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**1. Economic Sources of Conflict in Franchising Organizations**

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> One source of conflict in franchising organizations arises from the differences in the incentives to franchisors and franchisees. When the franchisor's royalty is based on the sales of the franchisee and, at the same time, the franchisor incurs no costs for those sales, conflict can arise over price policies and promotional programs. This paper presents a simple economic model of a franchise system in which this situation is encountered. The model suggests that the incentives for franchisors and franchisees will differ most widely and the conflict will be most likely to occur in business format franchise systems. Sales of merchandise or services from franchisor to franchisee can help reduce the gap in incentives.

**2. Franchisee Satisfaction: Its Relationship to the Contractual Agreement**

Donna Mayo, University of Alabama Robert Robicheaux, University of Alabama

> The purpose of this study is (1) to investigate franchisee perceptions of their franchise agreement (i.e., contract) in terms of its content, clarity, and appropriateness/fairness and (2) to relate those perceptions to franchisee satisfaction, Franchisee commitment to the expectations and future intentions. franchise system and the relationship between commitment and satisfaction, expectations and future intentions are also examined. A preliminary review of the marketing channels, franchise and law literatures revealed a scarcity of empirical investigations of franchise contracts. Based upon encouragement by the Center for International Franchise Studies at the University of Nebraska-Lincoln and the International Franchise Association, four franchisors agreed to participate in a pilot study. Two are fast food and two are service franchises. Questionnaires were mailed to 480 franchisees. Twenty-four questionnaires were returned due to non-delivery. Ninety-four useable responses were returned. This represents a 20.6 percent response rate with no incentives or follow-up mailings. Two of four research propositions were supported. Franchisee commitment is positively related to satisfaction with the contract, overall satisfaction with the franchise relationship, experience relative to expectations and future expansions plans. Commitment is inversely related to contract disagreements and intentions to terminate the relationship. The proposed relationships between satisfaction with contract terms and overall satisfaction with perceived clarity of the issues were not supported. Despite these mixed results, further exploration of franchisee perceptions of and attitudes toward contracts with franchisors is warranted. The failure to support all four research propositions may be due to a small and/or an otherwise nonrepresentative sample of the franchisee population. only 94 franchisees of only 4 franchise systems participated in this exploratory study. The participating franchisors have sound reputations and strong franchise networks. In the future, a much more representative sample of franchisees will be surveyed to empirically test these research propositions.

**3. Preparation and Perceptions of Australian Franchisees...and Their Afterthoughts**

Colin R. McCosker, University of Southern Queensland (AUSTRALIA)

Franchising is experiencing rapid growth in Australia, both through newly-established systems and also through expansion of existing franchises. However to date there has been very little research on its practice, and very few in commerce, government or academia exhibit any depth of knowledge of the technique. Data for this paper was obtained as part of a more comprehensive exploratory survey aimed at locating correlations between the profile and performance of franchisees. The survey was conducted on franchisees from 50 different business format franchises operating in Toowoomba, a provincial city in Queensland, Australia. The writer presented personally a written questionnaire which had been constructed after an extensive literature search, comparison with similar surveys internationally, and adaptation to the Australian business environment. The object of this paper is to look firstly at the prior preparation of franchisees, represented by their education, management experience and their initial age, capital contribution, together with the quality of franchisor support. Secondly their prior perceptions are discussed, as seen in their reliance on advisers (and their choice of such) and their reasons for purchasing a franchise. Lastly, the afterthoughts of franchisees who had operated for over two years are considered, looking at their opinions and disadvantages for franchisees, and on advantages their level of satisfaction with profitability. Franchisees surveyed were found to be well-prepared for the task they accepted as franchisees. They also proved to be well-satisfied with their decision to purchase a franchise and generally ready to renew their contract when it expired. The advantages in franchising which they valued most were seen to be the known name, franchisor support and gained. However, despite the limitations, the independence the of size, location and the cross-industry nature of the survey, the attributes and attitudes of franchisees observed suggest areas which should be further researched in individual Australian industries and franchise systems.

**4. Why Franchise Channels Are Different**

Michael Swenson, Brigham Young University Heikke Rinne, Brighma Young University Michael Geurts, Brigham Young University

Much has been written about channel conflict, power, and control. Most authors have approached these issues in generic terms, without explicitly discriminating between the traditional administrative channel structure and contractual channel systems. Recent academic research has analyzed contractual channel systems, especially franchise agreements. However, findings and conclusions in this area are somewhat mixed. The purpose of this paper is to compare the different causes of channel conflict between franchise channels and traditional administrative channel systems. While the causes of channel conflict may be many and varied, most of them fall into one of seven categories: (1) role incongruities, (2) resource scarcities, (3) perceptual differences, (4) expectational differences, (5) decision domain disagreements, (6) goal incompatibilities, and (7) communication difficulties. We consider these seven categories underlying causes of channel conflict in terms of how they relate to franchise systems versus traditional channels of distribution. We conclude that the uniqueness of the franchise contract creates a relationship between two business organizations that is very different from other channel relationships. The franchisee agrees to rules, procedures, and standards of performance in an operating formula provided by the franchisor. Conflict and domination that academicians see permeating the channel relationship may be less pronounced in franchise systems as a result of the unique contractual agreement.

