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THE FRANCHISE PERFORMANCE COMPARISON BETWEEN THE THAI FRANCHISE AND THE INTERNATIONAL FRANCHISE IN THAILAND DURING 1992-1998

By
Krisada Pacharavanich

A DISSERTATION

Submitted to
Wayne Huizenga Graduate School of Business and Entrepreneurship
Nova Southeastern University

in partial fulfillment of the requirements
for the degree of

DOCTOR OF BUSINESS ADMINISTRATION

2000

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A Dissertation
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Krisada Pacharavanich

We hereby certify that this Dissertation submitted by Krisada Pacharavanich conforms to acceptable standards, and as such is fully adequate in scope and quality. It is therefore approved as the fulfillment of the Dissertation requirements for the Degree of Doctorate of Business Administration.

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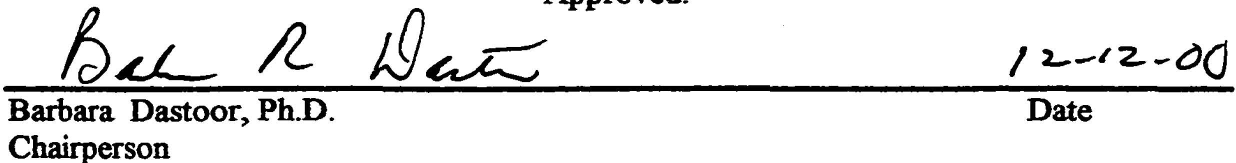

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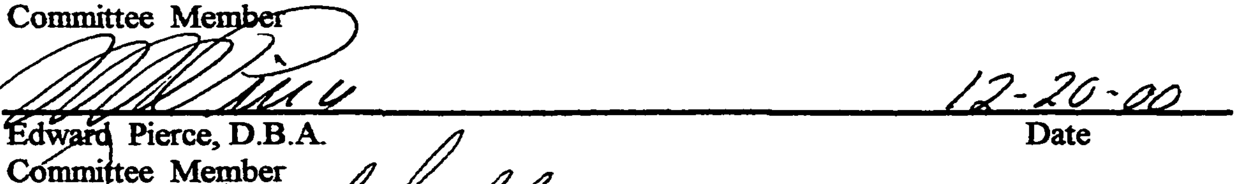

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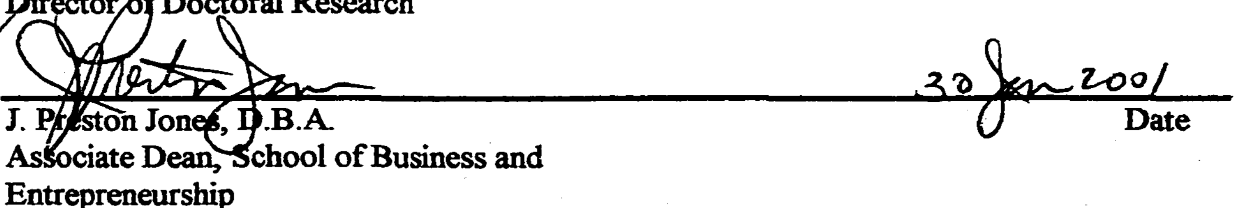

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ABSTRACT

THE FRANCHISE PERFORMANCE COMPARISON BETWEEN THE THAI FRANCHISE AND THE INTERNATIONAL FRANCHISE IN THAILAND DURING 1992-1998

by

Krisada Pacharavanich

The purpose of this study is to compare the sales growth, profit growth, and return on investment (ROI) of the Thai franchise system with the international franchise system in Thailand. Since there is little empirical research on franchise performance in foreign countries and none in any Asian countries, this study will expand franchise knowledge in the field of internationalization (Elango & Fried, 1997).

Franchise theory is based on capital market imperfection thesis, the information asymmetry hypothesis, the agency theory, and international franchising. The bottom line is allowing the local owner-operator to lead the way. S/he understood the host country market better than foreign franchiser. Nevertheless, s/he needed advanced management to capitalize on the market potential. If the international franchiser and local owner-operator properly cooperated, the best result would be accomplished.

This study employed 1994 Franchise Opportunity Handbook published by the U.S. Department of Commerce and 2000 Franchise Handbook published by the Franchise Association to categorize franchise systems. The data were collected from the Thai Ministry of Commerce, analyzed, and graphically presented. The annual average sales growth, profit growth and ROI of local franchise and international franchise systems were calculated. The Pooled Franchise System approach was used due to small sampled size. The Mann-Whitney U test was selected to investigate the financial differences between the local franchise systems and international franchise systems because it is more powerful than the Median Test and the data was not normally distributed.

This empirical research revealed that there were no correlations among financial variables---sales growth, profit growth, and ROI. The correlation between local and international franchises sales growth in Thailand was significant. In addition, there was no difference in sales growth between the Thai franchise and the international franchise in Thailand. There was also no difference in ROI between the Thai franchise and the international franchise operated in Thailand. Nonetheless, the difference in profit growth between the Thai and international franchises in Thailand was statistically significantly.

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Regarding managerial application, the Thai franchise was generally more profitable than the international franchise operating in Thailand. The management system of the Thai franchise was imported and adapted to the Thai business environment.

The restriction of this study is the limited sample sizes. Future research could be gathered larger sample sizes from each industry not included in this study. Future studies could adapt this research to other countries. It may also include both quantitative and qualitative performance variables to measure every aspect of franchise business.

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CHAPTER I

INTRODUCTION

Purpose

The purpose of this study is to compare the sales growth, profit growth, and return on investment (ROI) of the Thai franchise system with the international franchise system in Thailand. Since there is little empirical research on franchise performance in foreign countries and none in any Asian countries, this study will expand franchise knowledge (Elango & Fried, 1997). In the twenty-first century, more than half of retail outlets will be franchises.

Second, the performance of the local franchise and the international franchise may shed light on the foreign country market penetration method. The most sustainable and optimal technique for long run expansion will be employed.

Finally, Eastern and Western cultures are significantly different. As a result, they may take a toll on franchise management. However, the differing cultural values may be just a perceived business worry and actually make no financial difference. Thus, this study may reveal that the cultural differences among countries or the franchise system management play an important role in franchise success.

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Background of the Problem

Franchise is an organizational form to delimit firm growth. Growth is essential to a company's market power, efficiency, profitability and survival. However, a firm's growth can be limited due to inadequate capital, which stems from company information asymmetry, and principal-agent conflicts. By employing manager-ownership structure, franchise resolves inadequate capital and principal-agent problems.

There are a large number of studies on the limits of firm growth. Many of these studies quantify firms by size, i.e. sales or the number of outlets. Martin and Justis (1993) found that capital inadequacy prevented firms from responding instantly to a permanent increase in demand. A firm experiences a liquidity or capital constraint when the quantity of capital available is less than the quantity of capital required to exploit all profitable investment opportunities at the current cost of capital. *Ceteris paribus*, the availability of liquidity will restrict a firm's growth rate. Therefore, franchising shifts the funding burden from the franchiser to the franchisee. For example, in the late 1950s, McDonald's was still an up-start company and not registered on the New York Stock Exchange. It had used the franchisee's resources to purchase property (Love, 1986). Love stated that it

> ...was using the franchisee's own cash to make a down payment on land that McDonald's would buy and lease back to the franchisee. The balance due on the land contract was borrowed in effect from the property owner, who was still being asked to give up his first right to the land so that McDonald's could obtain a mortgage on the building (Love, 1986, p.168).

As a result, the number of qualified franchisees the company can recruit will limit the firm growth rate. Later, as a firm grows and has sufficient capital, the franchiser may

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buy back franchised units from a franchisee. A central feature c   iat competition and other economic forces determine what organizational form is optimal.

The principal-agent conflicts also restrict the firm size. These constraints hold because a relationship exists between asset size and monitoring cost (Shane, 1996). To show this, suppose there are two methods of income generation a person can use (Silver & Auster, 1969). First, one individual can make an offer to another individual whereby the latter agrees to pay a fixed sum per unit for the use of his resource of labor. Second, an individual can establish a firm. This involves using owned and/or rented resources and receiving income as the difference between the amount he receives from the sales of products and services and the amount he pays the resource owners. In this case, he becomes a residual income recipient. The residual income differs from that of the first case due to the difference in incentives. The residual income will stimulate an individual to put forth his best effort while the individual in the first case may shirk his duties unless the employer takes enforcement to prevent this. Enforcement incurs monitoring costs.

Without franchising, the higher the firm growth, the higher the monitoring costs will be. Hence, the firm may offset high monitoring costs through the use of the contractual organizational form of franchise. Shirking incentives are reduced by the franchise agreement since the franchisee has a claim on the residual (Martin, 1988). The costs and benefits of the franchisee's actions, affecting the value of his individual unit, are capitalized on his own shoulders (Brickley & Dark, 1987). The compensation to the franchisee is similar to that of a sole proprietor, except that the franchiser generally receives some portion of the sales revenue as a franchise fee. Consequently, franchising reduces the rate of monitoring cost increase and allows a firm to grow faster (Shane,

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1996). Fast growth is necessary in a franchise system since a firm can quickly obtain the economy of scale of operation, i.e. advertising, controlling, and purchasing, to compete with the established company. Fast growth or superior performance augments the survival probability and profitability of the firm.

In order to maximize the shareholders' wealth and company profitability, franchise organization is an optimal choice. Nevertheless, there are very few studies on the comparison of franchise performance. For instance, Vaughn (1979) traced the franchise back to the Middle Ages. At that time, a person might be granted the right to collect revenues for the state in return for various services. In the Eighteenth and Nineteenth centuries, the English monarch would grant privileges, involving long-term monopolistic advantages, to a person or a company in return for specific obligations i.e. taxes or duties.

In the U.S., the Singer Sewing Machine Company was the first company developing a franchise system after the Civil War (Vaughn, 1979). By 1898, William E. Metzger began to franchise the steamer dealership (Thompson, 1971). Then, the automobile and soft drink industries had integrated franchise as a critical part of their distribution systems at the beginning of the twentieth century. Thompson further stated that the economic force was the primary reason of franchising since the independent automobile franchisee was compelled to bear part of the overproduction costs or styling errors made by the manufacturer. The dealer had to absorb the retailing price fluctuations, state taxes, and fees. In fact, the automobile manufacturers did not have enough capital to buy back franchisees to establish a fully integrated company-owned distribution system at the early stage of industry.

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At the same time, Asa G. Candler granted Coca-Cola bottling rights for most of the United States to Benjamin F. Thomas and J.B. Whitehead (Vaughn, 1979). The franchise bottler was obligated to purchase patented syrup, specifically from the franchiser, and packaged in a defined area. In return, the franchiser supported a variety of services for its bottler i.e. production, marketing, and management. Later, the Woodruff family bought Coca-Cola Company in 1919.

In the 1930s, petroleum industrialists faced management problems with company-owned outlets. They were not profitable due to price wars, management inflexibility, and unfavorable tax and labor laws. Rapid expansion through company-owned outlets required the development of a large management organization. Central management capability is difficult to build up for a fully integrated chain. The mountain of banking, legal, and property paperwork made the costs prohibitive. Therefore, the oil companies had to franchise their service stations to independent franchisees. In return, they received rental income and gasoline marketing revenue while their customers got better service. The independent franchisee worked longer hours and gave the customers personal attention. As a result, corporate gasoline income increased by 11.78 percent (Vaughn, 1979).

Elango and Fried (1997) found that one-third of the U.S. franchisers had international operations. They studied 374 U.S. franchisers that operated approximately 35,000 foreign franchised units. Most of the franchisers were in Western Europe, Canada, Australia, and Japan. Fifty-percent of the U.S. franchisers indicated interest in expanding overseas within the next five years. There are many advantages to international expansion. First, as the U.S. domestic market matures, the international

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franchise strategy will be the only choice to increase franchiser's revenue and profitability. Second, a franchiser can exploit the spillover effect of advertising and public relation in other countries (Vaughn, 1979). Third, Vaughn (1979) showed that a franchiser could optimize the know-how and accumulated experience. Fourth, a franchiser can take advantage of markets with great potential, i.e. China, without committing large amounts of capital. Fifth, trademarks and patents are protected by the host country laws (Vaughn, 1979). Finally, early foreign market penetration gives franchisers the first-mover advantage.

Elango and Fried (1997) also noted that franchise has expanded internationally in two stages. First, it penetrates to countries that have high per capita income and a developed retail service sector. Later, it extends to countries distinguished by greater diversity in culture, income, and political systems. Usually, international franchise strategies are master franchising, joint venture, licensing, and direct investment (Chan & Justis, 1990).

From a management point of view, international franchise execution has some barriers. First, the non-local franchiser faces the lack of management talent in the host country. Second, the legal system differences, i.e. accounting methods, profit repatriation, and labor laws, present a challenge to the international franchiser. Third, cultural discrepancy may affect the taste and acceptance of products and services. For example, when McDonald's opened its first unit in Germany in 1971, it modified its menu, serving fried chicken breast and local beer according to the German market. Unfortunately, it failed (Love, 1986). On the other hand, McDonald's success in Japan is due to the execution of Japanese owner-operators (Love, 1986). Japan's McDonald's

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master franchisee used the same American menu but employed different marketing tactics according to the local management's recommendations. Lastly, the international franchiser has to reach a minimum size to cover international operation costs or to build a new logistic system (Elango & Fried, 1997). There are no studies focused on how successfully the international franchise competes with the local franchise in the host country.

In Thailand, the economy was improving in 1999 after three years of economic recession. Market liquidity was plentiful throughout the year; consequently, the interest rate declined. The April 1999 annualized inflation fell to 1 percent for the first time in 15 years (Bunyamanee, 2000). The International Monetary Fund forecast the Thai economic growth to be 4 percent in 1999 (Sirithaveeporn, 2000). The government also spurred the economy by planning a 1999 budget deficit of 110 billion baht, 6 percent of GDP (Sirithaveeporn, 2000). The Miyazawa fund, led by the Japanese government, lent another 53 billion baht to stimulate the Thai economy. In fiscal year 2000, the government planed the same deficit budget of 110 billion baht.

Consumer spending slowly increased in 1999 due to a sharp decline of interest rate, consumer goods price reductions, new products development, the stock market recovery, and value-added tax reduction. Department store sales increased by 10 percent from the prior year. The franchise convenient store segment significantly grew as a result of franchising fee reduction by the franchiser (Jitpleecheep, 1999). The Thai 7-Eleven master franchisee planned to open 200 new outlets every year (Jitpleecheep, 1999). Dunkin Donut is expanding its product lines to increase sales to $1.5 billion annually.

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Local Thai households have experienced Western cultures, including franchise brand names through the penetration of telecommunication and movies. Thais began to use the internet as a way of life. They use the internet to do research, read news, gamble in the European soccer matches, and communicate with one another through email and chat rooms. Inevitably, they recognize franchise brand names through the advertising banners. Western movies are very popular among Thais owing to high production quality and wide variety. Most Thais watch foreign dramas and movies through local theaters, public television, and cable television.

Due to the television liberalization policy, Thailand currently has six public television channels for 61 million people. Like any other country, the television broadcasters have to efficiently compete with one another to attract viewers. The local programs are not up to international standards. There are quite a few selections. Television operators generally buy popular programs from the U.S. or Europe. They heavily broadcast Hollywood movies on the weekend. Thus, Thai viewers experienced franchise through movies.

The Thai government has continuously promoted Thailand, throughout the world, as a tourist destination. As a result, international visitors are continuously increasing. Table 1 showed the number of foreign tourists who visited Thailand during 1971-2000 (Lakananit, 1993). In 1999, there were eight million foreign visitors, approximately 14.4 percent of Thai population. In 2000, there were approximately three million international visitors between January and April (see Table 1). These tourists are familiar with their own country's food styles, quality, and brand names. Thus, they usually patronage the

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international franchised fast food restaurants, hotels and motels, petroleum service stations, and convenient stores in Thailand.

Table 1

Foreign Visitors in Thailand, 1971-2000

Year	Number (thousand persons)	Growth (percent)
1971	638.7	-
1975	1,180.1	84.8
1980	1,858.8	57.5
1985	2,438.2	31.2
1986	2,818.1	15.6
1987	3,482.9	23.6
1988	4,230.7	21.5
1989	4,809.5	13.7
1990	5,298.9	10.2
1997	7,221.3	36.3
1998	7,764.9	7.5
1999	8,651.3	11.4
2000	3,360.4	N/A

Note. The 1997-2000 data were from Tourism Authority of Thailand. In 2000, the number of foreign visitors were accounted from January to April.

Source: Lakananit, S (1993). An empirical analysis of a firm's decision to franchise, Unpublished master's thesis, Thammasat University, p. 20

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In addition, there are a large number of Thais who were educated and graduated abroad. These graduates have direct experiences with franchises, i.e. fast food restaurants, hotels, and car rent. For example, expatriate Thai students have bought McDonald's hamburgers and Pizza Hut's pizzas, rented Hertz's cars, and slept at the Quality Inn hotels while they studied in the U.S. When they returned to Thailand, they were westernized and brought back their new life styles. They also patronized the franchised establishments in Thailand. Some Thai graduates have recognized this market niche; and, they have negotiated with the international franchisers to open outlets in Thailand. Table 2 showed a sample of franchised businesses operated in Thailand in 1992. Thailand is attractive to international franchisers to expand their presence.

Table 2

Franchise Business Classified by Type and Year in Thailand

Business	Year Established in Thailand	Total Number of Outlets in 1992
International Franchises		
American Donuts	1988	5
McDonald's	1985	15
Hard Rock Cafe	1991	1
Dairy Queen	1984	3
Hilton	1984	1
Shangri-la	1986	1
Ambassador	1975	1
Ramada	1988	1
Novotel	1987	1
Inter-Continental	1982	1
Esso	1963	456
Shell	1962	415
Caltex	1965	380
Family Mart	1991	1

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Business	Year Established in Thailand	Total Number of Outlets in 1992
AM/PM	1991	2
7-Eleven	1989	136
Local Franchises		
Narai Pizzeria	1982	1
Noodle Garden	1986	4
Pho	1989	1
Chester's Grill	1988	4
Dusit Thani	1971	6
Imperial	1975	4
Asia	1973	1
Central	1980	2
Bangchak	1985	145
PTT	1978	376
Lemon Green	1992	1

Note. The complementary data were drawn from field survey by author.

Source: Lakananit, S. (1993). An empirical analysis of a firm's decision to franchise. Unpublished master's thesis, Thammasat University, p. 21-23.

Franchise and license guide's 1998-1999 (1998). Nonthaburi, Thailand: Leo-Lansett Co.

The first international franchise operated in Thailand was Kentucky Fried Chicken in 1972 (Lakananit, 1993). There were two branches: Silom and Sukhumvit. However, it failed since there were very few tourists, a low-income level among Thais, different tastes from local fried chicken outlets, and disputed contract terms. Both outlets were shut down. In 1984, Kentucky Fried Chicken returned to Thailand with the cooperation of the Central Group, the largest Department Store operator in Thailand (Lakananit, 1993). It granted master franchisee in Thailand to the Central Group (Lakananit, 1993). Nevertheless, the outlet growth had not been accomplished after four

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years of operation, even though the Thai personal income had significantly increased. As a result, in 1989, Kentucky Fried Chicken licensed the other Thai master franchisee license to the CP Group, the largest conglomerate agri-business in Thailand (Lakananit, 1993). CP Group has satisfactorily expanded franchised outlets and is a major supplier of chicken nuggets for Kentucky Fried Chicken throughout Asia (Lakananit, 1993).

In 1978, Mister Donut granted its franchise license to the Central Group and the Minor Holding Group (Lakananit, 1993). They expanded the outlets from one to four within two years. Then, Pizza Hut granted the Minor Holding Group a franchise license to operate at Pattaya, one of the most famous tourist destinations in Thailand (Lakananit, 1993). In 1981, Dunkin Donuts licensed its master franchise license to the Royal Industry Supply Company. These franchises were successful and set the trend for franchises in Thailand.

Due to the increasing traffic problem in major cities, the recognition of time value, and the increasing personal disposable income in Thailand, the one-stop shopping concept gained popularity. The Central Group diversified itself from Department Store operator to Shopping Mall manager. The Central Group owns many large shopping complexes in big cities and has economy of scope to expand franchise business. The Central Group has won four international fast food franchise licenses to operate in Thailand (Lakananit, 1993).

Regarding the Thai restaurant franchise, the CP Group learned from Kentucky Fried Chicken and established a local Thai franchise named Chester's Grill Chicken. CP Group has a competitive advantage since it supplies raw materials, chicken parts. Chester's Grill Chicken is moderately successful.

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Another sample of Thai franchise restaurant is Texas Suki. In 1978, Mr. Suwat Teshathaweewat, the owner, established this restaurant in a parking building at China-town. Texas Suki offers a limited menu, i.e. Sukiyaki, roasted duck, and roasted pork. Sukiyaki is a kind of food that is influenced by the Japanese and Chinese cooking. The restaurant motto is "Eat like a king, Pay friendly price". The company opened a second outlet on Rachadhamri in 1983, and a third outlet on Pinklao in 1989. Currently, the company has a policy to expand business through franchise, focusing on major cities and discounted stores with plenty of parking space in Thailand. The international market priority is Singapore, Taiwan, and Indonesia. This market segment is highly competitive and the operation is moderately successful.

In 1993, a Thai businessman created a franchise restaurant named Black Canyon. Black Canyon focuses on kiosk, mini-restaurant, and full service restaurant niches. The outlets are decorated in American country style and offer freshly ground name brand coffee, soft drinks, ice cream, and Western style foods. The locations are in major shopping complexes, both in Thailand and foreign countries. The initial franchise fee ranges from 600,000 baht to one million baht, depending on the type for three years. The company provides intensive management training, accounting services, and cost control (Panpetch, 1998). The training period for outlet managers is 30-45 days. After training, the outlet manager has to be able to do every job in the restaurant. There were 40 outlets in 1995 (Panpetch, 1998). Black Canyon is very successful in Thailand.

