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1. **Adoption of e-Business by U. K. Franchise Systems**

   Anna Watson, University of Surrey, United Kingdom

This paper considers the adoption of e-business by UK franchise systems. The implications of internet technology, for both external marketing and internal communication purposes, are discussed. In addition, the legal implications for franchise systems are explored in the light of European Union legislation which deems internet sales as passive. The findings from a survey of the UK franchises are reported, and possible implications for franchise operations discussed.

2. **Interpreting Earnings Claims Information: An Empirical Investigation**

   Frank H. Wadsworth, CFE, Indiana University Southeast

   William Slater Vincent, JD/MBA, Oglethorpe University

When investigating a franchise opportunity, many prospective franchisees want information about possible financial returns to the business. While many franchisors have franchisee financial information, the majority of franchisors do not share this information with potential franchisees. Using a database and experiment, this study looks at the prevalence of earnings claims (Item 19) in Uniform Franchise Offering Circulars (UFOC's). Almost half of the forty franchise systems in the database make some type of earnings claims. Experimental results show potential franchisees want more financial information and believe the business did not fully disclose financial information. However, prospective franchisees' ability to correctly and accurately recall financial information is negatively correlated with the amount of presented financial information. Some existing franchise systems do not precisely present financial information in their UFOC Item 19 Earnings Claims. The presentation of statistical information needs to be prepared by someone with knowledge and training in statistics to increase the accuracy of the financial information presentation.

3. **Services vs. Retail Networks: Are There Any Differences? An Empirical Look at the French Franchised Networks**
   Rozenn Perrigot, International School of Business (ESC Rennes), France

Even if franchising is now everywhere, there are still some differences, for instance according to the geographic area or according to the sector of activities. Several multi-countries studies have already highlighted some of these differences. Nevertheless, as far as the sector of activities is concerned, researchers have not focused on the differences between different kinds of networks. In this paper, I focus on the differences between services and retail networks in terms of age, size, plural form, internationalization, and contracts terms. The empirical study concerns more than 500 networks located in the French territory. Results could help the prospective franchisees to better understand these two kinds of networks before choosing one particular sector of activities, and the franchisors to take into account these differences in the creation and management of his/her network.

4. Asset Specificity of Franchisees and the Proportion of Outlets Franchised

Aifei Tang, Beijing Normal University, Zhuhai Campus, . R. China

This paper incorporates the construct of transaction-specific investments with the management of the franchisor-franchisee relationship, discussing the effect of franchisee asset specificity on the governance efficiency in franchising networks. It is argued that the specific assets in the franchised outlets bind the franchisees to their franchisor, facilitating the network expansion through franchising. Using the public data from the China Franchise Expo 2005, the research studies the link between the idiosyncratic investments by the franchisees and the proportion of the outlets franchised. The results of this research suggest that the specific assets of franchisees contribute to a strengthened relationship between franchisor and franchisees.

5. Incidence of Plural Forms in Franchise Networks: Exploratory Comparative Empirical Insights from USA, France, and Brazil

Rajiv P. Dant, University of South Florida
Rozenn Perrigot, International School of Business (ESC Rennes), France
Gérard Cliquet, University of Rennes 1, France

This paper explores the incidence of the phenomenon of plural forms (i.e., the simultaneous co-existence of franchised and company-owned outlets) in franchising across three countries from three continents, namely, the United States, France and Brazil in what is ostensibly the first cross-cultural comparison of its kind. Drawing on 2003 secondary data taken from the Entrepreneur's Annual Franchise 500 (2004) for USA, the 2004 Guide of Opportunities in Franchising published by the Institute of Franchising for Brazilian data and the 2004 Franchising Directory published by the French Federation of Franchising for French data, we carry out a series of inferentially-grounded analyses involving the plural forms phenomenon from an exploratory perspective. Although, subsequently, comparative regression models are also evaluated using various purported determinants of the incidence of the plural forms, the character of the paper remains essentially exploratory. The results show that the proportion of company-owned outlets is almost three times greater in France and Brazil as compared to the U.S.; in addition, the three countries differ along a number of related variables, buttressing the need for mounting additional and more expansive cross-cultural investigations.

6. Why Do Franchisors Combine Franchisees and Company-Owned Units?

Thomas Ehrmann, University of Muenster, Germany Georg Spranger, University of Muenster, Germany

This empirical work explores the strategic motivation of franchisors to combine franchised and company-owned stores when structuring their distribution networks. In the United States, such plurally organized chains have already outnumbered purely franchised competitors. Based on a review of existing research work, we explain how plural franchise chains theoretically outperform purely franchised or wholly company-owned systems through realizing cost reduction, quality enhancement, growth stimulation and optimized control of business risk. We then challenge these theoretical explanations with the historic data of 925 US-franchise systems, covering almost twenty years of franchise development. While we find little or no support for those strategies - cost, growth and risk improvement - that tend to benefit the franchisor at the expense of franchisees, our data reveal strong support for the quality arguments. By combining a plural form structure with high franchise fees and low royalty rates, franchisors signal outsiders to be a reliable and cooperative principal. By simultaneously operating company- owned stores and independent franchise outlets, chains successfully force themselves into cooperational and less opportunistic behavior towards their franchisees and (thus) manage to attract more and better members to join the system.

