previous researchers using the organization cycle theory have suggested. The debate over franchise evolution has generally relied on studies of the proportion and average unit sales of franchisee-owned units, which do not in themselves indicate the health of the franchising industry. This paper studies franchise evolution in terms of contract status (the percentage of contracts terminated, the rate of contract renewals, and the percentage of long-term contracts awarded) and ownership direction (the net conversion losses of franchisees and the resulting percentage gain in company-owned units). The franchise life cycle hypothesis is tested in two main ways: 1. Is there a general movement toward increased contract terminations? 2. Has there been positive net conversions from franchisees to companies? Annual data at industry sector and group levels from the U.S. Department of Commerce for 1977-86 are subjected to trend analysis using the Ordinary Least Squares method. The changes predicted by the organization cycle theory did not occur: the number of franchisees affected by contract terminations, nonrenewals and conversion losses was simply too small to reshape the direction of franchising, and franchisee-ownership grew rather than declined in several sectors on a number of measures. The paper concludes that a longer-term study --preferably at micro or institutional level-- is needed to fully delineate the forces shaping the franchise industry. It calls for future research to help franchisors determine the optimum percentage of company ownership at each stage of the franchise life cycle.

6. Fast-Food, Franchise Chains: A Revolution in Nevada Hotel/Casino Food Marketing A 1989 Update and Prognosis

Skip Swerdlow, University of Nevada-Las Vegas

In 1984, Burger King Corporation granted a franchise for the first restaurant to be opened in a Nevada hotel/casino. This actually represented the first major, fast-food, franchise chain in a gambling establishment in the United States. As reported at the Society of Franchising conference in January, 1988, the success of this type of non-traditional location was quickly followed by two more Burger Rings and McDonald's, a Haagen-Dazs and a Godfather's Pizza operation. In the year that has followed the presentation, construction of and negotiations for additional throughout the major metropolitan and expansion have continued tourist areas of Nevada. Recently, the author spoke with members of top management of four fast-food organizations, three of which comprised the ownership of all but one of the restaurants in Nevada hotel/casinos. The chains that the four represented either had or might have a continuing interest in more of these type of locations. The individuals were: 1. Harry O'Harrow, Operating Partner for HKM III, A Partnership, which owns the Burger Rings in the Palace Station and Gold Strike casinos (they were also the purchasers of the six Burger King restaurants that the author owned). 2. Charlie Leamon, Manager of King's Court at Binion's Horseshoe Hotel and Casino. She is also a key employee of the franchise organization that owns the Burger King, Haagen Daz, and Godfather's Pizza restaurants located there. The hotel was originally called the Mint Hotel and Casino. During the summer of 1988 the owners of Binion's Horseshoe purchased it from Del Webb Corporation. 3. Steve Evans, Operations Consultant for McDonald's Corporation, which owns restaurants in the Barbary Coast in Las Vegas, Harrah's Hotel and Casino in Reno, and Bill's in Lake Tahoe (Bill's is part of the Harrah's chain): 4. Laurie Bergeson, Personnel Director for Wendy's of Las Vegas, franchisee for the Las Vegas metropolitan area. While Wendy's currently has no hotel/casino locations, but as the third largest fast-food hamburger chain, the competition might provide impetus for them to pursue similar interests in these non-traditional locations. The owners of the Burger Ring in the Riviera Hotel were not consulted since they have no intention, nor does Burger King Corporation plan to give permission for them, to open any other locations.

Objectives and Limitations of the Paper:

The objectives of the interviews and this analysis were to update the paper "Fast-Food, Franchise Chains: A Revolution in Nevada Hotel/Casino Food Marketing," presented at the January, 1988 Society of Franchising Conference in San Francisco, California (and printed in the 1988 Proceedings), and to establish a prognosis for this type of development as a means of achiving successful market penetration and share through non-traditional expansion.

The original paper was an analysis of the evolution of fast-food franchise locations from the traditional free-standing operations to the non-traditional stores, such as zoos and military bases. The focus, however, was on the particular phenomenon of those that have opened in hotel/casinos in Nevada.

The important subjects covered in the original paper were:

1. General background of fast-food franchising and its basis for success.
2. Brief discussion of the basis for the growth of traditional fast-food locations.
3. Analysis of the reasons for the recent growth of non-traditional operations.
4. History of hotel/casino locations in Nevada and the rationale for the current interest in them.
5. Characteristics of a successful and pitfalls of the search for non-traditional fast-food business.

The assumptions in this paper are that the background, research, and analysis that preceded it are already familiar to the reader. The information presented here is designed to be an update of the Nevada hotel/casino class of non-traditional, fast-food, franchise operations.

The objectives of this paper were to determine:

1. If current hotel/casino, fast-food restaurants have been successful.
2. If that success had been convincing enough for management to negotiate or plan for the construction of additional hotel/casino locations.

3. If hotel/casino and restaurant owners made any substantive changes in the way that they structured their relationship, in light of experience or previous mistakes.

