

## **22<sup>nd</sup> Annual Society of Franchising Conference**

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- 1. The Commitment-Trust Theory as a Franchising Relationship Foundation: Case Study Evidence from Australia and New Zealand Anthony Grace, Griffith University, Australia  
Owen Wright, Griffith University, Australia  
Lorelle Frazer, Griffith University, Australia**

This paper provides an in-depth qualitative investigation into the nature of the franchisee/franchisor relationship. The view that stable franchising relationships are formulated with the presence of trust and commitment is further enhanced and developed upon Morgan & Hunt's (1994) foundational commitment-trust theory. Primary research in the form of face-to-face interviews with franchisees from four franchise systems was conducted using within and across case analysis. This exploratory research attempts to enhance franchising knowledge by shifting traditional transactional marketing (TM) focus toward relationship marketing (RM). The emphasis on relationships as opposed to transactional exchanges within franchising not only extends existing franchising literature but provides practical insight into the importance of stable personal relationships between franchisors and franchisees.

- 2. Managing the Franchisor–Franchisee Relationship: A Relationship Marketing Perspective  
Anna Watson, University of Surrey, UK  
Richard Johnson, Global Marketing Link Ltd., UK**

**Purpose** - Since the emergence of the relationship marketing paradigm researchers have increasingly considered why some efforts at relationship marketing are more successful than others. This paper explores this within the context of a particular form of relational exchange – the franchisor-franchisee relationship. Whilst the importance of good franchisor-franchisee relations have long been recognised as critical to the success of franchise systems, little attention has been given as to how this can be achieved. This paper, by applying a relationship marketing framework, seeks to provide new insights into those factors which influence relationship quality, and considers how relationships may evolve over time.

**Methodology** - A case study approach is taken, exploring the evolving franchisor- franchisee relationship for two case organisations.

**Findings** - The case analysis suggests that the quality of the franchise relationship is impacted by a number of factors, but that effective communication is critical in ensuring shared values, and therefore a relationship characterised by trust and commitment. Leadership also emerges as being very important in shaping the relationship.

**Research limitations/implications** - The case companies suggest that leadership plays an

important role in relational exchanges, but this is not an area which has been widely considered. Further research is therefore needed to determine how leadership impacts exchanges in other relational forms.

**Originality/value** - This paper by adopting a relationship marketing framework provides new insights into those factors which influence relationship quality in franchise relations and provides new directions for future research.

### **3. Franchisee Personality Traits as Predictors of Franchisee-Franchisor Relationship Strength**

**Scott K. Weaven, Griffith University, Australia**  
**Carmel Herington, Griffith University, Australia**  
**Rajiv Dant, University of Oklahoma, USA**

Although the construct of franchisee personality has been investigated within the context of franchisee satisfaction, performance and the congeniality of franchisor relations (Morrison 1997; Walker 1971), this paper represents the first attempt to examine the theoretical and empirical linkages between franchisee personality traits and franchisee-franchisor relationship strength. Based on the literature, a set of five hypotheses linking the Big-Five personality factors of extraversion, agreeableness, conscientiousness, emotional stability and imagination/intellect (Goldberg 1992) and franchisee-franchisor relationship strength are derived and subjected to empirical assessment. In addition, hypotheses are proposed and tested regarding the impact of two contingent variables of (1) single-unit versus multi-unit franchisees, and (2) male versus female franchisees on personality factors and relationship strength. The analysis is carried out using a sample of 363 Australian franchisees based upon Goldberg's (1992) 50-item Big Five personality dimensions scale and a 35-item adaptation of second-order relationship strength scale developed by Herington (2003), with the remaining two contingent variables being measured nominally. Regression, MANOVA, ANOVA and independent sample t-test analyses are used as primary inferential techniques to test the nine hypotheses. The results show that three of the five personality dimensions had the hypothesized effect on relationship strength; the single-unit versus multi-unit dichotomy influenced two of the five personality dimensions and relationship strength; and the gender differences were significant for four of the five personality dimensions and relationship strength. Implications for managerial action and future research direction are discussed.

### **4. Impacts of US-Based Franchising in Developing Countries: A Middle- Eastern Consumer Perspective**

**Marko Grünhagen, Eastern Illinois University, USA**  
**Susie Pryor, Washburn University, USA**  
**Liesl Riddle, The George Washington University, USA**  
**Carl L. Witte, Roosevelt University, USA**

The findings of this study, generated through a series of focus groups in three cities in Egypt, suggest that from a Middle Eastern consumer perspective, the impact of US-based franchising cannot be reduced to a simple economic calculus. Increases in fast-food prices, decreases in the novelty of foreign fast-food franchises, and the increased number and marketing savvy of local fast-food competitors in developing countries create pressures for foreign fast-food franchises to add dimension and depth to their value propositions beyond merely providing low-priced, foreign, and convenient food. Consumer concerns about the nutritional value of fast-food products may signal that healthy product-line extensions may create sales growth opportunities in these countries. Growing health consciousness in Egypt and other developing countries might present managers an opportunity for greater product standardization across markets in the franchise system. Moreover, many of the focus group participants suggest that Western-style fast-food may have a relatively transitory place in the lives of consumers. Fast-food consumption may be currently viewed as the domain of children and students. As consumers mature, however, they develop either the preference or financial capacity to consumer either indigenous fast-food or 'real' restaurants. This may create consumption patterns that do not readily fit with Western marketing strategies designed to target young consumers and retain these over their lifetime. Promotions should highlight how company efforts have helped to encourage entrepreneurship, stimulate innovation, and enhance the growth and capacity of supply-chain partners in the developing countries in which foreign fast-food franchises operate. Positive impacts resulting from the philanthropy and other socially responsible corporate practices that many foreign fast-food franchises implement in developing countries could also be leveraged in promotional communications. Care should be given to insure that companies' corporate social responsibility practices are compatible with the cultural and competitive context of developing countries. These promotion strategies could generate a perception of greater "localness" for these global brands. Such a "glocal" image may be particularly useful for American fast-food franchises in the Middle East and elsewhere in the world, where negative US country-of-origin consumer perceptions may threaten or damage sales potential.

