

# **21st Annual International Society of Franchising Conference**

**Caesar's Palace**

**Las Vegas, Nevada**

**February 24 and 25, 2007**

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### **1. Inter-Firm Allocation of Decision Authority and Productive Efficiency: The Case of Franchising**

**Julian Dormann, University of Muenster, Germany**

**Thomas Ehrmann, University of Muenster, Germany**

**Olivier Cochet, University of Muenster, Germany**

Advancing upon our understanding of how the assignment of decision authority between partnering firms affects performance, we empirically test the relationship between centralization and productive efficiency in franchise networks. Adopting the contingency framework of the positive agency theory, we submit that the effect of centralization on productive efficiency is moderated by (1) the distribution of specific knowledge assets between the parent company and its franchisees as well as by (2) the provision of incentives to motivate franchisor effort. Estimating productive efficiency using Data Envelopment Analysis, we test our hypotheses on a sample of 83 business-format franchisors operating in Germany. The empirical results provide partial support for our predictions. Implications for practitioners are derived.

### **2. The Effect of Social Structure on the Exchange of Inter-organizational Relationships: A Network Embeddedness Approach**

**Fiori Zafeiropoulou, Brunel University, United Kingdom**

**Adrian Woods, Brunel University, United Kingdom**

We attempt to investigate the dynamics of social structure in shaping economic life and exchanges in interorganizational relationships. Research suggests that a new form of interorganizational relationships is emerging, the network structure, of which an important form is franchising, which cannot be sufficiently understood through the traditional perspectives. The network perspective is based on the notion that economic actions are influenced by the social context in which they are embedded and that actions can be influenced by the position of actors in social networks. In order to capture the elements of the networks of social relations that govern franchise organizations we have analyzed it through the perspective of network embeddedness theory.

Embeddedness-both relational and structural- is a property of structures in which actors that are integrated in interconnected relations of social networks face different sets of opportunities and constraints than those who don't have such connections (Granovetter, 1985). The features of the social relationship between a pair of actors in a network, serve as imperfect substitute for the assurances provided by money in an economic system (Marsden, 1983). Relational exchange is the extent to which relational norms exist in a relationship between contracting actors. The

relational elements of embeddedness are trust, commitment, solidarity, mutuality, flexibility, role integrity, harmonization of conflict, and restraint of power. We are investigating the influence of these elements to the formation of franchise networks, the selection of partners, its governance structure, and its subsequent performance with the aim of concluding whether network embeddedness can explain the franchise phenomenon at both a domestic and an international level. Taking into consideration that nations differ, relational and structural embeddedness will vary from one culture to another.

Based on our hypothesized relationships we have created our theoretical model, the Franchise Network Model. We are conducting a postal survey at an inter-European level on a sample of organizations that fit in the Franchise Network Model's Matrix, which distinguishes firms based on two contingencies the technological component and the business concept. A close-ended questionnaire has been designed from the operationalisation of the constructs of our theoretical model.

### **3. An Exploratory Study of Franchise Satisfaction and Intention to Renew the Franchise Contract: A Case of Ice Cream Franchising in Korea**

**Yae Sock Roh, Central Michigan University**  
**Ji-Hwan Yoon, Kyong won University, Korea**

This study investigates franchisees' satisfaction based on franchisors' pre-opening support, central purchasing, congeniality and on-going business support. In addition, the study further examines satisfaction attributes that determine franchisees' intention to renew the contract.

The sample was drawn from ice cream franchising operations in Seoul, South Korea and its vicinity. Personal interviews were conducted with local franchisees and store managers. Immediately following these interviews, self-administered questionnaires were completed. While franchisees are least satisfied with their franchisors' on-going business support, it is the most significant element in determining their intention to renew the franchise agreement. The results of the study should offer valuable insights for strategic management of the international franchisor. The study also suggests areas to improve in order to maintain a positive relationship between the franchisor and the franchisee.

### **4. Is A Franchisee an Entrepreneur or Employee? An Exploratory Investigation of Perceptions About Being A Franchisee**

**Audhesh Paswan, University of North Texas**  
**Roger Johns, University of West Georgia**

This study explores the question – 'Is a franchisee an entrepreneur or an employee'? Using survey data from respondents who currently work for an existing firm, own an independent business (including a franchise business), this study empirically investigates the relationship

between two key motivation dimensions – achievement and safety, and perception about a franchisee. This study also investigates whether personal characteristics (current job experience, future career aspirations, and gender) influence these perceptions. The results indicate that safety motivation has the strongest relationship with perceptions about being a franchisee. In addition, respondents who own or want to own an independent business tend to view being a franchisee as an employee, than respondents who currently work for an existing firm. Also, men tend to view franchisee more like an employee, than women. These findings have interesting implications for franchisee selection, franchisee satisfaction, and targeting decisions.