**5. Franchising: A Review of Price Strategies**

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The development of a pricing strategy is an integral part of the franchisor/franchisee relationship. Pricing decisions have an important effect on a store's profitability, particularly in a highly competitive marketplace. This article explores the extent to which franchisors suggest pricing strategies and the methods employed by franchisors in coordinating pricing strategies with franchisees. The research reported here found that most franchisors provide suggested price lists to their franchisees. Their recommendations relate to regular prices and to price promotions. Franchisors use a variety of vehicles to disseminate these price recommendations to their franchisees. In the spring of 1989, a written questionnaire focusing on pricing strategy was mailed to franchising executives. A total of 37 complete questionnaires were returned. Industries represented by the sample include retail businesses, business services, automobile dealers, hotels, and fast food outlets and restaurants. The average number of franchisees within the franchise system was 204. Data from the franchisor responses are reported in this paper. Approximately 60% of the franchising executives surveyed

responded that they provide price suggestions to their franchisees. Their own research leads them to believe that over 3/4 of their franchisees follow their suggested prices. One of the key methods for a franchisor to make pricing recommendations to the franchisee is during training sessions. Nearly 3/4 of the franchisors reported that they use price calculations and price analysis as part of their training programs. In addition, over half of the respondents use memos, newsletters, or operation manuals to provide suggested prices to their franchisees. Over half of the franchisors report using national advertising campaigns which include price promotions. Though their national ads also contain the disclaimer that the price is available at participating stores." Franchisors report that these price specials are followed by over 90% of their franchisees. Franchisees are typically notified of these special price promotions via memos or letters. Respondents indicated that they hold national price promotions monthly or quarterly. They report that training sessions and annual conferences were good places to announce price specials to their franchisees and franchise managers. Because the antitrust laws prohibit franchisors from insisting that their franchisees follow their suggested prices, it is important that franchisors develop effective methods for communicating to franchisees the benefits to them of following the suggested prices. Research investigating the frequency, method and content of communications about price setting methods that currently take place between franchisors and their franchisees should help determine strategies that have proven to be effective. This research could be extended to examine differences in pricing strategies across industry sectors and to investigate the perceptions of franchisees regarding the pricing input they receive from their franchisors.

**6. Good at Participating Outlets**

Wilke D. English, University of Texas-El Paso Robert Hodgdon, University of Texas-El Paso Ivar Muus, University of Texas-El Paso

While franchisors cannot dictate prices, by flooding a market with coupons they could virtually 'blackmail' franchisees into accepting the discount coupons, coupons which could conceivably increase the profits of the franchisor while they hurt the profits of the franchisee. Given this possible conflict, how are these discount promotions orchestrated? A survey of fast-food franchisees in the El Paso area produced the following findings:

- There was no indication of franchisors 'blackmailing' the franchisees by running a coupon program without the participation or consent of the franchisees. Instead, the survey discovered extensive participation by the franchisees in the development and execution of these programs.
- The respondents (as one would logically expect) all agreed that the promotions increased store traffic with the majority feeling that there was a fairly strong increase in traffic. In addition, a strong majority claimed that even at the lower price, the promotion generated an increase in overall revenue.
- On the other hand, opinion was mixed as to the profitability of the programs, with many franchisees viewing the programs as a necessary evil at best. Although they felt that everybody would be better off if nobody offered any type of price promotions, given the competitive pressures, even the more skeptical franchisees agreed that discount promotions were a mandatory part of every franchise's marketing effort.
- And finally, even when franchisees questioned the true profitability of individual promotional campaigns, a strong majority felt that price promotions were an effective way to grow traffic with several of the franchisees believing that the use of discount coupons was the best way to grow traffic.

**7. Menu Trends During Various Stages of the Fast Food Franchise Industry's Life Cycle: Impact of Environmental Factors**

Haragopal Parsa, Virginia Tech University Mahmood A. Kahn, Virginia Tech University

The main objective of this study is to trace the menu trends that were dominant during various stages of fast food franchise industry life cycle. The product life cycle (PLC) is the foundation upon which numerous strategic-planning concepts are based. Analysis of the menu trends, past and current, and the contributing factors could be helpful in understanding emerging menu trends. Since, success of a fast food firm is closely associated with the main menu product it offers, understanding the effects of environmental factors on the menu trends is essential for developing appropriate long-term strategic plans.

The product life cycle has been used extensively by practitioners as an analytical tool to understand sales trends and market potential. Therefore, organizations' ability to develop and survive through the various stages of PLC, depends on the historical information available and its appropriate use.

