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**1. *Deviation from Standards and Information Withholding in Franchising Firms:
The Role of Perceived Task Cohesion***

Assâad El-Akreml, University of Toulouse 1 (France) Karim Mignonac, University of
Toulouse 1 (France) Rozenn Perrigot, University of Rennes 1 CREM &
ESC Rennes School of Business (France)

Research in the field of franchising has almost exclusively focused on modes of monitoring and control, inspired by agency theory. The general idea underlying this paper is that there are other complementary control mechanisms likely to reduce some opportunistic behaviors by the franchisees. Specifically, we argue that perceived task cohesion acts as a social control mechanism that prevents franchisees from (1) deviating from franchisor's standards and (2) withholding information that could be valuable to the network. These predictions are tested in two studies. Study 1 assessed opportunistic behaviors of 437 franchisees nested in 65 business-format franchise chains through self-report measures. Study 2 asked managers to evaluate franchisees' opportunistic behaviors, in two separate samples of 43 and 57 franchisees operating respectively in a second-hand goods dealer and in a pizza chain. Results from both studies provide empirical support to our hypotheses, and point to potential areas for future research on cohesion in franchising networks.

2. *Independent Franchisee Associations: Antecedents to Social Identification*

Benjamin Lawrence, Boston University (USA)
Patrick J. Kaufmann, Boston University (USA)

This paper examines some of the antecedents, processes and effects of Independent Franchisee Associations (INDFAs) and the reactions of franchisors to their organization. Specifically, we draw on various literatures to pose propositions relating to the following research questions:

(1) Are there fundamental differences between associations whose focus is based on disagreements relating to strategic actions of the franchisor and those whose focus is perceived opportunistic behavior on the part of the franchisor? (2) Does the way these INDFAs are treated by the franchisor - post inception - affect members' identification with the group and/or franchisor? (3) Does the existence of FACs influence the willingness of the

Franchisor to legitimize the INDFA? (4) How does the size of the INDFA influence identification? We then present a conceptual model and use two illustrative examples from the business literature to explore our propositions.

3. ***Dynamics of Decision Rights in Networks: from Franchising to Licensing*** Josef

Windsperger, University of Vienna (Austria)

Stefan Leitmannslehner, University of Vienna (Austria)

The paper examines the conversion from franchising to licensing due to the increase of contractibility of the franchisor's system-specific assets as determinant of the allocation of residual decision rights in networks. Based on the property rights approach, residual decision rights must be allocated according to the distribution of intangible knowledge assets between the franchisor and franchisee. Our analysis derives the following hypothesis: The more contractible the franchisor's system-specific assets for the generation of residual surplus, the less residual decision rights are assigned to the franchisor and the higher is the tendency toward licensing. This property rights hypothesis is examined with the case study of Getifix. In addition, we investigate the impact of strategy change on the contractibility of system-specific assets and hence the governance form. We argue that the change of Getifix' vertical integration and product portfolio strategy additionally increased the standardization of system-specific know how and consequently resulted in a higher tendency toward licensing. This study presents the first empirical evidence that the contract dynamics from franchising to licensing depends on the change of contractibility of intangible knowledge assets between the franchisor and the franchisee.

4. ***One for All: A Survey of Franchise Trade Associations' Service to Members and Their Role in Regulation***

Elizabeth Crawford Spencer, Bond University (Australia)

This article examines the roles of trade associations in the governance of the relationship between franchisor and franchisee (the franchise relationship). Governance as 'the exercise of authority; control' is carried out at many different 'layers' of interaction. According to current conceptions of regulation and governance, the role of trade associations becomes more pervasive. Based on data from several sources, including an in-depth survey of five franchise trade associations, this article provides an overview of franchise trade associations' membership, the benefits and services. It suggests ways in which associations impact governance of the franchisor-franchisee relationship at all layers of governance.

This discussion of the surveyed information begins with issues surrounding membership. The research indicates that the associations are characterized by diverse membership; modest membership rates, and membership often dominated by franchisors, and it proposes ways to increase member participation in several member categories. One important issue is that of franchisee membership in trade associations traditionally dominated by franchisors. While the trend in consumer law has been toward the integration and protection of consumers - associations have been primarily concerned with promoting the commercial success of the sector. The question is whether a franchise association can

function effectively in both arenas, and if so, what is the best means of achieving this integration of purpose.