The second international franchise system in Thailand, in 1977, was Avis, the car rental company (Lakananit, 1993). The Thai master franchisee ran the business for five years but eventually failed. The franchiser wanted to transfer the contract to another

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potential franchisee (Lakananit, 1993). Avis negotiated with other potential franchisees, including the current master franchisee. Concurrently, the Avis master franchisee operated the other car rental franchise under the brand name of Syntax, a Singaporean auto rental franchise (Lakananit, 1993). Avis bought the Syntax parent company in Singapore. As a result, the Thai master franchisee was selected to operate the Avis franchise again in Thailand while his/her right to run Syntax was terminated.

Washy Mashy was the first local franchise, founded in 1982 (Lakananit, 1993). The franchiser had been educated in the U.S. and was impressed by laundry services. When s/he returned to Thailand, s/he formed a company to franchise laundry service in Thailand with the cooperation of Maytag U.S.A (Lakananit, 1993). Maytag was the sole supplier of washers and dryers. S/he spent two years to establish a laundry franchise system. At the same time, Thailand began to develop its industrial sector. The migration of rural people to big cities was enormous, at that time. Migration caused a housing shortage, housekeeper shortage, and traffic problems. In addition, washers and dryers were expensive for those in middle- and lower class income levels. People started to use the modern laundry service. The franchise was moderately successful.

In 2000, franchise is gaining popularity in Thailand. There are many reasons. First, many Thais are still unemployed as a result of the economic mismanagement of their government. They received a lump-sum unemployment benefit from their ex-employer, giving them capital to invest. Second, educated Thais preferred to be entrepreneurs and safeguard their nest eggs. They suffered and lost their dignity when they were laid off from their work. This period in Thailand is similar to the 1960s in the U.S. when the Korean War was over and veterans returned home without jobs. Third, the

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Thai government encouraged individuals to be entrepreneurs. The government subsidized direct loans for small- and medium-sized businesses. The government also requested cooperation from commercial banks to approve loans to small- and medium-sized businesses.

However, there is no quantitative research on franchising in Thailand. There are many disputes between the international franchiser and the Thai master franchisee because of the lack of franchise knowledge and cultural differences. For instance, Domino's Pizza just closed its Thai operation in January 2000 (Jitpleecheep & Intarakomalyasut, 1999). Pizza Hut did not renew the franchise contract to the Thai master franchisee (Saw-McKaige, 2000).

Presently, researchers utilize the unit or sales growth of the franchise system as a performance index (Baucus, Baucus, & Human, 1993; Norton, 1988). Franchise system includes both company-owned outlets and franchised outlets. The franchise value ties to the brand name familiarity and the products and services quality across retail outlets (Baucus et. al, 1993). The more outlets are increased, the more sales grow. Thus, the higher presence in the marketplace, the more successful the franchise system is. Consequently, this study employs the sales growth as a proxy of franchise performance indicator.

This franchise system performance study helps both the franchiser and the franchisee. From the franchiser's point of view, the international franchiser will know how his/her system achieves success. If his/her system outperforms the local franchise, s/he just makes a turnkey investment. Otherwise, the franchiser must find the problems and resolve them. Further, when the franchiser diversifies abroad, this study will uncover

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which method is best in order to enter the market. If the local franchiser in the host country outperforms the existing international franchiser in a particular industry, the new foreign franchiser has a better chance to buy the local franchiser, joint venture with the local franchiser, or persuade him/her to be the master franchisee.

Meanwhile, the franchisee obtains benefits. The franchisee has a chance to compare the local franchise performance and the foreign system performance before s/he invests. If the local franchise system in a specific industry has a better financial result than the foreign franchise, s/he may choose to invest with the local franchiser instead of the international franchiser. Otherwise, the foreign franchiser wins. Further, the franchisee could negotiate the franchise financial contract term according to the comparative attainment. Although most franchise contracts are standardized, many studies and court decisions show that the contract can be negotiated (Klein & Saft, 1985).

Statement of the Problem

Several studies have investigated the topic of franchise business in different protocols, i.e. organizational arrangements, idiosyncratic characteristics of franchiser and franchisee, the franchise life cycle development, the franchise selection process, the relationship between the franchise fees and the business success. However, few studies examine international franchises. Many people are interested in international franchising; still, few researchers have done the studies. There is no franchise research in Asia. Since international data are difficult to find and compare, many studies emphasize the U.S. franchise system; then, theorize from it.

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To date, international franchise is still one of the field's mysteries even though famous franchisers such as McDonald's, Burger King, Marriott, Holiday Inn, Hertz, and Avis have invested a large amount of capital abroad. Therefore, this investigation explores the performance comparison between the local franchise and the international franchise in a host country, Thailand.

Research Questions

This study proposes to extend previous research by exploring the following three research questions:

1. Is there a significant difference in sales growth between the Thai franchise and the international franchise in Thailand?

2. Is there a significant difference in profit growth between the Thai franchise and the international franchise in Thailand?

3. Is there a significant difference in ROI between the Thai franchise and the international franchise in Thailand?

Definition of Terms

The terms below are defined as they are used in this research.

Franchise

In legal terms, franchise is an organizational form based on a legal agreement between a parent organization (franchiser) and a local store (franchisee) to sell products or services using a brand name developed and owned by franchiser (Rubin, 1978). The

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franchiser generally sells the franchisee a right to use this intellectual property in return for an up-front lump sum payment and an annual royalty fee based on sales for a specified period of time (Shane, 1996). The franchisee is restricted to conform to franchiser requirements for product mix, quality, operating procedures, personnel, accounting, and auditing. In return, the franchiser provides managerial assistance, training, advertising assistance, operating procedures, physical layout design, and site selection (Rubin, 1978).

An economic definition states that franchise is a type of hybrid organizational form that incorporates elements of both markets and hierarchies (Shane, 1996). The market structure causes the franchisee to operate the units with his entrepreneurial skills. The franchisee is an owner-manager who bears the risk and residual revenue of a local operation. The risk borne by franchisees differs substantially from that of other organizational forms in two respects (Norton, 1988). First, in many organizations, the risk-bearing function is separate from the daily managerial function. For example, in a large publicly owned corporation, a large number of stockholders bear residual risk but do not participate in the firm's management. The risk is related to the firm's operation as a whole, not just one of several local operations.

In contrast, the franchisee bears substantial risk for a local outlet in the franchise system and is closely involved in its daily operations. Second, some labor contracts make employees, specifically managers, residual claimants by linking some parts of their compensations to the residual income of the firm via profit sharing. Franchise contracts differ in that a franchisee becomes a residual claimant by paying an ex-ante explicit franchising fee and annual royalty fee.

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It is considered a hierarchy form since the franchiser retains a superior degree of ownership and authority over the use of the trade name, operating procedures, outlet locations, and contracts. The franchiser has almost complete control over the behavior of the franchisee. In fact, the relationship is nearly a firm and an employee. For example, the franchiser outlines detailed steps of daily operations, approves advertising plans, designs outlets, and selects locations for the franchisee.

Quasi-rent

Quasi-rent is an investment in specific, not fully salvageable, production assets on which the franchisee is earning a normal rate of return but which on termination implies a capital cost penalty (Klein & Saft, 1985). Examples could be the special shape of the building or the furniture. The franchisee cannot use these assets for other purposes. By definition, quasi-rent exists if the value of the asset is higher in a given use than its value in alternative uses. For example, the franchiser may buy the land, then, lease it to the franchisee on which the franchised outlet is located. Upon termination, the franchisee owns nothing; nevertheless, s/he has already received the normal rate of return for the use of the building during the contract term.

Term of contract

The term 'contract' is a legally binding document that specifies both the franchiser's and the franchisee's obligation. The contract has termination clauses, which are in favor of the franchiser. The franchiser is not likely to terminate the franchisee merely to confiscate franchisee-sunk investments because the franchiser also is concerned

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about his reputation when attempting to sell additional franchise locations (Klein and Saft, 1985). However, the longer the term of the contract, the better the franchisee's position. For example, the franchiser rules the right of the franchisee to sell the franchise, rights of heirs of the franchisee to inherit the business, and the right to open a competing business after ceasing to be a franchisee. The franchiser is able to terminate the agreement almost at will. However, under the antitrust ruling, the ability of the franchiser to control the franchisee's behavior and terminate the franchise contract is limited. Therefore, the long-term contract can reduce the problem of quasi-rent appropriation (Brickley & Dark, 1987). If quasi-rents are high, the franchisee risks appropriation by the franchiser (Carney and Gedajlovic, 1991). The risk of quasi-rent appropriation is greatest when a high initial investment is required to establish a franchise.

It also helps to internalize the benefits of franchisee investment in firm-specific human and physical capital. With frequent contract renegotiating, the likelihood of appropriation by the franchiser of the quasi-rent from this type of investment increases. On the other hand, a short-term contract with detailed renegotiation provisions may be helpful if the value of the trademark is high and the long-term contract generates significant risk-bearing problems (Brickley & Dark, 1987).

Standard of quality

Standard of quality means the worth of products and services are the same regardless of locations (Brickley & Dark, 1987). Standardization permits a consumer to transfer the information he possesses on all his previous experiences to the other unfamiliar outlets (Klein & Saft, 1985). The franchiser helps and controls franchisees to

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retain uniform product quality by enforcing strict performance criteria. The franchiser usually requires the franchisee to purchase inputs from a designated supplier or a group of authorized suppliers to ensure the quality of products or services. Also, the franchiser contractual control over the franchisee relies upon clauses that permit unilateral termination by the franchiser and nullifies the substitution of inputs or inferior inputs that may deteriorate product and service quality and the franchiser asset (Norton, 1988). In return, the franchiser receives the sales of future franchised units, the continuous revenues from franchise operations, and the increasing values of property right and trademark.

Performance

Performance is a financial criterion measured by the sales growth, profit growth, and ROI of the franchised outlets (Norton, 1988).

Foreign/international franchise

Foreign/international franchise is a franchiser/master franchisee registered in the 1994 U.S. Department of Commerce Franchise Opportunities Handbook, or the 2000 Franchise Association Handbook.

Thai/local franchise

Thai/local franchise is a non-foreign franchise presenting the franchise opportunity in the Franchise & License Guide's 1998-1999 and headquarters in Thailand.

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Summary

This chapter describes the study's purpose, the problem background, a statement of the problem, research questions, and essential definitions of terms. The purpose of this empirical research is to scrutinize the comparative performance between the international franchise system and the local franchise system in Thailand. Chapter I traces franchise problems back to the Middle Ages. It developed a structural foundation for the remainder of this study. The research questions are presented. Finally, the principal definition of terms is offered.

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CHAPTER II

LITERATURE REVIEW

This chapter explores franchise the literature from 1969 to 2000. Vaughn (1970) found:

> To survive in this increasingly competitive field, it is becoming imperative for a franchising company to accept and act on the fact that he is not in the hamburger, the fried chicken, the rental equipment or any other single-market type of business... he is in franchising. And this is a complete business in itself (Vaughn, 1970, p.22).

Franchising has emerged as a business entity involving the same degree of professionalism and competence as other industry types (Vaughn, 1970). Stuart (1997) showed that a franchisee's average annual income was $124,000 and the business success rate was 94 percent. Bradach (1998) revealed that a U.S. franchiser opened a new store every eight minutes. There are several different areas in the franchise literature including the franchiser and franchisee relationship, initial franchise fee and royalty fee as a successful prediction model, and resource based theory. This chapter explores four main streams of the franchising literature: the capital market imperfection thesis, the information asymmetry hypothesis, agency theory, and international franchising theory. These investigations examine franchising from an organizational perspective, i.e., why firms franchise, and why most companies operate some units centrally and franchise others.

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This literature review has two purposes: to provide a comprehensive examination of the existing literature, and to explore the theoretical foundation of franchise organizations.

Capital Market Imperfection Thesis

Norton (1988a) and Brickley, Dark, and Weisbach (1991) explained that franchising provided a means for a franchiser to raise capital. Many firms prefer wholly owned operations to franchising if they have adequate capital (Hunt, 1973; Oxenfeldt & Kelly, 1969; Oxenfeldt & Thompson, 1969). Sherman (1999) discovered that the expanding franchiser confronts the issues of the capital and debt markets accessibility. Capital inadequacy prevents firms from responding instantly to a permanent increase in demand. Facing a capital constraint, the franchiser is able to raise capital at a lower cost than other arrangements would allow through franchising (Caves & Murphy, 1976; Hunt, 1973; Oxenfeldt & Kelly, 1969; Weinrauch, 1986). S/he borrowed franchisee's capital for expansion; in return, the franchisee received the marketing, production, or distribution rights of the franchiser's products and services. In other words, the franchiser's capital requirement for growth was reduced; consequently, s/he could use limited capital for other purposes (Vaughn, 1979). If the capital market was perfect, the franchiser could not get additional funding at a lower cost. Thus, the franchisee was viewed as an inexpensive source of capital (Brickley et al., 1991; Smith, 1982; Vaughn, 1979). Martin (1988), and Martin and Justis (1993) found that liquidity constraints affected the immature system growth rate, while the growth rate of mature systems was not affected by credit conditions.

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Love (1986) reported that, in the early stages, McDonald's used the franchisee's capital as a real estate security deposit for land acquisition. McDonald's then leased it the franchisee at a marked-up rent. Next, they borrowed money from the landlord and the bank to fund the building. McDonald's franchisee and landlord had to endorse and was held accountable for the bank loan in case of defaults. The landlord's benefit was the rental collection. The bank profited from a high commercial loan rate and commission.

The franchiser needs more capital to grow and survive. Many researchers conjecture that the larger the size of the business, the higher the rate of corporate survival (Bates, 1995; Bates & Nucci, 1989; Castrogiovanni, Justis, & Julian, 1993; Martin, 1988; Star & Massel, 1981). Multiple outlets increase the probability of a new firm's survival rate due to the allowance of the rapid development of economies of scale (Combs & Castrogiovanni, 1994; Oxenfeldt & Kelly, 1969; Shane, 1996). When the franchise system was new and small, it lacked many of the economies of scale available to larger systems, i.e. material purchasing, administrative overhead distribution, and brand name promotion (Oxenfeldt & Kelly, 1969). Vaughn (1979) stated that the small company's purchasing economy of scale could be attained much faster through the franchise route than through its own expansion path. Moreover, the accumulated national advertising dollars were much more effective than an individual store publication allocation (Caves & Murphy, 1976; Vaughn, 1979). Economies of scale exist in many activities in which franchisers engage, therefore, the larger the franchise system, the lower the per-unit cost of operation. When a new franchiser enters an industry with established competitors, the speed with which s/he grows to a size at which s/he could operate at a competitive cost is

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important (Martin, 1988). Until s/he reaches the minimum efficient number of outlets at which s/he could operate at a competitive per-outlet cost, the new franchise system is at a competitive disadvantage vis-à-vis established systems (Martin & Justis, 1993; Oxenfeldt & Kelly, 1969). The survival of the new system depends on its ability to grow to a number of outlets with which it could develop a competitive cost structure before it runs out of cash (Carney & Gedajlovic, 1991; Lillis, Narayana, & Gilman, 1976). By growing rapidly, franchising increases the likelihood that a firm will reach a size at which it could operate competitively before it experiences cash flow problems that would cause it to fail (Martin & Justis, 1993).

To survive and gain economies of scale concurrently, the immature franchiser had to capture new attractive locations (Martin, 1988). Thus, if the franchiser terminated the speedy growth due to limited capital, appealing new locations would be lost forever (Martin, 1988). If financing was accessible to the franchiser but excluded to the franchisee, the franchiser could expand with company-owned stores (Caves & Murphy, 1976; Martin, 1988). This action retained the locations and presented the opportunity to franchise the locations in the future. If financing was accessible to the franchisee but excluded the franchiser, the franchiser could expand with franchised outlets (Caves & Murphy, 1976; Martin, 1988). The decision included the locations and proposed that the prospect convert the sites as company-owned stores conditioning upon the agreement cessation (Martin, 1988). Martin (1988) stated that capital deficiency was the fundamental drive for franchising.

Rivals could imitate an innovative concept (Carney & Gedajlovic, 1991). Thus, the asset investment, i.e. brand name advertisement, reduced the ability of rivals to

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follow an innovation. Its early amassing of an innovative concept represented a first-mover advantage (Carney & Gedajlovic, 1991).

However, many scholars criticize the capital market imperfection thesis.

Arguments

Vaughn (1970) argued that Colonel Sanders, the founder of Kentucky Fried Chicken (later to become KFC), never asked for financial statements from the potential franchisee. The Colonel realized at the beginning that some prospective franchisees did not have adequate funding but he still arranged the KFC franchise license for them (Vaughn, 1970). Rubin (1978) and Baucus, Baucus, and Human (1993) wrote that the franchiser usually provided some forms of financing to the franchisee such as a bank loan guarantee, or an equipment and building lease negotiation. Rubin (1978) also showed that the capital market is perfect and uses this assumption for further investigation. He stated that since the franchiser owned outlets in many different locations and the franchisee generally owned one or a few outlets in the same area, the investment for the franchisee was much riskier than that of the franchiser who held the franchise portfolio. Clearly, a franchisee would prefer to invest in a portfolio of shares in all the franchise outlets rather than confining his investment to a single store (Carney & Gedajlovic, 1991; Rubin, 1978). Therefore, the risk-averse or risk-neutral franchisee would clearly demand a higher rate of return on his/her capital if s/he had to invest in one store rather than in an outlet portfolio (Carney & Gedajlovic, 1991). Conversely, the franchiser would be required to accept a lower rate of return. Thus, it appeared that the franchiser was more risk-averse than the franchisee, which may or may not be the case (Rubin, 1978).

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In addition, the franchisee, led to expect a high rate of return, had to pay royalties, a mark-up rental charge, and management fees that would theoretically make the franchise operation infeasible (Vaughn, 1979). Vaughn (1979) stated that, first, 92 percent of franchisers charged a continuing royalty fee, averaging 3 to 4.8 percent of gross sales. Secondly, the average franchise fee was $5,950-$11,540. Third, 73 percent of franchisers derived incomes from renting or leasing the land and building. Fourth, 60 percent of franchisers obtained revenues from equipment sales or lease. Finally, 70 percent of franchisers collected advertising revenues ranging from 1.3 percent to 2.6 percent of gross sales. Vaughn (1979) further stated that some retail operations were not appropriate to franchise since the financial obligations were too high for an individual investor and too low for a syndicated entrepreneur.

If a franchiser had to rely on a franchisee's capital as a source of funds, a franchiser would do better to create a portfolio of shares of all the outlets and sell these shares to a franchisee (Carney & Gedajlovic, 1991; Rubin, 1978). This would diversify the risk for the franchisee with no capital effect on the franchiser including the investment rate of return. Lafontaine (1992) showed that 223 out of 1,114 franchisers provided financial assistance in some forms to their franchisees.

Many scholars contended that the franchisee's capital supply was also a hybrid in the sense that it bundled the supply of capital with managerial skill (Carney & Gedajlovic, 1991; Caves & Murphy, 1976; Elango & Fried, 1997; Hunt, 1973; Norton, 1988a; Shane, 1996). Bradach (1998) interviewed top executives at Pizza Hut, KFC, and Fishermen's Landing. He learned that restricted managerial ability rather than capital constrained the franchise system growth. Company-owned outlet expansion required a

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large amount of management time (Hunt, 1973). Conversely, some franchisees needed little assistance and therefore, consumed few resources (Rollinson, 1980). These experienced franchisees were familiar with the operation and had previously added units (Bradach, 1998). Thus, they put less demand on the franchiser's resources (Caves & Murphy, 1976; Lafontaine, 1992). Bradach (1998) stated:

> The organizational resources required adding franchise units by adding a new franchisee were somewhat less than those required to add company units. Adding units to existing franchisees is a less risky way to grow than adding new franchisees where you never know what you are getting. It is much easier to have 140 franchisees add 1 unit per year than to have the company add 140 units per year (Bradach, 1998, p.73).

As a result, it was clear that an imperfect capital market argument did not explain franchising.

Information Asymmetry Hypothesis

Martin and Justis (1993) contended that capital was rationed to the constrained firm by non-price means, such as loan disapproval or quantity limits. The market does not ration capital/credit with interest rates exclusively (Evans & Jovanovic, 1989; Martin & Justis, 1993). Sherman (1999) pointed out that most lenders preferred to approve loans primarily to purchase equipment, inventory, and real estate. On the contrary, borrowers/franchisers have to furnish capital for brand name development, advertisement, manual development, and recruitment fees. In addition, if lenders/bankers did not ration credit and the market could not effectively signal the type of borrowers, everyone could get a loan (Martin & Justis, 1993). In reality, lenders/bankers know very little, or less about the borrower's business than do the franchisers/borrowers themselves. Sherman (1999) found that various franchisers/borrowers have different balance sheets,

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disproportionate allocations of capital, dissimilar management teams, diverse income sources, and unequal growth strategies. Bradach (1998) reported that these structures and management variations provided franchisers/borrowers with distinctive strengths and weaknesses. Love (1986) discovered that McDonald's, as well, employed a deviation from accounting standard, but did not violate basic accounting theory. Therefore, credit is rationed due to asymmetric information.

Credit is rationed, as well, because of the adverse selection effect (Evans & Jovanovic, 1989; Martin & Justis, 1993). If lenders/bankers could not separate high-quality loan opportunities from low-quality investment opportunities, franchisers/borrowers with low-quality investment opportunities would have an incentive to mimic the behavior of borrowers with high quality investment opportunities (Martin & Justis, 1993). Sherman (1999) showed that most lenders/bankers preferred to look at tangible collaterals on the borrower's balance sheet instead of their intellectual properties, projected royalty streams, and business plans as guarantee. The 'lemons' recognized the lender's practice and would adapt their businesses accordingly (Akerlof, 1970). Hence, lenders/bankers, choosing not to ration the quantity of credit, must demand a premium to offset the losses incurred from funding 'lemons' (Martin & Justis, 1993). The cost of credit subsidized low-quality investment opportunities at the expense of high-quality investment opportunities (Martin & Justis, 1993). With regard to the high-quality investment franchiser/borrower's view, the risk premium demanded by the lenders/bankers did not reflect the actual investment risk, so the high-quality investment franchisers/borrowers abandoned the conventional credit market in search of non-traditional sources of funds i.e. venture capital (Martin & Justis, 1993).

