

# **2004 International Society of Franchising**

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### **1. Survival of Franchising Networks in France from 1992 to 2002**

**Rozenn Perrigot, Université de Rennes 1, France  
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Franchising network performance can be measured through different indicators. In this paper, it is chosen to focus on the survival as a criterion of performance: the longer the network life, the best performing the franchising network is. But which elements can be considered as determinants of network survival? According to the population ecology theory, in a general perspective, organizations fitting environmental criteria are positively selected and survive, while others either fail or change to match environmental requirements (Aldrich, 1979). The organizations fitting the environment are, by definition, flexible. In the case of franchising, the flexibility can be reflected by plural form organizational form (Bradach, 1997; 1998).

This research therefore focuses on the link between plural form network management and survival. A descriptive analysis of the franchising network failures in France is first exposed in order to complete the works already made on the US and GB markets (Shane, 1996; Lafontaine and Shaw, 1998; Stanworth et al., 1996; 1998; Price, 1996). Then, the hypothesis to test is that plural form networks, being flexible and so fitting their environment, survive longer than predominantly franchised or company-owned networks. An amount of 952 franchising networks have been studied in the French market over the period: 1992-2002.

The paper is composed of three sections. After having presented the topic of this paper in introduction, the first section presents the literature about survival and plural form networks. The population ecology theory is here used to explain the concept of survival. The second section exposes in details the survival analysis methodology. In the third section, the application dealing with franchising network survival in the French context between 1992 and 2002 is exposed in some details. The results are also explained. The low rate of survival established from US and British databases by previous researchers has been confirmed in the sense that, also in France, over the 952 franchising networks studied during the period 1992- 2002, only 42.13% survived. And the hypothesis of Shane (1996) concerning the possible approximation between the number of network failures and the number of new franchised organization creations has been also verified: the number of network disappearances (551) is close to this of network appearances (612). As far as plural form superiority in terms of survival is concerned, it is observed that the network disappearance hazard decreases of 23.6% for plural form networks compared to predominantly franchised (and / or company- owned) networks. Finally, the conclusion sums up the results, describes implications at several levels: theoretical, methodological and managerial,

presents the limits of this work and proposed some tracks for future research at two stages: the various possible applications of survival analysis in the franchising research and the concept of plural form networks with the advantages linked to this organizational form.

## **2. Global E-Business, International Franchising, and Theory of Netchising: A Research Alliance of East and West**

**Ye-Sho Chen, Louisiana State University**

**Robert Justis, Louisiana State University**

**Heng-Li Yang, Louisiana State University**

Although there is a rich literature of e-business, doing business on the Internet is still mostly a “domestic phenomenon” of the developed countries. As globalization is unavoidable, there is an urgent need to converge e-business development perspectives from developed to developing countries. International franchising has been shown to be an effective strategy to transfer technology and emerging markets from developed into developing countries. Netchising, integrating the power of the Internet for global integration and franchise networking for local socialization, is a global e-business growth strategy gaining its popularity. Seeing the pivotal role Netchising plays in the future of Chinese economy, the International Franchise Forum at Louisiana State University and several leading business schools in China have teamed up to study the Netchising economy in China. This paper is a status report of such a recent effort. The paper develops an effectual-and-causal theory of Netchising, drawing upon six seemingly unrelated research areas of Herbert Simon (skew distributions, organizational evolution, nearly decomposable systems, entrepreneurship, organizational identification, and attention management).

## **3. The Impact of Franchising on the Return on Equity of Chains in the Restaurant Sector**

**Ilan Alon, Rollins College**

**Ralph Drtina, Rollins College**

**Jim Gilbert, Rollins College**

A debate is developing among franchising practitioners, franchising researchers, and support groups relating to the promise of the franchising method of distribution. On the one hand, many espouse franchising as a strategy for growth that limits the risk of failure. This group is typified by franchisors, franchise associations, and selected industry observers. On the other hand, another group of researchers has departed from accepted notions of the franchising success, claiming that it is no less risky than other modes of distribution. Given the apparent disagreement between the two groups, the purpose of this paper is to investigate the relationship between the use of franchising at the chain level and one measure of the chain’s financial performance, return on equity (ROE), in the context of the DuPont model. The results of our paper show no appreciable difference in the financial performance of franchising vs. non- franchising firms in the restaurant sector.