Member participation is directly linked to association activities and the benefits perceived by members. Enhancing benefits to members in order to increase their participation leads to a discussion of the extent to which the association can and should represent its various constituencies in order to address issues facing these associations. The survey indicates that there are essentially three categories of activities - branding and promotion of franchising, services to members, and external relations.

In addition to these three core categories there is another pervasive function, collection and dissemination of information, which could provide an opportunity to forge a new role for associations across all layers of governance. The role of the association in informing regulatory process by providing information to government and political influence; by advising lawmakers and regulators; and in the promulgation and enforcement of standards is an evolving one and one that could enable associations to become more integrally involved in governance not only at the level of direct intervention, but also in market interactions, and in processes of problem identification and conflict resolution.

5. *The Effect of Regulatory Uncertainty on Organizational Form Decisions: Evidence from Within the Firm*

Nathan Wilson, University of Michigan (USA)

Francine Lafontaine, University of Michigan (USA)

Rozenn Perrigot, University of Rennes 1 CREM & ESC Rennes School of Business (France)

This paper uses proprietary data from a large multinational multi-brand hotel company to explore at a very micro level how market characteristics, and in particular regulatory stability, affect how firms choose to organize their operations. We rely on both the institutional economics and economic organization literatures to develop a simple model that yields a number of testable implications. We find, as predicted by our model, that higher institutional stability, measured using either the World Bank Checks index or FDI inflows, is associated with increased use of equity-intensive organizational forms. In environments where the regulatory regime is more unstable, the firm eschews ownership, but maintains control over operations by operating the hotels under management contracts. Finally, we find that monitoring costs also affect organizational form decisions as one would predict based on agency issues.

6. *Can Franchise Agreements Provide for Relief Against Franchisor Failure in the Context of the Common Law?*

Jenny Buchan, University of New South Wales (Australia)

Franchise arrangements are based on a contract between the franchisor and franchisee; the franchise agreement. This paper examines whether franchise agreements, as a genre, can be routinely drafted to provide for relief against franchisor for the network's franchisees. The current regulation of franchise agreements under the common law in Australia is set out. The

assumptions that underpin the current law are stated and examined. This is followed by an investigation of the allocation of risk in franchise agreements, in particular the risk of franchisor failure. The desirability of certainty is acknowledged. This is followed by a short examination of the adequacy for the franchisee of the most common remedy for breach of contract – damages - in the light of franchisor failure is considered. Finally, I propose some tentative contract based solutions.

7. *Benefits of Inner Strength for Franchise System Expansion*

Thomas Ehrmann, University of Münster (Germany)

Brinja Meiseberg, University of Münster (Germany)

We combine the literature strands on the market and the “inner strength” (i.e. the resource-based view extended using the social network perspective) perspectives and posit hypotheses, first, to explore which perspective dominates location decisions for expansion in practice, and second, to provide clarification as regards the (ir)relevance of decision criteria actually applied for outlet performance. Using concepts from social network analysis, we test these hypotheses on a German retail franchise system. Our results suggest that for location decisions, both the market and the inner strength perspectives are taken into account. Yet, franchisee performance depends on inner strength criteria, on a regional basis, only. Providing an armour against competitive forces, inner strength renders franchisees relatively independent of market characteristics. Thus, franchisee location strategies may need re-evaluation. Further, we find evidence that successful expansion should follow a geographically dispersed cluster-based approach, instead of steadily growing from a baseline location.

8. *Retail Franchisors Reap Superior Benefits through Internal Co-branding*

Wright, Griffith University (Australia)

Lorelle Frazer, Griffith University (Australia)

Retail co-branding is an increasingly popular form of growth in mature business format franchises. This paper presents a study of franchised retail co-branding arrangements in Australia utilising a grounded theoretic approach building on previous case study research. Co-branding, agent theoretic and resource constraint arguments are analysed and found to be inadequate when applied to this phenomenon. The research reveals that the motivations for the development of internal co-brands into existing franchises include alignment of a suitable brand with existing retail formats and risk-averse behaviour. This research shows that co-brands are successfully created internally when franchisors are willing to modify the culture and concept of the original franchise brand in order to achieve system growth.

