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**SINGLE-UNIT VERSUS MULTI-UNIT FRANCHISING
IN THE U.S. FAST-FOOD INDUSTRY:
A COMPARATIVE ANALYSIS FROM THE FRANCHISEE PERSPECTIVE**

by

Marko Grünhagen

A DISSERTATION

Presented to the Faculty of

The Graduate College at the University of Nebraska

In Partial Fulfillment of Requirements

For the Degree of

Doctor of Philosophy

Major: Interdepartmental Area of Business (Marketing)

Under the Supervision of Professor Robert A. Mittelstaedt

Lincoln, Nebraska

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DISSERTATION TITLE

Single-Unit versus Multi-Unit Franchising in the U.S. Fast-Food Industry:

A Comparative Analysis from the Franchisee Perspective

BY

Marko Grünhagen

SUPERVISORY COMMITTEE:

APPROVED

DATE

Robert A. Mittelstaedt

December 3, 1999

Signature

Dr. Robert A. Mittelstaedt

Typed Name

James W. Gentry

December 3, 1999

Signature

Dr. James W. Gentry

Typed Name

A. Dwayne Ball

12/3/99

Signature

Dr. A. Dwayne Ball

Typed Name

Jerry L. Petr

12/3/1999

Signature

Dr. Jerry L. Petr

Typed Name

Signature

Typed Name

Signature

Typed Name



GRADUATE COLLEGE
UNIVERSITY OF NEBRASKA

Single-Unit versus Multi-Unit Franchising in the U.S. Fast-Food Industry: A Comparative Analysis from the Franchisee Perspective

Marko Grünhagen, Ph.D.

University of Nebraska, 1999

Advisor: Robert A. Mittelstaedt

This study examines multi-unit franchising in the domestic fast-food industry from the franchisee's perspective by comparing it to single-unit franchising, and assessing the advantages of a multi-unit approach. The data were obtained in retrospective surveys. Two control groups' prospective perceptions were used to validate the retrospective data. This study represents a first attempt to integrate some previously unrelated aspects of franchising research from different disciplines.

The major findings are as follows. Franchisees appeared to respond favorably to the survey as it seems to represent one of the few outlets for franchisees to have their voices heard. Of course, this might have introduced a bias towards those franchisees who are more outspoken than others. Further, retrospective data seem largely to be as good as prospective data in a franchisee context. Multi-unit and single-unit franchisees do not seem to be much different from each other with respect to the reasons they became franchisees, except for the naivete with which they approach their decision, and some indication that single operators have less of an investment motivation than larger operators.

Naivete was found to be common to single-unit operators and area developers, as no significant differences were found between the two groups when it comes to experience levels before entry into the system, expectations of scale efficiencies, expected participation in the decision making process, and expected profitability.

With regards to the comparison of sequential multi-unit franchisees and area developers, it was expected that sequential operators would show a more entrepreneurial motivation, while area developers would be more hands-off, investor types. Supporting this are the findings that sequential operators see more opportunity to disseminate information within their own systems and have greater confidence in their own expertise. Contrary to the described expectations, however, are the findings that there are no differences in entrepreneurial and in investment motivation. Some indication was detected that the percentage of personal wealth invested might play a role in some of the differences between franchisees.

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Chapter 1

Introduction

The metaphor used by most franchising researchers, no matter what their basic discipline, has been the single-unit franchisee. It takes little by way of casual empirical observation to belie that assumption. Single-unit franchisees are the exception, not the rule (Kaufmann 1996, p. 5).

In recent years, practitioners' as well as researchers' attention has begun to focus on a new development in franchising, the trend towards multi-unit franchising. In contrast to the historic "mom and pop" franchisee, an ever growing number of franchisees currently owns and operates more than one outlet. Over the past few years, various studies have indicated the persistent importance of multi-unit franchising in the U.S. Kaufmann and Dant (1996) found that 88% of the surveyed franchisors had multi-unit franchisees, while Kaufmann (1995) found that 83% of the surveyed new Mexican restaurants in 1994 were opened by existing franchisees. Within the McDonald's franchise system, between 1980 and 1990, 61.5% of all new restaurants were opened by existing franchisees (Kaufmann and Lafontaine 1994). Consequently, Kaufmann and Dant (1996, pp. 346-347) conclude that "the typical location-based franchise system (of which the fast food franchise is the prime and model example) is populated with multi-unit franchisees." Further, based on various recent studies (e.g., Kaufmann and Kim 1993, 1995; Robicheaux, Dant, and Kaufmann 1994), it can be concluded that the franchising sector as a whole is not only growing, but that a substantial portion of the industry's growth can be attributed to the

increasing popularity of multi-unit franchising. This notion was confirmed by Cheryl Babcock, Director of the Franchising Institute at the University of St. Thomas, in a personal conversation.

From a theoretical perspective, however, the phenomenon of multi-unit franchising may seem counterintuitive. The main reason for the existence of franchising in the literature from the franchisor's point of view has been attributed to the advantage of owner attention, i.e., the increased profitability that a franchised outlet generates, based on the semi-independent owner's motivation compared to a company-owned unit operated by a hired manager. In the case of multi-unit franchising, the franchisee owns more than one unit. The individual units of these mini-chains are operated by employee store-managers. Hence, from the franchisor's perspective, the traditional advantage of owner attention seems to disappear. Therefore, it seems as if the franchisor ought to be leery of the level of motivation created by multi-unit franchising.

From the franchisee's perspective, it seems that an entrepreneur who has the financial resources available to become a multi-unit franchisee at least ought to consider alternative opportunities to invest her/his money. Compared to single-unit franchising, multi-unit franchising seems to offer the advantage of scale economies, and often appears to provide franchisees with the opportunity to draw on expertise from existing outlets. Nonetheless, a multi-unit franchisee would be investing in a business that is to a large extent controlled by the franchisor as the system's sole decision maker, and in which the franchisee has to make substantial payments such as entrance fees and/or monthly royalty

payments to the franchisor. Other opportunities for potential multi-unit franchisees to invest their money, such as the securities or real estate markets, may appear equally profitable, given the variability of returns across franchise systems. Hence, alternatives to multi-unit franchising might represent equally enticing investment options.

Therefore, it seems as if for the potential franchisee and the franchisor the multi-unit franchising concept might be part of a consideration set of alternative options. By no means, however, does multi-unit franchising seem to present itself as the clear superior choice.

The original intent of this study was to conduct a study on the development of multi-unit franchising across different countries. At this point it seems appropriate to provide some background information about my specific interest in this topic. I am a German national, and have studied retailing and distribution channel issues during my undergraduate and graduate studies in Germany at the Universität zu Köln, as well as throughout my graduate studies at Eastern Illinois University, and at the University of Nebraska in Lincoln. A comparison between the situation of the franchising industry in Germany to that in the U.S. from the franchisee-retailer's point of view caught my attention, which emerged from my long-standing interest in the world of service providers and merchants as part of a distribution system. However, initial insights into the current status of research on multi-unit franchising resulted in the revelation that contemporaneous academic sources in the U.S. are rather scarce, and practically nonexistent in Germany. Although franchising in general is a common

topic in the trade literature, its scholarly treatment has lagged behind the industry's development. In this context, research on multi-unit franchising in particular is rather embryonic.

Therefore, I made the decision to focus on the domestic situation, and to conduct a systematic and fundamental study, which would then provide a basis for future research efforts. In subsequent studies, I am intending to transfer the methodology and findings of this dissertation to the context in Germany, in order to establish eventually comparable findings to the ones generated here.

Despite the previous discussion about the possible "suboptimality" of the approach, multi-unit franchising has emerged as the current "hot" trend in the domestic franchising industry. Over the past few years, an academic effort has been made by Kaufmann, Lafontaine, and their colleagues (e.g., Kalnins and Lafontaine 1996; Kaufmann and Dant 1996; Kaufmann and Kim 1993, 1995; Kaufmann and Lafontaine 1994; Robicheaux, Dant, and Kaufmann 1994) to explore the issue from the franchisor's perspective. The most important issue, which has emerged from their research, has been the fact that the franchisor's motivation is driven by growth rates of multi-unit franchising based systems that are much higher than those of traditional single-unit based systems.

However, the literature on multi-unit franchising has neglected for the most part the franchisee's perspective, and her/his motivation to engage in this endeavor. The purpose of this dissertation is to explore conceptually the question of why multi-unit franchisees choose the multi-unit franchise route, and to assess empirically the influence of selected correlates on this decision. In

other words, the main research question this study is aiming to answer is: what is the justification of multi-unit franchising from the franchisee's point of view?

In the past, no theoretical framework has been proposed which organizes motives for multi-unit franchising from the franchisee perspective. This study will examine multi-unit franchising from the franchisee's perspective by considering alternative constellations in retrospect, and assessing the advantages of a multi-unit approach. Prospective perceptions of two control groups will be used to validate the retrospective data.

Most franchising research in the past has focused on the collection, analysis, and interpretation of data about the evolutionary state of the art of franchising at a particular point in time. Generally, outcomes of franchise developments have represented the focus of franchising research for the most part. The underlying premise for this traditional research emphasis has been normative decision theory, which is based on the strict economic rationale that one's evaluations of the status quo should not vary depending on the events leading to this situation (e.g., Oliver 1980). Such a normative framework represents a clear contrast to the underlying premise of this entire study. It has been shown elsewhere (Gourville and Soman 1998; Kahneman and Tversky 1979; Ross and Simonson 1992; Thaler 1985) that the evaluation of the status quo is dependent on the events and experiences precipitating the current situation. Hence, it is argued here that potential franchisees' perceptions, anticipated fears, and general patterns of thinking do matter in the process of deciding for one franchisee type versus another, while the size of franchise

operations is controlled for. The marketing literature has indicated for decades that classic rational economic approaches often warrant refinement through behavioral considerations. It is argued here that the context of the decision to become a certain type of franchisee provides much needed insights into who franchisees are, and how they have arrived where they are.

The theoretical portion of this study breaks down into two broad sections. First, an attempt will be made to compare the perceived skills and expectations of franchisees at the time they became either single-unit or multi-unit operators. Hypotheses will be developed as to the conditions under which potential franchisees would decide to become a multi-unit compared to a single-unit franchisee. In a second step, the two prevalent forms of multi-unit franchising, area development and sequential multi-unit franchising, will be contrasted in detail to explore how their particular differences add to the explanation of the multi-unit franchising phenomenon. Again, conditions which influence the decision to become an area developer or a sequential multi-unit franchisee will be specified. The purpose of both of these comparisons is to close some conceptual gaps concerning multi-unit franchising which have not been addressed in the extant literature. Within each of the described steps, hypotheses as they relate to the explored issues will be developed for empirical testing of retrospective perceptions. Two control groups of current single-unit and sequential multi-unit franchisees, who are in the process of expansion, will be used to provide a prospective comparison.

Chapter 2 provides the historical development of franchising with a focus on the domestic industry. Then, the marketing and economics literature as it pertains to franchising in general, and to multi-unit franchising in particular, will be reviewed. Multi-unit franchising will be defined, and the most common forms, sequential multi-unit franchising and area development franchising, are identified as the primary objects of the subsequent analysis.

Chapter 3 contains the development and definition of the constructs used in this study, and the discussion and establishment of the hypotheses to be tested. A set of semi-structured interviews with current multi-unit franchisees about their recollection will serve to substantiate some of the literature-based development of the hypotheses.

In Chapter 4, the sampling procedure will be discussed. Also, the current situation of the fast-food industry from which the sample for the empirical part of this study will be drawn is presented.

Chapter 5 will describe the measurement of the variables included in the hypotheses, and their reliability assessment.

The empirical verification of the hypothesized relationships will be conducted in Chapter 6. Limitations of the study, and conclusions as to the relevance of the findings for researchers as well as for practitioners will be presented in the final chapter.

Table 1 shows definitions of the constructs and their sources, which are used in this study. The development of the hypotheses relies on the integration

Table 1: Constructs

CONSTRUCT	DEFINITION & SOURCE	SOURCE DISCIPLINE
<p>Grouping Variable Choice of the Type of Franchise Agreement</p>	<p>Categorical Variable: SUF = Single-Unit Franchisee MUF = Multi-Unit Franchisee, with ADF = Area Development Franchisee SMF = Sequential Multi-Unit Franchisee</p>	<p>Marketing Channels/Law</p>
<p>Treatment Variables Appeal of the Franchisor's Ownership of Outlets</p>	<p>The extent to which a potential franchisee perceives the ownership of outlets by the franchisor as an attraction (own definition)</p>	<p>Marketing Channels</p>
<p>Perceived Domain Expertise</p>	<p>The extent to which a potential franchisee perceives a) cognitive component: Level of expertise b) non-cognitive component: Self-confidence (Shanteau 1987)</p>	<p>Behavioral Research</p>
<p>Perceived Social Influence</p>	<p>Expectations & recommendations by peers, family and friends as Perceived by the franchisee (own definition)</p>	<p>Behavioral Research/ Social Psychology</p>
<p>Expected Economies of Scale</p>	<p>The extent to which a potential franchisee perceives the ability to spread the fixed cost of self-performed tasks (management and Supplies procurement) over the number of outlets (own definition)</p>	<p>Economics</p>
<p>Expected Efficiency in Info Dissemination from Franchisee Operation</p>	<p>The extent to which a potential franchisee perceives the ability to learn about problems and their solutions at the retail level from the franchisee's "mini-chain", and to provide the speedy dissemination of these solutions over the outlets (modified from Sasser, Olsen, and Wyckoff 1978)</p>	<p>Economics</p>
<p>Expected Efficiency in Info Dissemination from Franchisor Operation</p>	<p>The extent to which a potential franchisee perceives the ability to learn about problems and their solutions at the retail level from the franchisor's operation, and to provide the speedy dissemination of these solutions over the outlets (modified from Sasser, Olsen, and Wyckoff 1978)</p>	<p>Economics</p>
<p>Expected Participation in the Franchisor's Decision Making</p>	<p>The extent to which a potential franchisee expects input to the franchisor's decisions with regards to new products, policies and standards determination (own definition)</p>	<p>Management/ Entrepreneurship</p>
<p>Entrepreneurship Motivation</p>	<p>The extent to which a potential franchisee expects a) job involvement, and b) emotional fulfillment as the primary reasons for her/his engagement (Lodahl and Kejner 1965; McClelland 1961; Michaels et al. 1988; Palmer 1970/71)</p>	<p>Management/ Entrepreneurship</p>
<p>Investment Motivation</p>	<p>The extent to which a potential franchisee expects reaping a return as the primary reason for her/his engagement (own definition)</p>	<p>Finance</p>
<p>Expected Per-Unit Profitability</p>	<p>Per-unit profits as a percentage of per-unit revenues, which a potential Franchisee expects (own definition)</p>	<p>Accounting</p>

of various aspects of marketing channels and behavioral research, financial economics, managerial entrepreneurship, as well as the finance and accounting literatures. Traditionally, franchising research has utilized multiple disciplines and their contributions to explain and predict the thinking and behavior of franchisees and franchisors (Bergen, Dutta, and Walker 1992). Therefore, Table 1 also indicates the background of each of the constructs with regards to the particular discipline from which they are drawn. The framework, which is about to be developed, represents a first attempt to integrate some previously unrelated aspects of franchising research from different disciplines, united by the common purpose of explaining multi-unit franchisees' motivation for the engagement in their particular functions. The following three explanations provide an overarching framework for the hypotheses, which are developed throughout this dissertation.

Why Multi-Unit Franchising?

1. Perhaps for the same reasons as single-unit owners, with the only difference being more money at the franchisee's discretion?
2. Perhaps the belief prevails that at a bigger size than single-unit operators, multi-unit owners might be able to "beat the game"?
3. Perhaps it is a completely different "philosophical" orientation? That is, while some multi-unit franchisees might consider themselves as "entrepreneurs", others might think of themselves more as "investors"?

To try to answer the general question "Why multi-unit franchising?" three possible answers seem to emerge from the literature. (1) Single unit franchisees

may be so eager to get into business for themselves that they become risk indifferent, thus truly lowering the cost of capital relative to a vertically integrated system. This argument is extended by saying that multi-unit franchisees are no different than single unit franchisees in that respect; indeed, they are just like single unit operators, except they have more money to invest. (2) Multi-unit operators believe that, because they are entering in a bigger way, they can "beat the system" by garnering advantages inherent in larger, geographically dispersed operations. (3) The same "experts" who have argued that multi-unit operations do not make a lot of sense have also argued that "entrepreneurship" has no place in the study of franchisees. Why would anyone who has any entrepreneurial spirit want to take on a role that is almost indistinguishable from that of an employee? However, it may be that the entrepreneurial spirit lives in multi-unit operators and, specifically, in those that develop sequentially. It is argued that the hypotheses in this dissertation can be parceled out and subsumed under these three "explanations."

In summary, the main contributions this study is aiming to make are the following:

1. The conceptualization of a new and unique set of hypotheses which examine the nature of multi-unit franchisees' motives for their engagement in their specific functions;
2. Support for the argument that the history of events in the franchisees' decision making process matters, contrasting with the normative

decision model which emphasizes the importance of the current status;

3. A preliminary investigation into the question of social influence on aspiring franchisees' decision making;
4. The differentiation between area development and sequential multi-unit franchisees in particular based on their distinctly different expectations;
5. The integration of various franchise-related theoretical approaches as they relate to the explanation of multi-unit franchisee motivation;
6. The development of constructs which are salient to multi-unit franchisees' motivation;
7. The empirical measurement and verification of the hypothesized relationships;
8. A comparison and test of convergence of retrospective and prospective franchisee data; and
9. Recommendations for franchise researchers and practitioners as they result from the findings.

The units of analysis in the following study will be *existing* franchisees. An effort will be made in the subsequent empirical analysis to survey single-unit franchisees, area developers, and sequential multi-unit franchisees. They will be surveyed regarding their past perceptions before they entered their respective franchise agreement under which they operate today. Kaufmann and Stanworth (1995) and Stanworth and Kaufmann (1996) have used an alternative approach

in the past. They surveyed attendees at franchise expositions in the United Kingdom and in the U.S. under the assumption that these individuals represented potential future franchisees. One drawback of such a sample is the fact that the actual number of potential franchisees who eventually become franchisees remains unknown. Hence, the motivating factors identified in the study remain inconclusive as to their actual motivating effects. Kaufmann and Stanworth (1995) recognize with regards to the results of their study that "intention does not necessarily predict action."

The avoidance of the aforementioned drawbacks in the current approach, of course, does not remedy the problems remaining. These include the fact that only existing franchisees are surveyed, who have survived some initial time period, and thus are probably rather successful. Further, current franchisees' recollection might not be an accurate assessment of reality in the past ("memory effect", see also Braun 1999), past experiences might be perceived to carry over into the future ("halo effect"), and past perceptions might have become biased through their experience with their franchise system ("hindsight bias"). However, these effects are common problems in most research. This issue is addressed in Chapter 5 with a method of controlling for some of these biases.

Chapter 2

History and Literature Review

Historical Development of Franchising

Franchising as a distinct form of distribution goes back to the early 1800s, when beer brewers in Europe entered into licensing and financing agreements with bars and taverns for the exclusive sale of various types of beer and ale. In 1863, the Singer Sewing Machine Company instituted the first consumer product franchise system in the United States. During the 1890s, the automobile and soft drink industries adopted franchising as the primary means of distribution, and in the 1930s, petroleum producers followed (Hackett 1976). The marketing and the economics literatures classify this “first generation” of franchise systems, which was adopted early on by these businesses and continues to the present, as “product and tradename franchising”. It is characterized by franchisees who simply distribute a product under a franchisor’s trademark (Preble and Hoffman 1998).

The franchise industry began a period of accelerated growth in the 1950s. After Howard Johnson had developed the first franchised restaurant chain in 1935, fast-food restaurants, hotels, entertainment, and rental services integrated the franchising concept into their marketing strategy. McDonald’s franchise units, for example, increased by 758% during the ten-year period between 1961 and 1971 (Hackett 1976). With these newer types of franchise systems, the

main focus has shifted from the traditional perspective of a distribution channel for a trademarked product to that of ownership of an entire business idea by the franchisor, and its rental to the franchisee (Caves and Murphy 1976). This "second generation" of franchising is defined as "business format franchising" in which the relationship between franchisor and franchisee "includes not only the product, service, and trademark, but the entire business format itself - a marketing strategy and plan, operating manuals and standards, quality control, and continuing two-way communication" (U.S. Department of Commerce 1988, p. 3).

By the late 1960s, the initial rapid growth of franchising within the U.S. leveled off due to an increasing lack of prime locations and heightened competition. Consequently, as a result of a saturated domestic market, franchisors began to expand beyond the U.S. borders. While in 1969 only 14% of the members of the International Franchise Association (IFA) had foreign operations (Hackett 1976), today one in five established franchise chains, approximately 400 companies, have globalized their franchises (Ryans, Lotz, and Maskulka 1997). International franchising has been widely influenced by domestic trends within the U.S., and has been spread globally for the most part by U.S. franchisors.

Today, domestic franchising sales of goods and services in the U.S. alone are estimated at \$758 billion (U.S. Department of Census 1994). Franchising in the U.S. has recently begun to take on new industries, such as the real estate

business or the funeral industry. By the year 2000, the franchising format is forecasted to distribute half of all domestic retail goods (Padmanabhan 1989).

Over the past decade, the face of the domestic franchise industry has changed dramatically. An ever growing number of franchisees contributes to the persistent growth of the franchising industry through the establishment of multi-unit operations within existing franchise systems. Simultaneously, various forms of multiple unit ownership have emerged. Kaufmann and Dant (1996, pp. 346-347) express the notion that "today's typical franchise system is populated with multi-unit franchisees." This development and its assessment from the franchisee perspective will be the focus of this work.

Business format franchising is predicted to be the dominant form of franchising globally in the twenty-first century (Hoffman and Preble 1993). Between 1972 and 1986, the number of domestic product and tradename franchising outlets had declined from 262,100 to 149,313, with most of the decline attributable to gas station closings. Simultaneously, the total nominal sales through outlets of business format franchising grew by 442% between 1972 and 1986, and the number of outlets increased by 65% from 189,640 to 312,810 (Lafontaine 1992).

Consequently, the rising importance of business format franchising paired with the increasing popularity of multi-unit franchising, and the parallel decline in product and tradename franchising led to the decision here to concentrate on multi-unit franchisees who operate within business format systems for the remainder of this work. The empirical part of the study will be conducted in the

fast-food industry, which is considered a prime example of the business format franchise realm.

Franchising in the Literature

Much confusion still surrounds the concept of franchising despite the fact that it is a long established business arrangement. This arises from the variety of business arrangements that closely resemble franchising proper, and the widespread use of the term in everyday language.

It is usually assumed explicitly or implicitly that franchising is a distinct and well-defined category somewhere between complete vertical integration and autonomous firms. The franchising industry has summed up the dual benefits of franchising as a hybrid between dependence and autonomy in the catchy slogan, "Be in business for yourself, but not by yourself." Actually, there are a number of alternative organizational forms between the two extremes. Apart from franchising as a contractual vertical marketing system, examples of distribution channel hybrids include administered vertical distribution systems and strategic alliances. In an international context, licensing represents another popular alternative to franchising. The possible hybrid organizational forms are so numerous that they are best thought of as existing on a continuum. Franchises are not a single point along the continuum, but rather constitute an alternative to each of the organizational types along the continuum. Thus, there exist no neat boundaries between franchises and other business forms.

Nevertheless, according to Felstead (1991) and Mendelsohn (1985), four basic features are common to all commercial franchise structures. The first is that the franchisor is the owner of a name, an idea, a secret process, a product, or a specialized piece of equipment, as well as the goodwill associated with it. The second characteristic is the issuing of a franchise specified by contract, permitting the franchisee to use the specific product itself, or even the complete business format. As outlined above, this determines the distinction between "product and tradename" and "business format" franchising. The third characteristic is the inclusion in the franchise contract of regulations and controls relating to the operation of the business in the conduct of which the franchisee exercises her/his rights. Finally, there is the payment by the franchisee of a royalty, an entry fee, and/or the payments for supplies purchased from the franchisor in return for rights obtained and franchisor services provided.

In recent years, the purchasing by the franchisee of franchisor-supplied input has been significantly reduced (e.g., Miller 1998, regarding a recent example with McDonald's), mostly due to legal scrutiny of such vertical tying arrangements. Up to the 1970s, the use of tying arrangements was widespread (Hunt and Nevin 1975). Inaba (1980) describes tie-in sales as a monopolistic practice with resulting consumer surplus transfers to the franchisor's profits, and an ultimate deadweight loss to society. Stephenson and House (1971) note that the FTC started scrutinizing these exclusive dealing requirements between franchisor and franchisee in the early 1970s. As Blair and Kaserman (1985, p. 381) point out, according to court rulings amending the 1914 Clayton Act "tying

arrangements are virtually *per se illegal*", mainly based on the persistent scrutiny of such arrangements by the Supreme Court. Excluded from these legal considerations is any "essential ingredient of the franchise system's formula for success" (*Principe v. McDonald's Corp.* 1980), such as the herb blend and spices for a Pizza franchise's secret tomato sauce recipe. However, the purchase by the franchisee of *substitutable* supplies from the franchisor is so burdened with legal implications that might arise from franchisors' attempts to enforce such vertical tying arrangements that most franchisors have eliminated such requirements. Only a few franchisors maintain sizeable purchase requirements between themselves and their franchisees without permitting the purchase of such supplies from other designated sources. Such supply restrictions, which sometimes reach the 100% mark, are often based on the "essential ingredient" argument, hence clearly risking litigation by franchisees. As such tying arrangements have become quite rare, this study will limit its view upon the franchisee's consideration to royalty payments and the initial entrance fee.

Despite the establishment of the earlier described all-embracing characteristics, a variety of franchise forms coexists under the same name. However, the traditional perception of franchising is the "mom and pop" franchisee who brings all of her/his energy and focus to bear on operating one outlet (Caves and Murphy 1976). In fact, Kaufmann (1996, p.6) points out that traditionally

the metaphor used by most franchising researchers, no matter what their basic discipline, has been the single-unit franchisee. It takes little by way of casual empirical observation to belie that assumption. Single-unit franchisees are the exception, not the rule.

Indeed, several recent studies support this contention. As noted earlier, Kaufmann (1995), Kaufmann and Dant (1996), and Kaufmann and Lafontaine (1994) report the recently emerged dominance of multi-unit ownership in existing franchise systems. This phenomenon leads Kaufmann and Dant (1996, pp. 346-347) to assess that "the typical location-based franchise system (of which the fast food franchise is the prime and model example) is populated with multi-unit franchisees."

Kaufmann and his colleagues (Kaufmann and Dant 1996; Kaufmann and Kim 1993, 1995) identify three additional subtypes under the collective "franchising" heading. Apart from the traditional single-unit franchisee, three types of multi-unit franchisees are distinguished.

"Subfranchising", often also denoted as "master franchising", is characterized by the franchisor's permission to a franchisee to grant franchises on the franchisor's behalf *to third parties*. Subfranchising as a distinct form of franchising is widely used in the international expansion efforts of franchisors. Often, a subfranchisor for one or even several countries is established who then, in turn, subfranchises to local franchisees who are responsible for opening their individually-owned units. The subfranchisor functions as an additional control layer, and largely assumes the tasks of the franchisor in her/his geographical area for a share of the royalty payments. Subfranchising as well as corporate ownership of outlets by the franchisor have been in the past and are still today

among the most frequently observed forms of control in the international expansion process of U.S. franchise systems (Chan and Justis 1990; Hackett 1976). Either strategy allows the franchisor a great amount of control over its foreign operations, a paramount objective for franchisors in light of the prevailing communication and strategic flexibility problems in global franchisor/franchisee relationships (Ryans et al. 1997). Domestically, subfranchising plays a subordinate role compared to "sequential multi-unit" and "area development" franchising, which are described subsequently. Presumably, this inferior representation of subfranchising in the domestic context is grounded in the structure of the arrangement. The additional control layer in a subfranchising arrangement only complicates the functioning of the relationship without yielding an additional benefit for either party. Therefore, the following more "direct" relationship constellations between franchisor and franchisee seem to be preferred domestically.

"Area development franchising" as well as "sequential multi-unit franchising" denote the types of franchising in which the franchisee her/himself opens additional units under her/his own ownership and management. They are the prevalent types of franchising in the U.S. (Robicheaux, Dant, and Kaufmann 1994), with sequential multi-unit franchising as the most common domestic form (Kaufmann 1994). In area development franchising, the franchisor requires the franchisee her/himself to exercise the *contractual obligation* to open a specified number of outlets within a specified period of time. In sequential multi-unit franchising, the franchisor simply grants the franchisee the *right* to open

additional units, with each subsequent outlet being legally governed by a separate franchise agreement. This franchise form is based on the desire by traditional single-unit franchisees to open additional units in order to grow their businesses, and qualification for expansion is often based on the performance of existing units (Kaufmann and Dant 1996). Both of these types of multi-unit franchising actively encourage the creation of mini-chains, i.e., multiple units owned by the franchisee and operated by employee-managers of the franchisee. The focus in this work will be directed towards these latter forms of multi-unit franchising due to their current domestic dominance.

Multi-unit franchising, either through the incremental expansion by the franchisee one unit at a time or through the contractual agreement to open multiple units contained in an area development contract, creates a collection of mini-chains within the franchise system. Kaufmann (1988) as well as Bodipo-Memba and Lee (1997) indicate that these mini-chains in some cases extend across entire states, and may encompass hundreds of outlets. As a comparison, Bond's Franchising Guide (1998) provides figures that put the median size of *entire franchise systems* at 64 outlets. This indicates that many franchisees, often area developers, own more outlets than some franchise systems contain in their entirety. Area development contracts force area developers to approach their assigned territory in a systematic fashion, thus accelerating the growth process. Area developers generally operate within a specified territory, which is defined in their contract with the franchisor. Hence, they forego competition with other franchisees and outlets owned by the franchisor (Justis and Judd 1998, p.