## **5. Franchising in India: An Evolutionary Perspective**

**Audhesh Paswan, University of North Texas, USA**

This paper presents a descriptive study of the contemporary franchising industry in India. Estimates suggest that the current Indian franchising market, estimated at USD 2.7 billion with an annual growth rate of 35%. While many of the global franchising giants have already arrived in India, the franchising industry is clearly still in a nascent stage. The final character of franchising in India will be determined by several factors such as the Franchising Association of India (FAI), legal environment, organized retailing and Mall culture (i.e., US equivalent would be cruising the mall, or just hanging around in the mall with friends and/or family), Indian franchisors going international, rural franchising, women in franchising, negative undercurrents, human capital, and indianisation of the franchising concept.

## **6. Asia's Next Franchising Frontier: Good Morning Vietnam!**

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

Vietnam's accession to the World Trade Organisation in January 2007 represents the culmination of its transition to a market economy that commenced two decades earlier with the introduction of the *Doi Moi* economic reform package in December 1986. Franchising is nevertheless a relatively new strategy in Vietnam – its development hampered until recently by a regulatory framework which did not recognise franchising as a discrete business relationship. In 2005 Vietnam amended its *Commercial Law* to provide, inter alia, a framework for an implementing decree – *Decree Making Detailed Provisions for Implementation of the Commercial Law with Respect to Franchising Activities* – which was issued in March 2006 and came in effect in July 2006.

This paper addresses the development of franchising in Vietnam and the new regulatory system for franchising which is expected to stimulate the orderly development of the Vietnamese franchise sector.

## **7. Does Multi-unit Franchising Aid Differentiation? An Exposition**

**Vinay K. Garg, Missouri State University, USA**

**Richard L. Priem, University of Wisconsin-Milwaukee, USA**

**Abdul A. Rasheed, The University of Texas at Arlington, USA**

We advance franchising research by exploring the role played by the different forms of franchising in developing competitive advantage via differentiation, to which franchising research has paid scant attention so far. We consider the following important drivers of differentiation, based on their links to brand name capital recognized in franchising literature: quality, consistency, advertising, innovation, and location. Our theory suggests that the differentiation advantage will be facilitated more in multi-unit franchising than in single-unit franchising, even when each of the above drivers is considered separately. More fine grained arguments suggest that area development franchising leads to higher differentiation driven by quality, consistency, advertising, or location, but differentiation based on innovation is higher in incremental franchising. Implications for practice and research are discussed.

## **8. Improving Customer Satisfaction through Personalization: The Case of Fast-food Franchises**

**Odile Streed, Concordia College, USA**

Improving customer satisfaction and customer loyalty is a serious challenge for fast-food restaurants. Traditionally quick-service restaurants have focused on productivity without paying much attention to personalization of goods and services. However, it is critical to understand what really matters to the customers and what can be done to keep them satisfied and loyal. The purpose of this paper is to assess the impact of customization of goods and services on customer satisfaction in fast-food franchising. Selecting fast-food franchises for the empirical research was

a deliberate choice since business-format franchises are traditionally organized in a uniform manner where deviations from standards are typically discouraged. The key question is to understand whether a certain level of personalization is nevertheless expected by their customers and whether customization could positively impact customer satisfaction in spite of implementation challenges one could expect.

## **9. Interpreting Earnings Claims Information: One More Time!**

**Frank H. Wadsworth, Indiana University Southeast, USA**  
**William Vincent, Mercer University, USA**

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. Respondents are franchisees in a large U.S. metropolitan area. Two experiments use existing earnings claims to test the research hypotheses. Three of the treatments are complete duplications of the earnings claim except identifying information was removed. Two of the treatments use experimental tables but are otherwise complete anonymous earnings claim duplications. Results are not consistent with previous earnings claim research. The more information provided to respondents the higher the completeness and accuracy of recalled information, however none of the differences are statistically significant. For the transparency hypothesis, the results support the notion that transparent earnings claims have more positive attitudes associated with the franchise opportunity than non-transparent earnings claims.

## **10. The Franchise Ownership Structure Puzzle**

**Hachemi Aliouche, University of New Hampshire, USA**  
**Udo Schlenrich, University of New Hampshire, USA**

Franchising has been expanding rapidly over the last couple decades. The academic literature shows that franchisors turn to franchising mainly because of agency problems and/or resource constraints. A long lasting debate on franchise ownership redirection has recently given way to the plural form hypothesis that asserts that a hybrid system composed of a mix of company-owned units and franchised units is optimal as it harvests the benefits of both ownership forms. It is puzzling, however, to note that an examination of various firms shows a very wide range of ownership rates, going from zero percent to one hundred percent. Furthermore, ownership rates change over time and they change differently for different firms. Despite the large number of franchise ownership structure studies, this puzzle remains unexplained.