Results obtained from this study are clearly indicative of the dominance of various menu products during different stages of the fast food franchise industry's PLC (pre-introductory stage, introductory stage, growth stage, and maturity stage). Environmental factors that contributed to the major menu trends during various stages of PLC are identified. Also included are emerging trends in fast food menus and the relevant environmental factors. The major menu trends and the contributing factors during various PLC stages are highlighted in this paper.

**8. International Franchising in the Context of Competitive Strategy and the Theory of the Firm**

Sandra M. Huszagh, University of Georgia Faye McIntyre, University of South Dakota Fredrick W. Huszagh, University of Georgia

Dramatically higher growth rates in international compared to U.S. domestic markets underscore the importance of overseas markets for franchise expansion. This paper's objective is to discover whether incumbent firm characteristics, which represent entry barriers to new firms expanding in any marketplace, have been diminished by technological and capital market innovations over the period 1967 to 1988. Research results can be useful to franchise practitioners as firms' strategic advantages in domestic or international expansion.

Firm characteristics offering strategic advantages to companies against their competitors in a market include experience, scale economies, product differentiation, high capital requirements, and location. These characteristics are analyzed first theoretically within the frameworks of competitive marketing strategy and the economic theory of the firm. Second, such characteristics are examined statistically to determine if there are structural differences between 1) franchisors exhibiting different expansion strategies at one point in time, e.g., domestic international separately for 1967 and 1988, and 2) franchisors utilizing the same expansion strategy over two points in time, e.g., international franchisors for 1967 and 1988.

Data for this study were collected from two editions of a directory of franchisors compiled annually by the U.S. Department of Commerce. All firms in each directory were chosen that indicated operations outside the territorial United States while a random sample of approximately the same number was selected from firms indicating only domestic operations. Franchisors were categorized by each of the five characteristics. Two-dimensional contingency tables were generated and then analyzed to determine whether the expansion strategy of the franchisor (domestic vs. international & domestic) was related to any of the five internal characteristics.

Briefly, findings are summarized for each of the five relationships: First, the distribution of firms international as regards experience was statistically different from domestic firms in 1988. Comparisons for the 1967 period were not expected to be meaningful since expansion was a relatively new phenomenon in the 1960s. Nevertheless, the frequencies demonstrate that twice as many international firms had 25 plus years of experience compared to domestic firms. While we hypothesized that computational technological innovations, e. g. expert systems, could reduce the advantages of experience, they were not readily available in 1967 or 1988. Firm size - the second characteristic - is statistically different in both the 1967 and 1988 time periods for those companies that are international as opposed to those that are strictly domestic. The absence of statistical significance between international franchises in 1967 and 1988 is consistent with the research premise that telecommunications advances occurring in the 1970s had reduced the benefits of scale in monitoring international operations by the 1980s. The third premise, that there would be significant differences between international and domestic firms in 1967 on products that are culturally distinct, was not confirmed. However, the empirical results lend support to the notion that franchising works most effectively when products have achieved a degree of standardization and their production. Despite consistent reference in the literature on entry barriers the fourth characteristic of equity capital did not distinguish companies that expanded internationally from those that remained domestic in 1967 in agreement with our premise. However, this characteristic did not differentiate between international and domestic firms in 1988 globalization of capital markets in the 1980s is held to reduce the impact of this entry barrier on expanding enterprises. Our assumptions on the fifth and final characteristic location were confirmed. The region in which the franchisers’ headquarters is located distinguished the international from the domestic franchise in 1967. Location also discriminated the early international entrant in 1967 from the later entrant in 1988. The effects of location apparently had diminished by 1988 which agrees with our notion that location would not discriminate between the international and domestic entrant in that year.

The results of this study confirm that future research on franchising can be highly productive if research questions are framed within the context of the economic theory of the firm and competitive strategy. For example, the theory of the firm suggests that the cost of monitoring operating units determine franchiser decisions to establish and own or franchise a particular unit. This monitoring cost calculation clearly becomes more complex when decision involves a different cultural environment where monitoring technologies are in radically different states of development. Dealing with such differences is doubly complicated by the fact that contemporary capital markets around the world will immediately reward or punish decision makers for the quality of his or her calculations. Today telecommunications and computational products are reducing this disparity in monitoring costs between domestic and foreign environments. Thus, future research should focus on franchise expansion and markets with the greater rate of change in their “diversity coefficients” regarding culture and technology. This focus will disclose a wealth of statistically significant relationships between technology and organizational change.