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The asymmetry of the information declined as borrowing firms matured since they had established an investment history (Martin & Justis, 1993). At this time, qualified franchisers/borrowers could access various financial markets. Low-risk prudent franchisers/borrowers were deterred by higher interest rates, while unethical or imprudent franchisers/borrowers were not deterred by higher interest rates (Martin & Justis,1993). Therefore, high interest rates were adversely selected for high-risk loans (Martin & Justis, 1993). Clearly, lenders/bankers would ration credit first to those franchisers/borrowers where the asymmetric information problem was the most severe, and those would be the immature or entrepreneurial firms (Martin & Justis, 1993).

In sum, asymmetric information in traditional credit markets may lead to either risk premium or capital quantity rationing. In either event, the firm's growth rate was liquidity-constrained (Martin & Justis, 1993).

Agency Theory

Fama and Jensen (1983a) discovered that modern organizations had separated the ownership and control. The separation of risk-bearing functions and decisions existed in these organizations due to the advantages of technical proficiency, efficient risk bearing management, and agency cost manipulation (Fama & Jensen, 1983a).

Jensen and Meckling (1976) consistently found that the separation of ownership and control led to agency costs. Norton (1988a) defined agency costs as the costs of aligning the incentives of principals and agents, including bonding, monitoring and foregone outputs attributable to these activities. Agency costs evolved since contracts were not written and executed without cost (Fama & Jensen, 1983a; Mathewson &

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Winter, 1985). Agency costs encompass the payment of contract structuring and monitoring, bonding fee, and residue loss. The contract execution cost surpassed benefits (Fama & Jensen, 1983b). Additionally, the agency costs increase if the owner/principal and the employee/agent who performs tasks are not the same person. The employee will not act in the best interest of the owner/principal and will shirk (Combs & Castrogiovanni, 1994; Fama & Jensen, 1983a; Fama & Jensen, 1983b; Jensen & Meckling, 1976; Norton, 1988b). The shirking incentive is high in the labor-intensive business (Norton, 1988b). Therefore, the owner/principal has to spend time and money to control and monitor employees (Fama & Jensen, 1983a; Norton, 1988b).

Franchising reduced the agency costs by realigning agent incentives (Fama & Jensen, 1983a; Jensen & Meckling, 1976; Shane, 1996). Franchise would be efficiently employed when the marginal monitoring cost of company owned outlets was larger than the marginal agency cost of franchised units (Combs & Castrogiovanni, 1994).

Next, the franchisee was viewed, by the franchiser, as a business partner (Bradach, 1998). The agent/franchisee would be compensated by residual claim from a specific franchised outlet (Caves & Murphy, 1976; Fama & Jensen, 1983a; Norton, 1988b). As a result, the franchisee had an incentive to efficiently manage franchised unit costs (Carney & Gedajlovic, 1991). Hence, the need for monitoring was reduced, as franchisee's effort was self-enforced. In a franchising relationship the incentive was symmetrical. The franchiser, whose revenue is contractually predetermined as a fixed percentage of unit sales, has an incentive to maximize unit sales through effective management and promotion.

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While franchising economizes upon monitoring costs, it is not absolutely efficient. The use of high incentives gave rise to three other agency problems: shirking and profit taking by unit managers, inefficient risk-bearing investment, and free rider problems (Brickley et al., 1991; Brickley & Dark, 1987; Carney & Gedajlovic, 1991; Norton, 1988a; Shane, 1996). The following paragraphs discuss the results of using franchising as a solution to agency costs.

Shirking and profit taking by unit managers

In the franchise system, the franchiser owns some units and some belong to the franchisee. The manager of company-owned units usually receives a fixed salary, some incentive compensation, and promotion. S/he is a franchiser's employee (Bradach, 1998). Bradach (1998) disclosed that managers were evaluated according to several well-specified operating and financial standards. For example, Bradach (1998) noticed that the extra in a compensation package was based 40 percent on financial targets and 60 percent on personal job objectives. Even so, the core prize in the company agreement is promotion, not pay-for-performance compensation in a given position. Thus, if a salaried employee consumed a dollar's worth of profits, it cost the franchiser a full dollar. Since the company-owned unit manager did not bear the full cost of shirking and profit taking, s/he would have incentive to engage in these activities (Brickley & Dark, 1987; Brickley et al., 1991; Carney & Gedajlovic, 1991). Moreover, the employer could not accurately measure whether an employee was shirking or working hard (Jensen & Meckling, 1976; Shane, 1996). The franchiser, therefore, is likely to put more monitoring effort on its owned units than the franchised units.

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Regarding the franchisee, s/he was a business partner with the franchiser (Bradach, 1998; Lee, 1984; Weinrauch, 1986). Bradach (1998) recognized that they shared a joint enterprise in which they had different liabilities and roles. Franchisee's rewards were decided by how well his/her unit performed on a financial basis (Brickley et al., 1991; Bradach, 1998; Carney & Gedajlovic, 1991; Gallini & Lutz, 1992). S/he had to generate profit by efficiently competing in his/her local market. Since the franchisee was owner-manager, s/he received residual income and bore the total cost of shirking and perquisite taking (Fama & Jensen,1983a; Norton, 1988b). Therefore, s/he would not be involve in these activities. Further, if a franchised outlet went bad, the franchisee would lose all their investment. If the outlet performance was outstanding, the franchisee could sell the unit at an appreciated value contingent upon the franchiser's approval. Besides, the franchiser retained the right to award a new unit or renew a contract to a conformed franchisee (Bradach, 1998). Thus, it helped the franchiser reduce the monitoring cost.

Inefficient risk-bearing investment

The nature of franchised business comprises of numerous, geographically dispersed outlets. This advantage helps frequently traveled customers acquire goods and services in local markets where they do not normally visit (Caves & Murphy, 1976; Mathewson & Winter, 1985). Thus, the brand names and trademarks offer them product and service uniformity and quality assurance (Caves & Murphy, 1976).

However, geographically dispersed locations created monitoring problems of products and services quality since different locations had different expected returns and different risk characteristics (Carney & Gedajlovic, 1991; Caves & Murphy, 1976;

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Combs & Castrogiovanni, 1994; Hunt, 1973; Martin, 1988). Fama and Jensen (1983b) defined risk as the difference between stochastic inflows of incomes and guaranteed disbursements to agents. Brickley and Dark (1987) determined that it was very costly to create a system to effectively monitor employee behavior. Thus, there is substantial equivalency between the monitoring incentive to franchise and the risk avoidance incentive to franchise.

Regarding the monitoring incentive, greater dispersion of locations requires more supervisors and higher monitoring costs because more time is lost moving among sites (Norton, 1988b). The higher the monitoring cost, the higher the likelihood to franchise. The monitoring cost is likely to be lower if the concentration of units is higher because of the reduced traveling cost. Shirking incentive is reduced by the franchise agreement since the franchisee has a residual claim on income (Brickley et al., 1991; Caves & Murphy, 1976; Norton, 1988b; Rubin, 1978). In addition, Brickley and Dark (1987) experienced that remote sites were franchised and the geographically concentrated locations were retained as company-owned outlets. As a firm matured and franchised contracts expired, the firm would begin to exploit the economy of scale in monitoring company-owned outlets by buying back the franchised outlets (Carney & Gedajlovic, 1991; Combs & Castrogiovanni, 1994; Hunt, 1973; Martin, 1988; Oxenfeldt & Kelly, 1969). Love (1986) revealed that McDonald's began to buy back franchised outlets in 1967 when key markets were accessed.

According to risk avoidance incentive, franchising allows a franchiser to divest risky locations while retaining more profitable sites (Carney & Gedajlovic, 1991; Combs & Castrogiovanni, 1994; Martin, 1988). Therefore, a franchiser would choose to

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franchise risky locations as a consequence of risk aversion (Brickley & Dark, 1987; Combs & Castrogiovanni, 1994; Martin, 1988). The substantial variation in sales of company-owned outlets created risk since a franchiser could not identify the shirking behavior of managers (Martin, 1988). Thus, it would be better for a franchiser to franchise those outlets and keep the relatively stable sales outlets (Carney & Gedajlovic, 1991; Combs & Castrogiovanni, 1994; Martin, 1988). For example, units near highways, which were presumably frequented mainly by non-repeat customers and had stochastic demand, were more likely to be franchised than company-owned (Brickley & Dark, 1987; Brickley et al.,1991; Carney & Gedajlovic, 1991; Norton,1988a).

The franchiser's ability to shift risk to the franchisee was limited by the franchisee's risk aversion and by the expected profitability of the sites (Martin, 1988). If the franchisee purchased the distant outlet, s/he was in a concentrated investment position with high unsystematic risk (Combs & Castrogiovanni, 1994). The risk avoidance franchisee might under-invest in continuing activities e.g., advertising, since a significant share of his/her wealth had already been attached in a single outlet (Combs & Castrogiovanni, 1994). S/he was more likely apprehensive about the total risk of the project than a diversified corporation (Brickley & Dark, 1987). Hence, the franchisee would accept higher risk only if s/he was appropriately rewarded with higher expected returns.

Free-rider problems: Free rider by franchisee

A franchisee has an incentive to shade product quality if the gains from such activities could be internalized and the costs could be externalized (Brickley et al., 1991;

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Carney & Gedajlovic, 1991; Caves & Murphy, 1976; Combs & Castrogiovanni, 1994; Klein & Saft, 1985; Mathewson & Winter, 1985; Norton, 1988a; Norton, 1988b; Oxenfeldt & Kelly, 1969; Rubin, 1978; Shane, 1996). To ascertain uniformity, franchisers require that franchisees be trained at an existing unit for one week to several weeks before franchisee's license would be approved. The training educates and socializes the franchisee into the franchiser's norms and practices (Norton, 1988b).

The franchisee could supply inputs that significantly influenced the quality of the product and service. If consumers could not detect the quality of the product and service before they purchased, the franchisee would have the incentive to cut costs and use inferior inputs (Brickley et al., 1991; Caves & Murphy, 1976; Klein & Saft, 1985; Mathewson & Winter, 1985; Norton, 1988b). The incentive of franchisee's free riding is greatest where repeat customers constitute a small proportion of unit sales i.e. tourist areas, major highways, and commuter hubs (Brickley et al., 1991; Carney & Gedajlovic, 1991). Under these circumstances, franchisees lure customers on the basis of an established brand name or a trademark; but deliver inferior quality product or service (Brickley et al., 1991; Brickley & Dark, 1987; Rubin, 1978). This practice directly benefits individual franchisees that did not rely on repeat customers (Brickley et al., 1991).

For instance, in the automobile business, the catalog or internet dealers would free ride on the other dealer's investment by not providing showrooms and services (Smith, 1982). In fast food business, an airport outlet would use second-rate raw materials. This route passed burdens on to other outlets in the form of reduced future demand (Brickley et al., 1991; Caves & Murphy, 1976; Combs & Castrogiovanni, 1994; Klein &

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Saft, 1985; Rubin, 1978). Importantly, the franchiser would have a devalued brand name or trademark to franchise in the future (Caves & Murphy, 1976). Since the product and service were standardized, consumers would blame the entire group of retailers using the common name (Brickley et al., 1991; Caves & Murphy, 1976; Klein & Leffler, 1981; Klein & Saft, 1985). Therefore, industries characterized by non-repeat customers (hotels, motels, and auto-rentals) are less likely to be franchised than other industries (Brickley & Dark, 1987; Brickley et al., 1991; Carney & Gedajlovic, 1991; Norton, 1988a). They also statistically supported that the percentage of franchised units was significantly larger for the repeat customer group.

Free-rider problems: Free-rider by franchiser

Franchisers are obligated to provide franchisees with adequate services to be successful (Love, 1986). Franchisers are often responsible for monitoring franchised units for quality, and providing national advertising, training, and managerial assistance to franchisees. Since these activities were expensive, and a large portion of the benefits was capitalized into the value of the individual franchised units, franchisers had an incentive to default on their responsibilities for assuring the trademark values (Brickley & Dark, 1987; Knight, 1986; Mathewson & Winter, 1985). Franchisers would have an increased incentive to provide these services if they intend to franchise future units, receive continuing revenues from franchise operations, and buy back units in the future (Brickley & Dark, 1987; Mathewson & Winter, 1985; Rubin, 1978).

Love (1986) discovered that one of the franchise system advantages was to achieve purchasing cooperation so that franchisees could operate at effective and efficient

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costs. Franchisers had to pass on supply discounts to franchisees. He stated that franchisers should not live off the sweat of their franchisees, but should thrive by assisting their franchisees succeed. Some franchisers supplied franchisees raw materials and equipment; however, they might not act in the best interest of franchisees (Caves & Murphy, 1976). Love (1986) uncovered that General Equipment, the parent company of Burger Chef, did not allow its Burger Chef's franchisees to purchase equipment from other venders. Franchisees could not obtain better machines even though the other equipment manufacturers offered better price and products mix.

International Franchising

Vaughn (1979) discovered that 50 percent of the top 1000 American companies had international operations in 1950. The percentage increased to 65 percent in1960 and 100 percent by 1970. Bradach (1998) exposed that McDonald's alone opened a new foreign outlet every three hours. Sherman (1999) demonstrated that American franchisers had managed more than 160-country franchises worldwide, and that a large number of foreign franchisers were planning to enter the U.S. market.

Table 3

Franchising around the World.

Country	Number of Franchisers	Number of Franchise Outlets
United States	3,000	250,000
Canada	1,000	65,000
Brazil	932	60,000

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Country	Number of Franchisers	Number of Franchise Outlets
Japan	714	139,788
Australia/N.Z.	600	26,000
France	520	30,000
Germany	500	18,000
Britain	414	26,400
Italy	400	18,500
Mexico	375	18,724
Netherlands	341	11,975
Spain	280	18,500
Austria	200	3,000
Hungary	200	10,000
Sweden	200	9,000
Norway	185	3,500
Belgium	150	3,083
Malaysia	125	800
Thailand	180	11,186
Argentina	100	3,500
Singapore	85	1,600
Finland	70	900
Denmark	68	1,210
Philippines	56	61
Columbia	48	300

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Country	Number of Franchisers	Number of Franchise Outlets
Yugoslavia	45	620
Chile	45	25
Czech Republic	35	100
Israel	18	15
Bulgaria	0	7
Total	10,886	731,794

Note. The Thai data were drawn from 2000 field survey by author.

Source: Price, S. (1997). The franchise paradox : New directions, different strategies, p. 261. [From Swartz, L. N. (1995). Worldwide franchising statistics : A study of worldwide franchise associations, Arthur Andersen in co-operation with the World Franchising Council, Chicago, IL]

Table 3 illustrated the number of franchisers around the world. The more developed countries tend to have more franchisers than the less developed ones. The U.S. Department of Commerce reported that international franchising helped franchisers in three ways: to enter foreign markets with minimum risk, to capture overseas prospects with minimum investment, and to maximize opportunities of new ventures.

Minimum risk

The local entrepreneur is more familiar with his/her market than outsiders (Bradach, 1998; Justis & Judd, 1986; Mathewson & Winter, 1985). Love (1986) disclosed that the main issue to international market triumph was local control by local

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owner-operators. The differences existed regarding the availability of market information and research, the reliability and consistency of such, the suitability and need for particular products and services (Mariti & Smiley, 19831; Vaughn, 1970). Sherman (1999) testified that overseas product tastes significantly differed from the American appetite. For example, the roast pork sandwich is intolerable in Israel (Vaughn, 1970). Accordingly, the groundwork, appearance, and services of a certain product should be meticulously considered (Vaughn, 1970). Moreover, the right partner search is a major key to foreign franchise success or failure (Oxenfeldt & Thompson, 1969; Sherman, 1999).

Meanwhile, foreign business legitimacy and ethics are wide-ranging (Oxenfeldt & Thompson, 1969; Vaughn, 1970). Rudnick and Young (1980) unveiled that the disclosure law of specific information in a particular format by authorized personnel at reasonable times was extremely diverse even in the U.S. itself. In Israel, a potato import restriction could delay the distribution system (Sherman, 1999). Equally important, the legality of certain competition agreements vary from one county to another. For example, the gift dedication tradition in exchange for exclusive rights in Asian nations is a common practice; yet, is illegal in Western nations. In some cultures, i.e. Thai culture, patrons visit restaurants for enjoyment and relaxation rather than for serving speed.

Language barrier is another major obstacle. Since some parts of the world do not speak English, it would be difficult to communicate with the potential customers. For instance, Vaughn (1970) explained that language translation had different meaning in different languages and American campaign could not be translated into local words and still be proper. Vaughn (1970) established that the normal problems of quality control,

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supervision, and training were multiplied by cultural and language impediments. Conversely, the local master franchisee could directly communicate with the customers and employees with his/her own words. S/he could locate management talents, strike deals, and supervise construction for firm operations (Bradach, 1998; Justis & Judd, 1986). S/he could hire top valuable associates for each operation phase (Vaughn, 1970).

The local entrepreneur may not have the knowledge or experience to maximize the market potential. Oxenfeldt and Thompson (1969) agreed that the failure rate, caused by inexperience, was considerably lower among the franchisee than the independent entrepreneur. For example, McDonald's acknowledged that its restaurant could attract adults by appealing to kids (Love, 1986). The local businessman recognized franchising as a suitable source of technological advancement and system support that introduced know-how to an emerging business community in a cost-effective dimension (Gallini & Lutz, 1992; Murrell, 1983; Oxenfeldt & Thompson, 1969; Sherman, 1999; Weinrauch, 1986). As a result, a franchiser can employ his/her proof method to capitalize on international market potential. The franchiser management flexibility would be put to the test (Vaughn, 1970). Vaughn (1970) recommended that the combination of the franchiser system and the native experience would optimize the franchise process while keep the risk at a conventional level.

Minimum investment

The developing countries in Asia and Africa mostly utilize some forms of capital controls. They allow the foreign companies to invest in their countries; however, they have many regulations to restrict capital outflows such as profit repatriation, dividend,

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inter-company loans, licensing fees, royalty fees, and technical assistance fees. Thus, the franchise facilitated the franchiser to expand abroad without committing a large amount of capital (Justis & Judd, 1986).

Different scholars have different opinions. Sherman (1999) enumerated five dimensions of international investment: joint venture, strategic partnership, cross licensing, co-branding, and technology transfer. Rollinson (1980) and Sherman (1999) recommended licensing since it shifted the product liability risk inherent in the production and marketing to the licensee. Next, Justis and Judd (1986) proposed master franchising since the franchiser did not have to pledge initial capital. They also suggested that international franchisers develop two distinct contracts: one for the master franchisee and the other for the individual franchisee. The exclusive area could be established upon geographical territory, upon minimum distance between outlets, or upon a pre-determined number of population boundaries (Zeller, Achabal, & Brown, 1980). Normally, the master franchisee paid 6 to 10 cents per person in the territorial population plus one quarter of all fees collected from the franchisee (Justis & Judd, 1986). The franchising costs, royalty fees, license fees, and equity investment could be engineered from country to country (Vaughn, 1970).

In addition, Sherman (1999) disclosed that the initial fee and the royalty fee should be fairly priced to mirror the partition of responsibility between the franchiser and franchisee. If the franchiser overpriced, the qualified franchisee would be discouraged or left with inadequate capital to penetrate the market (Weinrauch, 1986). If the franchiser under-priced, s/he would not have sufficient capital to sustain quality training, develop effective marketing programs, attract qualified staff, and provide ongoing support.

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Further, franchising circumvents the foreign ownership requirement. The joint venture or licensing by a franchiser awards him/her the earnings with a minimum of investment. A franchiser does not have to own the business; nonetheless, s/he fully benefits from the international operation.

Opportunities maximization

Developing countries like Nigeria, China, Vietnam, India, and Indonesia do not protect property rights such as patents and trademarks even though they have intellectual property decrees. Sherman (1999) unearthed that the physical distance between a franchiser's office and the overseas franchisee could affect the intellectual property defense. The costs of copyright and trademark protections should be monetized by the franchiser. Unless the franchiser operates in the host country, the host government would enforce the copyright law. Consequently, the potential markets are defended. Otherwise, the franchiser consolation is the awareness that s/he was not the first and the last to have the infringement experience (Vaughn, 1970).

The early-entered franchiser also gains the first mover advantage. The brand name and trademark would be widely recognized by local customers. The franchiser could as well benefit from the spillover advertisement and public relations. The promotional campaign in a particular consumer market could cascade to other markets.

Finally, the occasion to smooth business peaks and troughs exists through larger geographical exposure that moderates seasonal fluctuations in any individual hemisphere (Vaughn, 1970).

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Summary

This chapter described theoretical investigations of franchise business. The literature review traced franchising from 1969 to 2000. It summarized capital market imperfection thesis, the information asymmetry hypothesis, the agency theory, and international franchising. The early literature focused on the effect of capital market imperfection on franchise growth. The critical issue was that franchisers used franchisee's capital as a source of capital. However, many later scholars contended that modern financial theory proved that the capital market is perfect. As a result, franchisees would not consent to franchiser's manipulation.

Next, the information asymmetry hypothesis held that the immature franchiser's credit was rationed due to the franchiser's unilateral information acknowledgment and adverse selection effect. Lenders/bankers were not acquainted with franchiser/borrower's business. As a franchiser grew, the information would be symmetrically distributed and these problems would be gradually resolved.

Subsequently, a large number of investigators have applied agency theory to franchising. Agency theorists focused on agency cost that is composed of the bonding, monitoring, and forgone output costs. The agency cost was a major drive through franchising vis-à-vis company-owned operations. If there is no agency cost, the franchiser will prefer the wholly owned subsidiary to a franchise.

In addition, international franchising was introduced. Most recent research works were presented. The bottom line was allowing the local owner-operator to lead the way. S/he understood the host country market better than foreign franchiser. Nevertheless, s/he needed advanced management to capitalize the market potential. If the international

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franchiser and local owner-operator properly cooperated, the best result would be accomplished.

Until now, limited research has been done on international franchising outside the U.S. and Europe. Prior research has demonstrated the necessity for more studies on the comparative franchise performance, especially in Asia. Therefore, this dissertation investigates this emerging venue.