In this paper, we suggest a model that may help shed some light on this puzzle. We advance the hypothesis that there may be an optimal ownership structure that is specific to each individual firm. Through a simple yet rigorously and objectively derived ownership structure optimization model and study cases, we identify the financial parameters that determine the optimal ownership structure of an individual firm. The model suggests that company ownership is optimal when company-owned unit profitability is high, franchise operation profitability is low,

amount of capital required to start a unit is low, and the cost of capital is low. These parameters reflect a company's competitive advantage, the market and competitive environment of the firm, and management's drive to maximize shareholder value. These firm-specific factors result in the dynamic multiform ownership structure that currently characterizes many business sectors, with the presence side by side of pure franchisors, opportunistic franchisors, pure company, opportunistic company, and plural form.

## **11. Organizational Form and Performance: Evidence from the Hotel Industry**

**Renata Kosova, Cornell University, USA**

**Francine Lafontaine, University of Michigan, USA**

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

We use a unique proprietary monthly panel data on the domestic operations of a large hotel firm to study the effect of vertical integration decisions on the behavior (pricing) and performance (occupancy rate and RevPar) of individual hotels. We find that aggregate data patterns – to which managers often pay most attention – as well as panel data specifications that treat organizational form as exogenous all show significant differences between franchised and non-franchised hotels. Once we endogenize the choice of organizational form, however, the differences become statistically and economically insignificant. This finding is robust across various specifications we analyze. We conclude that the firm chooses which outlets to franchise and which to own in an optimal way, such that conditional on all hotel and market characteristics, it achieves consistent results – in terms of revenues, occupancy rates, and prices – across both sets of hotels.

## **12. Managing Network Empowerment: Impacts of Communicative Efficiency on Franchisee Performance**

**Thomas Ehrmann, University of Münster, Germany**

**Brinja Meiseberg, University of Münster, Germany**

This study offers a new perspective on managing franchise networks in a way that empowers network functioning in order to enhance franchisee business performance and substantiate network superiority to alternative organizational arrangements.

We build on three ideas: (1) Networks constitute the superior organizational design in terms of performance implications for the participating entities when resource acquisition is more efficient to arrange in networks than in alternative organizational choices. (2) Network partners play a significant role in shaping the resource-based competitive advantage of the firm. Franchisee performance is thus enhanced when resource transmission (knowledge, information, or best practices e.g.) among cooperative network members is organized efficiently. (3) Interfranchisee communication represents the governance mechanism for efficient acquisition. For decoding how to manage network empowerment, we propose the concept of “communicative efficiency” that addresses franchisee opportunities and efforts to use networking

efficiently – i.e. to match the acquisition of network resources and benefits thereof with networking investments in a way that proves most rewarding over time. We suggest communicative efficiency bears on two properties. The first property is network configuration: Franchisee network positioning, as relationship embeddedness, determines communication opportunities. Yet, the quality of an organization can never exceed the quality of the individuals that make it up. Hence, the second property is communication efforts. We analyse how system management can act on these two properties to substantiate network organizational superiority and how franchisees can build their networks to savour individual performance gains best. These issues are underexplored since research on planning and management of networks has widely treated the human factor of organizational network design implicitly, and few studies have analysed the determinants of efficiency in franchising and of franchisee performance. Applying concepts from social network analysis, we test several hypotheses on the linkages between efficiency's two properties and franchisee performance on a German franchise system. We offer managerial implications for how to promote communicative efficiency, as our results clearly demonstrate that network empowerment renders linked units more astute collectively than they are individually.

### **13. Contractual Complexity and Completion to Contain Opportunism in Franchise Agreements**

**Vanesa Solis-Rodriguez, University of Leon, Spain**

**Manuel Gonzalez-Diaz, University of Oviedo, Spain**

The aim of this paper is to analyze the contractual complexity of Spanish franchise chains. First we examine whether franchise chains differ according to the complexity and completion of their contracts, and then we analyse factors influencing the degree of complexity. For that purpose, 64 contracts held by different franchise chains operating in Spain have been taken as a sample. The results indicate, on the one hand, the existence of two kinds of contracts in terms of their degree of complexity and, on the other hand, that *i)* the larger the relationship-specific investments, *ii)* the broader the experience of the chain in the market, and *iii)* the greater the importance of the effort the person in charge of the outlet puts into making a success of the business, the more complex the contracts drawn up by the franchisors will be. On the other hand, the franchisor's reputation does not appear to influence the degree of detail with which the contract is drawn up.

### **14. Effective Disclosure in the Regulation of Franchising**

**Elizabeth C. Spencer, Bond University, Australia**

This paper outlines the use of disclosure in the regulation of the franchise sector in Australia, demonstrating that it does not meet conditions considered necessary for effective informational regulation. First, there is not enough reliable information to gauge the risks in informing the design of regulatory process and the choice of tools; second, the information in the disclosure document is not uniformly reliable, accessible and useable; and, third, a franchisee's ability to act on the information is limited because the franchise contract is not subject to negotiation and there are limited alternatives in the market. As potential solutions, this paper proposes that increased

cooperation among and fuller representation of stakeholders, better information from dispute resolution processes, and registration of disclosure would improve the level of information about the sector generally. To ensure reliable, accessible and useable information, the information that is required to be disclosed should be identified by all stakeholders, with assurance that it is provided in an accessible, useable way. Finally, educational initiatives are needed to enhance franchisees' ability to act on the information. This paper also briefly surveys some other regulatory tools used in the regulation of franchising, but urges that these tools be selected as part of a democratic and participative regulatory process that accurately represents the interests of all stakeholders.