4-11). Sequential multi-unit franchisees, on the other hand, develop and own all of their units subsequently as money allows and opportunities arise, with overlapping trade areas between such franchisees frequently occurring. Generally, area developers own more outlets than sequential multi-unit operators, as the expansion process for the sequential multi-unit franchisee is mostly a slower one. The popularity of area development franchising with franchisees as well as with franchisors based on its conflict prevention potential has spurred the tremendous growth of area development franchising in particular (Kaufmann and Kim 1993, 1995; Zeller, Achabal, and Brown 1980).

Research on franchising in general has been severely constrained over the past decade due to a lack of systematic gathering and dissemination of statistical data. This development received its most severe setback after 1988, when the U.S. Department of Commerce discontinued the publication of its yearly report entitled "Franchising in the Economy" (Lafontaine 1995). Although a continuation of the document was attempted by the International Franchise Association (IFA) in 1990 and 1992 (International Franchise Association 1990, 1992), it has ceased to exist. For quite some time now, reliable and comprehensive statistics on the state of the art of the franchising industry have been gathered only sporadically, often through systematic research efforts of marketing scholars.

The literature on multi-unit franchising is still in its embryonic stage (see Table 2), and as mentioned earlier, has only emerged over the past few years, mainly based on work by Kaufmann, Lafontaine, and their colleagues (e.g.,

Kalnins and Lafontaine 1996; Kaufmann and Dant 1996; Kaufmann and Kim 1993, 1995; Kaufmann and Lafontaine 1994). Most of this research has focused on the franchisor's perspective. The empirical testing of multi-unit franchising research is just emerging, and has so far only answered questions which are very limited in scope, such as issues of growth or system-wide adaptability (see Table 1). Bradach (1995), Kaufmann, and Dant (1996), and Kaufmann and Kim (1993, 1995) found that the franchisor's chief advantage in multi-unit franchising compared to single-unit franchising lies in the increased growth rates of such systems. The underlying assumption in this context appears to be that accelerated growth means rapid revenue increases for the franchisor, as each new outlet puts more royalties and fees into the franchisor's pocket. Kaufmann and Stanworth (1995), Peterson and Dant (1990), and Stanworth and Kaufmann (1996) provide some of the few academic attempts to organize perceived advantages from the franchisee's perspective. The studies support the common notion that franchisees' attraction to the franchising concept is mostly based on the training they receive, their independence, the goodwill associated with the trademark, and the financial support from the franchisor in the outlet's development. Kaufmann and Stanworth (1995) add that many franchisees have a history of self-employment. These studies, however, only consider the single-unit franchisee context. Hence, at this time no theoretical framework is known which exposes reasons that lead to multi-unit franchising from the franchisee's point of view. This work now aims to scrutinize the potential franchisee's perspective to close some of the extant conceptual as well

as empirical gaps. One can plausibly conjecture that asserting a single theoretical framework for predicting why certain multi-unit franchisees see certain advantages as salient would be a very difficult task since a large number of

Table 2: Major Findings of Multi-Unit Franchising Studies

Authors	Major Findings
Bradach (1995)	<p>> 130 semi-structured interviews with corporate and unit personnel of 5 large franchise systems</p> <ul style="list-style-type: none"> • Multi-unit franchisees outperform single-unit franchisees, most importantly in terms of unit growth & system-wide adaptation to the competition • Single-unit franchisees prevail compared to multi-unit franchisees in terms of local responsiveness • Both types meet the challenge of uniformity equally well
Kalnins and Lafontaine (1996)	<p>Survey of 3,400 restaurants of the six largest Texan fast-food chains</p> <ul style="list-style-type: none"> • Geographic distance & contiguity/sharing of market boundaries increases likelihood of multi-unit franchising • Differences in demographic characteristics decrease likelihood of Multi-unit franchising
Kaufmann and Dant (1996)	<p>Survey of 125 International Franchise Association franchisors</p> <ul style="list-style-type: none"> • The greater the proportion of a system's multi-unit franchisees, the faster it Grows compared to traditional franchise systems • Level of a franchisor's continued commitment to franchise is negatively Related to number of outlets per franchisee & the ability to obtain capital Elsewhere • Combination of agency and capital acquisition arguments as partial Explanation for franchising
Kaufmann and Kim (1993)	<p>Survey of 169 International Franchise Association franchisors</p> <ul style="list-style-type: none"> • Area development franchising and subfranchising are associated with Higher growth rates than single-unit franchising • Systems employing area development have a higher proportion of Franchisor-owned stores than those employing subfranchising
Kaufmann and Kim (1995)	<p>Survey of 169 International Franchise Association franchisors</p> <ul style="list-style-type: none"> • Franchise systems using multi-unit franchising grow faster (in units) than Those which do not • Causality between rapid growth and multi-unit franchising remains unclear
Robicheaux, Dant, and Kaufmann (1994)	<p>Survey of 160 fast-food franchisors drawn from Info Franchise Annual</p> <ul style="list-style-type: none"> • On average, 33% of all franchisees are multi-unit operators • Among those multi-unit operators, nearly a fifth on average has area Development agreements • Area agreements are more common in chicken and full menu restaurant Franchise systems than among other segments • The greater the respondents' perceptions of franchisee and franchisor Management difficulties with multi-unit operations, the lower the Percentage of operators with area development agreements

situational, personality, and economic correlates are likely to influence such perceptions. Such a framework can only be developed gradually, and this study represents a first attempt in this direction.

To summarize, it has been argued that multi-unit franchisees in general, and sequential multi-unit operators in particular, represent a growing portion of the franchising industry. From the franchisor's perspective, multi-unit franchisees do not seem to make a lot of conceptual sense, except that they seem to allow for faster growth of the system. However, sequential multi-unit operators do not seem to represent that same advantage since sequencing is a strategy most often found in relatively well established systems. In addition, the franchisee perspective has received very little attention in the academic franchising literature. Given that franchise systems inherently give the franchisee only limited control of her/his own business, no opportunity to retrieve any goodwill which the business may develop, and cost a significant percentage of the gross revenue in the bargain, one has to ask why anyone would ever become a franchisee. Some have argued that franchisees are "buying jobs". While that might be true for a single-unit owner, it does not answer the question for the area developer who, presumably, has enough capital to have other alternatives. The following chapters will attempt to shed some light on the question of why multi-unit franchisees are motivated to engage in this seemingly unattractive endeavor.

As suggested earlier, the following three questions are suggested to provide the overarching themes for the development of hypotheses from a

divergent set of literatures in the following chapter. They attempt to offer guidance as to the relevance of the subsequent development of constructs and propositions in light of the basic question of this dissertation "what is the justification of multi-unit franchising from the franchisee's point of view?"

Why Multi-Unit Franchising?

1. Perhaps for the same reasons as single-unit owners, with the only difference being more money at the franchisee's discretion?
2. Perhaps the belief prevails that at a bigger size than single-unit operators, multi-unit owners might be able to "beat the game"?
3. Perhaps it is a completely different "philosophical" orientation? That is, while some multi-unit franchisees might consider themselves as "entrepreneurs", others might think of themselves more as "investors"?

Chapter 3

Development of Constructs and Hypotheses

In this chapter, constructs will be established and hypotheses are developed. In a first step, multi-unit franchising in general will be compared to single-unit franchising. Then, the two dominant domestic forms of multi-unit franchising, area development and sequential multi-unit franchising, will be contrasted. This is done in an effort to use their distinct differences to extract justification for their particular attraction to specific multi-unit franchise prospects. A set of semi-structured interviews was conducted with current multi-unit franchisees. Their quotes will be used where appropriate to substantiate the literature-based development of the emerging hypotheses.

It should be noted at this point that the hypotheses being developed in this chapter are not to be understood as if they represented a choice to potential franchisees. The respondents will be asked to make judgments as to sound business practices given their frame of reference, and not explicit choices which are largely irrelevant given their current status.

The Grouping Variable

The grouping variable in this study is *the choice of the type of franchise agreement* under which franchisees currently operate. The type of franchise contract between franchisor and franchisee describes whether a franchisee is

engaged in franchising with the franchisor under an individual single-franchise agreement, or under an area development agreement. Beside single-unit franchisees and area developers, sequential multi-unit operators run multiple single-unit franchises, each of which is opened subsequently, and is governed by a separate franchise agreement. From the standpoint of this study's research agenda, which focuses on the expectations of potential franchisees, sequential multi-unit franchisees will be treated as a conceptually distinct category. This is done because the nature of the contractual relationship into which these franchise prospects aspire to enter appears structurally distinct from the single-unit operation from which it has originated. The nature of a sequential multi-unit operator's arrangement is that actually a mini-chain exists, which in contrast to an area development obligation has been created voluntarily, and generally involves less advance planning by the franchisee. As outlined earlier, the opening of such units by sequential multi-unit operators occurs as opportunities open up on a rather irregular schedule. The type of franchise agreement is defined as a categorical variable for hypotheses 1 through 6, with the general dichotomy of "multi-unit franchising" vs. "single-unit franchising". Further, the dependent variable multi-unit franchising is differentiated for further examination in hypotheses 7 through 10 as "area development franchising" vs. "sequential multi-unit franchising".

Multi-Unit vs. Single-Unit Franchising

In this section, the traditional single-unit franchising perspective will be contrasted to multi-unit franchising in general. Constructs will be defined, and hypotheses contrasting potential single-unit and multi-unit franchisees will be developed.

Agency Theory and Franchisor-Owned Outlets

Agency theory has generated a vast amount of research over the past few decades, particularly in such areas as finance, accounting, organizational behavior, political science, and sociology (Bergen et al. 1992). The theory has emerged from economics (Jensen and Meckling 1976; Ross 1973), and addresses issues of particular relevance to marketing researchers (e.g., Bergen et al. 1992; Celly and Frazier 1996; Eisenhardt 1989). An agency relationship is present whenever one party (the principal) depends on another party (the agent) to undertake some action on the principal's behalf (Bergen et al. 1992). Hence, a franchising relationship is considered an agency relationship with the franchisor traditionally regarded as principal, and the franchisee as agent.

Brickley and Dark's (1987) seminal article as one example of the enduring agency-related research stream on franchising in economics identifies fundamental agency problems in a franchising context associated with centrally operated units on one hand, and franchised outlets on the other hand. Historically, the economics literature has identified agency-related motivation as the core justification for traditional single-unit franchising. It is the attention of the

franchise owner to her/his store, which creates a higher degree of motivation than the hiring of a manager could establish.

Elango and Fried (1997) point out an alternative perspective on traditional agency theory in which the franchisee could be considered the principal, on whose behalf the franchisor determines how the franchisee's assets are utilized best. From this perspective, the franchisee would act as principal, monitoring the franchisor's more or less opportunistic utilization of, for example, entrance or advertising fees. Hence, the engagement in franchising in general could be considered an alternative to the employment of other individual and separate agents, such as an independent market research firm, a separate advertising agency, and an independent locational consultant. Instead of dealing with each such agent independently, a franchisee might consider it less costly, and ultimately less risky, to deal with one franchisor alone. In other words, an individual contemplating the decision to become a franchisee might regard the franchise option as the less costly and risky choice compared to becoming an independent entrepreneur. This may be due to the fact that franchising entails the undivided attention of the franchisor to its franchise system, as well as the proven expertise in the specific business format offered as a franchise. Dealing with individual agents whom an independent entrepreneur might have to hire could result in a lack of synergies and higher transaction costs, as well as a limited level of dedication to the entrepreneur as only one client among many.

While this argument might be valid for any type of franchising in general, an extension to the particular situation of multi-unit franchisees seems

appropriate. It appears that potential multi-unit franchisees in particular would harbor a specific interest in the dedication and engagement of their franchisor, as their investments are a multiple of those of a single-unit franchisee. It seems, thus, as if a high level of franchisor dedication to her/his own franchise might be demonstrated and reinforced by franchisor-owned outlets. In the jargon of franchisees, the franchisor's ownership of her/his own outlets is also called "posting bond". The fact that a franchisor would be concerned with the profitability of her/his own units might suggest an enticement to potential multi-unit franchisees in the form of an "equivalent" partner whose concern might be similar to that of the multi-unit franchisee. It is suggested here, that the prospective multi-unit franchisee may not perceive the franchisor's ownership of outlets as an immediate threat to her/his units as commonly argued in the franchising literature. Instead, a potential multi-unit franchisee may see it rather as an advantage, indeed as a reason to become a part of the particular system. ***The appeal of the franchisor's ownership of outlets is defined here as the extent to which a potential franchisee perceives the ownership of outlets by the franchisor as an attraction.***

However, it is recognized here that the anticipation of territorial encroachment by the franchisor might constitute a serious threat for franchise prospects. In fact, it might be so strong that its effect may overcompensate the advantageous aspect of franchisor ownership. Traditionally, the franchising literature has implicitly taken the perspective that the franchisor's ownership of outlets always represents a threat to the franchisees. This conceptual

controversy will be tested in the study. The potential franchisee's expected conflict over territory with the franchisor will be measured as a covariate, to control for its threat to the hypothesis developed hereafter.

The notion that an actual controversy exists, is confirmed in the following excerpt from an interview with a sequential multi-unit franchisee:

Question: How do you perceive the fact that [your franchisor] owns its own outlets?

Franchisee: In our market I don't view them as competition because they're not coming in here, building sites. [...] The second thing is that, if they own 10% so they got 500 or 700 restaurants they're making a business decision, and that is where the love-hate relationship comes in. As a franchisor they're concerned about top line sales, royalty, not profitable top line sales. If they then make a decision that we're going to spend \$50,000 on new broilers, well for everyone of their stores they've got to spend \$50,000 too. There are two issues here: *it gives them a sense of what a franchisee goes through*. The company for a few years never charged the stores rent because it was just internal. We're saying, that if it were a [franchisor] owned property we'd be paying 8½% rent so stick that in your P & L's and lets see where the profitability comes in. *So they feel our pain and our gain, too* (emphases added).

It seems reasonable to expect that potential multi-unit franchisees are attracted specifically to systems which include company-owned outlets in order to benefit from a sort of partnership with the franchisor as someone who has a vested interest in the same type of operation. Multi-unit franchisees are more dependent on the franchisor's decisions than single-unit operators as a direct result of their higher investment.

H1: Compared to single-unit franchisees, multi-unit franchisees are more likely to report that, at the time they entered the franchise system, the appeal of the franchisor's ownership of outlets to them was greater.

As outlined earlier, besides the traditional role of the franchisor as principal and the franchisee as the agent, a new perspective is offered here. The franchisee may act as principal who makes the conscious decision to trust the franchisor as the less risky alternative to independent consultants. This trust might be borne by the franchisor's ownership of outlets which may signal a concern for the franchisee's operational business by the franchisor. Schul, Little, and Pride (1985), in a related context, link franchisee satisfaction to the fairness of the relationship with the franchisor. It is suggested here that the existence of franchisor-owned outlets encourages potential multi-unit more than single-unit franchisees to engage in their respective franchise function. The signal value of the franchisor's ownership appears to be higher to potential multi-unit than to single-unit owners.

Countervailing Power and Participation in Decision Making

While the traditional perspective on franchising has viewed the franchisor as the almighty, powerful owner of the product tradename or business format, who forces the small, semi-autonomous franchisee to obey the franchisor's decisions without a possibility to retaliate, in recent years single-unit franchisees have made attempts to counterbalance the franchisor's pressure (Harris and France 1997; Justis and Judd 1998; Touby 1993). Galbraith (1956) developed the concept of "countervailing power" in which the concentration of power at one

end of the channel regularly induces other channel members to react and to attempt to reduce that power (Galbraith 1956). Etgar (1976) confirmed this contention empirically, and countervailing power has become a standard construct in the marketing literature. The assumption underlying Galbraith's (1956) concept is that a situation of interdependency exists. Clearly, franchisor and traditional single-unit franchisee are dependent on each other as stipulated in the franchise agreement, with the franchisor's position traditionally being perceived as the stronger one.

In times of conflict, single-unit franchisees have attempted in recent years to react to the unbalanced power structure, often by founding (or becoming members of) increasingly powerful franchisee associations. Harris and France (1997) report that membership in the American Association of Franchisees and Dealers has increased from 20 founding members in 1992 to over 6,000 today. The American Franchisee Association has raised membership from 4,000 in 1992 to 7,500 in 1997 (Harris and France 1997).

In other cases, franchisors themselves noticed the decline in trust and the rise in resentment toward policies set by them alone. Morrison (1997, p. 56) notes that franchisors have initiated steps in the recent past to secure "more equitable cooperative agreements" with franchisees. Touby (1993, p. 70) reports that one of the reactions by Blimpie co-founder Anthony Conza to previous conflicts with franchisees was to establish "a franchisee advisory council to get their input on key issues, including new products and pricing." As expected, this new form of participatory decision making reinforced franchisees' trust in the

franchisor's understanding of their position, and ultimately led to Blimpie's turnaround (Touby 1993). Justis and Judd (1998, p. 19-6) also report the growing importance of franchise advisory councils (FACs).

It appears that one of the reasons for a trend toward multi-unit franchising might be the increased countervailing power expected from such an arrangement which is based on the enhanced influence opportunity by multi-unit franchisees upon the franchisor's decision making. Lowell (1991, p. 4) notes that "area development has the potential to create large and powerful counterparts who may demand concessions of both an economic and business nature." Compared to single-unit franchisees, multi-unit franchisees represent a much stronger force in the market. One multi-unit franchisee controls a multitude of outlets, and in turn, controls a much larger stake of the franchise system's trademark. Any non-compliance with a franchisor's resolution could result in tremendous damage to the system's trademark value.

The notion of increased "say" with the franchisor is supported by the following quote from a sequential multi-unit franchisee. As he recognizes that the phenomenon seemed to be existent, he also acknowledges, however, that it was not an issue for himself:

Question: Was one of your expectations that if you had more stores, you would have more say with [your franchisor]?

Franchisee: *That is very true. That used to occur in the system. The [franchisee] association has tempered that a little bit. I mean, the president of the association today, he had fifteen restaurants, and they still listen to big guys, there's no denying that. But the association has added a lot of credibility. [...] But, it was not an issue [for me] - that if I get*

more stores, the company will talk to me. Even when there was no association, that wasn't an issue at all. Partly, because *I was so small at the time, I didn't even think about getting to that size that would make any difference.* After a few years then, the association came up and the issue was moot (emphases added).

Guiltinan, Rejab, and Rodgers (1980) found franchisees more cooperative when they perceived themselves to be part of the decision making process.

Schul, Little, and Pride (1985) note similar results, relating franchisee satisfaction to the quality of interactions with the franchisor, and the autonomy and fairness of the relationship. Hence, it appears that franchisors have an inherent interest in upholding a participatory decision making process through the integration of their multi-unit franchisees' input, for example by implementing franchisee advisory councils in which upcoming decisions are discussed and resolved with the franchisees' participation. ***The expected participation in the franchisor's decision making by potential franchisees is now defined as the extent to which they expect input to the franchisor's decisions with regards to new products, policies, and standards determination.***

This scenario represents another possible motive for multi-unit franchise prospects to engage in this arrangement - the anticipated greater ability compared to single-unit franchisees to participate in the franchisor's decision making process, in an effort to shield their comparatively higher investment from detrimental actions by the franchisor.

H2: Compared to single-unit franchisees, multi-unit franchisees are more likely to report that, at the time they entered the franchise system, they expected higher participation in the franchisor's decision making.

Economies of Scale

Likely the most intuitive explanation for why a potential franchisee would be interested in engaging in multi-unit franchising is the anticipation of scale efficiencies, i.e., efficiencies that arise because of the size, or scale, of the operation. Seldon and Pennance (1969, p. 148) define that economies of scale may occur

if a less than proportionate physical input is required for a given proportionate rise in output. Alternatively, costs per unit of output may decrease because the prices of factors fall if they are bought in larger quantities... Generally, large 'indivisible' units of, e.g. capital equipment or expert advisers or education, market research or other highly specialized departments in a firm, can be employed with maximum profitability only if the scale of activity is large enough to occupy them fully... If the scale of production is not large enough to justify the big units of capital, etc., a smaller plant or firm is a more economic unit.

In other words, "at optimal size, plants, firms or organisations will be producing output at technical least cost" (Tucker 1975, p. 35).

Although this concept seems oriented to a manufacturing operation, it is applicable to retailing and, more specifically, to a retail chain. Although each unit in the chain may be relatively small, economies of scale can be achieved by the centralization of functions. Specifically, (1) purchasing power can be achieved through central buying; (2) such efficiencies as may result from the application of the expert management of such functions as personnel, accounting, finance, market research, and new product development are largely beyond the capacity of individual units; and (3) the employment of advertising media with relatively low cost per exposure are mostly available to organizations with geographic scope that matches the area of media coverage. Kaufmann (1992, p. 56)

summarizes the concept of scale efficiencies as it relates to franchising, pointing out that they "refer to the ability to spread the fixed cost of management, procurement and marketing over the number of service units delivered."

Three issues should be noted about these opportunities for economies of scale. First, while centralization of function makes the realization of economies possible, it does not insure it; the centralized system must still achieve a size that allows the costs of these functions to be spread among units. Second, up to some relatively small size, there will be some economy of scale that arises from a manager who is able to effectively manage more than one unit. The limit of this economy is reached by a relatively small number of individual units. Kalnins and Lafontaine (1996) provide an overview of the relevant literature. Third, while centralization of functions (and, thus, the potential for economies of scale) is achieved in a corporate chain, it can also be achieved in the so-called voluntary chain, a form of organization that resembles franchising in many ways. There are, however, some differences between the voluntary chain and the franchise system that are important to understand. In general, the central feature of most franchise systems, and especially fast food systems, is the establishment and maintenance of a brand. Therefore, centralization of the marketing functions is more likely to be observed in a franchise system than in the typical voluntary chain. Further, and perhaps as a consequence of the previous point, the typical franchise contract prohibits the franchisee from building its sales volume by many means open to the member of a voluntary chain such as opening new locations or expanding the product line.

Fast food restaurants are somewhat different from other retail operations. In fact, it is useful to think of fast food restaurants as small factories that distribute their product directly to the consumer. Three points are of particular importance to this study.

First, compared to many voluntary chains, the cost of goods in a fast food restaurant is a smaller percentage of sales and, as a result, the economies that result from centralized purchasing are of less importance, relative to the other sources of economies of scale. Further, to the extent the franchisor depends on the sale of an "essential ingredient," as discussed above, as a source of profit, this "economy of scale" may be diluted.

Second, the centralization of several managerial functions are important sources of potential economies of scale in fast food restaurant systems. The high turnover of workers, all of who work under U.S. Occupational Health and Safety Administration (O.S.H.A.) regulations, puts special emphasis on training and keeping current on regulations affecting the workplace. New product development, with the attendant need for market research and the ability to conduct market testing, is another function that, if centralized, offers considerable opportunity for the development of economies of scale.

Finally, advertising is key to the development and maintenance of a brand name, especially in fast food. The geographic market size for any one unit is relatively small, perhaps a radius of two or three miles at the most. Given this fact, only single units located in very small markets could use local advertising media that covered the entire city efficiently and those media whose coverage

beyond the market would be totally out of reach to the single unit or even small multi-unit operator.

In summary, there appear to be opportunities for economies of scale in fast food franchise systems if they are of sufficient size. Relative to the non-franchised operation, the franchisee can take advantage of these economies of scale by joining the system. Presumably this is why franchisees join systems, and pay the royalty and advertising to pay for the centralization of functions. To the extent that the provision of these functions ultimately involves some fixed costs, there is a size at which economies of scale are realized and profits result.

To summarize, it appears reasonable to distinguish those tasks performed by the franchisees themselves from those performed for them by the franchisor. While the franchisee's traditional, self-performed tasks include the management of and supply procurement for her/his unit(s), the franchisor generally provides services such as national advertising campaigns. Size differences cause multi-unit franchisees to benefit at varying degrees from franchisor services. Further, single-unit franchisees generally benefit more from franchisor services than multi-unit franchisees, as single-unit operators would not be able to afford many of these services at all without the franchisor's assistance. However, with regards to self-performed tasks, the existence of multiple outlets of the same type under one franchisee's supervision entails the potential to realize economies of scale. In this context, potential multi-unit franchisees are expected to perceive higher economies of scale than potential single-unit franchisees.

Hence, expected scale efficiencies in this case refer to the extent to which

a potential franchisee expects the ability to spread the fixed cost of self-performed tasks (management and supply procurement) over the number of her/his outlets.

Consequently, anticipated higher scale efficiencies may represent another motive for potential multi-unit compared to single-unit franchisees to engage in their respective function.

H3: Compared to single-unit franchisees, multi-unit franchisees are more likely to report that, at the time they entered the franchise system, they expected higher economies of scale.

However, from the perspective of the franchisee, the payment made for achieving economies of scale, such as advertising fees, is a continuing variable cost. Eventually the size of some multi-unit franchisees (measured in number of units) may approach, or even exceed, the size of many franchise systems. As noted earlier, Kaufmann (1988) as well as Bodipo-Memba and Lee (1997) indicate that multi-unit mini-chains in some cases encompass hundreds of outlets.

It seems clear that, at some size, the multi-unit franchisee may begin to question the wisdom of being part of a franchise system. The notion of an almost automatic realization by a potential multi-unit franchisee that more units would lead to greater scale efficiencies has thus to be tempered. A potential franchisee must recognize that a substantial portion of the franchisee operation's gross revenues will be paid to the franchisor, for example as a share of the national advertising budget, and that more units increase that dollar amount proportionally. In other words, at a certain size threshold within a geographical

region it might make a lot more sense to the franchisee to launch her/his own advertising campaign than to rely on the franchisor's national promotion rollout. Hence, the almost obvious advantage of economies of scale for a potential multi-unit operator might be tempered by the franchisee's realization that "bigger" does not necessarily mean scale efficiencies. Therefore, franchisees' perceptions of the counterproductive effect of size with regard to payments to the franchisor will be assessed, and treated as a covariate.

It should also be noted here that franchisees' memberships in voluntary franchisee cooperatives have proliferated over the past two decades. Such co-ops are often founded by franchisees of the same franchise system. The membership's purpose is mostly seen in enhanced buying power in negotiations with suppliers, as the co-op negotiates a uniform price for its members. It is recognized here that the anticipation of such a membership might have a confounding effect on potential franchisees' expectations about economies of scale. Thus, expected membership in a franchisee co-op will be measured, and treated as a possible covariate.

Efficiency in Information Dissemination

Kaufmann (1992) points out that in a franchise system, the franchisor typically acts as the depository for the system's solution acquisition process. These solutions are disseminated throughout the system through operating manuals, initial and continuing training, and through the provision of ongoing support and consultation. Along the same line, Sasser, Olsen, and Wyckoff

(1978) explore the concept of learning efficiency, which refers to the ability of a retail chain to act as an information clearing house for solutions to problems encountered at the retail level. Economies of learning accordingly entail the spreading of the cost of the acquisition of those solutions over the number of units. Elango and Fried (1997) suggest that a franchise system provides more opportunity for learning than a unitary organization. From their perspective, franchisees' history of coming from different backgrounds and having operated in varied environments provides them with better lower-level entrepreneurial skills than managers of company-owned units might have. Therefore, franchisees should be viewed as excellent sources of innovative ideas.

In a multi-unit franchising system, the advantage for the franchisee lies in the efficiencies generated by multi-unit compared to single-unit ownership. Based on the multitude of outlets, it seems reasonable to expect that problems and suggestions for improvement surface and are "ironed out" at a faster pace than in a single-unit setting, where all of the problem solutions are generated within the single outlet alone, are communicated by the "remote" franchisor, or are developed in meetings with other franchisees.

The following excerpt from a single-unit owner underlines the notion that the dissemination of information by other franchisees seems prevalent in the single-unit context:

Question: Who do you learn from?

Franchisee: Some of the best people I learn from are franchisees, other franchisees. There's a man, [name], he started with [town A], and was in a partnership in [town B], bought out [town B].

[Franchise name] had owned [town C], and it was part of their Inc. corporation, and they sold it off to him, so now he owns, it was four stores. [...] When we do get together, a few years ago I was part of an alliance in Central Nebraska where *franchisees would meet every two or three months at one of another's restaurants, and we'd get out and see other people's places, and the one last places we'd go is another [franchise name] restaurant, and two, having the camaraderie of sitting down without the franchisor involved, and talk about issues. I loved that experience. We absolutely miss it, but nobody wants to take on the leadership and keep it happening. It was very valuable* (emphases added).

From the franchisee perspective, multi-unit compared to single-unit franchising offers the opportunity to generate its own solutions based on previously gathered information within the mini-chain, and thus represents another motive for engagement in multi-unit compared to single-unit franchising. Hence, a multi-unit franchisee might free her/himself from continuous consultation with the franchisor and generate her/his own solution approach mechanisms compared to single-unit franchisees. ***Such an expected efficiency in information dissemination now is defined as the extent to which a potential franchisee perceives the ability of a network of outlets (the franchisor's operation in the single-unit case, the franchisee's own "mini-chain" in the multi-unit case) to act as an information clearing house for solutions encountered at the retail level, and to provide a speedy dissemination of these solutions over the outlets.***

- H4a: Compared to single-unit franchisees, multi-unit franchisees are more likely to report that, at the time they entered the franchise system, they expected higher efficiency of information dissemination from within the franchisee operation.
- H4b: Compared to multi-unit franchisees, single-unit franchisees are more likely to report that, at the time they entered the franchise system, they expected higher efficiency of information dissemination from the franchisor operation.