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CHAPTER III

METHODOLOGY

The objective of this study was to compare the performance of Thai and international franchises in Thailand and to make general observation about four major industries: restaurant, hotel and motel, petroleum service, and grocery and specialty stores. This empirical research, not previously tested, will expand the franchise body of knowledge in the field of internationalization. Internationalization is crucial because global franchisers such as McDonald's, Hilton, and 7-Eleven, generate more than half of their incomes outside the U.S. This chapter describes control variables, research hypotheses, study population, research design, data collection, data analysis, validity, and reliability.

Control Variables

Age of franchise and brand served as control variables in this study. Age is the number of years that a franchise has operated (Shane, 1996). Unlike mature franchises, early franchise systems may not be profitable. They have to invest in physical assets: real estate, buildings, and equipment. They also have to invest in intangible assets: brand name, operating procedures, and training classes (Sherman, 1999). Therefore, in

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each industry, this study chooses the international franchises and the Thai franchises that have equal or nearly equal operating age.

Brand is defined in this study as the franchise reputation held in consumer's memory (Herzog, 1963; Keller, 1993). Both the local franchises and international franchises must equally have national reputations in this study. They may have their outlets throughout Thailand or Thais nationally recognize their brands. For examples, Dusit Thani and Imperial have been widely recognized throughout Thailand as five-star Thai hotel franchises. Novotel and Hilton have been well known as five-star international hotel franchises.

In an effort to expand the body of knowledge, three research hypotheses are developed.

Research Hypotheses

The hypotheses related to the pooled franchise system performance are:

H_{01}: There is no difference in sales growth between the Thai franchise and the international franchise in Thailand.

H_{A1}: There is a difference in sales growth between the Thai franchise and the international franchise in Thailand.

H_{02}: There is no difference in profit growth between the Thai franchise and the international franchise in Thailand.

H_{A2}: There is a difference in profit growth between the Thai franchise and the international franchise in Thailand.

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H_{03}: There is no difference in ROI between the Thai franchise and the international franchise in Thailand.

H_{A3}: There is a difference in ROI between the Thai franchise and the international franchise in Thailand.

Next, the study population is presented.

Population and Sample Information

The study population consisted of the international franchises and the Thai franchises that continuously operated from 1992 till 2000 in Thailand. The U.S. four-digit Standard Industrial Classification (SIC) codes are used as the definition of industry. This definition allows the results of this study to be compared to previous studies.

The sample for this study came from four industries: restaurant, hotel and motel, petroleum service, and grocery and specialty store. These four industries were selected because they have long performance track records in Thailand that could be assessed. Since Thailand is a developing nation, franchise is still a new business concept to Thai entrepreneurs. Few Thai and international franchises operate in Thailand. This study collected data from all available companies. Although there were approximately three to five companies in each industry, they represented the retail sector in which the franchise business is heavily weighted.

Previous franchise studies have relied on the "1994 Franchise Opportunities Handbook", published by the U.S. Department of Commerce, and the "Franchise Handbook", published by the Franchise Association, as primary sources of secondary data (Elango & Fried, 1997). This study used the same resources to identify franchisers

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categorized as international franchises, using the 1994 Franchise Opportunities Handbook (U.S. Department of Commerce) or the 2000 Franchise Handbook published by the Franchise Association. For example, the convenience store data included 7-Eleven and AM/PM.

7-Eleven granted the Thai master franchisee license to CP 7-Eleven, a Thai subsidiary of the CP conglomerate. It opened the first outlet on June 1, 1989 at Patpong, one of the most popular tourist destinations. It emphasizes food and drink and operates 24 hours a day, seven days a week. The staff is well trained and very polite. They welcome customers when they enter outlets. When customers pay, 7-Eleven staff thank them and remind them to come back again soon. The outlets are air-conditioned, clean, modern, and orderly. The initial franchise fee is 500,000 baht. The master franchisee provides decoration standards, equipment lease, training, accounting service, inventory control, advertising consultation, and insurance to all Thai franchisees.

CP 7-Eleven's investment strategies are to invest in company-owned outlets in the Bangkok Metropolitan area and license territory franchises in the rural area (Lakananit, 1993). Since CP 7-Eleven is a subsidiary of CP conglomerate, it has a large amount of capital to invest in company-owned outlets to gain monitoring economy of scale. The franchisee must be an owner-operator. The operation is very successful.

AM/PM entered the Thai convenience store market in 1991. It has granted the Thai master franchisee license to AM/PM (Thailand), a joint venture of the Thai public real estate company, BanChang Group, and the Thai banker, Bangkok Metropolitan Bank. AM/PM (Thailand) stresses franchising strategy. It usually sells territory sub-licenses to existing local retailers. It also cooperates with the Petroleum Authority of

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Thailand to open outlets in the contracted petroleum service stations. AM/PM's outlet differentiates itself by providing value-added services, i.e. public telephone and ATM (Lakananit, 1993). AM/PM (Thailand) is moderately successful.

The Thai franchises have their headquarters in Thailand and generate most of their sales in Thailand. The list of Thai franchises is published in the "Franchise & License Guide's 1998-1999" by Leo-Lansett company. For instance, the hotel data are from the public Dusit Thani Hotel conglomerate. An example of local convenience store franchise is Big-7. Noodle Garden and EZ's Fastfood are other famous Thai restaurant franchises.

Dusit Thani is a public Thai hotel conglomerate and has continuously operated for more than 20 years. It has developed its own uniqueness in the hotel business. The hotel theme is Thai-style decoration, prime location, well-trained employees, and friendly full-service. It also has its own training school called Dusit Thani College that trains hotel personnel in every department, i.e. housekeeping, restaurant, and front office for itself and other hotels. Currently, Dusit Thani has 38 hotels in Thailand.

Dusit Thani's investment strategies are five-star self-investment under the Dusit Thani brand, four-star self-investment under the Royal Princess brand, management contracts under the Princess brand, and franchising under the Thani brand. The management contract insures that the contracted hotel is properly managed according to investor objectives (Lakananit, 1993). However, it does not stress sales or profitability. The franchise system, on the other hand, focuses on sales, profitability, return on equity, return on asset, planning advice, marketing services, cost control, employee training, and a centralized reservation system. The first Thani franchisee was Nongkai Grand Thani in

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1992. The franchisee investment is approximately 100 million baht, excluding land. After granting a franchise license, the franchisee has to finish construction within two years. The franchise contract term is five years and renewable. The franchisee has to pay an annual membership fee and a monthly royalty fee.

Big-7 was established by Cathay Department Store as a new market niche player in 1988 (Lakananit, 1993). Cathay tranferred its retailing experience and supplier relationship management to the Big-7 management team. The first outlet, a company-owned store, opened in the Bangkok area. Then, it tried and erred till the operation became profitable. Cathay expanded the other 10 outlets one year later (Lakananit, 1993). In 1990, Cathay began to franchise its own convenience store. Table 4 showed the number of outlets comparing Big-7 and 7-Eleven.

Table 4

Number of Big-7 and 7-Eleven Outlets

	Big-7		7-Eleven	
Year	Company-owned	Franchised	Company-owned	Franchised
1988	7	0	-	-
1989	14	6	7	0
1990	17	11	27	0
1991	17	14	65	9
1992	16	16	117	19

Source: Lakananit, S. (1993). An empirical analysis of a firm's decision to franchise. Unpublished master's thesis, Thammasat University, p. 120.

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Big-7 focused on the Bangkok Metropolitan area because of the Bangkokian high-income level, a large number of expansion opportunities, and the monitoring economy of scale (Lakananit, 1993). Table 5 showed the characteristic comparison between Big-7 and 7-Eleven in Thailand. Due to increasingly high competition in the Bangkok metropolitan area, capital constraints, and larger loss, Big-7 ceased its operation in 1994. Therefore, it was not included in this sample.

Table 5

Comparison between Big-7 and 7-Eleven

Characteristics	Big-7	7-Eleven
Year established	1988	1989
Owner	Cathay Department Store	CP 7-Eleven
Initial Fee (Baht)	0	500,000
Royalty Fee	Not Available	35 percent of gross profit
Contract Term (Years)	5	10
Training Time (Days)		
-Manager	5	11
-Staff	5	3 - 5
Opening Team Assistance	7 days	1 month
Inspection	Every two-day	Every month
Advertising Budget in 1991	-	3,880,000 Baht
Operation Hours	7:00 a.m. – 11:00 p.m.	24 hours
Store Manager Regulation	Franchisee or Relative	Franchisee

Source: Lakananit, S. (1993). An empirical analysis of a firm's decision to franchise. Unpublished master's thesis, Thammasat University, p. 119.

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Noodle Garden, a Food System company, was a joint-venture fast food service restaurant launched in 1985 by a Singaporean businessman and the Robinson Department Store, the second largest Thai department store chain (Lakananit, 1993). The operation was unsuccessful. On July 1, 1986, Robinson Department Store took over Noodle Garden and promoted it as an independent franchiser. Noodle Garden served Hong Kong style food, i.e. roast duck, egg noodles, dim-sum, and boiled rice soup. Its franchise policy was to expand franchises in the Bangkok Metropolitan area to gain monitoring economy of scale. Noodle Garden planned to increase its outlets in big shopping complexes. The operation was moderately successful.

The Petroleum Authority of Thailand established in 1978 is the national petroleum services franchise, wholly owned by the Thai government. Its objective is to strengthen the Thai national energy security and stability for the benefit of Thai people. It was ranked as one of Fortune 500's largest industrial corporations of the world and one of the top ten ASEAN firms in 1993. Its product lines included gasoline, kerosene, diesel, fuel oil, lubricants, and natural gas.

In 1991, the Thai government deregulated the petroleum services industry. The competition was increasingly intense. Consumers had more products and services from which to choose. Oil companies accelerated their petroleum products development to increase their market shares. The rising domestic petroleum demand had attracted more investment from small oil traders and other multinational oil corporations. Esso, Shell, and Caltex had increased their investment in Thailand accordingly. The Petroleum Authority of Thailand rose to this challenge by increasing their petroleum service stations to protect its market share. Human resources, professional management, and

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international strategic alliance were the center of attention. In 1994, the Petroleum Authority of Thailand gained the largest market share, 26.5 percent, in petroleum services marketed in Thailand. 1998 was its sixth consecutive year as a market share leader in oil services market. The operation is undoubtedly successful.

Research Design

The research design compares the annual international franchise sales growth, one of the performance measurements, with the annual Thai franchise sales growth in each particular industry. The sales data, profit, and total assets are reported in the local currency, the baht, throughout this study. Periods are based on the calendar year. The sales growth measurement is adapted from the outlet growth computation developed by Martin and Justis (1993). Since the same variable on two subjects is evaluated, the Mann-Whitney U test is implemented (Norusis, 1997; Peatman, 1963; Snedecor & Cochran, 1976). The procedure consists of the following steps:

1. In each industry, categorize companies into two groups: local franchise and international franchise.

2. In each of the two groups, collect each company's sales data during the period of 1992 through 1998.

3. Compute annual company sales growth using the following formula:

$$\text{Sales Growth } (G_t)_{i,j,k} = 100*[\{(\text{Sales}_t)_{i,j,k} - (\text{Sales}_{t-1})_{i,j,k}\}/(\text{Sales}_{t-1})_{i,j,k}]$$

t = number of years: $t = 1 - 7$

i = number of industries: $i = 1 - 4$

j = number of groups: $j = 1 - 2$

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k = number of companies: k = 1 – n

4. Within each group, calculate a group's sales growth by summing all the companies' sales growth in one year together. The formula is:

$$\text{Group Sales Growth } (IG_t)_{ij} = \sum_{i=1}^{4} \sum_{j=1}^{2} \sum_{k=1}^{n} (G_t)_{ijk}/n$$

5. Pool the Group Sales Growth of four local industries into one group.

6. Pool the Group Sales Growth of four international industries into one group.

7. Compare Pooled Group Sales Growth between the local franchise and international franchise by employing the Mann-Whitney U test. The Mann-Whitney U test of financial performance measurement is desired in this study since they can correctly detect differences when they exist (Norusis, 1997; Peatman, 1963; Snedecor & Cochran, 1976). Both the local franchise and the international franchise operate under identical environments, e.g., customer values, competition, franchise regulations, and political circumstances. Therefore, if achievement disparities exist, they will be exposed.

8. Repeat steps 1-7 by replacing sales variable with profit.

9. Repeat steps 1, 2, 4-7 by replacing sales and sales growth variables with ROI.

This Pooled Franchise System approach was used since the sample sizes (number of companies) were small. The individual industry testing approach was performed because the very small sample size for each industry made nonparametric tests unrealistic. There were five companies in the petroleum services industry and four companies in the grocery and specialty stores industry.

Regarding outlier detection, this study employs scatter diagram and boxplot diagram to detect outlier (Norusis, 1997; Rousseeuw & Leroy, 1987). Outlier is an observation that appears to be inconsistent with the remainder of that set of data in the

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sampling process (Barnett & Lewis, 1984; Ferguson, 1961). The scatter diagram between sale growth and profit growth was shown on Figure C1 in Appendix C. The scatter diagram between sale growth and ROI was illustrated on Figure C2 in Appendix C. The scatter diagram between profit growth and ROI was shown on Figure C3 in Appendix C. If the outlier appeared too large to be admissible, this observation produced outlier would be rejected, as generating from unusual event or faulty record (Rousseeuw & Leroy, 1987). The loss of sampling accuracy caused by throwing away a good value was diminutive compared to the loss caused by keeping one bad value (Ferguson, 1961; Freedman, Pisani, Purves, & Adhikari, 1991). The unknown would be determined by means of the other observations, which would then give more accurate data (Rousseeuw & Leroy, 1987).

The boxplot diagram was applied to data. The results were illustrated on Figure C4, C5, and C6 in Appendix C. If an outlier occurred, it was designated with "O" on the graph. The outlier would be tracked down and diagnosed. If the outlier was the result of data entry or coding errors, the correction would be implemented (Norusis, 1997).

To date, no consensus has emerged on the best optimal method to detect outliers (Fox & Long, 1990). The other outlier detection methods used in regression analysis are partial regression plots, hat matrix, studentized residuals, $DFITS_i$, Cook's D_i, and $DFBETAS_{ij}$ (Fox & Long, 1990). Since this study does not utilize regression methodology, these treatments are out of scope of this study.

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Data Collection

Since Thailand is a developing country, some companies have two sets of accounting books. This practice varies among companies. The first set of books is for internal audit and is unavailable for outsiders. The other set, that is standardized, is for official tax purposes. Although the sets are not identical, their differences are cosmetic. This study will use the official volumes for evaluation.

The data were drawn from the Thai Ministry of Commerce Annual Corporate Report (Department of Commercial Registration) to assure accuracy[1]. This source provided registered company balance sheet data. The official source is unbiased because every company is directed by Thai law to annually report its financial performance for the purpose of paying taxes. The penalty will be assessed for non-reporting or late-reporting companies. The author believes that the database is maintained in a reasonable and consistent manner. All companies' addresses are attached in the Appendix for future investigation.

Regarding the missing data, the missing value may occur due to the unintentional report omission or database malfunction although they are unlikely. It is unacceptable to simply discard cases having missing data. First, case deletion usually biases the retained sample; therefore, the resulting analysis will in general be biased (Fox & Long, 1990). Second, the obvious loss of information causes by discarding the incomplete cases (Fox & Long, 1990; Lessler & Kalsbeek, 1992). Sufficient data is missing that dropping any missing data cases further reduces the sample size severely.

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[1]Department of Commercial Registration, Ministry of Commerce, Maharat Rd., Bangkok, 10200 Thailand. Tel: (662) 222-9851 Fax: (662) 225-8493. http://sunsite.au.ac.th/thailand/thai_gov/Commerce/dcr.html

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This study uses single imputation method for incomplete cases if happened. The weighting adjustment and model-based technique are not implemented due to their practical limitations (Lessler & Kalsbeek, 1992). In the single imputation method, the missing values are filled in with the best suitable estimates (Fox & Long, 1990). The first advantage of this method is allowing the use of information available to data collector but not available to external data analyst (Fox & Long, 1990; Lessler & Kalsbeek, 1992). Second, the missing-data problem is handled once, rather than many times, by the users (Fox & Long, 1990; Lessler & Kalsbeek, 1992). Third, the uniformity of database across users results in consistent answers from identical analysis (Fox & Long, 1990).

Data Analysis

The Pooled Franchise System data were analyzed using SPSS. The Mann-Whitney U test was used to determine the franchise performance comparison (Norusis, 1997; Snedecor & Cochran, 1976). The significant level was set at conventional $p < 0.05$.

Since the sampled companies were independent and the normality of data distribution was suspected, the non-parametric test was selected. All parametric tests required that data be normally distributed. On the other hand, the non-parametric test presumed a distribution-free assumption match of the data collected. Therefore, there are two competing tests: the Median Test and the Mann-Whitney U test.

The support for the Mann-Whitney U test is based on this test being a more powerful measure of differences in a sample than the Median Test. Runyon (1977) affirmed:

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> The Median Test loses statistical power (i.e., its ability to reject false null hypotheses) to the extent that it does not take full use of the information inherent in ordinal scales. In fact, the Median Test collapses the ordinal scale into a two-category nominal scale. In contrast, the Mann-Whitney U Test uses all the information inherent in ordinal scales. Accordingly, it is among the most powerful statistical tests for assessing differences in central tendency (Runyon, 1977, p.83)

The Mann-Whitney U test is superior to the Median Test in term of accuracy (Snedecor & Cochran, 1976). Peatman (1963) supported:

> This test is a more powerful distribution-free method than is the preceding one [the median test] for evaluating the significant differences between independent samples. Although it is essentially a median test, it takes into account more information from the sample results. Whereas the median test by chi-square takes into account only two positions of the distributions of independent samples, viz., above and below the median, the Mann-Whitney test takes into account all ordinal positions of the two groups (Peatman, 1963, p.368)

In addition, the Mann-Whitney U test is used due to its supremacy in dealing with small sample sizes. In this empirical research, the sample sizes (number of companies) within each industry were small (see Appendix A). For example, in the restaurant industry, there were four local franchises and four international franchises operated in Thailand with traceable records. In the hotel and motel industry, there were four local hotel franchises and six international hotel franchises operating in Thailand. In the petroleum service industry, there were two local franchise firms and three international franchise firms operating in Thailand. In the grocery and specialty stores industry, there was only one local franchise and there were three international franchises operating in Thailand. The total number of local and international franchises in this study was less than 30.

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The Mann-Whiney U test does not require the number of sampled companies in both groups to be equal. For instance, Peatman (1963) investigated the difference in birth weights of premature infants. The investigation sampled eight cases from one group and 22 cases from the other group. Although the samples were small, the results showed that premature infants who died had a significantly lower median birth weight than those who survived. In this empirical study there were 11 local franchises and 16 international franchises systems operating in Thailand.

Norusis (1997) used the Mann-Whitney U test in the Western Electric study to explore the effect of coronary heart disease in men for 20 years. The result showed that men smoking a few cigarettes lived longer than men smoking a large number of cigarettes.

Regarding other venues, there are more powerful nonparametric tests when the observations are paired, which are not the case here. As they are, using the Mann-Whitney U test in such a situation biases the result against rejecting the null hypotheses. This study has already acknowledged this possibility.

Validity and Reliability

In this study, performance was assessed with three variables: sales growth, profit growth, and return on investment or ROI (Atkinson, Banker, Kaplan, & Young, 1995; Brealey & Myers, 1991; Elango & Fried, 1997; Horngren & Sundem, 1990; Price, 1997; Sharma & Kesner, 1996; Skousen, Albrecht, & Stice, 1996). These ratios were directly discussed among experts regarding their statistic advantages and disadvantages. In

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finance, these ratios have been accepted in academic research over the past 40 years. These measures are appropriate in this common use.

Regarding sales growth, other studies used the number of outlets to measure performance since they could not obtain actual sales data (Martin & Justis, 1993). Martin and Justis (1993) stated:

> System growth can be measured by such variables as output, investment, employment and the number of establishments (Evans, 1987). Since neither employment numbers nor output measures such as total sales are available in this data set, we use the change in the total number of establishments to measure system growth. Let E_{it} be the total number of establishments for system *i* in time period *t*. The annual growth rate in establishments is $AGR_{it} = (E_{it} - E_{it-1}) / (E_{it-1})$. It is also a direct measure of multiple plant operation (Martin & Justis, 1993, p.1272-1273)

This study employed sales growth as one of the performance measures. Adding units to a franchise system plays a vital part in its success and management (Bradach, 1998). The direct financial impact of new units is obvious: more revenues and profits from additional company units and more fees and royalties from new franchise outlets.

Baucus et al. (1993) explored the retail outlet growth and used sales growth to assess the value of franchise and future performance. Churchill (1991) employed sales growth as an accurate measure to track company performance through sales invoice, factory shipments, and in-store scanner. Parasuraman (1991) described that the total unit sales of some products could be derived from total dollar sales data and vice versa. Tull and Kahle (1990) used sales growth to determine the All-American store performance in the Los Angeles area. Baucus et al. (1993) also defined growth as the change in the total number of retail outlets between 1987 and 1989. A successful franchise must generate profit from sales. Sales growth is highly correlated with unit growth and sales are

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considered to be an excellent indicator of performance (Baucus et al., 1993; Martin & Justis, 1993; Sharma & Kesner, 1996).

Regarding the reliability of sales growth, this study divided the pooled sales growth data into two periods: 1993 to1995 and 1996 to 1998, respectively. The sales growth variable has 24 representatives. They were derived from 6 years (1993-1998) multiplied by 4 industries. Then, the Mann-Whitney test was performed to compare the medians between these two periods. Table 6 shows that there is no statistically significant difference in the medians of the local sales growth or the international sales growth.

Second, profit is characterized as the net income after interest and tax. This study defined profit growth as the percentage change in the total profit of a specific franchise system from the previous year. Profit growth is considered to be a good measure of performance (Skousen et al., 1996). The present figure comparison against prior year's number is one way of judging whether franchise performance is satisfactory (Skousen, Albrecht, & Langenderfer, 1994). It is usual to compare the company's financial ratios in earlier years with the ratios of other firms in the same business (Brealey & Myers, 1991). Profit growth was introduced in this study to capture meaningful relationships, show trends from prior years, and measure the efficiency of franchise management (Skousen et al., 1994). Since a franchise may generate enormous sales growth; however, it probably could not control the expanding cost (Atkinson et al., 1995). Thus, it could not make profit.