**15. Balance of Power, Certainty and Discretion in the Franchise Relationship: An Analysis of Contractual Terms**  
**Elizabeth C. Spencer, Bond University, Australia**

Balance of power is a factor in considerations of fairness in the formation of contracts and in Australia is an express factor in determining unconscionability in contract formation and performance. Certainty is essential to business confidence that underpins planning and investment. Certainty is also a factor in evaluating what parties have agreed to in making the contract. Discretion, if it is too wide, may no longer represent the true intentions of the parties, but may instead be an indication of other forces, including asymmetries in the power relationship. These issues are of particular significance in franchising; redressing imbalance of power and ensuring certainty among the parties are among the stated goals of the regulation of the franchise sector in Australia.

Previous analysis has demonstrated that the market interaction between franchisor and franchisee sets up a relationship that is characterized by imbalance of power and uncertainty for a franchisee. Further, it has been demonstrated that, in theory, the standard form and relational qualities of the franchise contract synergistically reinforce these conditions. This paper tests that theory by evaluating balance of power and uncertainty in the terms of franchise contracts. A sample of ten contractual terms from nineteen franchise contracts is analysed as follows: first, the purpose of each contract term is outlined and the interests of both a franchisor and a franchisee are explained with respect to each term; second, the results of the sample are discussed.

The results show that contract terms indicate that greater power resides with a franchisor, while higher levels of uncertainty are experienced by franchisees. This section also discusses the allocation of discretion in franchise contracts. Discretion accorded to parties in contracting relationships can be both a measure of balance of power and certainty as well as a factor that reinforces these conditions. The results presented here also indicate that franchise contracts confer high levels of discretion upon a franchisor. Complacency about the ability of the sector to regulate itself through market and contractual mechanisms therefore should be guarded against. Note: A companion paper discusses direct intervention, with a particular focus on the potential for disclosure to function effectively as a principal means of regulating the sector. (Please refer to 'Effective Disclosure in the Regulation of Franchising'.)



## **16. Transparency of U.S. Franchise System Earnings Claims**

**Frank H. Wadsworth, Indiana University Southeast, USA**  
**Maree C. Chetwin, University of Canterbury, New-Zealand**

## **17. What Franchisees are Seeking**

**Stephen Benett, Griffith University, Australia**  
**Loelle Frazer, Griffith University, Australia**  
**Scott K. Weaven, Griffith University, Australia**

A shortage of suitable franchisee applicants has been identified by franchisors as a major hindrance to franchise sector growth in Australia. However, there has been little investigation into this issue within organisational choice research. This represents an *important gap in the literature*. In order to explore the issue of franchisee shortage it was first necessary to determine what prospective franchisees are seeking from franchisors.

A survey of 81 visitors to the *Franchising 2006 Business Opportunities Exposition* was conducted in Brisbane, Australia. The exposition catered for potential independent business operators and potential franchisees, with 17 of the survey participants seeking independent business opportunities and 64 expressing an interest in franchising opportunities.

Prospective franchisees considered a return on investment, provision of training and being their own boss as being the most important attributes that franchisors could provide. These findings also indicate that attendees saw trade shows as an important means of gathering franchising information. Further, respondent's attributes generally aligned with what franchisors believed they supplied, and while possessing entrepreneurial tendencies, they desired ongoing support from franchisors.

The findings show a majority of attendees had management, previous business experience or were self-employed, and were seeking new business opportunities. Therefore, this pool of individuals could become an important additional area for franchisee recruitment.

## **18. Psycho-Social Predictors of Franchisee Success and Implications for Selection**

**Greg Nathan, Franchise Relationships Institute, Australia**  
**Chris Jackson, University of New South Wales, Australia**  
**James Allen, University of Queensland, Australia**

This empirical study sought to investigate whether psycho-social attributes of franchisees could predict successful franchisee performance, as measured by both franchisor and self-ratings of performance. A total of 802 franchisees from 32 franchise systems completed a questionnaire measuring background variables and 19 psycho-social scales constructed specifically for the franchising small business context. Franchisor ratings of performance were obtained for 411 of these franchisees. Results consistently showed that 14 of the psycho-social scales were predictive of franchisee success, especially Family and Social Support, Optimism and Communication Skills. A high desire for personal challenge and control also correlated with franchisor ratings of

franchisee performance with female franchisees more likely to be motivated by personal challenge and males more likely to be motivated by control. Female franchisees also performed significantly better on measures of customer service and constructive participation in the franchise network. Implications for franchisee recruitment are discussed.

## **19. The Characteristics of Franchisee Profile from the Point of View of Franchisors**

**Jose Manuel Ramirez Hurtado, University of Seville, Spain**

**F. Javier Rondan Cataluna, University of Seville, Spain**

In recent years, franchising industry has experienced a great growth. The selection of franchisees is necessary for the expansion of franchisors. Franchisee profile is configured by several personal and business characteristics. The purpose of this study is to identify and examine the features that franchisees should hold for the right selection. In order to do this, conjoint analysis is applied to a sample of Spanish franchisors. The results of conjoint analysis offer the franchisee profile preferred by franchisors. Furthermore, a comparison between the profile preferred by successful franchisors and average franchisors is presented.