Capital Acquisition

Rubin's (1978) capital acquisition argument is based on the assumption that start-up, niche retailers face the option of attracting capital from public investors instead of franchising. Rubin (1978) concludes that public investors' diversified investment portfolio requires a lower return than a single-unit franchisee's undiversified enterprise. Rubin (1978) points out that the often quoted justification of franchising as the inexpensive way to expansion based on the low-cost financing provided by the franchisees' own capital is flawed – to go public instead of franchising would be a cheaper solution for the franchisor. Hence, from a conceptual standpoint, franchising as a financing option should be considered inferior to other financing alternatives. Combs and Ketchen (1999) have shown, however, that franchisors view franchising often as a prime low-cost expansion strategy - despite Rubin's (1978) argument. Kaufmann and Dant (1996) argue that the perceived cost of losing strategic control through outside investors has to be added to the cost of capital. Then, franchising may again provide start-up franchisors a lower cost of capital than selling stock.

Nonetheless, the advantage seems to accrue on the franchisor's part only, and does not appear to benefit the multi-unit franchisee.

The scarce literature on multi-unit franchising has suggested that one reason for multi-unit franchisees' existence might be the opportunity to spread the risk of investment over multiple outlets. Apart from the fact that the difference in risk of investing in one versus multiple outlets of the *same* franchise system seems marginal, Stanworth and Kaufmann (1996) actually found in a survey of visitors of a British franchise exhibition that "reduced risk" as an appeal of franchising was only selected by about six percent of respondents, ranking far behind issues such as "proven business system", or "chance to be your own boss." In light of such discrepancies between common belief and very limited empirical findings, an attempt is made in this study to measure as a covariate the percentage of respondents' wealth invested in franchising as a proxy for risk. Also, it will be assessed whether a co-financier was present to assist respondents in their franchise investment.

Multi-unit operations also provide potential synergies to franchisees, for example through scale economies in supplies procurement. Subsequent units make initial units more profitable, and because of increased information, franchisees familiar with the system will not discount the expected returns of subsequent units as severely as prospective first-time franchisees (Kaufmann and Dant 1996). Franchisees anticipating expansion, therefore, should accept lower returns than they might otherwise demand. Consequently, the increased access to capital should allow multi-unit systems to grow faster than systems

based on single-unit franchising (Kaufmann and Dant 1996). As noted earlier, Bradach's (1995), Kaufmann and Dant's (1996), and Kaufmann and Kim's (1993, 1995) empirical analyses determine that the franchisor's advantage of multi-unit franchising compared to single-unit franchising does lead to increased system growth rates. More rapid growth of the entire system, therefore, is a reflection of increasingly fast expansion by the system's multi-unit franchisees. Hence, it seems reasonable to assume that individual franchisees as owners of multiple outlets appear to accept lower per-unit returns than single-unit franchisees in return for rapid growth of their business. In other words, a typical multi-unit franchisee would strategically focus on expansion, and thus neglect the profit maximization of each individual outlet. This resembles a retailer's strategy to increase profitability not by receiving a high margin per item sold, but to increase overall profits through increased sales volumes based on comparatively smaller margins per item. Hence, it is argued here that the perceived potential of rapid growth makes potential multi-unit franchisees anticipate a lower per-unit return than potential single-unit franchisees, and thus entices prospective multi-unit franchisees to become multi-unit franchisees.

A potential single-unit franchisee, in comparison, may concentrate on her/his one unit, relying on profitability maximization of this focus outlet without considering growth to increase returns. Hence, it is suggested here that a potential single-unit franchisee anticipates a higher per-unit return than a potential multi-unit franchisee, being motivated to maximize the profits of the single outlet. ***For the purpose of this study, expected per-unit profitability***

refers to per-unit profits as a percentage of per-unit revenues, which a potential franchisee expects.

It is argued here that the expected per-unit profitability is the ultimate culmination of the variables involved in the preceding hypotheses. Clearly, the ownership of outlets by the franchisor, and the resulting increased understanding for the franchisee's operational situation can be expected to impact franchise owners' bottom line. Decisions by the franchisor are assumed to be made in light of an understanding and common concern for their influence on franchisees' performances, as the franchisor's operation is just as impacted as each of the franchisees' (H1). Further, the franchisee's participation in the franchisor's decision making can be expected to provide the opportunity for franchise operators to influence the franchisor with regards to their own interests, for example to streamline certain aspects of their operational processes (H2). Finally, economies of scale (H3) as well as the ability to disseminate information quickly within the own franchise operation (H4a) compared to throughout the franchisor's system (H4b) provide ample opportunity to increase profitability by slashing costs.

The conceptualization of per-unit profitability as presented earlier appears as a rather simple endeavor. It is the contention at this point, however, that franchisees' working definitions of per-unit profitability are very diverse, and may include many different contributing factors. Thus, it appears very difficult to match the conceptual definition developed here with franchisees' actual viewpoints.

Various factors may influence franchisees' working definitions of expected profitability. First, systematic variations might be caused by the fact that franchisees have their personal wealth tied up in their operations at varying degrees. Particularly, single-unit operators may depend on the generation of profits for their own livelihood and that of their families. Some franchisees might include personal income from the franchise operation as a cost before arriving at a profitability measure, while others might simply calculate with implicit costs, and never actually deduct an implied salary for themselves. Secondly, per-unit profitability is influenced by the idiosyncracies of individual stores, such as store hours, inventory levels, or staffing. Finally, expected profitability might be influenced by the anticipation of how various hard-to-predict variables will impact the return situation, such as fluctuating interest rates on mortgages, or minimum wage laws.

Considering all of these factors, it appears very difficult for potential franchisees to arrive at meaningful estimates of their anticipated profit situation which would be valid across franchisees. However, current franchisees are expected to have had rather specific anticipated estimates with regards to their profit expectations. An anecdote provided by Cooper (1999) supports this notion, describing the detailed break-even estimates conducted by an aspiring pizza franchisee. It is argued here that franchisees might still be using these same estimates as a benchmark for how they are doing today.

H5: Compared to multi-unit franchisees, single-unit franchisees are more likely to report that, at the time they entered the franchise system, they expected higher per-unit returns.

Social Influence

Subcontracting accounts for the ultimate form of social influence, in which an individual's decision is replaced by someone else's judgment. Intermediate forms of social influence between social norms and subcontracting appear to be recommendations (Rosen and Olshavsky 1987) and surrogate decision making.

In the specific case of investing in a franchise operation, social influences have been rarely considered. Kaufmann and Stanworth (1995) found that the decision to become a franchisee as a means to provide for family or to leave an ongoing business to one's heirs did not seem to play a role in potential franchisees' considerations. Further, surrogate decision making and subcontracting do not seem to apply, as the franchising literature suggests that the aspiring franchisee is the ultimate decision maker, who has an intrinsic motivation to satisfy her/his "life-long dream" of "becoming her/his own boss." However, it appears reasonable to assume that norms in the form of expectations by peers, family, and friends do play a role in the decision making of a potential franchisee. Also, it is suggested here that recommendations in the direction, into which the aspiring franchisee ought to proceed, are made by the social environment.

It seems reasonable to argue now that individuals who are in the process of opening their first single-unit franchise perceive influences by their social environment to a larger extent than other potential franchisees. These include individuals who are either already involved in a single-unit operation, and are expanding into a sequential multi-unit operation, or aspiring area developers who

are looking at an upfront investment, which is a multiple of the single-unit operator's. The influence of the social environment is narrowed in this context to (a) expectations, and (b) recommendations of peers, family, and friends.

It is argued here that potential area developers by virtue of the size of their investment are less prone to perceive social influences as influential on their decision making. Rather, aspiring area developers are expected to rely more on their own research about the new business venture given the size of their prospective financial engagement, compared to potential single-unit owners. Aspiring sequential multi-unit owners are expected to display perceptions of social expectations and recommendations which are lower than that of single-unit operators, as they are already beyond the entry stage into franchising. Therefore, aspiring sequential multi-unit owners are expected to be affected less by social influences at their stage in franchise development compared to prospective single-unit operators. Potential single-unit owners should be exposed to more explicit social expectations and recommendations from their peers, friends, and family than multi-unit owners by virtue of their "threshold status" entering the "world of franchising", compared to already existing franchisees who are looking at expanding into sequential multi-unit franchising. Single-unit owners with a substantially lower financial commitment than area developers are expected to be more susceptible to social influences.

H6a: Compared to multi-unit franchisees, single-unit franchisees are more likely to report that, at the time they entered the franchise system, they were influenced to a greater extent by social expectations.

H6b: Compared to multi-unit franchisees, single-unit franchisees are more likely to report that, at the time they entered the franchise system, they were influenced to a greater extent by social recommendations.

It seems vital to recognize that the influence of social variables in a franchising context has virtually been neglected. Even though the nature of the suggested social norms and recommendations seems very broad, their investigation in the franchisee realm is intended to provide a starting point for more in-depth follow-up research.

Area Development vs. Sequential Multi-Unit Franchising

Within the domestic multi-unit franchising realm the two most common, yet distinctly different, types are sequential multi-unit franchising and area development franchising. As described earlier, sequential multi-unit franchising is initiated by existing franchisees who decide to open new outlets on a case by case basis without a prespecified schedule or contractual requirement. Kaufmann (1994) notes that sequential multi-unit franchising is the most common form of multi-unit franchising in the U.S. The franchising literature points out that these sequential multi-unit franchisees use a sort of "situational" approach. Factors such as current cash flow streams from the existing business, promising opportunities at new locations, or a practical maximum on sales at the current location determine the franchisee's expansion into new outlets on a rather irregular schedule. Often, territorial encroachment arises as a subsequent problem as no centralized planning concerning exclusive territories has taken

place. In a sequential multi-unit franchising agreement, no exclusive right to a particular territory is granted to a franchisee. Hence, the incrementally expanding franchisee as well as existing franchise outlets in the specific territory to which the expanding franchisee reaches out may experience new intra-franchise competition.

In contrast, area development entails a much more systematic approach, which requires a complete initial commitment to multi-unit franchising. The franchisee in this case enters into an obligation with the franchisor to follow a predetermined schedule in opening new outlets, specifying the number of units as well as the time frame to be pursued. An advantage for the franchisee appears to be the exclusive territory assigned to her/him by the franchisor, practically eliminating competition by franchisor-owned outlets or units operated by other franchisees. Further, area development systems on average include more outlets than sequential multi-unit franchising systems, presumably grounded in the more systematic and planned approach of the area development agreement.

The purpose of the following second set of hypotheses (H7 through H10) is to contrast sequential multi-unit and area development franchising in order to find specific motivations for these two types of franchising as such motivators emerge from their differences. It is recognized that this comparison is one of several possible ones, and that the following section ventures into "terra incognita". Therefore, it ought to be noted that the following hypotheses are rather speculative.

It is also recognized that another meaningful comparison within this realm might be an exploration into whether sequential multi-unit franchisees are more similar to single-unit operators, from which they have originated, or whether they are more similar to area developers, as the structural arrangement of the emerging mini-chain resembles the outcome of the area development agreement. However, as the purpose of this study is the explanation of why multi-unit franchisees engage in their specific functions, area development and sequential multi-unit franchising as the two eminent forms of the domestic franchise setting are compared. In recognition of the above mentioned alternative, the size of the franchisees' operations will be used as a covariate for H7 through H10 to account for potential differences among multi-unit operators.

“Entrepreneur” versus “Investor”

As indicated earlier, normative decision theory concerns itself with the evaluation of the status quo without considering the sequence of events which have led to that point (e.g., Oliver 1980). This study now follows the general approach prescribed by Gourville and Soman (1998), Kahneman and Tversky (1979), Ross and Simonson (1992), and Thaler (1985), who argue that the process, which leads to a certain situation, does matter. In the context of this dissertation, it is proposed that the cognitive as well as the affective state of mind of the franchisee impacts the decision to become one type of franchisee versus another.

The franchising literature has borrowed from fields such as entrepreneurship (Knight 1984) and psychology (Felstead 1991; Mescon and Montanari 1981) to suggest various reasons for entering into the franchise business from the single-unit perspective. These franchisees often vehemently deny that their franchise engagement is based on the monetary earning potential. The opportunity to become one's own boss and the hands-on work experience as a type of entrepreneurial self-fulfillment, bolstered by the perceived security of the franchisor's proven business format, trademark, and assistance, is a common justification for single-unit operators (e.g., Elango and Fried 1997). The fact that the financial aspect of franchising is truly secondary is supported by the fact that it is often previously high-paid executives who left their former jobs to become franchisees. Most of this research (Knight 1984; Mescon and Montanari 1981) is inconclusive in terms of distinguishing franchisees from independent entrepreneurs based on personality traits or socioeconomic variables (see also Ginsberg and Buchholtz 1989 for a comparison of entrepreneurs to non-entrepreneurs). The focus here, however, is on the distinction between different types of *multi-unit* franchisees.

As described earlier, area development represents the type of franchising in which the franchisee takes an approach of quasi-simultaneous unit establishment. While the actual opening of outlets occurs according to a contractual schedule, the initial commitment to the contract indeed entails the obligation to complete the entire mini-chain by the end of the contract period. Hence, in contrast to sequential multi-unit franchisees, area developers have to

start their endeavor with a very good estimate of the whole investment to be incurred. Only in this manner can they assess the viability of the contract they are about to enter. Kaufmann and Kim (1995, pp. 55-56) note that

by agreeing to the terms of the development agreement, the area development franchisee puts significantly more capital at risk than a single unit operator. This not only lowers the number of prospects, but also changes the character of the prospect from small business person to large investor.

Also, Lowell (1991, p. 8) notes that area development "may attract larger, more sophisticated investors." Morse (1999) reports that the Federal Trade Commission (FTC) in fact defines a franchisee as a "sophisticated investor" if s/he invests more than \$1.5 million in a franchise. Area development franchisees have to decide from the outset of their endeavor whether it appears to be a worthwhile investment. Hence, although a sequential multi-unit franchisee and an area developer seem equivalent in terms of their current size and structure, the process that has led them to where they are appears quite different. While the area developer appears to make a one-time decision based on financial considerations, the sequential multi-unit franchisee seems to have reached her/his position after a sequence of successes that have induced the franchisee to continue the expansion process. This is in accordance with Ross and Simonson's (1991) findings that "happy endings" in a sequence have a positive motivational effect.

As outlined above, an investor is an individual who is committed to a financial engagement primarily for the purpose of reaping a return.

Consequently, an investment motivation is defined here as the extent to which a potential franchisee expects reaping a return as the primary reason for her/his engagement.

A sequential multi-unit franchisee, in contrast, expands on the basis of emerging market opportunities paired with sufficient earnings which allow such a step. As a new opportunity to expand opens up, a sequential multi-unit franchisee will decide on a case by case basis whether to take advantage of it or not. Livesay (1982, p. 12) calls an individual who "perceives a market opportunity and assembles the assets necessary to exploit it" an "entrepreneur".

Entrepreneurship research has been plagued by definitional quandaries for decades, focusing on various attitudinal as well as behavioral characteristics. Research definitions of entrepreneurs have focused on new venture creation (e.g., Begley and Boyd 1987), small business ownership (e.g., Masters and Meier 1988), or growth aspirations (e.g., Carland, Hoy, Boulton, and Carland 1984). This multitude of definitional attempts has complicated the accurate assessment of who an entrepreneur is, and what distinguishes an entrepreneur from a non-entrepreneur. As suggested earlier, the focus here is on the extraction of differences between two different types of multi-unit franchisees, so that the focus of discernment of relevant entrepreneurial traits will be on those salient characteristics which distinguish an entrepreneurial type of motivation from an investment type of motivation.

McClelland's (1961) seminal work maintains that a strong "achievement motive" is what tends to drive individuals to become entrepreneurs. Extending

this notion, Palmer (1970/71) points out that entrepreneurs do not tend to work harder because of financial incentives, but that it is their intrinsic motivation which drives them. This notion finds support by Sutton (1954), Davids (1963), and more recently Welsh and White (1981), who emphasize a desire for responsibility as a key trait of entrepreneurs. Michaels et al. (1988) further explored the intrinsic motivation notion, and empirically tested Miller's (1967) "alienation from work" construct. Alienation from work is defined as the degree to which an employee works only for external rewards rather than for any inherent value the work might have. Lodahl and Kejner (1965) developed the construct of job involvement, which they defined as the degree to which an employee is involved in and committed to the work s/he does. "Job involvement" now appears as the inversion of "alienation from work", since the focus of both constructs is on the intrinsic motivation of the individual's work, hence providing an analogous focus to the intrinsic motivation of the entrepreneur.

In addition, as mentioned earlier, the entrepreneurship literature often describes the motivation of entrepreneurs to come from a desire for emotional fulfillment, which is defined for the purpose of this study as the affective enjoyment stemming from a long-held desire to become an entrepreneur. To own one's own business, and to be one's own boss, appear for many entrepreneurs as life-long dreams, which finally become fulfilled through the opening of their own enterprise. Peterson and Dant (1990, p. 47) describe this enthusiasm as the "excitement of running one's own business". Cherkasky (1996, p. 5) notes that the key to franchising, among other issues, lies in the fact

that the franchisee has invested “body” and “soul” in the franchise. Justis and Judd (1998, p. 22-11) describe the successful franchisee as driven by “burning desire”.

Therefore, it appears reasonable to infer from the mentioned sources that the construct of an “entrepreneur”, as it relates to the context of this study, consists of two lower-order constructs. ***A franchise prospect’s entrepreneurship motivation is defined here by the extent to which a potential franchisee expects (a) job involvement, and (b) emotional fulfillment as the primary reasons for her/his engagement.***

The following quotes from a sequential multi-unit franchisee support very vividly the differences in perception between a more entrepreneurial and a more “business”-like orientation:

Franchisee: I plan to spend two days a week in [town], and two days a week in [town], and I’d like to have two days off, *and the seventh day I’ll go to wherever the crisis is. [...] I feel comfortable now leaving someone else in charge. I needed a new challenge.*

[...]

Question: As you might know, there are franchisees that live in Canada and have two or three hundred stores here in the U.S. And I have the impression that those people are a different breed than you are...

Franchisee: *Businessmen... But I am the direct cause of the success of this business. That businessman is not. Maybe that’s not the Webster dictionary of entrepreneurs, but that is very important to me. I believe that. And I ingrain that with everyone below me. We empower our waitresses. If they’re not happy, ask them what you’d like them to do, and do it. If they want free pizza, give them free pizza. You know, take off the drinks, do it (emphases added).*

It is suggested here that potential area developers carry the motive of an “investor” for their engagement, while potential sequential multi-unit franchisees are expected to carry the “entrepreneur” motive to a larger extent. This, however, does not mean that potential area developers do not perceive themselves as entrepreneurs, but that they do so to a lesser degree than potential sequential multi-unit franchisees, as their investment is the primary objective of their activity.

Simultaneously, potential sequential multi-unit franchisees may perceive their engagement as an investment, but their dominant motivation is entrepreneurial. This perspective seems to be reflected by the fact that area development generally appears to generate more outlets than sequential multi-unit franchising. As the investment motive of area developers calls for accelerated growth, their number of outlets naturally appears to become larger than the one of sequential multi-unit franchisees.

It is suggested here that these prevalent motives now drive the respective potential franchisees to become area developers and sequential multi-unit operators, respectively.

H7a: Compared to area development franchisees, sequential multi-unit franchisees are more likely to report that, at the time they entered the franchise system, they expected higher job involvement.

H7b: Compared to area development franchisees, sequential multi-unit franchisees are more likely to report that, at the time they entered the franchise system, they expected higher emotional fulfillment.

H8: Compared to sequential multi-unit franchisees, area development franchisees are more likely to report that, at the time they entered the franchise system, they had a higher investment motivation.

At this point, it should be noted that it will be measured also whether a significant difference with regard to an investment motivation exists between single-unit operators on one side, and area developers and sequential multi-unit operators as an aggregate group on the other side. For this purpose, single-unit operators' perceptions of the investment motivation construct will be measured in addition to those of area development and sequential multi-unit franchisees.

Perceived Domain Expertise

Sequential multi-unit franchisees expand their operations on a case-by-case basis. As opportunities open up and their financial situations allow, individual outlets are added to existing ones. Typically, the initial expansion is preceded by a period in which a sequential multi-unit franchisee has owned and operated a single outlet. During this time, a certain level of expertise is accumulated based on the franchisee's experience with the single-unit operation. The intricacies and pitfalls of the franchise business in general, and of the franchisee's franchise system in particular, are assumed to become apparent during this initial period.

Shanteau (1987) identifies a set of characteristics of experts, and distinguishes cognitive and non-cognitive characteristics of expertise. Drawing on his research, it is proposed here that single-unit franchisees gather a considerable amount of experience and knowledge about their business, and the

system in which they operate. This qualifies as a cognitive effort as identified in Shanteau's (1987) work. In addition to the content knowledge and experience acquired, it is proposed here that franchisees who decide to expand over time, and thus become sequential multi-unit franchisees, must draw a considerable amount of self-confidence from their perceived degree of acquired domain expertise. Shanteau (1987) specifically identifies such self-confidence as the non-cognitive characteristic of experts, noting that "experts simply believe in themselves" (p. 295).

Hence, potential sequential multi-unit franchisees can be expected to acquire a considerable level of expert knowledge previous to their decision to engage in sequential multi-unit franchising. However, no matter what their actual knowledge is, their perception of their own domain expertise provides a heightened level of self-confidence, bolstering the decision to become a sequential multi-unit franchisee. Thus, perceived domain expertise, as understood in this context, does not simply describe the actual aggregation of content knowledge about the franchise business. It embraces the *perceived* level of expertise and the associated self-confidence of the potential franchisee which makes her/him pursue the goal of opening additional outlets subsequently, hence, becoming a sequential multi-unit franchisee. ***Hence, perceived domain expertise is the extent to which a potential franchisee perceives (a) a certain level of expertise (cognitive component), and (b) self-confidence (non-cognitive component).***

Shanteau's (1987) work has not been empirically tested in this context. It is suggested here that both of the indicated lower-order constructs will be measured separately to determine whether they are eventually components of the same higher-order construct of perceived domain expertise.

The marketing literature in the past has distinguished between various knowledge and experience categories. Mitchell and Dacin (1996) distinguish declarative and procedural knowledge in a consumption context, while Alba and Hutchinson (1987) point out that expertise increases with product-related experiences and the performance of product-related tasks. The domain of expertise in a franchising context might be related specifically to the distinction that emerged in an interview with a sequential multi-unit franchisee, who separated knowledge of the "business aspect" of franchising from the experience "how to run a fast-food restaurant". Hence, for the purpose of this study, perceived expertise will be operationalized around "business" versus "restaurant operations" and "product-related" versus "experience-related" expertise, so that respondents may empirically delineate the boundaries of what they perceive as expertise.

In contrast to the above explored reasoning, area development franchisees may reveal equally strong perceptions of their expertise and self-confidence as sequential multi-unit operators. Potential area developers are assumed to have had little previous exposure to the particular franchise system into which they decide to venture. Further, their suggested perception of area development as an investment opportunity appears to imply that less actual

expert knowledge of the intricacies and working environment of the franchise system are acquired. However, the literature review earlier in this study has also indicated that potential area developers make an investment decision of considerable size at the outset of their endeavor. Therefore, it can be assumed that their level of self-confidence by virtue of the size of their engagement has to be considerable. It is suggested here in a set of competing hypotheses that the extent of an area developer's anticipated investment virtually forces her/him to convince her/himself that a considerable level of competence and knowledge about the operation of a franchise business exists – whether it actually does or not. The combination of her/his perceived level of expertise and self-confidence is suggested to turn her/him into an area developer.

- H9a: Compared to area development franchisees, sequential multi-unit franchisees are more likely to report that, at the time they entered the franchise system, they had a higher perceived level of expertise.
- H9b: Compared to area development franchisees, sequential multi-unit franchisees are more likely to report that, at the time they entered the franchise system, they had a higher perceived self-confidence.
- H10a: Compared to sequential multi-unit franchisees, area development franchisees are more likely to report that, at the time they entered the franchise system, they had a higher perceived level of expertise.
- H10b: Compared to sequential multi-unit franchisees, area development franchisees are more likely to report that, at the time they entered the franchise system, they had a higher perceived self-confidence.

It may be suspected now that an interaction effect exists between H4 and H9/10. It seems reasonable to assume that a potential franchisee's perception of her/his domain expertise might influence the judgment of expectations about

how important information dissemination in general may be. More specifically, a potential franchisee, who perceives her/himself to be an expert in his business, may deem it of very little importance to disseminate information, either throughout the mini-chain as a multi-unit owner, or throughout the entire franchise system. Her/his "I know it all" perspective might preclude the assessment that learning from other sources may be an important decision factor. Therefore, a test of possible interactions between H4 and H9/10 will be conducted.

Finally, it seems to make sense in the same context that the franchisee's perception of the franchisor's expertise and satisfaction with the franchisor might impact the franchisee's perception of her/his own expertise, as well as the evaluation whether information dissemination is considered a necessity. Thus, potential franchisees' past and current perceptions of the franchisor's expertise, as well as their current satisfaction with the franchisor will be measured as covariates.

Summary

Looking back at the guiding questions which had been raised in chapter 2, the following classification of the hypotheses developed in chapter 3 can be put forth. First, it was suggested that one explanation for the multi-unit franchising phenomenon might be that, indeed, multi-unit owners are not much different from single-unit operators, with the amount of money available to aspiring multi-unit franchisees as the only difference. With regards to this suggestion, H1

through H6 compare single-unit and multi-unit franchisees to extract differences, which provide insights to answer this first suggestion. It was hypothesized that potential multi-unit franchisees are particularly attracted to systems in which the franchisor owns outlets (H1). The implementation of participatory management practices by franchisors as a response to multi-unit operators' market position compared to single-unit franchisees appears a reasonable expectation (H2). Multi-unit franchising is expected to generate scale efficiencies for the franchisee compared to single-unit franchising with regards to self-performed tasks (H3), and efficiencies in the information dissemination within the "mini-chain" compared to the entire franchise organization (H4a, H4b). Also, potential multi-unit franchisees are expected to accept lower per-unit returns than potential single-unit franchisees (H5). Finally, social influences in the form of expectations (H6a) and recommendations (H6b) are hypothesized to impact franchisees' decision making.

The second explanation attempt for multi-unit franchising suggested that the difference in size to single-unit operators might hold the promise to multi-unit franchisees that the bigger size may prevent some of the problems associated with single-unit operations. As discussed above, H2 through H5 contrast size-related issues between single-unit and multi-unit franchisees. In addition, the empirical question raised in the competing hypotheses H9 and H10 about which type of multi-unit franchise agreement seems to provide more self-confidence and perceived expertise has been suggested to be related to the size of the investment in the respective arrangement.

The third explanation attempt finally suggests that a philosophical distinction between different types of multi-unit franchisees might add to the explanation of multi-unit franchising. With regard to area development franchising, it was suggested that area developers consider their decision to invest in this form of franchising an "investment" opportunity (H8). In contrast, sequential multi-unit franchising appears to be an "entrepreneurial" engagement for the prospective franchisee, consisting of the two lower-order constructs of job involvement and emotional fulfillment (H7a, 7b).

Chapter 4

Methodology: Sampling

In this chapter, the research design for this study with regards to the sampling procedure will be discussed. The chapter begins by outlining the sampling objectives. It provides an overview of the fast-food industry from which the sample will be drawn, and discusses the screening survey and the mailing of the actual questionnaire. The chapter concludes with a presentation of the results of the sampling procedure.

Sampling Objectives

The research questions in this study required that a sample of franchisees was drawn that included single-unit owners and the two types of multi-unit owners described earlier, namely sequential multi-unit and area development franchisees. These franchisees would be asked about their recollection of perceptions at the time when they made their decision to become the franchisee they are today. Also, as outlined earlier, single-unit franchisees and sequential multi-unit franchisees who are intending to expand in the near future were targeted as control groups about their current prospective perceptions as they venture into multi-unit territory. Further, it was important to receive roughly equal numbers from each group to obtain the statistical power to compare the samples.

In addition, it was the goal of this study to draw a sample from a number of different franchise systems to avoid the possible influence of the policies of a single franchisor. In the past, franchising research rarely has been conducted across franchise systems; this is done here in an attempt to increase scope and cross-system generalizability (Elango and Fried 1997).

Simultaneously, it was intended to receive a sample from only one industry to avoid unneeded variance, which might originate from the mere fact that franchisees come from different industries. As a result, the fast-food industry was chosen for several reasons.

First, the quick-service franchise industry represents a large percentage of all franchise businesses. Further, the restaurant franchise industry in general, and fast-food franchising in particular, has been the predominant target of most academic multi-unit franchise studies as indicated earlier (e.g., Kalnins and Lafontaine 1996; Kaufmann 1988, 1995; Kaufmann and Lafontaine 1994; Robicheaux, Dant, and Kaufmann 1994). Kaufmann and Dant (1996, pp. 346-347) even call the fast-food industry "the prime and model example" of location-based franchising. The fast-food industry seems to lend itself particularly to this study, as emerging results could be related and compared to findings in the above mentioned studies within the same environment. Finally, the fast-food industry encompasses many systems that include the entire range of single-unit, sequential multi-unit, and area development franchisees. Dant and Schul (1992) point at fast-food franchise systems for their display of considerable diversity-ownership patterns, and various behavioral and governance dimensions, hence

indicating good reason to expect sufficient variance for the testing of the hypotheses developed in this study. The following section gives an overview of the fast-food industry.

The Fast-Food Industry

Franchise restaurants fall into the category of business format franchising because the entire concept, including a business plan, standard maintenance, and often legal advice, is included as part of the franchise. The number of franchised restaurants was expected to reach over 102,000 outlets by 1990, up from 90,345 in 1988. The forecasted growth for all types of restaurant franchises from 1989 to 1990 was 8.3% with a forecasted sales growth of 10.7% (Appendix A). In the U.S., in 1988 69 restaurant companies accounted for over 51.7% of all sales and 53.2% of all outlets, of which 16 or 23% were engaged in franchising (International Franchise Association 1990; Khan 1992, pp. 20-21). Of the 100 largest restaurant chains, 70 sell franchises (Bennett 1998). On average, 30% of outlets across franchise systems are company-owned, but this percentage varies considerably across firms. For example, 12% of Arby's restaurants but 35% of Wendy's restaurants are company-owned (Krueger 1991). Sales of franchised restaurants were expected to reach almost \$69 billion in 1989, up 8.7% from 1988 (Khan 1992, pp. 20-21). Fast-food or "quick service" restaurants generated 47% of total restaurant revenues in 1997, which is more than double the sales of either the "family" or "upscale" dining industry segment, respectively (Bennett 1998).