**9. Issues and Problems Encountered by Food Service Operators When Franchising Internationally: A Preliminary Survey of Corporate Decision Making**

Skip Swerdlow, University of Nevada-Las Vegas John S. Chasel, University of Nevada-Las Vegas

In the quest for increased top-line sales and bottom line profits, food service franchisors have consistently looked for aggressive and imaginative methods to achieve growth in sheer numbers of stores and size of market share. To this end, corporate managers have successfully opened restaurants in unique locations, such as zoos, military bases, and large, Nevada hotel/casinos, among others. Recently, domestic food service franchisors have increasingly looked to the international markets to further this organizational growth and development. Some franchisors have over one thousand foreign locations, thus indicating that this approach is strong evidence of the success or aggressiveness of these operators. International expansion, however, is usually considerably more complex than domestic expansion. Operators may be faced with an unfamiliar political climate, distance from corporate offices, cultural and social differences and barriers, and high operating costs, among others. The methods for doing business successfully, therefore, are significantly different. Food service franchisors need to enter or expand into international markets with full knowledge of the country, government, economy, franchisee prospects, and other important issues and problems. The purposes of this paper, therefore, were to: 1. Identify issues and problems encountered in international franchising. 2. Determine which issues and problems domestic food service franchisors with international experience should consider as important, unimportant, or of no consequence. 3. Provide an issues and problems reference for corporate managers to use as a decision making guide. A survey of 58 food service franchisors with international interests revealed a comprehensive list of 107 issues and problems that directly impacted company priorities, policies, and procedures, and that were of importance to company executives. Additionally, the list appears to give direction to these executives for their initial international probes and subsequent executive research assignments. Some weaknesses in the statistics, however, leads one to offer this study as a preliminary endeavor, and thus, the basis for future research that can meet the challenges of small population and sample sizes, and length and redundancy of the survey instrument. While more definitive research has yet to be conducted, this study has offered some insight into corporate decision-making on an international scale. The challenges are reasonable, thus providing an opportunity for further, more successful, research. The information contained herein should be of help to those who need some guidelines for intelligent and cost-efficient establishment of policies and procedures for expansion and entrance into international markets.

**10. A Comparison of the Attributes of Franchising and the Challenges of International Expansion**

Tim Christiansen, Arizona State University Bruce J. Walker, Arizona State University

**11. A Comparison of Various Methods of Franchise Expansion**

Patrick J. Kaufmann, Harvard University

It is clear that the single unit franchisee is not typical of current franchise systems. Area franchising obviously comprises a significant portion of the total franchised units in the U.s.. Even more significant, however, is the number of franchisees who have gradually added to their original single unit operations and have formed mini-chains not covered by any area or development agreement.

Multi-unit franchising is an important phenomenon because it appears to be at odds with accepted economic theory. The standard efficiency arguments for franchising rely on the image of the owner-operator with claims to the profits and the incentives to keep a close eye on the franchise's efficient operation. As the franchisee develops a mini-chain, the individual outlets are run by hired managers and begin to resemble company owned stores. The efficiencies gained by franchising presumably are in jeopardy. This leads to the frequently observed performance decay as franchisees expand.

This paper examines some of the possible performance ramifications of multi-unit franchising caused by that performance decay. A computer simulation of a hypothetical market expansion (from 1 to 10 stores) is used to compare several possible decision rules, 1) single units only, 2) non-projected sequential expansion - where franchisees can open multiple stores as long as their average performance is above that of the expected single unit operator, 3) projected sequential expansion - same as 2 except - 2 - that the expected effect of the new store is included, and 4) area franchising.

A typical franchisee's multi-unit performance decay is measured from data taken from a large fast food chain. That decay rate is applied to the various decision rules and the results are compared. Surprisingly, single unit franchising outperforms all of the other decision rules, but this result is very sensitive to the decay rate. It should be noted also that the simulation deals only with projected operational efficiency. The costs of attracting franchisees are not included, nor are additional system management costs derived from having more franchisees to deal with.

**12. Does Franchising Hold a Future for the Rural Entrepreneur in the 1990s?**

Raymond Marquart, University of Nebraska Carol Meyer, University of Nebraska

The objectives of this paper are to: (1) identify the development of the major factors influencing franchising from the 1950's through the 1980's, (2) discuss the major challenges success that franchising must meet in the 1990's, (3) identify the major economic problems that have occurred in rural America since 1950, (4) discuss the need for entrepreneurship in rural areas, and (5) evaluate the Increased use of the franchise system in the rural environment in the 1990's.

United States Department of Commerce data was used to identify franchise sales levels, franchise penetration into foreign countries and rural population trends. A review of the secondary literature provided considerable insight on strengths and weaknesses of the franchise system, and the rural environment.

Findings indicate that franchising has been able to grow rapidly from 1950 into the late 1960's. Since then franchise sales have increased but consolidation has also been increasing. The conclusion was reached that franchising has maintained its position in the marketplace by achieving a stable thirty-four percent share of United States retail sales in 1988. This compares to a 31 percent share in 1977, a 33 percent share in 1985 and a 33 percent share in 1987. It thus appears that franchising has developed a viable managerial system which allows franchises to quickly acquire a fully integrated package of marketing, and management and at least some access to a venture capital network.