## **5. Exploring the Differences Between Franchisee Entrepreneurs and Nascent Entrepreneurs**

**Mark Sardy, Rollins College**

**Ilan Alon, Rollins College**

This paper is singular in using PSED dataset for deriving a better understanding of the nature of nascent entrepreneurs as compared to franchisee entrepreneurs. We used previous studies on the differences between the two groups and developed variables divided into three dimensions: (1) prior experience, (2) growth objectives, and (3) motivation and risk. Jonckheere-Terpstra tests, Chi-Square tests, F-tests and logistic regression models detected differences in all three dimensions. The conclusion is that franchisee entrepreneurs in the United States of America are distinctive in their characteristics. As compared to nascent entrepreneurs, franchisee entrepreneurs have less experience, less confidence in their skills, less capital, more aspirations for larger organizations, less confidence in their abilities to make the business a success, and more belief that their first year income will be stable.

## **6. Self-Assessed Leadership Hope Level of Franchise Systems: Franchisees, Top Executives and Franchisors**

**Dianne Welsh, The University of Tampa**

**Robin Di Pietro, University of Central Florida**

**Denver Severt, University of Central Florida**

**Peter Raven, Seattle University**

The hope level of the leadership in franchise systems, franchisees, top level executives, and franchisors are differentiated in the current study in order to add to the current understanding of the role of the positive construct of hope in franchising and entrepreneurship and to help franchise systems improve efficiency. The concept of hope is a psychological construct that has been studied thoroughly in the academic and athletic areas, as well as in the psychological literature. Hope has not been studied in the context of franchising in the U.S. as of yet and has only had limited research in business in general. For scholars, the dynamic relationship between

entrepreneurship, franchisees, and management is an important and developing triangle in the organizational behavior literature which merits further investigation. Understanding how hope levels differ between these groups will provide yet another link in the knowledge base of the field.

### **7. Barriers to Franchising: The Case of Egypt**

**Hanane El Zeini, University of Alexandria, Egypt**  
**Gérard Cliquet, University of Rennes 1, France**

This paper is concerned with exploring the factors that prevent the use of franchising by Egyptian entrepreneurs, as a means of growing their businesses. The findings indicate the importance of the environmental, cultural and personal factors in promoting or inhibiting the adoption of the franchising concept.

### **8. The Issue of Brand Uniformity in Franchising**

**Odile Streed, Concordia College**

Developed on a model of standardization, and uniformity, business-format franchises are likely to experience growing individualization of demand, from franchisees and final customers. Therefore franchisors may need to evaluate localization, adaptation and mass-customization alternatives in order to satisfy both global and domestic franchisees and customers. However, changes to the business model could jeopardize their brand integrity and ultimately reduce brand equity. Although we do not know whether localization, adaptation or customization will result in higher brand equity, we can assume that it will result in increased brand loyalty, customer satisfaction, and employee satisfaction. The purpose of this paper is to review the existing literature on the topic and to build some groundwork for future research. The key question will be to determine which level of localization and/or customization could be beneficial to both employees and customers and which components of the brand could be safely customized while preserving the integrity of the brand.

### **9. The Impact of the Internet on Franchise Recruitment**

**David Fleming, University of South Florida**  
**Rajiv P. Dant, University of South Florida**  
**Ivan Lapuka, University of South Florida**

This paper creates a conceptual framework for studying how the Internet has changed the development of new marketing channel relationships within franchise systems. Specifically we draw on the rich tradition of diffusion of innovation research in Marketing to develop many of

the propositions, but we also include recent research from Information Technology on determinants of the diffusion of high tech innovations in a corporate setting. These propositions come together to create a model of adoption of Internet-based new franchisee recruitment and, combined with a cost-benefit analysis, show why it is desirable for franchisors to adopt these technologies. We also draw on the research of Fichman and Kemerer (1999) to explain why there is likely to be a gap in the percentage of companies employing Internet based franchise recruitment and its use by potential franchisees.