7. The Development of Franchising in China

Zhiqiong (June) Wang, University of New South Wales, Australia

Mingxia Zhu, University of International Business, P. R. China

Andrew Terry, University of New South Wales, Australia

Franchising as a method of business operation was introduced to China by US fast food pioneers in the late 1980s in an environment which was by then increasingly receptive to foreign investment and western concepts under Deng Xiaoping's economic reforms and open-door policies. Since the introduction of franchise regulations in 1997, the Chinese franchising sector has grown rapidly through its adoption by both international and domestic franchising companies. With 2,100 franchise systems, China is already the most franchised country in the world in terms of systems, although the scale of operations is still limited. Given the vast potential of China as a consumer market and the proven successes of franchising, the future development of franchising in China is assured. This paper outlines the history and the development of franchising in China, addresses the challenges and opportunities for both domestic and international franchise companies, and discusses the future development of the Chinese franchise sector.

8. Do Franchise Agreements Need to be Fair and Reasonable?

Frank Zumbo, University of New South Wales, Australia

The question of whether or not the judiciary or the legislature should impose a requirement that franchise agreements be fair and reasonable is a longstanding and difficult one. At the heart of the question is the need to balance a franchisor's ability to maintain the integrity of the franchise system by being able to enforce franchisee conformity with that system, and ensuring that a franchisee's contractually captive status is not exploited by the franchisor through the inclusion of contractual terms in the franchise agreement that are not reasonably necessary for the protection of the franchisor's legitimate interests. Within this context the paper will consider whether or not existing Australian laws allow sufficient scope to deal with allegations that a franchisor has included contractual terms in a franchise agreement that are not reasonably necessary to protect the legitimate interests of the franchisor. Where existing laws are found to be lacking, the paper will explore possible new legislative frameworks that could be implemented to allow judicial consideration of allegedly unfair contractual terms.

9. Standard Form and Relational Aspects of Franchise Contracts

Liz Spencer, Bond University, Australia

This paper is the first to focus upon the synergistic effects of the standard form and relational aspects of the franchise contract. It may be accepted that franchise contracts are standard form, but some still dispute the proposition. It may be accepted that franchise contracts are relational, but the exact implications of this are not certain. The first part of this paper, therefore, seeks to establish that the franchise contract does indeed combine each of these characteristics. It then considers the ramifications of each independently. These ramifications are then considered for their combined effects. It is argued that the interaction of the standard form and relational qualities in the contract reduces the effectiveness of the contracting process. First, both the standard form and the long-term qualities of the contract have the effect of taking bargained-for exchange as well as control out of the hands of the contracting parties. Second, the relational and the standard form qualities combine to encourage the inefficient shifting of risk. Thirdly, these two aspects of contract call for inconsistent approaches in enforcement and interpretation. Further research is needed to assess these impacts in order to inform a determination of what might be done to address them. This article considers some of the measures that might be used to ameliorate these effects; it explores the potential for some mechanisms to restore balance to the agreement without depriving it of its utility as the foundation for a successful franchise relationship. The article concludes that greater participation by stakeholders, in particular by franchisees, is an important means to ameliorate some of the inherent weaknesses in contracts of this nature.

10. Is there a Basis for Equating Franchisees with Employees in Priority Ranking on the Insolvency of Franchisors?

Jenny Buchan, University of New South Wales, Australia

Is there a Basis for Equating Franchisees with Employees in Priority Ranking on the Insolvency of Franchisors? This paper presents the current Australian courts' definitions of employee and independent contractor. It highlights where the franchisee fits, being indistinguishable at times from an employee and at other times from an independent contractor. The paper examines the policy behind insolvency legislation in Australia and queries whether it would be appropriate to accord franchisees specific status in the franchisor's insolvency; like that enjoyed by employees. In most situations, the definition is relatively unimportant. The Franchise Agreement, ancillary contracts and the Trade Practices Act 1974 (Cth) regulate the franchisor/ franchisee relationship. If the franchisor becomes insolvent, the failure of the law to keep pace with the franchise business model is brought into sharp focus. Whereas the employee and the independent contractor have clearly understood rights, enshrined in statute, the franchisee has no specific rights. Unless the franchisee is a creditor of the franchisor, it does not have a right to attend creditors meetings. At its most vulnerable, the franchisee is categorized as an asset or a liability in the insolvent estate. The franchisor - franchisee relationship, however, has many features that make the franchisee more vulnerable than an employer whose employer becomes insolvent. If the franchisor becomes insolvent, the franchisee may lose the value of sunk investments, the right to occupy premises, and may not be able to free itself from onerous contracts that were only entered into because of its position as a franchisee.