The 1990's begin with franchisors facing a major new problem. The urban and suburban sites best suited for franchises in the past are now saturated. Competition is war-like. It is the beginning to focus upon price promotions, which can easily be duplicated and result in a reduced markup and lower profit. Higher labor and marketing costs are other equally formidable problems.

Franchises are increasingly turning to expansion in foreign countries to maintain their growth rate. But there are many opportunities for expansion in the United States. One such segment is the frequently overlooked rural site in a town of less than 25,000 population.

Rural areas need entrepreneurship to foster economic development as well as provide vital services to the area. Although the farm population is still declining, the population in rural areas has been steadily growing since 1970. Incomes are increasing and the mature, older market is wealthy enough to be an attractive market segment.

The major needs of the rural economy (management, marketing, training, counseling, control programs and access to a venture capital network) exactly match the strengths of the franchise system!

Several examples are available to indicate the idea can be financially attractive. Walmart and Schwan's Mobile Retail Ice Cream Trucks are two businesses serving rural markets. They have both placed their founders on the 1989 Forbes List of the 400 wealthiest individuals in the United States. Both founders selected a rural target market, satisfied the needs of the customer and became wealthy. Other firms which have been successful in the rural market are H & R Block Inc., Mr. Donut of America, Pizza Hut, and Sears Roebuck and Company, Ampride, Inc, is among those firms that are currently expanding rapidly by offering new outlets in the rural market. If franchise systems are tailored to meet the unique needs of the rural market, they offer considerable promise for profits and for community development.

**13. A Breakthrough Model for New Franchise Products**

Kent Foutz, Youngstown State University George Benson, Youngstown State University

This paper begins with a general statement of a dilemma. "New Product" explanations, as the subject is typically treated in Marketing texts and other writings, often do not seem to fit the facts of the development of new products.

When we look at how very successful, or BREAKTHROUGH new products were developed, we find that they often did not follow the instructions that are generally given today.

An analysis is presented of several of the great breakthrough new products of the past. Clipper ships, canals, railroads, automobiles, airplanes and electrical items are examples that are evaluated. In each case, the procedure was not to screen out products that did not look immediately easy to make and sell for a lot of money.

It is also shown that many breakthrough new products were actually screened out by many large companies using the generally accepted procedures for "New Products". Several very large new industries were passed up by companies that used the recommended model.

The successful breakthrough new franchise products of the past were not developed by the textbook model. Rather the really big new products were developed using the entrepreneur model, which is to build the organization around the needs and wants of society, not around the needs or immediate prospects of the existing company.

It is likely that the textbook procedure is the best way to develop "me, too", or spinoff, knockoff or slightly new products. Economic theory tells us that the end result of such new products is an intensely competitive market in which there are no real profits, only the coverage of economic costs by the most efficient organizations. The others fail.

The conclusion drawn is that the traditional model seems to be backward looking and short sighted, while the Breakthrough model seems to be derived from market needs and future possibilities. The approach that has historically been used by entrepreneurs has been: 1. Identify a problem that society has. 2. Find a solution to the problem. 3. Sell the solution, to whoever will pay for it, for more than its cost. 4. Build a new organization to market the solution. 5. Use Franchisees to help to do part of the work and supply some of the necessary capital. The problems of society are no longer a lack of steel, coal or cotton. Today's problems are now the lack of certain services. Examples cited include transportation, communication, education, health care, and pollution. There are many others.

Entrepreneurs would do themselves, their franchisees, the public, and the rest of us a big favor by developing new franchise products that will solve these problems and also create valuable new franchise programs at the same time.

**14. Franchising in the Service Sector: An Examination of the Fast Food Industry and Its Part-Time Workforce**

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During the 1980's, the service sector in the United States has experienced a loss in quality performance. The extent of the problem has increased in direct proportion to the burgeoning growth of the service sector in the last 30 years. Of the 44 million new (non-agricultural) jobs created in the 30 years prior to 1983, 90% were in services (Heskett, 1986). Of the 113 million people in today's workforce, three-fourths (84.8 million) are employed in the service sector (Peterson, 1987). Economists predict that this sector will increasingly dominate our national employment. Among all parts of the service sector, the food service industry represents a major segment. Franchises have accounted for much of the growth in this industry, particularly in fast food retailing. This paper examines the service sector in detail--how it is subdivided, defined, and the significant part fast food retailing, franchising, and the industry's part-time workforce play in our national economy.

**15. Student Internship Programs in the Franchise Industry: Benefits to Students, Franchisees and Universities**

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Richard T. Wines, American Assembly of Collegiate Schools of Business Jo Anne Hopper, University of Southwestern Louisiana
Lynn Stirling, Southeastern Louisiana University

One of the major problems facing franchisees today is the lack of motivated quality personnel to fill the personnel requirements of franchise operations. Due to the low pay and routine nature of franchise employee work situations, there is a need for more enthusiastic personnel. A possible partial solution to the personnel problem is the use of college and university business internship students.