## **10. Multi-Outlet Franchising – Implications for Theory and Practice**

**Anna Watson, University of Surrey, United Kingdom**

**John Stanworth, University of Westminster, United Kingdom**

**David Purdy, University of Westminster, United Kingdom**

**Simon Healeas, University of Westminster, United Kingdom**

**Richard Holden, Lloyds TSB Bank plc**

Multi-unit franchising is prevalent in the US, but in the UK multi-unit franchising has not been widely used. This paper, therefore, seeks to explore why this might be the case, through a consideration of relevant theoretical frameworks. Whilst evidence from the US suggests that multi-unit franchising can help drive system growth, it is not without its problems. Certainly for UK systems where franchisee recruitment is a particular challenge, multi-unit franchising may suggest a possible solution to continued expansion. However, by adopting a multi-unit strategy many of the motivational issues that traditionally franchising sought to redress may be reintroduced, with multi-unit franchisees having responsibility for monitoring and controlling unit managers, with its pursuant difficulties. Indeed, multi-unit franchisees are likely to need rather different skills and competencies than a single unit franchisee. This paper considers research evidence from outside of the US in order to provide new insights into this phenomenon, and tries to explain why multi-unit franchising appears to be more prevalent in some countries and sectors compared with others. A number of areas for future research are highlighted.

## **11. A Typology of Franchisee Responses During Strategic Change Processes**

**Evelien Croonen, University of Groningen, The Netherlands**

**Maryse Brand, University of Groningen, The Netherlands**

Franchise systems do not differ from other organizational forms in their need to react to an increase in competitive pressure by implementing strategic changes. Although strategy formulation is mainly the franchisor's task, real strategy implementation largely depends on the franchisees. Franchisees are legally independent and intelligent players, who may adopt several responses in reaction to strategic changes initiated by the franchisor. This article develops a typology of franchisee responses during strategic change processes and explores the causes and consequences of these responses. Based on in-depth case studies of four Dutch retail franchise chains, this article proposes a franchisee response typology for dealing with strategic change that is based on the well-known exit, voice, loyalty, neglect (EVLN) typology. The findings first of all show that adaptations should be made to this typology with the addition of a completely new response type (ambiguous loyalty) as the most important one. Second, the results indicate that a franchise system's hardness is the most important element in understanding franchisee responses. Finally, the results indicate that several observed franchisee responses may seriously hinder the implementation of strategic change in franchise systems.

## **12. E-Commerce: The Adventures of Pizza Franchisees**

**Joyce Young, Indiana State University**

**Paul Clark, Indiana State University**

**Faye McIntyre, University of West Georgia**

National pizza franchisors can increase overall sales by simply increasing the number of customers who prefer to order online on the Internet. Typically, a customer ordering online spends more money, approximately fifteen percent more per ticket online than a phone call to the store. Yet, many franchisors have reached the conclusion that relatively few people actually want to log on to the Internet to place their orders. This paper reports the findings of an exploratory study that was conducted (1) to compare differences in consumer perceptions between those that choose the online ordering option and those that do not, and (2) to investigate the relative importance of the consumer attributes in terms of predicting online ordering behavior. The results clearly show customers that have previously ordered pizza via the online method prefer the method over using the phone. The challenge then is to convince more traditional method customers to try the new method. The respondents in this study report the primary customer benefit is perceived time-savings. Thus, franchisors need to develop promotional communications that show consumers the advantages of ordering online.

## **13. The Effective Delivery of Franchisor Services: A Comparison of U.S. and German Support Practices for Franchisees**

**Marko Grúnhagen, Southern Illinois University - Edwardsville Robin Di Pietro,  
University of Central Florida  
Robert Stassen, University of Arkansas  
Lorelle Frazer, Griffith Business School, Australia**

Conventional wisdom in the franchise industry suggests that more services offered by franchisors should lead to fewer complaints from franchisees, and that franchisees ought to be better off with additional support provided. We set out to differentiate those services that are truly effective and that are perceived as beneficial by franchisees, from those that may have little effect or may even be perceived as counterproductive. Our survey targeted franchisors in the U.S. and in Germany in an attempt to compare the most mature franchise market globally to one that is relatively young. We find that system disruption is clearly dependent on the maturity of the market, as not much differentiation of services is provided in the very mature U.S. market, but a good amount of differentiation exists in the relatively younger German market. Also, the size of the system that offers the services matters, as bigger systems typically provide more services. Finally, different types of services are identified as having varying levels of effectiveness in the less mature franchise market of Germany.

#### **14. Findings on Franchisee Turnover and Failure Rates: Case Finland**

**Mika Tuunanen, University of Kuopio, Finland  
Jenni Torikka, University of Jyvaskyla, Finland**

The paper focuses on franchise contract terminations and outlet closures during the three years 1999-2001. The study was the first of its kind in Finland and it was carried out in 2002. The 46 member franchisors of the *Finnish Franchising Association* were surveyed. In total 33 responses were received and 32 of them were usable, amounting to response rate of 70%. The results were parallel with the findings of the previous international studies.