11. **Strategic Choices in Franchise Systems**

Evelien Croonen, University of Groningen, The Netherlands

The objective of this paper is to provide an understanding of strategic choices that franchisors have to make in dealing with March's exploration-exploitation paradox in managing their franchise systems (March, 1991). This paradox is a very fundamental and complex paradox for every organizational form, and franchisors also have to deal with it in managing their franchise systems. This paper first discusses the importance of managing exploration and exploitation in franchise systems and then discusses how this paradox manifests itself in such systems. The paper distinguishes five 'franchise system characteristics' on which franchisors have to make strategic decisions in dealing with the above paradox: the positioning of the system, the system's degree of hardness, the system's rate of innovation, the organization of franchisees' strategic participation and the type of growth objectives for the system. Moreover, the paper discusses propositions about relations among these franchise system characteristics. Understanding these characteristics and the relations among them provides franchisors a better insight in how they can deal with the exploration-exploitation paradox. This is especially important since in recent years this paradox has become even more apparent due to rapid technological and market changes, changing customer tastes and shortening product/service (and business format!) life cycles.

12. **Value Networks in Franchise Organizations: A Study in the Senior Care Industry**

Ye-Sho Chen, Louisiana State University

Robert Justis, Louisiana State University

Soushan Wu, Chang-Gung University, Taiwan

Value networks are webs of dynamic exchanges between participants in groups of organizations that generate tangible and intangible value. The study of value networks gains its popularity lately due to the increasing interest in social capital obtained through addressing the issues of social responsibilities and environmental health. In this paper we show how franchise organizations can create their own value networks to gain social capital. The paper has three major contributions related to the fundamental elements of value networks: content, context, and carriers. First, we discuss how franchise content is created and evolves. Second, we discuss the social context of franchise organizations and how they are bounded by the environmental constraints. Third, we discuss the importance of breeding carriers of value creation and propagation. Furthermore, we propose an airplane-like model to breed carriers in franchise organizations. For the purpose of illustration, we use the senior care franchises in our study. As the baby boomers are aging, there is a growing population of seniors. Many new companies have found the vital role of franchising in the senior care industry and are using franchising as a growth strategy. Thus our choice of senior care franchises for the discussions is timely and significant.

13. A Franchisor Decision Making Matrix for Structuring the Chain

Thomas Ehrmann, University of Muenster, Germany

Georg Spranger, University of Muenster, Germany

Early research work theorized franchising to exist because Hybridal Form Benefits (HFB) are achieved by the franchisor. Compared to the full hierarchy, franchising was held to reduce agency costs, to overcome resource scarcity and to enable risk sharing. Lately, the focus has shifted to an enquiry into the parallel use of franchise and company-owned outlets - the plural form - to provide the chain with Plural Form Synergies (PFS). More so than wholly franchised or entirely integrated systems, plural forms may align the interests of diverse actors, signal profitability, enhance innovation speed and increase inter-firm competition. Due to costs specific to each form, net HFB (HFBnet) and net PFS (PFSnet) evolve as organizational decision variables. Within this article we analyze both HFB and PFS, we review their influence on the process of structuring the chain and develop a decision matrix to aid franchisors improve their distributional setting. Accordingly, if neither positive HFBnet nor PFSnet are realized, full ownership is efficient. In a state of positive HFBnet only, the chain should be fully franchised. If only PFSnet are positive, the chain will be structured either plurally or fully company-owned depending on the impact of possibly negative HFBnet! For a positive HFBnet and PFSnet finally, plural forms prevail.

14. Franchising and Innovativeness: The Consumer's Perspective

Audhesh Paswan, University of North Texas

Mohammadali Zolfagharian, University of North Texas

This study investigates innovativeness in franchise service offerings by viewing it from a consumers' perspective, and the contingent effects of franchise organization's strategic orientation and consumer dispositional innovativeness. It attempts to detail the dimensions of franchise service innovativeness and suggests a conceptual framework for better managing such an effort. Activities and elements of franchise service innovativeness could be grouped into three broad areas - service creation and delivery dimension; service delivery facilitators or enhancers; and the service core. Elements of inbound dimension, as suggested by the literature, augment these three dimensions. As regards the contingent effects, this study suggests that the franchise firm's strategic orientation has a strong influence on what areas of innovativeness the franchise organization will focus, whereas consumer innovativeness will influence the effectiveness of innovativeness in various dimensions.