Internship programs provide a working partnership between a college or university and a business. These programs integrate classroom theory with practical experience to produce a very usable real-world experience for the college student while providing a valuable employee for the business that employs the intern. Internship programs vary from university to university, but most programs include the following essential elements: a faculty coordinator, students of good academic standing, and college credit (usually three hours) on completion of the internship.

There are numerous benefits to be obtained from franchisee-sponsored internship programs; these benefits accrue to the students, sponsoring franchisees, sponsoring faculty members, and the university. Internship students will obtain knowledge that will be valuable during the early stages of their careers. Students participating in a program of this type will gain experience and knowledge in the franchise field. Since many students are interested in owning their own business, the franchise setting will also provide them with an experience that will help shape their knowledge about business ownership and operations. Benefits to the sponsoring franchisees include obtaining motivated, quality employees and acquiring a degree of stability in their work forces. The internship program also provides a method of screening future job candidates for managerial positions within the franchisees' operations. An increase of visibility as well as an interaction with the business community are among the benefits received by sponsoring faculty members and universities. Contacts with franchise operations also may be used as a tool to recruit students for the university. Thus, franchisee internship programs can provide many outstanding benefits for all participants and sponsors in this challenging franchise business environment.

**16. Evaluating Franchise Salespeople: Customer Orientation**

Gene Brown, University of Central Arkansas
Robert E. Widing II, Case Western Reserve University

Given a marketing concept framework, each individual within the franchisor organization must participate. The purpose of this paper is to discuss a means of evaluating the degree to which franchisor salespeople practice the marketing concept and hence, measure their performance. Specifically, we focus on the use of the soco (selling Orientation-Customer Orientation) scale (Saxe and Weitz 1982) as a measure of salesperson performance. The SOCO scale has been successfully used in several business environments and has been administered to both buyers and sellers. For example, the soco scale has been used in an industrial marketing setting, the banking industry, and a retail setting. Furthermore, it has been shown that the soco scale is robust in terms of the method of administration and the number of anchor points. Given the robust nature of the soco scale, it could be useful for determining the performance of salespeople in a franchise setting. A parsimonious methodology for the use of the soco scale is presented. Steps one and two can be interchanged and might occur simultaneously. That is, franchisees, should be asked about the customer orientation level of franchisors and franchisors should be asked to report their level of customer orientation. In the next step, both overall and individual customer orientation scores should be examined. Furthermore, it is important to evaluate and identify any significant differences among dyads. particular importance is the situation where the salesperson feels his customer orientation is high yet his customer (the franchisee) feels the salesperson is not customer oriented. This step identifies potential conflict situations. The salesperson situated in such a dyad (or dyads) is candidate for training. The franchisee situated in such a dyad is a candidate for counseling or conflict resolution. The SOCO scale should also be included in training programs. Salespersons should be encouraged to examine the items that make up the scale. Negative behaviors should be avoided and positive behaviors should be enhanced. That is, franchise salespersons should concentrate on fulfilling customer needs, rather than trying to sell through pressure tactics. A pre-test/post-test methodology could be utilized to measure the effectiveness of the training. That is, customer orientation scores before training should be compared with customer orientation scores after training.

### 17. Reciprocal Agency in Franchise Channels of Distribution

Anne L. Austin, University of Wisconsin-Parkside Frank L. Winfrey, University of Wisconsin-Parkside

The objective of this paper is to develop a framework that takes into account the reciprocal and interdependent nature of the relationship between franchisors and franchisees. From a review of the literature on franchise channels of distribution, it is clear that a central problem in this channel is the control of the channel members and the coordination of their actions for the mutual benefit of all members. Agency theory provides a theoretical grounding from which to observe franchise relationships. In an agency relationship, the principal contracts with an agent to perform some service on behalf of the principal. Authority is delegated to the agent. There may be conflicts of interest between the principal and agent, wherein the agent pursues some action in self-interest. The contract is the instrument used to specify the actions of the agent and to provide an incentive for the agent to act in the principal's best interests. However, contracts entail monitoring costs and problems of enforcement. Special problems, known as moral hazard, arise when information is asymmetric or the agent's actions are unobservable. The former problem is known as the Hidden Information Model, in which the principal may observe the actions of the agent, but not the contingencies. The latter problem is known as the Hidden Action Model, in which the principal may observe the outcome of the agent's action, but not the action itself. A framework was developed by considering the franchise relationship as a reciprocal agency relationship with the problem of moral hazard. In the Hidden Action model the franchisor is the principal and the franchisee is the agent. In the Hidden Information model, the franchisee is the principal and the franchisor is the agent. Solutions to the issues of asymmetric information and unobservable actions are suggested. These largely rely on the manner in which the relationship is conducted rather than the structuring of the relationship through the franchise contract. The level of control and coordination achieved with the franchise are an outcome of the resolution of the problems of moral hazard in the case of reciprocal agency.