## **20. Exploring the Implications of Franchisees' Entrepreneurial Proclivity: A Research Framework**

**Jacques Boulay, ESSCA Angers, France**

If many studies exist on identifying whether operating as a franchisee can be considered as true entrepreneurship, there is little empirical research focusing on the benefits and costs of franchisees' entrepreneurial proclivity (EP).

Based on the fact that, for a large part, the value of a franchise brand rests upon its uniformity, one can wonder whether recruiting franchisees with a high EP does represent a risk for a franchise chain. Such franchisees could turn out into being too much autonomous at work or opportunist. And contrary to popular belief, it is not certain that they will perform better than franchisees with low EP.

To contribute to fill this gap in the literature, this paper presents a framework for future research aimed at examining the benefits and costs of franchisees' EP. Research literature on franchisees and entrepreneurship is first analysed. Doing so, we insist on the necessity for any research on the implications of franchisees' EP to take into account the growth stage of the franchise business. We then develop a research model about the potential influence of EP on franchisees' autonomy, opportunism and performance. Finally, we describe the field research methodology and instrumentation to be used in the empirical stage of this research in progress.

## **21. Human Resource Policies in the Plural Form**

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

Business format franchising has become an increasingly popular strategy in various industries in many parts of the world because it provides small business owners with various economies of scale. Human resource management (HRM) is one of the few strategic areas that has largely remained at the franchisee's discretion and that is typically not specified in the business format. For franchisees - as for many small businesses especially in labor intensive industries such as retailing - HRM is an important strategic issue. However, franchising literature has largely ignored this topic so far. In this paper, we aim to gain insight in the peculiarities and effectiveness of HRM in a franchise context by studying a large Dutch franchise system consisting of both company-owned and franchised units ('plural form'). We distinguish two dimensions for understanding how different units within a plural form deal with HR-practices; the unit's ownership structure (i.e. franchised or company-owned) and the unit's scale of activities (i.e. small or large). We compare the intensity of HR-practices of the resulting four unit types, and link them to HR-performance. The results, first of all, indicate that small company-owned units show more intense HR-practices than small franchised units and that large company-owned units show more intense HR-practices than large franchised units. Second, we find that franchised units perform better regarding HR-performance variables than company-owned units.

## **22. The Entrepreneurial Behaviours of Franchisees: Evidence from U.K. Franchise Systems**

**Lola Dada, University of Surrey, UK**  
**Anna Watson, University of Surrey, UK**  
**David Kirby, The British University in Egypt, Egypt**

Despite the role franchising has played in global wealth creation, many ambiguities revolve around the relationship between entrepreneurship and the franchise strategy. Franchising is often 'sold' as an opportunity to own your own business, but it is claimed that franchisors seek replication and conformity from their franchisees, and not innovation and flexibility which are at the heart of entrepreneurship. In spite of the franchisee's pursuit of entrepreneurial independence, it is generally believed that there are high levels of control in the franchising relationship, which leaves little or no room for entrepreneurial activity by the franchisee. This study focused on understanding the behaviours and activities of franchisees, and the extent to which these might be consistent with theoretically defined concepts of entrepreneurship. For this purpose, in-depth case study interviews were conducted with seven franchisees from the U.K. franchising industry. The qualitative findings revealed several results that were inconsistent with the common perceptions that franchise systems inhibit entrepreneurial practices. Franchisees displayed entrepreneurial behaviours by undertaking distinct dimensions of entrepreneurship, including new business venturing, innovativeness, and proactiveness. Their new business venturing activities included the establishment of new businesses within their existing organisations. Their innovative activities comprised the introduction of new products, new services, new sources of

supply, new methods of operation, and the opening up of new markets. With regards to the proactiveness dimension, the results demonstrated that franchisees displayed high levels of competitive aggressiveness, as they strived to lead rather than follow competitors. Furthermore, the results improve understanding of the antecedents and effects of entrepreneurial activities within franchised outlets. The following factors appear to influence entrepreneurship within franchise units: granting franchisees autonomy in the form of operational independence and flexibility; establishing open channels of communication for information sharing among franchisees; instituting formal forums for discussion, generation, and dissemination of new ideas; and having organisational and management support for promoting entrepreneurial activity. Also, the outcomes of the franchisees' entrepreneurial activities included business growth, creation of new knowledge and technologies, and the generation of new customers and more income. These findings contribute to a better understanding of entrepreneurial activities within franchise systems.

### **23. Among Franchise Leaders: A Comparison of Franchisees, Top Executives, and Franchisors**

**Dianne Welsh, University of North Carolina, USA**

**Peter V. Raven, Seattle University, USA**

How hopeful leaders are about the future is integral to the success of any business, including franchising. This exploratory study looks at *hope* levels between executives of franchises and franchisors in order to explore what role, if any, the positive construct of *hope* plays in franchising and entrepreneurship success. Recently, *hope* has gained new importance as a part of positive psychological capital or PsyCap (Luthans & Youssef, 2004; Luthans et al., 2007) that is so integral to one's personal and professional level of success as well as the businesses. That study found that franchisees had higher levels of *hope* than either franchisors or franchise executives. Implications for future research are discussed.