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Table 6

Mann-Whitney Statistics of Variables Reliability

Variables	N	Pooled Mean	Pooled Std. Deviation	Mann-Whitney Statistics	Significant (two-tailed)
Sales Growth					
Local	24	198.34	804.49	45.50	.126
International	24	77.85	210.64	59	.453
Profit Growth					
Local	24	48.09	599.35	50	.204
International	24	-383.05	1057.59	57	.386
ROI					
Local	27	-3.13	12.19	67	.154
International	27	-1.10	7.40	83	.491

For example, Skousen et al. (1994) used profit growth to evaluate Sanford's financial performance. Next, they employed this measure again in Hillhaven Company. Tull and Kahle (1990) explained that profit was viewed as a return for efficiency. Thus, the organization that served customers most efficiently should earn the highest profit and have high profit growth. W. T. Grant's chain went bankrupt since it did not concern itself with profit growth (Mason & Mayer, 1978). Westwick (1983) used quarterly and annual profit growth as performance criteria for assessing Johnson Mathey's company.

Regarding the reliability of profit growth, this study divided the pooled profit growth data into two periods: 1993 to1995 and 1996 to 1998, respectively. The profit

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growth variable has 24 representatives. They are derived from 6 years (1993-1998) multiplied by 4 industries. The Mann-Whitney test was performed to compare the medians between these two periods. Table 6 showed that there is no statistically significant difference in the medians of the local profit growth. The same is true for the international profit growth.

Third, ROI, return on total assets, was computed by dividing net operating income with total assets (Atkinson et al., 1995; Brealey & Myers, 1991; Skousen et al., 1996). ROI is used to evaluate a company's overall performance and judge how efficiently a firm utilizes its assets (Skousen et al., 1996). ROI criterion serves as an evaluation of the desirability of a long-term investment rather than a measure of short-term performance (Atkinson et al., 1995). There is a consensus among experts that ROI is an accurate and reliable measure. Nevertheless, some critics noted that common use and widespread acceptance were not sufficient evidence for the reliability or validity of this measure.

In 1978, Harvard Business Review's survey showed that 65 percent of investment center professionals used ROI as their best performance measure (Reece & Cool, 1978). Dupont and General Motors employed the ROI number as the best performance measurement to plan, evaluate, and control companies' profit (Atkinson et al., 1995). Mercedes Benz, for instance, is a highly profitable company whereas Harley-Davidson is marginally profitable according to ROI (Tull & Kahle, 1990). General Mills also used ROI to evaluate its operating performance (Skousen et al., 1996).

Regarding the reliability of ROI, this study divided the total ROI sample into two periods: 1992 to1995 and 1995 to 1998. The ROI variable has 27 representatives. They were derived from 7 years (1992-1998). The Mann-Whitney test was performed to

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compare the medians between these two periods. Table 6 showed that there was no statistically significant difference in the medians of the local ROI or the international ROI.

Summary

Chapter III presented the design and methodology used in this empirical study. First, the control variables, age of franchise and brand, were defined. Second, three research hypotheses regarding sales growth, profit growth, and ROI were established. Third, the 1994 Franchise Opportunity Handbook published by the U.S. Department of Commerce and 2000 Franchise Handbook published by the Franchise Association were used to categorize franchise systems. Fourth, the annual average sales growth, profit growth, and ROI of local franchise and international franchise systems were calculated. Then, the Mann-Whitney U test was used to investigate the financial differences between the local franchises and international franchises because it is more powerful than the Median Test. Also, the Mann-Whitney U test was used since the data were not normally distributed and the number of sampled companies was small. Financial and accounting literatures that support the validity of sales growth, profit growth, and ROI were presented. Finally, the sales growth, profit growth, and ROI reliability were confirmed by the Mann-Whitney U test.

Next, chapter IV will present the results of the data collection and its analysis.

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CHAPTER IV

DATA ANALYSIS AND RESULTS

The purpose of this study was to compare the performance of Thai and international franchises in Thailand from 1992 to 1998. Companies sampled in this study were drawn from four major industries: restaurant, hotel and motel, petroleum services, and grocery and specialty stores. Performance is measured by sales growth, profit growth, and ROI. The official financial data were obtained from the Thai Ministry of Commerce. Then, they were compared by using the Pooled Franchise System approach. This approach was chosen due to the limited number of companies sampled. The Mann-Whitney U test was used because of its distribution-free assumption and power.

Table D4 in Appendix D shows the Pooled Franchise System results of the Mann Whitney test. The most important result was that the profit growth between the Thai franchise and the international franchise in Thailand was noticeably different. Nevertheless, the Thai franchise sales growth and the international franchise sales growth in Thailand were not different (see Table D4 in Appendix D). The Thai franchise ROI and the international franchise ROI in Thailand were not different either. This chapter presents the results in the following order: data collection, data description, data analysis, hypotheses testing results, and summary.

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<u>Data Collection</u>

The data were collected from the secondary source, the Thai Department of Commercial Registration, Thai Ministry of Commerce. First, the Franchise and License Guide's 1998-1999 book, published by Leo-Lansett Company, was used to identify company names, addresses, products and services brands available in Thailand. If the company name was not listed, a call was made to obtain the address and company name.

Second, the company name was checked against the registered company name list at the Thai Department of Commercial Registration for accuracy. If the company name was registered, the company was included in the sample and its financial data gathered. If it was not registered, it was dropped from sample. Some companies gave false registered company names or misrepresented their names. Their names could not be found in the Thai Department of the Commercial Registration's list. If that was the case, they were dropped from the study. In some instances, the company representative who was contacted by phone was frightened that these calls were made from the Thai Internal Revenue Service and that s/he was under scrutiny by the Thai Internal Revenue Service.

Third, the registered company name was used to identify the registered company's identification number. Then, the company identification number was used to find corporate consolidated financial data for a designated time period. The financial data were reported in the company annual report collected by the Thai Department of Commercial Registration in microfilm format.

Fourth, the financial endnote of the each company's annual report was used to confirm that the registered company operated the licensed products and services.

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Table 7

Sample Sizes of Thai and International Franchises Categorized by Industry, 1992-1998

Industry	Number of Thai Franchises	Number of International Franchises
Restaurants	4	4
Hotels and motels	4	6
Petroleum services	2	3
Grocery and specialty stores	1	3

Source: Department of Commercial Registration, Ministry of Commerce, Nonthaburi, Thailand, 2000

Finally, the company financial data were categorized by type (local versus international franchises) and industry (restaurant, hotel and motel, petroleum services, or grocery and specialty store). This process was repeated to gather the required financial data of franchised restaurant, hotels and motel, petroleum services, and grocery and specialty stores companies in Thailand, respectively. Table 7 summarized the number of sampled franchises in each category.

Regarding the franchised hotel and motel industry, the Thailand Official Hotel Directory, distributed by the Thai Hotels Association, was used to identify company names, addresses, and their product and service brands available in Thailand. This process was repeated.

With one exception, the Petroleum Authority of Thailand is a government owned enterprise. According to the Thai Commercial law, it does not have to report its financial performance to the Thai Department of Commercial Registration. However, it is obliged

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to report its financial status to the Office of the Auditor Generals, Thai Ministry of Treasury. The Petroleum Authority of Thailand generates its own annual report, certified by the Office of the Auditor Generals. Therefore, the Petroleum Authority of Thailand's financial data were gathered from its certified annual reports, maintained at its head office in Thailand.

Appendix A lists company names, brands, and the addresses of all franchises in Thailand included in the present study. For example, Appendix A, containing franchised restaurants, shows that Narai Pizzaria Company operated "Narai Pizzaria" brand, located at 248/20 Silom Rd., Bangruk, Bangkok, 10500 with the telephone number 635-7008.

Data Description

The data collected appear in Appendix B. It included data on sales, profit, and total assets for seven years (1992-1998) for all franchises in Thai currency (baht). Appendix B also listed sales growth, profit growth, and ROI in percentage both by company and by industry.

For example, in the restaurant category, Table B7 in Appendix B summarized Avant Development Company's financial data. This company was licensed as Hard Rock Café in Thailand. The sales, profit, and total asset figures in 1993 were 91,311,649 baht, 9,893,675 baht, and 133,942,000 baht, respectively. NA means "Not Applicable" since the 1992 data, sales and profit, were used as a basis for 1993 sales growth, and profit growth calculation. The sales growth, profit growth, and ROI figures in 1993 were 26.36 percent, 191.6 percent, and 7.39 percent.

Sales growth in 1993 resulted from the following calculation:

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[(91,311,649-72,261,549) / 72,261,549] * 100 = 26.36 %

Profit growth in 1994 resulted from the following calculation:

[(1,166,372-9,893,675) / 9,893,675] * 100 = - 88.21 %

ROI in 1995 resulted from the following calculation:

(16,962,112 / 96,571,426) * 100 = 17.56 %

The figures in Tables B1-B8, B11-B20, B23-B27, and B30-B33 in Appendix B were obtained in the same manner as shown.

Table B9 in Appendix B summarized the local restaurant industry's performance data. The local restaurant industry sales growth resulted from summing all local restaurant sales growth from table B1-B4 in a particular year. Then, the sum was divided by the number of companies representing the local restaurant industry, in this case four. For instance, the local restaurant industry sales growth in 1993 was calculated as follows:

[(86.68 - 27.01 + 135.10 + 354.66) / 4] = 137.36 %

Local restaurant industry profit growth in 1993 was calculated as follows:

[(28.02 – 232.36 + 31.83 + 78.29) / 4] = - 23.56 %

Local restaurant industry ROI in 1993 was calculated as follows:

[(- 13.06 – 7.3 –32.73 – 2.41) / 4] = - 13.88 %

Tables B9, B10, B21, B22, B28, B29, B34, and B35 in Appendix B were obtained in the same manner as shown.

Table B36 in Appendix B was the foundation for data analysis in this study. Table B36 summarized Pooled Franchise System financial data from Tables B9, B10, B21, B22, B28, B29, B34, and B35. For instance, the second line of Table B36 from the top referred to the hotel and motel industry financial performance in 1993. The local

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industry sales growth, profit growth, and ROI were 8.78, - 52.62, and 2.17 percent. The international industry sales growth, profit growth, and ROI were -7.3, - 78.13, and 2.82 percent. Table B36 summarizes the number of observations used in this study. The last line of Table B36 counts the number of local franchise sales growth, profit growth, and ROI observations used in this study during 1992-1998. Those figures were 24, 24, and 27, respectively. The number of international franchise sales growth, profit growth, and ROI observations during 1992-1998 were 24, 24, and 27, respectively.

This study tried to gather as much data as possible. However, franchise business is quite a new concept to Thai people. Most international franchises began their operations in Thailand in 1997. The local franchise counterparts started their major expansions in 1998. As a result, there were very few public data available. The official financial data published by the Thai Ministry of Commerce lag by approximately one- to two-years. Consequently, this study could not accumulate adequate financial observations to test the franchise performance in each industry. This study used the Pooled Franchise System approach to test the franchise performance differences between the Thai and international franchises in Thailand.

Data Analysis

Figures C1 to C3 in Appendix C explain the correlations of sales growth versus profit growth, sales growth versus ROI, and profit growth versus ROI. The observations are available in Table B36, Appendix B.

Figure C1 in Appendix C is the Pooled Franchise System scatter diagram of sales growth and profit growth. There were 24 local sales growth and 24 profit growth

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observations. There were 24 international sales growth and 24 profit growth observations. The relationship between the local sales growth and local profit growth observations was plotted with the "bold-square symbol". The relationship between the international sales growth and international profit growth observations was plotted with the "faded circle symbol". The graph illustrates that there was no correlation between sales growth and profit growth.

Figure C2 in Appendix C is the Pooled Franchise System scatter diagram between sales growth and ROI. There were 24 local sales growth and 24 ROI observations. Four 1992 local ROI observations were dropped because there were no corresponding 1992 local sales growth observations. The 1992 sales data were used as a basis for 1993 sales growth calculations. There were 24 international sales growth and 24 ROI observations. Four 1992 international ROI observations were dropped because there were no corresponding 1992 international sales growth observations. The 1992 sales data were used as a basis for 1993 sales growth calculation. The relationship between the local sales growth and local ROI observations is plotted with the "bold-square symbol". The relationship between the international sales growth and international ROI observations is plotted with the "faded circle symbol". The graph illustrates that there is no correlation between sales growth and ROI.

Figure C3 in Appendix C is the Pooled Franchise System scatter diagram for profit growth and ROI. There were 24 local profit growth and 24 ROI observations. Four 1992 local ROI observations are dropped because there are no corresponding 1992 local profit growth observations. The 1992 profit data were used as basis for 1993 profit growth calculation. There were 24 international profit growth and 24 ROI observations.

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Four 1992 international ROI observations were dropped because there were no corresponding 1992 international profit growth observations. The 1992 profit data were used as a basis for the 1993 profit growth calculation. The relationship between the local profit growth and local ROI observations is plotted with the "bold-square symbol". The relationship between the international profit growth and international ROI observations is plotted with the "faded circle symbol". The graph illustrates that there is no correlation between profit growth and ROI.

Figures C4 to C6 in Appendix C contain distribution graphs of observations for both pooled local Thai and international franchises in Thailand for each variable: sales growth percentage, profit growth percentage, and ROI percentage from 1992 to 1998. The observations are in Table B36 in Appendix B.

Figure C4 in Appendix C illustrates the pooled local and international sales growth observations' distributions from 1993 to 1998. The upper graph shows that the annual sales growth observations' distribution of the local franchise is not normally distributed. Norusis (1997) gives a detailed explanation of the boxplot diagram. The lower graph also explains that the annual sales growth observations' distribution of the international franchise is not normally distributed. However, both the upper and lower graphs show that the annual local and international sales growth observations' distributions are nearly the same during 1993 to 1998. Both graphs also indicate no outlier observations. If an outlier occurred, it was designated with "O" on the graph.

Figure C5 in Appendix C shows the pooled local and international profit growth observations' distributions from 1993 to 1998. The upper graph explains that the annual profit growth observations' distribution of the local franchise is not normally distributed.

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The lower graph also illustrates that the annual profit growth observations' distribution of the international franchise is not normally distributed. Nevertheless, both the upper and lower graphs show that the annual local and international profit growth observations' distributions are alike from 1993 to 1998. Both graphs also illustrate no outlier observations.

Figure C6 in Appendix C illustrates the pooled local and international ROI observations' distributions from 1992 to 1998. The upper graph shows that the annual ROI observations' distribution of the local franchise is not normally distributed. The lower graph also explains that the annual ROI observations' distribution of the international franchise is not normally distributed. Conversely, both the upper and lower graphs show that the annual local and international ROI observations' distributions were nearly similar during 1992 to 1998. Both graphs indicate no outlier observations.

Appendix D summarized statistical results in this study. Table D1 in Appendix D showed correlations of all variables: local and international sales growth, local and international profit growth, and local and international ROI. For example, the correlation of the local and international franchises sales growth in Thailand was statistically significant, $r = .768$, $p = .000$. Nevertheless, the correlation of the local and international franchises profit growth in Thailand was not statistically significant, $r = .097$, $p = .651$. The correlation of the local and international franchises ROI in Thailand was not statistically significant as well, $r = -.145$, $p = .461$.

Hypotheses Testing Results

This section gives the hypotheses testing results. An alpha level of .05 was used for Mann Whitney statistical tests (two-tailed). Since the data are not normally

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distributed, but still similarly distributed, the Mann-Whiney U test is appropriate. Appendix D showed descriptive statistics, Mann Whitney ranks, and Mann Whitney statistics.

Table D2 in Appendix D explained Pooled Franchise System descriptive statistics: mean, sample size, standard deviation, and standard error mean. For example, in the first series, the local sales growth mean, observation number, standard deviation, and standard error mean were 198.34 percent, 24, 804.49, and 164.21, respectively. Table D3 described Pooled Franchise System Mann Whitney ranks: observation number, mean rank, and sum of ranks. For instance, in the first series, the local sales growth observation number, Mann Whitney mean rank, and Mann Whitney sum of ranks were 24, 25.29, and 607. Table D4 demonstrated each variable Mann Whitney statistics: observation number, Mann Whitney U value and p-value.

First, the null hypothesis H_{01} could not be rejected. There was no statistically significant difference in sales growth between the Thai franchise and the international franchise in Thailand, U = 269, p = .695 (see Table D4 in Appendix D).

Second, the null hypothesis H_{02} can be rejected. There was a statistically significant difference in profit growth between the Thai franchise system and the international franchise system in Thailand, U = 160, p = .008 (see Table D4 in Appendix D). The local franchise profit growth mean, 48.08 percent, was much greater than the international franchise profit growth mean, -383.04 percent (see Table D2, Series 2).

Third, the null hypothesis H_{03} could not be rejected. There is no statistically significant difference in ROI between the Thai franchise and the international franchise in Thailand, U = 371, p = .731 (see Table D4 in Appendix D).

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Conservatively, classical hypotheses test in this situation tends to overestimate the size of p, and tends to fail to detect real population effects more often than random sampling from an infinite population size would suggest.

Summary

Chapter IV portrayed the results of this study. First, the data were collected from the Thai Ministry of Commerce. Second, data were analyzed and graphically presented. This study found that there were no correlations among sales growth versus profit growth, sales growth versus ROI, and profit growth versus ROI. The annual financial observations' distribution was not normally distributed. Next, the correlation between local and international franchises sales growth was significant. In addition, there was no difference in sales growth between the Thai franchise and the international franchise in Thailand. There was also no difference in ROI between the Thai franchise and the international franchise operated in Thailand. Nonetheless, the Thai franchise profit growth was much higher than the international franchise profit growth in Thailand.

Next, chapter V will discuss the results, managerial implications, and recommendations for future research.

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CHAPTER V

SUMMARY AND CONCLUSIONS

The goal of this study was to compare the performance of Thai and international franchises in Thailand. Many scholars have commented about international franchise investigation in Asia; yet, no formal investigation has been done. This study was the first research to improve the franchise knowledge in Asia. The road was rough and complicated. Data were gathered from the Thai Ministry of Commerce that officially keeps records of all companies operating in Thailand. The Pooled Franchise System methodology was carefully selected to cope with the nature of small sample sizes.

Several important discoveries were summarized in the next section. For instance, this study found that there were no correlations among sales growth versus profit growth, sales growth versus ROI, and profit growth versus ROI. These financial variables could be used to measure business performance from different points of view. This chapter presents a summary of results, including support or rejection of null hypotheses. The following managerial implication section concerns contributions of this study. Finally, recommendations are made for future research and applications.

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Finding Summary

In this study, several important findings emerge. First, there were no correlations among sales growth versus profit growth, sales growth versus ROI, and profit growth versus ROI. Each financial variable measured different aspects of franchise performance.

Second, the distributions of annual observations of local and international sales growth were not normally distributed. Nevertheless, their distributions were similar. The distributions of annual observations of local and international profit growth were not normally distributed. However, their distributions were alike. The distributions of annual observations of local and international ROI were not normally distributed, but their distributions were similar.

Third, the correlation between local and international franchise sales growth was significant (see Appendix D, Table D1, Series 1). However, there was no correlation between local and international franchises profit growth (see Appendix D, Table D1, Series 2). The same was true for local and international franchises ROI (see Appendix D, Table D1, Series 3).

Regarding hypotheses testing results, the Thai and international franchises sales growth in Thailand was not different. The difference between the Thai and international franchises ROI in Thailand was not significant as well. On the other hand, the profit growth of the Thai and international franchises in Thailand is significantly different. Principally, in Thailand, the Thai franchise profit growth is much higher than the international franchise profit growth (see Appendix D, Table D2, Series 2).

Next, managerial implications of results are provided.

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Managerial Implications

Investors (potential franchisees) could use sales growth, profit growth, and ROI to measure corporate performance. They can use these financial performance criteria as a guide to apply for franchise licenses. Investors generally expect a franchise to provide the highest ROI since profit is very important. High sales growth without profit does more harm than good to investors, not licensors. For example, licensers, territory franchisees, joint venture franchisers, and franchisers, receive royalty as a percentage of sales; thus, they will concentrate more on sales, not licensees' profitability. Licensors may subsidize inter-company loans to franchisees to build sales growth; however, franchisees accumulate debt. When franchisees turn operating profit, they may convert debt to equity diluting investors' return or taking over the control of a company.

Regarding this study's empirical results, the Thai franchise focusing on profit growth is generally better than the international franchise operating in Thailand. The Thai franchiser has to turn the franchisee's business into profit in order to sell more licenses in the future. This future revenue stream is very important to the Thai franchiser since most Thai franchisers do not have international operation profit to fund local expansion. Therefore, the potential franchisee, in general, will be better off if s/he applies for the Thai franchise license since the Thai franchiser will help turn his/her business to profitability. The international licensors usually emphasize sales growth, market share, and market penetration in order to achieve long-term international goals rather than profitability from operations in Thailand. Therefore, international franchisees in Thailand suffer.

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The expansion of international franchises in Thailand has brought in much needed management professionals and systems. For example, regarding the restaurant industry, the international franchises in Thailand are very proficient. The international franchises have adopted supply chain management system, pre-cooked raw materials, quality control system, modern accounting standard, and marketing procedure to their operations in Thailand. They are specialized in catering to the mass market and succeeding. For example, most Thai people recognized McDonald's brand name. Moreover, the popularity of Western movies encourages Thais to diffuse Western food styles in Thailand. Thus, investors (potential franchisees) in Thailand should consider applying for the international franchise license in the restaurant industry instead of the Thai franchise license, ceteris paribus. The international franchisers could use their advantages to gain more market share in the restaurant sector in Thailand.
This study reveals that the dining culture differences between the East and West are incorrectly perceived in the restaurant sector in Thailand. Most Thais consume rice as national food every day. However, McDonald's can persuade Thais to switch to consume hamburgers from time to time through marketing influence. (The Thai and international franchised sales growth is not different. This result came from the first hypothesis of the study.)