Turnover and failure are controversial issues and many challenges relate to studying and measuring them. There are no franchising specific laws in Finland and therefore, no regulations require franchisors to provide this type of information. The failure rates in franchising are relatively low and risk seems to be smaller compared to stand-alone businesses. However, respondents reported that unexpected franchisee turnover and franchisee failures did happen. Franchisee turnover and failures can be and should be prevented, since they erode the earnings of both franchisees and franchisors.

## **15. The Risk-Return Performance of Franchise Portfolios**

**Hachemi Aliouche, University of New Hampshire**

**Fred Kaen, University of New Hampshire**

**Udo Schlenrich, University of New Hampshire**

This paper investigates the risk and return performance of a portfolio composed of all active US publicly traded franchise companies. The investigation is conducted over a long time period (1990-2005), and over a number of sub-periods, including recessionary periods and expansionary periods. Two risk-adjusted performance measures

(Sharpe ratio and Jensen's alpha) are used. The results of this investigation support the conclusion that franchise portfolios have outperformed the "market" in most time periods considered. The only notable exception was the 1995-2000 time period, the period of time that coincided with the internet bubble. This suggests that investors may have recognized the value of franchising.

## **16. Efficiency Within a Plural Form Network: A DEA Application to Franchised Hotels and Company-Owned Hotels**

**Rozenn Perrigot, University of Rennes 1, France**

This paper aims at comparing the performance of company-owned hotels and franchised hotels within a plural form chain. In this perspective, the main advantages of mixing both franchising and company ownership within a same chain are reviewed before setting up the following research question: "*Are there any differences between franchised units and company-owned units as far as their performance is concerned?*". The empirical study of more than 300 hotels belonging to a same chain is composed of two parts: some basic statistics and then a Data Envelopment Analysis. The findings indicate that the company-owned hotels are significantly more efficient than the franchised ones. The discussion highlights the contributions, limits and perspectives of this research.

## **17. Australian Franchising Disputes: An Examination of Causes and Remedies Since 1998**

**Frank Zumbo, University of New South Wales, Australia**

With the enactment in 1998 of Australia's mandatory Franchising Code of Conduct (Franchising Code) and a broader legislative prohibition against unconscionable commercial conduct as part of the Australian *Trade Practices Act* (the TPA) a new and wide-ranging regulatory framework was introduced in Australia to deal with a variety of franchising disputes. These changes, along



with the long standing legislative prohibition against misleading or deceptive conduct also found in the TPA, have meant that the TPA's operation is central to the identification and resolution of many types of Australian franchising disputes. Indeed, not only do many Australian franchising disputes arise from the application of the TPA, the TPA - through such things as the mediation of franchising disputes as mandated by the Franchising code - offers an important mechanism for the timely resolution of Australian franchising disputes. Within this context, the paper will begin by outlining the regulatory framework since 1998 for dealing with Australian franchising disputes involving the TPA. The paper will then proceed to examine the causes of these franchising disputes and the ways in which such disputes have been handled by the Australian Competition and Consumer Commission (the ACCC) - the body responsible for administering and enforcing the new regulatory framework. In doing so, the paper will offer an analysis of publicly available information regarding the ACCC's handling of franchising disputes since 1998.

## **18. A Census of International Franchise Regulation**

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

Under the influence of the international expansion of US franchise systems business format franchising is becoming entrenched as an effective and efficient method of business operation and expansion in all regions of the world and in most countries. The world has enthusiastically embraced the US franchising concept but until recently has been reluctant to embrace franchise-specific regulation which has been an entrenched feature of US franchising since the 1970s. The regulation of franchising in most countries is simply through the underlying and generic business laws of general application to all business activity although franchise sector voluntary/self-regulatory codes of conduct are increasingly being adopted by national franchise associations.

Over the last decade there has nevertheless been a sustained move to the introduction of dedicated and franchise specific regulation. Today at least 20 countries currently regulate their franchise sector to a greater or lesser extent and the move to regulation is increasing.

This paper examines the regulatory initiatives throughout the world and discusses the policy factors driving the clear international trend to franchise-specific regulation.

## **19. Interpreting Earnings Claims Information: A Second Trial**

**Frank Wadsworth, Indiana University Southeast**

**William Vincent, Mercer University**

**Mathew Mattingly, General Electric**

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 181 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.