9. ***Firm Advantages as Determinants of the U.S. Franchise Industry's International Expansion: An Update***

Faye S. McIntyre, University of West Georgia (USA)

Joyce A. Young, Indiana State University (USA)

Since the initial surge in international activity by U.S. based franchisors in the later part of the last century, research interest in examining franchising within a global context has continued to increase. This current study compares five important factors of age, size, equity capital, headquarters location, and product category between domestic and international franchisors by updating a past study with 2007 data. The results indicate that both age and size remain significant determinants of franchise internationalization. Equity capital and headquarters still remain non-factors. The 2007 data, however, captures one important change from the two previous study years of 1967 and 1988. Product category is now shown as a significant determinant of franchise internationalization among U.S. based franchisors.

10. ***An Introspective Examination of Single-Unit versus Multi-Unit Franchisees***

Rajiv P. Dant, University of Oklahoma (USA)

Scott K. Weaven, Griffith University (Australia)

Ivan I. Lapuka, University of Oklahoma (USA)

Brent L. Baker, University of South Florida (USA)

Hyo Jin (Jean) Jeon, University of Oklahoma (USA)

Even though it is widely recognized that multi-unit franchisees (i.e., franchisees that operate more than one outlet within a franchise system) are a pervasive and popular form of franchising in many sectors (Kaufmann and Dant 1996; Garg et al. 2005), much of the extant theory in franchising has been developed with a focus on single unit franchisees. Although some have argued that multi-unit franchising (MUF) represents a conceptually unsound alternative to dyadic revenue sharing arrangements between a franchisor and the single-unit franchisees (SUF) (e.g., Bradach 1995), others tout the value of this organizational form in terms of rapid system growth, system-wide adaptation to competition, minimization of horizontal free-riding, and the strategic delegation of price or quantity choices to franchisees (cf., Dant, Weaven and Herington 2008; Kalnins and Lafontaine 2004). The goal of this paper is to introspectively compare and contrast MUF and SUF in terms of (1) the factors that they consider important when initially buying into a franchise system, (2) how these initial considerations change when the MUF purchase a second unit, (3) how the two groups characterize their relationships with their franchisors in terms of a series of relational constructs like trust and commitment, and (4) how MUF and SUF compare to each other on several demographic variables. The empirical results are based on a broad-based franchisee survey executed in Australia. The paper concludes with implications for practitioners and future academic researchers.

11. Multi-Unit Ownership Strategy in Franchising

Josef Windsperger, University of Vienna (Austria)

Dildar Hussain, University of Vienna (Austria)

In this paper, we examine the evolution of multi-unit franchising (MUF) research and develop an integrative model for the franchisor's choice of ownership strategy between single-unit and multi-unit franchising. Although several empirical studies were published on MUF in the last two decades, the research deficit primarily results from the lack of theoretical foundation of this ownership strategy. We extend the literature in the following way: First, based on the transaction cost view of governance mechanism, we examine the influence of environmental uncertainty on the choice of ownership strategy. Second, we develop hypotheses based on the resource-based and organizational capabilities view. Third, we investigate the influence of contractibility of resources and organizational capabilities on the choice of ownership strategy. Finally, we apply the screening theory and argue that specific investments of MUF have an ex-post bonding function, based on transaction cost reasoning, and an ex ante screening function.

12. Internationalization, Plural Form and Risk in Franchising: A Bi-Country Analysis of U.S. and French Networks

Rozen Perrigot, University of Rennes 1 CREM & ESC Rennes School of Business (France)

Sevgin Eroglu, Georgia State University (USA)

While two important topics often explored in the franchising literature are network internationalization and plural form, to date, these two potentially interrelated research streams have not yet converged. The purpose of this paper is to explore the relationship between plural form and internationalization of franchise networks. Introducing the notion of risk into this exploration, the present study hypothesizes a negative relationship between the two constructs. An empirical study involving 898 U.S. and French networks confirms this expectation. Indeed, the plural form rate for networks with operations abroad is lower compared to their domestic counterparts for the combined data and among French networks. The results of the logistic regression models underline the significant and negative impact of the plural form on internationalization for both of these samples. Interestingly, these findings are insignificant in the U.S. context. The study also highlights significant differences between international and purely domestic networks in terms of plural form. The paper concludes with implications

13. How Can Regulation Be Enhanced? New Perspectives on the Causes and Continuation of Franchising Conflict in Australia

Scott Weaven, Griffith University (Australia)

Lorelle Frazer, Griffith University (Australia)

Jeff Giddings, Griffith University (Australia)