California, Texas, Ohio, Florida, and Illinois have the largest concentrations of restaurant franchise outlets. Appendix B displays the number of franchise restaurants by state as of 1988. As will be discussed later, the sample for this study was drawn from franchise lists in the State of Illinois.

Across the nation, "hamburger" menu theme restaurants account for about half of total sales and for about 40% of all outlets. "Pizza" restaurants are second with about 20% of the total number of outlets. Other popular menu themes among franchise restaurants include "steak" and "chicken". Appendix C shows the number of franchise restaurants and sales distributed by menu theme. As will be described later, the sampling procedure for this study attempted to capture franchisees with a wide range of menu lines. However, the goal of the subsequently described sampling procedure was to obtain a balanced sample across different systems, instead of replicating the national mix of menu lines.

Sampling Procedure

Given the objectives for the sampling process as described earlier, this section will describe the origin of the sample, and the procedure followed to obtain the sample.

Mailing addresses of fast-food franchisees were obtained from franchise disclosure documents, which are filed with the Franchise Division at the Office of the Attorney General of the State of Illinois. The State of Illinois not only has one of the highest concentrations of franchise systems but, in addition, it is one of 13 States in the Union with a Franchise Disclosure Act. The law requires all

franchisors who wish to offer franchise contracts to prospects in the State of Illinois to disclose specifics of their contracts. These Uniform Franchise Offering Circulars (UFOCs) are open to the public, and include the addresses of current franchisees as part of the disclosure requirements. A convenience sample of fourteen fast-food franchise systems that offered at least two of the three kinds of franchises was selected from the filed documents, with the goal to receive a balanced representation of systems with regards to menu lines. A total of 2495 addresses were randomly selected from the described fourteen fast-food systems.

While the selected systems offered all types of franchise agreements, most of the franchisee lists retrieved from the attorney general's office did not identify specifically the type of franchise agreement under which a listed franchise owner operates. Neither did most UFOCs indicate even approximate percentages of certain types of franchisees in the respective systems. Phone calls to the franchisors in most cases did not improve the specific knowledge about particular systems. Most franchisors did not go beyond information already contained in the UFOCs, revealing only a very general notion about the types of franchisees in a particular system and some broad proportions of, for example, area developers compared to single-unit operators. The explicit refusal by many franchisors to share detailed information was tempered by the explicit cooperation of a few, namely *Taco John's* and *The Pizza Ranch*.

Because of these obstacles, it was necessary to screen the targeted franchise owners to be able to classify them according to their most recent status

as partners in a specific franchise relationship. Two reasons for the decision to screen the original mailing list include the following. First, franchisees change their contractual agreements with their franchisors frequently, including the addition of new outlets and the discontinuance of an existing relationship. While the lists were received from the attorney general's office in 1998, the mailing of the survey took place in 1999. Hence, the prescreening served the purpose of receiving updated information about the current status of the targeted franchise owners.

Second, the targeted franchisees were screened for a balanced representation of single-unit franchisees, sequential multi-unit franchisees, area developers, and the two control groups of single and multi-unit franchisees who are planning to expand in the near future. Hence, single-unit and sequential multi-unit franchisees were oversampled so that expansion-oriented franchisees could be identified for the control groups.

The data gathering part of the study was conducted in four stages: Mailing of the screening survey and a reminder, and mailing of the actual survey and a reminder.

Results of the Screening Survey

In stage one, 2495 screening surveys (see Appendix D) were mailed in two waves to the earlier described fast-food franchisee addresses. The mailing itself included a one-page survey with yes/no answers, a cover letter (Appendix E), and a business reply envelope. Among other data, respondents were asked

to indicate whether they were the original owners of the franchise, and under which type of franchise agreement they currently operate. Further, the screening was used to secure franchise owners' willingness to participate in the actual survey.

About three weeks after the first mailing, a reminder mailing was sent out in accordance with Dillman's (1978) recommendation as stage two. A copy of the reminder letter can be found in Appendix F.

Out of the 2495 targeted franchisees, 333 usable responses were returned. After the deduction of 169 undeliverable surveys, a response rate to the screening survey of 14.3% was calculated. Reasons for this rather low response rate may be based on several factors.

First, franchisee's cautiousness, even overzealousness, about revealing confidential details concerning their contracts with their franchisors has not only been a topic of various publications, but certainly seemed to play a role in the screening survey. Comments on several surveys, whose senders did not agree to participate in this study, indicated a clear apprehension about participation in this study. They indicated that the requested information could not be provided due to stipulations by the franchisor in the franchise contract. The following are some verbatim quotes from screening surveys, whose respondents declined to participate in this study.

- **"This is as much information as we give on our franchise."**
- **"I cannot give out privileged info. Anything such as would be considered a huge violation of my licensing agreement."**

However, the nature of the screening questions was deemed by academics as well as by members of a franchisee panel as very general, and by no means intrusive. In addition, the screening cover letter informed respondents about the confidential treatment of the returned surveys, and that all data would be published only in summary statistics. Hence, neither the screening survey itself nor the accompanying cover letter were believed to have included any question or suggestion which would have made respondents doubt the confidential treatment of the returned data. It seems, however, that a general cautionary attitude by franchise owners towards any kind of detailed investigation of their franchise relationship is a common phenomenon, possibly fueled by fear of legal repercussions by the franchisor.

Further, the mailings were conducted during the summer, which is a peak vacation time for some, and a peak business period for other entrepreneurs (Johnson 1999). Several respondents indicated that it took them a while to respond since they had been out of town or tied up with work.

Finally, a high number of address corrections and undeliverable mailings support in retrospect the conduct of a screening survey. Lists obtained in 1998 from the attorney general's office often seemed outdated by 1999, which again supports the notion of franchising as a very dynamic, rapidly changing industry.

Results of the Survey Mailing

In stage three, four versions of the actual survey instrument (see Appendices G, H, I, and J) were mailed to the 333 respondents of the screening

survey, who indicated their willingness to participate in this study. The mailing itself included an eight-page survey, a cover letter (Appendix K), a postage-paid business reply envelope, and a dollar bill as a symbolic gesture of appreciation.

After a wave of reminder faxes (Appendix L) and telephone calls in stage four, 205 usable responses or a 61.6% response rate were yielded. Table 3 shows the breakdown into the different franchisee categories. In each of the franchise owner categories, the response rate surpassed 55%.

Table 3: Overall Survey Return

	# Mailed	# Returned	Response%
Single-Unit Franchisees	71	47	66.2
Area Development Franchisees	54	34	63.0
Sequential Multi-Unit Franchisees	91	55	60.4
Single-Expansion (Control)	43	24	55.8
Multi-Expansion (Control)	74	45	60.8
TOTAL	333	205	61.6

It is suggested here that those franchise owners, who declared their willingness to participate in the pre-screening, were the ones who seemed eager to have their voices heard. The mere fact 62 surveys or 30% of all respondents included substantial comments as supplements to their survey responses seems to lend credibility to this claim. The following verbatim quotes from several surveys provide further support for the notion that franchise owners responding to the survey might feel that their voices have not been heard sufficiently. Of course, this might have introduced a bias towards those franchisees who are more outspoken than others.

- "What I could tell you would fill a book."
- "The major problem with franchising is that as a franchisee you have no rights."
- "Surveys about labor, government taxes/paperwork would be useful."
- "A lot of the issues you raise here [...] are being addressed in a bill sponsored by Rep. Coble (Rep. N.C.) in a so called Franchisee Bill of Rights to be introduced hopefully this month."

This study represents one of the first academic attempts to survey franchisees, and comments on the returned surveys like the ones cited strongly suggest that respondents appreciated the opportunity to articulate their feelings. This "survey-as-a-vent" mechanism seems to account for some portion of the response rate to the survey, and the implicit franchisor control limited initial willingness to respond.

Table 4 shows the frequencies of the participating franchisees, ordered according to their menu lines. As indicated earlier, the obtained sample shows a rather balanced representation of the sandwich, hamburger, Mexican, chicken, pizza, and Italian menu categories. This does not, however, reflect the proportions of these restaurants on a national scale. Rather, an attempt was made to not oversample one particular menu category to avoid franchise system specific biases.

Following Armstrong and Overton (1977), the surveys were examined to detect problems with response bias. ANOVA was run to check for differences in responses by early and late respondents in the two extreme thirds of the sample. A comparison of those franchisees who responded quickly, and those

who responded late (with a maximum response lag of 46 days between sending and return stamp), yielded no significant differences at a 95% confidence level.

Table 4: Respondents and Their Menu Lines

	Frequency	Percent
SANDWICH	43	21
HAMBURGER	42	20.5
MEXICAN	39	19
CHICKEN	21	10.2
PIZZA	21	10.2
ITALIAN	12	5.9
FAST-FOOD (General)	9	4.4
FAMILY STYLE	6	2.9
FISH	5	2.4
ICE CREAM	1	0.5
ROOT BEER	1	0.5
DONUTS	1	0.5
<i>Total</i>	<i>201</i>	<i>98</i>
<i>Missing</i>	<i>4</i>	<i>2</i>
<i>Total</i>	<i>205</i>	<i>100</i>

Chapter 5

Methodology: Measurement

The research questions raised in this study require an instrument that measures the variables in the hypotheses reliably. In this chapter the design of the survey measures will be discussed briefly. Then the origin, development, and reliability of the used measures will be discussed. Finally the comparison of retrospective and prospective data will conclude this chapter.

Measurement Design

As the developed hypotheses indicate throughout Chapter 3, the analyzed data were mostly perceptual. The majority of the survey items were measured on seven-point Likert-type scales. Further, survey questions on demographic and psychographic data of the respondents were included throughout to serve as covariates. As outlined previously, current franchisees were asked about their recollections of perceptions at the time when they made their decisions to become the franchisees they are today. The issues raised by this procedure are discussed in a later section, along with the procedure followed to assess the biases of retrospective data. This procedure required the development of a parallel instrument, meaning that four separate surveys were constructed for the study. Three involved retrospective questions, and the fourth adopted a prospective view.

The questionnaire that was sent to single-unit franchisees included items for the tests of H1 through H6. The surveys for area developers, sequential multi-unit franchisees, and expanding single- and multi-unit operators contained items to test H1 through H6 for comparison with the single-unit responses. They also contained items to test H7 through H10 for a comparison of sequential multi-unit to area development franchisees.

Construct Measures

A combined pretest and scale purification process was conducted to assess the face validity of the survey items. A review of the items by a panel of researchers and franchisees finalized the questionnaires by modifying, adding, and deleting items in order to enhance the parsimony of the scales, and to keep the questions in the jargon of franchise owners.

After the surveys had been returned, *post hoc* analyses of the scales were performed in three stages. First, to assess the internal consistency of the scales that measure the domain of each construct and to purify the scales exploratory factor analyses (EFA) using principal axis extraction with oblimin rotations were run to extract factor loadings. The oblimin rotation was chosen because it allows constructs to be correlated. Also, item analyses were conducted to assess reliabilities. Improvement suggestions were used to determine Cronbach's alpha under optimal parsimony. *The SPSS for Windows 8.0* statistical package was used to perform these analyses.

Second, confirmatory factor analyses were conducted to assess the dimensionality of the scales. The *EQS 5.7b* statistical package was used here.

Third, the discriminant validity of the constructs was tested, using the procedure suggested by Gerbing and Anderson (1988). Again, the *EQS 5.7b* statistical package was used. The following provides an overview of these analyses.

Exploratory Factor Analyses and Reliability Assessment

Under the heading of each construct, the origin of items used for the measurement of each construct, and how the scales were tested for dimensionality and reliability is described. All displayed scales come from the area developer survey for simplification purposes. Except where noted, all items were developed specifically for this study, and were measured on seven-point strongly agree /strongly disagree Likert-type scales. The letter "R" behind individual items indicates that they were reverse scored.

Appeal of the Franchisor's Ownership of Outlets

EFA yielded one factor from the six items for this variable. Item 5 indicated a lower item-to-total correlation than the other items. Further, the deletion of item 5 was suggested to enhance the parsimony of the scale without losing much of the value of Cronbach's alpha through the deletion of item 5. Cronbach's alpha was maintained at .92 before and after the deletion of item 5,

indicating high reliability. In Table 5, the item-to-total correlations, items deleted, eigenvalues, and total variance explained are shown.

Table 5: Appeal of the Franchisor's Ownership of Outlets – Diagnostics

Items	Item-To-Total-Corr.	Deleted
At the time when I made the decision to develop a geographical area		
As a franchisee, the fact that the franchisor owned her/his own outlets		
1. indicated to me her/his dedication to the franchise system.	0.73	
2. indicated to me that the franchisor's stake in the franchise system was similar to that of a franchisee.	0.83	
3. indicated to me that s/he would be more likely to understand franchisee problems.	0.84	
4. indicated to me that s/he would be more likely to respond to franchisee problems.	0.82	
5. attracted me to her/his particular franchise system.	0.70	✓
6. was not particularly important to me. (R)	0.77	

Factor	Total Variance Explained			Extraction Sums of Squared Loadings		
	Initial Eigenvalues			Total	% of Variance	Cumulative %
	Total	% of Variance	Cumulative %			
1	4.351	72.519	72.519	4.035	67.254	67.254
2	0.488	8.138	80.657			
3	0.460	7.673	88.330			
4	0.343	5.713	94.043			
5	0.234	3.906	97.949			
6	0.123	2.051	100.000			

Extraction Method: Principal Axis Factoring.

Expected Participation in Decision Making

Some items were adopted from Schul, Pride, and Little (1983), and were modified for the purpose of this study. They were measured on seven-point strongly agree/strongly disagree Likert-type scales.

EFA established that all four items loaded on one factor. Cronbach's alpha indicated moderate reliability with a value of .83. The item-to-total statistics suggested an improvement of the scale through the deletion of item 1 due to its low item-to-total correlation. This raised the scale's parsimony while

maintaining Cronbach's alpha virtually unchanged at .82. In Table 6, the item-to-total correlations, items deleted, eigenvalues, and total variance explained are shown.

Table 6: Expected Participation in Decision Making – Diagnostics

Items	Item-To-Total-Corr.	Deleted
At the time when I made the decision to develop a geographical area as a franchisee.		
1. I expected that the franchisor in the future would always respond to my Suggestions and complaints.	0.57	✓
2. I expected that I would have major influence in the future in the determination of new policies, standards, and products for the entire franchise system.	0.73	
3. I did not expect that I would be allowed in the future by the franchisor to provide input into the determination of standards and promotional allowances. (R)	0.68	
4. I expected that the franchisor would frequently ask for my opinion before introducing new policies, standards, or products.	0.67	

Factor	Total Variance Explained			Extraction Sums of Squared Loadings		
	Initial Eigenvalues					
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.658	66.461	66.461	2.232	55.790	55.790
2	0.573	14.322	80.784			
3	0.431	10.769	91.553			
4	0.338	8.447	100.000			

Extraction Method: Principal Axis Factoring.

Expected Economies of Scale

EFA yielded a two-factor solution. However, items 4 and 5, which loaded on the second factor, indicated quite low item-to-total correlations. Further, these items seemed to focus around human resource related efficiencies, rather than on more functional efficiencies of the operation like the first three items. Items 4 and 5 were thus dropped subsequently.

Cronbach's alpha improved from .83 to .95 for the scale that included the first three items, indicating high reliability. These items remained as the core of

the scale. In Table 7, the item-to-total correlations, items deleted, eigenvalues, and total variance explained are shown.

Table 7: Expected Economies of Scale – Diagnostics

Items	Item-To-Total-Corr.	Deleted
At the time when I made the decision to develop a geographical area as a franchisee, I expected that the size of my future franchise operation would allow me to		
1. take advantage of great volume discounts from my suppliers.	0.79	
2. achieve great savings with regards to order volumes.	0.85	
3. achieve great savings with regards to the frequency of my orders.	0.80	
4. utilize my staff most efficiently.	0.48	✓
5. utilize my own skills and talents most efficiently.	0.38	✓

Factor	Total Variance Explained			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings
	Initial Eigenvalues	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total
1	3.096	61.916	61.916	2.912	58.238	58.238	2.801
2	1.222	24.450	86.366	0.862	17.243	75.480	1.639
3	0.402	8.041	94.408				
4	0.176	3.515	97.923				
5	0.104	2.077	100.000				

Extraction Method: Principal Axis Factoring.

Expected Information Dissemination Efficiency

In line with H4a and H4b, EFA extracted two factors, of which one indicated expected information dissemination through the franchisor, and the other through the franchisee's own operation. Reliabilities were moderate for both factors, with Cronbach's alpha of .89 for the "franchisor" factor, and .85 for the "within own operation" factor. All item-to-total correlations were in an acceptable range, and no items were suggested for dropping to improve the

alpha values. In Table 8, the item-to-total correlations, eigenvalues, and total variance explained are shown.

Table 8: Expected Information Dissemination – Diagnostics

"FRANCHISOR" Items	Item-To-Total-Corr.
1. At the time when I made the decision to develop a geographical area as a franchisee, I expected that in the future nearly all of my information about problems and their solutions would come most quickly from my franchisor.	0.79
2. At the time when I made the decision to develop a geographical area as a franchisee, I expected that in the future I would draw most quickly on problem solutions generated by the franchisor.	0.79
3. At the time when I made the decision to develop a geographical area as a franchisee, I expected that in the future the franchisor would be the quickest source to help me out with problems in my operation.	0.76
"WITHIN OWN OPERATION" Items	Item-To-Total-Corr.
1. At the time when I made the decision to develop a geographical area as a franchisee, I expected that in the future nearly all of my information about problems and their solutions would come most quickly from within my own franchise operation.	0.67
2. At the time when I made the decision to develop a geographical area as a franchisee, I expected that in the future I would draw most quickly on problem solutions generated in my own franchise operation.	0.80
3. At the time when I made the decision to develop a geographical area as a franchisee, I expected that in the future my own franchise operation would be the quickest source to help me out with problems in my operation.	0.70

Factor	Total Variance Explained			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings
	Initial Eigenvalues Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total
1	2.618	43.628	43.628	2.330	38.837	38.837	2.198
2	2.157	35.950	79.578	1.869	31.143	69.980	2.049
3	0.442	7.364	86.942				
4	0.308	5.134	92.076				
5	0.239	3.991	96.067				
6	0.236	3.933	100.000				

Extraction Method: Principal Axis Factoring.

a When factors are correlated, sums of squared loadings cannot be added to obtain a total variance.

Social Influences

Three factors were extracted by EFA for this variable, of which one focuses on social interactions with family, one with friends, and one with the local community. Cronbach's alpha values and correlations indicated moderate reliabilities for two of the three scales. "Community influence" indicated a correlation of the two items of .79, and no item deletion was suggested. "Friends' influence" had an original alpha of .61. The deletion of items 3 and 4 from that scale was suggested by low item-to-total correlations, and the correlation of the two remaining items was improved to .83. Cronbach's alpha for "family influence" was originally .43. This alpha value could not be improved through item deletion to a level greater than .55, indicating that the scale was not reliable. Table 9 displays the item-to-total correlations, items deleted, eigenvalues, and total variance explained.

Table 9: Social Influence – Diagnostics

"FRIENDS" Items		Item-To-Total-Corr.	Deleted
At the time when I made the decision to develop a geographical area as a franchisee,			
1. I had friends who had a franchise operation of the type I was about to venture into.		0.48	
2. I had friends who started the same type of franchise operation around the same time.		0.62	
3. my friends encouraged me wholeheartedly to develop a geographical area.		0.28	✓
4. I felt challenged by my friends to develop a geographical area.		0.30	✓
"COMMUNITY" Items		Item-To-Total-Corr.	Deleted
At the time when I made the decision to develop a geographical area as a franchisee,			
1. people in my community encouraged me wholeheartedly to develop a geographical area.		0.65	
2. I felt challenged by people in my community to develop a geographical area.		0.65	
"FAMILY" Items		Item-To-Total-Corr.	Deleted
At the time when I made the decision to develop a geographical area as a franchisee,			
1. I had family members who had a franchise operation of the type I was about to venture into.		0.13	✓
2. my family encouraged me wholeheartedly to develop a geographical area.		0.33	✓
3. I felt challenged by my family to develop a geographical area.		0.34	✓

Total Variance Explained			
Initial Eigenvalues			
Factor	Total	% of Variance	Cumulative %
1	3.467	38.526	38.526
2	1.529	16.988	55.514
3	1.062	11.800	67.314
4	0.850	9.440	76.753
5	0.772	8.582	85.336
6	0.431	4.787	90.123
7	0.365	4.054	94.178
8	0.313	3.475	97.652
9	0.211	2.348	100.000

Extraction Method: Principal Axis Factoring.

Entrepreneurship Motivation

Some of the items for this variable were adopted from Michaels et al. (1988), and Lodahl and Kejner (1965), and were modified for the purpose of this study. They were measured on seven-point strongly agree/strongly disagree Likert-type scales.

As expected, two factors were extracted by EFA, of which one focuses on "job involvement" with a Cronbach's alpha value of .82, and the other on "emotional fulfillment." After the suggested deletion of item 3 due to a low item-to-total correlation, Cronbach's alpha for the "emotional fulfillment" scale was improved from .86 to .88. Hence, both scales indicated moderate reliability. Cronbach's alpha of the combined higher order construct items was .88. The subsequently conducted CFA will be used to determine the dimensionality of the "entrepreneurship motivation" construct. Table 10 exhibits the item-to-total correlations, eigenvalues, items deleted, and total variance explained.

Table 10: Entrepreneurship Motivation – Diagnostics

"JOB INVOLVEMENT" Items		
	Item-To-Total-Corr.	Deleted
At the time when I made the decision to develop a geographical area as a franchisee,		
1. it was important to me that I would take personal responsibility for my future franchise Operation in every respect.	0.66	
2. I expected that the challenges I was going to encounter would satisfy my desire for hands-on experience.	0.61	
3. it was important to me that I would be involved in the daily operations and decisions of the Franchise operation I was about to venture into.	0.71	
4. it was important to me to get involved in something in which I thought I could do a job well.	0.62	
"EMOTIONAL FULFILLMENT" Items		
	Item-To-Total-Corr.	Deleted
At the time when I made the decision to develop a geographical area as a franchisee,		
1. it was important to me that I would find enjoyment in my occupation.	0.73	
2. it was important to me that I would really like what I was about to venture into.	0.72	
3. it was the fulfillment of a long-held dream	0.55	✓
4. I anticipated that I would gain a feeling of pride or accomplishment as a result of my work.	0.77	

Total Variance Explained (Composite)							
Factor	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings Total
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	
1	4.426	55.322	55.322	4.038	50.474	50.474	3.434
2	1.084	13.550	68.872	0.727	9.089	59.564	3.406
3	0.653	8.156	77.029				
4	0.634	7.921	84.950				
5	0.405	5.066	90.015				
6	0.314	3.924	93.939				
7	0.280	3.494	97.434				
8	0.205	2.566	100.000				

Extraction Method: Principal Axis Factoring.

Investment Motivation

Contrary to expectations at the construct development stage, two factors were extracted for this variable by EFA, of which one focuses on "profitability", and the other on the "future building" aspect of an investment. The deletion of item 5 was suggested by a low item-to-total correlation, improving the "future

building" factor's Cronbach's alpha from .64 to an item correlation of .69 and indicating marginal reliability. For the "profitability" factor, the deletion of item 3 was suggested due to a low item-to-total correlation, raising the scale's parsimony and maintaining Cronbach's alpha at .71. Cronbach's alpha of the combined higher order construct items was .60. The subsequently conducted CFA will be used to determine the dimensionality of the "investment motivation" construct. Table 11 exhibits the item-to-total correlations, eigenvalues, items deleted, and total variance explained.

Table 11: Investment Motivation – Diagnostics

"PROFITABILITY" Items		Item-To-Total-Corr.	Deleted
At the time when I made the decision to develop a geographical area as a franchisee,			
1. it was a purely financial decision to invest in the business which seemed to promise the highest possible returns for me.		0.57	
2. it was mostly based on my desire to turn high profits.		0.65	
3. it was very important for me to achieve financial security.		0.34	✓
4. the profits to be made as a franchisee were more important to me than the enjoyment of the business.		0.43	
"FUTURE-BUILDING" Items		Item-To-Total-Corr.	Deleted
At the time when I made the decision to develop a geographical area as a franchisee,			
5. it was important to me to take financial control of my own destiny.		0.35	✓
6. my focus was on long-term financial returns in the future.		0.52	
7. I intended to build a business for the future.		0.47	

Factor	Total Variance Explained			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total
1	2.537	36.249	36.249	1.996	28.508	28.508	1.792
2	1.599	22.841	59.090	1.064	15.196	43.704	1.457
3	0.995	14.211	73.301				
4	0.656	9.373	82.673				
5	0.462	6.600	89.273				
6	0.420	6.003	95.277				
7	0.331	4.723	100.000				

Extraction Method: Principal Axis Factoring.

Perceived Domain Expertise

Three factors were extracted for this variable by EFA, of which one focuses on “perceived self-confidence”, and the second on “perceived expertise” based on various experience and knowledge categories relating to the operation of a fast-food restaurant. The third factor that emerged contained only one item from the experience scale, focusing on the accounting/financial background of the respondents. This experience category seemed to be perceived different from the other experience categories and was therefore excluded from this reliability analysis. This was supported by the item's low item-to-total correlation. While the eliminated item focused on specific expertise in bookkeeping/finance related matters, all remaining experience categories dealt with operational/functional knowledge. After the deletion of item 3 from the “expertise” scale, Cronbach's alpha value improved from .89 to .91, indicating good reliability. Further, the “confidence” scale yielded a moderate Cronbach's alpha value at .84 without indicating the necessity to delete an item. Cronbach's alpha of the combined construct items was .85. The subsequently conducted CFA will be used to determine the dimensionality of the “perceived domain expertise” construct. Table 12 exhibits the item-to-total correlations, eigenvalues, items deleted, and total variance explained.

Table 12: Perceived Domain Expertise – Diagnostics

"PERCEIVED SELF-CONFIDENCE" Items		Item-To-Total-Corr.	Deleted
At the time when I made the decision to develop a geographical area as a franchisee,			
1. I believed that the franchise operation I was about to venture into would be successful.		0.57	
2. I had a lot of trust into my own skills and talents.		0.68	
3. I felt like nothing could stop me from becoming a successful franchise owner.		0.63	
4. I felt very confident that my franchise operation would become very successful.		0.82	
"PERCEIVED EXPERTISE" Items		Item-To-Total-Corr.	Deleted
At the time before I decided to develop a geographical area as a franchisee,			
1. my experience in general restaurant operations was		0.78	
2. my experience in specific fast-food restaurant operations was		0.80	
3. my experience in general financial matters/accounting was		0.29	✓
4. my experience in supervising employees was		0.62	
5. my knowledge about franchising in general was		0.72	
6. my knowledge about the fast-food franchise industry was		0.86	
7. my knowledge about the specific franchise system I was about to enter was		0.75	
(Low) 1 2 3 4 5 6 7 (High)			

Factor	Total Variance Explained			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings
	Initial Eigenvalues						
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total
1	4.491	40.826	40.826	4.134	37.583	37.583	3.751
2	2.238	20.349	61.175	1.908	17.349	54.931	2.769
3	1.143	10.391	71.566	0.689	6.261	61.193	1.355
4	0.739	6.718	78.284				
5	0.594	5.397	83.681				
6	0.487	4.429	88.110				
7	0.433	3.937	92.047				
8	0.316	2.869	94.916				
9	0.215	1.951	96.867				
10	0.213	1.932	98.799				
11	0.132	1.201	100.000				

Extraction Method: Principal Axis Factoring.

Confirmatory Factor Analysis

Confirmatory factor analyses (CFA) were used to test the dimensionality of the purified constructs. The confirmatory factor models were estimated by the elliptically reweighted least squares (ERLS) estimation method due to its

advantages over the maximum likelihood procedure (see Anderson and Gerbing 1988). ERLS is provided in the EQS 5.7b statistical package.