## **4. Entry Mode Choice: The Case of Franchising**

**Krista Duniach-Smith, Université Montpellier I, France**

In this study, international entry mode choice is examined in a franchise setting. As in the traditional entry mode and international franchising literatures, it is suggested that both organizational and environmental determinants influence the franchisor's choice of entry mode (direct franchising, foreign direct investment, area development agreement, joint venture and master franchising). However, the results of the Delphi panel composed of 35 international franchising experts show that international franchising mode of entry determinants differ somewhat from those identified for entry mode choice in general. Expert opinion is also used to clarify the descriptors of the various international franchising alternatives. Furthermore, valuable insight is given concerning the likely evolution of the relative importance of different franchising entry modes in the near future.

**5. Structuring Corporate Headquarters: An Investigation of Franchising**

**Jane Yang, Louisiana State University**  
**Robert Justis, Louisiana State University**

This paper focuses on the structuring of the corporate headquarters in a franchise organization. Four essential issues that are related to franchisors' organizational structure are discussed—homogeneity and heterogeneity of franchisors' structure, company-owned and franchise arrangement, the dynamics between strategy and structure, and performing innovative and administrative functions simultaneously in the headquarters. Propositions are given for each issue. The results of qualitative analysis associated with each issue are discussed.

**6. An Empirical Analysis of Territorial Encroachment within Franchised and Company-Owned Branded Chains**

**Arturs Kalnins, University of Southern California**

Franchisees within large branded chains loudly complain of a form of channel conflict known as “encroachment” or “impact.” Encroachment occurs when franchisors add new units of their brand proximately to their franchisees' existing units. Franchisees claim that their revenues have substantially decreased as a result of encroaching same-brand entry. The topic of encroachment has not only dominated franchisee association agendas and trade journal headlines, but has also become a hot topic for politicians and policymakers. Yet, until now, evidence of encroachment has been strictly anecdotal. This paper provides the first systematic evidence that encroachment is a pervasive issue. I find that when franchisors approve new same-brand units in the vicinity of incumbent units, these new units cannibalize the incumbents' revenues. In contrast to the result for franchisors, the addition of a new unit by company-owned brands in the vicinity of same-brand units is associated with an increase in the incumbents' revenues. This contrast suggests that encroaching behavior is caused by incentives that result from the governance form of franchising, and is not simply an outcome that accompanies all expansion. This finding informs theory on governance forms and exclusive territories. Implications for practitioners and policy are also discussed.

## **7. Knowledge Assets and the Governance Structure of Franchising Firms**

**Josef Windsperger, University of Vienna, Austria**

Previous studies in franchising research do not explain the governance structure of franchising firms as institutional entity that consists of two interrelated parts: Allocation of residual decision rights and transfer of ownership rights. This paper fills this gap in the literature. According to the property rights view, decision rights have to be allocated according to the distribution of intangible knowledge assets between the franchisor and franchisee and ownership rights have to be assigned according to the residual decision rights. Since ownership rights are diluted in franchising networks, the dilution of residual income rights of franchised outlets is compensated by setting up company-owned outlets. According to the property rights view, an efficient governance structure of the franchising firm implies allocation of residual decision rights according to the distribution of intangible assets between the franchisor and the franchisee and transfer of ownership rights according to the distribution of residual decision rights. We empirically investigate (a) the influence of intangible knowledge assets on residual decision rights by using a logistic regression model and (b) the relationship between residual decision and ownership rights by using a simultaneous equation model on a sample of firms from the Austrian franchise sector. Three hypotheses were derived from the property rights approach and tested in the Austrian franchise sector. The empirical results are generally supportive of the hypotheses.

## **8. Contract Design and Range of Services in Franchising: An Empirical Contribution to the Effect of Incentives and Reputation**

**Thomas Ehrman, University of Muenster, Germany**

A major problem in franchise systems is the effect of contract design and range of services on success. The study interprets the consequences of contract design in franchise chains in terms of sales. Therefore the royalty rate dependent on sales and the initial lump sum fee will be investigated. Furthermore the impact of the franchisors activities and policies on the sales volume of the franchisee will be studied. The following hypotheses reflect the impact of incentives and reputation on success

- the higher the fixed fee the higher the revenue of a franchisee
- the lower the royalty rate, the higher the revenue of a franchisee, the higher the degree of freedom for individual franchisees, the higher the revenue of a franchisee
- the higher the initial investment, the higher the revenue of a franchisee

These hypotheses are tested using a questionnaire send to a representative sample franchise systems operating in Germany . The OLS-regression results offer strong support to the tested hypotheses. The results show that high fixed fees combined with low variable fees and a certain degree of freedom for franchisees are positive indicators for a high individual revenue of a franchisee.