Although federal Australian franchising sector regulation promotes franchise system disclosure and provides for mandatory conflict mediation, there is some concern that inequities exist within the conflict management process. As a result regulators are reviewing existing regulation and investigating alternative dispute resolution options in an attempt to proactively manage franchising conflict. Central to this process is identifying the sources of conflict in the franchising relationship. *Conflict* refers to the existence of deep underlying differences between involved parties that result in responses to potential or actual obstructions that impede one or more parties from realising their goals. This inductive research extends the conflict literature in dyadic exchange relationships through investigating antecedent influences upon franchising conflict from the franchisor and franchisee perspectives. A total of 24 interviews was conducted with lawyers, mediators, brokers, franchisors, franchisee advocates, franchise consultants, franchising academics, franchisor industry representatives and franchising media representatives. The key findings suggest that a lack of due diligence is associated with the formation of unrealistic expectations which increases the potential for future relational conflict. Although franchising experience impacts upon operational approaches and conflict, the role played by third parties and market conditions both appear to exacerbate dissatisfaction in most franchise systems. The concept maps and preliminary conceptual models presented in this paper will be tested in a large quantitative survey of key franchising stakeholders in the near future.

14. *How Hard Should It Get? Performance of Soft and Hard Franchise Systems in Different Environments*

Maryse Brand, University of Groningen (The Netherlands)

Evelien Croonen, University of Groningen (The Netherlands)

An important strategic attribute of a franchise system is its *hardness*. This reflects the franchisor's focus on maintaining system uniformity versus allowing for local adaptation. We argue that soft systems are relatively successful in local adaptation, and hard systems in exploitation and strategic adaptation. We therefore expect that hard and soft franchise systems perform differently in different environmental circumstances. We used quantitative data on growth, hardness and environmental dynamism of franchise systems in the Dutch retail industry (1994-2003). They reveal that in stable environments soft systems outperform hard systems, and in dynamic environments it is the other way around. Case data from the Dutch drugstore industry provides explanations for these findings.

15. *Issues with Prior Disclosure as a Regulatory Strategy for Franchise Protection*

Andrew Terry, University of New South Wales (Australia)

Yun Zhang, University of New South Wales (Australia)

As franchising becomes entrenched throughout the world, domestic franchise sectors increasingly face the challenge of the appropriate manner of its regulation. Of the four primary regulatory strategies- registration, prior disclosure, controls on conduct within the

relationship and alternative dispute resolution- prior disclosure has the most support among the more than 30 jurisdictions that subject their franchise sectors to a dedicated regulatory regime. Prior disclosure requirements address directly the information imbalance inherent in the typical franchise relationship and are widely accepted as central to good franchising regulation.

This paper critically assesses prior disclosure as a regulatory strategy, addresses current issues and suggests proposals for reform in light of the recent Australian Parliamentary Report, *Opportunity not opportunism: improving conduct in Australian franchising*.

16. Dispelling Franchising Myths: Franchisors and Franchisees as Entrepreneurs

Lola Dada, University of Surrey (UK)

Anna Watson, London College of Fashion (UK)

David Kirby, The British University in Egypt (Egypt)

In spite of the important contributions of franchising to many economies, it remains unclear whether it truly provides a scope for entrepreneurial behaviors and activities. Although many prospective franchise owners are attracted to this form of business ownership because of their individual entrepreneurial aspirations, it has been argued that entrepreneurial flairs are inhibited within the franchising framework. This study examines the debate from the perspectives of the main contributors within the franchising industry, franchisors and franchisees. The article focused on a range of key dimensions, notably a comparison of the franchise partners' entrepreneurial tendencies and an analysis of their relevant organizational policies. Contrary to common perceptions, the findings revealed several areas which showed that there are no significant differences between the entrepreneurial profiles of franchisors and franchisees. This study expatiates on major arguments in the franchising and entrepreneurship literature; it offers important implications for theory and practice, and provides directions for future research.

17. Is the Franchising Model Attractive to Independent Small Business Operators?

Stephen Bennett, Griffith University (Australia)

Lorelle Frazer, Griffith University (Australia)

Scott 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 necessary to determine why individuals chose to enter franchising as a franchisee or why they chose to become small independent business operators.