First, a CFA model was built for all of the first order factors that had emerged for H1 through H6. Table 13 provides an overview of this first analysis in which

Table 13: CFA Estimates for H1 to H6

Factors and Items	Standardized Estimate	t-Value
<i>Appeal of Franchisor Outlets</i>		
Item 1	0.73	11.88
Item 2	0.84	14.60
Item 3	0.92	16.95
Item 4	0.90	16.45
Item 6	0.76	12.62
<i>Expected Decision Participation</i>		
Item 2	0.79	12.70
Item 3	0.78	12.45
Item 4	0.88	14.78
<i>Expected Scale Efficiencies</i>		
Item 1	0.93	17.28
Item 2	0.95	18.22
Item 3	0.93	17.44
<i>Expected Info Diss. Franchisor</i>		
Item 1	0.85	14.39
Item 2	0.75	12.02
Item 3	0.88	15.06
<i>Expected Info Diss. Franchisee</i>		
Item 1	0.93	15.91
Item 2	0.79	12.91
Item 3	0.80	12.99
<i>Social Influence by Friends</i>		
Item 1	0.99	20.20
Item 3	0.71	11.61
<i>Social Influence by Community</i>		
Item 1	0.67	10.88
Item 2	0.99	20.20
Chi-square=346.97		
df=168		
p< .001		
NFI= .916		
NNFI= .943		
CFI= .955		
AOSR= .0399		
Model Fit:		

Table 14: CFA Estimates for H7 to H10

Factors and Items	Standardized Estimate	t-Value	Fit
<i>Entrepreneurship Motivation</i>			
<i>Job Involvement</i>	0.84	0.00	
<i>Emotional Fulfillment</i>	0.75	5.90	
<i>Job Involvement</i>			Chi-square=67.083
Item 1	0.69	-	df=12
Item 2	0.61	7.76	P< .001
Item 3	0.85	10.29	NFI= .942
Item 4	0.81	9.98	NNFI= .915
<i>Emotional Fulfillment</i>			CFI= .951
Item 1	0.85	-	AOSR= .0579
Item 2	0.94	16.08	
Item 4	0.77	13.04	
<i>Investment Motivation</i>			
<i>Profitability</i>	0.15	1.27	
<i>Future Building</i>	0.68	0.00	chi-square=4.279
<i>Profitability</i>			df=3
<i>Profitability</i>			p= .233
Item 1	0.72	-	NFI= .981
Item 2	0.74	6.71	NNFI= .980
Item 4	0.61	6.63	CFI= .994
<i>Future Building</i>			AOSR= .0240
Item 6	0.99	-	
Item 7	0.62	11.31	
<i>Perceived Domain Expertise</i>			
<i>Perceived Self-Confidence</i>	0.70	4.92	
<i>Perceived Expertise</i>	0.39	3.55	
<i>Perceived Self-Confidence</i>			chi-square=216.732
Item 1	0.64	-	df=33
Item 2	0.69	8.73	p< .001
Item 3	0.83	10.06	NFI= .876
Item 4	0.97	10.66	NNFI= .852
<i>Perceived Expertise</i>			CFI= .892
Item 1	0.78	13.18	AOSR= .0603
Item 2	0.84	-	
Item 4	0.55	8.23	
Item 5	0.71	11.44	
Item 6	0.93	17.05	
Item 7	0.73	12.07	

each item was restricted to load on its prespecified factor. The structure and dimensionality of the factors was confirmed as extracted by EFA with chi-square=346.97 (df=168, $p < .001$), AOSR= .0399, CFI= .955, NFI= .916, and NNFI= .943, hence establishing an overall acceptable fit of the model in light of the sample size.

In a second step, three separate models were run in which the existence and dimensionality of the higher order factors from H7 through H10 were tested. All of the items loaded significantly on the specified factors ($t > 2.0$, $p = .05$), and the models appeared to fit the data.

In the first run, the scale of the "entrepreneurship motivation" second order factor established acceptable overall fit with chi-square=67.083 (df=12, $p < .001$), AOSR= .0579, CFI= .951, NFI= .942, and NNFI= .915. In the second run, the scale of the "investment motivation" higher order construct established acceptable overall fit with chi-square=4.279 (df=3, $p < .233$), AOSR= .0240, CFI= .994, NFI= .981, and NNFI= .980. In a third run, the scale of the "perceived domain expertise" second order construct established moderate overall fit with chi-square=216.730 (df=33, $p < .001$), AOSR= .0603, CFI= .892, NFI= .876, and NNFI= .852. It has to be noted that sample size had a strong influence on the level of the produced fit indices. Table 14 summarizes these findings.

Summary of Measurement Design

Table 15 summarizes the preceding scale analysis after the confirmation of the exploratory factor solutions by CFA. Most reliabilities reached an alpha

level of .7 and higher, hence indicating good reliabilities of the developed scales. Further, all scales are multi-item measures, thus indicating domains specified by more than one item. Finally, CFA confirmed all second order factors.

Table 15: Summary of Scale Analyses

Variable	Final Factors	Items Dropped	Final Items	Reliability
<i>Appeal of Franchisor Outlets</i>	1	1	5	0.92
<i>Expected Decision Participation</i>	1	1	3	0.82
<i>Expected Scale Efficiencies</i>	1	2	3	0.95
<i>Expected Info Diss. Franchisor</i>	1	0	3	0.89
<i>Expected Info Diss. Franchisee</i>	1	0	3	0.85
<i>Social Influence by Friends</i>	1	2	2	0.83
<i>Social Influence by Community</i>	1	0	2	0.79
<i>Entrepreneurship Motivation</i>	1	1	7	0.88
<i>Investment Motivation</i>	1	1	5	0.60
<i>Perceived Domain Expertise</i>	1	1	10	0.85

Discriminant Validity

Discriminant validity was tested using the procedure suggested by Gerbing and Anderson (1988). Taking one pair of factors at a time, the unconstrained confirmatory factor analysis model (in which all factors were allowed to covary freely) was contrasted with a constrained model in which the covariance between one factor pair was constrained to unity (implying that there was no discrimination between the two factors) and the covariance between the remaining factor pairs was constrained to equality (Hughes, Price, and Marrs 1986; Ramsey and Sohi 1997). A significant chi-square difference between the constrained and unconstrained factor models provided evidence of discriminant validity between the pair of factors being tested (Anderson and Gerbing 1988). A series of models was estimated, repeating this procedure for all the pairs of

Table 16: Discriminant Validity Test

Construct Pair	Chi-Square	Chi-Square Difference (44 <i>df</i>)	p-Value
Unconstrained Model (482 <i>df</i>)	1150.166		
Constrained Models (526 <i>df</i>)			
Entrepreneurship-Expertise	1667.337	517.171	p< .001
Investment-Expertise	1518.677	368.511	p< .001
Investment-Entrepreneurship	1508.189	358.023	p< .001
Community-Expertise	1422.163	271.997	p< .001
Community-Entrepreneurship	1425.549	275.383	p< .001
Community-Investment	1428.010	277.844	p< .001
Friends-Expertise	1470.354	320.188	p< .001
Friends-Entrepreneurship	1470.142	319.976	p< .001
Friends-Investment	1428.760	278.594	p< .001
Friends-Community	1429.594	279.428	p< .001
Franchisee Inf.-Expertise	1598.549	448.383	p< .001
Franchisee Inf.-Entrepreneurship	1599.412	449.246	p< .001
Franchisee Inf.-Investment	1520.073	369.907	p< .001
Franchisee Inf.-Community	1419.958	269.792	p< .001
Franchisee Inf.-Friends	1470.348	320.182	p< .001
Franchisor Inf.-Expertise	1468.477	318.311	p< .001
Franchisor Inf.-Entrepreneurship	1491.125	340.959	p< .001
Franchisor Inf.-Investment	1460.016	309.850	p< .001
Franchisor Inf.-Community	1493.773	343.607	p< .001
Franchisor Inf.-Friends	1464.725	314.559	p< .001
Franchisor Inf.-Franchisee Inf.	1490.621	340.455	p< .001
Scale-Expertise	1848.545	698.379	p< .001
Scale-Entrepreneurship	1857.969	707.803	p< .001
Scale-Investment	1517.546	367.380	p< .001
Scale-Community	1428.995	278.829	p< .001
Scale-Friends	1459.998	309.832	p< .001
Scale-Franchisee Inf.	1605.999	455.833	p< .001
Scale-Franchisor Inf.	1447.614	297.448	p< .001
Participation-Expertise	1699.670	549.504	p< .001
Participation-Entrepreneurship	1686.251	536.085	p< .001
Participation-Investment	1502.498	352.332	p< .001
Participation-Community	1428.224	278.058	p< .001
Participation-Friends	1443.116	292.95	p< .001
Participation-Franchisee Inf.	1600.235	450.069	p< .001
Participation-Franchisor Inf.	1377.045	226.879	p< .001
Participation-Scale	1600.051	449.885	p< .001
Ownership-Expertise	2578.392	1428.226	p< .001
Ownership-Entrepreneurship	1735.940	585.774	p< .001
Ownership-Investment	1492.065	341.899	p< .001
Ownership-Community	1428.447	278.281	p< .001
Ownership-Friends	1450.958	300.792	p< .001
Ownership-Franchisee Inf.	1603.597	453.431	p< .001
Ownership-Franchisor Inf.	1323.858	173.692	p< .001
Ownership-Scale	1763.395	613.229	p< .001
Ownership-Participation	1489.500	339.334	p< .001

maximally similar constructs, and significant chi-square differences between the constrained and unconstrained models were compared, which provided evidence of discriminant validity (see Table 16).

Comparison of Retrospective and Prospective Data

The primary units of analysis in this study are existing franchisees who are surveyed regarding their past perceptions before they entered their respective franchise agreement under which they operate today.

Some caveats seem appropriate at this point. It has to be acknowledged that “memory effects”, “halo effects”, and “hindsight bias” are problems that can never be completely eliminated in a study that surveys past recollections of its respondents (see Braun 1999 for a recent discussion). Further, “halo effects” remain a problem even in studies of concurrent behavior. However, the collected data consist of perceptions of individuals who actually decided to become franchisees. Hence, their motivations appear to have been quite strong – even in retrospect. Kaufmann and Stanworth (1995) have noted that retrospective accounts are a typical method in franchising research. Further, Golden (1992) acknowledges retrospective data as suitable in contexts such as the one in this study, where alternative methods seem impractical, and due precaution is taken. In this study, two tests were conducted to examine the validity of retrospective accounts.

First, two control groups of current franchisees who are intending to expand in the near future were surveyed regarding their expectations for the

future. MANOVA with a *post hoc* Tukey correction was used to compare the prospective data of these two groups to the retrospective data of those sequential multi-unit franchisees that expanded in the past. All constructs were examined for significant differences between these groups. As Table 17 shows, only two marginally significant differences were found at $p = .10$.

The "perceived domain expertise" construct indicated that prospective single-unit franchisees had a marginally higher mean than retrospective sequential multi-unit franchisees at $p = .07$. Further, the "expected profitability" construct showed that prospective sequential multi-unit franchisees had a

Table 17: Comparison of Retrospective to Prospective Data

Multiple Comparisons				
Tukey HSD				
Dependent Variable	(I) Sequential (RETRO)	(J) 4=Sequential (PRO) 5=Single (PRO)	Mean Difference (I-J)	Sig.
ZOROWNC	3	4	0.04	0.99
		5	-0.18	0.95
PARTC	3	4	-0.07	0.99
		5	-0.35	0.72
ECSCALC	3	4	-0.05	0.99
		5	-0.40	0.69
INFDISCA	3	4	-0.27	0.91
		5	0.61	0.20
INFDISCB	3	4	-0.14	0.95
		5	-0.29	0.43
SOCC1	3	4	1.03	0.26
		5	0.63	0.48
SOCC2	3	4	-0.99	0.12
		5	-0.44	0.59
EXPPROF	3	4	-3.85	0.08*
		5	-0.77	0.93
ENTC	3	4	-0.33	0.54
		5	-0.02	0.99
INVC	3	4	0.01	0.99
		5	0.01	0.99
DOMC	3	4	-0.54	0.18
		5	-0.51	0.07*

* significant at $p = .10$

marginally higher mean than retrospective sequential franchisees at $p = .08$.

It appears that for both of these variables past experiences are salient. In particular, experience in the operation of a franchise business seems to have influenced retrospective franchisees between the start of their franchise and the time of survey completion to evaluate their past expertise and profitability expectations less optimistically than prospective operators. However, the fact that two out of eleven categories of variables show marginally significant differences does not seem to invalidate the remainder of the findings. For the majority of the data, the results of the comparison of retrospective and prospective data point in the same direction, namely that no significant differences were found.

Further, the assumption was made that "memory" and "halo effects" as well as "hindsight biases" are randomly distributed. Hence, if the control groups' prospective data does not show significant differences to the retrospective data of the sequential multi-unit franchisees, then it seems reasonable to conclude that no significant differences are attributable to the retrospective data of area developers and single-unit franchisees either.

In a second step, paired t-tests were conducted to search for significant differences between a set of control questions on each retrospective survey. Retrospective sequential respondents were asked to remember their expectations with regards to membership in a buying cooperative, and receiving adequate services from the franchisor for their initial entry fee, and monthly advertising and royalty fees. At different places on the survey they were also

asked to evaluate their current feelings about these issues. The purpose of these questions was to assess whether respondents' reconstructive memory would reflect their current feelings in answers about the past. Significant differences would show that individual respondents were able to distinguish between past and current perceptions, which in turn would lend credibility to retrospective accounts. The analysis in Table 18 shows that significant differences at the .05 level were found for three of the expected vs. current questions, and one difference was significant at the .10 level.

Combined with the finding that respondents were able to distinguish current perceptions from past expectations, it was concluded that, in fact, "memory effects" and "hindsight biases" are only minimal in the retrospective responses. "Halo effects", as discussed earlier, cannot be ruled out in either set of responses, not even in perceptions of current behavior. Therefore, the conclusion was drawn that the retrospective data of sequential multi-unit franchisees could be collapsed with the prospective data of single- and multi-unit owners, who are planning to expand in the near future.

Table 18: Comparison of Control Questions

Paired Samples Test		Paired Differences					
		Mean	Std. Deviation	Std. Error Mean	t	df	Sig. (2-tailed)
Pair 1	Co-op Member Comparison	-0.31	0.57	0.08	-4.00	54	0.000**
Pair 2	Entry Fee Comparison	0.71	2.26	0.30	2.33	54	0.024**
Pair 3	Advertising Fee Comparison	0.53	2.13	0.29	1.83	54	0.072*
Pair 4	Royalty Fee Comparison	0.84	2.25	0.30	2.76	54	0.008**
** significant at p= .05							
* significant at p= .10							

Chapter 6

Hypothesis Testing

In the following section, each of the hypotheses developed in chapter 3 will be tested. The *SPSS for Windows 8.0* statistical package was used to perform the data analysis.

Each hypothesis compares the degree of agreement of one group of respondents to that of another with regards to a scale of items, which measure a particular variable. Composite factor scores were constructed by averaging the scores of all scale items. Hair, Anderson, Tatham, and Black (1995) suggest that

“a researcher studying multiple univariate questions identifies a number of separate, dependent variables [...] that are to be analyzed separately, but needs some control over the experimentwide error rate. MANOVA is used to assess whether an overall difference is found between groups...”

In this study, however, an overall MANOVA was not feasible, as the differences to be examined are between single-unit and multi-unit franchisees on one hand, and between sequential owners and area developers on the other hand, with little overlap between both comparisons as to the dependent variables. Hence, two separate tests were conducted, a MANCOVA examining the differences between single-unit and multi-unit franchisees (Table 19), and a MANOVA examining the differences between sequential owners and area developers (Table 20). Both overall tests were significant. The single-unit to

Table 19: Single-Unit vs. Multi-Unit MANCOVA (H1-H6)

Multivariate Tests							
Effect		F	Hypothesis df	Error df	Sig.	Eta Squared	Observed Power
Age (Cov.)	Pillai's Trace	3.51	8	157	0.001**	0.15	0.98
	Wilks' Lambda	3.51	8	157	0.001**	0.15	0.98
Experience (Cov.)	Pillai's Trace	2.77	8	157	0.007**	0.12	0.93
	Wilks' Lambda	2.77	8	157	0.007**	0.12	0.93
Main Effect	Pillai's Trace	2.10	8	157	0.039**	0.10	0.83
	Wilks' Lambda	2.10	8	157	0.039**	0.10	0.83
Tests of Between-Subjects Effects							
Source	Dependent Variable	df	Mean Square	F	Sig.	Eta Squared	Observed Power
Main Effect	ZOROWNC	1	0.01	0.01	0.953	0.00	0.05
	PARTC	1	4.22	1.90	0.170	0.01	0.28
	ECSCALC	1	15.96	5.70	0.018**	0.03	0.66
	INFDISCA	1	7.31	3.24	0.074*	0.02	0.43
	INFDISCB	1	3.65	3.60	0.060*	0.02	0.47
	EXPPROF	1	47.79	1.25	0.266	0.01	0.20
	SOCC1	1	0.62	0.16	0.686	0.00	0.07
	SOCC2	1	0.34	0.12	0.726	0.00	0.06
Age (Cov.)	ZOROWNC	1	0.63	0.27	0.603	0.00	0.08
	PARTC	1	3.59	1.62	0.205	0.01	0.24
	ECSCALC	1	1.68	0.60	0.440	0.00	0.12
	INFDISCA	1	0.54	0.24	0.626	0.00	0.08
	INFDISCB	1	0.77	0.76	0.384	0.01	0.14
	EXPPROF	1	111.03	2.90	0.091*	0.02	0.39
	SOCC1	1	41.97	11.05	0.001**	0.06	0.91
	SOCC2	1	12.23	4.39	0.038**	0.03	0.55
Expertise (Cov.)	ZOROWNC	1	4.60	1.98	0.161	0.01	0.29
	PARTC	1	2.24	1.01	0.317	0.01	0.17
	ECSCALC	1	0.45	0.16	0.691	0.00	0.07
	INFDISCA	1	12.51	5.55	0.020**	0.03	0.65
	INFDISCB	1	1.44	1.42	0.236	0.01	0.22
	EXPPROF	1	10.69	0.28	0.598	0.00	0.08
	SOCC1	1	30.88	8.13	0.005**	0.05	0.81
	SOCC2	1	6.09	2.19	0.141	0.01	0.31
** significant at p= .05							
* significant at p= .10							

multi-unit comparison yielded $F(8,157)=2.10$, $p= .009$, estimated effect size= .10, and observed power= .83 for the main effect; $F(8,157)=3.51$, $p= .001$, estimated effect size= .15, and observed power= .98 for the covariate “age of the franchise operation”; and $F(8,157)=8.23$, $p= .000$, estimated effect size= .12, and observed

power= .93 for the covariate “perceived expertise”. The area developer to sequential owner comparison yielded $F(3,152)=2.10$, $p= .009$, estimated effect size= .14, and observed power= .99 for the main effect. No theoretically salient covariate appeared to have a significant effect. The specific results of these analyses are incorporated into the subsequent discussion of the findings for each hypothesis.

Table 20: Sequential Owner vs. Area Developer MANOVA (H7-H10)

Multivariate Tests							
Effect		F	Hypothesis df	Error df	Sig.	Eta Squared	Observed Power
Main Effect	Pillai's Trace	8.23	3	152	0.000**	0.14	0.99
	Wilks' Lambda	8.23	3	152	0.000**	0.14	0.99
Tests of Between-Subjects Effects							
Source	Dependent Variable	Df	Mean Square	F	Sig.	Eta Squared	Observed Power
Main Effect	ENTC	1	1.87	2.49	0.117	0.02	0.35
	INVCC	1	0.22	0.35	0.558	0.00	0.09
	DOMC	1	19.97	23.04	0.000**	0.13	0.99

** significant at $p= .05$

Tests of Hypotheses

In the following, for each of the hypotheses developed in the theoretical portion of this dissertation the results of the above conducted MANOVA and MANCOVA are reported, and additional tests are conducted where appropriate.

H1: Compared to single-unit franchisees, multi-unit franchisees are more likely to report that, at the time they entered the franchise system, the appeal of the franchisor’s ownership of outlets to them was greater.

The MANCOVA run for the single-unit to multi-unit comparison suggested no significant difference for the main effect between single-unit (mean=5.04) and multi-unit franchisees (mean=4.80) with $p = .953$, estimated effect size = .00, and observed power = .05 (see Table 19). Further, no differences were detected with "age of the franchise operation" or "perceived expertise" of the franchisee as covariates in the analysis. In both cases, the addition of either covariate did not produce a significant difference between single-unit and multi-unit franchisees. Also, an additional MANCOVA was run to investigate any differences between the different types of multi-unit operators, namely area developers and sequential multi-unit owners. However, no significant differences were detected. Hence, H1 was not supported.

H2: Compared to single-unit franchisees, multi-unit franchisees are more likely to report that, at the time they entered the franchise system, they expected higher participation in the franchisor's decision making.

The MANCOVA run for the single-unit to multi-unit comparison suggested no significant difference for the main effect between single-unit (mean=4.01) and multi-unit franchisees (mean =3.65) with $p = .170$, estimated effect size = .01, and observed power = .28 (see Table 19). Further, no differences were detected with "age of the franchise operation" or "perceived expertise" of the franchisee as covariates in the analysis. In both cases, the addition of either covariate did not produce a significant difference between single-unit and multi-unit franchisees. Also, a separate MANCOVA was run to detect any differences between the two

types of multi-unit operators, area developers and sequential multi-unit owners.

However, no significant differences were revealed. Hence, H2 was not supported.

H3: Compared to single-unit franchisees, multi-unit franchisees are more likely to report that, at the time they entered the franchise system, they expected higher economies of scale.

The MANCOVA run for the single-unit to multi-unit comparison suggested a significant difference for the main effect between single-unit (mean=4.91) and multi-unit franchisees (mean=3.96) in the direction opposite from the hypothesis with $p = .018$, estimated effect size = .03, and observed power = .66 (see Table 19). A separate MANCOVA revealed that single-unit owners did not have higher expectations of economies of scale than *all* multi-unit franchisees, but only in comparison to prospective and retrospective sequential multi-unit franchisees (mean=3.75) with $p = .001$, estimated effect size = .08, observed power = .93 (see Table 19). The comparison of single-unit owners to area developers, however, was insignificant.

Further, the significance of adding several covariates to the model was tested. Among other insignificant covariates, no significant influences were found by expectations or current evaluations of advertising fees, royalties, or entry fees. Therefore, H3 is not supported. To the contrary, single-unit franchisees showed higher expectations to achieve economies of scale than sequential multi-unit owners in particular. This might be explained by the fact that new single operators have not yet been disillusioned by the realities of the

Table 21: Single-Unit vs. Sequential Multi-Unit MANCOVA (H1-H6)

Multivariate Tests							
Effect		F	Hypothesis df	Error df	Sig.	Eta Squared	Observed Power
Expertise (Cov.)	Pillai's Trace	1.70	8	126	0.104	0.10	0.72
	Wilks' Lambda	1.70	8	126	0.104	0.10	0.72
Age (Cov.)	Pillai's Trace	2.41	8	126	0.019**	0.13	0.88
	Wilks' Lambda	2.41	8	126	0.019**	0.13	0.88
Main Effect	Pillai's Trace	2.41	8	126	0.019**	0.13	0.88
	Wilks' Lambda	2.41	8	126	0.019**	0.13	0.88
Tests of Between-Subjects Effects							
Source	Dependent Variable	Df	Mean Square	F	Sig.	Eta Squared	Observed Power
Expertise (Cov.)	ZOROWNC	1	1.45	0.60	0.441	0.00	0.12
	PARTC	1	0.55	0.23	0.630	0.00	0.08
	ECSCALC	1	2.69	0.96	0.329	0.01	0.16
	INFDISCA	1	8.92	3.99	0.048**	0.03	0.51
	INFDISCB	1	1.02	0.94	0.333	0.01	0.16
	SOCC1	1	16.43	4.14	0.044	0.03	0.53
	SOCC2	1	0.42	0.15	0.701	0.00	0.07
Age (Cov.)	EXPPROF	1	0.01	0.00	0.987	0.00	0.05
	ZOROWNC	1	0.28	0.12	0.735	0.00	0.06
	PARTC	1	2.54	1.08	0.302	0.01	0.18
	ECSCALC	1	1.70	0.61	0.437	0.01	0.12
	INFDISCA	1	0.02	0.01	0.929	0.00	0.05
	INFDISCB	1	0.52	0.48	0.490	0.00	0.11
	SOCC1	1	18.19	4.59	0.034**	0.03	0.57
Main Effect	SOCC2	1	19.99	7.15	0.008**	0.05	0.76
	EXPPROF	1	27.54	0.71	0.402	0.01	0.13
	ZOROWNC	1	0.74	0.30	0.583	0.00	0.09
	PARTC	1	2.95	1.25	0.266	0.01	0.20
	ECSCALC	1	32.93	11.75	0.001**	0.08	0.93
	INFDISCA	1	8.49	3.79	0.054*	0.03	0.49
	INFDISCB	1	2.60	2.39	0.124	0.02	0.34
SOCC1	1	0.20	0.05	0.822	0.00	0.06	
SOCC2	1	0.52	0.19	0.666	0.00	0.07	
EXPPROF	1	9.85	0.25	0.616	0.00	0.08	

** significant at p= .05
* significant at p= .10

franchise arrangement, while prospective multi-unit owners have tempered their expectations about future scale efficiencies based on their experience with the

extant agreement. The role of experience was explored in a further analysis. A MANOVA revealed that particularly sequential multi-unit operators (mean=5.74) indicated significantly higher means on the "perceived expertise" construct than single owners (mean=3.54) with $F(1,168)=93.34$, $p= .000$. The bivariate correlation between "perceived expertise" and expected scale efficiencies was $-.14$ at $p= .05$. Combined with the MANOVA results, the correlation indicates that the influence of the "perceived expertise" construct on franchisees' expectations of economies of scale is a significant distinguishing factor between single-unit and multi-unit franchisees. Single owners' entry into a franchise system can be framed as an "addition" of 100% to a business that did not exist before, while sequential owners' addition represents less than 100% in light of their already existing operation. This framing issue finds support in academic work on mental accounting (Thaler 1985), prospect theory (Kahneman and Tversky 1979), and psychophysics (Christensen 1989). Sequential operators' frame of reference appears to make them anticipate a more realistic scale efficiency potential than single-unit owners.

H4a: Compared to single-unit franchisees, multi-unit franchisees are more likely to report that, at the time they entered the franchise system, they expected higher efficiency of information dissemination from within their franchisee operation.

H4b: Compared to multi-unit franchisees, single-unit franchisees are more likely to report that, at the time they entered the franchise system, they expected higher efficiency of information dissemination from the franchisor operation.

A first MANOVA run without any covariates suggested highly significant differences for the main effect between single-unit and multi-unit franchisees for both information dissemination constructs, with $p = .001$ for expected information dissemination through the franchisor, and $p = .009$ for expected information dissemination through the franchisee's operation. The addition of the "perceived expertise" covariate in particular appeared to absorb some of the variances of both information dissemination constructs. Information dissemination through the franchisor, however, remained marginally significant at $p = .074$, estimated effect size = .02, and observed power = .43; information dissemination through the franchisee's operation also remained marginally significant at $p = .060$, estimated effect size = .02, and observed power = .47 (see Table 19). Further, the "perceived expertise" covariate itself produced a significant difference in the case of information dissemination through the franchisor at $p = .02$, estimated effect size = .03, and observed power = .65 (see Table 19).

Thus, H4a was supported as expected efficiency in information dissemination through the franchisor was marginally significant, and single-unit franchisees (mean=5.22) expected higher levels of efficiency through the franchisor than multi-unit franchisees (mean=4.09). Also, H4b was supported as expected efficiency in information dissemination through a franchisee's own operation was marginally significant, and multi-unit franchisees (mean=5.67) expected higher levels of efficiency through their own franchise operation than single-unit franchisees (mean=5.23).

This result has to be tempered, however, as a separate MANCOVA run revealed that in the case of expected information dissemination through the franchisor, it was sequential multi-unit operators in particular (mean=3.90) who accounted for the significant difference to the single-unit owners. A mean comparison between single-unit operators and area developers remained insignificant, while the comparison between singles and sequentials was marginally significant at $p = .054$, estimated effect size = .03, and observed power = .49. The significance of this finding is even raised by the fact that it was produced with "perceived expertise" as a significant covariate in the analysis (see Table 21).

Thus, while H4b was supported in its current form, H4a was supported in particular due to the significant difference between single and sequential multi-unit operators. Further, the detected differences were significant despite the fact that "perceived expertise" was a significant covariate in the analysis.

H5: Compared to multi-unit franchisees, single-unit franchisees are more likely to report that, at the time they entered the franchise system, they expected higher per-unit returns.

The MANCOVA run for the single-unit to multi-unit comparison suggested no significant difference for the main effect between single-unit (mean=15.78) and multi-unit franchisees (mean=14.46) with $p = .266$, estimated effect size = .01, and observed power = .20 (see Table 19). The age of the franchise operation had a marginally significant effect as a covariate on the profitability expectation between single-unit and multi-unit operators at $p = .091$, estimated effect size =

.02, observed power= .39. It did, however, not absorb enough variance to produce a significant main effect.

Hence, single-unit franchisees did not show a significantly higher expected per-unit return than all multi-unit franchisees, so that H5 was not supported.

H6a: Compared to multi-unit franchisees, single-unit franchisees are more likely to report that, at the time they entered the franchise system, they were influenced to a greater extent by social expectations.

H6b: Compared to multi-unit franchisees, single-unit franchisees are more likely to report that, at the time they entered the franchise system, they were influenced to a greater extent by social recommendations.

The MANCOVA run for the single-unit to multi-unit comparison suggested no significant differences for the main effects of the social influence constructs, with single-mean=2.96, multi-mean=3.28, $p = .686$, estimated effect size= .00, and observed power= .069 for social influence by friends; and single-mean=3.39, multi-mean=3.40, $p = .726$, estimated effect size= .00, and observed power= .064 for social influence by the community (see Table 19). Further, "age of the franchise operation" and "perceived expertise" showed significant influences on the dependent variables in their functions as covariates (see Table 19). They did, however, not absorb enough variance to make either of the two dependent variables significant. Hence, neither H6a nor H6b was supported.

H7a: Compared to area development franchisees, sequential multi-unit franchisees are more likely to report that, at the time they entered the franchise system, they expected higher job involvement.

H7b: Compared to area development franchisees, sequential multi-unit franchisees are more likely to report that, at the time they entered the franchise system, they expected higher emotional fulfillment.

The MANOVA run for the sequential owner (mean=5.98) to area developer (mean=5.72) comparison suggested no significant difference with $p = .117$, estimated effect size = .02, and observed power = .35 for the entrepreneurship motivation construct (see Table 20). The exclusion of the control groups' prospective data did not change this result significantly. A separate MANOVA was also run to detect any significant differences involving single-unit franchisees. Again, no significant differences were found. Further, no differences were detected with the current size or age of the franchise operations as covariates in the model. Finally, a MANOVA was run for the lower order constructs "job involvement" and "emotional fulfillment", even though the previously conducted factor analyses had established a higher order factor solution. Again, no significant differences were detected.