## **9. Multiple Unit Franchising: Australian Revelations**

**Scott Weaven, Griffith University, Australia**  
**Lorelle Frazer, Griffith University, Australia**

Multiple unit franchising appears a conceptually unsound alternative to traditional dyadic revenue sharing franchising relationships, as it does not benefit from the structural and operational synergies commensurate with ownership attention at the unit level. Previous empirical research in the United States views multiple unit franchising as a driver of system growth, promoting system-wide adaptation to competition. However, this conventional wisdom fails to consider additional motivational incentives. Moreover, anecdotal evidence in the Australian franchising sector contrasts markedly with the relationships exposed in multiple unit analyses overseas. Thus, existing franchising research may not adequately capture the range of incentives motivating an entrepreneur's decision to elect the franchising channel of distribution. Following an exploratory phase to clarify and confirm the appropriateness of the preliminary conceptual model of multiple unit franchising, a quantitative survey of Australian franchisors was conducted so as to explain the ubiquity and increasing popularity of this organisational arrangement. In general the findings of the Australian data were not consistent with the initial theory developed in this thesis, which is based upon the main extant literature. However, the results do suggest that more experienced Australian franchisors may approach the selection, recruitment and management of multiple unit franchisees in an ad-hoc fashion, which may have a deleterious effect upon the ongoing management of the franchising relationship.

## **10. The Importance of Laws in the Development of Franchise Business in Emerging Markets: The Tunisian Case**

**Beligh Ghedira, Direction des Achats Magasin Général, Tunisia**  
**Rozenn Perrigot, Université de Rennes 1, France**

Emerging economies show many advantages for franchising compared to the developed markets where the domestic saturation phenomenon reduces franchising opportunities. As investigations on franchising in North Africa are rare, we opted for the observation of franchising activity in Tunisia, a country that has managed to make significant political, economic and social progress.

This paper is built on an exploratory perspective and case studies of two franchised businesses. It highlights the differences of franchising management between domestic and international chains and evaluates the effects of regulation on the success of franchise businesses. For that purpose, we used a qualitative approach and face-to-face interviews with the Tunisian franchise El Mazraa and the French franchise Jeff de Bruges.

Analysis of the current Tunisian regulation and the two case studies shows that the foreign-brand franchisee benefited from the French regulation to establish a successful franchise business in Tunisia while the national franchise business suffered from the lack of appropriate franchise regulation. We think that it seems important for Tunisia to consider implementing a franchise law that would help building a balanced franchisor-franchisee relationship and, as a result,

competitive and fast growing Tunisian franchise businesses. Associations' role should also be reevaluated with the objective of introducing a pro-active approach that would help rise awareness about the franchising benefits and help establish fair practices.

From a future perspective, additional research on Tunisia and North Africa can help prospective foreign franchisors learn more about business opportunities in this market. Other researchers may also explore the effect of regulations on franchise businesses by considering optimal legal conditions and means for emerging markets chains to face international franchised competitors.

## **11. Franchising in Russia—Contemporary Overview with Empirical Observations**

**Noora Anttonen, University of Jyväskylä, Finland**

**Mika Tuunanen, University of Jyväskylä, Finland**

The paper makes an effort to analyze Russia as a target market for international franchisors. First, past research and literature on franchising in Russia is reviewed. The country analysis includes five parts, (1) demographics, (2) economy, (3) social and political environment, (4) culture, and (5) legislation. This is followed by a concise description of the current state of Russian franchising.

The empirical observations were gathered at the 2nd International Conference and Exhibition “*Franchising in Russia*” in October 1-3, 2003 in Moscow. An interview and a franchise catalogue are utilized to illustrate the franchising in Russia. One case, *Kodak*, is presented as an example of successful entry to the Russian markets.

## **12. Franchise Selection Processes: A Preliminary Investigation of the Decisional Criteria Used by Franchisees**

**Roger Johns, University of North Texas**

**Audhesh K. Paswan, University of North Texas**

**David Strutton, University of North Texas**

This study develops a conceptual framework of how potential franchisees evaluate their franchise option and the dimensions used during this process. A multidimensional scale item questionnaire was developed and was used for collecting data from potential franchisees. The results were used to purify the measurement scales and to get a preliminary peek into this complex process. These indicate that the schematic framework of potential franchisees' decision making process consists of factors that are anchored in (1) franchisor's strategy, policies, and actions, and (2) franchisees' hopes, aspirations, and fears. The findings hold important implications for both franchisors and franchisees - both practitioners and academics.