Interviews with 10 franchisees and 10 independent small business operators were conducted in Brisbane, Australia. The interviews investigated the characteristics of franchisees and independent small business operators, and looked for differences between

the two groups. Whilst their risk profiles were similar, franchisees were less likely to conduct much research prior to making a business choice.

Franchisees considered ongoing support, the provision of training and a proven system with established processes to be very important. Alternatively, independent small business operators preferred to exercise absolute control over their businesses, relying on knowledge and skills gained in prior employment and valuing their independence. Franchising appeared to offer the dual benefits of facilitating entry into business in an unfamiliar industry for inexperienced operators as well as providing a vehicle for growth and expansion for investors with previous corporate management experience. Opportunities for franchisors to attract independent business operators include addressing the negative image attached to franchising and demonstrating that the franchise system is not restrictive for entrepreneurs.

18. *Franchising and Innovation*

Audhesh Paswan, University of North Texas (USA)

Derrick D'Souza, University of North Texas (USA)

Mohammad Ali Zolfagharian, University of Texas (USA)

This study attempts to develop an innovation framework in the context of franchising. We begin by reviewing past research to identify two primary drivers of innovation – environmental uncertainty and business strategy orientation. Next, we develop a theoretically anchored innovation framework. The ensuing four-cell framework is detailed, discussed and interpreted. Research and managerial implications of the proposed typology are presented. We believe that proposed franchising innovation framework provides a richer and more appropriately specified articulation that is theoretically robust and will be useful to managers responsible for innovation in a franchising context.

19. *An Integrated Approach to International Franchise Expansion Modeling*

E. Hachemi Aliouche, University of New Hampshire (USA)

Udo A. Schlenrich, University of New Hampshire (USA)

Expansion into global markets can present new opportunities for franchise companies to develop additional sources of growth and profitability. However, international expansion does not come without risk. It is therefore essential that franchise companies employ a focused strategy that will allow them to evaluate the opportunities and risks inherent in the development of overseas markets. This paper proposes an integrated model of international expansion that combines insights from academic research and the results of a survey of franchise executives. This model allows the ranking of foreign markets according to their market potential and risk from the standpoint of a US-based franchise firm. This model is used to create an index that ranks 25 countries of the European Union. The index suggests that the UK and Germany are presently the most attractive for international franchise expansion in the EU while Malta and Lithuania are the least attractive.

20. A Study of Key Factors Influencing International Franchisors' Entry Modes into China

Mingxia Zhu, University of International Business and Economics (China)

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

Hong Quan, Northumbria University (UK)

The market entry strategies of international franchising firms have been extensively researched. However, most studies have focused on market entry into developed countries rather than developing countries. Since the 1980s, franchising, as an important entry method, has been adopted by many foreign investors to expand their businesses into China. The Chinese franchising market is still in its infancy and offers significant opportunities for international franchisors.

This paper examines the factors associated with the international franchising firms' entry modes when they enter the Chinese market. To achieve this objective, a structured survey was undertaken as the main research method underlying quantitative research methodology. The findings reveal four factors which dramatically influence international franchisors' entry mode choices into the Chinese market. They are: cultural and geographic distance, international market experience, risk spreading, and maturity of the franchising system. Firstly, this study finds out that the less the cultural and geographic distance between China and international franchisors' home country, the more likely it is to adopt direct international franchising entry mode into the Chinese market. Secondly, the richer the experience of an international franchisor, the less likely it is to adopt direct international franchising entry mode into China. Thirdly, the more mature the international franchising system, the more likely it is to adopt direct international franchising entry mode into China. Finally, the greater the consideration of risk spreading of an international franchisor, the less likely it is to adopt direct international franchising entry mode into China.

21. Franchising and International Expansion of Hotel Chains

Ilan Alon, Rollins College (USA)

Liqiang Ni, University of Central Florida (USA)

Youcheng Wang, University of Central Florida (USA)

This study proposes and tests an agency-based organizational model of international franchising using the hotel sector. Using data obtained from a Franchisor Questionnaire 2001-2008, we analyzed a panel of 120 observations of 19 US-based hotels. Our analysis reveals that the hotel franchisor's decision to internationalize is positively related to the ratio of initial fees to royalties, franchise experience and the permission of additional units to the franchisee, and negatively related to the scale of the US operations and the presence of area development agreement. Our model provides information on the factors affecting international franchising in the hotel sector, simultaneously advancing our knowledge on hotel internationalization and franchise internationalization.