15. Service Quality in the Franchised Motor Vehicle Industry in South Africa: An Exploratory Study
Adele Berndt, University of Johannesburg, South Africa
Frikkie Herbst, University of Johannesburg, South Africa

The retail motor industry in South Africa is characterised by a number of franchise dealership networks representing all brands. These dealerships are responsible for the sales and servicing of new vehicles while under warranty or full maintenance agreements. Service quality is an important aspect to the dealership network as it is the basis for their retention of the franchise. The importance is seen in the collection and use of Customer Satisfaction Indices (CSIs). The purpose of this paper is the investigation of the recognized dimensions of service quality within a dealership (or one franchise unit). The study is an exploratory one as no previous research has been undertaken in this environment in South Africa. The research made use of a SERVQUAL instrument (in the form of a self-completion questionnaire) and a convenience sample. The findings of the research indicate the identification of four factors that are regarded as important to customers in the vehicle service environment, namely employee/commitment quality, tangible quality, promise/delivery quality, and communication/interaction quality. The managerial implications of the findings indicate that these factors affect long-term customer satisfaction and hence require the attention of management, especially in the light of record motor car sales in 2004 and 2005.

16. Competition in Franchising: Brand Concentration, Saturation, and Performance in Limited Service Restaurant Markets
Robert Stassen, University of Arkansas

Business format franchising agreements provide the franchisee with the rights to use the trademarks of the franchisor and territorial exclusivity. Both rights provide protection from competition and superior sales revenues, and offer the promise of higher sales per store than could be realized from a non-franchised format. Recently released Economic Census statistics for franchising indicates increasing competition in the limited-service restaurant sector in terms of revenues. Summarizing, franchising is showing minimal growth in overall revenue, relatively low growth in sales per establishment, and a decline in share from 82 to 67 percent of overall limited-service restaurant revenues since 1997. This study uses the 1997 and 2002 Economic Census data for sales per establishment measures of performance and

examines the effects of market structure and concentration in a cross-sectional analysis of 55 metropolitan areas. Counter to expectations from traditional perspectives on market concentration, four and eight firm concentration ratios of outlets and revenue are shown to be negatively related to sales per establishment, an as such, indicators of higher market competition or market saturation. Further, typical measures of market saturation, such as establishments per person, were found to be independent of performance, and in the case of franchised establishments, indicative of higher performance.

17. Franchising – Multifaceted Form of Entrepreneurship

Mika Tuunanen, University of Kuopio, Finland

Frank Hoy, University of Texas at El Paso

Jenni Torikka, University of Jyväskylä, Finland

The present study takes an entrepreneurship viewpoint to franchising. To create a theoretical background, past franchising literature was reviewed and prior studies considering franchising as entrepreneurial activity were analyzed. The literature analysis showed that prior franchising studies have rarely regarded franchising as a form of entrepreneurship. Likewise, theories explaining the birth, growth and survival of franchising are rather distant from entrepreneurship. However, recent franchising enquiries have taken an approach that comes closer to entrepreneurship. Franchising is a rapidly growing form of business in several countries around the world and its importance in the global economy increases.

18. The Franchise System as a Context for Entrepreneurship: Some Preliminary Findings

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David Kirby, University of Surrey, United Kingdom
Anna Watson, University of Surrey, United Kingdom

There is considerable debate amongst academics and practitioners over whether operating as a franchisee represents a 'true' form of entrepreneurship. While franchisors are widely regarded as entrepreneurs, the status of the franchisee remains one of the most controversial issues. As such, this paper explores whether franchise organizations have policies that allow franchisees to engage in entrepreneurial activities within their outlets. Specifically, the study focuses on whether franchisors seek to recruit entrepreneurial individuals as franchisees, and whether they provide processes that allow their franchisees to undertake innovative activities within their outlets. For this purpose, a focus group was conducted at the May 2005 19th Annual International Society of Franchising Conference in London, U.K., and a survey was conducted at the October 2005 National Franchise Exhibition in Birmingham, U.K. A high proportion of the systems surveyed at the exhibition (between 55 and 78 percent) reported that they have procedures that allow franchisees to engage in innovative activities within their outlets. Franchisors also indicated that, to a large extent, they seek to recruit franchisees with entrepreneurial qualities. These findings contribute to a better understanding of entrepreneurial activities within franchise systems.

19. International Branding Issues in International Franchising

Andrew Terry, University of New South Wales, Australia

The territorial nature of national trade mark systems provides opportunities for "passive name pirates" operating legally, but perhaps unethically, as well as for local enterprises whose adoption of a name trade marked overseas may be coincidental and serendipitous, to defeat the local claims of the owner of the foreign protected mark. This can be a massive frustration to an overseas franchise system which has not secured local trade mark rights prior to international expansion. It can also be a costly exercise as buying back the right to use "its" trade mark is the manner in which such complications are frequently resolved. This paper addresses the protection, or the lack thereof, for international business reputation from the perspective of the foreign franchise system expanding operations to Australia.