Consequently, H7a and H7b were not supported. Sequential multi-unit franchisees and area developers do not seem to differ when it comes to an "entrepreneurial motivation", nor with regards to the lower order constructs "emotional satisfaction" or "job involvement".

H8: Compared to sequential multi-unit franchisees, area development franchisees are more likely to report that, at the time they entered the franchise system, they had a higher investment motivation.

The MANOVA run for the overall sequential owner (mean=5.46) to area developer (mean=5.36) comparison suggested no significant difference with $p=.558$, estimated effect size= .00, and observed power= .09 for the investment motivation construct (see Table 20). The exclusion of the control groups' prospective data did not change this result significantly. Further, no differences were detected with the current size or age of the franchise operations as covariates in the model. Finally, a MANOVA was run for the lower order constructs "profitability" and "future building", even though the previously conducted factor analyses had established a higher order factor solution. Again, no significant differences were detected.

It was further attempted to investigate the differences between single-unit and multi-unit owners. While no significant differences were detected by MANOVA for the comparison of these two groups of franchisees, a significant result was found simply with respect to the number of outlets currently owned by franchisees. However, a significant difference was only yielded for the "future building" scale of the investment motivation construct. Owners with one current outlet (mean=5.99) indicated significantly less past motivation to build a business for the future than franchisees with more than three current units (mean=6.32) with $F(1,145)=6.89$, $p=.010$.

In addition, it seemed to make conceptual sense to investigate the relationship between investment motivation and the amount of personal wealth initially invested in a franchise. An ANOVA with a Tukey *post hoc* correction revealed a significant difference on the "future building" factor of the investment

motivation construct with the amount of personal wealth invested in a franchise as the grouping factor. Respondents indicated the amount of personal wealth invested on four distinct percentage ranges. It was detected that the second percentage range (mean=5.81) with an average 38%, and the fourth percentage range with an average 88% of personal wealth invested (mean=6.33) produced a significant difference with $p = .013$ on the "future building" scale (see Table 22). The differences between responses on the other percentage ranges, however, were insignificant. After the collapse of the two lower and the two higher percentage ranges, a significant difference was detected at $F(1,197)=5.13$, $p = .025$ between the two halves. In other words, it was established that franchise owners with a higher percentage of personal wealth invested in their business

Table 22: ANOVA Results for WEALTH

ANOVA				
INVC2				
	Df	Mean Square	F	Sig.
Between Groups	3	2.12	3.68	0.013**
Within Groups	195	0.58		
Total	198			
Multiple Comparisons				
Dependent Variable: INVC2				
Tukey HSD				
(I) WEALTH	(J) WEALTH	Mean Difference (I-J)	Sig.	
13	38	0.32	0.115	
	63	-0.05	0.991	
	88	-0.19	0.513	
38	13	-0.32	0.115	
	63	-0.37	0.155	
	88	-0.52	0.006**	
63	13	0.05	0.991	
	38	0.37	0.155	
	88	-0.15	0.834	
** significant at $p = .05$				

indicated a higher degree of motivation to build a business for the future than franchise owners who invested a smaller fraction of their personal wealth at the time of entry into their franchise.

In summary, H8 was not supported. Sequential multi-unit franchisees and area developers do not seem to differ when it comes to an "entrepreneurial motivation", nor with regards to the lower order constructs "emotional satisfaction" or "job involvement".

However, while investment motivation does not seem to distinguish different types of multi-unit operators from each other, an indication was detected that it separates single-unit owners from operators with more than three outlets. The analysis indicated that single-unit owners seem to have been driven to a lesser extent than owners with more than three units by an investment motivation. This seems intuitive, as single operators initially invested only a fraction of the dollar amount that multi-unit owners committed.

An additional finding was that franchise owners with a higher percentage of personal wealth invested in their business indicated a higher degree of motivation to build a business for the future than franchise owners who invested a smaller fraction of their personal wealth at the time of entry into their franchise. However, franchisees who invest a smaller fraction of their personal wealth are not to be confused with single-unit owners. While no significant differences were detected as to which type of franchise owner generally invests a greater portion of their wealth in the franchise, by no means may it be concluded that single-unit owners always invest a smaller percentage of their net worth in a franchised

business than a multi-unit owner. Thus, it appears reasonable to conclude that franchisees who are planning on investing a larger percentage of their personal wealth are likely to have an investment motivation, and that such a parameter might be a better indicator than the type of franchise agreement to predict an investment motivation.

- H9a: Compared to area development franchisees, sequential multi-unit franchisees are more likely to report that, at the time they entered the franchise system, they had a higher perceived level of expertise.**
- H9b: Compared to area development franchisees, sequential multi-unit franchisees are more likely to report that, at the time they entered the franchise system, they had a higher perceived self-confidence.**
- H10a: Compared to sequential multi-unit franchisees, area development franchisees are more likely to report that, at the time they entered the franchise system, they had a higher perceived level of expertise.**
- H10b: Compared to sequential multi-unit franchisees, area development franchisees are more likely to report that, at the time they entered the franchise system, they had a higher perceived self-confidence.**

As hypotheses H9a and H10a, as well as H9b and H10b are concerned with two factors of the same multidimensional construct of "perceived domain expertise", both sets of hypotheses will be discussed jointly. It may be recalled that the hypotheses were formulated to indicate that two competing views of the confidence and expertise issues could be argued. The test of the hypotheses was meant to clarify this empirical issue.

The MANOVA run for the sequential owner (mean=5.74) to area developer (mean=4.41) comparison suggested a significant difference with $p=$

.000 for the “perceived domain expertise” higher order construct (see Table 20). Sequential multi-unit operators showed significantly higher levels of perceived expertise than area developers. The compared experience categories include general restaurant operations, specific fast-food restaurant operations, supervising employees, franchising in general, and the specific fast-food business they were about to enter.

Although the previously conducted factor analyses had established a higher order factor solution, a separate MANOVA was run to compare sequential owners to area developers on the lower order constructs. No significant difference was detected for the “confidence” scale (see Table 23). However, a highly significant difference for the “perceived expertise” lower order construct was revealed with $p = .000$, estimated effect size = .15, and observed power = .99 (see Table 23). Hence, the significance of the composite scale can be traced back to the influence of the “expertise” subscale, as the combined experience items contribute the majority of items to the composite scale.

It should further be noted that no significant differences between area developers (mean=5.38) and sequential owners (mean=5.36) franchisees were found with regards to the eliminated experience item, which deals with financial/accounting expertise. However, a significant difference was found between single-unit owners (mean=4.53) and all multi-unit operators (mean=5.37) with $t(1,202)=11.75$, $p = .001$.

As a conclusion, H9b, H10a and H10b were not supported. However, H9a was supported, indicating that “perceived expertise” is a clear distinguishing

factor between area developers and sequential multi-unit franchisees. Aspiring sequential multi-unit owners appear to have perceived a higher level of general expertise than area developers. However, when it comes to expertise in financial matters, area developers and sequential owners do not differ significantly, but all multi-unit owners indicated higher levels of perceived expertise than single operators when they entered their respective franchise agreements.

Table 23: Lower Order Construct MANOVA (H7-H10)

Multivariate Tests							
Effect		F	Hypothesis df	Error df	Sig.	Eta Squared	Observed Power
Main Effect	Pillai's Trace	4.95	6	149	0.000**	0.17	0.99
	Wilks' Lambda	4.95	6	149	0.000**	0.17	0.99
Tests of Between-Subjects Effects							
Source	Dependent Variable	Df	Mean Square	F	Sig.	Eta Squared	Observed Power
Main Effect	FULFC	1	1.33	1.57	0.213	0.01	0.24
	INVOLVC	1	2.34	2.31	0.131	0.02	0.33
	INVC1	1	0.34	0.24	0.627	0.00	0.08
	INVC2	1	0.09	0.15	0.702	0.00	0.07
	CONFC	1	1.02	1.58	0.211	0.01	0.24
	EXPERC	1	45.89	26.05	0.000**	0.15	0.99

** significant at p= .05

Chapter 7

Conclusions, Limitations and Recommendations

Summary of Findings

Table 24 provides an overview of the findings as they result from the testing of the hypotheses.

Table 24: Results of the Hypothesis Testing

Hypothesis	Result
H1	Not supported
H2	Not supported
H3	Not supported
H4a	Supported
H4b	Supported
H5	Not supported
H6a	Not supported
H6b	Not supported
H7a	Not supported
H7b	Not supported
H8	Not supported
H9a	Supported
H9b	Not supported
H10a	Not supported
H10b	Not supported

While this overview indicates that only a minority of the hypotheses were confirmed, a number of conclusions can be drawn from the preceding analysis.

1. Franchisees who agreed to participate in the survey after being pre-screened did so in great numbers.

2. Franchisee respondents were able to distinguish retrospective and prospective accounts.
3. Aspiring single-unit franchisees anticipate more than experienced sequential multi-unit higher scale efficiencies after having joined the system. This finding, contrary to the hypothesis, appears to be based on naivete on the part of single-unit owners and is explained by their lack of preceding experience, compared to more realistic and experienced sequential multi-unit owners.
4. Single-unit franchisees expect to receive information about problems and their solutions mostly from the franchisor, while sequential multi-unit franchisees expect to learn more from within their own franchisee operations.
5. The influence of the social environment, profit expectations, and the anticipation to have their voices heard by the franchisor did not differ significantly between single-unit and multi-unit franchisees.
6. Sequential multi-unit franchisees and area developers did not differ significantly with regards to an entrepreneurial motivation. However, current owners of more than three units indicate that they had a higher investment motivation in their past than single unit owners. Also, the commitment of a higher percentage of personal wealth seems to be driven by an investment motivation.
7. No significant difference was detected between sequential multi-unit franchisees and area developers as to perceived confidence. However, a

clear difference was detected as sequential multi-unit owners indicated a higher level of perceived expertise than area developers.

8. Aspiring sequential multi-unit owners do not differ significantly from area developers as far as their experience in financial matters/accounting is concerned. Single-unit owners, however, show lower levels of perceived financial expertise than all multi-unit owners.

Hence, it seems like the "story" of the findings goes like this. First, retrospective data seem largely to be as good as prospective data in a franchisee context. Second, multi-unit and single-unit franchisees do not seem to be much different from each other with respect to the reasons they became franchisees, except for the naivete with which they approach their decision.

An interesting finding for future research seems to be that naivete was found to be common to single-unit operators and area developers, as no significant differences were found between the two groups when it comes to experience levels before entry into the system, expectations of scale efficiencies, expected participation in the decision making process, and expected profitability. However, when it comes to an accounting background, single-unit owners seem to be clearly lagging behind all multi-unit operators.

With regards to the comparison of sequential multi-unit franchisees and area developers, it was expected that sequential operators would show a more entrepreneurial motivation, while area developers would be more hands-off, investor types. Supporting this general notion are the findings that sequential

operators see more opportunity to disseminate information within their own systems and have greater confidence in their own expertise. Contrary to the described expectations, however, are the findings that there are no differences in entrepreneurial motivation and investment motivation. It was established, however, that single operators have less of an investment motivation than larger operators. Some indication was also detected that the percentage of personal wealth invested might play a role in some of the differences between franchisees. However, this distinction was found to be independent of franchisee types. The percentage of personal wealth invested cannot differentiate different types of franchisees, as some multi-unit operators might invest a greater portion of their net worth than some single-unit owners.

The three overarching themes why multi-unit franchisees engage in their particular functions are repeated here. The following presents a discussion in light of the results of this study.

Why Multi-Unit Franchising?

1. Perhaps for the same reasons as single-unit owners, with the only difference being more money at the franchisee's discretion?
2. Perhaps the belief prevails that at a bigger size than single-unit operators, multi-unit owners might be able to "beat the game"?
3. Perhaps it is a completely different "philosophical" orientation? That is, while some multi-unit franchisees might consider themselves as "entrepreneurs", others might think of themselves more as "investors"?

1. The first explanation attempt seems to have been invalidated only partially by this study. Multi-unit franchisees do not appear to have the same reasons to become involved in franchising as single-unit operators. In fact, it was indicated by the data in this dissertation that franchisees with more than three outlets seem to have had a higher investment motivation. Hence, the difference between single-unit and multi-unit owners seems to have been a different philosophical orientation as they entered their respective franchise agreements.

However, it was also detected that area developers seem to have the same type of naïve expectations as single-unit operators before each enters a franchise system. It seems as if the combination of area developers and sequential multi-unit franchisees by virtue of their similarity regarding size has to be reconsidered. Area developers seem to be more similar to single-unit owners in some respects than to sequential operators.

2. Sequential multi-unit franchisees' expertise seems to provide them with an advantage based on their track record over single-unit owners. Sequential multi-unit franchisees in retrospective appear to learn from their experience before expanding their initial operation. Further, sequential operators were shown to expect to learn more from within their own operation than from the franchisor.

However, there is no indication that what seems to be true for sequential multi-unit franchisees is also true for the other class of multi-unit owners, area developers. This seems to be related to the fact that area

developers typically do not have experience in the franchise business and often start off “fresh”. An exception might be expertise in financial matters, as no differences were found in this respect between area developers and sequential owners.

Further, there is no indication that sequential operators do expect in advance that they will “beat the system” simply because of size. In fact, it was shown that aspiring single-unit franchisees have higher expectations with regards to the achievement of future scale efficiencies than those owners who are in the process of expanding, and have tempered their expectations as a result.

3. It was indicated that franchisees with more than three outlets appear to have had more of an investment motivation than single operators. It still remains unclear, however, whether single-unit operators represent more of an entrepreneur type, as no significant differences were found with regards to the entrepreneurial motivation factors between any of the franchisee types.

With regards to the nine goals of this study put forth at the beginning, the following provides a summary of this study's accomplishments.

1. A new and unique set of hypotheses was formulated and tested in an attempt to examine the nature of multi-unit franchisees' motives for their engagement in their specific functions.
2. It has become clear that franchisees' past decision making process matters. This stands in contrast to the normative decision model,

which has emphasized the importance of the current status in the traditional franchising literature.

3. The preliminary investigation into the question of social influences on prospective franchisees' decision making has not yielded significant results.
4. Some indication has emerged that prospective area developers and sequential multi-unit franchisees have distinctly different expectations as they venture into their respective businesses, mainly based on sequential multi-unit owners' greater past experience.
5. Various theoretical franchise approaches were integrated to explain multi-unit franchisee motivation.
6. Constructs were developed, and their salience to multi-unit franchisee motivation was shown at various degrees.
7. The hypothesized relationships were empirically tested and statistically analyzed.
8. The comparison of retrospective and prospective franchisee data yielded no significant differences. Hence, the data of these groups were collapsed.
9. Recommendations for franchise researchers and practitioners as they result from the findings will be presented in a subsequent section.

Limitations

The statistical power/sensitivity of the preceding analysis seems to be problematic at first sight, in light of rather small sample sizes of the involved respondent groups. Sample size is one factor in the assessment of statistical power, and the fact that sample sizes in this study ranged from 24 for the single-unit control group to 55 for the largest group of sequential owners seems to weaken the statistical results. However, statistical power is calculated assuming a given effect size. Sawyer and Ball (1981) explain effect size as the proportion of explained variance, hence likening it to the r-square in regression. Many of the effect sizes in this study are very small, suggesting a lack of detectable significance levels. On the other hand, those effects that are large result in large power levels, too. Hence, the conclusion can be drawn that the lack of detected significant relationships is not based on a lack of power or sample size. The effect sizes suggest that power is adequate in this study, while many of the hypothesized effects appear negligible and therefore do not permit the detection of significant differences. At the same time, those significant differences that were detected in this study seem to be very robust, often in the range of $p = .01$ and below, with adequate power.

Further, the survey was based on franchisees who volunteered to participate in the study after a pre-screen procedure was conducted. It might be concluded that a bias exists towards those franchisees that have strong motives to be heard and/or have strong feelings about their franchise arrangement.

Also, a variety of new scales was developed, which might cast doubt on their reliability as they were tested for the first time in this study. For example, the investment motivation scale showed only marginal reliability. A repeated use and/or modification of this and other measures in future studies is recommended in order to enhance our trust in them.

Further, the study was conducted over the summer, which is traditionally a peak vacation time for some, and a busy business period for other entrepreneurs (Johnson 1999). The low response rate to the pre-screen survey, and considerable time lags on the return of the actual survey seem to have resulted from this seasonal issue.

Only fast food franchisees were surveyed which limits the generalizability of the findings, even though the representation of diverse menu lines seemed balanced. However, most academic research studies on franchising have been conducted in the fast-food industry, so that this study's findings have a research base against which they may be validated.

The snapshot approach taken in this study provides a drawback. Franchisees develop over time --- today's single-unit owners might be tomorrow's multi-unit operators. Therefore, a longitudinal study to follow individuals through the life cycle of a franchise would be recommended.

Recommendations for Practitioners

In the following, recommendations as they emerge from the described results will be provided for franchisors as well as for aspiring and current franchisees.

Recommendations for Franchisors

Franchisors should educate new entrants into their system about realistic levels of expectations, for example with respect to opportunities for scale efficiencies. The study indicates that single franchise owners and area developers have expectations that appear overly optimistic.

In addition, franchisors should facilitate the information diffusion *between* franchisees of any type, whether they are multi-unit or single-unit franchisees. The study has indicated that single-unit franchisees receive most information about problem solutions from the franchisor, whereas multi-unit franchisees mostly receive that information from within their own operation. Communication between franchisees appears to be a beneficial addition to the existing communication pattern.

Franchisors ought to communicate franchising as an investment opportunity to aspiring single-unit and multi-unit franchisees. The study has shown that an investment motivation drives the commitment of a higher percentage of wealth. If franchisors are able to convey the message to aspiring franchisees, that franchising can provide an investment opportunity for them, then this would open an entire new market of franchisees who might commit a

higher percentage of their personal wealth to the system. For the franchisor, a higher investment by the franchisee may, in turn, translate into higher royalties and other revenues.

Finally, franchisors ought to tap into sequential multi-unit owners' high perceived expertise. One avenue to do so could be to involve current sequential multi-unit owners as counselors for aspiring or existing area developers and single-unit franchisees. The accumulated experience of sequential multi-unit franchisees seems like a resource too valuable to go unused. Such a mentoring program might prove especially beneficial for single-unit franchisees with regards to training in accounting/financial matters, as the study identified this as a particular area of concern for new single operators. Any improvement in franchisees' control of their franchise businesses would seem to benefit the franchisor's maintenance of standards and cash flow.

Recommendations for Franchisees

Aspiring franchisees ought to conduct extensive research to establish realistic expectations about profitability, scale efficiencies, and participation in the decision making process. As this study has shown, some of the expectations that single-unit owners seem to have, might prove unrealistic in the long run.

Current franchisees ought to communicate with each other to a higher degree. This study has shown that single-unit franchisees receive most information about problem solutions from the franchisor, whereas multi-unit franchisees mostly receive that information from within their own operation.

Communication between franchisees might be considered as a supplement to the existing communication pattern from which franchisees can only benefit.

Franchisees should be encouraged to keep diaries for others to learn from their experiences. Although this might not be a practical recommendation, diaries about evolving business practices and problem coping mechanisms as a franchisee could serve as back-up for franchisees' reconstructive memory. Particularly with regards to new entrepreneurs, a resource like a diary might prove very valuable.

Also, franchisees might consider founding or becoming members of associations that represent their interests. The survey conducted in this study showed that there appears to be a need among franchisees to have their voices heard. Franchisee associations could provide a means to this end.

Franchisees also ought to approach other franchisees – inside or outside their franchise system - to learn from others' experiences. It was shown here that particularly sequential multi-unit franchisees believe that they have a higher level of expertise than any other franchisee type. Particularly new single-unit or area development franchisees should be interested in receiving advice from such experienced franchise owners. New single-unit franchisees in particular appear to have a need for training in accounting related matters. Such training programs appear as a fruitful avenue for franchisees to enhance their knowledge and control of the business, and ultimately to improve their bottom line.

Recommendations for Future Research

This study has indicated that respondents in this specific context were able to distinguish between retrospective and prospective accounts. As this does not appear to be the norm in marketing research, the franchisee arena seems a promising realm in which to conduct studies that investigate the *phenomenon of retrospection in more detail*. Along the same lines, franchisees appear to be a rich source of past experiences which marketing researchers ought to tap into, particularly in light of the indicated viability of retrospective accounts.

Pre-screening the sample for the study appeared to be a good solution with regards to the quality of responses. However, it also limited the sample size considerably. As indicated earlier, small sample sizes may cause problems with regards to statistical power/sensitivity. A recommendation for future research in this arena has to focus on an increase in sample size.

Clearly, some of the scales developed for this study require some improvement. For example, the investment motivation scale seemed only marginally reliable. Improvements and modifications for this and other scales seem warranted.

It appears that distinctions between single-unit and multi-unit franchisees are real, for example, based on their investment motivation and past experience. However, this study did not support the common notion that single-unit franchisees would indicate a more entrepreneurial orientation than multi-unit franchisees. Further, distinctions between different types of multi-unit

franchisees do appear unclear, and seem mostly based on differences in past experience. Also, area developers appear in regards to various variables more similar to single operators than to sequential multi-unit owners. Continued research to detect distinctions in philosophical orientations between different types of franchisees appears difficult in light of the discovered similarities, such as a lack of distinction with regards to an entrepreneurial orientation. However, the distinctly different past histories of franchise owners seem to lend promise to this endeavor.

One particular finding of this study was that area developers and sequential owners do not seem to show significant differences when it comes to expertise in financial matters/accounting, while single-unit operators seem to be lagging behind. It appears as a fruitful area of investigation to look in more detail at the specific accounting needs of different types of franchisees, in order to make recommendations for franchisors on how to improve their training programs, for example.

The study did not reveal differences contingent upon specific franchise systems, which seemed contrary to the common notion of vastly different rules and regulations across different businesses. While results based on such a variety of franchise systems within the same industry provide confidence for their external validity, more research in this area seems to be warranted.

Finally, on a more general note, research into the importance of franchising globally appears among priorities for future research. One avenue to pursue could be the role of franchising for the opening of markets in Central and

Eastern Europe. Also, as indicated in Chapter 1, the current methodology and findings are intended to be used to investigate the situation of multi-unit franchising in Germany.

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Appendices

Appendix A

**Sales and Establishments
Restaurants (All Types)**

	1988	1989	1990	Percent Change 89/88 90/89	
Total Number of Establishments:					
Company Owned	27,305	27,761	29,313	1.7%	5.6%
Franchisee Owned	63,040	66,524	72,822	5.5	9.5
Total	90,345	94,285	102,135	4.4%	8.3%
Ratio To Total Establishments:					
Company Owned	30.2%	29.4%	28.7%		
Franchisee Owned	69.8	70.6	71.3		
Total	100 %	100 %	100 %		
Total Sales (\$ 000's):					
Company Owned	\$22,276,989	\$23,438,938	\$25,688,238	5.2%	9.6%
Franchisee Owned	42,003,446	45,655,170	50,827,883	8.7	11.3
Total	\$64,280,435	\$69,094,108	\$76,516,121	7.5%	10.7%
Ratio To Total Sales:					
Company Owned	34.7%	33.9%	33.6%		
Franchisee Owned	65.3	66.1	66.4		
Total	100 %	100 %	100 %		
Average Sales Per Unit (\$ 000's):					
Company Owned	\$816	\$844	\$876	3.4%	3.8%
Franchisee Owned	666	686	698	3.0	1.7
Total	\$711	\$732	\$749	3.0%	2.3%

Source: *International Franchise Association (1990)*

Appendix B

Number of Franchise Restaurants by State (1988)*

State	Total	Company Owned	Franch. Owned	State	Total	Company Owned	Franch. Owned
Alabama	1,442	375	1,067	Nebraska	380	186	194
Alaska	137	16	121	Nevada	543	109	434
Arizona	1,176	368	808	New Hampshire	297	25	272
Arkansas	809	146	663	New Jersey	494	354	140
California	8,422	2,265	6,157	New Mexico	1,213	96	1,117
Colorado	1,350	376	974	New York	1,064	527	537
Connecticut	592	88	504	North Carolina	2,489	516	1,973
Delaware	191	88	103	North Dakota	229	17	212
Dist. of Columbia	169	83	86	Ohio	4,449	1,486	2,963
Florida	4,480	1,577	2,903	Oklahoma	1,859	701	1,158
Georgia	2,740	1,193	1,547	Oregon	948	160	788
Hawaii	245	99	146	Pennsylvania	2,554	866	1,688
Idaho	226	23	203	Rhode Island	173	51	122
Illinois	3,646	1,291	2,355	South Carolina	1,376	326	1,050
Indiana	2,375	756	1,619	South Dakota	245	48	197
Iowa	1,223	257	966	Tennessee	1,771	522	1,249
Kansas	1,114	321	793	Texas	7,435	2,772	4,663
Kentucky	1,632	494	1,138	Utah	393	96	297
Louisiana	1,660	522	1,138	Vermont	61	1	60
Maine	824	3	821	Virginia	2,150	679	1,471
Maryland	685	506	179	Washington	1,203	369	834
Massachusetts	942	207	735	West Virginia	616	190	426
Michigan	1,521	896	625	Wisconsin	1,619	377	1,242
Minnesota	2,559	386	2,173	Wyoming	450	24	426
Mississippi	1,198	146	1,052	Puerto Rico	199	22	177
Missouri	1,432	801	631	Other U.S. Poss.	15	1	14
Montana	1,368	4	1,364				
				Total	78,625	23,808	54,817

*Represents 87 percent of total establishments. The remaining 13 percent were unable to provide a geographic breakdown for this report.

Source: International Franchise Association (1990)

Appendix C

Franchise Restaurants and Sales Distributed by Menu Theme

	<u>Establishments</u>			Total	<u>Sales (\$ 000's)</u>	
	Total	Comp. Owned	Franch. Owned		Comp. Owned	Franch. Owned
1988						
Chicken	9,116	3,110	6,006	\$4,945,775	\$1,858,324	\$3,087,451
Hamburgers	37,081	8,324	28,757	31,986,347	8,120,081	23,866,266
Pizza	19,243	6,556	12,687	9,606,941	3,789,808	5,817,133
Mexican	4,407	1,935	2,472	2,975,795	1,634,064	1,341,731
Seafood	1,199	685	514	723,115	419,998	303,117
Pancakes/Waffles	1,650	469	1,181	1,262,754	463,970	798,784
Steak (Full Menu)	12,120	5,835	6,285	11,337,777	5,833,546	5,504,231
Sandwich & Other	5,529	391	5,138	1,441,931	157,198	1,284,733
Total	90,345	27,305	63,040	\$64,280,435	\$22,276,989	\$42,003,446
1989						
Chicken	8,702	2,805	5,897	\$5,146,766	\$1,824,878	\$3,321,866
Hamburgers	38,804	8,580	30,224	34,442,872	8,606,482	25,836,390
Pizza	20,275	6,871	13,404	10,278,107	4,049,072	6,229,035
Mexican	4,567	1,973	2,594	3,101,192	1,661,700	1,439,492
Seafood	1,186	664	522	754,358	438,308	316,050
Pancakes/Waffles	1,752	481	1,271	1,404,720	504,188	900,532
Steak (Full Menu)	12,525	5,971	6,554	12,183,216	6,177,372	6,005,844
Sandwich & Other	6,474	416	6,058	1,782,899	176,938	1,605,961
Total	94,285	27,761	66,524	\$69,094,108	\$23,438,938	\$45,655,170
1990						
Chicken	9,112	2,868	6,244	\$5,666,430	\$1,977,410	\$3,689,020
Hamburgers	41,249	9,018	32,231	37,570,305	9,245,350	28,324,955
Pizza	21,954	7,337	14,617	11,487,519	4,578,639	6,908,880
Mexican	4,926	2,074	2,852	3,389,800	1,773,825	1,615,975
Seafood	1,285	695	590	836,727	470,632	366,095
Pancakes/Waffles	1,908	511	1,397	1,563,181	556,607	1,006,574
Steak (Full Menu)	13,565	6,329	7,236	13,687,181	6,864,211	6,822,970
Sandwich & Other	8,136	481	7,655	2,314,978	221,564	2,093,414
Total	102,135	29,313	72,822	76,516,121	25,688,238	\$50,827,883

Source: International Franchise Association (1990)

Appendix D

Pre-Survey Information Sheet

Please return in the enclosed postage-paid return envelope

or FAX to

**Marko Grünhagen, University of Nebraska-Lincoln, Dept. of Marketing
Fax (402) 472-9777**

It is very important that a *franchise owner* fills out this survey!

I have a contract with one franchisor only multiple franchisors

I am the original owner of my franchise. Yes No

I am the owner of one single franchise outlet. Yes No

I have an area development agreement with my franchisor, which requires me to open a certain number of outlets in a specified time period. Yes No

I own more than one franchise unit, but I do not operate under an area development agreement. Yes No

I am planning on expanding my current franchise by adding new outlets in the near future. Yes No

I consider my franchise business to belong to the "fast-food industry". Yes No

***I would like to be a participant in your study.
Please send me a survey!*** Yes No

Please attach your business card, or complete the following information so that we may send you the actual survey in the next few weeks.

Name _____

Address _____

Phone _____ Fax _____

THANK YOU FOR YOUR VALUABLE HELP!

Appendix E



Department of Marketing
310 College of Business Administration
P.O. Box 880492
Lincoln, NE 68588-0492
Telephone (402) 472-2316
FAX (402) 472-9777
www.cba.unl.edu/level4/marketing.html

June 4, 1999

Dear Franchise Owner:

The Department of Marketing at the University of Nebraska is conducting a study of franchisees, investigating how they became involved in their businesses. It is important for this study that *current franchise owners* are the participants. We hope to gain knowledge about the reasons why people become franchisees, in an effort to understand and respond better to the specific needs of franchisees from various backgrounds. We hope this can enhance your own understanding of your franchise involvement, and may give you new insights into your own business.