### 18. Governancee Structures in a Franchised Channel of Distribution

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An important reason for franchised distribution is that it can offer a more efficient means of controlling the marketing program than can corporate ownership of the distribution system. However, franchisors must consciously structure the franchise system to control their franchisees' activities, if the franchise system is to deliver a standardized package of goods and services. Two polar opposites describe structures for governing franchisee behavior. In the strictest sense, transactional governance structures are short-term market mechanisms for achieving control. Because of their long-term nature, franchise channels do not employ pure transactional governance structures. On the other hand, relational governance structures achieve control through the franchisees' socialization (i.e., franchisees take on franchisors' values, norms, and beliefs as their own). As with pure transactional structures, pure relational governance structures are also not found in franchise channels. Hybrid governance structures, however, contain characteristics of both pure forms. Franchise governance structures that are more transactional employ bureaucratic mechanisms (i.e., greater centralization of and lower participation in decision making as well as more formalized rules, policies, and procedures) to control their franchisees. Under these control structures, channel members accede to bureaucratic mechanisms because they value the rewards for doing so. Thus, governance structures that are more transactional are also characterized by high levels of franchisee compliance. Franchise governance structures that are more relational possess lower levels of centralization, formalization, and compliance but higher degrees of socialization and participation. A sample of single informants from 200 Iowa, Nebraska, and Kansas farm equipment franchisees provided data for investigating empirically the nature of these two governance structures in a franchise channel. From these data measures of centralization, participation, formalization, socialization, and compliance were constructed. A hierarchical cluster analysis and subsequent discriminant analysis on these five measures tended to support the basic expectations about the nature of these governance structures, except for formalization. Formalization was higher for the relational structure and lower for the transactional structure of franchisee governance. These results demonstrate that franchising is not a homogeneous mechanism for controlling marketing activities. The franchisor's underlying environmental conditions as well as the nature of its exchange relationship with its franchisees dictate its governance structure. Mismatching governance structures with these underlying conditions is likely to produce much dissatisfaction and conflict within the franchise system. This, in turn, is likely to have a deleterious impact upon channel performance.

**19. Expectancy Theory as a Framework for Analyzing Channel Relationships: Similarities and Differences Between Franchised and Independent Retailers**

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Consistent with recent channels literature, an interpersonal model of buyer behavior was tested in a domestic channel of distribution. Vroom's (1964) formulation of an expectancy theory model of individual motivation was utilized to assess retailer propensity toward acceptance/rejection of a vendor deal. Two groups of retailers were compared: franchisees and independents. A national sample of furniture retailers was utilized for the study. Approximately 3,700 La-Z-Boy distributors were surveyed in 1988, and 952 (26%) responded. From the respondent group, franchisees were isolated (n-51). A random sample of 51 independent retailers was drawn from the remaining 901 respondents; the current study results are based on the responses of 102 furniture retailers, half being franchisees and the other half, independent retailers. The purposes of the study were to: 1. examine similarities and differences in the characteristics of franchised and independent retailers, and in the components of the general expectancy model. 2. to test for significant differences in the model's components, and in the total motivational force to accept/reject a vendor deal. The results of the study revealed few differences between the responses of franchised and independent furniture retailers. Significant differences in two buyer characteristics were observed: number of years in business, and annual sales of La-Z-Boy products. Only four of the general expectancy model components were significantly different for the two groups, and two of these four were marginally significant. The differences between franchisees and independents related to the buyer's belief that the vendor deal would improve store profitability, and the belief that the deal would require greater time/work commitments. Differences in the perceived importance of the store's relationship with La-Z-Boy, and in the importance of store profitability were also observed. These differences did not impact the buyer's motivational force to accept/reject the vendor deal. No significant differences were observed in buyer force index scores, or in acceptance/rejection of the last vendor deal. The authors conclude that the expectancy models of franchisees and independents were homogeneous in the present study. The authors suggest other, more objective strata should be used in future tests of the general expectancy model in channels.

**20. Measuring Interfirm Influence in Franchise Channels of Distribution**

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Because of the Inadequacy of the franchise agreement to specify all contingencies and options for the parties, franchisor-franchisee coordination is ongoing. Therefore many scholars have underscored the role for social power in making system adjustments and achieving coordination. For completeness, it is important to look not just at the basis of power, but how personnel at the interface between organizations communicate and exercise Influence: A brief review of the developing literature on interfirm influence indicates a critical need for better measures. This paper aims to develop operational and psychometrically sound measures of Interfirm influence strategies. As a first step, we generated items and had a panel of judges evaluate their appropriateness and unique fit within construct definitions of: promise, threat, legalistic plea, recommendation, request, and Information exchange. After making indicated revisions we administered the battery to 92 MBA students after they listened to mock dialogues between an auto dealer and his manufacturer's zone manager. This enabled scale purification by item analysis and convergence and discriminant validity checks using confirmatory oblique factor analysis. This phase of the research produced a scale of 27 total items uniquely reflecting one of six Influence strategies. We compared the sensitivity of our scales against the measures utilized in prior research by having groups of MBA students listened to one of two different dialogues. One was written to emphasize a supplier's use of "soft" Influence attempts (requests, recommendations, information exchange). The other was identical to the first except for a third conversation written to evidence "heavy handed" tactics by the supplier. Mean differences for previous measures across treatment groups were in the expected direction in all but one strategy. Nevertheless, only Information exchange produced a significant difference. Seemingly the estimation and constant sum tasks on single items yield high variance. In contrast, our multi-item scales detected differences in four of the six influence strategies. Limitations and directions for future research are discussed.