Through induction, the international restaurant franchisers could penetrate any Asian restaurant market by using the same successful procedures, i.e. standardized management system with local owner-manager involvement.

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Regarding the franchised hotel and motel industry, the international hotel and motel franchisers could easily penetrate the hospitality market in Thailand by licensing their franchises to Thai businessmen. The international franchisers will have an advantage on the Thai franchisers in Thailand because they have worldwide computerized reservation networks and strong international brand names. The Thai investors (potential franchisees) should consider the international franchised brand names to take advantage of their strengths.

Nevertheless, the Thai investors may choose to build their own franchises and license them to potential franchisees. The Thai investors will receive an initial franchise fee and royalty fee as continuous cash flow to fund their expansions. Either becoming an international brand name franchisee or building a brand name provides the same return. The Thai and international franchise ROIs are not significantly different.

Regarding the franchised grocery and specialty store industry in Thailand, the Thai franchise understands and quickly changes the product mix in the local market faster than the international franchises. The Thai and international franchise profit growths are significantly different.

First, the Thai franchise allows the local owner-operators to introduce their local products to sell to their local customers while the international franchises in Thailand do not allow any local changes. Any changes in product mix of the international grocery and specialty store franchises are centralized and computerized. As a result, the changes are not timely and not responsive.

Next, the Thai grocery and specialty store franchise also expands more outlets in the rural area than in the urban and Bangkok metropolitan area. Since most international

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grocery and specialty store franchises in Thailand focus on the urban and Bangkok metropolitan area, the market is highly competitive and the profit margin is depressed. While the urbanized market is highly competitive, the rural market niche is wide open. Since there is very little competition, the profit margin is high. Thus, investors (potential franchisees) in the grocery and specialty store sector in Thailand should stress the rural market niche and apply for the Thai franchise license.

Regarding international franchises in the grocery and specialty store industry in Thailand, they should expand their outlets in the rural area more than in the urbanized area to increase profit margin and penetrate untapped markets.

The macroeconomic factors i.e. personal income, consumer spending and currency devaluation, affect the Thai and international franchises sales growth in Thailand alike. In 1997, the Thai government devalued Thai currency, the baht. The large impact is on the financial performance of franchised industry in Thailand since the Thai and international franchises have high foreign currency debts. The currency devaluation loss had similarly affected ROI and profit growth of all franchises in Thailand. For instance, the Thai and international petroleum service franchises lost billions of dollars in that year alone. Although the Thai petroleum service franchises in this study are owned by the Thai government, their performances are not better than the international petroleum service franchises in Thailand. Therefore, the Thai government should not subsidize the Thai petroleum service franchises. The Thai government should sell their majority stakes in the Petroleum Authority of Thailand and Bangchak Petroleum Public Company to the Thai public. Then, the government could employ the capital gain for other social benefits.

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Areas for Future Research

This study has some limitations. First, the sample sizes were small because franchise business is still a new concept in Thailand. Thai franchisees generally resisted paying the initial fee and continuous royalty fee as a percentage of sales. However, the franchise business practice in Thailand is increasingly popular due to a low failure rate during the 1998–2000 economic recession. The sampled companies in this study comprised an important fraction of franchise businesses in Thailand. Future research could collect larger sample sizes that this study was not able to accomplish at this time.

Second, this study was conducted only in Thailand. Future investigation could duplicate this study and apply in other countries, i.e. Japan, China, Indonesia, Malaysia, Singapore, India, and Eastern Europe. These future research venues will improve franchise knowledge in the field of internationalization. Some generalization of franchise financial performance may emerge.

Third, data in each industry were limited. Each industry, i.e. restaurant, hotel and motel, petroleum services, and grocery and specialty stores, in Thailand has to be examined by collecting larger sample sizes in future research. This study could not gather adequate data at this time. The future result will pave a way to employ different entrant methods depending on industries.

Fourth, this study could not categorize international franchisers according to market entry strategy. The international franchisers in Thailand were limited in numbers at the time this study was conducted. Future study could categorize international franchisers according to market entry strategies, i.e. joint venture, licensing, wholly-

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owned subsidiary, and measure the franchise's performance. Each strategy may lead to different financial results.

Finally, three financial performance variables: sales growth, profit growth, and ROI, were employed in this study. Future research may include other quantitative performance variables, such as debt/equity ratio, turnover ratio, profit margin, and qualitative performance variables, i.e. customer satisfaction and repeated customer data. Multiple variables may show other important information that this study could not currently reveal.

Conclusions

This study compared the performance of Thai and international franchises in Thailand from 1992 to 1998. The study found that there were no correlations among the financial variables of sales growth, profit growth, and ROI. Next, the correlation between local and international franchises sales growth was significant. Only, the profit growth difference between the Thai and international franchises in Thailand is statistically significantly.

Next, investors (potential franchisees) could use sales growth, profit growth, and ROI as guidance to apply for franchise licenses. In terms of profit growth, the Thai franchise is generally more profitable than the international franchise operating in Thailand. The management professionalism and systems have been imported by international franchises to compete with local franchises. Nevertheless, the Thai investors still have a chance to create their own franchises and expand them nationally.

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The restriction of this study is the limited sample size because franchise business was still a new concept in Thailand during the period from 1992 to 1998. Therefore, future research could gather larger sample sizes from each industry that this study was not able to gather at this time. Future study could adapt this research to other countries. It may also embrace both quantitative and qualitative performance variables to measure every aspect of business.

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APPENDIX A

POOLED FRANCHISES CATEGORIZED BY TYPE

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APPENDIX A

Pooled Franchises Categorized by Type in Thailand, 2000

Name	Brand	Address
Local Franchises		
Narai Pizzeria Co.,Ltd.	Narai Pizzeria	248/20 Silom 16 Rd. Bangruk, Bangkok, 10500 Tel.635-7008-14
Food System Co.,Ltd.	Noodle Garden	1549 New Petchburi Rd. Rachathevee, Bangkok, 10310 Tel. 252-9212
International Food and Restaurant Co.,Ltd.	Pho	25 Almalink Bldg. Soi. Chidlom. Pathumwan, Bangkok, 10330 Tel. 251-8900
Chester Food Co.,Ltd.	Chester's Grill	15-1-2 Soi. Wattana. Sukhumvit 19 Rd. Khlongtei, Bangkok, 10110 Tel. 253-0670-8
Dusit Thani Public Co.,Ltd .	Dusit Thani, Royal Princess, Princess, Thani	90 DusitThani College. Fl. 5, Rm. 502 Srinakharin Rd. Pravet, Bangkok, Tel. 721-8225
The New Imperial Hotel Public Co.,Ltd.	Imperial, Tara	199 Sukhumvit Rd. Khlongtei, Bangkok, 10110 Tel. 261-9000
Asia Hotel Public Co.,Ltd.	Asia	296 Phayathai Rd. Rachathevee, Bangkok, 10310 Tel. 215-0808

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Name	Brand	Address
Central Plaza Hotel Public Co.,Ltd.	Central	1695 Phaholyothin Rd. Jatujak, Bangkok, 10900 Tel. 541-1234
The Bangchak Petroleum Service Public Co.,Ltd.	Bangchak	30 Soi. Premier Srinakharin Rd. Pravet, Bangkok, Tel. 301-2700
The Petroleum Authority of Thailand	PTT	PTT Bldg. Vibhavadeerangsit Rd. Jatujak, Bangkok, Tel. 537-2168
Bangchak Greennet Co.,Ltd.	Lemon Green	947 Thodsaphonland 3 Bldg. Fl. 15, Bangna-Trad Rd. Prakhanhong, Bangkok, Tel. 361-8100-1
International Franchises Narada International Co.,Ltd.	American Donuts	352/3 Rama 1 Rd. Bangkok, Tel. 250-0185-8
McThai Co.,Ltd.	McDonald's	500 Amarin Tower, Fl. 10, Ploenjit Rd. Pathumwan, Bangkok, 10330 Tel. 256-9352
Avant Development Co., Ltd.	Hard Rock Cafe	424/3-6 Siam Square Soi. 11 Pathumwan, Bangkok, 10330 Tel. 251-0792-4
The Pizza Public Co.,Ltd.	Burger King, Chicken Treat, Dairy Queen, Swensen's,	99 Soi. Rubia Sukhumvit 42 Rd. Khlongtei, Bangkok, 10110 Tel. 381-5123-32

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Name	Brand	Address
	Sizzler, The Pizza	
Nai Lert Park Hotel Co.,Ltd.	Hilton	87 Soi. Sukhumvit 5 Sukhumvit Rd. Prakhanhong, Bangkok, 10110 Tel. 251-8570
Shangri-la Hotel Co., Ltd.	Shangri-la	89 Soi. Watsuanplu Charoenkrung Rd. Bangruk, Bangkok, 10500 Tel. 236-7777
Amtel Group Bangkok Co., Ltd.	Ambassador	171 Soi. Sukhumvit 11 Sukhumvit Rd. Prakhanhong, Bangkok, 10110 Tel. 254-0444
Tawana Hotel Co.,Ltd.	Ramada	80 Surawongse Rd. Bangruk, Bangkok, 10500 Tel. 236-0361
Siam Square Tower Co.,Ltd.	Novotel	392/44 Siam Square Soi 6. Rama 1 Rd. Pathumwan, Bangkok, 10330 Tel. 255-6888
IHC (Thailand) Co.,Ltd.	Inter-Continental	967 Rama 1 Rd. Pathumwan, Bangkok, 10330 Tel. 253-0355-7
Esso (Thailand) Public Co.,Ltd.	Esso	3195/17 Rama 4 Rd. Khlongtei 29, Bangkok, 10110 Tel. 262-4280
Shell (Thailand) Co., Ltd.	Shell	10 Sunthornkosa Rd. Khlongtei, Bangkok, 10110 Tel. 249-0491
Caltex (Thailand) Co., Ltd.	Caltex	123 Soi. Chaeipoung Vibhavadeerangsit Rd. Jatujak,

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Name	Brand	Address
		Bangkok, 10900 Tel. 617-6888
Siam Familymart Co.,Ltd.	Family Mart	139 Robinson-Rachada Bldg. Fl. 5, Dindang, Bangkok, 10320 Tel. 248-2656-9
AM/PM (Thailand) Co.,Ltd.	AM/PM	1 Banchang Glasshouse Bldg. Sukhumvit 25 Rd. Khlongtei, Bangkok, 10110
C.P. Seven Eleven Public Co.,Ltd.	7-Eleven	283 Sriboonruang Bldg. Fl. 7, Silom Rd. Bangruk, Bangkok, 10500 Tel.631-0231

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APPENDIX B

SUMMARY OF SAMPLED COMPANY FINANCIAL DATA

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APPENDIX B

The data are collected from Corporations' profit and loss and balance sheet reports (Microfilm), Thai Department of Commerce (2000), Nonthaburi, Thailand.

Table B1

Summary of Narai Pizzaria Company's Financial Data in Thai Currency, 1992-1998

Year	Sales	Profit	Total assets	S-Growth(%)	P-Growth (%)	ROI (%)
1992	24,369,695	-7,326,087	29,193,226	NA	NA	-25.10
1993	45,492,770	-5,273,270	40,383,420	86.68	28.02	-13.06
1994	62,522,979	-10,610,690	78,504,033	37.43	-101.22	-13.52
1995	112,423,704	-14,599,562	116,248,227	79.81	-37.59	-12.56
1996	133,705,077	-35,749,280	113,271,405	18.93	-144.87	-31.56
1997	85,646,028	-37,026,602	86,187,622	-35.94	-3.57	-42.96
1998	91,469,276	-11,806,757	59,446,192	6.80	68.11	-19.86

Table B2

Summary of Food System Company's Financial Data in Thai Currency, 1992-1998

Year	Sales	Profit	Total assets	S-Growth(%)	P-Growth (%)	ROI (%)
1992	6,596,285	-1,181,403	43,228,915	NA	NA	-2.73
1993	4,814,433	-3,926,556	53,777,347	-27.01	-232.36	-7.30
1994	7,961,532	-3,611,695	58,818,770	65.37	8.02	-6.14
1995	4,095,255	-3,479,609	60,793,426	-48.56	3.66	-5.72
1996	6,516,562	-1,739,128	64,463,310	59.12	50.02	-2.70
1997	7,597,066	-1,914,345	69,092,734	16.58	-10.07	-2.77
1998	4,854,637	-2,571,190	75,588,131	-36.10	-34.31	-3.40

Table B3

Summary of International Food and Restaurant Company's Financial Data in Thai Currency, 1992-1998

Year	Sales	Profit	Total assets	S-Growth(%)	P-Growth (%)	ROI (%)
1992	2,069,600	-2,780,141	6,497,389	NA	NA	-42.79
1993	4,865,629	-1,895,211	5,789,840	135.10	31.83	-32.73
1994	4,805,020	-1,546,924	5,010,925	-1.25	18.38	-30.87
1995	2,733,160	-2,354,380	3,805,697	-43.12	-52.20	-61.86
1996	2,226,288	-2,684,800	3,180,940	-18.55	-14.03	-84.40
1997	2,329,835	-2,251,972	2,101,709	4.65	16.12	-107.15
1998	3,601,705	-552,324	1,701,355	54.59	75.47	-32.46

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Table B4

Summary of Chester Food Company's Financial Data in Thai Currency, 1992-1998

Year	Sales	Profit	Total assets	S-Growth(%)	P-Growth (%)	ROI (%)
1992	103,840,233	-22,785,063	197,741,866	NA	NA	-11.52
1993	472,124,446	-4,947,456	205,008,087	354.66	78.29	-2.41
1994	1,005,491,258	7,600,769	215,933,591	112.97	253.63	3.52
1995	1,364,818,064	5,828,117	265,829,699	35.74	-23.32	2.19
1996	1,186,313,860	16,461,059	276,006,912	-13.08	182.44	5.96
1997	457,262,935	-7,891,037	271,519,534	-61.46	-147.94	-2.91
1998	450,898,513	11,957,692	235,191,581	-1.39	251.54	5.08

Table B5

Summary of Narada International Company's Financial Data in Thai Currency, 1992-1998

Year	Sales	Profit	Total assets	S-Growth(%)	P-Growth (%)	ROI (%)
1992	25,859,723	130,527	13,800,813	NA	NA	0.95
1993	22,747,751	-2,227,230	15,208,493	-12.03	-1806.34	-14.64
1994	24,385,942	-3,268,331	17,608,861	7.20	-46.74	-18.56
1995	25,777,679	1,693,795	23,406,237	5.71	151.82	7.24
1996	25,804,405	-680,529	30,013,017	0.10	-140.18	-2.27
1997	30,844,826	1,391,308	24,459,085	19.53	304.45	5.69
1998	24,216,708	-5,199,303	27,192,829	-21.49	-473.70	-19.12

Table B6

Summary of McThai Company's Financial Data in Thai Currency, 1992-1998

Year	Sales	Profit	Total assets	S-Growth(%)	P-Growth (%)	ROI (%)
1992	421,286,859	-736,792	683,000,952	NA	NA	-0.11
1993	632,592,086	16,023,633	889,451,676	50.16	2274.78	1.80
1994	795,652,052	-1,648,501	986,646,755	25.78	-110.29	-0.17
1995	1,009,173,870	-27,051,315	1,051,527,095	26.84	-1540.96	-2.57
1996	1,223,871,796	-48,460,201	1,249,577,159	21.27	-79.14	-3.88
1997	1,376,392,673	-201,509,788	1,434,308,063	12.46	-315.83	-14.05
1998	1,634,219,455	-203,475,627	1,534,851,167	18.73	-0.98	-13.26

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Table B7

Summary of Avant Development Company's Financial Data in Thai Currency, 1992-1998

Year	Sales	Profit	Total assets	S-Growth(%)	P-Growth (%)	ROI (%)
1992	72,261,549	-10,800,516	135,440,597	NA	NA	-7.97
1993	91,311,649	9,893,675	133,942,000	26.36	191.60	7.39
1994	103,307,405	1,166,372	105,869,774	13.14	-88.21	1.10
1995	121,330,451	16,962,112	96,571,426	17.45	1354.26	17.56
1996	133,591,247	23,355,890	86,909,804	10.11	37.69	26.87
1997	149,122,686	19,751,264	87,522,378	11.63	-15.43	22.57
1998	175,020,157	36,490,410	97,480,150	17.37	84.75	37.43

Table B8

Summary of the Pizza Public Company's Financial Data in Thai Currency, 1992-1998

Year	Sales	Profit	Total assets	S-Growth(%)	P-Growth (%)	ROI (%)
1992	427,650,119	36,767,895	832,649,106	NA	NA	4.42
1993	537,632,211	52,135,755	1,089,447,452	25.72	41.80	4.79
1994	737,869,343	60,284,194	1,516,696,227	37.24	15.63	3.97
1995	1,020,287,538	109,347,844	1,878,512,340	38.27	81.39	5.82
1996	2,008,630,335	176,693,371	2,368,917,774	96.87	61.59	7.46
1997	2,466,964,040	82,055,713	2,540,134,109	22.82	-53.56	3.23
1998	2,716,031,694	178,346,829	2,580,273,823	10.10	117.35	6.91

Table B9

Summary of Local Restaurant Industry's Performance in Percentage, 1992-1998

Year	S-Growth(%)	P-Growth (%)	ROI (%)
1992	NA	NA	-20.53
1993	137.36	-23.56	-13.88
1994	53.63	44.70	-11.75
1995	5.97	-27.36	-19.49
1996	11.61	18.39	-28.17
1997	-19.04	-36.37	-38.95
1998	5.97	90.20	-12.66

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Table B10

Summary of International Restaurant Industry's Performance in Percentage, 1992-1998

Year	S-Growth(%)	P-Growth (%)	ROI (%)
1992	NA	NA	-0.68
1993	22.55	175.46	-0.17
1994	20.84	-57.40	-3.41
1995	22.07	11.63	7.01
1996	32.09	-30.01	7.05
1997	16.61	-20.09	4.36
1998	6.18	-68.14	2.99

Table B11

Summary of Dusit Thani Public Company's Financial Data in Thai Currency, 1992-1998

Year	Sales	Profit	Total assets	S-Growth(%)	P-Growth (%)	ROI (%)
1992	1,776,642,463	158,686,775	3,197,765,632	NA	NA	4.96
1993	1,707,220,400	94,018,896	4,241,921,760	-3.91	-40.75	2.22
1994	1,162,233,058	87,924,869	3,442,722,967	-31.92	-6.48	2.55
1995	1,328,318,566	183,788,690	4,494,979,160	14.29	109.03	4.09
1996	1,274,301,398	35,596,375	4,105,837,325	-4.07	-80.63	0.87
1997	2,432,445,603	-1,348,054,409	5,589,756,774	90.88	-3887.06	-24.12
1998	3,153,868,674	564,343,910	4,227,373,490	29.66	141.86	13.35

Table B12

Summary of New Imperial Hotel Public Company's Financial Data in Thai Currency, 1992-1998

Year	Sales	Profit	Total assets	S-Growth(%)	P-Growth (%)	ROI (%)
1992	584,471,309	150,714,182	6,217,245,588	NA	NA	2.42
1993	843,417,599	-94,652,910	6,940,063,585	44.30	-162.80	-1.36
1994	942,876,676	538,149,198	6,248,686,786	11.79	668.55	8.61
1995	1,044,498,274	194,098,566	5,758,611,967	10.78	-63.93	3.37
1996	1,631,804,892	187,064,549	5,944,364,301	56.23	-3.62	3.15
1997	1,046,081,085	-1,303,175,943	5,345,332,781	-35.89	-796.65	-24.38
1998	1,427,117,402	130,239,960	5,367,806,830	36.43	109.99	2.43

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Table B13

Summary of Asia Hotel Public Company's Financial Data in Thai Currency, 1992-1998

Year	Sales	Profit	Total assets	S-Growth(%)	P-Growth (%)	ROI (%)
1992	502,278,202	84,344,602	1,208,423,884	NA	NA	6.98
1993	492,249,518	82,606,948	2,713,458,001	-2.00	-2.06	3.04
1994	456,070,697	17,834,582	3,156,911,449	-7.35	-78.41	0.56
1995	530,516,559	16,093,418	3,518,005,499	16.32	-9.76	0.46
1996	672,134,575	14,611,072	4,224,850,820	26.69	-9.21	0.35
1997	605,992,518	-292,939,458	4,858,333,623	-9.84	-2104.91	-6.03
1998	803,880,750	-215,302,973	5,103,927,588	32.66	26.50	-4.22

Table B14

Summary of Central Plaza Hotel Public Company's Financial Data in Thai Currency, 1992-1998

Year	Sales	Profit	Total assets	S-Growth(%)	P-Growth (%)	ROI (%)
1992	778,599,714	157,360,605	3,301,259,578	NA	NA	4.77
1993	752,911,763	149,733,641	3,135,647,229	-3.30	-4.85	4.78
1994	711,809,272	101,790,204	2,980,092,022	-5.46	-32.02	3.42
1995	831,848,171	72,866,172	2,957,369,245	16.86	-28.42	2.46
1996	2,559,684,086	152,646,864	5,134,785,481	207.71	109.49	2.97
1997	2,791,704,885	-320,604,628	5,166,199,387	9.06	-310.03	-6.21
1998	3,349,166,915	188,100,000	4,995,133,942	19.97	158.67	3.77

Table B15

Summary of Nai Lert Park Hotel Company's Financial Data in Thai Currency, 1992-1998

Year	Sales	Profit	Total assets	S-Growth(%)	P-Growth (%)	ROI (%)
1992	479,246,312	69,532,963	846,370,293	NA	NA	8.22
1993	412,227,873	33,439,027	783,682,308	-13.98	-51.91	4.27
1994	468,667,172	40,622,223	771,026,658	13.69	21.48	5.27
1995	469,535,079	35,414,292	766,515,100	0.19	-12.82	4.62
1996	433,137,857	13,362,087	842,769,208	-7.75	-62.27	1.59
1997	386,816,841	-165,104,297	871,147,494	-10.69	-1335.62	-18.95
1998	452,605,499	25,747,818	844,274,351	17.01	115.59	3.05