## **13. Franchisors' Websites: Documenting Promotional Activities**

**Joyce Young, Indiana State University**  
**Faye McIntyre, State University of West Georgia**  
**Audhesh K. Paswan, University of North Texas**

A franchisor's Web site serves as a valuable communication medium to its various audiences. For some franchisors, the Web site functions to target both franchisee prospects and potential consumers. This paper empirically examines this dual marketing approach by documenting various web activities found on franchisor Web sites. We examined the Web sites of all the franchisors listed in the Franchise Times Top 200 Franchise Chains based on 2001 worldwide sales.

Franchise systems with greater numbers of domestic franchisees are less likely to recruit domestic franchisees via the Web site than systems with fewer numbers of domestic franchisees. They are also more likely to recruit franchisees interested in international sales opportunities via the Web site than systems with fewer numbers of domestic franchisees. In terms of the mean percentage of franchised units per franchisor, the greater the percentage, the more likely the franchisor will utilize the Web site for solicitation purposes.

An overwhelming 96 percent of franchisors provide a means to locate store units using their Web sites. A strong majority of franchisors use their Web sites to facilitate consumer sales promotion activities. The most common type of promotional activity was coupons. On-line sales (by either the franchisor and/or franchisees) were indicated by 32 percent of the franchise systems.

#### **14. Are Franchisees Potential Competitors? A Study of Franchisees Who Exit the System but Continue Operating**

**Lorelle Frazer, Griffith University, Australia**

This research considers the issue of franchisees who exit the franchise system in order to continue operating independently. The literature regarding incentives for entering franchising is reviewed to reveal why franchisees become dissatisfied and leave. The nature of the franchising relationship and, in particular, the use of power by the franchisor is explored. Franchisors and their ex-franchisees are interviewed to uncover some preliminary insights into this phenomenon. Tentative explanations concerning the effectiveness of contractual remedies, dissatisfaction with the franchise, level of dependence and expectations in the relationship, and franchisor-franchisee goal incongruence are proposed. Further in-depth research into this issue is recommended.

#### **15. Matching Franchisor-Franchisee Roles and Competencies**

**Jolene Lim, Southern Cross University, Australia**  
**Lorelle Frazer, Griffith University, Australia**

This article develops a model to understand the roles and contributions franchisors and franchisees made to the franchisor-franchisee relationship, as well as the competencies and qualities each party needs to possess in order to play their respective roles effectively. The model was developed by understanding the motivations for franchisors and franchisees to enter into the franchising relationship.

Literatures and pilot interviews suggest that franchisors franchised their business as opposed to expanding via corporate expansion because they view franchisees as a source of capital for expansion as well as a good source for motivated and committed labour. Franchisees, on the other hand, preferred to be part of a franchise system as opposed to be part starting up their own individual business because of the well-known brand name and the support services provided by franchisors. As such, franchisors need to possess vast experience in the industry and business, as well as strong market knowledge, possess the relevant management skills and right attitudes so as to successfully guide franchisees. Franchisees will need to have sufficient capital for the business as well as having a positive attitude to learning and acquiring new skills, as well as being willing to work hard to ensure success of the business.

## **16. The Future of Franchising in a Mature Sector: An Australian Perspective**

**Owen Wright, Griffith University, Australia**

**Lorelle Frazer, Griffith University, Australia**

Franchising in Australia is reaching a stage of saturation and maturity. This paper explores the reasons behind the recent decline in growth in the sector. It is proposed that macro economic forces and regulation of franchising are major contributors to this decline. Early theories of franchising, which attempt to explain why this method of distribution flourishes, are examined and found to be inadequate in accounting for current trends in the sector. The paper proposes that the wide variety of franchising arrangements that have evolved have occurred in response to the sector's need for continued growth in order to survive. A case study on the reasons why McDonald's have developed the McCafe concept in Australia is also proposed.

## **17. Sex Discrimination in the City: Perceptions of the Differences in Between Treatment of Men and Women in U. S. Franchised Hotel Chains**

**Christian Hardigree, University of Nevada—Las Vegas**

**Brian Tyrrell, University of Nevada—Las Vegas**

**Skip Swerdlow, University of Nevada—Las Vegas**

**Wesley S. Roehl, Temple University**

An observer today may think, or perhaps wish, that a workplace is where women and men coexist at all levels of the organization, and that we have come a long way as a society. Some evidence of progress exists. In 1963, the US Equal Pay Act mandated equal pay for equal or



similar work between men and women. Moreover, Title VII of the US Civil Rights Act of 1964 outlawed discrimination on the basis of sex. Yet in spite of these legal efforts, 41 years later, a review of today's newspapers, trade press, and academic journals reveals that the business environment is still a work-in-progress. Employment discrimination still exists, and if the legal mood is any clue, evidence of it is growing at an alarming rate. The statistics on the Equal Employment Opportunity Commission (EEOC) webpage show that in 2002, 84,442 total discrimination charges were filed, the highest year thus far (EEOC, 2003a). The EEOC site states that approximately 80,000 charges are filed each year (EEOC, 2003b). This is in addition to whatever may have occurred at the state, local, and federal agency levels.