7. A Progress Report on the Scope Of International Expansion By U.S. Franchise Systems

Bruce J. Walker, Arizona State University James Cross, University of Minnesota

In the United States, about 509,000 units affiliated with franchise systems are expected to account for almost $640 billion in sales volume in 1988. These statistics indicate increases of 12 percent in the number of units and 127 percent in franchised sales volume over the past ten years (Franchising in the Economy: 1986-1988, pp. 1, 28, 32, 38).

The growth of franchising in other countries is not as well documented. However, it is known that the number of U.S. franchise systems with foreign units has grown from 156 in 1971 to 354 in 1986 (the latest year for which statistics have been compiled), with the number of foreign units increasing from 3,365 to 31,626 during this same period (Franchising in the Economy: 1986-1988, p. 7).

Despite its apparent growth, there is a void of managerially relevant information about international franchising. What is known largely consists of the statistics reported annually in Franchising in the Economy and the results of membership surveys conducted by the International Franchise Association. Given this information void, the purpose of this study was to expand upon the breadth and depth of information pertaining to the international activities of U.S. franchisors. So, in addition to serving as a comparison for the most recent Franchising in the Economy data, new descriptive findings will be presented.

Hence, this study goes substantially beyond what is found in the section on international franchising in the annual editions of Franchising in the Economy.

A number of specific questions provided the direction for the study. Among them were the following:

- Who has established franchises outside the U.S. (that is, what types of firms)?
- Why have some franchise systems set up international operations while others have decided not to?
- When have franchisors established units in foreign countries, or when do they plan to?
- Where have franchise systems launched their international operations and what reasons underlie their choices?

The survey results provide answers to these questions.

The study's findings should be of value to executives of U.S.-based franchise systems that are engaged in or considering the establishment of franchises outside the U.S. and also to academics with an interest in franchising. The findings also may provide insights to franchise executives in other countries.

8. The Franchisor/Franchisee Relationship

Robert T. Justis, Louisiana State University Janice L. Haynes, Louisiana State University Richard J. Judd, Sangmon State University

The franchisor/franchisee relationship is the most tenuous/fixed, easy/difficult, beneficial/devastating partnership found in business today. The franchisor/franchisee relationship is one of the most important aspects of a successful franchising organization. Most beginning franchisors have a tendency to overlook this very important partnership and forego this relationship until crises have arisen and problems have occurred. The franchisor/franchisee partnership can be a very beneficial aspect of franchising. The franchisor needs to realize the importance of developing the proper communication, information, attitudes, and motivation to help insure the success of the franchising system. This paper identifies some of the key components of the franchisor/franchisee relationship and the activities which a franchisor should engage in to insure proper development. All franchisees have values, attitudes and beliefs. These cognitions are generally developed from prior experiences, knowledge or information. The franchisor may help formulate the franchisees values and attitudes by providing appropriate training, information or knowledge to the franchisee. Motivation and behavior follow the attitudes and knowledge base of the franchisee. Franchisors may positively influence franchisees through newsletters, training programs, incentive programs, franchisee council meetings, operations manuals, marketing manuals and personal contracts. Franchisees go through growth stages of (1) dependent upon franchisor, (2) independent of franchisor and (3) interdependent with franchisor. The franchisor needs to be aware of these growth stages and work with the franchisee to overcome the obstacles and hindrances present in each stage. Finally, the franchisor needs to be aware of the important seven activities of a successful franchisor/franchisee relationship. It is very important for the franchisor to develop outstanding programs including: (1) communication, (2) advisory councils, (3) joint marketing, (4) joint operations, (5) management by walking around, (6) franchisee annual conference, (7) awards programs. To express it simply - BE THERE!

9. The Impact of Information Flows Between Franchisee and Franchisor on Franchisee Performance: A Conceptualization and Early Findings

Sherman A. Timmins, University of Toledo

10. The Impact of Franchisor Power Sources and Use on Distributor Satisfaction in the Brewing Industry

Robert A. Robicheaux, University of Alabama Lynne Davis, University of Alabama

11. "There Is No Such Thing As an Unsuccessful Attempt to Exercise Power When Power Is Present:" Interpretation, Criticism, and Resolution

John F. Gaski, University of Notre Dame

Via an apparently provocative assertion contained in the marketing channels literature, some aspects of the nature of interorganizational power are reconsidered. A graphical conceptualization of the dimensional domain of power is offered, which may assist in visualizing the nature of the construct. The purpose of the exercise is to make a modest, incremental contribution to "tightening up" the conceptual foundation of intrachannel power theory. Recently, the following statement was proffered in a Journal of Marketing article on the topic of interorganizational distributive power: “There is no such thing as an unsuccessful attempt to exercise power when power is present. Power means the ability, not the inability, to alter behavior. Its exercise is at the discretion of the power holder. an attempt to exercise power is unsuccessful, it is merely confirmation that the power did not exist in the first place” (Gaski 1984, p. 24). To students of power in marketing channels, such a statement may appear contentious, dubious, or erroneous. Rebuttals may readily occur to readers. But because of the centrality of the issue to intrachannel relations and research, the content of the assertion will be considered anew here. Elaboration will be presented, explanation will be provided, criticism will be reported, and resolution will be attempted. Reconciliation of differing conceptual perspectives is the motivation.