### **24. The Influence of Formal Coordination Mechanisms on the Relationship Quality of Inter-organizational Networks**

**Lambert Scheer, Saarland University, Germany**

**Joachim Zentes, Saarland University, Germany**

This paper analyzes the coordination of interorganizational networks (i.e. franchise systems and cooperative groups) and its consequences on the relationship quality within these networks. Five formal coordination mechanisms have been identified as especially relevant in this context. The first mechanism concerns the locus of decision-making within the network and is referred to as centralization vs. decentralization of decision-making. The degree of formalization and planning serve as the second and third coordination mechanisms. Two further mechanisms deal with sanctioning processes: While the use of incentive schemes covers positive sanctioning, negative sanctioning is captured by contractual enforcement. Each of the five coordination mechanisms, which are employed by the central coordination unit, can be linked to the network's relationship

quality. Relationship quality is conceptualized as a second order construct involving the network partners' trust, satisfaction and commitment.

The analysis is founded on an empirical investigation among interorganizational networks in Germany, Austria and Switzerland. Based on a literature review and managerial interviews, measurement scales were developed for the constructs involved and construct validation was conducted. Hypotheses testing was performed using the PLS approach to structural equations modeling. Five research hypotheses were put forward, four of which were supported. While decentralization of decision-making, formalization of business processes and a high degree of planning lead to increased relationship quality of interorganizational networks, contractual enforcement has a negative impact. There is no empirical support, however, for the expected positive impact of incentive schemes on relationship quality.

## **25. Identifying Stakeholder Effect in Restaurant Franchisors**

**Roger W. Hutt, Arizona State University, USA**

Positive relationships with stakeholders are being viewed with renewed interest. Managers in contact with and engaging their stakeholders can effectively assess the clarity and intent of organizational goals (e.g., gauge shareholders' thoughts about corporate community-mindedness), take advantage of unforeseen but mutually advantageous opportunities (e.g., obtain new product ideas from franchisees), and even head off conflict before it progresses to a critical level (e.g., respond to employee dissatisfaction). The theory that the relative importance of particular stakeholders changes over the company's life-cycle is known as stakeholder effect. All of the groups and individuals considered important to the firm are rarely identified as such. Stakeholder recognition, the public acknowledgment (but not necessarily identification) of significant groups or individuals, is used as a surrogate indicator of stakeholder identification. Specifically, the study tracks stakeholder recognition over four years to approximate stakeholder effect; i.e., changes in apparent relative-importance of stakeholders. Publicly-owned restaurant franchising companies' annual report letters were analyzed to identify patterns in CEOs' recognition of stakeholders. Findings in the study provided some support for stakeholder effect theory.

## **26. Corporate Social Responsibility in Franchise Systems**

**Patrick J. Kaufmann, Boston University, USA**

**C.B. Bhattacharya, Boston University, USA**

**Liwu Hsu, Boston University, USA**

For an increasing number of companies, participation in proactive Corporate Social Responsibility activities is an important strategic initiative that builds the brand image among consumers and can have substantial internal HR benefits among employees. In this paper, we examine the relationship between various characteristics of franchise systems and their likelihood of engaging in positive CSR activities and the level of that activity. Our focus is on positive CSR actions, such as philanthropy, cause marketing, volunteerism and sponsorship, and

not on the absence of socially destructive acts. We hypothesize that system age, the number of company units, the total investment per unit, the proportion of franchised outlets, and the prohibition of passive ownership will be related to the existence and level of proactive CSR activity. We test these hypotheses, using secondary data from a sample of 100 franchise systems as reported in a popular franchise directory and augmented by the CSR activity reported on their websites. Only the number of company units and total investment appear related to the existence of CSR and its level.

## **27. Member-Franchisor Satisfaction towards National Franchising Association: Case Finland**

**Mika Tuunanen, University of Kuopio, Finland**

**Jenni Torikka, Finnish Franchising Association and University of Jyväskylä, Finland**

The present pragmatic paper sets out to explore member-franchisors' satisfaction towards national franchising association in Finland. The Finnish Franchising Association (FFA) carried out a survey for its member franchisors in May 2007 with the authors. The goal of the survey was to measure member-franchisors' satisfaction towards operations, services and member benefits of the association. An important research task was also to chart members' thoughts and ideas on the future of the association. The survey was the first of its kind in Finland and to the authors' knowledge no such studies have been published through International Society of Franchising (see e.g. Elango & Fried 1997; Young, McIntyre & Green 2000). The Internet-survey was targeted to association's contact persons (N=94) in the member franchisor companies. In total 66 responses were received, yielding a response rate of 70%. Generally, the results were rather positive and promising. The paper presents several implications and discusses on the future of the Finnish Franchising Association.

## **28. Membership in the Franchising System: A Worldwide Analysis**

**Enrique Carlos Diez de Castro, University of Seville, Spain**

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The franchising system is one of the sectors on which many management researchers are increasingly focusing their attention. The internationalisation and globalisation of franchising is an unstoppable fact. However, there is not enough research to show exactly how the membership of franchising associations is developing worldwide. One of the main goals of franchising associations is the defence of ethical rules or deontology, fixing the theoretical bases that should guide the application of balanced relationships between franchisors and franchisees. This paper centres on the world analysis of the following aspects: the current situation and evolution of franchising, the level of association or membership of Franchisor Associations and its evolution, and, finally, the explanation of the reasons for franchising membership.