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Table B16

Summary of Shangri-la Hotel Company's Financial Data in Thai Currency, 1992-1998

Year	Sales	Profit	Total assets	S-Growth(%)	P-Growth (%)	ROI (%)
1992	1,027,990,892	208,279,954	4,105,735,267	NA	NA	5.07
1993	991,534,259	187,619,391	4,269,206,718	-3.55	-9.92	4.39
1994	1,101,024,537	221,949,834	4,470,106,406	11.04	18.30	4.97
1995	1,092,841,539	193,022,732	4,567,541,071	-0.74	-13.03	4.23
1996	1,066,666,760	117,927,562	5,141,733,220	-2.40	-38.90	2.29
1997	1,155,071,615	24,699,749	5,492,758,204	8.29	-79.06	0.45
1998	1,446,848,854	-584,712,462	4,810,003,393	25.26	-2467.28	-12.16

Table B17

Summary of Amtel Group Bangkok Company's Financial Data in Thai Currency, 1992-1998

Year	Sales	Profit	Total assets	S-Growth(%)	P-Growth (%)	ROI (%)
1992	235,424,812	36,494,027	3,378,035,517	NA	NA	1.08
1993	247,160,268	-31,161,405	3,859,495,459	4.98	-185.39	-0.81
1994	311,917,542	24,522,535	3,917,959,326	26.20	178.70	0.63
1995	335,663,565	-11,979,585	4,099,661,970	7.61	-148.85	-0.29
1996	360,435,779	-8,324,464	4,164,059,782	7.38	30.51	-0.20
1997	300,473,094	-89,179,138	4,047,524,583	-16.64	-971.29	-2.20
1998	240,751,988	-205,965,291	3,837,981,508	-19.88	-130.96	-5.37

Table B18

Summary of Tawana Hotel Company's Financial Data in Thai Currency, 1992-1998

Year	Sales	Profit	Total assets	S-Growth(%)	P-Growth (%)	ROI (%)
1992	195,294,170	22,384,980	272,761,523	NA	NA	8.21
1993	159,010,106	3,315,819	259,693,408	-18.58	-85.19	1.28
1994	154,695,801	-4,898,069	249,047,822	-2.71	-247.72	-1.97
1995	142,808,260	-18,588,790	226,137,876	-7.68	-279.51	-8.22
1996	149,091.015	-10,714,544	210,933,992	4.40	42.36	-5.08
1997	146,212,425	-6,172,954	201,038,962	-1.93	42.39	-3.07
1998	154,186,035	-11,288,085	189,212,827	5.45	-82.86	-5.97

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Table B19

Summary of Siam Square Tower Company's Financial Data in Thai Currency, 1992-1998

Year	Sales	Profit	Total assets	S-Growth(%)	P-Growth (%)	ROI (%)
1992	394,549,237	16,788,469	758,098,630	NA	NA	2.21
1993	373,268,711	-6,648,091	728,393,578	-5.39	-139.60	-0.91
1994	342,146,821	-19,143,660	663,088,360	-8.34	-187.96	-2.89
1995	316,617,268	-21,513,258	652,035,812	-7.46	-12.38	-3.30
1996	358,615,101	-21,151,831	601,542,194	13.26	1.68	-3.52
1997	350,062,122	-24,835,147	550,672,789	-2.39	-17.41	-4.51
1998	386,287,060	-9,878,264	520,200,578	10.35	60.22	-1.90

Table B20

Summary of IHC (Thailand) Company's Financial Data in Thai Currency, 1992-1998

Year	Sales	Profit	Total assets	S-Growth(%)	P-Growth (%)	ROI (%)
1992	388,712,847	7,260,208	91,120,054	NA	NA	7.97
1993	360,446,257	7,495,692	86,177,364	-7.27	3.24	8.70
1994	308,033,152	6,810,542	94,782,884	-14.54	-9.14	7.19
1995	356,769,338	1,322,329	90,291,238	15.82	-80.58	1.46
1996	382,333,689	1,666,618	86,206,223	7.17	26.04	1.93
1997	328,394,217	-200,641	71,904,967	-14.11	-112.04	-0.28
1998	229,201,511	-7,480,655	61,610,944	-30.21	-3628.38	-12.14

Table B21

Summary of Local Hotel and Motel Industry's Performance in Percentage, 1992-1998

Year	S-Growth(%)	P-Growth (%)	ROI (%)
1992	NA	NA	4.78
1993	8.78	-52.62	2.17
1994	-8.23	137.91	3.79
1995	14.56	1.73	2.60
1996	71.64	4.01	1.83
1997	13.55	-1774.66	-15.18
1998	29.68	109.26	3.83

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Table B22

Summary of International Hotel and Motel Industry's Performance in Percentage, 1992-1998

Year	S-Growth(%)	P-Growth (%)	ROI (%)
1992	NA	NA	5.46
1993	-7.30	-78.13	2.82
1994	4.22	-37.72	2.20
1995	1.29	-91.20	-0.25
1996	3.68	-0.10	-0.50
1997	-6.24	-412.17	-4.76
1998	1.33	-1022.28	-5.75

Table B23

Summary of Bangchak Petroleum Service Public Company's Financial Data in Thai Currency, 1992-1998

Year	Sales	Profit	Total assets	S-Growth(%)	P-Growth(%)	ROI (%)
1992	24,213,347,885	473,795,822	12,324,646,616	NA	NA	3.84
1993	25,060,000,000	652,551,130	16,402,584,886	3.50	37.73	3.98
1994	28,981,237,547	775,490,554	20,480,523,156	15.65	18.84	3.79
1995	33,364,981,000	870,679,400	22,626,702,121	15.13	12.27	3.85
1996	33,103,149,633	1,023,585,572	26,049,058,163	-0.78	17.56	3.93
1997	39,291,360,033	-3,784,505,551	31,129,428,522	18.69	-469.73	-12.16
1998	34,644,699,336	59,337,543	27,417,587,348	-11.83	101.57	0.22

Table B24

Summary of the Petroleum Authority of Thailand's Financial Data in Thai Currency, 1992-1998

Year	Sales	Profit	Total assets	S-Growth(%)	P-Growth(%)	ROI (%)
1992	76,399,729,151	7,143,072,077	51,958,318,597	NA	NA	13.75
1993	85,788,705,787	7,729,192,276	63,152,432,556	12.29	8.21	12.24
1994	88,825,382,508	7,455,763,966	78,216,018,162	3.54	-3.54	9.53
1995	128,745,192,696	7,187,477,504	102,173,378,245	44.94	-3.60	7.03
1996	165,712,351,221	7,658,476,853	116,157,212,298	28.71	6.55	6.59
1997	239,579,224,927	2,209,735,253	141,337,617,893	44.58	-71.15	1.56
1998	222,664,189,531	11,741,349,432	145,847,149,175	-7.06	431.35	8.05

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Table B25

Summary of Esso (Thailand) Public Company's Financial Data in Thai Currency, 1992-1998

Year	Sales	Profit	Total assets	S-Growth(%)	P-Growth(%)	ROI (%)
1992	38,381,631,462	777,665,260	19,958,294,221	NA	NA	3.90
1993	38,474,741,309	807,035,277	31,654,315,060	0.24	3.78	2.55
1994	40,262,138,273	-453,902,611	38,984,159,874	4.65	-156.24	-1.16
1995	52,466,427,692	-1,390,430,328	38,787,431,445	30.31	-206.33	-3.58
1996	61,403,479,494	-1,945,707,067	36,480,533,842	17.03	-39.94	-5.33
1997	66,227,081,399	-17,798,745,504	44,672,105,211	7.86	-814.77	-39.84
1998	55,523,218,027	5,605,818,991	44,538,472,554	-16.16	131.50	12.59

Table B26

Summary of Shell (Thailand) Company's Financial Data in Thai Currency, 1992-1998

Year	Sales	Profit	Total assets	S-Growth(%)	P-Growth(%)	ROI (%)
1992	41,565,604,259	793,629,144	9,724,021,633	NA	NA	8.16
1993	42,858,744,497	1,159,315,617	11,346,826,814	3.11	46.08	10.22
1994	45,157,637,627	1,247,455,379	12,936,808,386	5.36	7.60	9.64
1995	47,456,530,757	1,335,595,141	14,525,789,959	5.09	7.07	9.19
1996	55,234,815,058	1,140,628,026	15,157,679,093	16.39	-14.60	7.53
1997	55,414,483,333	992,502,545	15,577,550,156	0.33	-12.99	6.37
1998	52,845,122,289	664,332,454	13,187,785,483	-4.64	-33.06	5.04

Table B27

Summary of Caltex (Thailand) Company's Financial Data in Thai Currency, 1992-1998

Year	Sales	Profit	Total assets	S-Growth(%)	P-Growth(%)	ROI (%)
1992	18,417,761,993	102,474,426	6,163,956,598	NA	NA	1.66
1993	20,210,869,593	201,315,510	6,875,127,241	9.74	96.45	2.93
1994	20,555,823,846	144,014,729	7,608,936,203	1.71	-28.46	1.89
1995	20,899,778,099	86,713,949	8,342,745,164	1.67	-39.79	1.04
1996	23,443,787,192	-50,501,158	10,034,104,766	12.17	-158.24	-0.50
1997	35,384,400,844	-3,235,359,101	14,610,121,147	50.93	-6306.50	-22.14
1998	38,971,255,006	1,056,281,485	14,015,988,992	10.14	132.65	7.54

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Table B28

Summary of Local Petroleum Service Industry's Performance in Percentage, 1992-1998

Year	S-Growth(%)	P-Growth (%)	ROI (%)
1992	NA	NA	8.80
1993	-7.89	22.97	8.11
1994	9.59	7.65	6.66
1995	30.03	4.34	5.44
1996	13.96	12.06	5.26
1997	31.63	-270.44	-5.30
1998	-9.44	266.46	4.13

Table B29

Summary of International Petroleum Service Industry's Performance in Percentage, 1992-1998

Year	S-Growth(%)	P-Growth (%)	ROI (%)
1992	NA	NA	4.57
1993	4.36	48.77	5.23
1994	3.91	-59.03	3.46
1995	12.36	-79.68	2.22
1996	15.20	-70.92	0.56
1997	19.70	-2378.09	-18.54
1998	-3.55	77.03	8.39

Table B30

Summary of Bangchak Greennet Company's Financial Data in Thai Currency, 1992-1998

Year	Sales	Profit	Total assets	S-Growth(%)	P-Growth (%)	ROI (%)
1992	3,000,000	64,000	3,943,879	NA	NA	1.62
1993	6,839,925	129,400	7,887,658	128.00	102.19	1.64
1994	278,059,776	2,957,605	99,876,049	3965.25	2185.63	2.96
1995	945,671,753	15,643,078	214,923,177	240.10	428.91	7.28
1996	1,289,365,302	13,375,723	281,046,264	36.34	-14.49	4.76
1997	1,091,703,990	4,473,136	308,637,248	-15.33	-66.56	1.45
1998	1,055,473,293	3,747,255	297,994,150	-3.32	-16.23	1.26

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Table B31

Summary of Siam Familymart Company's Financial Data in Thai Currency, 1992-1998

Year	Sales	Profit	Total assets	S-Growth(%)	P-Growth (%)	ROI (%)
1992	2,221,228	-54,753	100,319,698	NA	NA	-0.05
1993	26,478,932	-8,335,546	107,085,034	1092.09	-15123.91	-7.78
1994	67,041,653	-19,500,511	84,204,398	153.19	-133.94	-23.16
1995	78,367,276	-22,591,996	169,078,208	16.89	-15.85	-13.36
1996	155,523,617	-32,512,761	184,738,194	98.45	-43.91	-17.60
1997	377,135,078	-45,785,953	426,214,040	142.49	-40.82	-10.74
1998	567,863,349	-110,928,872	486,787,566	50.57	-142.28	-22.79

Table B32

Summary of AM/PM (Thailand) Company's Financial Data in Thai Currency, 1992-1998

Year	Sales	Profit	Total assets	S-Growth(%)	P-Growth (%)	ROI (%)
1992	841,258	-7,171,962	30,735,544	NA	NA	-23.33
1993	8,446,842	1,047,392	52,604,654	904.07	114.60	1.99
1994	199,698,185	4,627,160	272,244,748	2264.18	341.78	1.70
1995	488,751,169	5,093,228	349,448,783	144.74	10.07	1.46
1996	754,330,186	7,354,776	521,762,457	54.34	44.40	1.41
1997	811,320,877	-91,058,150	618,529,981	7.56	-1338.08	-14.72
1998	350,181,565	-163,655,768	292,892,922	-56.84	-79.73	-55.88

Table B33

Summary of C.P. Seven Eleven Public Company's Financial Data in Thai Currency, 1992-1998

Year	Sales	Profit	Total assets	S-Growth(%)	P-Growth (%)	ROI (%)
1992	2,151,710,143	-7,455,461	722,913,857	NA	NA	-1.03
1993	3,816,609,280	60,637,085	1,144,777,929	77.38	913.32	5.30
1994	5,503,154,505	64,235,931	1,440,555,457	44.19	5.94	4.46
1995	7,532,441,453	83,948,415	3,900,064,270	36.87	30.69	2.15
1996	9,565,820,679	194,443,177	4,127,641,899	26.99	131.62	4.71
1997	11,690,149,359	213,737,961	4,915,674,175	22.21	9.92	4.35
1998	13,851,934,324	241,661,436	6,194,284,867	18.49	13.06	3.90

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Table B34

Summary of Local Grocery and Specialty Store Industry's Performance in Percentage, 1992-1998

Year	S-Growth(%)	P-Growth (%)	ROI (%)
1992	NA	NA	1.62
1993	128.00	102.19	1.64
1994	3965.25	2185.63	2.96
1995	240.10	428.91	7.28
1996	36.34	-14.49	4.76
1997	-15.33	-66.56	1.45
1998	-3.32	-16.23	1.26

Table B35

Summary of International Grocery and Specialty Store Industry's Performance in Percentage, 1992-1998

Year	S-Growth(%)	P-Growth (%)	ROI (%)
1992	NA	NA	-8.14
1993	691.18	-4698.66	-0.17
1994	820.52	71.26	-5.67
1995	66.17	8.30	-3.25
1996	59.93	44.04	-3.83
1997	57.42	-456.33	-7.04
1998	4.08	-69.65	-24.92

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Table B36

Pooled Franchise System Financial Data, 1992-1998

Year	Local Sales Growth (%)	Local Profit Growth (%)	Local ROI (%)	Foreign Sales Growth (%)	Foreign Profit Growth (%)	Foreign ROI (%)
Hotel and Motel						
1992	NA	NA	4.78	NA	NA	5.46
1993	8.78	-52.62	2.17	-7.3	-78.13	2.82
1994	-8.23	137.91	3.79	4.22	-37.72	2.2
1995	14.56	1.73	2.6	1.29	-91.2	-0.25
1996	71.64	4.01	1.83	3.68	-0.1	-0.5
1997	13.55	-1774.66	-15.18	-6.24	-412.17	-4.76
1998	29.68	109.26	3.83	1.33	-1022.28	-5.75
Petroleum Service						
1992	NA	NA	8.8	NA	NA	4.57
1993	7.89	22.97	8.11	4.36	48.77	5.23
1994	9.59	7.65	6.66	3.91	-59.03	3.46
1995	30.03	4.34	5.44	12.36	-79.68	2.22
1996	13.96	12.06	5.26	15.2	-70.92	0.56
1997	31.63	-270.44	-5.3	19.7	-2378.09	-18.54
1998	-9.44	266.46	4.13	-3.55	77.03	8.39
Restaurant						
1992	NA	NA	-20.53	NA	NA	-0.68
1993	137.36	-23.56	-13.88	22.55	175.46	-0.17
1994	53.63	44.7	-11.75	20.84	-57.4	-3.41
1995	5.97	-27.36	-19.49	22.07	11.63	7.01
1996	11.61	18.39	-28.17	32.09	-30.01	7.05
1997	-19.04	-36.37	-38.95	16.61	-20.09	4.36
1998	5.97	90.2	-12.66	6.18	-68.14	2.99
Grocery and Specialty Store						
1992	NA	NA	1.62	NA	NA	-8.14
1993	128	102.19	1.64	691.18	-4698.66	-0.17
1994	3965.25	2185.63	2.96	820.52	71.26	-5.67
1995	240.1	428.91	7.28	66.17	8.3	-3.25
1996	36.34	-14.49	4.76	59.93	44.04	-3.83
1997	-15.33	-66.56	1.45	57.42	-456.33	-7.04
1998	-3.32	-16.23	1.26	4.08	-69.65	-24.92
Number of Observation	24	24	27	24	24	27

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APPENDIX C

POOLED FRANCHISE SYSTEMS SCATTER DIAGRAMS AND DISTRIBUTION GRAPHS

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APPENDIX C

Figure C1

Pooled Franchise System Scatter Diagram of Sales Growth VS Profit Growth

(n_1 = number of local sales growth observations = 24)

(n_2 = number of international sales growth observations = 24)

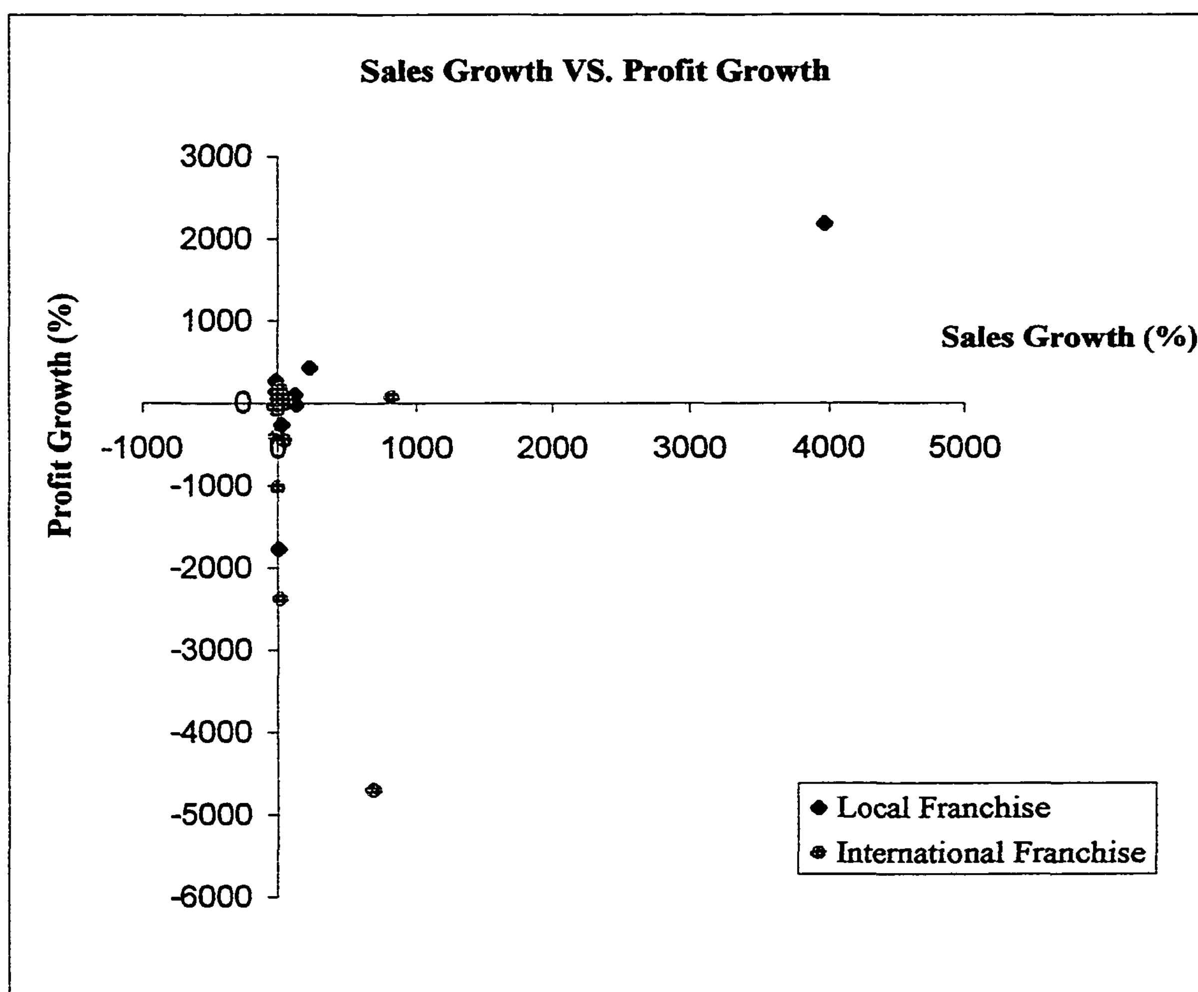

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Figure C2

Pooled Franchise System Scatter Diagram of Sales Growth VS ROI

(n_1 = number of local sales growth observations = 24)

(n_2 = number of international sales growth observations = 24)