**21. Channel Leadership in a Franchise Relationship**

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The environment in which all marketing decisions are made, is keenly competitive and dynamic and as such, requires an appropriate response. All decisions relevant to each component of the marketing mix must display an anticipatory responsiveness. While marketing channels are one component traditionally thought of as rather stable, they too must be responsive and display what is called channel leadership. The marketing channels literature suggests the need for continuous adaptation to the environment, in order to avoid economic obsolescence and, from which the entire channel system can derive benefits. The franchise represents an economically significant channel relationship which serves as the arena for examining the potential for channel leadership. Channel leadership strategies lie on a continuum from simple reactive (passive) to creative proactive (active stimulants) responses to the environment. The components of a channel leadership strategy include the adoption of a marketing orientation which focuses primarily on the satisfaction of consumer needs, the use of causal, predictive forecasting tools, and the use of a very broad range of comparative reference organizations as a source for the development of organizational goals. In addition to these components, the marketing channels literature provides additional insight into channel leadership through the behavioral components of control, the desire for influence and interorganizational exchange behavior. Channel leadership as a management strategy in the franchise relationship is reflected in a long term, rather than short term, focus. Sources of power used to achieve control are noncoercive rather than coercive. Franchise agreements should be well balanced in terms of the decision variables over which the franchisee and franchisor can exercise control. A regular flow of strategic information is established between the parties and both parties are seen as valuable contributors to that flow. New products, in anticipation of consumer needs are developed. overall, an environment of flexibility is maintained within the relationship as a necessity for implementing change. The recognized importance of the marketing channel as a source of improved productivity and organizational performance has evolved over time. A proactive orientation to channel leadership, once measured, may contribute to that performance. Beyond performance, channel leadership, as a source of improved flexibility through the active management of relationships, may provide the potential for dynamic, mutually satisfying and maturing franchise relationships.

**22. Motivations for Entering Franchising and Franchisor Choice-Exploratory Insights into Similarities and Differences**

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The selection of a franchisor is a critical element to the success of an individual or group of individuals entering business through becoming a franchisee. This study is based on a questionnaire that asked a sample of current franchise owners to determine the relative importance of a list of reasons, assumed to be used in the selection of a franchisor, in the choice their franchisor contrasted to other franchisors. All of the reasons were considered of importance to varying degrees; their order of importance, in descending order, is: the growth of the franchisor's industry, the commitment of the franchisor to its franchisees, the technical support provided to the franchisees, the initial cost of establishing the franchise, the attractiveness of the investment, the management competency of the franchisor, fewer constraints imposed by the franchisor, the provision of superior training, the previous industry experience of the franchisee, the superiority of the products provided by the franchisor, and the growth of the franchisor's system. The members of the sample were also requested to list other reasons that contributed to their decision but that were not included on the questionnaire and the most cited reason was the recommendations of various franchise spokespersons. The franchise owners were requested to provide information on the history of their franchise operation (years ownership, growth of sales, level of sales, prior ownership experience) in order that it could be determined whether or not their experience with the franchisor affected the importance of the reasons for choosing their franchisor. The only logical relationship that was uncovered was that the number of years the franchisee owned the franchise outlet was positively related to the commitment perceived to be provided by the franchisor. The results of this study on the choice of the franchisor were compared to a previous study by the authors (utilizing the same sample) on the relative importance of reasons for choosing franchising as a means of entering a business rather than an independent. Many of the reasons presented to the sample member for entering business through franchising and the choice of their franchisor were parallel in content but only the superiority of an investment in a franchise relative to an independent business and in the franchise chosen relative to other franchise systems had a significant relationship.

**23. 1989 Survey of Interfirm Relations-Preliminary Findings**

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Of critical importance in business today is the development and management of effective interfirm relations with many different kinds of trading partners, including suppliers, distributors, service agencies and organisational customers. To assist them in doing business, firms develop relationships with these trading partners which often continue for a long time.
There is little systematic evidence regarding the characteristics and determinants of effective and ineffective interfirm relations. Yet this is essential if firms are to develop appropriate policies regarding their relations with other firms. The data collected in the recently completed survey provides, for the first time, a comprehensive data base of interfirm relations. This allows us to examine the factors shaping the character and effectiveness of different kinds of interfirm relations in a systematic way. This report presents some of the early findings.