## **29. Brand Perceptions within New Zealand Franchises**

**Kenneth Billot, Griffith University, Australia**

## **30. Franchisors' Registered Trade Marks under Australia's: Trade Marks Act 1995 (Cth)**

**Jenny Buchan, University of New South Wales, Australia**

This paper examines ownership and control of registered trade marks in franchise networks in Australia. It draws on a sample of franchisors that have franchisees trading from premises that are regulated by the *Retail Leases Act 1994* (NSW). It examines problems surrounding the current valuation of trade marks, their use and their potential to be used as a source of development equity for franchisors. It asks whether policy objectives of the *TMA* are being met in the context of franchising. It also identifies challenges that confront a researcher of legal issues concerning intellectual property assets in franchising in Australia.

## **31. Efficiency Comparison of Multiple Brands within the Same Franchise: Data Envelopment Analysis Approach**

**Eugene Roh, Central Michigan University, USA**

**Kyu Wan Choi, Purdue University**

**Ji-Hwan Yoon, Kyung Hee University, South Korea**

As a restaurant franchising industry increasingly diversifies its brands, it is pivotal for the firm to accurately assess the efficiency of brands within the system. While existing approaches to measure brands exclusively focus on outcome variables that range from consumer satisfaction to financial performance, this research intends to compare and contrast efficiency of different brands within the same franchise utilizing Data Envelopment Analysis (DEA).

The sample was drawn from three brands that are in operations under the same franchise restaurants. Overall efficiency of franchise restaurants and three different brands are measured. The results of the study showed that the efficiency of each establishment, as well as the brands, are significantly different from each other.

Implication for the strategic management for franchisors and directions for future research are discussed. The research will be of interest to a wide range of industry practitioners involved in product development and brand management in the franchising system.

## **32. Two-sided Moral Hazard and Monetary Vertical Restraints: Evidence from European Franchising Data**

**Magali Chaudey, University of Jean Monnet of Saint-Etienne, France**

**Muriel Fadaïro, University of Jean Monnet of Saint-Etienne, France**

This paper investigates the choice of the two profit-sharing vertical restraints within franchising networks: the royalty rate and the up-front fee. It is based on the theoretical and empirical literature concerning share contracts in the framework of a double-sided moral hazard. We use a three countries European dataset, regarding a wide range of sectors, in order to test several assumptions concerning the choice of the profit-sharing provisions within franchise contracts. The estimations are partly consistent with the analytical context.

### **33. Skew Distributions and the Sizes of Franchise Firms: A Study in the Senior Care Industry**

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

**Robert Justis, Louisiana State University, USA**

**Soushan Wu, Chang-Gung University, Taiwan**

The sizes of franchise firms exhibit skew distributions. A common approach to describe this phenomenon of skew distributions is the so called 80/20 principle. There are two major problems in using this simple principle: (1) the empirical data doesn't always exhibit 80/20, sometimes 70/30 or 90/10; (2) the approach simply focuses on the static state of few top franchises which achieve the majority of the accomplishments. In this paper, we use the NERD model to provide a deeper explanatory theory for the dynamic behaviour of the skew distributions of franchise firms in general and senior care franchises in particular. There are two major contributions: (1) the model is grounded in Herbert Simon's twenty-two years' research on the Theory of Skew Distributions; and (2) the model enables to analyse the three major managerial areas in senior care franchises: the competing landscape; managing the franchisor/franchisee relationship; and managing the senior customer relationship.

### **34. Contractibility and Knowledge Transfer Mechanisms in Networks: The Case of Franchising**

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

**Nina Gorovaia, Cyprus College, Cyprus**

The paper provides a property rights view on the choice of knowledge transfer mechanisms in franchising firms. Starting from the information richness theory we argue that the degree of contractibility of system knowledge determines the information richness of the knowledge transfer mechanism of franchising firms. The lower the contractibility of knowledge, the more knowledge transfer mechanisms with a high degree of information richness are used, such as training, seminars, visits and meetings. We examine the following hypotheses: (1) If the franchisor's knowledge is contractible/explicit, knowledge transfer mechanisms with a lower degree of information richness are used. (2) If the franchisor's knowledge is noncontractible/tacit, knowledge transfer mechanisms with a higher degree of information richness are used. We test these hypotheses by using data from 83 franchising firms in the Austrian franchise sector. The data provide support for the hypotheses.



### **35. Synergistic Growth in Franchising: Evidence from Real Estate Brokerage**

**Susan Flint-Hartle, Massey University, New Zealand**

**Anne de Bruin, Massey University, New Zealand**

This paper draws on evidence from franchising in the real estate brokerage sector to examine the relationship of both parties in the franchising equation; the nature of their parallel business venturing and synergistic growth. To date, franchising research has been heavily reliant on the point of view of the franchisor. Through broadening investigation to include multiple perspectives of both the franchisor and franchisee, mainstream theory on franchising is supplemented. A wider explanation than current agency and resource scarcity theory is offered for the strategic decision to franchise taken by real estate brokerage franchisors. System success is argued to be based on the development of a sophisticated resource capability that ensures a highly evolved, sustaining relationship with the franchisor and franchisee into the mature growth phase. The franchisee is seen as adding value to the franchisor initiated system and brand by developing presence and expertise in the local market. Franchisors and franchisees amalgamate innovations and develop complementary resource competencies.