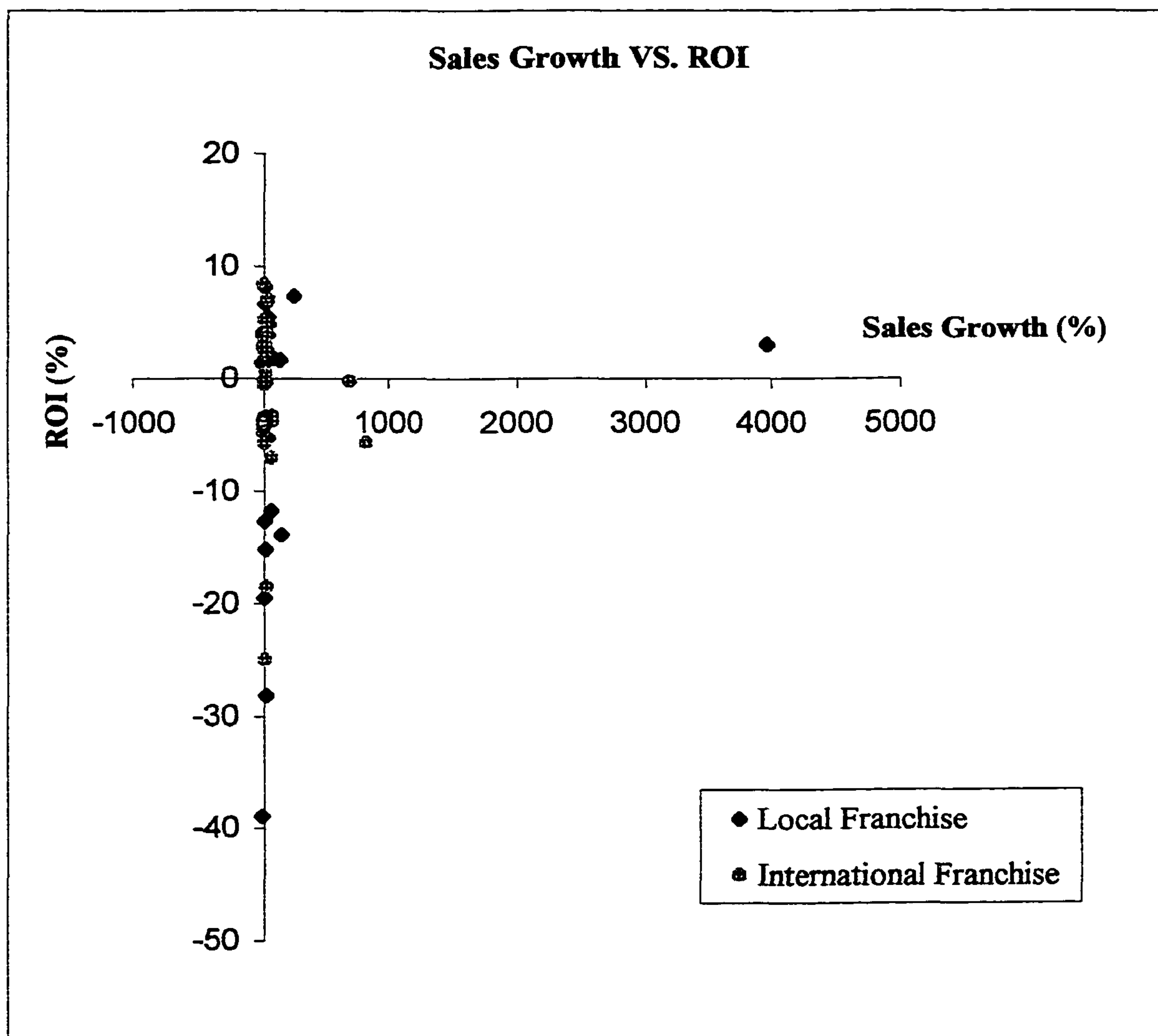

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Figure C3

Pooled Franchise System Scatter Diagram of Profit Growth VS ROI

(n_1 = number of local profit growth observations = 24)

(n_2 = number of international profit growth observations = 24)

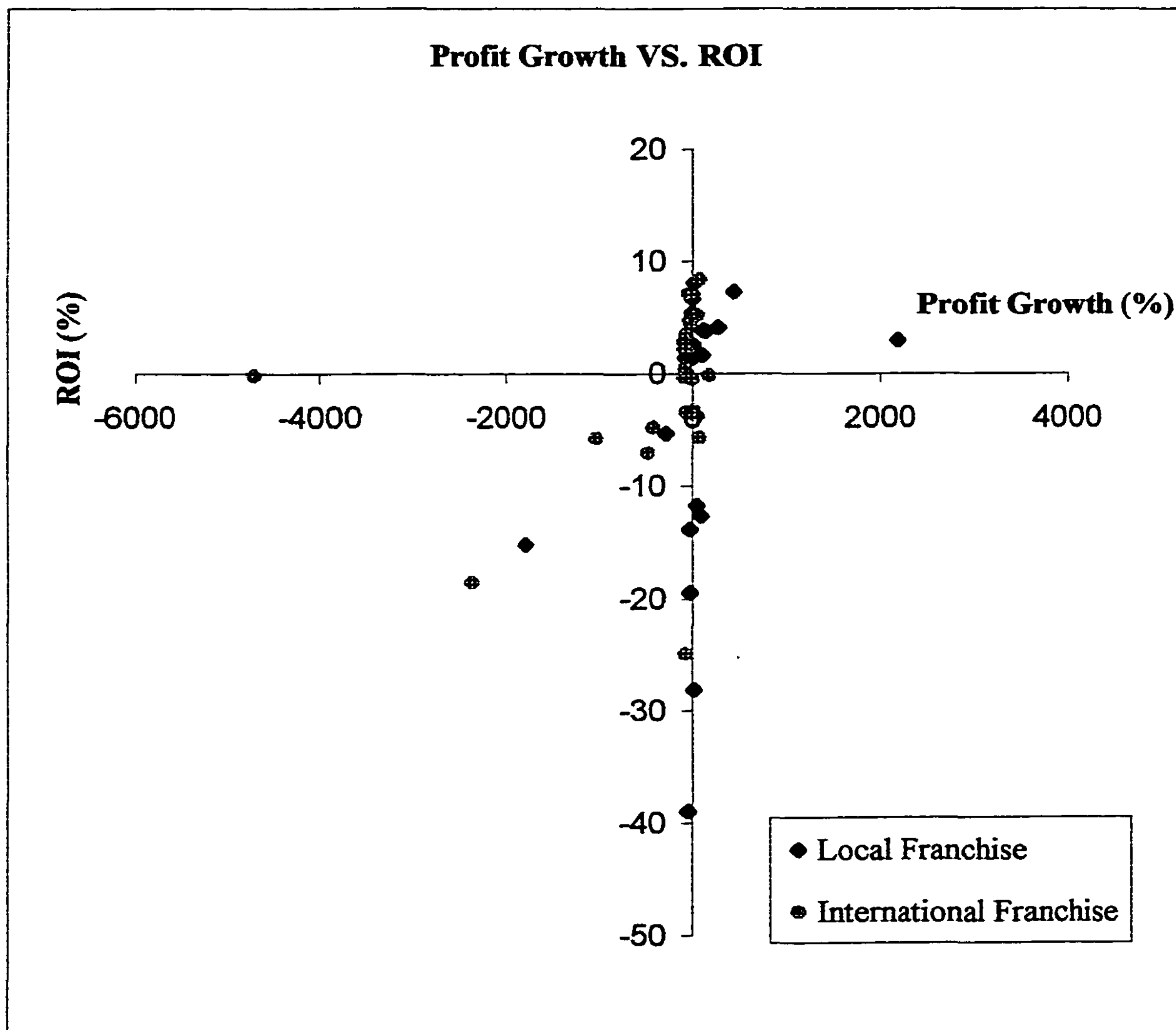

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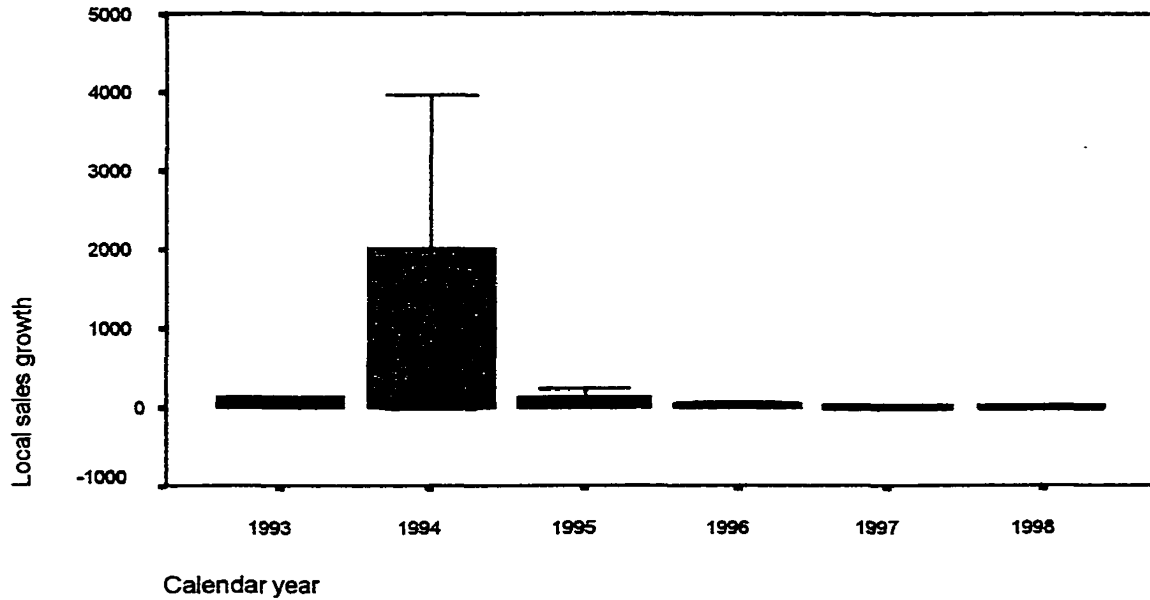
Figure C4

Pooled Local and International Franchises Sales Growth Distribution, 1993-1998

(n_{upper} = number of local sales growth observations = 24)



(n_{lower} = number of international sales growth observations = 24)

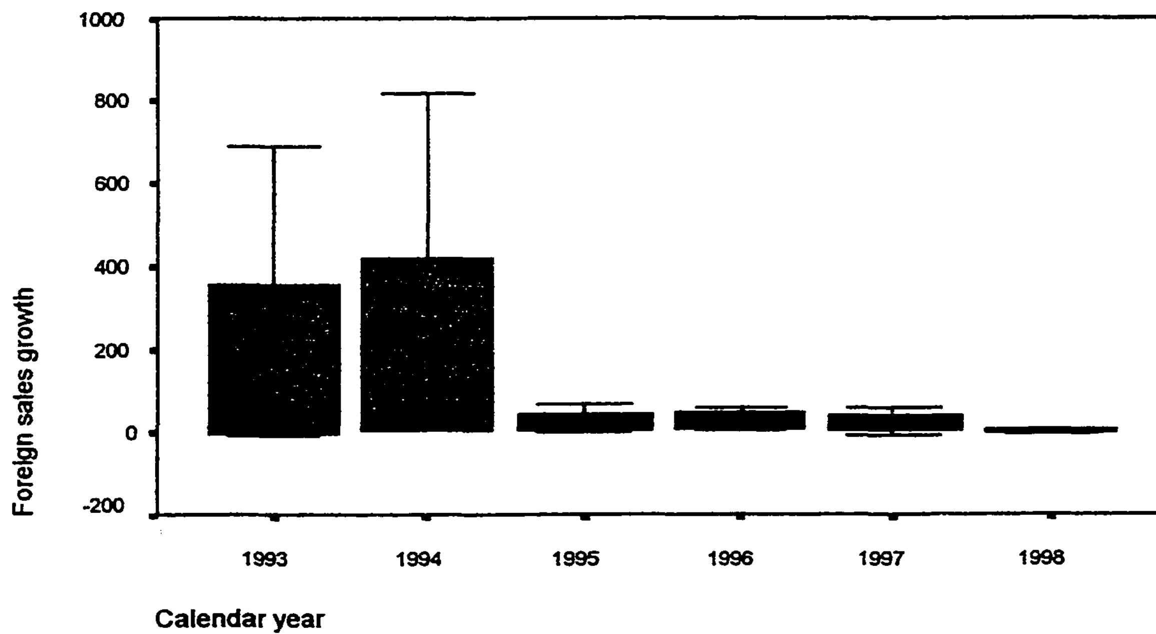


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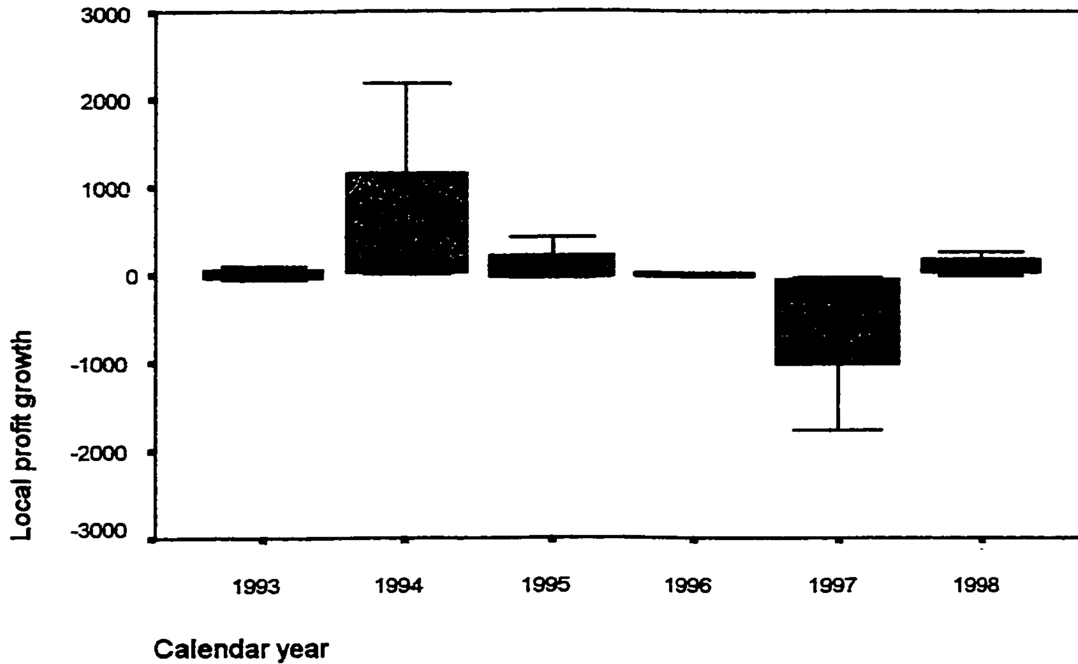
Figure C5

Pooled Local and International Franchises Profit Growth Distribution, 1993-1998

(n_{upper} = number of local profit growth observations = 24)



(n_{lower} = number of international profit growth observations = 24)

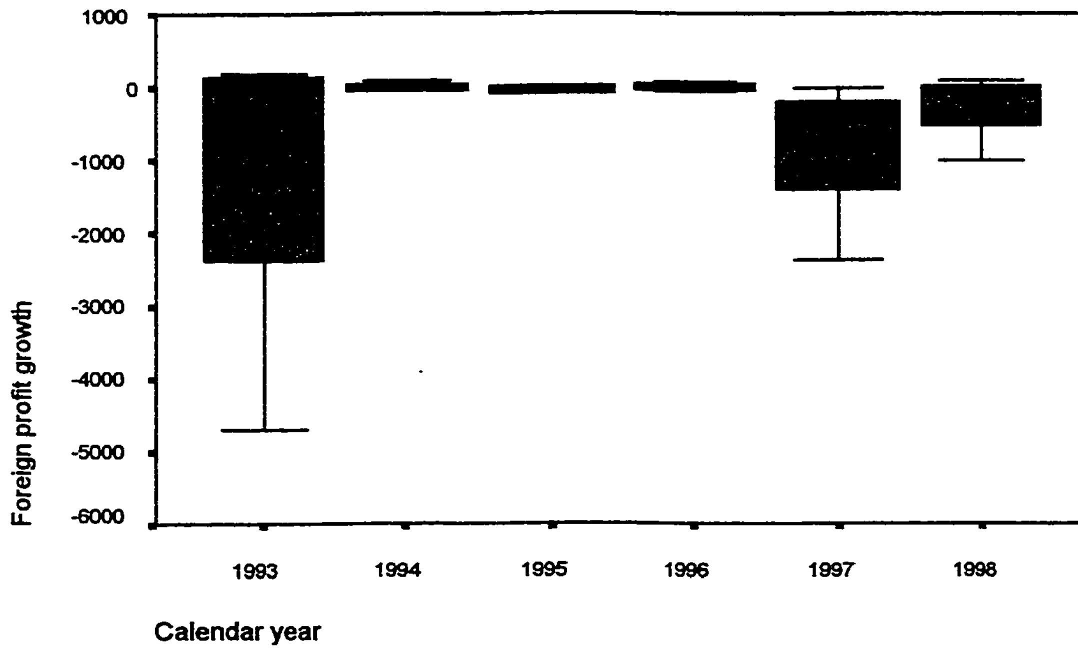


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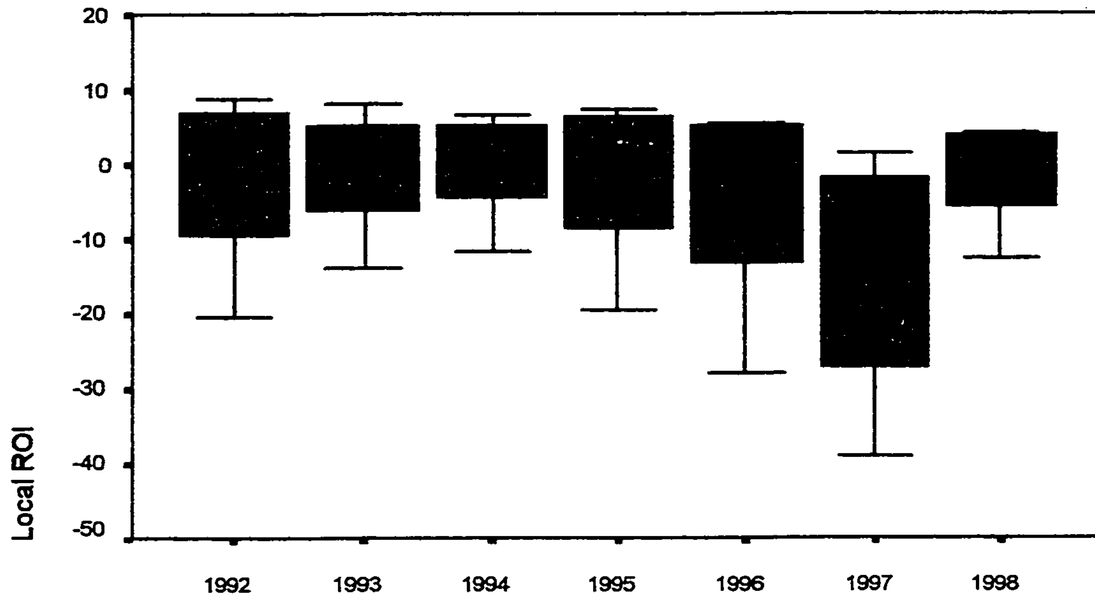
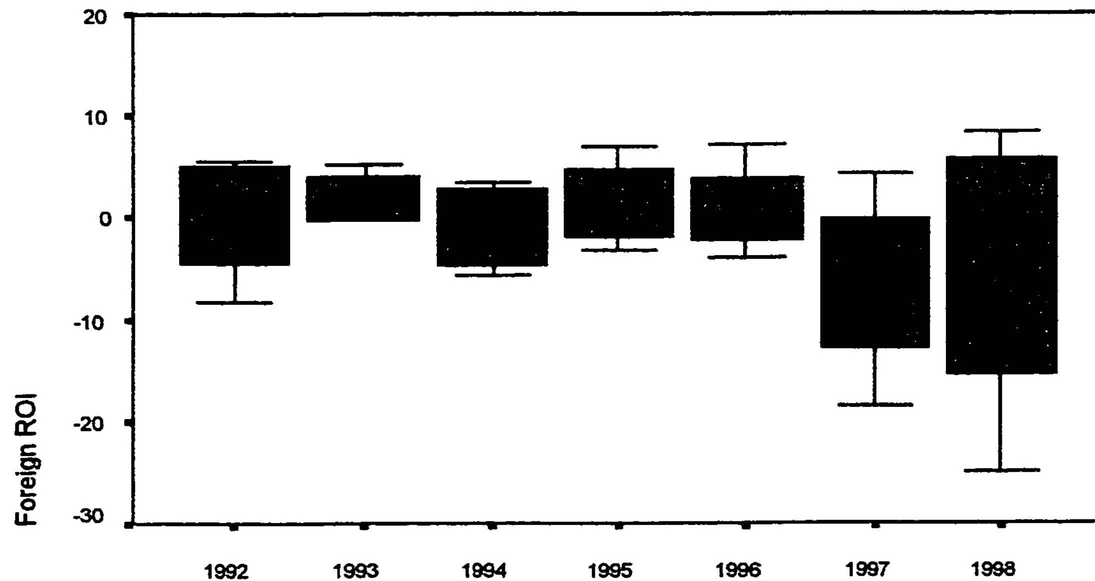
Figure C6

Pooled Local and International Franchises ROI Distribution, 1992-1998

(n_{upper} = number of local ROI observations = 27)



(n_{lower} = number of international ROI observations = 27)



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APPENDIX D

DESCRIPTIVE STATISTICS OF POOLED FRANCHISE SYSTEM

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APPENDIX D

Table D1

Variable Correlations of Pooled Franchise System

	Variable	N	Correlation	Sig.
Series 1	Local sales growth & Foreign sales growth	24	.768	.000
Series 2	Local profit growth & Foreign profit growth	24	.097	.651
Series 3	Local ROI & Foreign ROI	27	-.145	.461

Table D2

Descriptive Statistics of Pooled Franchise System

	Variable	Mean	N	Std. Deviation	Std. Error Mean
Series 1					
	Local sales growth	198.3408	24	804.4948	164.2168
	Foreign sales growth	77.8583	24	210.6409	42.9969
Series 2					
	Local profit growth	48.0883	24	599.3453	122.3408
	Foreign profit growth	-383.0462	24	1057.5943	215.8805
Series 3					
	Local ROI	-3.1264	27	12.1866	2.3030
	Foreign ROI	-1.0986	27	7.3976	1.3980

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Table D3

Mann Whitney Ranks of Pooled Franchise System

	Variable	N	Mean Rank	Sum of Ranks
Series 1				
	Local sales growth	24	25.29	607.00
	Foreign sales growth	24	23.71	569.00
Series 2				
	Local profit growth	24	29.83	716.00
	Foreign profit growth	24	19.17	460.00
Series 3				
	Local ROI	27	29.25	819.00
	Foreign ROI	27	27.75	777.00

Table D4

Mann Whitney Test Statistics of Pooled Franchise System

	Sales Growth	Profit Growth	ROI
N	24	24	27
Mann-Whitney U	269	160	371
Significant (2-tailed)	.695	.008	.731

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