12. Legal Implications of International Franchising: The EEC Experience

William J. Keating, Dickinson School of Law

13. Legal Aspects of Forming and Managing an American Franchise or Commerciall Enterprise in the Soviet Union

Barry Kellman, Cleveland State University

14. Conflict in Automobile Franchising:" Measurement and Contextual Insights

F. Robert Dwyer, University of Cincinnati Brett Boyle, University of Cincinnati

Conflict Is Inherent in franchise systems. This study evaluates automobile manufacturer-dealer conflict and a commonly used measurement approach. Consistent with Brown and Day (1981), we measured conflict by asking automobile dealers to Indicate the frequency and Intensity of disagreements with the manufacturer of

their top selling make on 13 marketing issues over the previous three years. Semantic anchors to three of five response categories ranged from 1 - never, to 3 - sometimes, to 5 - very frequently. The salient Issues were Identified In the literature and personal interviews with four dealers. Responses were obtained from 167 dealers. Two dimensions derived from factor analysis of these data. Factor 1 consists of numerous operating issues and Factor 2 Involves dealer inventory. Beyond Item covariance patterns, means on Factor 1 Items show very low levels of disagreement. overall, only one Factor 1 Item, "extent of dealer warranty. work, " has a mean greater than 2. Thus, Factor 1 of our conflict scale consists of Items over which there Is virtually no conflict. The mean scores for Factor 2 suggest that new car supply Is where the action is. Disputes over Inventory levels and new car mix of models are relatively common. Finally, the two conflict scales are weakly correlated and Factor 2 Is generally more "appropriately" linked to the sentiments (satisfaction and trust) and the manufacturer's use of "heavy handed" influence measures than Is Factor 1. We conclude from this analysis that within the presumed domain of conflict, the principal venue, in the automobile channel, in the mid 1980's, Is new model supply. The contextual and temporal qualifications seem critical. our demonstration data set shows that even summing the factors Into a second order construct would suppress several nomologically sound associations. We must emphasize that there are many advantages to the Issue itemization approach to conflict measurement. In many other research contexts (e.g., self concept, channel control) the behavioral specificity Inherent In the Items seems to net relatively high scale sensitivity. More Importantly, one's research focus may center on operating or supply--or other--issues. For example supply may be critical in a resource dependence study of franchise relations. Alternatively, operating issues may be the relevant conflict domain In a business format franchise system. Plausibly, neither domain is germane for examining the relationship between conflict and governance structure. It seems reasonable to expect bureaucratic controls to spark dealer resentment against all the reporting paperwork. But It Is likely that no relationship between bureaucratization and manifest conflict will appear If the domain of Issues Is limited to operating and supply Items. In sum, our understanding of contractual marketing systems depends in part on continued measurement advances and proper adaptation of the same. Far short of providing all the answers, our demonstration and discussion have underscored the critical role of context and theory for selecting and refining measures of Interfirm relationship properties.

15. Managing Conflict Franchised Distributive Systems

Gul T. Butaney, Bentley College

16. Parasimulation For Behavioral Research in Franchising

Rajiv P. Dant, University of Mississippi Joyce A. Young, University of Mississippi

17. Limited Partnership Financing of Chain, Fast-Food, Franchise, Restaurant Operations: Competitive Advantage or Tax Law Casualty?

Skip Swerdlow, University of Nevada-Las Vegas

The purposes of this paper, therefore, are to: 1. Discuss the limited partnership form of financing from the point of view of using it as a device to raise funds and the features that it offers to the franchisee, franchisor, and investor. 2. Determine whether this form of financing is logical and acceptable for 1988 and beyond, in light of Reform Act of 1986. And if it is still acceptable, provide any competitive advantage to the franchisor and franchisee?

18. Pricing Strategies and Techniques Among Franchises

Wilke English, University of Texas at El Paso Andrew Bruner, University of Texas at El Paso

Pricing is an area of critical concern for every business, perhaps even more critical for franchises due to the need to maintain uniformity of price and offerings. A survey of local franchises produced the following findings: The Franchisees possessed a large amount of discretion in setting their prices. Although the franchisor would often give pricing guidelines, the franchisees reported no real pressure from their franchisors to follow those guidelines. This discretionary power was quite evident in a survey of franchise prices. When a given franchise chain featured multiple owners, the differences in prices within the franchise chain tended to be as great if not greater, than the differences between chains. By a strong majority, most of the franchisees claimed mechanistic "cost-plus" pricing methods to be the primary means of setting prices.

19. Restrictions onFranchise Terminationn and Non-Renewal: Sampling the Statutes

Robert J. Nye, John Marshall Law School

20. Damage Calculations For PMPA (Petroleum Marketing Practices Act) Violations: Some Economic Considerations

John M. Barron, Purdue University Gerald J. Lynch, Purdue University