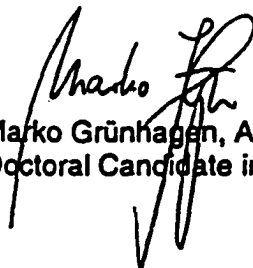
We would greatly appreciate your unique insights to this research study. Please take a few moments to complete the enclosed pre-survey information sheet, and return it in the postage-paid return envelope. The actual survey, which is designed to be completed in a simple and timely fashion, will be mailed to you a few weeks after the enclosed pre-survey information sheet has been received.

You are assured that the answers you provide to this survey will not be identified in any way with you or your business. Answers will only be used in combined summary statistics.

A summary of the results of the complete study will be available later this year.

For this research to be successful, we need the benefit of your experiences as a franchisee. Thank you in advance for your contribution to this study.

Sincerely,



Marko Grünhagen, ABD
Doctoral Candidate in Marketing



Robert A. Mittelstaedt, Ph.D.
Professor of Marketing

Appendix F



Department of Marketing
310 College of Business Administration
P.O. Box 680492
Lincoln, NE 68588-0492
Telephone (402) 472-2316
FAX (402) 472-9777
www.cba.unl.edu/level4/marketing.html

June 18, 1999

Dear Franchise Owner,

About three weeks ago we wrote you seeking your help in learning how and why people become franchise owners. As of today, we have not yet received your completed questionnaire.

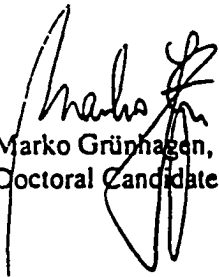
This research, part of a doctoral dissertation, was undertaken in the belief that the experiences and opinions of franchise owners are the best guides for those who wish to enter franchising.

At the University of Nebraska there are many students interested in starting their own businesses and current information is lacking about franchising as one way to enter the business world. That's why your unique insights are so important to this study.

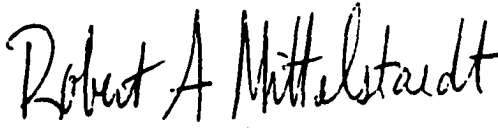
In the event your questionnaire has been misplaced, a replacement has been enclosed. Please note that only a few questions are asked at this time. A second questionnaire, one that can be answered in a simple and timely fashion, will be sent in a few weeks. Be assured that, with both questionnaires, only summary data will be compiled – your identity will not be revealed to anyone other than the undersigned.

Your cooperation is greatly appreciated.

Sincerely,



Marko Grünhagen, ABD
Doctoral Candidate in Marketing



Robert A. Mittelstaedt, Ph.D.
Professor of Marketing

Appendix G

Nebraska

UNIVERSITY OF NEBRASKA - LINCOLN

Franchisee Study

This survey explores your activities as the owner of a single franchise unit.

If you operate under more than one franchise concept, please refer to your most important franchisor throughout the survey!

*This survey is strictly confidential.
Your individual response will NOT be released to ANYONE.*

If you would like a copy of the summarized findings, please attach your business card or fill-in your name and address below. Alternatively, if you prefer not mentioning your name on this questionnaire, you may send your business card in a separate envelope to the address below. On the card please write "Copy of Franchisee Study Findings."

Your Name: _____
Mailing Address: _____

Please return this questionnaire in the enclosed postage-paid envelope to:

Marko Grünhagen
University of Nebraska - Lincoln
310 College of Business Administration
Department of Marketing
Lincoln, NE 68588-0492
(402) 472-2316 (Phone)
(402) 472-9777 (Fax)
E-mail: mgrun@unlserve.unl.edu

Section I

First, I would like to ask you some questions about the time at which you signed the contract for the franchise, which you are operating today under your current franchisor.

When did you sign your contract? _____ 19__

How old were you when you signed the franchise contract? _____ years

Are you the original franchise owner? Yes No

Years of experience in franchising when you signed the contract? _____ years.

At the time I entered the franchise system, there were _____ outlets in the entire franchise system.

At the time I entered the franchise system, there were _____ outlets which were owned by the franchisor him/herself.

At the time I entered the franchise system, the initial size of my franchise operation was _____ outlets.

Section II

Now, I would like to ask you some questions about your expectations at the time when you signed the contract for the franchise, which you are operating today under your current franchisor. Specifically, I am interested in what you actually thought and expected at that time rather than what you want it to be today. Please carefully read the following statements and circle the appropriate category. The categories are:

Strongly Disagree	Disagree	Somewhat Disagree	Neither Agree or Disagree	Somewhat Agree	Agree	Strongly Agree
1	2	3	4	5	6	7

At the time when I made the decision to start my franchise,

1. I expected that the franchisor in the future would always respond to my suggestions and complaints.	1 2 3 4 5 6 7
2. I expected that I would have major influence in the future in the determination of new policies, standards, and products for the entire franchise system.	1 2 3 4 5 6 7
3. I did not expect that I would be allowed in the future by the franchisor to provide input into the determination of standards and promotional allowances.	1 2 3 4 5 6 7
4. I expected that the franchisor would frequently ask for my opinion before introducing new policies, standards, or products.	1 2 3 4 5 6 7

COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:

At the time when I made the decision to start my franchise, I expected that the size of my future franchise operation would allow me to	
5. take advantage of great volume discounts from my suppliers.	1 2 3 4 5 6 7
6. achieve great savings with regards to order volumes.	1 2 3 4 5 6 7
7. achieve great savings with regards to the frequency of my orders.	1 2 3 4 5 6 7
8. utilize my staff most efficiently.	1 2 3 4 5 6 7
9. utilize my own skills and talents most efficiently.	1 2 3 4 5 6 7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:	
<hr/>	
At the time when I made the decision to start my franchise, I expected that in the future nearly all of my information about problems and their solutions would come most quickly	
10. from my franchisor.	1 2 3 4 5 6 7
11. from within my own franchise operation.	1 2 3 4 5 6 7
12. from other franchisees.	1 2 3 4 5 6 7
At the time when I made the decision to start my franchise, I expected that in the future I would draw most quickly on problem solutions generated	
13. by the franchisor.	1 2 3 4 5 6 7
14. in my own franchise operation.	1 2 3 4 5 6 7
15. by other franchisees.	1 2 3 4 5 6 7
At the time when I made the decision to start my franchise, I expected that in the future	
16. the franchisor	1 2 3 4 5 6 7
17. my own franchise operation	1 2 3 4 5 6 7
18. other franchisees	1 2 3 4 5 6 7
would be the quickest source to help me out with problems in my operation.	
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:	
<hr/>	
At the time when I made the decision to start my franchise,	
19. it was a purely financial decision to invest in the business which seemed to promise the highest possible returns for me.	1 2 3 4 5 6 7
20. it was mostly based on my desire to turn high profits.	1 2 3 4 5 6 7
21. it was very important for me to achieve financial security.	1 2 3 4 5 6 7
22. the profits to be made as a franchisee were more important to me than the enjoyment of the business.	1 2 3 4 5 6 7
23. it was important to me to take financial control of my own destiny.	1 2 3 4 5 6 7
24. my focus was on long-term financial returns in the future.	1 2 3 4 5 6 7
25. I intended to build a business for the future.	1 2 3 4 5 6 7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:	
<hr/>	
At the time when I made the decision to start my franchise,	
26. I expected to have frequent conflicts with my franchisor, trying to make her/him refrain from opening an outlet near mine.	1 2 3 4 5 6 7
27. I felt confident that my franchisor was going to protect my outlet from competition.	1 2 3 4 5 6 7
28. I expected that my franchisor would never threaten the existence of my outlet by opening one of her/his outlets close to mine.	1 2 3 4 5 6 7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:	

At the time when I made the decision to start my franchise,							
29. I had friends who had a franchise operation of the same type that I was about to start.	1	2	3	4	5	6	7
30. I had family members who had a franchise operation of the same type that I was about to start.	1	2	3	4	5	6	7
31. I had friends who opened the same type of franchise operation around the same time.	1	2	3	4	5	6	7
32. my family encouraged me wholeheartedly to start my franchise operation.	1	2	3	4	5	6	7
33. I felt challenged by my family to start my franchise operation.	1	2	3	4	5	6	7
34. my friends encouraged me wholeheartedly to start my franchise operation.	1	2	3	4	5	6	7
35. I felt challenged by my friends to start my franchise operation.	1	2	3	4	5	6	7
36. people in my community encouraged me wholeheartedly to start my franchise operation.	1	2	3	4	5	6	7
37. I felt challenged by people in my community to start my franchise operation.	1	2	3	4	5	6	7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:							
At the time when I made the decision to start my franchise,							
38. I expected to get my money's worth from the franchisor for my franchise entry fee.	1	2	3	4	5	6	7
39. I expected to get my money's worth from the franchisor for my advertising fees.	1	2	3	4	5	6	7
40. I expected to get my money's worth from the franchisor for my royalty fees.	1	2	3	4	5	6	7
41. I believed that my franchisor's expertise was first rate.	1	2	3	4	5	6	7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:							

Section III

Franchisor Ownership of Outlets

At the time when I decided to start my franchise, my franchisor owned corporate outlets.

Yes No

If you answered "yes", please respond to the following statements.

If you answered "no", please skip this section.

Strongly Disagree	Disagree	Somewhat Disagree	Neither Agree or Disagree	Somewhat Agree	Agree	Strongly Agree
1	2	3	4	5	6	7

At the time when I made the decision to start my franchise, the fact that the franchisor owned her/his own outlets							
1. indicated to me her/his dedication to the franchise system.	1	2	3	4	5	6	7
2. indicated to me that the franchisor's stake in the franchise system was similar to that of a franchisee.	1	2	3	4	5	6	7
3. indicated to me that s/he would be more likely to understand franchisee problems.	1	2	3	4	5	6	7
4. indicated to me that s/he would be more likely to respond to franchisee problems.	1	2	3	4	5	6	7
5. attracted me to her/his particular franchise system.	1	2	3	4	5	6	7
6. was not particularly important to me.	1	2	3	4	5	6	7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:							

Section IV

Financial Estimates

At the time when I started my franchise operation, I expected my average pre-tax profits after an initial adjustment period to reach (please check one):

negative	1-5%	6-10%	11-15%	16-20%	21-25%	26-30%	>30%

At the time when I started my franchise operation, I invested approximately the following percentage of my personal wealth in my franchise operation (please check one):

1-25%	26-50%	51-75%	76-100%

At the time when I started my franchise operation,
 I received financial assistance from one or more partners. Yes No
 I received financial assistance through conventional bank financing. Yes No
 I received financial assistance by the Small Business Administration. Yes No
 Other sources of assistance: _____

At the time when I started my franchise operation,
 I expected to become part of a franchisee buying cooperative. Yes No

Section V

Experience

Please circle a number according your level of agreement:

At the time before I signed the franchise contract under which I am operating today,

1. my experience in general restaurant operations was
 (Low) 1 2 3 4 5 6 7 (High)
2. my experience in specific fast-food restaurant operations was
 (Low) 1 2 3 4 5 6 7 (High)
3. my experience in general financial matters/accounting was
 (Low) 1 2 3 4 5 6 7 (High)
4. my experience in supervising employees was
 (Low) 1 2 3 4 5 6 7 (High)
5. my knowledge about franchising in general was
 (Low) 1 2 3 4 5 6 7 (High)
6. my knowledge about the fast-food franchise industry was
 (Low) 1 2 3 4 5 6 7 (High)
7. my knowledge about the specific franchise system I was about to enter was
 (Low) 1 2 3 4 5 6 7 (High)

Section VI

Current Status

In this section, please consider your current situation.

I currently belong to a franchisee buying cooperative. Yes No

Please indicate what the ratio of local advertising (done by yourself) versus national advertising (provided by your franchisor) is out of the total advertising volume for your franchise operation:

_____ % local advertising (by you) vs. _____ % national advertising (by franchisor)

How many other fast-food restaurants, which you consider competition, are located within a ½ mile radius around your outlet?

_____ fast-food restaurants

Strongly Disagree	Disagree	Somewhat Disagree	Neither Agree or Disagree	Somewhat Agree	Agree	Strongly Agree
1	2	3	4	5	6	7

1. I consider the market in which I operate to be highly competitive.	1	2	3	4	5	6	7
2. As of today, I consider my overall relationship with my franchisor to be completely satisfactory.	1	2	3	4	5	6	7
3. As of today, I get my money's worth from the franchisor for my franchise entry fee.	1	2	3	4	5	6	7
4. As of today, I get my money's worth from the franchisor for my advertising fees.	1	2	3	4	5	6	7
5. As of today, I get my money's worth from the franchisor for my royalty fees.	1	2	3	4	5	6	7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:							

As of today,							
1. I have frequent conflicts with my franchisor, trying to make her/him refrain from opening an outlet near mine.	1	2	3	4	5	6	7
2. my franchisor protects my outlet from competition.	1	2	3	4	5	6	7
3. my franchisor has never threatened the existence of my outlet by opening one of her/his outlets close to my outlet.	1	2	3	4	5	6	7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:							

Section VII

Classification Information

Please take a few moments to fill-in the following information for classification purposes.

Your current age: _____ Sex: _____ Male _____ Female

Ethnic Background: _____ Caucasian _____ African-American _____ Asian-American
 _____ Hispanic _____ Native-American _____ other (please specify)

Years of education (e.g., high school = 12 years, college = 16 years, etc.)? _____ years.

I share the ownership of my franchise operation with _____ other owners.

I own or have an ownership interest in _____ outlets.

Total years of experience in franchising? _____ years.

The annual sales volume of my franchise outlet is

- Under \$200,000
- \$200,000-399,999
- \$400,000-599,999
- \$600,000-799,999
- \$800,000-999,999
- \$1,000,000-1,199,999
- Over \$1,200,000

What is the primary business of your franchise? (*example*: "pizza fast-food") _____

ANY OTHER COMMENT YOU MIGHT HAVE ABOUT THIS SURVEY:

Thank You For Your Participation!

This number serves only for coding puposes:

00001075

Appendix H

Nebraska

UNIVERSITY OF NEBRASKA - LINCOLN

Franchisee Study

This survey explores your activities as an
area development franchisee.

If you operate under more than one franchise concept, please refer
to your *most important franchisor* throughout the survey.

*This survey is strictly confidential.
Your individual response will NOT be released to ANYONE.*

If you would like a copy of the summarized findings, please attach your business card or fill-in your name and address below. Alternatively, if you prefer not mentioning your name on this questionnaire, you may send your business card in a separate envelope to the address below. On the card please write "Copy of Franchisee Study Findings."

Your Name: _____

Mailing Address: _____

Please return this questionnaire in the enclosed postage-paid envelope to:

Marko Grünhagen
University of Nebraska - Lincoln
310 College of Business Administration
Department of Marketing
Lincoln, NE 68588-0492
(402) 472-2316 (Phone)
(402) 472-9777 (Fax)
E-mail: mgrun@unlserve.unl.edu

Section I

First, I would like to ask you some questions about the time at which you decided to develop a geographical area as a franchisee.

When did you sign your contract? _____ 19__

How old were you when you signed the franchise contract? _____ years

Are you the original franchise owner? Yes No

Years of experience in franchising when you signed the contract? _____ years.

At the time I entered the franchise system, there were _____ outlets in the entire franchise system.

At the time I entered the franchise system, there were _____ outlets which were owned by the franchisor him/herself.

At the time I entered the franchise system, the initial size of my franchise operation was _____ outlets.

Section II

Now, I would like to ask you some questions about your expectations at the time when you decided to develop a geographical area as a franchisee. Specifically, I am interested in what you actually thought and expected at that time rather than what you want it to be today. Please carefully read the following statements and circle the appropriate category. The categories are:

Strongly Disagree	Disagree	Somewhat Disagree	Neither Agree or Disagree	Somewhat Agree	Agree	Strongly Agree
1	2	3	4	5	6	7

At the time when I made the decision to develop a geographical area as a franchisee,								
1.	I expected that the franchisor in the future would always respond to my suggestions and complaints.	1	2	3	4	5	6	7
2.	I expected that I would have major influence in the future in the determination of new policies, standards, and products for the entire franchise system.	1	2	3	4	5	6	7
3.	I did not expect that I would be allowed in the future by the franchisor to provide input into the determination of standards and promotional allowances.	1	2	3	4	5	6	7
4.	I expected that the franchisor would frequently ask for my opinion before introducing new policies, standards, or products.	1	2	3	4	5	6	7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:								

<p>At the time when I made the decision to develop a geographical area as a franchisee, I expected that the size of my future franchise operation would allow me to</p>	
5. take advantage of great volume discounts from my suppliers.	1 2 3 4 5 6 7
6. achieve great savings with regards to order volumes.	1 2 3 4 5 6 7
7. achieve great savings with regards to the frequency of my orders.	1 2 3 4 5 6 7
8. utilize my staff most efficiently.	1 2 3 4 5 6 7
9. utilize my own skills and talents most efficiently.	1 2 3 4 5 6 7
<p>COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:</p>	
<hr/>	
<p>At the time when I made the decision to develop a geographical area as a franchisee, I expected that in the future nearly all of my information about problems and their solutions would come most quickly</p>	
10. from my franchisor.	1 2 3 4 5 6 7
11. from within my own franchise operation.	1 2 3 4 5 6 7
12. from other franchisees.	1 2 3 4 5 6 7
<p>At the time when I made the decision to develop a geographical area as a franchisee, I expected that in the future I would draw most quickly on problem solutions generated</p>	
13. by the franchisor.	1 2 3 4 5 6 7
14. in my own franchise operation.	1 2 3 4 5 6 7
15. by other franchisees.	1 2 3 4 5 6 7
<p>At the time when I made the decision to develop a geographical area as a franchisee, I expected that in the future</p>	
16. the franchisor	1 2 3 4 5 6 7
17. my own franchise operation	1 2 3 4 5 6 7
18. other franchisees	1 2 3 4 5 6 7
<p>would be the quickest source to help me out with problems in my operation.</p>	
<p>COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:</p>	
<hr/>	
<p>At the time when I made the decision to develop a geographical area as a franchisee,</p>	
19. it was a purely financial decision to invest in the business which seemed to promise the highest possible returns for me.	1 2 3 4 5 6 7
20. it was mostly based on my desire to turn high profits.	1 2 3 4 5 6 7
21. it was very important for me to achieve financial security.	1 2 3 4 5 6 7
22. the profits to be made as a franchisee were more important to me than the enjoyment of the business.	1 2 3 4 5 6 7
23. it was important to me to take financial control of my own destiny.	1 2 3 4 5 6 7
24. my focus was on long-term financial returns in the future.	1 2 3 4 5 6 7
25. I intended to build a business for the future.	1 2 3 4 5 6 7
<p>COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:</p>	
<hr/>	
<p>At the time when I made the decision to develop a geographical area as a franchisee,</p>	
26. I expected to have frequent conflicts with my franchisor, trying to make her/him refrain from opening an outlet near one of mine.	1 2 3 4 5 6 7
27. I felt confident that my franchisor was going to protect my outlets from competition.	1 2 3 4 5 6 7
28. I expected that my franchisor would never threaten the existence of one of my outlets by opening one of her/his outlets close to one of my own outlets.	1 2 3 4 5 6 7
<p>COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:</p>	

At the time when I made the decision to develop a geographical area as a franchisee,	
29. I had friends who had a franchise operation of the type I was about to venture into.	1 2 3 4 5 6 7
30. I had family members who had a franchise operation of the same type that I was about to venture into.	1 2 3 4 5 6 7
31. I had friends who started the same type of franchise operation around the same time.	1 2 3 4 5 6 7
32. my family encouraged me wholeheartedly to develop a geographical area.	1 2 3 4 5 6 7
33. I felt challenged by my family to develop a geographical area.	1 2 3 4 5 6 7
34. my friends encouraged me wholeheartedly to develop a geographical area.	1 2 3 4 5 6 7
35. I felt challenged by my friends to develop a geographical area.	1 2 3 4 5 6 7
36. people in my community encouraged me wholeheartedly to develop a geographical area.	1 2 3 4 5 6 7
37. I felt challenged by people in my community to develop a geographical area.	1 2 3 4 5 6 7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:	
<hr/>	
At the time when I made the decision to develop a geographical area as a franchisee,	
38. I expected to get my money's worth from the franchisor for my franchise entry fee.	1 2 3 4 5 6 7
39. I expected to get my money's worth from the franchisor for my advertising fees.	1 2 3 4 5 6 7
40. I expected to get my money's worth from the franchisor for my royalties.	1 2 3 4 5 6 7
41. I believed that my franchisor's expertise was first rate.	1 2 3 4 5 6 7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:	
<hr/>	
At the time when I made the decision to develop a geographical area as a franchisee,	
42. it was important to me that I would take personal responsibility for my future franchise operation in every respect.	1 2 3 4 5 6 7
43. I expected that the challenges I was going to encounter would satisfy my desire for hands-on experience.	1 2 3 4 5 6 7
44. it was important to me that I would be involved in the daily operations and decisions of the franchise operation I was about to venture into.	1 2 3 4 5 6 7
45. it was important to me to get involved in something in which I thought I could do a job well.	1 2 3 4 5 6 7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:	
<hr/>	
At the time when I made the decision to develop a geographical area as a franchisee,	
46. it was important to me that I would find enjoyment in my occupation.	1 2 3 4 5 6 7
47. it was important to me that I would really like what I was about to venture into.	1 2 3 4 5 6 7
48. it was the fulfillment of a long-held dream.	1 2 3 4 5 6 7
49. I anticipated that I would gain a feeling of pride or accomplishment as a result of my work.	1 2 3 4 5 6 7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:	
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At the time when I made the decision to develop a geographical area as a franchisee,	
50. I believed that the franchise operation I was about to venture into would be successful.	1 2 3 4 5 6 7
51. I had a lot of trust into my own skills and talents.	1 2 3 4 5 6 7
52. I felt like nothing could stop me from becoming a successful franchise owner.	1 2 3 4 5 6 7
53. I felt very confident that my franchise operation would become very successful.	1 2 3 4 5 6 7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:	

Section III

Franchisor Ownership of Outlets

At the time I decided to develop a geographical area as a franchisee, my franchisor owned corporate outlets. Yes No

If you answered "yes", please respond to the following statements.
If you answered "no", please skip this section.

Strongly Disagree	Disagree	Somewhat Disagree	Neither Agree or Disagree	Somewhat Agree	Agree	Strongly Agree
1	2	3	4	5	6	7

At the time when I made the decision to develop a geographical area as a franchisee, the fact that the franchisor owned her/his own outlets							
1. indicated to me her/his dedication to the franchise system.	1	2	3	4	5	6	7
2. indicated to me that the franchisor's stake in the franchise system was similar to that of a franchisee.	1	2	3	4	5	6	7
3. indicated to me that s/he would be more likely to understand franchisee problems.	1	2	3	4	5	6	7
4. indicated to me that s/he would be more likely to respond to franchisee problems.	1	2	3	4	5	6	7
5. attracted me to her/his particular franchise system.	1	2	3	4	5	6	7
6. was not particularly important to me.	1	2	3	4	5	6	7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:							

Section IV

Financial Estimates

At the time when I made the decision to develop a geographical area as a franchisee, I expected the average pre-tax profits per outlet after an initial adjustment period to reach (please check one):

negative	1-5%	6-10%	11-15%	16-20%	21-25%	26-30%	>30%

At the time when I made the decision to develop a geographical area as a franchisee, I invested approximately the following percentage of my personal wealth in my franchise operation (please check one):

1-25%	26-50%	51-75%	76-100%

At the time when I made the decision to develop a geographical area as a franchisee,
 I received financial assistance from one or more business partners. Yes No
 I received financial assistance through conventional bank financing. Yes No
 I received financial assistance by the Small Business Administration. Yes No
 Other sources of assistance: _____

At the time when I made the decision to develop a geographical area as a franchisee,
 I expected to become part of a franchisee buying cooperative. Yes No

Section V

Experience

Please circle a number according your level of agreement:

At the time before I decided to develop a geographical area as a franchisee,

1. my experience in general restaurant operations was
 (Low) 1 2 3 4 5 6 7 (High)
2. my experience in specific fast-food restaurant operations was
 (Low) 1 2 3 4 5 6 7 (High)
3. my experience in general financial matters/accounting was
 (Low) 1 2 3 4 5 6 7 (High)
4. my experience in supervising employees was
 (Low) 1 2 3 4 5 6 7 (High)
5. my knowledge about franchising in general was
 (Low) 1 2 3 4 5 6 7 (High)
6. my knowledge about the fast-food franchise industry was
 (Low) 1 2 3 4 5 6 7 (High)
7. my knowledge about the specific franchise system I was about to enter was
 (Low) 1 2 3 4 5 6 7 (High)

Section VI

Current Status

In this section, please consider your current situation.

I currently belong to a franchisee buying cooperative. Yes No

Please indicate what the ratio of local advertising (done by yourself) versus national advertising (provided by your franchisor) is out of the total advertising volume for your franchise operation:

_____ % local advertising (by you) vs. _____ % national advertising (by franchisor)

How many fast-food restaurants, which you consider competition, are located typically within a ½ mile radius around one of your outlets?

_____ fast-food restaurants

Strongly Disagree	Disagree	Somewhat Disagree	Neither Agree or Disagree	Somewhat Agree	Agree	Strongly Agree
1	2	3	4	5	6	7

- | | | | | | | | |
|--|---|---|---|---|---|---|---|
| 1. I consider the <u>typical</u> market in which I operate to be highly competitive. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 2. As of today, I consider my overall relationship with my franchisor to be completely satisfactory. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 3. As of today, I get my money's worth from the franchisor for my franchise entry fee. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 4. As of today, I get my money's worth from the franchisor for my advertising fees. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 5. As of today, I get my money's worth from the franchisor for my royalty fees. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH: | | | | | | | |

As of today,

- | | | | | | | | |
|--|---|---|---|---|---|---|---|
| 1. I have frequent conflicts with my franchisor, trying to make her/him refrain from opening an outlet near one of mine. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 2. my franchisor protects my outlets from competition. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 3. my franchisor has never threatened the existence of one of my outlets by opening one of her/his outlets close to one of my own outlets. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH: | | | | | | | |

Section VII

Classification Information

Please take a few moments to fill-in the following information for classification purposes.

Your current age: _____ Sex: _____ Male _____ Female

Ethnic Background: _____ Caucasian _____ African-American _____ Asiari-American
 _____ Hispanic _____ Native-American _____ other (please specify)

Years of education (e.g., high school = 12 years, college = 16 years, etc.)? _____ years.

I share the ownership of my franchise operation with _____ other owners.

I own or have an ownership interest in _____ outlets.

I operate under _____ franchisors/franchise concepts.

Total years of experience in franchising? _____ years.

The annual sales volume of my average franchise outlet is

Under \$200,000

\$200,000-399,999

\$400,000-599,999

\$600,000-799,999

\$800,000-999,999

\$1,000,000-1,199,999

Over \$1,200,000

What is the primary business of your franchise? (example: "pizza fast-food") _____

ANY OTHER COMMENT YOU MIGHT HAVE ABOUT THIS SURVEY:

Thank You For Your Participation!

This number serves only for coding puposes:

15600000

Appendix I

Nebraska

UNIVERSITY OF NEBRASKA - LINCOLN

Franchisee Study

This survey explores your activities as a
franchisee with multiple outlets.

If you operate under more than one franchise concept, please refer
to your *most important franchisor* throughout the survey.

This survey is strictly confidential.

Your individual response will NOT be released to ANYONE.

If you would like a copy of the summarized findings, please attach your business card or fill-in your name and address below. Alternatively, if you prefer not mentioning your name on this questionnaire, you may send your business card in a separate envelope to the address below. On the card please write "Copy of Franchisee Study Findings."

Your Name: _____
Mailing Address: _____

Please return this questionnaire in the enclosed postage-paid envelope to:

Marko Grünhagen
University of Nebraska - Lincoln
310 College of Business Administration
Department of Marketing
Lincoln, NE 68588-0492
(402) 472-2316 (Phone)
(402) 472-9777 (Fax)
E-mail: mgrun@unlserve.unl.edu

Section I

First, I would like to ask you some questions about your initial operation and the time at which you decided to expand your initial operation. The "initial operation" is your first franchise, which could have consisted of one or more outlets when you started out.

Are you the original franchise owner? Yes No

The initial size of my franchise operation (before the expansion) was _____ outlets.

When did you establish your initial operation? _____ 19__

How old were you when you established your initial operation? _____ years

Years of experience in franchising when you established your initial operation? _____ years.

When I established my initial operation, there were _____ outlets in the entire franchise system, under which I operated.

When I established my initial operation, there were _____ outlets which were owned by the franchisor him/herself.