In the present study the researchers have employed two surveys to examine the attitudes of managers and employees in franchised lodging operations throughout the US. Specifically, attitudes toward issues of sex discrimination in the US were reviewed to assess their potential effect on productivity and customer service. These results mimic the research in sex discrimination studies and the general belief that it exists in the workplace. Specifically, women believe that discrimination exists to a greater degree than men. Furthermore, managers believe that discrimination exists to a greater degree than their subordinates. Notably, the results of this study indicated that there was less evidence and awareness of sex discrimination in the franchise hotel industry than in the organizations surveyed in other segments of the hospitality industry. In spite of what may seem to be confusing or contradictory results, a significant number of franchise hotel employees do believe that sex discrimination exists to some degree and that opportunities and the work environment could be more favorable.

Recommendations for ensuring a fair and equitable workplace include intense audits of all printed information at the franchisor and franchisee level for gender neutrality, assignment of tasks on the basis of behavior rather than gender, creating a work environment that is reinforced by attitudes that deal with the sexes equally, development of such programs as cross-cultural awareness, employee development, and training to help supervisors deal with the family issues of their employees, as Marriott and others have done, mentoring programs for women, and lastly an understanding that dysfunctional attitudes and behaviors have the potential to taint an entire organization. The last point is especially risky because of the interdependent nature of the franchise organization. The nature of this type of organization is to align itself in important respects within the properties of each franchise operator as well as with the standards of the franchisor. These areas of independence may also work against the mission of the company if dysfunctional attitudes and policies exist (or appropriate policies do not exist) in the system, such as those that would encourage or allow sexual harassment. A problem in one location may signal a systemic problem in the franchisee's location(s), or entire system, including the franchisor as well. The franchisor's responsibility here is to create and implement an audit process, training, clear policy statements, and efforts to effect a healthy system culture.

## **18. Franchising, Relational Contracts and the Vibe**

**Andrew Terry, University of New South Wales, Australia**

There is increasing recognition academic and judicial, that traditional classical contract law which grants primacy to the written agreement is inappropriate in the case of ongoing, interdependent and cooperative relationships such as business format franchising which exists in

a world of “contractual incompleteness and relational complexity”. It is argued that in contracts of a relational nature obligations arise not only from the written contract but from the norms of the ongoing relationship which supplement the express contractual obligations.

*Dymocks Franchise Systems (NSW) Pty Limited v Todd & Ors* (2002) 7 NZBLC 99- 562, an appeal to the Privy Council from the New Zealand Court of Appeal, has provided the first opportunity for judicial analysis at the highest level in Anglo- Australasian jurisdictions of the relational nature of franchising and its implications. Although the invitation to embrace the relational contract model was not accepted – the judgment does not refer to the literature or even use the term “relational” – the Privy Council acknowledges that franchise agreements are “not ordinary commercial contracts”. This paper argues that, despite the Privy Council’s failure to expressly adopt relational theory, relational considerations clearly underlie and influence its judgment which supports the primacy not of the narrow contract provisions but of the wider franchising relationship.

## **19. Social Franchising as Organisational Format –An Overview**

### **Anita Du Toit, Franchising Plus, South Africa**

This paper aims to provide an overview of the phenomenon termed as social franchising. Social franchising is also known as not-for-profit franchising and entails the implementation of franchise mechanisms to achieve social rather than commercial goals. The paper is a study of the limited literature available and introduces the concept of social franchising. The difference between social franchising and social enterprise is explored and a formal definition of social franchising is provided.

The possible applications for social franchising are explored with regards to examples of current systems and the different market sectors in which the mechanism may be applicable. It would seem that social franchising is prevalent in the health sector, specifically the reproductive health sector. It is also argued that social franchising is an appropriate mechanism for the application of donor funds, since the structures and procedures of a franchised system lends itself to monitoring and quality assurance. With this mechanism, the duration of donor funds may be extended through increased sustainability at the franchisee level. The benefits of franchising, including training and ongoing support, contributes to the increased likelihood of survival and sustainability at the franchisee level. Fractional franchising as a method of implementation is also discussed. The paper concludes with an example of a social franchise operated in India.