The regional focus of the empirical study is Australasia with data being collected from real estate franchisors operating in New Zealand and from samples of franchisee business owners in the wider region. A pragmatic mixed methodological approach is adopted. Two interlinked studies are undertaken. First, the franchisor's perspective of franchising is examined and the notions of resource capability and acculturation are discussed. Second, the franchisee view point is gathered. The aim is to explore how the interdependent real estate franchise relationship is managed. Additionally the question of whether some franchisees select franchising because they perceive franchising offers less risk and uncertainty is explored and how franchisees search and find the opportunity, what resources they gather, how independent they are and what types of actions they undertake is examined. Together the two interconnected studies give a more complete representation of the ubiquitous phenomenon of franchising in the real estate domain.

### **36. Franchisor's Competitive Strategies on Expansion: The Impact of Life Cycle**

**Laura Lucia Palacios, University of Zaragoza, Spain**

**Victoria Bordonaba Juste, University of Zaragoza, Spain**

**Yolanda Polo Redondo, University of Zaragoza, Spain**

This article provides evidence on the strategies that lead to a greater franchise network size. While the empirical literature has studied the ownership structure and the incentive policy, our work expands the analysis by including another important source of differences on the strategies implemented by firms: the stage of the life cycle at which the firm enters. Each of these stages represents successive resolution of demand uncertainty and competitive environment. We examine whether pioneers implement a different strategy than fast followers, early majority entrants and late majority entrants. Results confirm the differences in the competitive strategy among entrants of each stage of the industry life cycle.

### **37. Managing the Risk for International Franchise Expansion**

**Bill Merrilees, Griffith University, Australia**

**Lorelle Frazer, Griffith University, Australia**

Australia has been coined the ‘franchise capital of the world’ (Walker 2004, p.36) because it has over three times the number of systems per capita than the United States. A leading business magazine, *Business Review Weekly*, describes the Australian franchising sector as ‘booming’ (Walker 2004, p.36). International franchising has potential to contribute to export performance, but requires a thorough understanding of the necessary capabilities. The research design uses a case research approach of leading systems, with an immediate focus on the front-end considerations of what approaches can contribute to success. Two *types* of international franchising strategy are proposed, namely brand-based and relationship-based. Subtle differences occur in the way the two systems mitigate front-end risk.

### **38. Franchisee Satisfaction Among Food Franchisees**

**Adele Berndt, University of Johannesburg, South Africa**

In the context of franchising, the relationship between the franchisor and the franchisee is critical to the success of the individual franchise as well as to the success of the franchise system. Food franchising is an area of franchising that continues to grow rapidly. This rapid growth has a number of consequences, including increased competition and an increase in the number of outlets being opened. The focus of this research is into the satisfaction experienced by franchisees in their current franchise system. The research was conducted among food franchisees throughout South Africa. The sample was a convenience sample, and the data was collected through the use of an electronic (web-based) questionnaire. The respondents were contacted with an email containing the link, once permission had been obtained from the franchisor. (Permission was gained from the franchisor to make contact with franchisees, but each franchisee was contacted by the researcher, and none of the franchisors who gave permission viewed the questionnaire prior to its distribution.) At the time of writing, a 9,12% response rate was achieved among the franchisees, which makes detailed statistical analysis and generalisation of the findings difficult.

The findings show that the franchisees rate their franchise highly, but that there are questions regarding the value for the royalties paid to the franchisors. While franchisees are breaking even, they are reporting that the returns are not as expected. They define the relationship with the franchisor as good, and believe that they have their interests at heart. They believe that the support is adequate that they receive from the franchisor. They are proud of their association with a strong brand image. Franchisees believe that they have adequate freedom, but that they are not able to express their entrepreneurial abilities. They describe their territory as adequate for the attainment of profits. They have a clear line of communication with the franchisor and find the regular communication useful. The terms of the franchise contract are regarded as being clear, and there are questions raised about whether the Franchisee Representative Council can create a positive effect for franchisees. In general, the franchisees indicated that they believe that this was a good purchase and that the franchise was a wise buy.

### **39. Franchisees' Retail Premises Occupancy Models in Australia: The Rights and the Risks**

**Jenny Buchan, University of New South Wales, Australia**  
**Bill Butcher, University of New South Wales, Australia**

Among the most significant aspects of conducting a retail business are the costs, risks and liabilities associated with the retail site. This is the case whether a business is franchised or not, but franchising injects a further level of complexity into the concept of a retailer trading from premises. The property interests in the retail site could take one of many different forms. The diverse arrangements have a range of ramifications at law. This paper identifies the most common contract based models for franchisees legal links to retail premises in Australia and addresses issues that arise from each of these models.

### **40. Do Multi-unit Franchisees Gain More?**

**Susana López-Bayón, University of Oviedo, Spain**  
**Begoña López-Fernandez, University of Oviedo, Spain**

When franchisors wish to address different agency problems of their systems, they can theoretically use a variety of devices including profit-sharing, rents and multi-unit franchising. We use archival and primary data from a sample of Spanish franchised restaurants to explore the very existence of rents and the difference in the level of rents perceived by single-unit and multi-unit operators. If they do perform different roles in the system, the rents associated to their outlets could also be different. Our results show that franchised outlets receive both *ex ante* and *ex post* rents on average. This confirms the theoretical hypothesis of their presence in franchising. Finally, we observe higher rents in multi-unit operators but this difference is not statistically significant compared to single-unit ones in the case of ex-ante rents. This result is partially consistent with the contention that multi-unit franchisees operate those units more sensitive to quality defaults (free-riding).