When did you first expand your initial operation? _____ 19__

How old were you when you first expanded your initial operation? _____ years

Section II

Now, I would like to ask you some questions about your expectations at the time when you made the decision to expand your initial operation. Specifically, I am interested in what you actually thought and expected at that time rather than what you want it to be today. Please carefully read the following statements and circle the appropriate category. The categories are:

Strongly Disagree	Disagree	Somewhat Disagree	Neither Agree or Disagree	Somewhat Agree	Agree	Strongly Agree
1	2	3	4	5	6	7

At the time when I made the decision to expand my initial operation,							
1. I expected that the franchisor in the future would always respond to my suggestions and complaints.	1	2	3	4	5	6	7
2. I expected that I would have major influence in the future in the determination of new policies, standards, and products for the entire franchise system.	1	2	3	4	5	6	7
3. I did not expect that I would be allowed in the future by the franchisor to provide input into the determination of standards and promotional allowances.	1	2	3	4	5	6	7
4. I expected that the franchisor would frequently ask for my opinion before introducing new policies, standards, or products.	1	2	3	4	5	6	7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:							

At the time when I made the decision to expand my initial operation, I expected that the future size of my franchise operation would allow me to	
5. take advantage of great volume discounts from my suppliers.	1 2 3 4 5 6 7
6. achieve great savings with regards to order volumes.	1 2 3 4 5 6 7
7. achieve great savings with regards to the frequency of my orders.	1 2 3 4 5 6 7
8. utilize my staff most efficiently.	1 2 3 4 5 6 7
9. utilize my own skills and talents most efficiently.	1 2 3 4 5 6 7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:	
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At the time when I made the decision to expand my initial operation, I expected that in the future nearly all of my information about problems and their solutions would come most quickly	
10. from my franchisor.	1 2 3 4 5 6 7
11. from within my own franchise operation.	1 2 3 4 5 6 7
12. from other franchisees.	1 2 3 4 5 6 7
At the time when I made the decision to expand my initial operation, I expected that in the future I would draw most quickly on problem solutions generated	
13. by the franchisor.	1 2 3 4 5 6 7
14. in my own franchise operation.	1 2 3 4 5 6 7
15. by other franchisees.	1 2 3 4 5 6 7
At the time when I made the decision to expand my initial operation, I expected that in the future	
16. the franchisor	1 2 3 4 5 6 7
17. my own franchise operation	1 2 3 4 5 6 7
18. other franchisees	1 2 3 4 5 6 7
would be the quickest source to help me out with problems in my operation.	
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:	
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At the time when I made the decision to expand my initial operation,	
19. it was a purely financial decision to invest in the business which seemed to promise the highest possible returns for me.	1 2 3 4 5 6 7
20. it was mostly based on my desire to turn high profits.	1 2 3 4 5 6 7
21. it was very important for me to achieve financial security.	1 2 3 4 5 6 7
22. the profits to be made as a franchisee were more important to me than the enjoyment of the business.	1 2 3 4 5 6 7
23. it was important to me to take financial control of my own destiny.	1 2 3 4 5 6 7
24. my focus was on long-term financial returns in the future.	1 2 3 4 5 6 7
25. I intended to build a business for the future.	1 2 3 4 5 6 7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:	
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At the time when I made the decision to expand my initial operation,	
26. I expected to have frequent conflicts with my franchisor, trying to make her/him refrain from opening an outlet near one of mine.	1 2 3 4 5 6 7
27. I felt confident that my franchisor was going to protect my outlets from competition.	1 2 3 4 5 6 7
28. I expected that my franchisor would never threaten the existence of one of my outlets by opening one of her/his outlets close to one of my own outlets.	1 2 3 4 5 6 7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:	

At the time when I made the decision to expand my initial operation,							
29. I had friends who had a franchise operation of the same type that I was about to grow into.	1	2	3	4	5	6	7
30. I had family members who had a franchise operation of the same type that I was about to grow into.	1	2	3	4	5	6	7
31. I had friends who expanded their franchise operation around the same time.	1	2	3	4	5	6	7
32. my family encouraged me wholeheartedly to expand my franchise operation.	1	2	3	4	5	6	7
33. I felt challenged by my family to expand my franchise operation.	1	2	3	4	5	6	7
34. my friends encouraged me wholeheartedly to expand my franchise operation.	1	2	3	4	5	6	7
35. I felt challenged by my friends to expand my franchise operation.	1	2	3	4	5	6	7
36. people in my community encouraged me wholeheartedly to expand my franchise operation.	1	2	3	4	5	6	7
37. I felt challenged by people in my community to expand my franchise operation.	1	2	3	4	5	6	7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:							
<hr/>							
At the time when I made the decision to expand my initial operation,							
38. I expected to get my money's worth from the franchisor for my franchise entry fee.	1	2	3	4	5	6	7
39. I expected to get my money's worth from the franchisor for my advertising fees.	1	2	3	4	5	6	7
40. I expected to get my money's worth from the franchisor for my royalty fees.	1	2	3	4	5	6	7
41. I believed that my franchisor's expertise was first rate.	1	2	3	4	5	6	7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:							
<hr/>							
At the time when I made the decision to expand my initial operation,							
42. it was important to me that I would take personal responsibility for my future franchise operation in every respect.	1	2	3	4	5	6	7
43. I expected that the challenges I was going to encounter would satisfy my desire for hands-on experience.	1	2	3	4	5	6	7
44. it was important to me that I would be involved in the daily operations and decisions of the franchise operation I was about to grow into.	1	2	3	4	5	6	7
45. it was important to me to get involved in something in which I thought I could do a job well.	1	2	3	4	5	6	7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:							
<hr/>							
At the time when I made the decision to expand my initial operation,							
46. it was important to me that I would find enjoyment in my occupation.	1	2	3	4	5	6	7
47. it was important to me that I would really like what I was about to grow into.	1	2	3	4	5	6	7
48. it was the fulfillment of a long-held dream.	1	2	3	4	5	6	7
49. I anticipated that I would gain a feeling of pride or accomplishment as a result of my work.	1	2	3	4	5	6	7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:							
<hr/>							
At the time when I made the decision to expand my initial operation,							
50. I believed that the franchise operation I was about to grow into would be successful.	1	2	3	4	5	6	7
51. I had a lot of trust into my own skills and talents.	1	2	3	4	5	6	7
52. I felt like nothing could stop me from becoming a successful franchise owner.	1	2	3	4	5	6	7
53. I felt very confident that my franchise operation would become very successful.	1	2	3	4	5	6	7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:							

Section III

Franchisor Ownership of Outlets

At the time I decided to expand my initial operation, my franchisor owned corporate outlets.

Yes No

If you answered "yes", please respond to the following statements.

If you answered "no", please skip this section.

Strongly Disagree	Disagree	Somewhat Disagree	Neither Agree or Disagree	Somewhat Agree	Agree	Strongly Agree
1	2	3	4	5	6	7

At the time when I made the decision to expand my initial operation, the fact that the franchisor owned her/his own outlets								
1.	indicated to me her/his dedication to the franchise system.	1	2	3	4	5	6	7
2.	indicated to me that the franchisor's stake in the franchise system was similar to that of a franchisee.	1	2	3	4	5	6	7
3.	indicated to me that s/he would be more likely to understand franchisee problems.	1	2	3	4	5	6	7
4.	indicated to me that s/he would be more likely to respond to franchisee problems.	1	2	3	4	5	6	7
5.	attracted me to her/his particular franchise system.	1	2	3	4	5	6	7
6.	was not particularly important to me.	1	2	3	4	5	6	7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:								

Section IV

Financial Estimates

At the time when I made the decision to expand my initial operation, I expected the average pre-tax profits per outlet after an initial adjustment period to reach (please check one):

negative	1-5%	6-10%	11-15%	16-20%	21-25%	26-30%	>30%

At the time when I made the decision to expand my initial operation, I invested approximately the following percentage of my personal wealth in my franchise operation (please check one):

1-25%	26-50%	51-75%	76-100%

At the time when I made the decision to expand my initial operation,
 I received financial assistance from one or more business partners. Yes No
 I received financial assistance through conventional bank financing. Yes No
 I received financial assistance by the Small Business Administration. Yes No
 Other sources of assistance: _____

At the time when I made the decision to expand my initial operation,
 I expected to become part of a franchisee buying cooperative. Yes No

Section V

Experience

Please circle a number according your level of agreement:

At the time before I made the decision to expand my initial operation,

- 1. my experience in general restaurant operations was
 (Low) 1 2 3 4 5 6 7 (High)
- 2. my experience in specific fast-food restaurant operations was
 (Low) 1 2 3 4 5 6 7 (High)
- 3. my experience in general financial matters/accounting was
 (Low) 1 2 3 4 5 6 7 (High)
- 4. my experience in supervising employees was
 (Low) 1 2 3 4 5 6 7 (High)
- 5. my knowledge about franchising in general was
 (Low) 1 2 3 4 5 6 7 (High)
- 6. my knowledge about the fast-food franchise industry was
 (Low) 1 2 3 4 5 6 7 (High)
- 7. my knowledge about the specific franchise system I was about to enter was
 (Low) 1 2 3 4 5 6 7 (High)

Section VI

Current Status

In this section, please consider your current situation.

I currently belong to a franchisee buying cooperative. Yes No

Please indicate what the ratio of local advertising (done by yourself) versus national advertising (provided by your franchisor) is out of the total advertising volume for your franchise operation:

_____ % local advertising (by you) vs. _____ % national advertising (by franchisor)

How many fast-food restaurants, which you consider competition, are located typically within a ½ mile radius around one of your outlets?

_____ fast-food restaurants

Strongly Disagree	Disagree	Somewhat Disagree	Neither Agree or Disagree	Somewhat Agree	Agree	Strongly Agree
1	2	3	4	5	6	7

1. I consider the <u>typical</u> market in which I operate to be highly competitive.	1	2	3	4	5	6	7
2. As of today, I consider my overall relationship with my franchisor to be completely satisfactory.	1	2	3	4	5	6	7
3. As of today, I get my money's worth from the franchisor for my franchise entry fee.	1	2	3	4	5	6	7
4. As of today, I get my money's worth from the franchisor for my advertising fees.	1	2	3	4	5	6	7
5. As of today, I get my money's worth from the franchisor for my royalty fees.	1	2	3	4	5	6	7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:							

As of today,							
1. I have frequent conflicts with my franchisor, trying to make her/him refrain from opening an outlet near one of mine.	1	2	3	4	5	6	7
2. my franchisor protects my outlets from competition.	1	2	3	4	5	6	7
3. my franchisor has never threatened the existence of one of my outlets by opening one of her/his outlets close to one of my own outlets.	1	2	3	4	5	6	7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:							

Section VII

Classification Information

Please take a few moments to fill-in the following information for classification purposes.

Your current age: _____ Sex: _____ Male _____ Female

Ethnic Background: _____ Caucasian _____ African-American _____ Asian-American
 _____ Hispanic _____ Native-American _____ other (please specify)

Years of education (e.g., high school = 12 years, college = 16 years, etc.)? _____ years.

I share the ownership of my franchise operation with _____ other owners.

I own or have an ownership interest in _____ outlets.

I operate under _____ franchisors/franchise-concepts.

Total years of experience in franchising? _____ years.

The annual sales volume of my average franchise outlet is

- Under \$200,000
- \$200,000-399,999
- \$400,000-599,999
- \$600,000-799,999
- \$800,000-999,999
- \$1,000,000-1,199,999
- Over \$1,200,000

What is the primary business of your franchise? (example: "pizza fast-food") _____

ANY OTHER COMMENT YOU MIGHT HAVE ABOUT THIS SURVEY:

Thank You For Your Participation!

This number serves only for coding puposes:

00000794

Appendix J

Nebraska

UNIVERSITY OF NEBRASKA - LINCOLN

Franchisee Study

This survey explores your activities as a franchisee intending to expand in the near future.

If you operate under more than one franchise concept, please refer to your most important franchisor throughout the survey.

*This survey is strictly confidential.
Your individual response will NOT be released to ANYONE.*

If you would like a copy of the summarized findings, please attach your business card or fill-in your name and address below. Alternatively, if you prefer not mentioning your name on this questionnaire, you may send your business card in a separate envelope to the address below. On the card please write "Copy of Franchisee Study Findings."

Your Name: _____
Mailing Address: _____

Please return this questionnaire in the enclosed postage-paid envelope to:

Marko Grünhagen
University of Nebraska - Lincoln
310 College of Business Administration
Department of Marketing
Lincoln, NE 68588-0492
(402) 472-2316 (Phone)
(402) 472-9777 (Fax)
E-mail: mgrun@unlserve.unl.edu

Section I

First, I would like to ask you some questions about the time at which you started the franchise operation. which you are operating today.

Are you the original franchise owner? Yes No

When did you establish your current franchise operation? _____ 19__

How old were you when you established the current franchise operation? _____ years

At the time I established the current franchise operation, the initial size of my franchise operation was _____ outlets.

Years of experience in franchising when you established the current franchise operation? _____ years.

At the time I established the current franchise operation, there were _____ outlets in the entire franchise system, into which I entered.

At the time I established the current franchise operation, there were _____ outlets which were owned by the franchisor him/herself.

Section II

Now, I would like to ask you some questions about your expectations at this time, as you are intending to expand your franchise operation beyond your existing operation. Specifically, I am interested to find out what your expectations are with regards to your future as an owner and operator of an expanded franchise operation. Please carefully read the following statements and circle the appropriate category. The categories are:

Strongly Disagree	Disagree	Somewhat Disagree	Neither Agree or Disagree	Somewhat Agree	Agree	Strongly Agree
1	2	3	4	5	6	7

As I am preparing to expand my franchise business beyond my current operation,								
1.	I expect that in the future the franchisor will always respond to my suggestions and complaints.	1	2	3	4	5	6	7
2.	I expect that I will have major influence in the future in the determination of new policies, standards, and products for the entire franchise system.	1	2	3	4	5	6	7
3.	I do not expect that I will be allowed in the future by the franchisor to provide input into the determination of standards and promotional allowances.	1	2	3	4	5	6	7
4.	I expect that the franchisor will frequently ask for my opinion before introducing new policies, standards, or products.	1	2	3	4	5	6	7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:								

As I am preparing to expand my franchise business beyond my current operation, I expect that the size of my future franchise operation will allow me to	
5. take advantage of great volume discounts from my suppliers.	1 2 3 4 5 6 7
6. achieve great savings with regards to order volumes.	1 2 3 4 5 6 7
7. achieve great savings with regards to the frequency of my orders.	1 2 3 4 5 6 7
8. utilize my staff most efficiently.	1 2 3 4 5 6 7
9. utilize my own skills and talents most efficiently.	1 2 3 4 5 6 7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:	
<hr/>	
As I am preparing to expand my franchise business beyond my current operation, I expect that in the future nearly all of my information about problems and their solutions will come most quickly	
10. from my franchisor.	1 2 3 4 5 6 7
11. from within my own franchise operation.	1 2 3 4 5 6 7
12. from other franchisees.	1 2 3 4 5 6 7
As I am preparing to expand my franchise business beyond my current operation, I expect that in the future I will draw most quickly on problem solutions generated	
13. by the franchisor.	1 2 3 4 5 6 7
14. in my own franchise operation.	1 2 3 4 5 6 7
15. by other franchisees.	1 2 3 4 5 6 7
As I am preparing to expand my franchise business beyond my current operation, I expect that in the future	
16. the franchisor	1 2 3 4 5 6 7
17. my own franchise operation	1 2 3 4 5 6 7
18. other franchisees	1 2 3 4 5 6 7
will be the quickest source to help me out with problems in my operation.	
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:	
<hr/>	
As I am preparing to expand my franchise business beyond my current operation,	
19. it is a purely financial decision to invest in the business which seems to promise the highest possible returns for me.	1 2 3 4 5 6 7
20. it is mostly based on my desire to turn high profits.	1 2 3 4 5 6 7
21. it is very important for me to achieve financial security.	1 2 3 4 5 6 7
22. the profits to be made as a franchisee are more important to me than the enjoyment of the business.	1 2 3 4 5 6 7
23. it is important to me to take financial control of my own destiny.	1 2 3 4 5 6 7
24. my focus is on long-term financial returns in the future.	1 2 3 4 5 6 7
25. I intend to build a business for the future.	1 2 3 4 5 6 7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:	
<hr/>	
As I am preparing to expand my franchise business beyond my current operation,	
26. I expect to have conflicts often with my franchisor, trying to make her/him refrain from opening an outlet near my operation.	1 2 3 4 5 6 7
27. I feel confident that my franchisor is going to protect my operation from competition.	1 2 3 4 5 6 7
28. I expect that my franchisor will never threaten the existence of my operation by opening one of her/his outlets close to my own operation.	1 2 3 4 5 6 7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:	

As I am preparing to expand my franchise business beyond my current operation,							
29. I have friends who have a franchise operation of the same type that I am preparing to expand into.	1	2	3	4	5	6	7
30. I have family members who have a franchise operation of the same type that I am preparing to expand into.	1	2	3	4	5	6	7
31. I have friends who just opened the same type of franchise operation that I am preparing to expand into.	1	2	3	4	5	6	7
32. my family encourages me wholeheartedly to expand.	1	2	3	4	5	6	7
33. I feel challenged by my family to expand.	1	2	3	4	5	6	7
34. my friends encourage me wholeheartedly to expand.	1	2	3	4	5	6	7
35. I feel challenged by my friends to expand.	1	2	3	4	5	6	7
36. people in my community encourage me wholeheartedly to expand.	1	2	3	4	5	6	7
37. I feel challenged by people in my community to expand.	1	2	3	4	5	6	7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:							
As I am preparing to expand my franchise business beyond my current operation,							
38. I expect to get my money's worth from the franchisor for my franchise entry fee.	1	2	3	4	5	6	7
39. I expect to get my money's worth from the franchisor for my advertising fees.	1	2	3	4	5	6	7
40. I expect to get my money's worth from the franchisor for my royalty fees.	1	2	3	4	5	6	7
41. I believe that my franchisor's expertise is first rate.	1	2	3	4	5	6	7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:							
As I am preparing to expand my franchise business beyond my current operation,							
42. it is important to me that I will take personal responsibility for my future franchise operation in every respect.	1	2	3	4	5	6	7
43. I expect that the challenges I am going to encounter will satisfy my desire for hands-on experience.	1	2	3	4	5	6	7
44. it is important to me that I will be involved in the daily operations and decisions of the franchise operation I am about to expand into.	1	2	3	4	5	6	7
45. it is important to me to get involved in something in which I think I can do a job well.	1	2	3	4	5	6	7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:							
As I am preparing to expand my franchise business beyond my current operation,							
46. I hope to find enjoyment in my future occupation.	1	2	3	4	5	6	7
47. I hope that I will like what I am about to expand into.	1	2	3	4	5	6	7
48. it is the fulfillment of a long-held dream.	1	2	3	4	5	6	7
49. I anticipate that I will gain a feeling of pride or accomplishment as a result of my work.	1	2	3	4	5	6	7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:							
As I am preparing to expand my franchise business beyond my current operation,							
50. I believe that the franchise operation I am about to expand into will be successful.	1	2	3	4	5	6	7
51. I have a lot of trust into my own skills and talents.	1	2	3	4	5	6	7
52. I feel like nothing can stop me from becoming a successful franchise owner.	1	2	3	4	5	6	7
53. I feel very confident that my franchise operation will become very successful.	1	2	3	4	5	6	7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:							

Section III

Franchisor Ownership of Outlets

At this time, my franchisor owns corporate outlets. Yes No

*If you answered "yes", please respond to the following statements.
If you answered "no", please skip this section.*

Strongly Disagree	Disagree	Somewhat Disagree	Neither Agree or Disagree	Somewhat Agree	Agree	Strongly Agree
1	2	3	4	5	6	7

As I am preparing to expand my franchise business beyond my current operation, the fact that the franchisor owns her/his own outlets							
1. indicates to me her/his dedication to the franchise system.	1	2	3	4	5	6	7
2. indicates to me that the franchisor's stake in the franchise system is similar to that of a franchisee.	1	2	3	4	5	6	7
3. indicates to me that s/he will be more likely to understand franchisee problems.	1	2	3	4	5	6	7
4. indicates to me that s/he will be more likely to respond to franchisee problems.	1	2	3	4	5	6	7
5. attracts me to her/his particular franchise system.	1	2	3	4	5	6	7
6. Is not particularly important to me.	1	2	3	4	5	6	7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:							

Section IV

Financial Estimates

As I am preparing to expand my franchise business beyond my current operation, I expect the average pre-tax profits per outlet after an initial adjustment period to reach (please check one):

negative	1-5%	6-10%	11-15%	16-20%	21-25%	26-30%	>30%
----------	------	-------	--------	--------	--------	--------	------

As I am preparing to expand my franchise business beyond my current operation, I expect to have approximately the following percentage of my personal wealth invested in my franchise operation (please check one):

1-25%	26-50%	51-75%	76-100%
-------	--------	--------	---------

As I am preparing to expand my franchise business beyond my current operation,
 I expect to receive financial assistance from one or more partners. Yes No
 I expect to receive financial assistance through conventional bank financing. Yes No
 I expect to receive financial assistance by the Small Business Administration. Yes No
 Other sources of expected assistance: _____

As I am preparing to expand my franchise business beyond my current operation,
 I expect to become part of a franchisee buying cooperative. Yes No

Section V

Experience

Please circle a number according your level of agreement:

As I am preparing to expand my franchise business beyond my current operation,

- 1. my experience in general restaurant operations is
 (Low) 1 2 3 4 5 6 7 (High)
- 2. my experience in specific fast-food restaurant operations is
 (Low) 1 2 3 4 5 6 7 (High)
- 3. my experience in general financial matters/accounting is
 (Low) 1 2 3 4 5 6 7 (High)
- 4. my experience in supervising employees is
 (Low) 1 2 3 4 5 6 7 (High)
- 5. my knowledge about franchising in general is
 (Low) 1 2 3 4 5 6 7 (High)
- 6. my knowledge about the fast-food franchise industry is
 (Low) 1 2 3 4 5 6 7 (High)
- 7. my knowledge about the specific franchise system I was about to enter is
 (Low) 1 2 3 4 5 6 7 (High)

Section VI

Miscellaneous

I currently belong to a franchisee buying cooperative. Yes No

I expect to become part of a franchisee buying cooperative after my expansion. Yes No

Please indicate what the current ratio of local advertising (done by yourself) versus national advertising (provided by your franchisor) is out of the total advertising volume for your franchise operation:

_____ % local advertising (by you) vs. _____ % national advertising (by franchisor)

How many other fast-food restaurants, which you consider competition, are located (typically) within a ½ mile radius around your current operation?

_____ fast-food restaurants

Strongly Disagree	Disagree	Somewhat Disagree	Neither Agree or Disagree	Somewhat Agree	Agree	Strongly Agree
1	2	3	4	5	6	7

1. I consider the market in which I currently operate to be highly competitive.	1	2	3	4	5	6	7
2. As of today, I consider my overall relationship with my franchisor to be completely satisfactory.	1	2	3	4	5	6	7
3. As of today, I get my money's worth from the franchisor for my franchise entry fee.	1	2	3	4	5	6	7
4. As of today, I get my money's worth from the franchisor for my advertising fees.	1	2	3	4	5	6	7
5. As of today, I get my money's worth from the franchisor for my royalty fees.	1	2	3	4	5	6	7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:							

As of today,							
1. I have frequent conflicts with my franchisor, trying to make her/him refrain from opening an outlet near my operation.	1	2	3	4	5	6	7
2. my franchisor protects my business from competition.	1	2	3	4	5	6	7
3. my franchisor has never threatened the existence of my business by opening one of her/his outlets close to my operation.	1	2	3	4	5	6	7
COMMENTS ABOUT YOUR ANSWERS IN THIS PARAGRAPH:							

Section VII

Classification Information

Please take a few moments to fill-in the following information for classification purposes.

Your current age: _____ Sex: _____ Male _____ Female

Ethnic Background: _____ Caucasian _____ African-American _____ Asian-American
 _____ Hispanic _____ Native-American _____ other (please specify)

Years of education (e.g., high school = 12 years, college = 16 years, etc.)? _____ years.

I share the ownership of my franchise operation with _____ other owners.

I own or have an ownership interest in _____ outlets.

Total years of experience in franchising? _____ years.

The average annual sales volume of my (average) current franchise outlet is

- Under \$200,000
- \$200,000-399,999
- \$400,000-599,999
- \$600,000-799,999
- \$800,000-999,999
- \$1,000,000-1,199,999
- Over \$1,200,000

What is the primary business of your franchise? (*example: "pizza fast-food"*) _____

ANY OTHER COMMENT YOU MIGHT HAVE ABOUT THIS SURVEY:

Thank You For Your Participation!

This number serves only for coding puposes:

00000521

Appendix K



Department of Marketing
310 College of Business Administration
P.O. Box 880492
Lincoln, NE 68588-0492
Telephone (402) 472-2316
FAX (402) 472-9777
www.cba.unl.edu/level4/marketing.html

September 1, 1999

Dear Franchise Owner:

Thank you for expressing your willingness to complete the survey for our study of franchise owners.

We want you to know how much your participation is appreciated. Every single response is important for this study to be meaningful. You are one of a selected group of franchise owners whose experiences we really need for our study. As before, it is vital to the study that actual franchise owners complete the enclosed survey.

Please take a few moments to complete the questionnaire and return it in the enclosed envelope. The questionnaire has been designed so that it can be easily completed. You are assured that all your responses will be kept strictly confidential, and results will only be published in combined summary statistics.

Please read all instructions on the survey carefully. If you have any further comments or questions, please do not hesitate to call Marko Grünhagen at (402) 472-2316 during regular business hours.


A summary of the results of this study will be available later this year.

For this research to be successful, we need the benefit of your experiences as a franchisee. Thank you in advance for your contribution to this study.

Sincerely,



Marko Grünhagen, ABD
Doctoral Candidate in Marketing



Robert A. Mittelstaedt, Ph.D.
Professor of Marketing

Appendix L



Department of Marketing
310 College of Business Administration
P.O. Box 880492
Lincoln, NE 68588-0492
Telephone (402) 472-2316
FAX (402) 472-9777
www.cba.unl.edu/level4/marketing.html

September 18, 1999

Dear Franchise Owner:

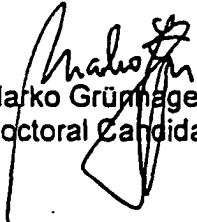
A few weeks ago, we sent you a survey for our research study of franchisees. Since we have not received your completed survey back, we would like to remind you kindly to complete the survey, and return it back to us. In case you misplaced your survey, we are enclosing a replacement.

Every single returned questionnaire is important for this dissertation thesis to be meaningful.

Please return the completed survey in the enclosed postage-paid reply envelope. In case this letter reaches you after you sent the survey out already, please disregard this reminder.

Thank you again for your willingness to participate in our study.

Sincerely,



Marko Grünhagen, ABD
Doctoral Candidate in Marketing



Robert A. Mittelstaedt, Ph.D.
Professor of Marketing

Appendix M

Descriptive Statistics

SINGLE-UNIT FRANCHISEES (Retro)	N	Mean	Median	Std. Deviation	Skewness	Kurtosis
Personal Age (Years)	46	47.57	48.50	11.08	-0.09	-0.42
Sex (1=F, 2=M)	47	1.62	2.00	0.49	-0.50	-1.83
Education (Years)	47	14.68	15.00	2.35	0.12	-0.90
Partners (Number)	44	0.68	0	0.96	1.36	0.89
Size (Number of Outlets)	46	0.93	1.00	0.44	-0.34	2.39
Age of Operation (Years)	47	9.79	7.00	7.64	-0.76	-0.70
Franchise Experience (Years)	47	12.55	10.00	8.09	0.17	-1.52
Per-Unit Sales (million \$)	45	0.52	0.50	0.30	1.27	1.21
AREA DEVELOPERS (Retro)	N	Mean	Median	Std. Deviation	Skewness	Kurtosis
Personal Age (Years)	33	50.79	49.00	10.30	-0.08	-0.40
Sex (1=F, 2=M)	34	1.91	2.00	0.29	-3.04	7.69
Education (Years)	34	16.06	16.00	2.40	0.77	2.44
Partners (Number)	34	1.26	1.00	1.46	1.36	2.03
Size (Number of Outlets)	34	16.74	5.00	39.13	3.91	16.02
Age of Operation (Years)	34	10.09	6.50	8.46	-1.28	0.83
Franchise Experience (Years)	33	14.42	12.00	9.22	0.47	-0.89
Per-Unit Sales (million \$)	34	0.91	0.90	0.30	-0.57	-0.32
SEQUENTIAL MULTI-UNIT FRANCHISEES (Retro)	N	Mean	Median	Std. Deviation	Skewness	Kurtosis
Personal Age (Years)	55	51.93	50.00	9.45	0.30	0.52
Sex (1=F, 2=M)	55	1.82	2.00	0.39	-1.70	0.91
Education (Years)	55	15.38	16.00	2.30	0.27	1.00
Partners (Number)	55	0.78	0	1.12	1.61	2.04
Size (Number of Outlets)	55	14.69	3.00	60.85	7.05	51.05
Age of Operation (Years)	55	15.42	15.00	8.12	-0.14	-0.67
Franchise Experience (Years)	55	17.64	17.00	9.29	0.26	-0.46
Per-Unit Sales (million \$)	53	0.82	0.90	0.39	-0.12	-1.56
SINGLE-UNIT FRANCHISEES (Pro)	N	Mean	Median	Std. Deviation	Skewness	Kurtosis
Personal Age (Years)	24	44.21	45.00	7.21	-0.38	-0.53
Sex (1=F, 2=M)	24	1.71	2.00	0.46	-0.98	-1.14
Education (Years)	24	15.38	16.00	1.91	-0.06	-0.60
Partners (Number)	24	0.46	0	0.72	1.30	0.34
Size (Number of Outlets)	24	0.92	1.00	0.28	-3.22	9.12
Age of Operation (Years)	24	7.46	5.00	7.90	-2.19	5.57
Franchise Experience (Years)	24	9.19	6.50	6.61	0.44	-1.42
Per-Unit Sales (million \$)	23	0.62	0.50	0.33	0.83	-0.29
SEQUENTIAL MULTI-UNIT FRANCHISEES (Pro)	N	Mean	Median	Std. Deviation	Skewness	Kurtosis
Personal Age (Years)	45	47.96	50.00	9.34	-0.18	-1.22
Sex (1=F, 2=M)	45	1.89	2.00	0.32	-2.56	4.77
Education (Years)	45	15.71	16.00	2.36	0.38	0.92
Partners (Number)	45	1.13	1.00	1.94	4.26	22.81
Size (Number of Outlets)	45	11.56	5.00	22.19	4.84	26.54
Age of Operation (Years)	44	11.68	9.00	8.53	-0.83	-0.07
Franchise Experience (Years)	44	17.93	18.50	11.66	0.99	1.80
Per-Unit Sales (million \$)	44	0.85	0.90	0.40	-0.27	-1.56